Business Power and Social Policy: Employers and the Formation of the American Welfare State

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A number of scholars have highlighted the role of employers in shaping the development of the welfare state. Yet the results of this research have often been ambiguous or disputed because of insufficient attention to theoretical, conceptual, and methodological problems in the study of political influence. This article considers three of these problems in turn: the failure to distinguish and investigate multiple mechanisms of exercising influence, the misspecification of preferences, and the inference of influence from ex post correlation between actor preferences and outcomes. We demonstrate the importance of each through a reexamination of the early development of the American welfare state. The striking feature we suggest is neither business dominance nor weakness but marked variation in influence over time and across institutional settings.

In the past decade, the role of business has become a newly conspicuous theme in comparative and historical analysis of the welfare state.[1] This revival of scholarly interest returns the field to core issues about capitalist power that were vigorously contested in the 1960s and 1970s but then largely supplanted by work on political institutions and the influence of organized labor. Are scholars any closer

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to capturing the elusive political role of employers today than they were during the business power debate of years past?

If recent work is any sign, they are closer. New research evaluating business influence is more sophisticated and inventive than the sometimes crude stories of business dominance or impotence that preceded it. Nonetheless, basic problems of theory, conceptualization, and measurement continue to plague much of the discussion of business power. Unless squarely faced, these problems will continue to bedevil evaluations of employers' political role, however complex the statistical tests employed or skilled the historical researcher.

In this article, we demonstrate how crucial these issues are for empirical research on business influence and how they can be constructively resolved in social welfare scholarship. The first part of the article focuses on theory and method, exploring three problems that studies of business influence must confront: the importance of specifying and examining the multiple mechanisms of political influence, the necessity of establishing the ex ante preferences of business or business factions, and the need to exercise care in imputing causality from observed ex post associations between policy outcomes and employer interests.

The second part of this article illuminates these claims by revisiting a topic of intense and enduring scholarly controversy: the sources of the American welfare state's peculiar early development. Analysts of this topic have produced perhaps the best historiographic record that we have on any important example of policy formation. Paradoxically, however, the nature and extent of business influence have remained the subject of intense dispute. Although some analysts have treated business as the central actor, a number of institutionalist studies have sharply criticized this claim.

Both sides in the debate, we argue, have merit. Institutionalists have persuasively argued that business lobbying alone cannot explain many aspects of "American exceptionalism" and that the peculiarities of political institutions played an important role in shaping the American welfare state. Yet institutionalist accounts are themselves unsatisfying. Absent any orientation toward political economy the analysis of social policy seems strangely disembodied. Political activity in early twentieth-century America was embedded in a vast market economy. The resources of private actors at least rivaled those available to public authorities.[2] Major social policy initiatives required substantial interventions in the economy and had considerable implications for the income and authority of powerful private actors. Despite the elegance of many new institutionalist accounts, there remains a fundamental implausibility to analyses that deal with such prominent economic issues while exhibiting such limited attention to business interests.[3]

Offering an account sensitive to the interplay between institutions and interests, we suggest that the origins of America's exceptional welfare state lies in the interactions among four factors: the intensely fragmented character of American political institutions, the instrumental and structural power of private corporations, the transformation of state-market relations induced by the shock-wave of the Great Depression, and the "policy feedback" effects of the social policies enacted during the New Deal. What stands out in the early development of the American welfare state, we argue, is not overwhelming business strength or weakness but the marked variation in business influence before, during, and after the New Deal.[4] Prior to the Great Depression, business occupied a privileged position in American politics thanks to the structural power conferred upon it by the decentralized character of American federalism. State leaders' fear of capital flight and of the potential negative effects of social reforms on state economies tightly constrained the range of feasible reforms, even without active business intervention. The Great Depression and its political aftershocks, however, dramatically shifted the locus of policy making to the federal level, stripping business of a significant source of its structural influence. Employers bent on halting or modifying proposed policy reforms were forced to rely heavily on direct instrumental power in a much more hostile political climate. As the passage of the Social Security Act (SSA) testifies, this task proved to be more formidable. In the wake of the law's enactment, employers were able in some cases to soften its impact through a combination of political and private responses. Yet, as we show, employers faced strong political and economic incentives to adapt to the new policy regime. Thus, despite the revival of business influence during these years, the broad framework of New Deal Social Security legislation remained in place.

THE ANALYSIS OF BUSINESS POWER

A striking feature of the debate over the role of business in the development of social policy is the absence of serious discussion of how political influence is exerted and what kinds of evidence are relevant to judging the extent of a group's power. Analysts have tended to limit their theoretical discussions to an outline of alternative independent variables that might determine policy outcomes, before proceeding directly to a discussion of the historical record. Yet influence is an extremely tricky concept. In fact, much of the debate over the American welfare state (and employer power more generally) has misfired because it has failed to pay sufficient attention to theoretical and methodological issues concerning how influence is exercised and how it might be identified and measured. We consider three problems in turn: the failure to distinguish and investigate multiple mechanisms of exercising influence, the misspecification of preferences, and the inference of influence from ex post correlation between actor preferences and outcomes.

The Multiple Mechanisms of Business Influence

A central task for studies of business power is to specify the ways in which influence is exerted in the political process. Failure to do so entails two major risks. First, it encourages erroneous judgments about the distribution of influence at any given time, since important sources of power are not taken into consideration. Second, it limits our ability to fashion and assess hypotheses about sources of change in the distribution of influence across settings. To clarify what is at stake here, we briefly review classic discussions of instrumental and structural power of business in market democracies. We then suggest that these arguments, augmented by insights from recent developments in institutional theory, can provide a strong foundation for fashioning hypotheses about the sources of variation in business influence across contexts.

Three decades ago, the significance of business influence was perhaps the central issue in political science. From the late 1960s to the early 1980s, both pluralists and Marxists focused on the nature and extent of business power in advanced industrial democracies. In each of these largely self-contained debates, one group emphasized the "instrumental" aspects of business power.[5] For instrumentalists, the power of business stems from its ability to staff governments with business supporters and to exert direct influence on government decision makers through campaign contributions and lobbying efforts.

Instrumentalist views of business power were in turn subjected to a number of telling criticisms. Instrumentalists greatly exaggerated the extent to which business controlled access to high governmental positions; they ignored the significant financial and (especially) electoral resources of competing interests; finally, they glossed over the deep cleavages that divided the business community on many issues. By the mid-1970s, the case for some sort of cohesive, unchallenged "power elite" was widely dismissed. There was, however, little consideration of the obvious next question: the conditions under which the instrumental power of employers is likely to expand or contract.[6] Having couched the debate in such sweeping terms—either business was omnipotent or it was just another societal interest—the discussion failed to move forward.

As the analysis of instrumental power ground to a halt, a different (although not incompatible) conception of "structural" business power emerged—again almost simultaneously within both these academic discussions. Among Marxists, the structural position was initially (if hazily) advanced by Nicos Poulantzas and greatly refined in a series of essays by Fred Block.[7] In the pluralist/elitist debate, disillusioned pluralists elaborated a very similar set of arguments. In Charles Lindblom's well-known formulation, business occupied a "privileged position" that invalidated many of the key assumptions of pluralist theory.[8]

Both Block and Lindblom begin with the observation that in a market economy, crucial authority is vested in private firms. These organizations play a critical role in modern societies: they control the production of wealth, and the wages they pay provide the principal economic resources for most citizens. Given the centrality of business organizations, Lindblom argues, their managers rival public officials in their capacities to make authoritative decisions governing the lives of millions of citizens. In addition, firms face a very clear incentive structure: they must strive to maximize profits. In market systems, firms decide where, when, and how much to invest based on their calculations of profitability. Absent expectations of profit, investments will not occur. Without investment, firms can neither produce goods nor create jobs. These consequences of investment decisions give firms structural power. The decisions of individual firms, when aggregated, have a profound impact on the state of the economy as a whole and, in turn, on the quality of life of those who reside in that economy.

Where citizens can bring their concerns to bear on politicians, fear of economic deterioration resulting from declining investment is likely to generate severe pressures on public policy makers. The prospect of a public backlash gives policy makers a strong incentive to maintain the profitability of private investment. This power is structural because the pressure to protect business interests is generated automatically and apolitically. It results from private, individual investment decisions taken in thousands of enterprises, rather than from any organized effort to influence policy makers. The market, Lindblom concludes, is a prison, in which policy makers are quickly and effectively punished for actions that undermine the prospects for profitability in the private sector.

This argument about the nature of business influence is not without problems or ambiguities. In particular, the assertion of business' "privileged position" has appeared to be ill suited for comparative investigations of policy development. Lindblom presented his argument as a general claim about the nature of private power in market economies, but as critics have pointed out, market systems are compatible with widely divergent relations between business and the state.[9] Patterns of government intervention vary greatly across countries and over time within particular countries. Employers do not always get what they want; governments clearly have the capacity under some circumstances to adopt policies over the objections of some, even most, businesses. If the market is a prison, Lindblom's critics say, the exercise yard seems to be large enough to allow room for tremendous policy diversity.

The seeming incapacity of structural arguments to deal with these issues led scholars interested in explaining policy variation to either fall back on instrumentalist conceptions of business power or move away from an emphasis on business altogether. Indeed, with the growing interest in "the state" and institutions, the debate over business power essentially ended. Ironically, this shift in intellectual orientations occurred at precisely the time when many observers claimed that the power of business was rapidly increasing. But with the analysis of business power at an apparent impasse, few political scientists showed interest in refining, rather than discarding, previous claims.

This response is unfortunate, because the argument about structural power, when properly understood and linked to an analysis of other political and economic variables, is entirely compatible with an emphasis on policy variation across issues and countries and over time. Four propositions follow logically from the structural power argument, all of which suggest that business influence will depend upon particular features of the political and economic context. Thus these propositions can be used to integrate arguments about structural power into an examination of policy variation.

First, the structural power of business is a variable, not a constant. If influence depends on fear of disinvestment, then it will vary depending on how credible policy makers believe that threat to be. One major aspect of this credibility is the ease of moving investment to another political jurisdiction, and thus firms with highly immobile assets will be less capable of exercising structural power.

Second, this structural power is a signaling device; by itself it does not dictate policy choices. Governments must decide what policies will sustain investment. This requires complex calculations that are a product of external pressures (including cultural ones) and internal decision-making systems. The prospect or actuality of disinvestment can set the agenda for governments and help to define (or rule out) alternatives, but this signal cannot tell governments what do. The extent to which business influences specific policy choices will be a function of instrumental rather than structural power.[10]

Third, not all social policies activate the signaling device. The key is whether policies have (or are expected to have) a negative impact on profits. Whether costs are likely to be born by business, the impact on labor market conditions, and the presence or absence of possible offsetting benefits for employers are all factors that will determine whether policy initiatives discourage investment.

Finally, the structural power argument does not rest on an assumption that business interests are monolithic. Because the circumstances of firms are quite different, social policy initiatives are likely to pose stronger threats to some firms, sectors, or regions than others. Indeed, social policies often benefit some businesses at the expense of others. In such circumstances, the investment signal is likely to be mixed.

The next stage in the argument is to link these propositions, along with a complementary analysis of instrumental power, to the characteristics of political institutions. Many of the questions in the original debate over business power were posed at a very high level of abstraction. What, participants asked, was the relationship between capitalism and democracy? How powerful is business relative to other participants in the political process? The institutionalist riposte—to this as to many questions—would be “it depends.” Capitalist democracies take widely divergent forms, and the specifics of institutional design—for example, the number of “veto points” built into formal institutional structures—will have a significant impact on what business employers seek, how they pursue their goals, and the likelihood that their concerns will be addressed.

In the current context, one proposition about institutional effects is especially relevant: the structural power of business will increase in decentralized federal systems. Capital mobility is a key—and highly variable—element of business’ structural position. Because mobility is much greater between states than between countries, state policy makers are especially eager to create a "healthy business climate." The role of capital mobility is thus likely to be greater in federal systems, and in those systems the prospects for social policy are likely to be influenced by which level of government—state or national—is in a position to pursue reform.[11]

In short, the argument about the structural influence of business does not imply a simple prohibition of government policy initiatives or even of initiatives that run counter to business interests. It is fully compatible with an emphasis on policy variation, both between countries and over time. To help account for variation, though, arguments about the structural properties of market systems need to look at the interaction between these properties and other political and economic factors, especially the role of political institutions.

Nor, as these propositions make clear, is an analysis of structural power an alternative to a focus on instrumental power. Both pathways to influence are relevant in advanced industrial democracies—although one or the other is often more significant in a particular time or place. If structural power is sufficiently great, there may be little need to resort to instrumental efforts to modify or block public policies. Where structural power fails, instrumental influence becomes more important. The impact of both factors will also vary in different stages of the policy-making process. Since structural power acts as a signaling device, its importance is felt primarily in setting the public agenda and in ruling out options that are particularly objectionable to potentially mobile firms. Instrumental power is often more relevant in determining the specific design of legislative proposals. Carefully distinguishing the role of structural and instrumental influence is an important first step toward understanding the scope and sources of business power. Yet two additional issues also demand attention—the problem of distinguishing preferences from strategic goals and the problem of distinguishing cause and association.

The Problem of Preferences

We cannot know how influential employers are in a particular setting without first having some idea of what employers want. Political influence, after all, means something far broader than triumph in a "head-to-head" conflict over a particular amendment or piece of legislation. The principal justification for widening our view is the concept of anticipated reactions. All political participants are in a position to calculate (with at least some degree of accuracy) the reactions of other actors. Given this capacity, a group's actions often will not reveal its preferences but rather its strategic calculations of what is the best that can be accomplished given existing circumstances. An actor's expressed policy preferences may in fact be "induced" or "strategic"—that is, they reflect accommodations to circumstances that constrain what can be achieved. An actor's capacity to achieve its induced preferences should not necessarily be construed as a sign of great influence.

Figure 1. Ranked policy preferences of two political actors.

Consider Figure 1, which depicts the policy preferences of two political actors, A and B, over a range of policy options stretching along a simple left-right continuum. Actor A favors, in ascending order, those policies grouped toward the left end of the spectrum (A_0 over A_1 over A_2 and so on), while Actor B favors those at the right end (B_0 over B_1 over B_2 and so on). At any point in time, however, only a narrow subset of these policy alternatives is likely to be on a government's decision agenda. In one context, the political conflict may be between options A_1 and A_2, while in another the choice is between options B_1 and B_2. Although the final choice between these two "viable" alternatives is the most visible part of the policy-making process, it is often not the crucial one. Rather, the most significant aspect of influence involves moving the decision-making agenda toward an actor's preferred end of the spectrum. As critics of pluralist studies of public decision making rightly argued, focusing only on the actual conflict between contending alternatives may give a very misleading impression of an actor's relative influence.[12] For example, if Congress chose B_2 over B_1, we would be mistaken to conclude that Actor A has more political influence than Actor B, even though Actor A obtained a preferred outcome within this particular subset. The crucial issue is to determine why the viable options were those at the right end of the spectrum, rather than why one or the other of the two options broadly favorable to Actor B was finally selected.

As we shall explore in the second part of this article, the debate on the role of business in the development of the welfare state has often failed to embrace this fundamental point. Much of the discussion has focused on political fights over particular pieces of state and national legislation. Who wrote the legislation, and who provided the expertise needed to formulate specific proposals? Who backed which bill or amendment? These are significant questions, but they necessarily draw attention to the particular choices made within a narrow range of options rather than to the matter of why only that particular subset was considered. Not surprisingly, this focus also encourages confusion about what the historical record shows. In the fight between relatively narrow alternatives, there will be some victories for each side. Even the lines dividing the sides are likely to become ambiguous as different actors within groups take a variety of stances because of uncertainty or because they are situated somewhat differently. Thus both advocates and opponents of the "business dominance" view will often find evidence to support their claims.

Recognizing the significance of anticipated reactions makes the study of influence more difficult. We need to determine whether a particular policy stance reflects a genuine preference or reluctant acquiescence in light of a weak political position.[13] We must focus attention on agenda setting and the identification of viable alternatives.[14] We need to know why the set of "feasible" initiatives comes to rest at a particular place—and we especially need to know if this reflects indirect sources of influence. And we must distinguish preferences from strategic courses of action that actors adopt to get as close as they can to their desired outcomes in a particular context. Otherwise, as Jeffry Frieden has persuasively argued, we will be "unable to distinguish between the causal role of actors' interests and that of their environment."[15]

The Dangers of Relying on Post-Hoc Correlations

These considerations lead to the final issue: the difficulty of distinguishing between association and causation. To demonstrate influence, we must show not only that outcomes are congruent with the preferences of specific actors; we must also demonstrate that these outcomes are a result of the actor's direct or indirect power. Congruence between preferences and outcomes can, after all, result from a number of different processes. One possibility—the least satisfying to social scientists—is accidental correspondence: many public policies have complex and interactive effects, and policy outcomes do not always reflect intentions.[16] A second possibility, however, poses an even greater challenge: congruence between preferences and outcomes may be brought about by policies themselves, rather than the enactment of policies reflecting preferences. In research on business and social policy, as in other areas, observers are strongly tempted to take policy outcomes as proof of intentions and, from there, to impute the influence or control of the eventual beneficiaries.[17] Yet, as David Vogel argues,

> It is important to distinguish between policies that in retrospect appear to have been in the interests of business—and thus have elicited relative support from the business community with the passage of time—and the position of executives at the time when the proposals were first debated and enacted. One must be careful about reading back the contemporary attitudes of the business community into the past.[18]

Why might there be a disjunction between contemporary attitudes and initial positions? One obvious possibility is that employers may recognize that they have little prospect of overturning existing policies and reluctantly accommodate themselves to the new status quo. In the United States, in particular, the "stickiness" of political institutions and the large number of institutional veto points make legislative reversals extremely difficult. Second, during implementation or later, employers may be able to modify policies that initially provoked fierce business opposition so as to make them more palatable.[19] Third, employer attitudes toward a particular line of policy could truly change. This shift in orientation might be the product of a genuine reassessment of earlier views, it might reflect organizational restructuring in response to a policy, or it could reflect a change in the universe of business actors, as firms disadvantaged by the new policies declined or went out of business while favored firms expanded. In sum, business support for (or lack of opposition to) established public policies is itself consistent with several different explanations, only some of which indicate that business influence is the reason for the passage or maintenance of these policies.

This simple but fundamental point is underscored by the growing body of literature on "policy feedback," the process by which policies, once enacted, reshape political processes, preferences, and strategies.[20] A basic assertion of this work is that major public policies are not just effects but also causes; they create support coalitions as well as emerge out of them. These feedback effects provide yet another reason why hostile political actors may accommodate themselves to policies once in place. They also provide a salient methodological caution: if policy outcomes and the preferences of political actors coincide, it remains an open question whether the preferences produced the outcomes or the outcomes induced the preferences. While both are potentially valid and important claims, they have quite distinct implications for our assessments of political influence.

BUSINESS POWER AND THE FORMATION OF THE AMERICAN WELFARE STATE

The last section presented a framework for the study of business power that emphasizes the need to explore multiple mechanisms of employer influence, the importance of specifying preferences and strategic contexts, and the problematic character of reliance on post-hoc correlations. The next question is whether this framework allows us to adjudicate among competing accounts of the early evolution of U.S. social policy. In this second part of our article, we show that it does.

The central historiographical controversy over the American welfare state's early formation has concerned the importance of business power. A number of scholars have argued that business actors largely designed policy in this period, or at least that public policies were intended to serve business interests.[21] Those emphasizing institutional factors, most notably Theda Skocpol, have discounted the role of employers in policy development, stressing instead such factors as the orientations of patronage-based political parties, efforts of state-building elites inside and out of government, the impact of policy legacies from earlier periods, the institutional power of southern politicians, and (most recently) the role of broad-based women's groups.[22]

Both views are overdrawn. More precisely, each is relatively convincing for only part of the era in question, because the scope of employer power varied significantly over time. The history of the American welfare state before World War II must be divided into three periods, punctuated by an economic cataclysm.

In the decades before the Depression, social policy in the United States was remarkably limited, especially at the federal level. Few observers could have looked at the political landscape of the late 1920s and drawn the conclusion that the United States was evolving toward a system of social supports even faintly comparable to what had already emerged in many less industrialized European countries. The Depression, however, sent a shock wave through the American political economy, shifting the balance among political actors. In this second period, previously dominant business groups were forced to make their peace with a vastly expanded federal social role, and the basic structure of the American welfare state was put in place. Although the impetus for social reform eroded after the passage of the SSA, employers never wrested back the dominant influence that they enjoyed prior to the Great Depression. Indeed, in this third period, many employers came to recognize the futility of refighting a lost battle and instead accommodated themselves to the new social legislation, restructuring their private benefits, working to shape the implementation of the legislation—and, in doing so, helping to further entrench the policy breakthroughs that their political weakness in the 1930s had permitted.

These three periods in American welfare state development link up closely to the three broad arguments about evaluating employer influence that we outlined in the first part of this article. Analyses of the pre–New Deal period have often failed to consider the effects of structural power. Discussions of New Deal politics have frequently neglected to incorporate the role of anticipated reactions in shaping employers' policy demands. And analysts of the post–New Deal period have been tempted to draw inappropriate conclusions from the observation of diminished employer hostility to the SSA. Yet our examination of these three periods does more than highlight each of our initial claims. It also demonstrates the benefits of research on employer influence that spans a broad stretch of time.[23] Lengthening our time frame allows us to incorporate greater variation in important political and economic parameters. At the same time, and not coincidentally, we identify far more variance in employer influence than has been typical in discussions of business and the welfare state. Finally, studying all three periods allows us to employ evidence from one time period that is relevant for assessing claims about the role of political actors in other periods. By looking at a "moving picture" rather than a "snapshot," we are able to see more clearly how employers' structural and instrumental power varied over time, how business policy demands were shaped by a shifting strategic context, and how those demands were affected by the passage of the SSA.

An Unfettered Common Market: American Social Policy before the New Deal

Pre–New Deal social policy was state and local policy. At the federal level, the major parties were loose coalitions of regional and sectoral interests, dedicated to

Table 1
Time of Adoption of Five Major Welfare Programs (U.S. rank among fifteen developed nations)

Program	Initial Adoption	Binding or Extensive	Binding and Extensive
Old age, disability, and survivors	12	11	11
Sickness and maternity	15	None	None
Workers' compensation	15	13	10
Unemployment compensation	11	11	9
Family allowances	None	None	None

Source: Alexander Hicks, Joya Misra, and Tang Nah Ng, "The Programmatic Emergence of the Social Security State," *American Sociological Review* 60 (June 1995): 329-49; see p. 337.
Note: The fifteen countries are Australia, Austria, Belgium, Canada, Denmark, France, Germany, Italy, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States. The United States is the only country in the group without binding and extensive health care benefits and family allowances.

the promotion of patronage rather than coherent programs of reform. Reformist forces were weak in the Democratic Party, and the Republicans, who were in a preponderant position for much of the period between 1896 and 1928, were closely aligned with major business interests. With the important exception of civil war pensions (to be discussed below), the GOP was hostile toward any federal social role. The Supreme Court shared this antipathy and sharply circumscribed federal interference with the "freedom" of workers and employers to settle contracts, regardless of how unequal the terms.

This party orientation, the blocking role of the Supreme Court, and a national institutional structure that required broad consensus produced a pattern of minimalist policy making, strongly oriented toward distributive rather than redistributive initiatives.[24] This distributive focus included strong efforts to foster the development of the American "common market." The federal government doled out land, invested in communication and transportation networks, and tried to reduce other barriers to interstate commerce. It sought to facilitate national economic integration by encouraging the unrestricted mobility of goods, labor, and investment. Yet the federal government generally refused to become involved in social policy. Table 1 details the most striking aspects of "American exceptionalism": the absence of some national social policies that were common elsewhere and the very late arrival of others. While social insurance initiatives received limited attention at the national level during the 1910s and 1920s, none had any realistic chance of passage.[25]

There was one enormous exception to this federal policy vacuum: the extensive system of civil war pensions that flourished in the late nineteenth and early twentieth centuries.[26] At its peak, the pension system accounted for 37 percent of federal expenditures, providing benefits—which compared favorably to those of early European pension systems—to 1 million union veterans and their survivors. Skocpol has argued that Civil War pensions reflect the patronage orientation of

American politics. Because northern, American-born males were the recipients, benefits could be effectively targeted on precisely the regions and groups most crucial to the Republican Party's electoral machine.

Everything we know about national politics in this period, however, suggests that widespread business support was a prerequisite for the remarkably extensive civil war pension system. The lack of a business outcry against these massive income transfers is in stunning contrast to its position on far less interventionist social policy issues. The reason is not hard to identify.[27] The pensions were financed by revenues from tariffs that were of vital interest to Northern industry but that had the awkward consequence of filling the government's coffers to overflowing. It is no accident that pension spending took off around the same time that Congress faced growing demands to cut tariffs in the light of the government's remarkably healthy finances.[28] The pension system not only disposed of the politically inconvenient surplus but did so in a way that strengthened the business-dominated Republican coalition.

Despite reformers' aspirations, the veterans' pension system was not transformed into a universal or means-tested system. While Skocpol emphasizes elite concerns about corruption as a result of experience with the program for veterans, it is also true that the "tariff engine" was being phased out during this period. Customs duties provided 37 percent of government revenues in 1902, but only 32 percent in 1913 and just 7 percent by 1922.[29] With this decline there was no basis for business support of federal social initiatives. As the cohort of veterans dwindled, the federal government returned to its practice of nonintervention in the realm of social policy. Far from becoming more centralized and extensive in the early 1900s—the pattern in almost every other industrial society—American social policy moved in the other direction.

Federal inactivity meant that efforts to pass social legislation focused on the states. In state capitols, initiatives resembling those common in Europe were on the public agenda in the early 1900s. Yet what is striking again is the feeble progress of even state-level social legislation. While the scope of state initiatives before 1930 was far greater than national activity, it remained extremely limited. This was true despite the fact that the balance of political forces in many states seemed more promising than it was at the national level, and in many respects comparable to the conditions that proved conducive to reform abroad. The more industrialized states boasted levels of economic development and unionization rates equal to or greater than those of many European nations.[30] Unlike the national leadership of the American Federation of Labor, state-level union federations were often eager to promote social legislation.[31]

A significant barrier was that political authority within most states was as fragmented as it was in Washington. The need to pull together "super-majorities" sufficient to overcome the many possible obstacles to legislation hindered government action. One of these obstacles, the courts, sometimes could not be overcome by any action short of constitutional reform, which in turn demanded extraordinary procedural measures like popular referenda. There are a number of examples during this period of legislative victories undone by court verdicts.[32]

Yet there is substantial evidence that the principal source of state inactivity was fear that social reform would have an adverse impact on business. Individual states were embedded within an increasingly integrated national economy, making concerns about lost competitiveness highly salient. The possibility that social legislation would discourage new private investment, encourage firms to relocate, or undermine the ability of local firms to compete with out-of-state rivals was a major constraint on state-level policy initiatives. In the context of decentralized federalism, business possessed significant structural power.

Recent research has produced a wealth of anecdotal evidence to suggest the weight of this factor in state-level discussions of social legislation. As David Brian Robertson notes in an important study, "state policymakers' fear of placing their state at a competitive disadvantage permeates social policy discourse during this period."[33] Government-established commissions consistently pointed to the adverse economic consequences as an explanation for deferring social reform. Political interests that might otherwise have been neutral or even favorable to such initiatives were often pushed into opposition for the same reason.

The evidence to support this explanation of state inactivity in social policy is not only anecdotal. In fact, a number of aspects of the historical record provide significant support for our claim that fear of business disapproval was the principal obstacle to reform.[34] Although it is difficult to make a conclusive case for indirect influence, our approach here is to identify a wide range of observable implications that flow from our claim about business' structural power and show, in each case, that these expected outcomes did indeed occur.

The most important piece of evidence is the distinctive pattern of success and failure of social reformers. State-level social legislation was not entirely absent in the pre–New Deal period. Those reforms that were successful, however, were ones that were either in the interest of local businesses or promised only marginal disruptions of market conditions. Especially in industrial states, initiatives that did not have the acquiescence or active support of employers were invariably either blocked or radically watered-down to mitigate concerns about interstate competition.

Workmen's compensation provides the clearest example.[35] Distressed by the unpredictability and expense of injury-related litigation, most firms were eager for a legislative approach. Business groups moved strongly in favor of reform after the turn of the century. As James Weinstein notes, "ninety-five percent of the 25,000 employers to whom the N.A.M. sent questionnaires in 1910 favored automatic compensation for industrial accidents; few had the resources to institute such programs privately. The Association therefore endorsed the idea of workmen's compensation legislation."[36] The National Civic Federation, in which prominent businessmen played a guiding role, became a forceful advocate of compensation laws. Beginning in 1910, legislation to establish regulatory mechanisms for handling compensation of workplace accidents spread rapidly. Although business interests sometimes failed to obtain the precise legislation that they preferred, none of the systems adopted would have posed a threat to the profitability of local businesses even if other states had failed to act.

Other successful social initiatives also show the importance of business support or acquiescence. Programs that offered protection to the "deserving" poor (i.e., those who were not expected to participate in waged labor), such as aid for the blind or disabled, met with some success, but only if public outlays were expected to be very modest. Old age pensions made just slight progress. The aged held a marginal status in labor markets during the period, but pensions threatened to be costly. Thus while pension initiatives fared better than social insurance proposals for workers, they nonetheless remained extremely limited in scope. As Lubove concludes after summarizing the experience of a range of states, "the main reason for the failure [of pension reform advocates] was the effective opposition inspired by business organizations."[37] By 1929, only six states had adopted pension laws. Even these laws, it must be stressed, were so watered-down as to be largely symbolic. They called only for small, means-tested benefits for the destitute and were passed only after reformers agreed to make them "county optional." Because counties faced even greater constraints on redistributive spending than states, this arrangement ensured that expenditures would be very low in the few cases where counties agreed to provide pensions. In the entire country, there were roughly 1,000 recipients of old-age assistance in 1929; total spending was about $200,000.[38]

As Skocpol has persuasively argued, the most widespread activity on social legislation before 1933 involved "maternalist" policies. A large-scale mobilization of women's groups and other social reformers, sometimes acting in concert with organized labor, succeeded in generating a wave of initiatives during the Progressive Era. Legislative action included maximum hours regulation for women workers, mother's pensions, and (to a lesser degree) minimum wages for women workers. Nothing about the scope and content of this effort, however, challenges the claim that business influence played a critical role in regulating legislative activity. The legislation that passed was of little concern to most businesses. Employers undoubtedly would not have pursued maternalist policies on their own, but they had little objection to many of them. On the other hand, where such initiatives posed a real threat to a large number of employers, legislation invariably failed to pass.

Mothers' pensions, which spread rapidly, were unproblematic for employers. Because the mothers of young children were not generally expected to participate in the paid labor market, these proposals had a limited impact on business. Indeed, by allowing children to stay in their mothers' homes rather than state-financed orphanages, these policies might even result in lower tax levies. Reliance on county-level finance guaranteed that spending on such programs would be very modest. It is simply not accurate, as Orloff asserts, that the reason these programs offered only a pittance in benefits was "the lack of administrative capacities of American state governments."[39] The problem was not that state administrative capacities were weak but that reformers could not pass legislation without first accepting a financial structure that guaranteed such programs would be extremely modest. As Mark Leff concludes, "unlike much social legislation, mothers'-pension programs were neither expensive nor disruptive to productive efficiency. They thus posed no threat to wealthy conservatives."[40]

Forty-one states also passed laws regulating maximum hours of work for women by 1921. Although some employers were adversely affected by these restrictions, most had little to lose and were either quiet or vaguely supportive of mild legislation. Even representatives of business groups like the National Association of Manufacturers (NAM)-associated Citizens' Industrial Organization, a virulently antilabor group formed to fight the closed shop, spoke favorably of child labor laws and approved the Supreme Court's *Muller v. Oregon* decision, which upheld maximum hour legislation for women.[41] Reluctance to oppose motherhood surely accounted in part for the passivity of business interests, but it is clear that this was not the whole story. Employers did act, with considerable success, to water down bills wherever possible. Similarly, they fought successfully to block national legislation, out of fear that it would open the door to federal intervention on other social policy issues. Finally, employers proved to be quite willing to combat maternalist legislation when they considered it truly troublesome.

The experience of proposed minimum wage legislation for women makes this clear. As Skocpol acknowledges, "the obstacles to passage of these bills were greater than for hours laws. Business organizations and other conservative forces feared that government might actually order extra expenditures on wages, and this was perceived . . . as more intrusive than were statutes limiting who might be employed and for how long."[42] Business opposition made a big difference. Although fifteen states and the District of Columbia passed (mostly weak) minimum wage laws, legislation occurred overwhelmingly in nonindustrialized states. In a number of these states, business actors did not object to minimum wage laws. In the industrialized states, where employers did object, their power was apparent. In the industrial heartland of the Midwest and Northeast, only Massachusetts passed minimum wage legislation—and then only after supporters of business revised the legislation to make "publicity" rather than regulation the means of enforcement. Skocpol herself concludes that

> the states which refused to pass proposed minimum wage bills were much more highly industrialized than those that did pass such laws. In the more industrialized states, strong

opposition from business organizations—and usually from the AFL unions as well—had a telling effect on legislators.[43]

The emphasis recently given to the mobilization of women's federations in the Progressive Era is in one sense appropriate. A focus on business cannot explain why any maternalist policies passed during this period. What the influence of business does explain is the narrow limits of such policies. None of the maternalist policies that passed posed much of a threat to employers.

Further evidence of business power can be seen in the realm of social insurance legislation (covering risks associated with illness, unemployment, or old age). These policies, which would have required high taxes or offered significant protection to people who were expected to be in the labor market, met stiff resistance. Although at various times there was considerable popular agitation at the state level for social insurance, no proposals were able to make headway before the Depression.[44] Business opposition to these reforms was intense, and fear of handicapping local businesses was frequently advanced as a justification for rejecting legislation.

In the face of widespread business hostility no state passed old-age insurance, health insurance, or unemployment insurance before 1929. The battles over unemployment insurance were typical. Despite sporadic attention, the only state where unemployment compensation legislation made much progress in the 1920s was Wisconsin. While popular pressures mounted during the Depression, state-level initiatives remained constrained prior to federal intervention in 1935. Even with growing public support for government action, only Wisconsin (in July 1934) succeeded in implementing unemployment compensation before the passage of the SSA was imminent.[45] Most business representatives opposed the Wisconsin bill, but the final legislation had been carefully tailored to meet their most serious objections. It fell far short of the aspirations of most social insurance advocates and was far weaker than the unemployment insurance legislation that had previously spread across Europe. As Daniel Nelson observes, after its passage employers "soon became enthusiastic backers. . . . As neighboring states seriously considered more costly plans, Wisconsin employers rejoiced that they had gotten off so easily."[46]

Thus while Skocpol and others have rightly noted a significant record of state-level social policy activity prior to 1929, the pattern of that activity is revealing. Some very modest policies of labor market regulation were possible; so were absolutely minimal provisions for the "deserving poor," if these provisions were combined with strict protections against fiscal laxity. Policies that involved significant redistributive spending, however, or that might have provided real protection for jobless workers were beyond the pale. In short, policy outcomes during the pre–New Deal period conform to a simple rule of thumb: reforms that threatened to raise costs significantly for a large number of firms engaged in interstate competition were very unlikely to pass.

Table 2
State and Local Spending on Distributive and Redistributive Programs (millions of dollars)

	1902			1927		
	State	Local	Combined	State	Local	Combined
Education	62	238	300	510	2,017	2,527
Highways	4	171	175	514	1,295	1,809
Public welfare	10	27	37	46	111	157
Total spending	186	959	1,145	1,976	6,359	8,335

Source: U.S. Department of Commerce, Bureau of the Census, *Historical Statistics of the United States: Colonial Times to 1970*, 93rd Cong., 1st sess., H. Doc. 93-78, pt. 9: 1131, 1134.

Nor is the pattern of social legislation prior to the Depression the only indication of employers' structural power. The scope of state activity outside the sphere of social policy constitutes a second source of evidence. The broader policy record suggests that the limited scope of social policies did not reflect an antipathy for government action per se. Thus, the emphasis that some authors have placed on fear of patronage as a constraint on public spending in this period is unpersuasive.[47] States eagerly pursued—and powerful interests supported—activities that provided opportunities for patronage, as long as these policies also seemed likely to promote economic development. As the American market became more integrated in the early twentieth century, the states greatly increased spending on policies that enhanced opportunities for profitable investment, such as the expansion of transportation networks and educational systems (see Table 2). Just as a focus on capital mobility would suggest, the reticence of state governments was limited to redistributive policies.[48] State and local spending on education and highways expanded almost ten-fold in the first quarter of the twentieth century. By 1927, these developmental programs accounted for 52.1 percent of state and local spending, up from 41.5 percent in 1902. During the same period, the share of state and local expenditure devoted to public welfare measures actually dropped from 3.3 percent to 1.9 percent. Thus, the broader record of state activity, like the pattern of success and failure within the field of social policy itself, suggests that only when it came to certain kinds of activity were state governments inclined to sit on their hands.

A third source of evidence for the structural power thesis is the extent to which exposure to interstate competition helps to account for both the geographic distribution of reform and differences in employer responses. Where the local economy remained isolated from the national economy, reform was easier to pursue. Thus, for example, states in the then-relatively remote regional economy of the Pacific coast were able to pursue some initiatives with little complaint that provoked vehement business opposition in the industrial heartlands of the Midwest and Northeast.[49] Isolated Montana, with no industry to speak of, was the only state where a majority of counties actually approved county-optional pensions before 1929.[50] As already noted, minimum wage laws for women had almost no success in regions that had a substantial industrial base. Within industrial states, social legislation was more likely to be acceptable if its major impact was not on economic sectors that were exposed to strong competition from out-of-state rivals. Exemptions were frequently offered to those sectors that were most vulnerable.

A final strand of evidence is the clear indication that states regarded social regulation as a collective action problem, and the persistence of state efforts to confront that problem through coordinated action. If state governments worried that local business would lose out to less regulated competitors in other states, a logical response was to try to limit this beggar-thy-neighbor behavior by forming some sort of collective agreement. The obstacles to such concerted action were staggering. In the absence of federal intervention, coordination required legislation in many different states, each with a distinctive economic profile, partisan complexion, and legislative calendar.[51] The conflicting interests of the states made cooperation even more difficult. Especially in the South, states that hoped to attract investment were extremely unlikely to accept such agreements.

Ultimately, these formidable barriers doomed collective efforts. What is remarkable is that despite the huge problems involved, attempts to achieve coordination were widespread.[52] Progressives organized much of their activity around "model statutes," which were seen as a potential halfway house between the ineffectiveness of single-state initiatives and the implausibility of federal action. Efforts to negotiate interstate compacts covering various aspects of social regulation were common. The investment of significant resources in such a hopeless course was an act of desperation—an act of policy makers and political advocates eager for reform but trapped in an extremely hostile institutional environment.

Skocpol has stressed that neither business power nor federalism constituted an "absolute bar to strong legislation" at the state level.[53] This conclusion is accurate, but the argument advanced here about the structural power of business in a federal system does not suggest otherwise. What the argument suggests—and what the evidence supports—is that policy initiatives under such conditions generally will occur only where the threat to business profitability is small or nonexistent or in jurisdictions where potentially mobile employees are not yet well established. More economically intrusive initiatives either will not be seriously attempted (given anticipated reactions) or will be accompanied by vigorous (if futile) efforts to forge a collective response to the imprisoning effects of interstate competition. The historical record offers strong evidence for all these propositions. The decentralization of policy-making institutions in the United States prior to the New Deal greatly enhanced the political leverage of business and contributed heavily to the feebleness of social policy before 1929.

The Impact of the Great Depression on Market/State Relations

The Great Depression shook political systems throughout the industrialized world, but the collapse in the United States was particularly profound. Unemployment, already high in the late 1920s, exploded after 1929. By 1933, fully one-third of American workers were jobless. Farm income fell from $7 billion in 1929 to $2 billion in 1932. Cases of starvation were regularly reported in the press. Urban unrest grew, and many localities, stretched to the limit and unable to raise taxes, faced insolvency.[54]

This economic catastrophe transformed American politics. The Depression constitutes such a massive fact of American political development that it is somehow easy to pass over the matter quickly. Analysts of social policy often seem to view the Depression as a moment that simply facilitated the American welfare state's efforts to "catch up" with its European counterparts. To counter this view, it is worth emphasizing the conclusion of the previous section. By 1929, the United States was the world's leading economic power. Yet in sharp contrast to all other nations near the same stage of industrialization, the United States on the eve of the Depression showed no signs of building a national welfare state. Indeed, the evidence of a public social role even at the state level was at best extremely patchy.[55] American policy makers were locked in an institutional framework that foreclosed national action and—by shifting responsibility to the states—maximized business' privileged position. Analysts need to explain not just the American welfare state's "lateness" but the fact that it arrived at all. In the late 1920s, the United States was not moving toward even a weak national welfare state. Instead, it was becoming a radically different kind of political economy, in which a common economic market coexisted with only the most feeble and decentralized structures of social regulation.[56]

The Depression profoundly affected the power of different actors. The most dramatic and easily documented shift was in the balance between the two major parties. In the late 1800s, the Republican Party had established a clear ascendancy in national politics, which continued, with only limited interruption, through the 1920s. Closely allied with business interests and deeply hostile to social legislation, Republican predominance was a major barrier to domestic reform. The elections of the 1930s, however, totally reversed the partisan balance. Like ruling parties elsewhere, Republicans paid a high price when the economy collapsed, and Hoover's ineffectual governance magnified the electoral penalty. The election of 1932 gave Roosevelt a huge majority. The Democrats' majorities in Congress—311 to 116 in the House and 60 to 35 in the Senate—were the largest the party had ever received and the largest for any party since 1910.[57] The 1934 and 1936 elections cemented Roosevelt's remarkable victory. The latter is the only midterm election since the Civil War in which the president's party picked up seats in both the House and Senate. This extraordinary electoral sweep was completed in 1936. Roosevelt buried Alf Landon, losing only Maine and Vermont. The lineup in Congress was stunning. In the Senate, Democrats outnumbered Republicans 76 to 16, and were joined by four left-leaning Senators from other parties; in the House, 331 Democrats and 13 Farmer-Laborites and Progressives faced only 89

Republicans. The Republican Party had lost its institutional leverage in Washington.

Among the chief beneficiaries of this realignment were southern politicians. While the North and West had long experienced intense partisan competition, the South had been solidly Democratic for decades. Combined with the closed nature of the southern one-party system, this tradition meant that southern representatives had gained sufficient seniority to move rapidly into positions of power in the newly Democratic Congress. Throughout the New Deal, this strong institutional position was to give southern politicians influence greatly disproportionate to the South's population or economic strength. If southerners gained within Congress, the main institutional beneficiary of the Depression was the presidency. The electoral result of 1932 gave FDR a strong hand. Although Congress gradually reasserted itself, Roosevelt was able to parlay the need for forceful action and his own immense popularity into a dramatic expansion of presidential power.

If some actors found their relative power enhanced by the economic crisis, others were suddenly vulnerable. A crucial group among the latter were state governments, which had been the centers of domestic policy making before the New Deal. States were severely constrained in the harsh economic climate of the 1930s. State and local tax revenues fell from $6.8 billion in 1930 to $5.7 billion in 1932. Reliant on regressive tax levies that dwindled with the sharp fall in production, many would have been hard pressed to maintain previous levels of activity. Instead, they were asked to respond to unprecedented demands for assistance. A number of southern states teetered on the edge of bankruptcy, and most states faced rising interest charges from fearful lenders.[58] In this environment, even state governments inclined to vigorously protect their policy prerogatives were forced to turn to the federal government for leadership.

Most important, the Depression and ensuing political events dramatically altered the position of business. The earlier discussion of the roots of business power suggests that these transformations would reduce the leverage of employers in a number of ways. First, the indirect, structural power of business declined. Because private investment had already plummeted, the usual impact of an implied or actual "investment strike" was diminished. To be sure, the Depression also hurt the federal government's fiscal standing and heightened political leaders' interest in fostering growth. Yet, on balance, the evaporation of private investment and loss of faith in reigning economic assumptions gave policy makers an unusual amount of room to maneuver. More important, there can be no dispute about the effect of the changing role of political institutions. The shift in activity from state capitals to Washington decisively freed policy makers from the shackles of interstate competition. The capacity to formulate national policies gave federal officials an opportunity to cope with the problem of capital mobility—and sharply reduced business' structural power.

The direct, instrumental power of business also declined after 1932. The electoral realignment of the early 1930s greatly weakened the business community's most important political allies in the national Republican Party. Although Democrats in Congress were hardly immune to business pressure, they were far less malleable than the previous Republican majority.[59] Equally significant, widespread popular mobilization on social issues further reduced the susceptibility of politicians to business influence. The rise of unions, growing unrest among the unemployed, and the emergence of the Townsend movement for old age pensions gave political force to calls for social reform. The appearance of political figures like Huey Long, who stood ready to capitalize on these mobilizations, made politicians much more sensitive to alternative political demands than had been the case a few years earlier. Thus, while employers retained substantial instrumental influence in national politics, they now faced much greater political competition in pursuing their preferences.

In short, the fundamental change in economic and social conditions had major repercussions for existing power relations. The shifts, it must be emphasized, were relative ones. Employers, state governments, and even, on occasion, Republicans, continued to play a part in the construction of social policy. But the influence of all these actors declined, and this decline created openings for national policy initiatives that had been impossible before 1929.

It is difficult to overstate the importance of the Great Depression in the development of American social policy. The Depression altered the structure of the American economy, the functioning of political institutions, and the interaction between the two. In a matter of a few years, an environment that had been relentlessly hostile to social initiatives was transformed into one that permitted a flurry of policy activity.

Social Policy during the New Deal: Scope and Limits of Business Influence

How much of a role, then, did business play in the development of social policy during this crucial period? This question has been the subject of considerable dispute, with some analysts maintaining that business was very influential in shaping the SSA, the keystone legislation of American social insurance.[60] It is clear, however, that impetus for the SSA came largely from outside the business community and that most employers strongly opposed the enactment of a national system of social insurance. In a society where business had played such a pervasive role, some businessmen inevitably remained involved, directly or indirectly, in policy formulation. A handful, at most, were genuinely enthusiastic. Even within the small faction of employers who supported the SSA, whether quietly or vocally, many did so only because they feared that the alternative would be worse. In other words, support for the SSA often represented a strategic response to a loss of political power. Once one attends to the significance of anticipated reactions, it becomes clearer that only a sharp decline in business power made the SSA possible.

In the years before 1935, employers were almost universally opposed to any proposals for social insurance. Although some among the small proportion of firms that had their own welfare capitalist arrangements backed efforts to level the playing field, even these employers rejected policies that would restrict their own ability to run their private programs as they chose. Berkowitiz and McQuaid, who generally play up the role of business, acknowledge that "Dennison, Swope, Folsom, Edward A. Filene, and others . . . all retained clear preferences for corporate, as opposed to governmental, activity in the welfare field. All shared the assumption that government—as opposed to private industry—operated without the necessity of profit-maximization and would thus oversupply welfare services."[61] Marion Folsom of Eastman Kodak, a leading welfare capitalist, argued in the early 1920s that "it would be almost impossible to prevent government from making those changes [from self-financing to an outright dole] so far as unemployment insurance type programs were concerned."[62] Gerard Swope of General Electric, while far more open to government intervention than most of his competitors, sought only something like a "night watchman" federal role in social policy, with government providing loose oversight over a trade association-dominated system of social regulation. As late as 1931, Swope was testifying before Congress to this effect: "I think that industry ought to take care of its own [social welfare] difficulties and problems. You see, the moment government begins to help there is no economic restraint. You can vote money."[63] Of course, even the modest government role in social policy that Swope envisioned was anathema to most business actors. Although the NAM and Chamber of Commerce favored some of Swope's price-fixing ideas, they had no interest in social legislation.

In short, very few in the corporate sector advocated anything remotely like the sweeping expansion of federal social policy authority contained in the SSA (which included compulsory old-age and unemployment insurance, a major new federal role in social assistance, and substantial payroll taxes). There is no real dispute that by late 1934, despite widespread popular agitation for major social legislation, the overwhelming majority of business actors opposed not only the New Deal in general but the SSA in particular. According to Folsom, a participant in the Advisory Council to the Committee on Economic Security (CES) who had little reason to understate business support, "only about five per cent of employers" were for "anything along the lines" of Social Security.[64] Even these wanted the absolute minimum federal role. NAM expressed opposition from the beginning. The Chamber of Commerce initially pursued dialogue and negotiation but repudiated the cautious stance of its President Henry Harriman in May 1935 and passed a series of resolutions expressing strong opposition to the New Deal, including the SSA.[65]

In gauging employers' attitudes toward reform, it is crucial to remember that the business community had good reasons to understate its degree of opposition to what was clearly a popular program. A typical gambit of business representatives was to express vague support for the concept of Social Security before launching into virulent critiques of the "details," urging delay or the breakup of the omnibus legislation into discrete pieces. As Edwin Witte, the chief architect of the SSA observed, these postures were clearly intended to scuttle all or most of the legislation.[66] They reflected recognition on the part of prominent business actors that out-and-out public opposition was imprudent.

Those who depict business as a powerful force in the formulation of the act emphasize that the administration drew support from within the business community, and point to the role of business leaders on the Advisory Council to Roosevelt's CES. Yet the fact that the administration could find a handful of supporters from the enormous ranks of corporate executives is hardly impressive.[67] Far from having chosen a representative group of employers, Roosevelt was, according to Folsom, "lucky to get five to go on a committee" advising the CES.[68] Even if it could be shown that these actors were crucial (which, we shall argue, it cannot), it would still be true that the SSA passed despite the fact that it could claim backing from only a tiny minority among the ranks of American business.

It is, however, important to examine the scope and significance of this modest circle of "supporters." Two points are crucial. The first is that even the administration's thin support among employers appears in many cases to have reflected a strategic accommodation to federal legislation rather than any genuine enthusiasm. It reflected, in other words, the weak position of business in the debate over domestic reform. As already mentioned, no one in the business community was advocating such sweeping reforms before popular pressures put them on the political agenda. Against a background of tremendous social ferment, "sympathetic" employers stressed time and again the dangers of opposition to social reform. Folsom, criticizing the Chamber of Commerce's decision to fight the SSA, argued that "employers must realize that the country is facing an old age and an unemployment problem . . . and that legislation to meet these problems is inevitable."[69] As Witte observed of Harriman, one of the most prominent business supporters, his "general attitude was that some legislation on social security was inevitable and that business should not put itself in the position of attempting to block this legislation, but should concentrate its efforts upon getting it into an acceptable form."[70] The private comments of Robert Lund, the chairman of NAM, to a group of prominent employers in October 1934 sum up the predicament of employers:

> I don't think any of us have been aggressive enough to think we could go down there [to the White House] and demand this or demand the other thing. If we could demand it—and get it—that would be the quickest way to straighten out this situation. What we are doing instead is attempting to adjust ourselves and modify or change or meet half-way, the situation. I have in mind, particularly, this question of unemployment insurance. . . . The attitude

of [the Department of Commerce's Business Advisory Council] is not to do the thing which I think almost unanimously they think should be done—that is, to oppose unemployment insurance as a thing that is impractical, that it will not accomplish the result; that it is merely a superficial attack and not the sound solution of unemployment. . . . Their disposition is to support something which they themselves don't believe in. Of course, I wouldn't want to have what I am saying repeated, but some of us in that group are very strongly of the opinion that instead of attacking it in that way, that is, meeting half-way what we know is fallacious, and trying to make it as bearable as possible, the strong position for us to take is for us to stand for what we know is sound in the way of social insurance.[71]

Lund's comments reflect a position of weakness, not power. The administration shrewdly exploited the conservatives' sense of vulnerability wherever possible. In a key congressional showdown over old-age insurance, Witte's successful attempt to sway wavering Senators avoided any stress on the virtues of the administration's plans. Instead, he emphasized that given political realities the alternative would be worse than the administration's proposal.[72]

In addition to recognizing the degree of accommodation to political realities among Roosevelt's business "supporters," one should not exaggerate the impact of these employers on the content of the bill. As we have emphasized, it is a mistake in any event to draw too many conclusions about relative influence from conflicts over details of legislation. Nonetheless, since those who point to business influence over the SSA have stressed the impact of employers on legislative design, it is worth examining their efforts. Two main paths of business influence on the specifics of the SSA have been proposed. The first was the role of Industrial Relations Councilors (IRC) (an organization with links to Rockefeller interests) in providing much of the research for the unemployment insurance provisions of the SSA.[73] The second was the presence of a number of employers on the Advisory Council of the CES.

None of these paths of influence was of great importance. The key features of the unemployment insurance proposal eventually enacted had emerged well before the hiring of IRC. The "tax-offset" scheme that was the plan's cornerstone was developed by Wisconsin economist Paul Raushenbush and his wife Elizabeth Brandeis in Wisconsin during late 1933 and had been included in the Wagner-Lewis unemployment insurance bill in 1934.[74] The detailed accounts of major participants (Witte, Perkins, and Altmeyer, in particular) show little indication of IRC influence. Indeed, it is difficult to identify a single significant provision of the act that was suggested by IRC.

The Advisory Council role was also modest. The group was not organized until November 1934, well after most of the work on the SSA had been completed. Its timing and makeup strongly suggest that it was constituted largely for the purpose of public relations. More important, few if any of its actions had a significant impact on the content of the SSA.[75] So frustrated was the Advisory Council by its inability to bring along the CES on key substantive points, in fact, that it issued its own separate report against the CES's clearly stated wishes.[76]

Indeed, the evidence from the few clear instances where the policy preferences of these and other business actors were articulated is telling. Factions of employers made three visible efforts to influence specific features of the SSA: they pushed for a "subsidy" plan in unemployment insurance that might have allowed greater federal control, advocated employee contributions to unemployment insurance, and favored the "Clark amendment," which would have exempted firms with existing pension systems from the old-age insurance program.[77] Each of these proposals was defeated. Bryce Stewart, the head of IRC, lobbied for the subsidy plan for unemployment insurance and received backing from all the employers on the Advisory Council, as well as majority support on the council as a whole.[78] The CES rejected this proposal, expressing doubts about the plan's constitutionality and anticipating heated congressional opposition. The president backed the CES, and the subsidy plan received no attention in Congress, where discussion centered on even more decentralized options. All five employers on the Advisory Council also voted for employee contributions to unemployment compensation. Again, the CES refused to go along.[79]

A broader push for changes came from outside the small circle of business leaders who worked with the bill's drafters. During congressional debate, insurance lobbyists fought for the Clark amendment, which would have exempted firms with pension systems from old-age insurance. Although pressure for the amendment came primarily from the insurance firm Towers, Perrin, Forster, & Crosby, supporters of the exemption proffered a list of more than 100 employers who reportedly backed the amendment, including American Cyanamid, the Borden Company, Gulf Oil, and Standard Oil of Ohio.[80] Adopted in the Senate, this revision would have dramatically altered the character of old-age insurance had it remained in the legislation. The option of "contracting out" might have led to a two-tiered system of insurance and saddled the public sector with the worst risks.[81] Facing strong opposition from both FDR and the House participants in the conference committee on the SSA, however, the Senate eventually capitulated.

So what was the role of business actors in producing this pathbreaking piece of national social legislation? There is no real evidence that employers were of critical importance. The political coalition that initiated these reforms was not a truly "cross-class coalition" in which major segments of business were enthusiastic advocates of government intervention. Different factions of business had distinct interests, and some were much more hostile to federal action than others. A handful of employers saw potential benefits in the legislation. Yet the fact remains that the overwhelming majority of business actors opposed the SSA or anything like it. Among the small minority who were supportive, fear of likely alternatives motivated many. There is, furthermore, absolutely no sign that the even smaller minority who genuinely favored such a major expansion of federal activity played anything like a decisive political role.

This does not mean that employers were powerless. The strongest case for business influence at this juncture concerns three less direct effects. First, ideas about social insurance popular among members of the CES were undoubtedly influenced by the existing social welfare practices of private organizations.[82] Precisely because of the limited social policy role played by the federal government before the New Deal, there were few domestic examples of social provision besides private sector initiatives that New Dealers could draw on, and few policy specialists whose work did not span the public and private sectors.[83] Yet the importance of business-oriented ideas should not be overstated. The SSA borrowed widely from domestic and foreign sources, reflecting in particular the "institutionalization of European-acquired social insurance knowledge in the key university economics departments and policy centers."[84] The social insurance programs of the New Deal were government sponsored and compulsory—and, hence, fundamentally different in kind from even the most expansive visions of welfare capitalism. Still, it seems clear that the attraction of commercial models of insurance meant that the SSA was more consistent with business thinking than it might otherwise have been.

Second, policy makers' concerns about business confidence continued to set some broad restrictions on the range of policy initiatives considered. There is evidence that this background structural influence of employers remained a factor in the formation of the SSA. Witte, for example, acknowledges the concerns of Treasury officials that proposals for social insurance were "alarming" to business, and he adds that "many people close to the committee [on economic security] were . . . anxious to allay these fears." He argues that this anxiety influenced the timing of the administration's proposals, as well as the decision to phase in payroll taxes gradually over three years.[85] Neither of these decisions involved crucial features of the legislation. One could speculate that such concerns about business confidence also placed broader constraints on what the administration regarded as feasible, but there are no indications that this was an important factor in shaping the SSA.

A third source of employer influence on the SSA is both more important and more difficult to measure. This influence was expressed through the critical interventions of southern Democrats in Congress.[86] One of the distinctive consequences of federalism is the way in which it activates the territorial component of economic interests.[87] In the United States, this territorial division made the peculiar Democratic alliance particularly vulnerable on issues related to restructuring the political economy. To summarize crudely, the northern wing of the party, drawing on urban working-class support, was inclined toward policies of social democratization, including generous and centralized social programs. This programmatic agenda was alarming to the southern wing of the Democratic coalition. The South during this period constituted a truly distinctive political economy.

Networks of political and economic domination, backed up by the volatile element of racial hatred, were tightly linked and mutually reinforcing. Sorting out the role of race and class in this system is difficult, but both led the southern politicians who represented the ruling white oligarchy to guard local prerogatives fiercely. This was particularly true when it came to policies governing the labor market. Ruling interests in the South had a strong desire to avoid any national policies that might weaken black sharecroppers' dependence on low-wage work, or threaten the low-wage, nonunion environment that made the South attractive to potentially mobile capital. Southern employers thus strongly advocated that the design of the SSA be as decentralized as possible, and their representatives wanted to advance this interest.

Again, the ability of particular economic actors to exert influence depended heavily on institutional variables. The particular structure of American federal institutions both activated specific policy preferences (by making the advantages of decentralized policies to southern economic interests evident) and strengthened their advocates (by placing southern representatives in a strong political position). America's peculiar system of seniority-based congressional committees gave southern representatives tremendous leverage. Consequently, the administration's initial proposals in the SSA bowed to many of the South's concerns. For example, participants' accounts suggest that the decision to adopt a decentralized system of unemployment insurance was taken partly in response to concerns about constitutionality and partly in anticipation of congressional preferences.[88] Once the legislation reached Congress, southern representatives successfully pushed for further modifications to limit the impact of the bill on wage levels in the region. Indeed, almost all the changes introduced by Congress were designed to weaken federal authority.[89] States were given increased flexibility to design their own unemployment compensation systems. For both administrative and political reasons, agricultural and domestic workers were dropped from the social insurance part of the system (which meant that three-fifths of blacks would be excluded).[90] Provisions governing the means-tested old-age assistance program were modified to enhance local administrative control and to exclude any national standards on minimum benefits. A program for voluntary annuities run side-by-side with old-age insurance was dropped in the face of congressional opposition. Thus southern employers were part of a coalition that achieved significant changes in the SSA.

That the transformation of American social policy during the New Deal was incomplete, however, should not distract attention from the magnitude of the changes introduced. The SSA created a national system of old-age insurance, as well as essentially mandatory, federally regulated state programs of old-age assistance, unemployment insurance, and aid to dependent children. Equally important, the SSA's provision for payroll taxes and federal matching grants for state social programs laid the fiscal foundation for the modern welfare state. These reforms, we have argued, were possible only because of the great change in the scope and nature of business influence during the 1930s. With the shift of political action to Washington, the structural power of business declined dramatically. The rise of social movements meant increasing competition for political power. Business interests remained a force in politics, especially when they had access (as southern employers did) to strategically located veto points. But for at least a short time, employers ceased to occupy the privileged position they had held in struggles over social legislation prior to 1929.

Business and the SSA after the New Deal

The New Deal proved to be an extraordinary but fleeting opportunity. Reformers' hopes that the SSA would spur further efforts to develop a comprehensive national system with stronger citizenship rights were not fulfilled. After the Depression, the United States fell back into normal politics, and acute institutional fragmentation helped stymie dramatic reforms. The effort to nationalize social policy—and hence to minimize the structural leverage of business—was only partially successful. The continued decentralization of those policies particularly consequential for labor market conditions helped to sustain a regionally bifurcated political economy in which business still enjoyed comparatively high levels of structural and instrumental power. The growing competitive pressure of a low-wage, nonunion southern alternative, and the growing influence of the southern conservatives who defended it over the next few decades, severely constrained the prospects for "social democratic" reforms in the North after the New Deal.

At the same time, however, American employers came to accept a level of federal social welfare activity once considered anathema. Even as relief and assistance spending waned and the economy revived, the major policy innovations incorporated into the SSA remained in place. In the quarter-century after 1935, the federal old-age insurance program blossomed, with major expansions of coverage and benefits and the addition of survivors' and disability insurance. Employers were not at the forefront in pressing for these changes, and leading business groups opposed some of them. But employers were not overwhelmingly hostile either and were sometimes supportive. In the 1940s and 1950s, major business organizations concentrated on patrolling the welfare state's boundaries to stabilize spending and prevent new incursions (such as national health insurance), not on rolling back established programs.

In light of the bitter corporate attacks on the SSA in 1935, this transformation of business sentiment was striking. "As time passed," observes one business historian, "much of the New Deal legislation which had earned wholesale condemnation when first proposed came to be regarded more sympathetically and, in a few cases, enthusiastically."[91] Analyzing business views of government intervention in the 1950s, Robert Lane noted that "the Period of Impact yields insensibly to a more relaxed Period of Continuation."[92] An impressionistic survey published by *Fortune* in 1939 showed that although a clear majority of business executives wished to modify Social Security, only 17.3 percent wished to repeal it, while 24.3 percent wanted to retain it.[93] By 1950, there was little mobilized business opposition to the expansion of old-age insurance to uncovered groups or to increases in benefit levels to compensate for wartime inflation.[94]

How can we explain this apparent turnaround? And what, in turn, does it indicate about the power of business during the development of the SSA and its implementation? In this final section, we consider these questions in the context of a recent original interpretation of business' role offered by Peter Swenson.[95] Against our argument, Swenson contends that "significant numbers of prominent and politically vocal American business executives from leading companies" did have decisive influence on the SSA.[96] Yet, according to Swenson, they did so less through direct lobbying than by sending "signals" about how social reformers could construct reforms that would subsequently attract business support. Hence, on Swenson's reading, the after-the-fact accommodation of business to the SSA is evidence that New Deal reformers preemptively responded to business interests in pursuit of a "post-facto cross-class alliance." Evaluating Swenson's claims thus requires moving beyond the pre–New Deal period and the mid-1930s to consider how business responded to the SSA after its creation. As we will show, business leaders did come to see benefits in the legislation, and as they bounced back from the nadir of their influence, they succeeded in shaping it to their advantage at the margins. Yet the claim that the shape or timing of the SSA was driven by reformers' desire to win over business support down the road not only suffers for lack of compelling evidence of such intentions; it also minimizes the extent to which employers strategically accommodated themselves to the legislation , making the best of a situation that they would never have chosen on their own.

On one level, Swenson might be thought to offer a relatively modest claim: that Roosevelt and his allies did not act "in bold, conscious, and successful defiance of capitalist interests and ideology," as he puts it, but instead considered the business response to their reforms along with other factors in crafting legislation.[97] Indeed, while criticizing scholars who "downplay the decisive role of businessmen and business interests in shaping social policy," Swenson recognizes that much of the business community opposed the SSA at the time of its passage.[98] Furthermore, Swenson acknowledges that "reformers were not pressured into action by business interests. Actual pressure for reform came from other social groups mobilized on mass basis in elections and other modes of direct political participation."[99] For the same reasons that we have, Swenson also criticizes accounts that place great weight on the influence of corporate interests during policy development, arguing that such accounts fail "to show or argue why pressure for reform, even if it was there, beat out business pressure against it, which was probably much more organized and intense."[100]

Yet Swenson's argument is more ambitious than these disclaimers suggest. After all, historians have long recognized that New Dealers tried to defuse or bypass conservative opposition to social security legislation and that the vision of social insurance held by many New Dealers had a distinctly conservative cast in comparison with the more radical claims in circulation in the 1930s.[101] Witte himself argued that "only in a very minor degree did [the SSA] modify the distribution of wealth and it does not alter at all the fundamentals of our capitalistic and individualist economy."[102] Swenson, however, goes beyond these uncontroversial points to offer a one-sided picture of reformers' thinking. Election results, popular pressures, labor unrest, southern recalcitrance, constitutional concerns, foreign and state precedents, the diversity of New Deal ideas, and, perhaps most striking of all, the fierce business attacks on social and labor legislation—all this and more is pushed to the side. In Swenson's account, what animated the design of the SSA above all was reformers' confident anticipation of what major segments of business would come to support.[103]

Given how prominent Swenson believes this line of thinking was in reformers' planning, it is striking how little direct evidence of it he finds. Perhaps the closest he comes to a "smoking gun" is a statement made by Witte regarding management and labor views of the unemployment provisions of the act, in which Witte opines that "the violent opposition of either group is likely to mean trouble hereafter."[104] Perhaps more interesting than this quote, however, is Witte's assessment in the very same statement that "very probably an unemployment insurance measure can be gotten through Congress whether a single employer is for it or not"—a remarkable commentary on the political weakness of the business community in 1935.[105]

Beyond the single quote from Witte, Swenson makes only a highly circumstantial case. For example, he cites J. Douglas Brown, one of the authors of the old-age insurance portions of the bill, to the effect that wavering CES members were encouraged to go ahead with old-age insurance by expressions of support from the employer members of the Advisory Council.[106] But, regardless of how important these five hand-picked employers were, Swenson misses an important element of the strategic context noted by Brown—namely, the specter that the means-tested old-age assistance program, propelled by the pressures of the Townsend movement and others forces, would grow too quickly if a contributory program were not included in the act. Indeed, according to Witte biographer Theron Schlabach, it was in the end "the idea that contributory annuities would gradually make the gratuitous aids unnecessary, dramatically illustrated with graphs and curves by the authors of the insurance plan, that convinced the cabinet committee to accept national, contributory old-age insurance."[107]

Swenson also turns to William Domhoff's claims about the role of the "Rockefeller network" of IRC experts in the shaping of the SSA.[108] Domhoff's research implies that all policy designers with past or present ties to corporatefunded research groups accurately reflect the sentiments of big business, ignoring the multiple affiliations and complex career histories of many of these experts, as well as the overwhelming number of New Deal figures, especially in top positions, who had no such ties. As we have argued, nothing about the involvement of the IRC or the business members of the Advisory Council suggests that the SSA was a creature of business interests, or even an accurate reflection of the views of the small proportion of employers that already operated private pension or unemployment plans.

More important, Swenson never truly grapples with the strong evidence that what business support there was for elements of the SSA was itself a strategic accommodation, driven by fear of less attractive alternatives. Even Domhoff's conspiratorial claims, for example, are tempered by the admission that "many businessmen were reconciled to contributory and compulsory social insurance by early 1935."[109] Usually quick to find corporate-liberal influence, Berkowitz and McQuaid write that the "old-age insurance portions of the social security bill were not what most businessmen or even big businessmen wanted at the time. In politically volatile times, however, this measure represented the best alternative available to businessmen who, like Folsom and Swope, still cooperated with the administration."[110] To be "reconciled" to a course of action, to accept an outcome that you do not want because it is the "best available alternative"—this is not how one describes the choices of the powerful.

Indeed, even if we accept that a handful of farsighted business leader were able to influence aspects of the SSA in their favor—a big "if," as we have argued—it is crucial to recognize that this was possible only because of the transparent inability of the vast majority of employers to achieve their ends. In other words, the general weakness of business was a precondition for whatever influence the small minority of supportive employers were able to wield. Swenson appears to recognize this, but he also argues strenuously that the small number of corporate leaders who favored the act were in fact "the highly visible tip of a submerged iceberg."[111] To size up this iceberg, Swenson reviews at some length quotes from an informal survey of twenty-four industries that was presented at Senate hearings by L. C. Morrow of the National Publishers' Association. It is thus worth quoting Morrow's summary of business views:

> That industry, as a whole, is favorable toward the aims of social security and believes that some such legislation must be in effect some day. It is fearful of the effect of the immediate passage of all the provisions of the act upon recovery. It feels that recovery has begun, that it is necessary to regain the confidence that has been engendered that any sudden imposition of a payroll tax up to 5 percent, which is proposed by the bill, would retard recovery. . . . I can summarize my statements, then, Mr. Chairman, by saying that industry and the business [sic] should appreciate very much, very slow action in regard to the bill, particularly old-age pensions and unemployment security.[112]

There can be little doubt, in sum, that the SSA passed despite the opposition of most employers. Had employers been as powerful in New Deal legislative debates as they had been in state and federal legislative debates before the New Deal, the SSA could not and would not have passed. *No massive decline in business power, no Social Security.*

The most interesting questions therefore have to do with the surprising degree of support that New Deal reforms garnered from employers after their passage. This support, though real, should not be overstated. While the 1939 *Fortune* poll certainly unearthed limited business sentiment for outright repeal of leading New Deal reforms, it also indicated that the majority of employers wished to either repeal or modify every major achievement of the New Deal besides the Federal Deposit Insurance Corporation, Civilian Conservation Corps, Banking Act, and Federal Housing Administration.[113] Only 24 percent of surveyed business executives wished to "retain" Social Security, making it the fourth least popular of the ten measures listed.[114]

Still, employers unquestionably grew less openly hostile to the SSA over time, as indeed did many of the act's erstwhile opponents. On close examination, however, multiple forces were at work in explaining the shifting currents of business opinion, many of which do not square well with Swenson's thesis. Some employers did become genuinely supportive of the SSA; others, perhaps the majority, realized that the clock could not be turned back and made the best of the new situation; and scattered but large unsuccessful business efforts to retrench the legislation continued into the 1950s. The changing business orientation toward the SSA thus provides a revealing illustration of how business actions and statements after the passage of social legislation do not provide a true picture of business preferences toward government intervention.

In documenting post facto business support, Swenson emphasizes that a representative of NAM testified in favor of the 1939 amendments to the SSA (which liberalized benefits under old-age insurance and stepped up their payment) and that the Chamber of Commerce came around to support the program in the 1940s, even calling for an extension of benefits to uncovered groups.[115] Business leaders did indeed support the 1939 amendments, but their chief goal was to reduce the large trust fund reserve that conservatives feared would lead to expanded benefits or government control over private finance. For much the same reason, business supported the payroll tax freeze of the 1940s, which helped keep old-age insurance benefits miniscule. After World War II, the Chamber leadership (with the overwhelming support of its members) called for the broadening of coverage with a program that would eliminate the reserve and "blanket in" all the elderly, including those who had paid no taxes, by providing a minimum universal benefit.[116] The aim here was not to expand the program but to contain it. Because so few elderly Americans received benefits while so many workers paid taxes, the Chamber argued that old-age insurance had become a "dangerous and swelling stream" that had to be revamped "to reduce the hazard of its bursting out of control."[117] Many business leaders were also concerned that if old-age insurance did not cover all the aged, the pressure for the expansion of state old-age assistance programs would grow irresistible.

In addition, much of the reluctance of business to challenge Social Security after its passage clearly reflected strategic calculations. As Martha Derthick, the leading student of old-age insurance's history, notes of the Chamber's postwar plan, "The timing of the Chamber's proposal suggests that the earlier passivity of conservative interest groups was in part the response to a hostile political environment."[118] When an apparent political opportunity to challenge Social Security emerged, the Chamber advocated a policy shift that would have hobbled the fledgling program—a clear indication that earlier acquiescence had been partly strategic. When the Chamber plan died for lack of Eisenhower administration interest, it quickly became apparent that the political environment was still utterly inhospitable to a major retrenchment of the increasingly popular program.[119] As Folsom described the growing support for old-age insurance among Republicans and business leaders,

> They were simply adapting themselves to change. After a system has been in effect for twenty years, the country is pretty well accustomed to it. . . . If they'd come out against Social Security, they'd have had a terrific amount of opposition from a lot of people—not only the older people but everybody else, because the country was pretty well sold on it by that time.[120]

Eisenhower's first Social Security Commissioner echoed these arguments:

> It became evident that the Republicans politically could not turn the pages of history back. The Social Security program as a whole, with primary emphasis on old age, survivors', and disability insurance, was a fixture in the American society and the American economy.[121]

Of course, some segments of the business community did come to be genuinely supportive of Social Security after its passage. And one reason for this support, as Swenson and others have argued, was that social insurance benefits offset the cost of their private fringe-benefit commitments while imposing costs on competitors without private plans.[122] It is clear, however, that these effects were less a reason for the SSA than a complex and, to some extent, unavoidable consequence of it—partly anticipated, partly unexpected, and partly the result of business-friendly policies passed after 1935. Because pensions were the largest private benefit in the 1930s, we focus here on the relationship between private plans and federal old-age insurance.

Regarding old-age insurance, Swenson argues that "Social Security reformers were emboldened to move ahead, knowing that substantial numbers of businessmen would gain competitive advantages from social security taxation in the country's largely domestic competition, even if others might suffer."[123] This greatly overstates the case. Of workers with private retirement protections, almost half labored in the railroad industry, which was expected to be covered by a federal retirement program separate from old-age insurance. Plan participants outside the railroads probably totaled no more than 5 percent of the civilian workforce.[124] Most plans provided little or no protection.[125] Plans almost never specified benefits, their rules generally maintained that pensions were a gratuity withheld at will, and they were unlikely to be received by wage workers, rather than salaried employees.[126] Old-age insurance, by contrast, imposed a fixed 2-percent payroll tax divided equally between employers and workers (originally slated to rise to 6 percent in 1948), it guaranteed benefits based on service in any covered firm, and it concentrated benefits on workers in the lower half of the income distribution. Not surprisingly, then, a 1939 analysis concluded that "the benefits provided by the existing private plans are, in the great majority of instances, inferior rather than superior to those promised under the [Social Security Act]."[127]

Not only did the SSA promise in most cases to impose new costs, it also threatened to remove employers' control over a large share of benefits, as well as over the aspects of plan design, such as length-of-service requirements and prohibitions on unionization, used to make pensions an effective management tool. This was not a trivial loss, and it helps explain both why many employers with plans lined up behind an opt-out provision when old-age insurance looked inevitable and why many in turn lost interest in opting out when the extent of federal regulation of private pensions required under the Clark amendment became apparent.[128]

After the SSA passed, employers with private plans did generally restructure them to take prospective old-age insurance benefits into account. Most employers who adopted private plans in the wake of the SSA also used this technique, which came to be known as "integration." Integration was not officially sanctioned until the Revenue Act of 1942, which codified the favorable tax treatment of private pensions while imposing a modest set of rules on them. The Roosevelt administration had sought more ambitious requirements as well as an expansion of old-age insurance. But after the 1938 elections, Congress had grown increasingly conservative under the influence of the expanding "conservative coalition" of southern Democrats and Republicans, which supported tax breaks for private pensions while opposing an increase in the payroll tax. Rising tax rates during the New Deal and World War II spurred employers to use pensions as a tax shelter, and wartime wage and price controls further encouraged them to provide benefits in lieu of wages. During and after the war, organized labor also demanded to be included in the private pension system. A series of collective-bargaining breakthroughs paved the way for the expansion of pensions for manual workers.

In this context, the large and growing number of employers with integrated private plans did indeed become more supportive of increases in old-age insurance benefits and coverage—increases that would not only directly offset the cost of integrated plans but also spread the costs of public protection to employers initially left out of the system.[129] Indeed, because Social Security provided benefits far in excess of what contributions justified, it offered substantial implicit subsidies to all corporations with integrated plans. The drafters of Social Security always held that "practically all workers brought under the system initially will receive much larger benefits . . . than could be procured from the combined taxes paid by them and their employers."[130] This conviction, arrived at for independent policy reasons, nonetheless had favorable consequences for employers that operated supplementary plans, because firms could credit prospective old-age insurance benefits against private pension promises that they made without paying the full costs in taxation.[131]

Was all this confidently foreseen by reformers? And, more important, were these business-favorable features of the legislation primarily designed to win corporate support? Both propositions are doubtful. Although reformers clearly believed that old-age insurance would not wreck private plans, the issue of the program's relationship to private pensions was not front and center during legislative drafting. (Witte commented that "little attention was paid by the Committee on Economic Security to the relation of existing private pension plans to the compulsory old-age insurance system."[132]) Because so few employers had private plans, old-age insurance did not represent an alternative to employer-provided benefits so much as it did a new programmatic reality around which benefits had to be structured. To be sure, many employers soon realized that private pensions could be integrated with old-age insurance in ways that allowed them to continue to use corporate pensions or to set them up for the first time.[133] If most would have preferred no SSA in 1935, they nonetheless found it eminently possible to build on top of a program of still-modest scope in an environment marked by expanding incentives for private fringe benefits and growing union demands. In the process, many came to see the expansion of old-age insurance as an attractive way to offset the cost of private plans. But these complex policy feedback effects—in which new policy structures change the incentives, strategies, and preferences of private actors—cannot simply be transported back in time to become the motive force behind the legislation.

There is an important story to be told about the growing post-enactment business support for Social Security.[134] As the SSA became increasingly embedded, previously obstinate employers made their peace. At the same time, employers adapted to these arrangements, reaped both anticipated and unanticipated benefits, and obtained modifications that made the new policy environment more favorable. Yet the increased congruence of interests that arose—resulting as it did from subsequent changes in tax and Social Security law, in private benefits, and in union demands—cannot be easily reduced to an engineered post facto alliance. It does, however, provide an important reminder that major social policies may have profound feedback effects as they reshape interests and institutions in both expected and unexpected ways.

CONCLUSION: THE SSA AND THE STUDY OF BUSINESS POWER

Our analysis of employer influence has sought to resolve a paradox at the heart of the extensive literature on welfare state formation in the United States. Over the past decade, energetic and imaginative scholars have uncovered abundant evidence concerning the actions, understandings, and motivations of the many actors who participated in the early development of American social policy. Yet far from permitting a definitive resolution of historiographical controversies, this wealth of information seems only to have intensified them. Different analysts examine this unusually comprehensive record, and each reports that it clinches the case for a particular interpretation. More facts have produced ambiguity, not clarity.

The solution to this paradox contains lessons for social scientists that extend well beyond the case at hand. The facts, we have argued, cannot speak for themselves. Analysts can assess their meaning only within a framework that addresses what influence is, how it might be exercised, and what kinds of evidence would support different conjectures about its changing distribution. In large part, the ambiguity we have observed emerges from failure to pay sufficient attention to these basic questions of theory, conceptualization, and measurement. We have suggested that assessments of power need to distinguish preferences from observed behavior, consider multiple mechanisms of influence, and exercise caution in inferring influence from post hoc correlations between outcomes and interests. This may not produce the last word on processes as complex and multifaceted as social policy development, but it will provide a much firmer foundation for evaluating whether particular facts truly support one or another competing vision of the distribution of political power.

In keeping with this aspiration, we have returned to the contested empirical territory of the early development of the American welfare state—not to end the longstanding debate over this subject, if that were even possible, but rather to show that disagreements over the role of business cannot be resolved simply through the accumulation of additional evidence. Movement forward requires greater attention to the ways in which power is exercised and how its effects can be assessed. Shifting our focus in this direction allows us to recognize that business power takes two main forms, structural and instrumental, and to see that both are in fact highly variant over time, because each is deeply mediated by institutional and other factors. To bring employers "back in"—as recent work has rightly done—does not require that institutional arguments be pushed back out.[135]

The SSA was a watershed in the development of the American state. More than six decades later, it remains a defining feature of the American political economy. Placing the act's enactment in broader context reveals that both before and after the New Deal institutional features mediated the expression of business power in crucial ways—and, in the process, helped shape the peculiar structure of the American welfare state. How that mediation occurred, however, changed drastically over time. Although business interests were far from irrelevant in the 1930s, the introduction of Social Security depended on extraordinary circumstances that placed business actors on the defensive. The institutional and economic conditions that had ensured a privileged position for business interests momentarily ceased to operate, opening a window for reform. What passed through that window was shaped by many factors: popular campaigns for reform, the philosophy of Roosevelt and his advisers, the precedents set by other countries, congressional machinations, the strictures of the Constitution. Business interests did play a recognizable role in shaping the SSA, but one whose import has been much overstated and misunderstood. Less noticed, the act in turn shaped and channeled business interests, in ways that would help set the course of subsequent policy developments.

It is crucial to understand that the Depression fundamentally changed the operation of American political institutions, and, in doing so, altered both the extent and character of business influence. Accounts that minimize the role of business prior to 1929 are untenable. The radical decentralization of policy initiative before the New Deal maximized the value of a major dimension of business power: the threat of capital mobility. In this context, policy very closely conformed to the preferences of most business actors. The Depression, along with a massive electoral upheaval, undermined the institutional foundations of business hegemony. Policy initiative shifted to the federal level, where business had to rely on its capacity to deploy instrumental power in a highly fragmented policy-making process at a time of high popular mobilization. Though hardly without influence, employers clearly played a far more modest role during this crucial period than they had prior to the New Deal, or than they would as the United States returned to more normal politics in the New Deal's wake. In all three periods, the unusual institutional structures that governed decision making profoundly influenced the formation of U.S. social policy. Yet this observation need not be placed in opposition to a view that stresses how economic forces contributed to the shaping of social reform.

Indeed, many of the key puzzles of social policy development can be addressed once one complements an examination of the instrumental power of business with a focus on the political significance of capital mobility in different institutional settings. The responsibilities allocated to business in market economies mean that private investment decisions have profound political consequences. Because employers control investment, they influence policy making even without lobbying to do so. Political institutions, however, mediate this influence. In a federal system, market dynamics are translated into intense interstate rivalries. Before the Depression this rivalry inhibited state-level social policy formation. Because the Depression opened the door for federal action, it sharply reduced the structural power of business. In this changed environment, a massive expansion of the federal role proved possible. During and after the New Deal, institutional arrangements, including federalism, continued to mediate the efforts of economic actors to exercise political power. Over time, moreover, the social policies that did squeeze through during the New Deal reshaped the demands articulated by business through a complex process of policy feedback. But the larger point of this article is that the changing role of institutions altered both the scope and character of business power.

This effort to wed new institutionalist and political economy approaches to social policy development is not simply a call for compromise. It is an attempt to link together the insights of both perspectives, showing how each can be strengthened by the other. The "rules of the game" and the feedback effects of public policies matter a great deal, but it is equally true that social policy development cannot be understood without close attention to the nature of market economies and the interests, strategies, and influence of economic actors.

NOTES

1. See, in particular, Margarita Estevez-Abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State" in *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford: Oxford University Press, 2001); Colin Gordon, "New Deal, Old Deck: Business and the Origins of Social Security, 1920-1935," *Politics & Society* 19, no. 2 (1991): 165-207, *New Deals: Business, Labor, and Politics in America, 1920-1935* (Cambridge, UK: Cambridge University Press, 1994), and "Why No National Health Insurance in the United States? The Limits of Social Provision in War and Peace, 1941-1948," *Journal of Policy History* 9, no. 3 (1997): 277-310; Sanford Jacoby, "Employers and the Welfare State: The Role of Marion B. Folsom," *Journal of American History* 80, no. 2 (1993): 525-56, and *Modern Manors: Welfare Capitalism since the New Deal* (Princeton, NJ: Princeton University Press, 1997); Isabela Mares, "Negotiated Risks: Employers' Role in Social Policy Development," (Ph.D. diss., Harvard University, 1998); Cathie Jo Martin, *Stuck in Neutral* (Princeton, NJ: Princeton University Press, 2000); Cathie Jo Martin and Duane Swank, "Employers and the Welfare State: The Political Organization of Firms and Social Policy in Contemporary Capitalist Democracies," *Comparative Political Studies* 34, no. 8 (October 2001): 789-823; Peter Swenson, "Bringing Capital Back In, or Social Democracy Reconsidered: Employer Power, Cross-Class Alliances, and Centralization of Industrial Relations in Denmark and Sweden," *World Politics* 43, no. 4 (1991): 513-44, and "Arranged Alliances: Business Interests in the New Deal," *Politics & Society* 25, no. 1 (1997): 66-116.

2. Edward Berkowitz and Kim McQuaid, *Creating the Welfare State: The Political Economy of Twentieth-Century Reform* (New York: Praeger, 1980).

3. An otherwise thoughtful essay by Ann Shola Orloff, a prominent institutionalist, is instructive. In a detailed review of early U.S. social policy, the economic consequences of various proposals receive no discussion, business groups are lumped together in the general category of "elites," and opposition to major social policies is attributed exclusively to fear of patronage. "Gender in Early U.S. Social Policy," *Journal of Policy History* 3, no. 3 (1991): 249-81.

4. This analysis thus shares the thrust of David Vogel's argument in *Fluctuating Fortunes: The Political Power of Business in America* (New York: Basic Books, 1989),

although we place more emphasis on the role of institutions (and federalism in particular) in mediating business power.

5. Within Marxist debates on the "capitalist state" this view was advanced in Ralph Miliband, *The State and Capitalist Society* (New York: Basic Books, 1969). In the pluralist/elitist debate, "elite theorists" presented a somewhat similar argument. See, for example, C. Wright Mills, *The Power Elite* (New York: Oxford University Press, 1956); G. William Domhoff, *Who Rules America?* (Englewood Cliffs, NJ: Prentice Hall, 1967). Miliband dedicated his book to Mills.

6. The notable exception is Vogel, *Fluctuating Fortunes*.

7. Nicos Poulantzas, *Political Power and Social Classes* (London: Verso, 1973); Fred Block, *Revising State Theory: Essays on Politics and Postindustrialism* (Philadelphia: Temple University Press, 1987). The key essays in Block's volume were first published in the mid-1970s.

8. The first statement of this position was in the revised introduction to the 1953 work of two leading pluralists, Robert Dahl and Charles Lindblom, *Politics, Economics and Welfare* (New York: Harper, 1976). See also Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977); Charles E. Lindblom, "The Market as Prison," *Journal of Politics* 44, no. 2 (1982): 324-36; Robert A. Dahl, *Dilemmas of Pluralist Democracy: Autonomy vs. Control* (New Haven, CT: Yale University Press, 1982).

9. See especially David Vogel, "Political Science and the Study of Corporate Power: A Dissent from the New Conventional Wisdom," *British Journal of Political Science* 17 (1987): 385-408, and *Fluctuating Fortunes*.

10. On these distinct stages of policy making and their different political dynamics see John Kingdon, *Agendas, Alternatives, and Public Policies*, 2d ed. (Boston: Little, Brown, 1995). On the idea that policy makers must "construct" responses to a perceived loss of business confidence, see David Plotke, "The Political Mobilization of Business," in *The Politics of Interests*, ed. Mark Petracca (Boulder, CO: Westview, 1992), 175-98.

11. For an excellent example of the use of this kind of argument to explain cross-national policy variation, see Colleen A. Dunlavy's, "Mirror Images: Political Structure and Early Railroad Policy in the United States and Prussia," *Studies in American Political Development* 5, no. 1 (spring 1991): 1-35, 28-34.

12. See, for example, Peter Bachrach and Morton S. Baratz, *Power and Poverty: Theory and Practice* (New York: Oxford University Press, 1970); Steven Lukes, *Power: A Radical View* (Hampshire, UK: Macmillan, 1974); and John Gaventa, *Power and Powerlessness: Quiescence and Rebellion in an Appalachian Valley* (Urbana: University of Illinois Press, 1980).

13. One of the reasons this article focuses on the pre–World War II development of social policy is the existence of a substantial and intensively investigated archival record. This wealth of data make it possible to trace the strategic behavior of important actors over time. In many cases, one can document private acknowledgments that public positions represent a strategic accommodation to political realities.

14. Kingdon, *Agendas, Alternative and Public Policies*.

15. Jeffry A. Frieden, "Actors and Preferences in International Relations," in *Strategic Choice and International Relations*, eds. David A. Lake and Robert Powell (Princeton, NJ: Princeton University Press, 1999), 39. Frieden offers an extended discussion of many issues we must pass over quickly here.

16. Robert Jervis, *System Effects: Complexity in Political and Social Life* (Princeton, NJ: Princeton University Press, 1997); Paul Pierson, "The Limits of Design: Explaining Institutional Origins and Change," *Governance* 13 (2000): 475-99.

17. One is reminded of George Stigler's emphatic articulation of the capture theory of regulation: "The theory tells us to look, as precisely and carefully as we can, at who gains and who loses, and how much, when we seek to explain a regulatory policy. . . . The announced goals of a policy are sometimes unrelated or perversely related to its actual effects, and the *truly intended effects should be deduced from the actual effects*." George J. Stigler, *The Citizen and the State: Essays on Regulation* (Chicago: University of Chicago Press, 1975), 140. Emphasis in original. We are grateful to Dan Carpenter for referring us to this quotation.

18. David Vogel, "Why Businessmen Distrust Their State: The Political Consciousness of Corporate Executives," *British Journal of Political Science* 8 (1978): 52-53.

19. Losers in legislative battles over program design often try to institutionalize opportunities for future influence, which can be used when the initial flurry of political attention that resulted in enactment recedes. Terry Moe, "The Politics of Bureaucratic Structure," in *Can the Government Govern?*, eds. John E. Chubb and Paul E. Peterson (Washington, DC: Brookings Institution, 1989). See also James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It* (New York: Basic Books, 1989), 79-83.

20. Theda Skocpol, *Protecting Soldiers and Mothers: The Political Origins of Social Policy in the United States* (Cambridge, MA: Belknap, 1992); Paul Pierson, "When Effect Becomes Cause: Policy Feedback and Political Change," *World Politics* 45, no. 4 (1993): 595-628; Jacob S. Hacker, "The Historical Logic of National Health Inusurance: Structure and Sequence in the Development of British, Canadian, and U.S. Medical Policy," *Studies in American Political Development* 12 (spring 1998): 57-130; and Evelyne Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Politics in Global Markets* (Chicago: University of Chicago Press, 2001).

21. See especially Berkowitz and McQuaid, *Creating the Welfare State*; Colin Gordon, *New Deals*; Frances Fox Piven and Richard A. Cloward, *Regulating the Poor: The Public Functions of Social Welfare* (New York: Vintage Books, 1971); and Jill Quadagno, *The Transformation of Old Age Security: Class and Politics in the American Welfare State* (Chicago: University of Chicago Press, 1988).

22. See Theda Skocpol and John Ikenberry, "The Political Formation of the American Welfare State in Historical and Comparative Perspective," *Comparative Social Research* 6 (1983): 87-147; Ann Shola Orloff and Theda Skocpol, "Why Not Equal Protection? Explaining the Politics of Public Social Spending in Britain, 1900-1911, and the United States, 1880s-1920s," *American Sociological Review* 49 (December 1984): 726-50; Margaret Weir, Ann Shola Orloff, and Theda Skocpol, eds., *The Politics of Social Policy in the United States* (Princeton, NJ: Princeton University Press, 1988); and Skocpol, *Protecting Soldiers and Mothers*.

23. For a detailed discussion of this subject see Paul Pierson, "Big, Slow-Moving, and . . . Invisible: Macro-Social Processes in the Study of Comparative Politics," in *Comparative Historical Analysis*, eds. James Mahoney and Dietrich Reuschemeyer (Cambridge, UK: Cambridge University Press, forthcoming).

24. This distinction is from Theodore Lowi's classic article, "American Business, Public Policy, Case-Studies, and Political Theory," *World Politics* 16 (1964): 677-715. On the distributive emphasis of federal policy in this period see Richard L. McCormick, "The Party Period and Public Policy: An Exploratory Hypothesis," *Journal of American History* 66 (1979): 279-98; and Skocpol, *Protecting Soldiers and Mothers*, chap. 2.

25. The federal government did become involved at the margins of social policy during this period, but not on any scale. Excluding aid to veterans, federal welfare expenditures—\$0.25 per capita in 1929—were roughly 6 percent of total national expenditures. Berkowitz and McQuaid, *Creating the Welfare State*, 66. The few federal social policies

that were able to pass, such as the Sheppard-Towner program for infant and maternal health, were tiny—closer to demonstration projects than entitlements. And Sheppard-Towner failed to achieve permanent authorization. On Sheppard-Towner see Skocpol, *Protecting Soldiers and Mothers*, chap. 9.

26. The next two paragraphs draw on Richard Franklin Bensel, *Sectionalism and Political Development: 1880-1980* (Madison: University of Wisconsin Press, 1984), chap. 3; and Skocpol, *Protecting Soldiers and Mothers*, chap. 3.

27. See Bensel, *Sectionalism and American Political Development*, chap. 3.

28. Skocpol emphasizes that the Arrears Act of 1879, which greatly expanded the program, occurred at a time "when there was practically no surplus." *Protecting Soldiers and Mothers*, 113. This was true only because the federal government was using its large surplus to rapidly retire the debt left from the Civil War—a use of revenues that could not be sustained for long.

29. Figures on tariff revenues from United States Census Bureau, *Historical Statistics*, 1122.

30. See, for example, the interesting comparison between Massachusetts and Britain in Orloff and Skocpol, "Why Not Equal Protection?"

31. See Christopher Anglim and Brian Gratton, "Organized Labor and Old Age Pensions," *International Journal of Aging and Human Development* 25, no. 2 (1987): 91-107; Skocpol, *Protecting Soldiers and Mothers*, chap. 4.

32. This blocking role can be exaggerated. As Melvin Urofsky notes in a review of state court responses to protective legislation, "state courts moved consistently toward approval of a wide range of reform legislation. In attempting to enact their program, Progressives, although occasionally delayed in the courts, were not blocked there." Melvin I. Urofsky, "State Courts and Protective Legislation during the Progressive Era: A Reevaluation," *Journal of American History* 72, no. 1 (June 1985): 64. Although a complete account of policy outcomes in this period would certainly give significant weight to the role of the courts, our goal is simply to demonstrate that business interests were extremely powerful, and to consider the reasons why that power diminished considerably after 1929.

33. David Brian Robertson, "The Bias of American Federalism: The Limits of Welfare-State Development in the Progressive Era," *Journal of Policy History* 1, no. 3 (1989): 274. See also Robertson, *Capital, Labor, and State: The Battle for American Labor Markets from the Civil War to the New Deal* (Lanham, MD: Rowman & Littlefield, 2001); Colin Gordon, "New Deal, Old Deck," and *New Deals*. Robertson's and Gordon's important works provide copious documentation of these pressures on state governments. We have relied considerably on their analyses in our treatment of pre–New Deal social policy, though as discussed below we disagree strongly with Gordon's analysis of the New Deal period. On the impact of federalism before the New Deal, see also Berkowitz and McQuaid, *Creating the Welfare State*; William Graebner, "Federalism in the Progressive Era: A Structural Interpretation of Reform," *The Journal of American History* 64, no. 2 (September 1977): 331-57; and David A. Moss, *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy* (Cambridge, MA: Harvard University Press, 1996).

34. See Gary King, Robert Keohane, and Sidney Verba, *Designing Social Inquiry* (Princeton, NJ: Princeton University Press).

35. See Roy Lubove, *The Struggle for Social Security, 1900-1935* (Pittsburgh: University of Pittsburgh Press, 1968), 45-65; Berkowitz and McQuaid, *Creating the Welfare State*, 33-41.

36. James Weinstein, "Big Business and the Origins of Workmen's Compensation," *Labor History* 8 (1967): 161-62.

37. Lubove, *The Struggle for Social Security*, 140.

38. Louis Leotta, "Abraham Epstein and the Movement for Old Age Security," *Labor History* 16, no. 3 (summer 1975): 362-63.

39. Orloff, "Gender in Early U.S. Social Policy," 267.

40. Mark H. Leff, "Consensus for Reform: The Mothers'-Pension Movement in the Progressive Era," *Social Service Review* 47 (1973): 404.

41. Susan Lehrer, *Origins of Protective Legislation for Women, 1905-1925* (Albany: SUNY Press, 1987), 197, 205-6.

42. Skocpol, *Protecting Soldiers and Mothers*, 411.

43. Ibid., 417.

44. Lubove, *Struggle for Social Security*, chaps. 4, 6-7; Gordon, *New Deals*, chap. 7.

45. Daniel Nelson, *Unemployment Insurance: The American Experience 1915-1935* (Madison: University of Wisconsin Press, 1969); Edwin Amenta, Elisabeth Clemens, Jefren Olsen, Sunita Parikh, and Theda Skocpol, "The Political Origins of Unemployment Insurance in Five American States," *Studies in American Political Development* 2 (1987): 137-82. Amenta et al. (note 143) add that New York passed a bill in April 1935, "clearly ahead" of federal legislation, but the legislative progress of the SSA was far advanced by then and there was widespread anticipation of federal action.

46. Nelson, *Unemployment Insurance*, 128.

47. See, for example, Orloff, "Gender in Early U.S. Social Policy," which argues (p. 265) that "large-scale social spending . . . was politically doomed by elite reactions against patronage."

48. This argument about the "developmental" rather than "redistributive" orientation of state and local spending is developed in Paul E. Peterson, *City Limits* (Chicago: University of Chicago Press, 1981), and *The Price of Federalism* (Washington, DC: Brookings Institution, 1995).

49. Berkowitz and McQuaid, *Creating the Welfare State*, 30-33; Graebner, "Federalism in the Progressive Era," 341-42.

50. Leotta, "Movement for Old Age Security," 363.

51. The fact that twenty-two legislatures in this period met for sixty days or less in each two-year session was a significant drag on interstate cooperation. See James T. Patterson, *The New Deal and the States: Federalism in Transition* (Westport, CT: Greenwood, 1969), 55.

52. Graebner, "Federalism and the Progressive Era" 341-55; Gordon, "New Deal, Old Deck," 182-83; Berkowitz and McQuaid, *Creating the Welfare State*; Jane Clark, "Interstate Compacts and Social Legislation," *Political Science Quarterly* 50 (1935): 502-24; Jane Clark, "Interstate Compacts and Social Legislation II: Interstate Compacts after Negotiation," *Political Science Quarterly* 51 (1936): 36-60; Moss, *Socializing Security.*

53. Skocpol, *Protecting Soldiers and Mothers*, 51.

54. See Irving Bernstein, *The Lean Years: A History of the American Worker, 1920-1933* (Baltimore: Penguin, 1970); Piven and Cloward, *Regulating the Poor*, chap. 2; Frances Fox Piven and Richard A. Cloward, *Poor People's Movements: Why They Succeed, How They Fail* (New York: Random House, 1977), chap. 2.

55. Thus we disagree with Skocpol's contention that the United States "came close to forging a maternalist welfare state" after the turn of the century. Skocpol, *Protecting Soldiers and Mothers*, 2. Although her analysis of political mobilization around a "maternalist" program offers a persuasive account of the legislation that did pass before 1932, her position exaggerates the scope and significance of these interventions. What most distinguished pre–New Deal social policy was its extremely minimal nature.

56. The closest parallel might be the contemporary European Community, though in Europe the decentralized social policy structures (i.e., preexisting national welfare states) are obviously far stronger. See Stephan Leibfried and Paul Pierson, eds., *European Social Policy: Between Fragmentation and Integration* (Washington, DC: Brookings Institution, 1995).

57. Some progressive Republicans were also willing to support New Deal legislation. James T. Patterson, *Congressional Conservatism and the New Deal: The Growth of the Conservative Coalition in Congress, 1933-1939* (Westport, CT: Greenwood, 1967), 17, 33.

58. Patterson, *The New Deal and the States*, 31-32.

59. It is revealing that Gordon, who sees business as a powerful actor in shaping New Deal social policy, finds it necessary to mention the 1932 election only twice in passing and then only to note that Roosevelt was elected and that there was "a large turnover in congressional ranks." Gordon, *New Deals*, 163-64, 168.

60. See, among many, Gordon, "New Deal, Old Deck"; Berkowitz and McQuaid, *Creating the Welfare State*; Jill Quadagno, "Welfare Capitalism and the Social Security Act of 1935," *American Sociological Review* 45 (October 1984): 632-47; J. Craig Jenkins and Barbara G. Brents, "Social Protest, Hegemonic Competition, and Social Reform: A Political Struggle Interpretation of the Origins of the American Welfare State," *American Sociological Review* 54 (1989): 891-909. Peter Swenson offers a more sophisticated, but still vulnerable thesis, about the role of corporate liberals in "Arranged Alliances." We take it up at some length in the penultimate section of Part II.

61. Edward Berkowitz and Kim McQuaid, "Businessman and Bureaucrat: The Evolution of the American Social Welfare System, 1900-1940," *Journal of Economic History* 38, no. 1 (March 1978): 128.

62. Quoted in Nelson, *Unemployment Insurance*, 45-46.

63. U.S. Congress, Senate Select Committee on Unemployment Insurance, *Hearings on S.R. 483*, 72d Cong., 1st sess., 1932, 29-30. On the Swope plan see Kim McQuaid, "Corporate Liberalism in the American Business Community, 1920-1940," *Business History Review* 52, no. 3 (autumn 1978): 353-54.

64. Marion B. Folsom, Columbia Oral History Project memoir, Social Security volume (typescript), 9-11, Columbia University Libraries, New York.

65. On this clash, see Robert M. Collins, *The Business Response to Keynes* (New York: Columbia University Press, 1981), 36-40. This dynamic was repeated almost sixty years later, as the Chamber's leadership initial willingness to consider Clinton's national health care proposals was repudiated by an outraged membership.

66. Schlabach, *Cautious Reformer*, 145; Edwin Witte, *Development of the Social Security Act*, 78-79.

67. Four of the five executives on the Advisory Council were from firms that were among the tiny minority of American corporations already operating private unemployment plans. The fifth, Walter Teagle, was a well-known welfare capitalist.

68. Marion B. Folsom, Columbia Oral History Project memoir.

69. Quoted in George Wolfskill and John A. Hudson, *All but the People: Franklin D. Roosevelt and His Critics* (London: Macmillan, 1969), 159. They seem to cite "Business and Finance," *Time* 11 (May 1936): 73-74.

70. Witte, *Development of the Social Security Act*, note 89.

71. Statement of R. Lund, National Industrial Conference Board Meeting, 25 October 1934, 54-55. Hagley Museum Library.

72. United States Senate, Committee on Finance, *Senate Hearings on the Economic Security Act, Hearings on S. 1130*, 74th Cong., 1st sess., 21 January-12 February 1935;

Witte describes this as "the only possible argument" to win over conservative votes. *Development of the Social Security Act*, note 103.

73. See especially G. William Domhoff, "Corporate-Liberal Theory and the Social Security Act: A Chapter in the Sociology of Knowledge," *Politics & Society* 15, no. 3 (1986-87): 113-16.

74. Schlabach, *Cautious Reformer*, 93-94. Justice Louis Brandeis, Elizabeth Brandeis' father, had brought to her attention the fact that the Supreme Court had upheld the constitutionality of a federal tax-offset system in the 1927 case of *Florida v. Mellon*.

75. Witte, *Development of the Social Security Act* is instructive on both the composition and role of the Advisory Committee.

76. Schlabach, *Cautious Reformer*, 125.

77. Ibid., 57-58, 61-62, 105-6.

78. The reason for this stance is unclear. Skocpol and others have implied that the large employers on the Advisory Council wanted more centralization and uniformity to avoid "balkanization." Skocpol and Ikenberry, "Political Formation of the American Welfare State," 128. Yet before, during, and after the 1930s, large employers almost never took that stance. Rather, they wanted even more freedom to experiment with alternative plans that they could operate independently or by sector and feared that distinctive state laws would make that difficult. Thomas Eliot, a key member of the CES's drafting team, later recalled that "the people pushing the so-called subsidy plan, especially Bryce Stewart, seem to me (and I think to Ed Witte]) to have up their sleeves a nation-wide merit plan which would excuse many large employers from making any contributions at all." Thomas Elliot to Merrill G. Murray, 17 December 162, Arthur J. Altmeyer Papers, Social Security Administration Historical Archives, Baltimore, MD. See also Testimony of Marion Folsom, *Senate Hearings on S. 1130* (Washington, DC: Government Printing Office, 1935), 582; Swenson, "Arranged Alliances," 91-92. Most businesses outside the "welfare capitalist" circles of Roosevelt's Business Advisory Council, however, probably preferred the more decentralized approach eventually adopted. Domhoff thus regards this as only a minor dispute between "two slightly different business plans." Domhoff, "Corporate-Liberal Theory and the Social Security Act," 316; see also Jacoby, "Employers and the Welfare State," 541. But of course, the crucial point is that employers preferring less centralization were only comparing two bad options: their true preference was for no unemployment insurance plan at all.

79. Swenson criticizes Skocpol and her colleagues for misinterpreting the position of corporate liberals on the Advisory Council: "corporate liberals, though mostly advocates of worker contributions, were divided on this one." Swenson, "Arranged Alliances," 90. That fact is, however, that all five employers on the Advisory Council signed a report that advocated that "the contribution rates required from employers should be reduced and that the employees should by the federal act be required to contribute at half the rates levied upon the employers." Witte, *Development of the Social Security Act*, 61-62. Progressive employers as a whole may well have been divided and ambivalent regarding worker contributions, but it is hard to see how this invalidates the simple point that, as with the subsidy plan, employers on the Advisory Council explicitly expressed support for a specific option yet failed to convince the CES to include it in the SSA.

80. "Companies Known to Favor Clark Amendment to Social Security Act," in Dr. Rainard B. Robbins, "Confidential Material Collected on Social Security Act and Clark Amendment," 11 July 1935, in Murray Latimer Papers, George Washington University. Cited in Berkowitz and McQuaid, *Creating the Welfare State: The Political Economy of Twentieth-Century Reform*, 2d ed. (New York: Praeger, 1988), 124-25. Senator Clark

appointed the general counsel of the Socony-Vacuum oil company (the predecessor of Mobil) to a three-man committee that advised the House-Senate conference on the amendment. Thomas Hopkinson Elliot, Columbia Oral History Project memoir, Social Security volume (typescript), 50, Columbia University Libraries, New York.

81. Indeed, given the difficult time that old-age insurance eventually had supplanting the means-tested old-age assistance program, it is more likely that the ultimate result would have been a system divided between a public means-tested program and a private system of earnings-related pensions. On the dynamic between old-age assistance and old-age insurance see Jerry R. Cates, *Insuring Inequality: Administrative Leadership in Social Security, 1935-54* (Ann Arbor: University of Michigan Press, 1983).

82. This is the core, and most convincing, argument of Berkowitz and McQuaid, *Creating the Welfare State*.

83. As Daniel Rodgers argues, "More deeply than they knew, the technical drafters of the Social Security Act . . . absorbed assumptions from the commercial models all around them." *Atlantic Crossings: Social Politics in a Progressive Age* (Cambridge, MA: Harvard University Press, 1998), 444-45. On the influence of insurance ideas, see also Mark H. Leff, "Taxing the 'Forgotten Man': The Politics of Social Security Finance in the New Deal," *Journal of American History* 70, no. 2 (September 1983): 359-81; Raymond Richards, *Closing the Door to Destitution: The Shaping of the Social Security Acts of the United States and New Zealand* (University Park: Pennsylvania State University Press, 1994), 117-33.

84. Rodgers, *Atlantic Crossings*, 438

85. Witte, *Development of the Social Security Act*, note 66. See also "Preliminary Report of the Technical Board to the Committee on Economic Security," Social Security Administration Historical Archives, Committee on Economic Security Files, "Reports," Baltimore, MD. "The final scope of the program, as well as the rate at which it can be adopted, must be formulated in light of business and fiscal conditions" Ibid., 1.

86. The following draws particularly on Bensel, *Sectionalism and American Political Development*, chaps. 4 and 5; Jill Quadagno, "From Old-Age Assistance to Supplemental Security Income: The Political Economy of Relief in the South, 1935-1972," in *Politics of Social Policy*, eds. Weir, Orloff, and Skocpol, 235-63; and Kenneth Finegold, "Agriculture and the Politics of U.S. Social Provision: Social Insurance and Food Stamps," in *Politics of Social Policy*, 199-234.

87. See Pierson, "Fragmented Welfare States."

88. See in particular Witte, *Development of the Social Security Act*.

89. Ibid., 62; Quadagno, "Political Economy of Relief," 237-47.

90. See Gareth Davies and Martha Derthick, "Race and Social Welfare Policy: The Social Security Act of 1935," *Political Science Quarterly* 112, no. 2 (summer 1997).

91. Herman E. Krooss, *Executive Opinion: What Business Leaders Said and Thought on Economic Issues, 1920s-1960s* (New York: Doubleday, 1970), 193.

92. Robert E. Lane, "Law and Opinion in the Business Community," *Public Opinion Quarterly* 17 (summer 1953): 257.

93. "What Business Thinks," *Fortune*, October 1939, 52-53, 90, 92, 95-96, 98. The sampling technique of margin of error of this survey are not included in the article, although *Fortune* states that the survey "is presented here as a laboratory product, the first successful step in the development of something new and unknown. This experiment is based on personal interviews with hand-picked samples of businessmen." Ibid., 52.

94. Jacoby, *Modern Manors*, 219.

95. Swenson, "Arranged Alliances." As indicated in the acknowledgments, we have benefited greatly from Swenson's reading of an earlier draft of our argument, as well as

from his generous provision of a draft manuscript of his new book, *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford University Press, forthcoming). The page numbers listed in subsequent citations refer to the typescript pages of this draft manuscript.

96. Swenson, "Arranged Alliances," 68.

97. Swenson, *Capitalists against Markets*, 371.

98. Swenson, "Arranged Alliances," 69. As noted below, however, Swenson dismisses much of the business opposition as illusory or unrepresentative of underlying business sentiment.

99. Swenson, *Capitalists against Markets*, 320.

100. Swenson, "Arranged Alliances," 103. The "probably" here is puzzling, given that Swenson quotes approvingly Folsom's statement that not more than 5 percent of employers supported the SSA at the time of its passage.

101. Schlabach, Leutchenberg

102. Quoted in Lubove, *The Struggle for Social Security*, 175.

103. Swenson, *Capitalists Against Markets*, 348:

> New Dealers had intelligent reasons to think that the corporate liberal views would, for regulatory reasons, resonate widely. . . . Many of the noisy opponents among businessmen were only temporarily stupefied by ideology and inexperience; Folsom and the like were the ones with the clear and objective view that would surely spread.

104. Edwin E. Witte, "The Government and Unemployment," *American Labor Legislation Review* 25 (March 1935): 8.

105. Ibid., 8.

106. J. Douglas Brown, *An American Philosophy of Social Insurance* (Princeton, NJ: Princeton University Press, 1972), 21-22.

107. Schlabach, *Cautious Reformer*, 112.

108. Swenson, *Capitalists against Markets*, 340-45. Domhoff, "Corporate-Liberal Theory and the Social Security Act." See also Domhoff, *State Autonomy or Class Dominance? Case Studies on Policy Making in America* (Hawthorne, NY: Aldine, 1996), 117-76.

109. Domhoff, *State Autonomy or Class Dominance*, 163.

110. Berkowitz and McQuaid, *Creating the Welfare State*, 2d ed., 121.

111. Swenson, *Capitalists against Markets*, 348.

112. Testimony of L. C. Morrow, *Senate Hearings*, 788.

113. In particular, clear majorities wished to repeal or modify the Wage and Hours Law (21.4 percent repeal; 47 percent modify), the SSA (17.3 percent repeal; 57.9 percent modify), and the Wagner Act (40.9 percent repeal; 41.9 percent modify). "What Business Thinks," 52. Interestingly, given Swenson's argument that larger employers provided the favorable signals that emboldened reformers, smaller employers were much more likely to say they wished to keep the SSA than were their larger counterparts.

114. Swenson's argument about the signaling role of big business leaders can be found in "Arranged Alliances," 76-82. Regarding the *Fortune* survey, he writes, "Bigger companies were more supportive of Social Security and the new labor law; smaller ones tended to favor wage and hour regulation." Ibid., 105, fn. 1. Actually, smaller employers were more willing than larger ones to retain all these measures, including the SSA. Swenson also summarizes the survey as showing that "an amazing 80 percent [of surveyed employers] actually regarded union efforts to raise standards and regulate or stabilize the labor market as a good thing." When asked "As unions are now organized and run, what do you think are their greatest virtues?" about 80 percent of employers could come up with something positive

(on average, employers cited slightly more than one virtue), although it need be noted that only 5.7 percent of surveyed employers described unions as a "stabilizing and regulating factor." "What Business Thinks," 90, 92.

115. Swenson, "Arranged Alliances," 67-68.

116. The proposed minimum benefit was below the level of public assistance in nearly all localities. Berkowitz and McQuaid, *Creating the Welfare State*, 2d ed., 179.

117. Chamber of Commerce, *Improving Social Security* (Washington, DC: Chamber of Commerce, 1953). Quoted in Martha Derthick, *Policymaking for Social Security* (Washington, DC: Brookings Institution, 1979), 148.

118. Derthick, *Policymaking for Social Security*, 145.

119. Berkowitz and McQuaid, *Creating the Welfare State*, 2d ed., 196.

120. Folsom, Columbia University Oral History Project memoir, 199-200.

121. William Mitchell, Columbia Oral History Project memoir, Eisenhower Administration Project (typescript), 129, Columbia University Libraries, New York.

122. Others who have made the argument include Jill Quadagno, *The Transformation of Old Age Security: Class and Politics in the American Welfare State* (Chicago: University of Chicago Press, 1988), chap. 7; and Sanford Jacoby, *Modern Manors*, 219.

123. Swenson, "Arranged Alliances," 81.

124. Murray Latimer, "Industrial Pension Systems," 2-3; Latimer, "Memorandum on Proposed Amendments Permitting Employers with Private Pension Plans to Contract Out of the Government System," 7-8; Joseph P. Harris, "Summary of the Principal Arguments against Permitting Industrial Retirement Systems to Contract Out of the System of State Old Age Benefits," 1; in "Old-Age Security," (unpublished studies of the CES, vol. 2, Lateral Files, SSAHA). Labor force statistics are from Department of Commerce, *Historical Statistics of the United States, Colonial Times to 1970, Part I* (Washington, DC: Department of Commerce, 1975).

125. Murray Web Latimer, *Industrial Pension Systems in the United States and Canada* (New York: Industrial Relations Counseler, 1932), 231. Latimer estimates that about 3.75 million workers were employed by firms with pension plans, but not all these workers would have been active participants in their company plans.

126. Steven A. Sass, *The Promise of Private Pensions: The First Hundred Years* (Cambridge, MA: Harvard University Press, 1997), 84-85, 99.

127. Paul H. Douglas, *Social Security in the United States: An Analysis and Appraisal of the Federal Social Security Act* (New York: McGraw-Hill, 1939), 253.

128. Indeed, Folsom exemplified the ambivalence of even those business leaders most interested in a federal plan: he advocated the Clark amendment during the Senate hearings, and then, a year later, wrote that employers with private plans should simply adjust to the federal program. Marion B. Folsom, *Senate Hearings*, 578, 588-89; "Company Annuity Plans and the Federal Old Age Benefit Plan," *Harvard Business Review* 14 (summer 1936): 414-24. Like Folsom, most defenders of private plans fairly quickly realized that the Clark amendment was an unattractive option, inviting strict regulation of their practices even as it offered little or no tangible benefit. Rainard D. Robbins, "Preliminary Report on the Status of Industrial Pension Plans as Affected by Old Age Benefit Sections of the Social Security Act," Report to Committee on Social Security of Social Science Research Council, 21 March 1936, Revolving Files, Social Security Administration Historical Archieves, "Industrial Pension Plans Affected by the Social Security Act," Baltimore, MD.

129. In later years, as unions demanded plans with benefits independent of Social Security, business support for old-age insurance expansions waned. Today, most new plans are not integrated with Social Security.

130. Witte to Dr. Walter Hamilton, 13 May 1936, 2, "Witte, Edwin E.," Arthur J. Altmeyer Papers, Lateral Files, Social Security Administration Historical Archieves, Baltimore, MD.

131. One estimate prepared by IRC showed that "a company would be required to pay 33 to 100 per cent more to finance identical old age benefits privately." IRC, "Memorandum to Clients," No. 15, New York, 23 August 1935, 6, Murray Latimer Papers, Box 10, George Washington University, Washington, DC.

132. Witte, *Development of the Social Security Act*, 157.

133. Indeed, the insurance consultant who advocated the Clark amendment later acknowledged that "he had never made such a mistake in his life. . . . Business is booming as never before." Elliot, Columbia Oral History Project memoir, 51-52. See also Frank Dobbin, "The Origins of Private Social Insurance: Public Policy and Fringe Benefits in America, 1920-1950," *American Journal of Sociology* 97 (March 1992): 1416-50.

134. Part of it is told in Jacob S. Hacker, *The Divided Welfare State: The Battle over Public and Private Social Benefits in the United States* (New York: Cambridge University Press, 2002), chaps. 2-3.

135. Swenson, "Bringing Capital Back in."