Published on *Reviews in History* (https://www.history.ac.uk/reviews)

# Solidarity Without the State? Business and the Shaping of the Swiss Welfare State, 1890–2000

**Review Number:**
779
**Publish date:**
Friday, 31 July, 2009
**Author:**
Matthieu Leimgruber
**ISBN:**
9780521875400
**Date of Publication:**
2008
**Price:**
£45.00
**Pages:**
330pp.
**Publisher:**
Cambridge University Press
**Place of Publication:**
Cambridge
**Reviewer:**
Martin Lengwiler

Until recently, the mixed economies of the welfare state in general and of social insurance in particular were a neglected issue in social and economic history. The historiography of the welfare state concentrated mainly on the public side of social policies, namely on the development of social insurance, neglecting the parallel worlds of commercial and mutual insurance. This blind eye is the consequence of a disciplinary dichotomy. The history of insurance is traditionally divided between the disciplines of social or labour history on the one side, concentrating on the history of the welfare state or the mutual insurance of the working class, and economic or business history on the other side, dealing, albeit often very marginally, with the history of commercial insurance. Under this disciplinary framework, welfare state history usually told the story of the public institutions of social security, leaving out the interdependencies between public and private insurance.

Since the 1990s, this *etatistic* approach to the history of the welfare state has been increasingly challenged by an emerging scholarship that combines the perspectives of private and public insurance into a more complex picture of mixed welfare systems. The groundwork for this new field of research was prepared by the comparative welfare studies of the 1980s, such as Peter Flora's collaborative project on the growth of the Western European welfare states, and the consequential need to explain the fundamental variations between the national systems of social insurance. Among the seminal findings of recent research is that the national-specific relations between the state and the private sector, more specifically between the institutions of social, mutual and commercial insurance, are key factors in explaining the variations among the welfare systems of Western countries. This is the conclusion of a whole series of recent studies (often inspired by Peter Baldwin's path-breaking *Politics of Social Solidarity* (1)), such as those on the two-tiered system of the British old-age provision by John Macnicol and Pat Thane (2), the works on the role of commercial insurers in the history of health insurance and of old-age insurance in the USA by Jennifer Klein and Jacob Hacker (3), and the analyses of significant local and occupational social policies in the history of the French welfare state by Paul Dutton or Timothy Smith.(4)

One of the most prominent countries in the current political debates about mixed welfare economies is Switzerland. It has several typical two-tier (or even three pillar) insurance systems, notably in health and old-age insurance, which have been seen as relatively lean and sustainable. Since the 1980s, the *Swiss model* has often been cited as a blueprint for welfare reforms, and has been recommended by international organisations such as the Organisation for Economic Co-operation and Development (OECD) and the World Bank.

However until recently the history of the Swiss welfare state has attracted hardly any scholarly interest. This research lacuna has now been closed by this work by Matthieu Leimgruber, a historian currently at the University of Geneva, who examines in his dissertation the history of old-age insurance in Switzerland and the emergence of its famous three pillar principle. The book, aptly titled *Solidarity Without the State? Business and the Shaping of the Swiss Welfare State, 1890–2000*, offers the first thorough historical account of a central part of the Swiss welfare state. The public old-age insurance, the so-called AHV ( *Alters- und Hinterlassenenversicherung*, or old-age and survivor insurance) is indeed the most popular institution of the Swiss welfare state and seen as a crown jewel of the social insurance system, comparable to the British National Health Service or the German *Rentenversicherung* (public old-age insurance).

The argument of the study is convincingly structured. It starts with analysing the role of the Swiss model in recent political debates about welfare reforms, explaining how this laggard turned out to be a pioneer. A laggard because the referendum feature of the Swiss political system guaranteed that every major decision in the formation of the welfare state had to be accepted in a popular vote – a crucial barrier in a fiscally conservative country with a strong federalist tradition and a variety of minorities critical of centralised, interventionist policies. Hence the basic paradox of the history of the Swiss welfare state. Since the 1880s, parallel to the first Bismackian welfare state legislation, the radical and liberal political elites of the Swiss Confederation strongly supported the full adoption of the German system of social insurance – in this sense Switzerland was part of the European avant-garde in the development of social insurances. However, when it came to implementing their ambitious goals, the elites of the Confederation were confronted with a series of defeats at the ballot box, beginning with the first big project in social insurance, a combined law for an accident and sickness insurance, which was clearly defeated when first submitted to a referendum in 1900.

Old-age insurance met a similar fate, as Leimgruber’s book elaborately explains. The argument distinguishes three periods in the development of Swiss old-age insurance. The first period includes the years between 1890 and the beginning of the First World War, the formative period of Swiss welfare history, or in the authors’ words, the years of *dress rehearsal* for the later periods. These years brought the first ballot defeats and clearly showed that the construction of a social insurance system was a difficult, intricate project. Thus since the 1890s, the political elites in Switzerland opted for a step-by-step strategy. The first social insurance would include social protection against accidents and sickness, whereas the scheme for old-age insurance was scheduled for a later period, after this initial protection had been implemented. That moment was delayed by the First World War, following the successful establishment of the national accident insurance after the second vote on that project in 1912.

The second period in Leimgruber's narrative is that from the First World War to the eve of the Second World War in 1938. Leimgruber speaks of a *foundational* era for the later system of old-age insurance. Although old-age insurance, after the end of the First World War, featured prominently on the political agenda, the establishment of the planned system proved to be more difficult than expected. The first step was still successful. In 1925, the electorate accepted a new constitutional article granting the federal authorities the right to legislate in the field of old-age insurance. The second, more important step however failed. In 1931, a year already marked by the spread of the Great Depression, voters clearly defeated the law for the proposed old-age insurance at the ballot.

The book argues that this blockade for the statutory insurance scheme did not amount to a complete standstill. Since the First World War, the political authorities had pursued a complementary policy. Confronted with the obstacles for implementing a statutory insurance scheme, the national government decided to support the establishment of private forms of old-age insurance, notably occupational pension schemes, through a policy of tax exemptions. This policy proved hugely successful. During the First World War, many enterprises invested part of their wartime profits in corporate welfare funds. After the war, the federal tax exemptions were prolonged and the system of occupational pensions continued to grow in the inter-war period. From the mid 1920s, it was clear that the planned statutory scheme for old-age insurance would have to take into account this parallel system of occupational pensions, for example by integrating it into a two-tier insurance model. That was the situation in 1931, when the first law for statutory old-age insurance was defeated. The demise of the public insurance scheme opened the door for a further expansion of occupational pensions, in particular during the Second World War. At the same time, the plans for national old-age insurance were postponed again – this time for nearly two decades.

The third period, between 1938 and 1948, is seen by Leimgruber as the decisive moment for the emergence of the Swiss model of old-age insurance. As in the First World War, the buoyant wartime economy initiated a boom for the occupational pension funds. But this time, the war also offered a window of opportunity for the establishment of a new public insurance system. Immediately after the war broke out, the government set up a compensation system for military personnel to pay for their lost salaries. Financed by payroll taxes (equally paid by workers and employers), the compensation system represented a social contract between the workforce and the soldiers. It quickly grew into the biggest branch of the Swiss social insurance system. And after the turning point of the war in the winter of 1942–3, it became clear that the system would accumulate greater reserves than the insured soldiers would need. Thus, the political establishment sought a way of transforming the system of wage compensation into a different branch of the welfare state. As old-age insurance was undisputedly the number one priority of the political elites, the decision to transform the wage compensation scheme into a new national old-age insurance scheme was taken quickly. Finally in 1948, the statutory old-age insurance, the AHV, began to operate.

However, as Leimgruber points out in his longest and most convincing chapter on the Second World War, the wartime and post-war expansion of the Swiss welfare state was a far cry from the Beveridge-inspired reforms in Britain or the establishment of the *sécurité sociale* in France. The Swiss reform differed from other countries in two respects. First, the expansion was limited to old-age insurance; a systematic reform including sickness insurance and family allowances failed because of the resistance of entrenched interest groups such as the national medical association or the employers' associations. Second, the new statutory old-age insurance was designed from its beginnings as an institution complementary to the system of occupational pensions. That was the result of the intense lobbying activities of the association of pension funds and of the private life insurance industry against any project of an expanded public insurance scheme. Eventually, the state pensions, paid out by the AHV, hardly reached the level of subsistence. The basic pension by the state only made sense when combined with an occupational pension that normally reflected the previous level of income. This was the moment when the concept of a *two-pillar model* of old-age provision officially came into being.

The fourth period outlined by Leimgruber covers the first decades of the post-war era, reaching from 1948 to 1972. This era is marked by a consolidation of the two-pillar solution and its extension by a third pillar, which consisted of a gradual rise of tax-exempted individual annuity insurances. Thus at the end of the period examined by the book, in 1972, the Swiss voters accepted a new constitutional article that canonised the Swiss system of old-age provision and codified it as the *three-pillar model*.

This is only the core argument of a well-written study that offers a fascinating, often thrilling insight into the contested policies of old-age provision in Switzerland. Another advantage of the book is that it amply contextualises the Swiss case by side-glances at other countries, notably Britain and the United States. The work of Leimgruber is required reading for everyone interested in the fragmentations of modern welfare systems and in answering the question of how this complex story can be understood in history and the social sciences.

The author is happy to accept this review and does not wish to comment further.

## Notes

1. Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State 1875–1975* (Cambridge, 1990).Back to (1)
2. John Macnicol, *The Politics of Retirement in Britain, 1878–1948* (Cambridge, 1990); Pat Thane, *Old-age in English History: Past Experiences, Present Issues* (Oxford, 2001). Back to (2)
3. Jennifer Klein, *For All These Rights. Business, Labor, and the Shaping of America's Public-Private Welfare State (Princeton, 2003); Jacob Hacker, Health at Risk: America's Ailing Health System – and How to Heal It* (New York, 2008).Back to (3)
4. Paul Dutton, *Origins of the French Welfare State: the Struggle for Social Reform in France, 1914–1947* (Cambridge, 2002); Timothy B. Smith, *France in Crisis: Welfare, Inequality, and Globalization since 1980* (Cambridge, 2004).Back to (4)

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