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Mass Warfare and the Development of the Modern Welfare State: An Analysis of the Western World, 1914–1950

Herbert Obinger, Carina Schmitt, and Laura Seelkopf

1 Introduction

The impact of war and other emergencies on the development of welfare states in the Western world has recently attracted growing attention (Castles 2010; Rehm 2016; Obinger et al. 2018). Interstate war is a highly interdependent event that simultaneously affects several countries not only by combat activities but also by the repercussions of war on trade relations and migration flows. This particularly holds for the two world wars. The totalisation of warfare in the twentieth century led to unprecedented levels of mobilisation of military supplies and manpower

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and a massive territorial expansion of warfare. At the end of World War I (WWI), for example, the Allied side included 70 percent of the world's pre-war population and 64 percent of its pre-war output. A total of sixty-six million soldiers were mobilised by the warring nations during this conflict (Broadberry and Harrison 2009). The Second World War (WWII) was even more global and brutal, and caused hitherto unknown levels of destruction and unprecedented high numbers of casualties.

This chapter examines the impact of both world wars on the development and reshaping of social policies in the Western world along three dimensions, which also structure this chapter. More specifically, we discuss the effects of war on (1) welfare legislation and programme adoption, (2) fiscal policies and (3) state capacities. We demonstrate that both world wars unleashed a deep transformation of the welfare state. The immense costs of mass warfare led to the introduction of new taxes and massive hikes in existing taxes. These new revenue sources were not only needed to finance the overall war effort and war debt, but also generated revenues to finance welfare programmes such as unemployment insurance, family benefits and other social security schemes that were introduced to cope with the tremendous social needs generated by the horrors of war. In addition to policy innovations and welfare reforms, both world wars fuelled the centralisation of government and institutional innovations, notably the establishment of welfare ministries. Together with the destruction of the capital stock and private property caused by war and its aftershocks (hyperinflation), these effects had a massive and lasting impact on income distribution and social spending.

2 The Impact of War on Welfare Legislation

The key mechanism through which war influenced welfare state development was the massive impact on social needs and (preferences for) redistribution. Beginning with Richard Titmuss (1958), several scholars have argued that the horrors caused by warfare, military demobilisation, and post-war economic and political crises created a huge demand for social protection that states were well-placed to fill. All belligerent countries needed to provide income support to disabled veterans and to the

dependents of killed servicemen. Millions of veterans also needed healthcare and assistance for successful reintegration into society and labour markets (Obinger et al. 2020). This included, at least for a transition period, the provision of unemployment benefits, housing programmes, education, and vocational training.

Social needs were even greater in countries that suffered from acts of war on their home territory. Apart from the military war victims, these countries experienced large numbers of civilian casualties, notably during WWII. Combat activities on the home territory often had a tremendous impact on the economy. Destruction of production sites and infrastructure, military demobilisation and the lay-offs in the munitions industry led to high levels of unemployment and poverty at the end of war. In addition, large segments of the population were exhausted in war-torn countries and suffered or died from infectious diseases. Against this backdrop, the horrors of war changed individual preferences and nurtured a higher demand for *public* social protection. Rehm (2016) argues that national emergencies massively change the distribution of risk in society. Mass warfare, for example, quite likely leads to a substantial "risk flip" towards a more homogenous risk distribution in society. The fact that large parts of the population are exposed to higher social risks in wartime generates a higher demand for social protection and makes, in consequence, the adoption of welfare programmes or the expansion of existing schemes more likely (Rehm 2016: 24).

In fact, there is a close nexus between war and welfare reform. This is demonstrated in Fig. 3.1, which shows the introduction and reform of unemployment compensation schemes and family allowances for fifteen Western countries.

There is a clustering of reform activities during and particularly right after both world wars. In terms of family benefits, there is a legislative boost in the immediate aftermath of WWII, which is related to efforts to cope with the destitution of families and to counter the negative war impact on birth rates. A similar agglomeration of reform activities can be seen for unemployment compensation in the aftermath of WWI. This spread of unemployment compensation is connected to demobilisation,

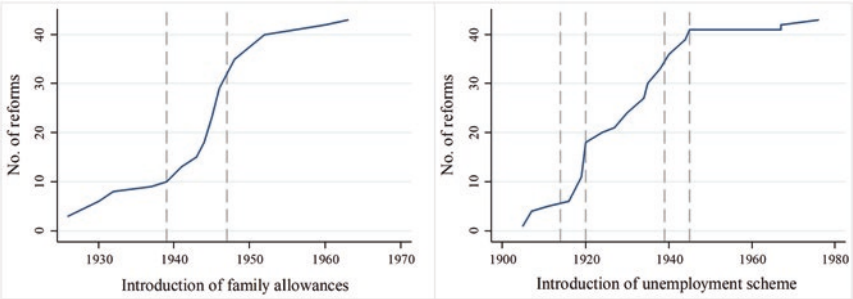


Fig. 3.1 Introduction and reforms related to unemployment compensation and family allowances. (Notes: Data are coded based on the information provided by Hicks et al. [1995]. The *y*-axis shows the cumulative number of adoptions and reforms across countries, while the *x*-axis refers to the year of introduction or reform.)

economic crisis and social unrest.[1] Econometric analyses strongly corroborate this descriptive evidence and find war impacts on other programmes such as healthcare and pensions as well (Obinger and Schmitt 2020a, b). A key finding of these studies is that it was not war per se but rather the intensity of war (e.g. the length of war involvement, combat activities on the home territory and the number of war victims) that fuelled welfare reform.

We show in the next section that the war-induced expansion of the welfare state had not only a strong and long-term impact on social spending, but also on the public revenues needed to finance the growing welfare states.

[1] Other reform waves were triggered by the Great Depression and the Second World War (see other chapters in this volume).

3 The Fiscal Impact of War and Its Aftershocks: Social Spending and Taxation

The provision of welfare benefits and services for a huge number of war victims led to a substantial increase in social spending in all belligerent countries in the direct aftermath of WWII. Figure 3.2 shows the cross-country average (solid line) as well as the minimum and maximum value per year (dashed lines) after WWII. The figure illustrates that war-related spending represented a considerable share of total social spending in many countries.

In 1950, the share of social spending devoted to war victims ranged from zero to over 30 percent of total social expenditure. It was highest in

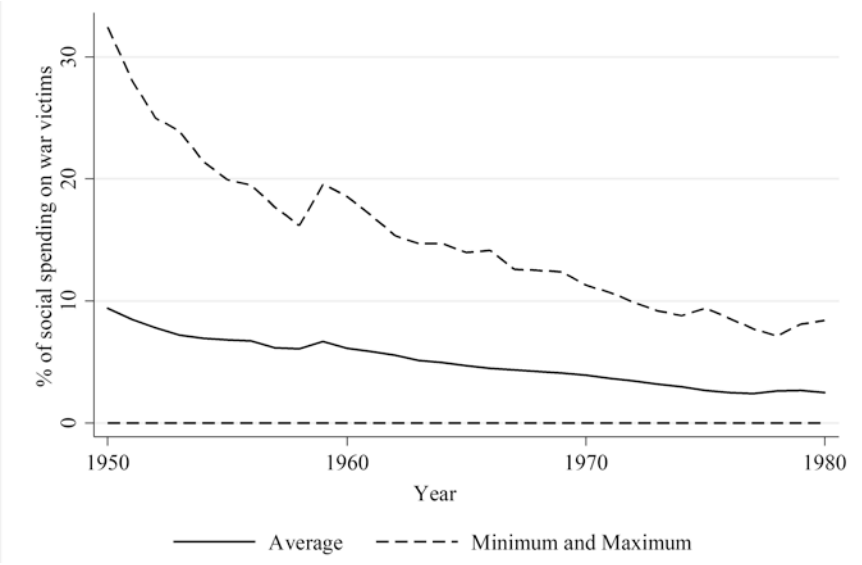


Fig. 3.2 War-related social spending, 1950–1980. (Notes: War-related social spending as a percentage of total social spending. The average [solid line] refers to eighteen Western countries [Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States]. *Source*: Obinger and Schmitt [2018].)

belligerent countries that were welfare state laggards (e.g. the United States, Canada and Japan) and lower in warring nations that had a more comprehensive welfare state at the onset of war (e.g. Germany, Austria). Figure 3.2 also reveals that spending on war victims only slowly decreased over time. Thirty-five years after the end of military conflict, war-related spending still accounted for almost 10 percent of the total social expenditure in some countries.

However, war also affected civilian social spending. This effect is related to programme introduction and welfare reforms discussed above. Its size, however, was not similar across belligerent countries but rather varied with the intensity of war (Obinger and Schmitt 2018). This is shown for WWII in Fig. 3.3, which shows point estimates for the impact of war intensity on social spending over time and the related 95 percent confidence interval (dotted line). The figure illustrates that war intensity significantly increased social expenditure until the late 1960s. This effect becomes statistically insignificant thereafter and virtually disappears in 1980.

This increase in social spending was mirrored by a massive growth of the tax state (Fig. 3.4). One of the main findings in fiscal sociology and (political) economic history is that war is "the usual reason for imposing new taxes and increasing old ones" (Spencer 1898, 567). Several mechanisms are invoked to explain this.

First, wars are expensive. Governments need to find extra revenue to fund them. If wars are short and small-scale, borrowing, currency devaluation, emergency duties and a rise in existing taxes may do (Ames and Rapp 1977, 177). Yet, expansive and drawn-out conflicts may require the introduction of new, revenue-efficient taxes. The two world wars were especially powerful drivers of tax introduction in the West. While most European countries already experimented with modern taxes such as inheritance tax or personal income taxes before the Napoleonic wars, they were in most cases only permanently introduced during or shortly after the world wars to pay off the war debts (Seelkopf et al. 2010). Even in Germany, where the individual states had successfully fought off Bismarck's efforts to introduce personal income tax at the national level, World War I led to its introduction, as well as the introduction of general

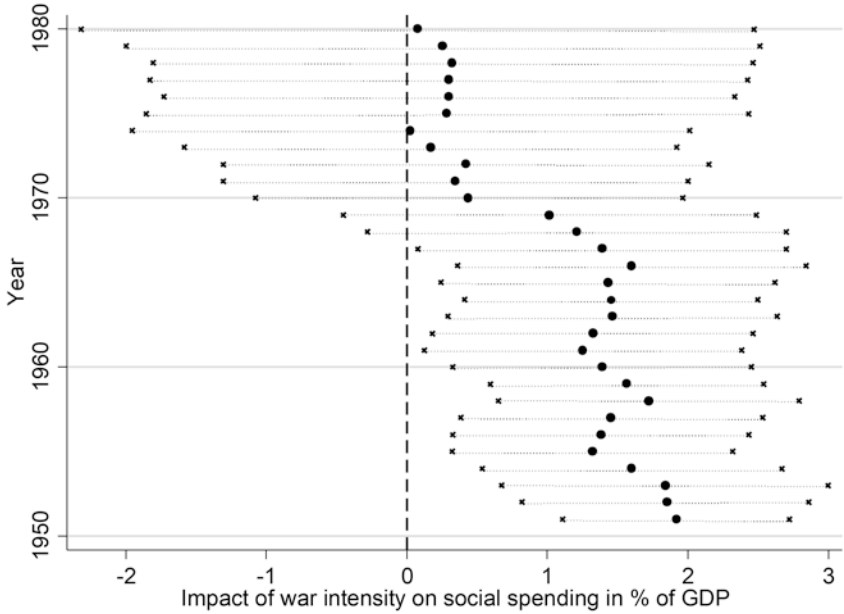


Fig. 3.3 Impact of the Second World War on post-war social spending. (Notes: Repeated cross-section regressions for all years over the period 1950–1980 in eighteen Western countries [see Fig. 3.2]. The main independent variable is the war index, with total social spending as a percentage of gross domestic product [GDP] as dependent variable. In addition, the following four control variables were included—trade openness, the percentage of elderly, GDP per capita (log.) and the share of cabinet members from left-wing parties—and the age of the welfare state as independent variable [lagged by one year]. For details and panel regressions, see Obinger and Schmitt [2018].)

sales taxes. Once adopted, these new taxes tend to stick around long after the financial exigencies of war have subsided (Peacock and Wiseman 1961).

Second, not all taxes have equal effects as some are more redistributive than others. The different levels of progressiveness matter especially in times of war. War requires commitment from the soldiers fighting it. More often than not, these soldiers are relatively young and poor. Their commitment to letting themselves be shot at on the battlefield depends crucially on the feeling that their sacrifice is not exploited by "fat cat" capitalists at home benefiting from the war economy. Thus, the universal

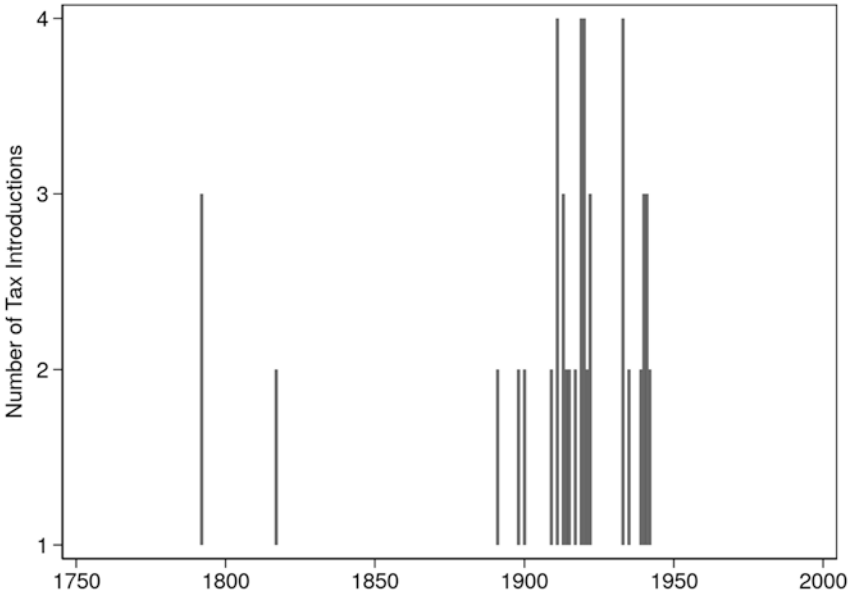


Fig. 3.4 Introduction of five major modern taxes over time. (Note: These taxes are inheritance tax, personal and corporate income taxes, social security contributions and general sales tax in twenty-one Western countries [Austria, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States]. *Sources*: Seelkopf et al. [2010]; Genschel and Seelkopf [2019])

conscription of young men during WWI and WWII led to political demands for a compensatory "conscription of wealth" that ushered in more progressive taxation (Scheve and Stasavage 2016). Not only did many Western governments introduce redistributive taxes such as personal and corporate income or inheritance taxes, they also strongly increased the rates during and in the aftermath of the wars. Figure 3.5 illustrates this for the most progressive tax of all, inheritance tax. In Japan and Korea, the top inheritance tax rate even went up as high as 90 percent in the immediate aftermath of WWII.

Similar to social spending, the war-induced tax hikes stayed for quite a while. Only now have we reached the average inheritance tax rate that prevailed in the inter-war period. Interestingly, the petering out is

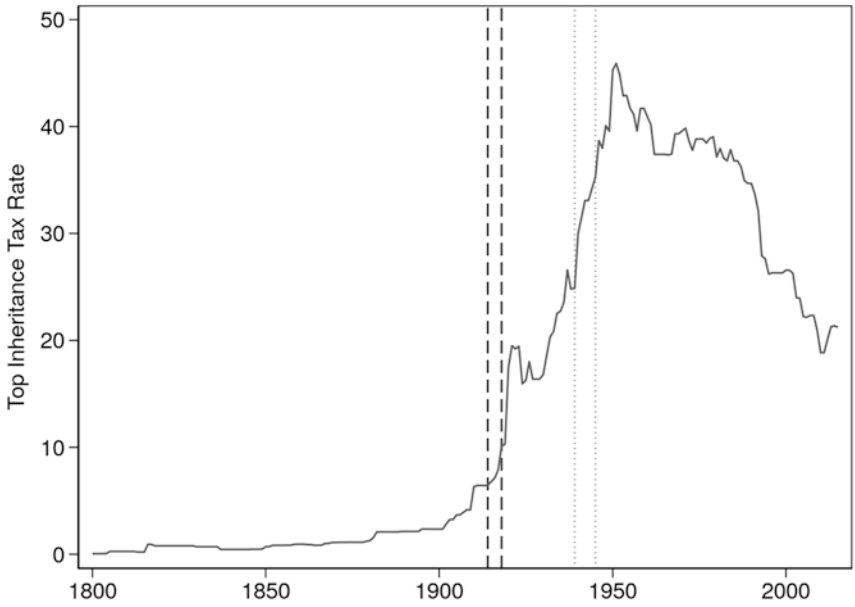


Fig. 3.5 Average top inheritance tax rate. (Notes: Tax rates in eighteen countries [Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States]. Once abolished, the rate is counted as zero. Top nominal rates for children. Dashed lines indicate WWI, dotted lines WWII. *Sources*: Scheve and Stasavage [2012], Plagge et al. [2010].)

strongest for the most progressive tax, namely inheritance tax. While countries also lowered their rates on personal and corporate income taxes, no state has yet abolished them—despite much stronger pressure from international tax competition.

Third, war requires organisation. Governments have to mobilise soldiers, weapons and machinery. They have to organise supplies, improve transport infrastructures and manage wartime production. Mass wars thus create incentives to increase administrative capacity (Tilly 1990, 75). This capacity, in turn, facilitates tax administration and allows for the introduction of more complicated taxes. Without major military challenges, governments may lack incentives to modernise their administration, thus slowing down tax innovation. The establishment and

development of administrative capacities can also be observed in the field of social policy.

4 The Impact of War on State Capacities: The Institutionalisation of Welfare Ministries

Mass warfare did not only require a large amount of resources but also influenced institution-building and state transformation. Together with the changes in tax policy these transformations created the means necessary to respond to the war-induced social needs. The most important aspects for social policy were the establishment of welfare-related ministries and the centralisation of policy jurisdictions.

All the facets of industrialised mass warfare contributed to these institutional transformations. Large-scale military mobilisation and demobilisation required coordination and preparatory planning, an ever-increasing number of war victims (soldiers and civilians alike) needed social protection, whereas the war-induced interruption of established trade and financial relations and the massive extraction of economic resources and labour by the military caused shortages of goods, services, foodstuffs and labour. In consequence, the market economy was heavily regulated, often described by contemporary observers as "war socialism". The crucial point is that this massive intrusion of government into economic and social affairs and the management of the overall war effort required the build-up of administrative capacities and bureaucratic specialisation. In addition, local governments and private charity organisations were simply overburdened in dealing with the manifold challenges and problems induced by total war. The political response was the centralisation of policy jurisdictions and state capacities. Even in federal countries, where constitutional amendments are notoriously difficult to implement, new social policy responsibilities were transferred to the central state in wartime. In terms of administration, this was mirrored by the creation of national welfare ministries in

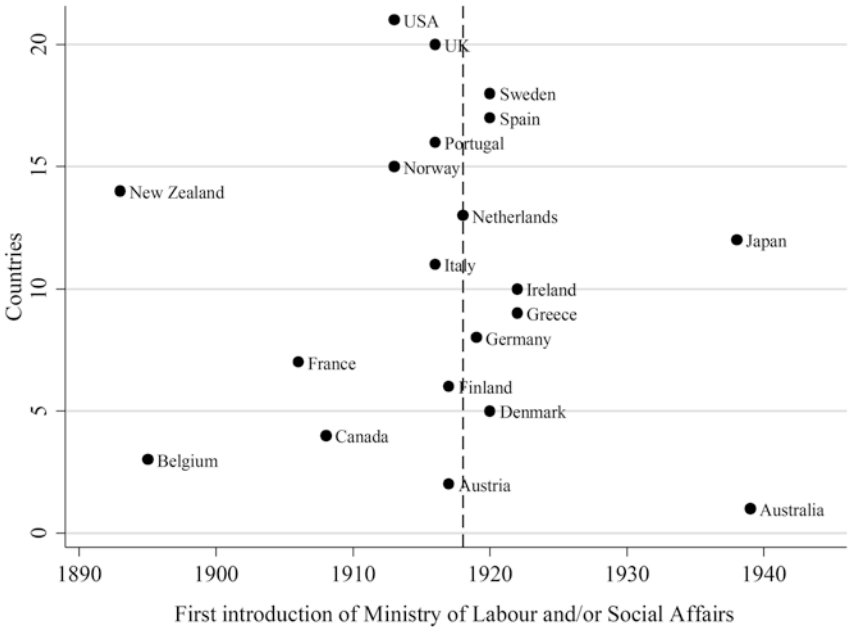


Fig. 3.6 First establishment of Ministries of Labour and/or Social Affairs. (Notes: Data coded based on Petersen et al. [2021]. The dashed line represents the end of World War I.)

an effort to address and master the socio-economic repercussions of warfare (Fig. 3.6).

Apart from early birds such as France, New Zealand, Belgium and Canada, there was a dramatic burst of establishments during and after the Great War. This development was accelerated by the formation of the International Labour Organization (ILO), which likewise was a product of the Great War (Wallin 1969). Laggards such as Australia and Japan introduced a labour or social ministry in the course of the Pacific War (Japan 1937) and WWII. This pattern clearly suggests that both world wars, and WWI in particular, were crucial catalysts for the institutionalisation of national welfare bureaucracies.

5 Conclusion

In sum, the two world wars have affected welfare state development by accelerating the introduction of new social security programmes and taxes as well as the establishment of administrative capacities. All this led to higher levels of social spending for several decades and had important impacts on social outcomes. Progressive taxes, new welfare programmes but also the destruction of the capital stock and aftershocks of war such as hyperinflation have equalised Western societies in terms of income inequality for many years (Piketty 2014; Scheidel 2017). Even though income inequality has been rising since the 1980s, Western nations are only now starting to again reach inequality levels last seen before WWII (Piketty 2014). While bellicist theories agree that war has an important effect on the welfare state, the precise mechanisms are often hard to disentangle due to the all-encompassing effects major wars have on societies. It is also less clear how well the European story travels to other contexts such as colonising wars and wars of independence. And while the world wars were so intense that no side could escape the fiscal and social consequences, this might not be the same for less intense wars or civil wars. We thus encourage further studies on the war–tax–welfare state nexus.

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