

When Autocrats Fail: Bismarck's Struggle against the Socialists

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How can autocratic elites curb revolutionary threats? Scholars at least since Machiavelli and Tocqueville dealt with this question and proposed different answers. Applying a “carrot and stick” strategy are among the most prominent solutions. China's policies combining ambitious health care reforms with a new form of repression through the social credit system are arguably one prime example of this strategy in the present. However, there is a lack of evidence about whether this strategy works in favor of the ruler.

This paper studies a classic case of an autocratic regime deciding in favor of redistribution and repression.¹ I analyze the political effects of Bismarck's policy of carrot and stick against the revolutionary threat of the socialist party in Germany. In the 1870s, vote shares for the socialist party hiked, support for the Paris commune increased among the German society, and employers saw unseen levels of strike activities. In response, Bismarck's government introduced the so-called *Sozialistengesetze* (anti-socialist laws) in 1878, which banned more than 200 socialist organizations and led to countless imprisonments. To complement this repressive policy with an integrative one, five years later the government introduced the world's first public social security scheme specifically targeted at blue-collar workers. Bismarck explicitly stated his political motivation in parliament: “Give the worker the right to work as long as he is healthy, give him care when he is sick, give him care when he is old. When you do that [...], then I believe that the gentlemen of the Wydener program [the socialist party] will blow their whistle in vain.” (Bismarck 1885, own translation). Historians have long argued that the social insurance fostered the integration of the working class (Wehler 2006) and understood Bismarck's social insurance as blueprint for successful social integration (Eichengreen 2018, Chapter 4). In spite of its canonical status, the political success of Bismarck's carrot and stick policy has thus far, to my knowledge, not been empirically investigated.² My paper attempts to fill this gap in existing research by, first, quantifying the impact of the carrot and stick on support for the socialist party in Prussia, and, second, explore the mechanisms behind the result.

Data and Empirical Strategy

The main empirical challenge is to entangle the general role of blue-collar workers, which formed the core of voters for the socialist party, from the specific effect of the social insurance, for which only blue-collar workers were eligible, and the anti-socialist laws. To tackle this obstacle, I exploit the fact that local and industry-specific insurance schemes existed already before the introduction of Bismarck's public scheme. To account for this variation, I rely on a detailed and previously unused firm census of 1876 (Minister für Handel, Gewerbe und öffentliche Arbeiten 1876). Around 35% of all blue-collar workers already had health insurance before Bismarck's reform. These schemes are seen as a role model for Bismarck's policies and became redundant with the introduction of the public insurance scheme. Thus, my treatment variable is the share of newly insured workers. I employ this variable in a event-study and difference-in-differences framework, in which I compare changes in votes in constituencies where Bismarck's health insurance lead to large additional insurance coverage with regions with less of a coverage increase over eight elections between 1871 and 1890 – the end of

¹ In their seminal study, Acemoglu and Robinson (2000, p. 1185) also discuss this case as main example for a ruler opting for redistribution (and not for democratization as other key option in their model).

² Existing literature focusses on its effect on mortality (Guinnane & Streb 2015, Bauernschuster et al. 2020), savings (Lehmann-Hasemeyer & Streb 2018), fertility (Scheubel 2013, Guinnane & Streb 2019), and out-migration (Khoudour-Castéras 2008).

Bismarck’s reign as chancellor. Crucially, I allow for flexible effects for the share of blue-collar workers provided by Galloway (2007). Summarizing, these considerations lead to the following econometric equation:

$$Share\ SPD_{it} = \alpha_i + \delta_t + \sum_{1871}^{1890} \lambda_t Impact\ Bismarck_i \times Year_t + X_{it}\beta + \varepsilon_{it}. \quad [1]$$

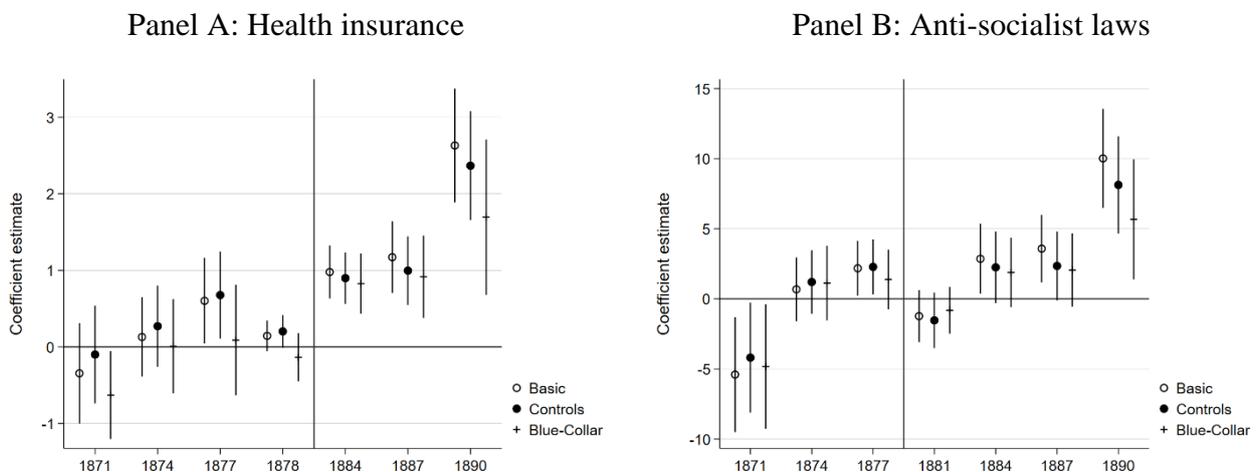
The dependent variable is the share of votes for the SAP in electoral constituency i and year t . α_i captures electoral constituency fixed effects, δ_t election year fixed effects, and X_{it} various time-varying control variables. The key variables of interest are the interactions of the year fixed effects with the impact of Bismarck’s health insurance ($Impact\ Bismarck_i$). The coefficients of this interaction (λ_t) show the pattern over eight elections in counties where Bismarck’s insurance affected a larger share of the population relative to counties where the impact was smaller. Success for Bismarck’s politics means a declining share of votes in constituencies with a higher share of workers affected by his policies after the health insurance is in place.

To capture the effect of anti-socialist laws introduced in 1878, I compare electoral constituencies with and without banned socialist organizations based on a newly digitized data set on all forbidden socialist organizations (Teich 1879). Historical accounts highlight that the ban on their organizations hit the socialist party hardest (Tennstedt 1983, p.284). For the empirical investigation, I rely again on the event-study approach from equation 1.

Results

The results show that Bismarck’s carrot did not work out the way he planned (Panel A, Figure 1). On the contrary, the introduction of health insurance led to increasing votes for the socialist party. The magnitude of the effects of social insurance are quite large: In a constituency with a higher share of newly-insured workers of one standard deviation, the socialist party increased their vote share by 3.75 percentage points. This effect explains around 70% of the average increase in votes for the socialist party when comparing the elections before and after the introduction of the social insurance. Common pre-treatment election trends corroborate the validity of the identification strategy. Also the “stick” shows not the intended results on vote shares for the socialist party (Panel B, Figure 1). The vote share for the socialist party declined slightly after the introduction of the anti-socialist laws. In the following elections, the socialist party was even able to attract more votes in constituencies affected by the “stick”.³

Figure 1: The effect of Bismarck’s policies on the votes for the socialist party, 1871-1890



³ In additional regressions, I show that the interaction of the carrot and the stick is positive, i.e., the socialist party particularly gained in constituencies with a forbidden socialist organization and a higher share of newly insured workers.

Notes: Unit of analysis: constituency. Coefficients and 95% confidence intervals for the effect of newly insured workers (Panel A) and the anti-socialist law (Panel B) on the vote share for the socialist party between 1871 and 1890, normalized to the effect in 1881 (Panel A) and 1878 (Panel B). The regression specification is based on equation 1. The coefficients “basic” include constituency and time fixed effects, “controls” add control variables (population (log), urban population (%)), “blue-collar” adds interaction terms between blue-collar workers (in %) and election dummies.

I deal with potential threats to identification in two main ways. First, to account for regional unobservable characteristics that might drive the share of ex-ante existing health insurance, I construct a shift-share instrument. To do so, I decompose the treatment variable into its parts:

$$NewlyInsuredWorkers_i = BlueCollar_i - ExAnteInsured_i = \sum_j BlueCollar_{ij} - ExAnteInsured_{ij}. \quad [2]$$

The number of newly insured workers in county i consists of the sum (over all sectors j) of the difference between blue-collar workers and ex-ante insured workers. This sum, in turn, can be instrumented with a shift-share instrument of the following form

$$\sum_j \alpha_j (BlueCollar_{prussia,j} - ExAnteInsured_{prussia,j}), \quad [3]$$

where α_j denotes the share of blue-collar worker in sector j and county i relative to total blue-employment in sector j . The firm census allows me to calculate the share of ex-ante insured workers in 11 industries. I combine these shares and the local sector shares to build my shift-share instrument. This exercise confirms my main finding (Table 1).

Table 1: Effect of social insurance, shift-share approach

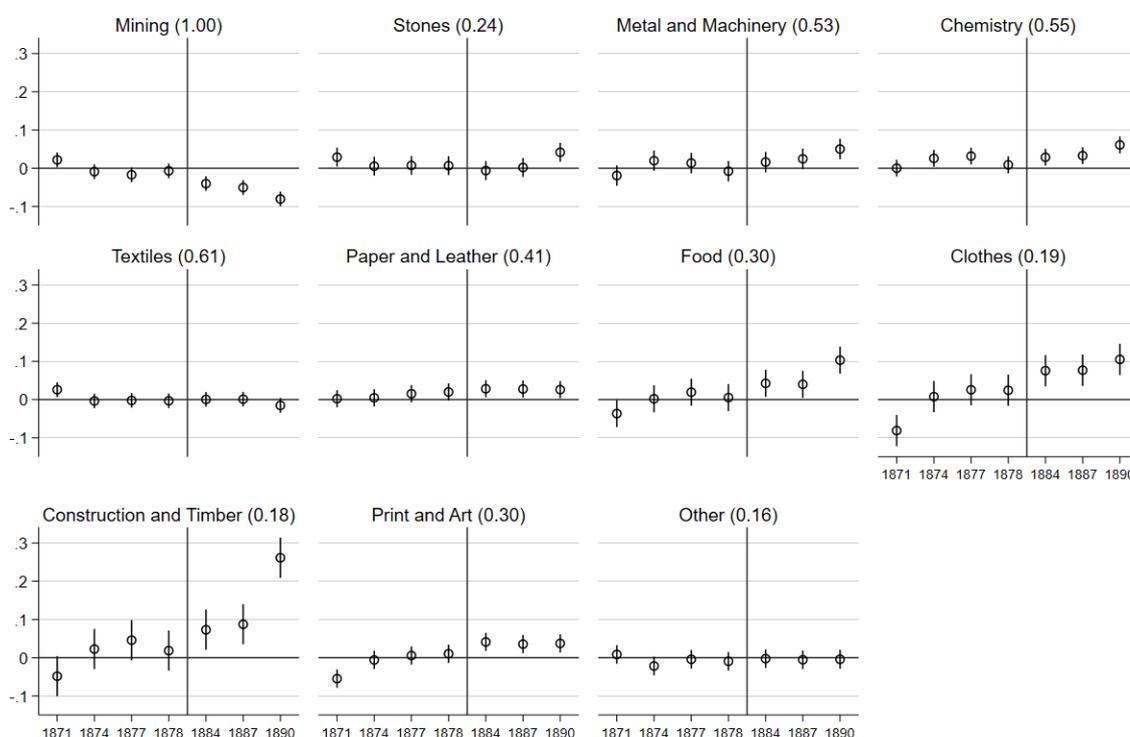
Votes SAP	Second Stage (1)	OLS (2)
% Newly Insured × 1871	-0.557 (0.375)	-0.630** (0.283)
% Newly Insured × 1874	0.155 (0.375)	0.008 (0.303)
% Newly Insured × 1877	0.708* (0.375)	0.089 (0.356)
% Newly Insured × 1878	0.265 (0.375)	-0.136 (0.155)
% Newly Insured × 1884	1.429*** (0.375)	0.827*** (0.193)
% Newly Insured × 1887	1.715*** (0.375)	0.916*** (0.265)
% Newly Insured × 1890	3.397*** (0.375)	1.694*** (0.500)
Mean Dep. Var.	5.18	5.18
Further Controls	✓	✓
County FE	✓	✓
Time FE	✓	✓
Observations	1824	1824
Counties	228	228
Elections	8	8
R-squared		0.43

Notes: The omitted election is 1881. Treatment variables: share of newly insured population in 1884, interacted with time dummies. Controls: Population (log) and blue-collar workers (%) interacted with time dummies. Standard errors, clustered at the district level, in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Second, one other main identification concern is that the local industry shares that form the basis of my treatment variable predict votes for the socialist parties through channels other than the health insurance. I follow an approach of Goldsmith-Pinkham et al. (2020) and construct pre-trend figures by industry to preclude other channels. The main idea is to check whether industries with a low share of

ex-ante insured workers indeed drive my overall positive effect. In Figure 2, I keep blue-collar shares for 11 industries constant at the 1882 values and report the effect of these blue-collar shares on votes for the socialist party. I do not find evidence for systematic and significant pre-trends for the different industries on the votes for the socialist party. Furthermore, my findings suggest that indeed industries with a low share of ex-ante insured workers drive my results. To provide one example, I find a notable difference in votes for the socialist party between the otherwise similar industries of textiles and clothing after the introduction of social insurance. I do not find a correlation between blue-collar workers in textiles (with a high share of ex-ante insured workers) and votes for the socialist party after the introduction of Bismarck's policies. However, I do find a positive correlation between blue-collar workers in clothing (with a low share of ex-ante insured workers). This supports my claim that, indeed, the introduction of health insurance is the main channel for the rising support for the socialist party.

Figure 2: Pre-trend by sector, 1871-1890



Notes: These plots report pre-trends for all industries. The figures fix blue-collar shares as the 1882 values for 11 industries and report the effect of these blue-collar shares on votes for the socialist party, normalized to the effects in 1881. I control for population (in logs) and the overall share of blue-collar workers. As in the main specification, I include time and constituency fixed effects. The coefficients are standardized. Share of ex-ante insured workers in parenthesis next to the sector.

Explanations

Seeking explanations, I explore two channels, by which the socialist party was able to spread their message despite the limited room for political activities. First, they did so by distributing an illegal newspaper called *Der Sozialdemokrat* (The Socialdemocrat). Based on detailed archival data (Motteler 2019) on the regional distribution of this newspaper between 1887 and 1890, I show that the newspaper attracted more readers in constituencies with a higher share of newly-insured workers and forbidden socialist organizations, i.e., constituencies affected by Bismarck's policies (Table 2).

Table 2: Effect of carrot and stick on distribution of illegal newspaper

	Dummy Forbidden Newspaper (1)	Total (in logs) (2)
% Newly insured	0.061*** (0.021)	0.375*** (0.108)
Dummy forbidden socialist organization	0.188** (0.078)	1.126** (0.488)
Mean Dep. Var.	0.23	1.27
Further Controls	✓	✓
Observations	228	228
R-squared	0.45	0.49

Notes: Unit of analysis: constituency. Dependent variable Column 1: Dummy for at least one subscriber of socialist newspaper; column 2: Number of subscribers (in logs). Further controls include German speakers (in %), Protestants (in %), Blue-collar workers (in %), population (in logs). Standard errors, clustered at the district level, in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Second, the implementation of the health insurance scheme allowed the socialist party to use one particular form of health insurance – so-called *Hilfskassen* (voluntary health funds) – as a new platform for political organization in times of a repressive political environment. Employees organized these voluntary health funds and chose to join even though employers did not have to contribute financially (in contrast to all other health insurance schemes). Despite higher costs, membership in the voluntary health funds flourished. Activists close to the socialist party organized more than 1000 events in Germany to convince workers to join the voluntary health funds (Hänlein et al. 2009, p. XXXIV). August Bebel, the leading politician of the socialist party, stressed the independence from employers as a key advantage to join the voluntary health funds in a speech in Cologne in front of 1000 workers in 1883. This campaign was a big success, as roughly 800.000 workers joined this type of health insurance in 1885 alone, accounting for 20 percent of all insured workers. In the following years, membership in voluntary health funds translated into more votes for the socialist party (Table 3). Note that I control for the share of newly insured workers (excluding members in voluntary health funds) in column 1 and for the share of blue-collar workers (excluding members in voluntary health funds) in column 2. Both coefficients are insignificant, while the coefficient for the share of members in voluntary health funds is positive and significant.

Table 3: Voluntary health funds and votes for the socialist party

Dep. var.: Votes SAP	Newly Insured (1)	Blue Collar (2)
Voluntary Health Funds \times Post1883	0.858** (0.385)	1.112*** (0.377)
Newly Insured (excluding voluntary) \times Post1883	-0.188 (0.183)	
Blue Collar (excluding voluntary) \times Post1883		0.099 (0.139)
Post1883	0.071*** (0.010)	0.068*** (0.011)
Further Controls	✓	✓
District FE	✓	✓
Time FE	✓	✓
Observations	288	288
Counties	36	36
Elections	8	8
R-squared	0.66	0.66

Notes: Unit of analysis: constituency. Differences-in-difference estimation. Controls: population (log). Standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Conclusion

In this paper, I show that Bismarck was not successful with his famous policies of *Zuckerbrot und Peitsche* (carrot and stick) to reduce the electoral support for the socialist party. On the contrary, I find that the socialist party was particularly successful in constituencies with a higher share of newly insured workers by the public health insurance in convincing new voters. However, this paper does not analyze the long-term consequences of Bismarck's policies. The debate about the party position on social security can be seen as a precursor to the revisionism debate and the associated question of the role of reforms vs. revolution starting in the late 1890s. It was precisely this question (in addition to the evaluation of the First World War) that later divided the social democrats into two camps (reform against revolution). Thus, the long-run consequences of Bismarck's policies on electoral success of socialist parties remain an important question to be tackled by future research.

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