WELFARE CAPITALISM AND THE SOCIAL SECURITY ACT OF 1935*

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A central concern of political theorists has been the relationship between the state and the economy, or more specifically, how political power gets translated into economic power. Recent debates have been shaped around critiques of the corporate liberal thesis, which contends that class-conscious capitalists manipulate the polity so that government comes to pursue policies favorable to capitalism. Alternative theories suggest that the state is capable of transcending the demands or interests of any particular social group or class. The Social Security Act of 1935, which represented the beginning of the welfare state in the United States, was a conservative measure that tied social insurance benefits to labor force participation and left administration of its public assistance programs to the states. In this paper the Social Security Act is used as a case study to adjudicate between several competing theories of the state. The analysis demonstrates that the state functions as a mediating body, weighing the priorities of various interest groups with unequal access to power, negotiating compromises between class factions, and incorporating working-class demands into legislation on capitalist terms.

A central concern of political theorists has been the relationship between the state and the economy, or more specifically, how economic power gets translated into political power. Recent debates have been shaped around critiques of the corporate liberal thesis, which stresses the strategies of class-conscious capitalists to manipulate the polity. Alternative theories suggest that the state is capable of transcending the demands or interests of any particular social group or class.

The core agenda of those espousing some variant of corporate liberalism has been to explain how major economic interests manipulated the polity in the twentieth century, so that government came to pursue policies favorable to capitalism (Domhoff, 1979; Kolko, 1963; O'Connor, 1973; Useem, 1983). According to this perspective, capitalists rationally pursued a series of policies designed to allow them control of the political process, resulting in a synthesis of politics and economics. For example, Kolko (1963) has argued that the regulatory "reforms" of the Progressive Era, traditionally explained as a respose to muckraker's criticism, were actually desired by large industry as a way, not only of controlling competition, but also of driving smaller competitors out of business. As O'Connor (1973:68) explains, "by the turn of the century, and especially during the New Deal, it was apparent to vanguard leaders that some form of rationalization of the economy was necessary. And as the twentieth century wore on, the owners of corporate capital generated the financial ability, learned organizational skills, and developed the ideas necessary for their self-regulation as a class."

In recent years corporate liberalism has been attacked on the grounds that it oversimplifies the more complex causal processes involved in policymaking, that it cannot specify the conditions under which interventions by dominant corporate interests will occur, and that it neglects to confront the fact that these interventions sometimes fail (Block, 1977a:353; Skocpol, 1980:169). Several alternative solutions to the problem of explaining how the state serves the interests of the capitalist class have been posed. Block (1977b:10) argues that there is a division of labor between those who accumulate capital and those who manage the state apparatus. While capitalists are generally not conscious of what is necessary to reproduce the social order, state managers are forced to concern themselves to a greater degree because their continued power rests on the maintenance of political and economic

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order. The central constraint upon the decision-making power of state managers is that of "business confidence." Individual capitalists make investment decisions based on such tangible variables as the price of labor and the size of the market, as well as such intangibles as the political and economic climate. Business confidence falls during political turmoil and rises when there is a restoration of order (Block, 1977b:16). Since state managers are dependent upon the investment accumulation process, they will necessarily use whatever resources they possess to aid that process. Normally, state managers formulate policies supportive of capital accumulation. During a crisis such as a depression, however, when the decline of business confidence is not a potent threat, pressures intensify to grant concessions to the working class (Block, 1977b:24–25).

In Block's (1977b:22) view, class struggle is the primary vehicle contributing to the expansion of the state's role in capitalist society. Class struggle arises from the desires of workers to protect themselves from the ravages of a market economy. Workers operationalize their concerns through pressures for reforms. State managers must then weigh three factors in granting concessions—the fear of damaging business confidence, the escalation of class antagonisms that might endanger their own rule, and their recognition that their own power and resources will grow if the state's role is expanded (Block, 1977b:23–24). When working-class demands for reforms do get incorporated into state policy, they are rarely granted in their original form. Rather, they are geared to the needs of capital accumulation.

Block's argument is useful in specifying the mechanism through which economic interests influence state actions without reducing state policy to the raw machinations of class-conscious capitalists. He fails, however, to provide a complete explanation of the relationship between the polity and the economy, because he neglects to analyze the complexities of the political constraints on state managers. Skocpol, in contrast, specifies the political as well as economic constraints that affect policymaking.

Using several New Deal measures as a test case of various theories of the state, Skocpol (1980:199) finds support for Block's basic premises but argues that no self-declared neo-Marxist theory takes "state structures and party organizations seriously enough." Rather, these theories oversimplify political analysis by attributing political outcomes "to the abstract needs of the capitalist system, or to the will of the dominant capitalist class or to the naked political side-effects of working class struggles" (Skocpol, 1980:200). State structures and party organizations have, according to Skocpol, independent histories and are not simply shaped in response to socioeconomic changes, dominant class interests or class struggles. "States and political parties within capitalism have cross-nationally and historically varying structures. These structures powerfully shape and limit state interventions in the economy, and they determine the ways in which class interests and conflicts get organized into (or out of) politics in a given time and place" (Skocpol, 1980:200).

What are these political constraints on policy formation? They may include such factors as existing national administrative arrangements, governmental institutions, the extent of electoral democratization, patterns of political party organization and competition, and degree of bureaucratization. For example, in comparing two New Deal measures, the Agricultural Adjustment Act and The National Industrial Recovery Act, Skocpol and Finegold (1982) contend that the former succeeded whereas the latter failed because the AAA was placed inside an existing federal department that had the administrative means to implement its programs. In contrast, the NRA, which had no "well-established state administration knowledgeable about and sympathetic to the needs and aims of the business self-regulators," foundered due to the lack of a strong bureaucracy (Skocpol and Finegold, 1982:267). Similarly, the Social Security Act took shape as three separate measures—national old age insurance and federal-state programs for old age assistance and unemployment insurance—because of previously existing and potentially competing state-level programs in the latter two areas (Skocpol and Ikenberry, 1982:74).

Poulantzas (1978:14) also rejects corporate liberalism, arguing that "the state really does exhibit a peculiar framework that can by no means be reduced to mere political domination." Like Block, he sees policy as the result of class contradictions, and like Skocpol et al., he views the structure of the state as a central determinant of the outcome of policy. In his terms, however, structure is not defined organizationally or administratively. Rather, structure is determined by class contradictions inscribed within it: "Each state branch or apparatus and each of their respective sections and levels frequently constitutes the power-base and favored representative of a particular fraction of the bloc, or of a conflictual alliance of several fractions opposed to certain others" (Poulantzas, 1978:132). These fractions may include big landowners, nonmonopoly capital, monopoly capital, and the internationalized bourgeoisie or the domestic bourgeoisie. The contradictions that exist between the dominant fractions imbedded in the state make "it necessary for the unity of the bloc to be organized by the State." The state, then, is not a unified mechanism founded on a hierarchical distribution of centers of power, but rather a mediating body that weighs priorities, filters information given and, because of its autonomy from any given class or faction, integrates contradictory measures into state policy (Poulantzas, 1978:132–35). Politics for Poulantzas is interesting precisely because it involves mediation between various power blocs to maintain the capitalist state.

An adequate response to the question of how political power gets translated into economic power can be derived by analyzing how state managers respond to different power blocs, by examining the existing economic and political constraints unique to a particular period and to a particular state action, and by assessing how working-class demands get incorporated into social policy. The Social Security Act of 1935 represented the beginning of a national welfare state in the United States. As social legislation formulated during a major economic crisis to benefit workers through its provisions for old age pensions and unemployment insurance, we would expect to find all of the dynamics that various theories have specified—worker agitation for social reform, a decline in business confidence by capitalist interests, and increased pressure on state managers to play a mediating role by restoring business confidence without increasing class antagonisms. This reform measure will be used to test these various theories of the state. If corporate liberalism is confirmed, then we can expect to find major economic interests successfully manipulating the policy. Block would predict state managers responding to business confidence while an organized working class presses for social legislation. On the other hand, from Skocpol's organizational perspective entrenched bureaucratic interests would determine the success or failure of social security legislation. Finally, Poulantzas would expect the state to act as a mediating body to preserve and enhance capitalist interests, with the composition of the power bloc determining the shape of the compromise.

THE SOCIAL SECURITY ACT OF 1935

The Social Security Act brought the United States in line with other developed capitalist nations by legislating the first national welfare program. Yet it was a complex piece of legislation that included three seemingly disparate measures, each operating under a different set of principles. The Old Age Assistance (OAA) title of the act involved channeling federal funds to the states for old age pensions to needy persons over 65, on a fifty-fifty matching basis up to a maximum contribution of $15 a month (Schneider, 1937:82). Each state was allowed to set its own standards for eligibility, and many states incorporated traditional poor-law criteria, such as means tests, familial responsibility clauses and residency requirements (Quadagno, 1984). In comparison, the Old Age Insurance (OAI) title, which became the dominant program, was financed entirely from regressive payroll taxation with no government contribution, and the original act included no benefits for spouses or dependents (amended in 1939 to include dependents' benefits). Payments were not to begin until 1942 (amended in 1939 to begin in 1940), and benefits paid to the first cohort of retirees were even lower than those for recipients of OAA (Schneider, 1937:79–80). Excluded from participation in OAI were all those in farm labor, domestic service, employees of religious, charitable and educational organizations and the self-employed (Schneider, 1937:82). In all, nearly half of the working population was excluded from coverage. Finally, the unemployment insurance title also involved payroll contributions and left criteria for eligibility to the states.

Although the rhetoric surrounding the passage of the Social Security Act described it as radical social insurance providing protection for workers from the cradle to the grave, it offered little fundamental change in income redistribution, and in fact some researchers have argued that it redistributes income in the opposite direction, from the poor to the rich (Ozawa, 1976:216). Further, its benefit provisions served several labor market functions. The old age insurance provisions were set up so that benefits would never be higher than minimum-wage levels and thus wouldn't interfere with existing wage structures. The contributory principle also reinforced the concept of earned benefits and tied old age security to labor force participation. Finally, welfare benefits in the dominant old age insurance program were ideologically defined in terms of age, not need. This set the agenda for future policy debates in which arguments for reform and expansion were structured around intergenerational conflict rather than class conflict.

Most of the explanations of the Social Security Act can be interpreted as some variant on the corporate liberal theme. They include the view that the act was initiated as a means of containing socialism (Bernstein, 1968:273; Olson, 1982:44), that it was intended to benefit business by expanding purchasing power

(Piven and Cloward, 1971:89; Graebner, 1980:191), that it promised to reduce unemployment by removing the aged from the labor force (Graebner, 1980:184), and that it was the result of the intervention of corporate liberals who defined the boundaries of the debate (Brents, 1983b:84). In this paper I will demonstrate that the explanation for the form of the Social Security Act is contained within a theory of the state that takes into account the role of working-class agitation, the economic limitations generated by the Depression, and the political constraints inherent in the federal system of government which embedded class interests into the state in a particular way.

Although these issues would affect any piece of New Deal legislation, it is also necessary to recognize that the Social Security Act was a public welfare program, shaped by the traditional constraints on relief. The now classic explanation of public welfare programs asserts that relief arrangements regulate labor through periodic expansions and contractions of benefits (Piven and Cloward, 1971:1). Relief programs vary regionally, however, so that local officials can mesh eligibility criteria with local labor requirements, while the "less eligibility" rule keeps welfare grants from becoming competitive with wages (Piven and Cloward, 1971:131). Thus, the relief functions of social security must be incorporated into any theoretical explanation of policy formation.

The political and economic constraints on public welfare legislation that came into play during the Depression were preceded by local welfare programs, and state pension and unemployment programs, formulated in a context of increasingly organized business opposition to any public pension.

THE DEVELOPMENT OF STATE WELFARE PROGRAMS

At the beginning of the twentieth century nearly all the programs for relief were locally administered and financed according to prevailing poor-law customs, which varied substantially from state to state, county to county (Quadagno, 1984). Unemployment benefits did not exist, and with the exception of a few pensions for teachers (Graebner, 1980:93), pension benefits paid by the federal government to veterans, and a few pension programs in private industry (Latimer, 1932), people in need of relief were forced to apply to their local poor-law authorities. The same criteria for eligibility that applied to all workers, including means tests, family responsibility clauses and residency requirements, were applied to the aged.

In 1970 the Massachusetts Commission on Old Age Pensions assessed the status of the dependent aged in Massachusetts and concluded that pensions would have a number of undesirable effects, including the imposition of "a heavy tax burden on the industries of the State" that would "put them at a disadvantage in competition with the industries of neighboring states unburdened by a pension system." In addition, pensions would reduce wages, destroy family cohesion, and would testify to the failure of American economic and social institutions (Report of the Massachusetts Commission on Old Age Pensions, Annuities and Insurance, 1910:322). The commission concluded that "if any general system of old age pensions is to be established in this country, this action should be taken by the national Congress and not through State legislation" (Report of the Massachusetts Commission on Old Age Pensions, Annuities and Insurance, 1910:322). Thus, in 1910 when the federal government administered no national welfare program, the possibility of a federal pension was not inconceivable to industry, which feared unequal competition between industries in different states more than federal intervention. Couched in the ideology of preserving the traditional family, the commission preserved the interests of manufacturers by not imposing a tax that would reduce their ability to compete and by not guaranteeing welfare benefits that might prove to be a disincentive to labor.

During the 1920s organizations associated with the social insurance movement argued for pensions financed out of state taxes, and between 1923 and 1929 the majority of states enacted old age pension legislation. Nearly all these laws incorporated poor-law regulations into their criteria for eligibility, and a 1929 report by the Department of Labor concluded that the state pension system was "merely an extension of the principle of poor relief" (U.S. Department of Labor, Bulletin No. 489, 1929:75). In spite of the trend toward enactment of pension legislation by the states, as late as 1934 only 25 states had laws in operation (Quadagno, 1984).

Many pension laws were passed in spite of intense lobbying against them by industry, which became increasingly organized in its opposition. The Pennsylvania Manufacturers' Association (1927:1), an association of small manufacturers, defeated a pension amendment in 1927, a "costly and vicious scheme" that would "make necessary a Manufacturers' Tax, or an Income Tax, or both."

In 1930 the House Committee on Labor began consideration of a national noncontributory old age pension proposal put forth by Representative William Connery (U.S. Congress, House Committee on Labor, 1930). Representatives from the National Association of

Manufacturers (NAM)[1] and other small-business organizations argued against it, reversing their opposition to state pensions under the threat of the intrusion of the federal government into welfare legislation. As one NAM representative asserted, "Now we have Congress considering the matter of engaging in helping the people by a Federal old-age pension, while not a State has been here saying it is necessary to have Federal aid care for such problems as may exist" (Testimony of Noel Sargent of the National Association of Manufacturers, U.S. Congress, House Committee on Labor, 1930:192).

When there appeared to be too much opposition to a national program, Senator Clarence Dill proposed a modified plan before the Senate for federal grants to states for one-third of their pension costs if they enacted state-wide, compulsory laws (U.S. Congress, Senate Subcommittee of the Committee on Pensions, Hearings on S. 3257, 1931). Both proposals brought further heated opposition from manufacturers' associations, whose representatives argued that "employers . . . can not be expected to favor new taxes, which will simply increase production costs, add to the difficulties of competition, and restrict employment and the welfare of industrial workers" (Testimony of Noel Sargent of the National Association of Manufacturers, U.S. Congress, Senate Subcommittee of the Committee on Pensions, 1931:64). These taxes, they argued, particularly penalized those companies operating in highly competitive markets, whereas a monopoly could readily meet any new charge. After several more years of debate, a modified Dill-Connery bill authorizing a federal appropriation of $10,000,000 per year to pay one-third of the cost of old age assistance extended by states to aged dependents (H.R. 8461 and S. 493) passed the House Committee on Labor in 1934 and almost passed the Senate.

There was also strong momentum for a national unemployment measure. The only existing unemployment plan had been passed by the state of Wisconsin. The Wisconsin plan or Andrews-Commons model, designed with the help of businessmen Henry Dennison and Edward Filene, was based on a philosophy of prevention to be achieved through the stabilization of industry (Schlesinger, 1958:328). Benefits were to be financed by employer taxes collected by the state in individual employer accounts. Since individual employer tax rates varied according to the amount of unemployment experienced by a given company, the profit motive of employers would serve to stabilize industry and reduce unemployment (Cates, 1983:23).

An alternative approach to unemployment insurance, termed the Ohio approach, rejected the concept of prevention as unrealistic, since the forces that caused unemployment were beyond the control of individual employers. The focus on prevention, it was argued, diverted attention from the real purpose of such systems: the provision of adequate support for the unemployed. Supporters of the Ohio school advocated pooled employer reserves that spread the costs of unemployment benefits among industries instead of passing them to consumers, higher benefit levels, and the financing of benefits out of general revenues (Cates, 1983:23).

By 1935 a total of 56 unemployment bills were pending before state legislatures. Eighteen were modeled after the Wisconsin plan and provided separate employer reserves; 16 followed the Ohio plan of a pooled fund with merit rating; seven had industry reserves; six were radical bills of which two later emerged as the Lundeen plan; six provided for a pooled fund without merit rating (Smith, 1937:4). Manufacturers' associations also rallied against state unemployment measures because of their fears of interstate competition and because unemployment benefits had the potential to undermine existing minimum-wage laws (Testimony of George Chandler, Ohio Chamber of Commerce, U.S. Congress, Senate Committee on Finance, 1935:1102–1104). Due to the influence exerted by these associations on state legislatures, none of the pending bills was enacted.

Although the presence of state plans for unemployment insurance and old age pensions could have served as a political constraint on national policy measures, only Wisconsin had an unemployment program in operation, only half the states had pension laws, and among them few pensions were actually given (Quadagno, 1984). State welfare programs offered only a minimal impediment to national legislation.

INDUSTRIAL PENSIONS AND WELFARE CAPITALISM

While business associations in highly competitive industries fought against any welfare program that might raise taxes and interfere with existing wage scales, monopoly corporations had begun to implement their own welfare capitalist programs, which served some of the

[1] Until 1933 the NAM mainly represented small manufacturers. Between 1934 and 1935 it became dominated by large manufacturing companies (Burch, 1973:100). The opposition to a national pension came from the same individuals who had been fighting against state pensions.

same functions of traditional relief measures, independent of state action. As Owen D. Young of General Electric explained to Bishop Francis J. McConnell, President of the American Association for Old Age Security:

> I am not yet ready to commit myself to the principle of Government appropriation for old age pensions. It may be necessary, and probably will be, to do something along this line, but my feeling is that it should be only for the last fringe of people who cannot otherwise be provided for. I am deeply interested in seeing that the industries themselves establish programs by which at least industrial workers will never become a charge on the taxing power of the state, but will be taken care of through the economic machinery of the industries themselves. (American Association for Social Security Archives, 1928)

In 1929 a study by Industrial Relations Counselors found that 329 industrial programs were in existence. Eighty percent of covered employees were in railroads, public utilities, metal trades, oil, banking and insurance, electrical apparatus and supply industries. In contrast, among the highly competitive and largely unregulated manufacturing companies, only one-eighth of all employees were potentially covered by a pension plan, and these were in the larger manufacturing establishments (Latimer, 1932:42). For small manufacturers who relied on lesser amounts of working capital beyond payrolls, whose ratio of payroll costs to value of manufacturing output was often higher than in larger companies, and who, in many cases, functioned seasonally with a high degree of labor turnover in the off season, the disadvantages of pension costs outweighed any potential advantages (Mulford, 1936:5).

Industrial pension plans served a variety of labor control functions for welfare capitalists. Nearly all had a length-of-service requirement which reduced the mobility of labor and decreased rates of turnover among employees. Pensions were also justified by employers as a deferred wage and thus became a means of forcing workers to accept a lower wage scale. Further, the majority of company plans were discretionary on the part of the employer. Even if the worker fulfilled every condition set, the worker had no legal right of any kind to a pension but received it as a gratuity which could be suspended, reduced or revoked at the employer's option (Brandes, 1976:105; Graebner, 1980:129–30). For example, many plans contained clauses designed to protect the employing company against increasing costs (U.S. Department of Labor, 1929, Bulletin No. 489:290). Continuous-service clauses were also used to bar workers from taking part in strikes. One limited pensions to employees who "have not been engaged in demonstrations detrimental to the company's best interests," while another flatly stated that "employees who leave the service under strike orders forfeit all claims to the pension benefit" (U.S. Dept. of Labor, 1929, Bulletin No. 489:291). Further, some plans allowed the company to call upon retired workers to return to work as strikebreakers:

> The employing company reserves the right to recall pensioners to the service of the company, in which event pensions cease for the time being, and wages are paid in accordance with the standard wage rates for the occupation for which the pensioner has been recalled. (U.S. Department of Labor, 1929, Bulletin No. 489:291).

Finally, employers paying hidden pension costs by continuing to employ inefficient older workers could retire them at no extra cost.

Industrial pension plans also benefited corporations through tax savings. In 1916 corporations were granted the right to deduct payments to retirees and their families as part of necessary expenses. The tax benefits of pension plans were extended in 1919 when the Internal Revenue Service also allowed corporations to deduct employer contributions to pension funds as long as they were placed in a separate trust. The tax law was liberalized even further in 1928 to allow deductions for monies transferred from pension reserves to trusts and for contributions to newly created pension plans (Graebner, 1980:134).

In the 1920s pensions were usually funded as an operating expense, making them highly unstable during business downturns. Sixty-nine new industrial pension plans were implemented between 1929 and 1932, but a greater number of existing plans were discontinued as the Depression grew worse, undermining the "deferred wage" concept. As political pressure increased for some sort of federal action to provide a more secure economic resource for older people, big business mobilized to create a counterproposal, one regulated by the federal government but under the control of industry.

Several different joint government-industry plans were proposed by members of the business community. The two most influential were those of Henry Harriman (1932) of the New England Power Company and the U.S. Chamber of Commerce and Gerard Swope (1932), President of General Electric and also a prominent member of the Chamber. Both plans encompassed welfare provisions under broader programs for economic recovery through the stabilization of industry, coordinating production and consumption through trade associations. Included was a call for industry to set aside "reserves to care for unemployment, old age, sickness and accidents" (Harriman, 1932:74).

Swope devised a joint employer-employee contributory pension program to be adopted by all members of trade associations, subject to approval by a federal supervisory body. If an employee moved from one company to another within an association or to a company in another association, the funds accumulated would be transferred. Any employee leaving an occupation covered by a trade association could withdraw the amount of his or her contributions plus the interest accrued (but not the employer's contribution) (Swope, 1932:167–68). A similar plan was set forth for unemployment insurance, including a provision to reward companies with low unemployment rates by removing the one percent charge to the employer (but not the employee) (Swope, 1932:169). In stressing how his plan would contribute to the stabilization of industry, Swope (1932:184) argued, "this plan seeks to place the same social burdens on companies competing in various parts of the United States." Industry had learned that if it had to pay the costs of pension programs, then it needed to remove differential costs of pensions. The solution could be found in trade associations under government regulation that forced compliance.

Over the vigorous objections of the NAM, trade associations were established under the jurisdiction of the National Recovery Administration. No industry-wide pension programs were implemented, however, and as the Depression deepened, even those companies with welfare programs in operation found themselves unable to maintain benefits (Berkowitz and McQuaid, 1980:82). The Depression revealed the limits of voluntary business organization for solving the nation's problems, and welfare capitalists now clearly understood that their company programs required substantial federal underpinning to be effective.

THE CREATION OF THE SOCIAL SECURITY ACT

Setting the Parameters of the Debate

As the country moved toward a national program of old age pensions and unemployment insurance, competing factions attempted to set the parameters of the debate. State managers had to respond to the economic crisis generated by the Depression as well as to labor unrest. Yet in the advocacy of welfare programs, it was not organized labor but a reform movement of the aged that placed the greatest pressure on the government to establish national pensions. This movement, led by retired physician Frances Townsend, proposed a proto-Keynesian measure to solve both the nation's woes and the problem of insecurity in old age.

Townsend demanded that anyone over the age of 60 be paid a flat pension of $200 a month from the federal treasury on the single condition that the recipient spend the entire amount within that month (Townsend, 1943). The purchasing power generated by the pensions would stimulate the economy and help produce economic recovery. Funds were to be gathered from a 2 percent tax on the "gross dollar value of each business, commercial and/or financial transaction" and distributed to all older people, regardless of residency, number of living relatives, or income level (Committee on Old Age Security, 1936:16). Hundreds of thousands of elderly people supported Townsend, and members of Congress were bombarded with petitions from elderly constituents (Holtzman, 1963:88).

The Townsend plan created a political furor, and the Roosevelt administration, through an investigation by the Committee on Old Age Security (1936), launched an attack on it, describing it as unworkable and financially unsound. All respected policymakers agreed, and yet the Townsend plan was really a moderate measure. With its lack of progressive taxation and its emphasis on the expansion of purchasing power, it was functionally compatible with the existing economic system. The only truly radical alternative was the Lundeen bill. Although it attracted less public attention, it had the potential to expand the boundaries of existing welfare policy and to alter significantly the distribution of wealth. The Lundeen bill called for compensation equal to average local wages for all unemployed workers, for supplementary benefits for part-time workers unable to secure full-time employment, and for payments to all workers unable to work because of sickness or old age, the source of funds being the general treasury of the United States. Any further funds necessary were to be provided by taxes levied on inheritances, gifts and individual and corporate incomes of $5,000 a year or over (U.S. Congress, House Subcommittee of the Committee on Labor, 1935:1–2).

The Lundeen bill had the support of numerous local unions and unemployment councils. They argued for its passage on the grounds that it would maintain the standard of living of workers by providing benefits equal to average wages, that it would protect workers from being disqualified from benefits on the basis of participation in strikes, that it provided for the participation of trade unions in the administration of benefits, and that it put the financial burden on those most able to pay (Testimony of Elmer Johnson, representing the Chicago Branch of the American Federation of Labor, U.S. Congress, House Subcommittee of the Committee on Labor, 1935:522). A pending Wagner-Lewis unemployment bill was rejected by these same organizations, because it excluded the presently unemployed from coverage, because it made employees pay through the tax on wages and through the increased cost of commodities, and because the cost of insurance would not be determined by the capacity to pay (Testimony of Frank Trager, Chairman of the People's Unemployment League of Maryland, U.S. Congress, House Subcommittee of the Committee on Labor, 1935:534). Further, the Wagner-Lewis bill left provisions for unemployment relief under local control, a system that was still used as a means of manipulating labor. As Thomas Crawford of the Agricultural and Cannery Workers Industrial Union explained:

> In Deerfield Township, the head of the relief administration was Mr. Seabrook who is the biggest farmer-owner in the East. When the C.W.A. was started . . . Mr. Seabrook, who was overseer of the roads during the winter months gave the jobs to the people on his own farm instead of to the workers who were unemployed. . . . He gave the jobs, too, to the small farmers that were close to his farm, in order to keep the agricultural workers down at the point of starvation. This was so that he could then hire them at very low wages when the season started. This is the way it is done all over south Jersey. (U.S. Congress, House Subcommittee of the Committee on Labor, 1935:65)

Also rejected was the Townsend plan, because its advocates "direct various kinds of verbal attacks against capitalists even while they bend all their effort to the task of saving the capitalist system." Further, it only provided insurance for those who reached the age of 60 and not all who needed it (Testimony of Herbert Benjamin, executive secretary, National Joint Action Committee for Genuine Social Insurance, U.S. Congress, House Subcommittee of the Committee on Labor, 1935:183).

By linking the Lundeen bill with the Townsend plan, critics were effectively able to represent both as fantastic and unworkable schemes. The opposition of the AFL's national leadership to the Lundeen bill also contributed to its defeat. Although representatives from several locals testified before the House committee, the national leadership of the AFL was notably absent. It took no position on this bill and instead argued for liberalization of the Wagner-Lewis payroll-tax plan for unemployment insurance. Why did the AFL take this stand when so many smaller unions endorsed it? In part, the ambivalence of the AFL national leadership toward national welfare measures was related to its long-standing opposition to both employer and government welfare programs, which they had seen used against labor and which they believed were designed to discourage the formation of unions. Union benefits provided an inducement to workers to join unions, whereas government-sponsored plans, even those gained under pressure from labor, potentially undermined this inducement. The CIO was even less involved because union leaders at this time were most directly concerned with issues of organization maintenance and establishing rights to collective bargaining. Thus, the foundation of the welfare state was constructed with minimal input from organized labor.[2]

Roosevelt thus had before him the Lundeen bill, the Dill-Connery bill, and the Wagner-Lewis bill as three separate welfare measures. As Governor of New York, Roosevelt had sponsored a contributory pension bill which was not passed, so the contributory philosophy was not unfamiliar to him (Chambers, 1963:166). On March 8, 1934, Roosevelt invited Gerard Swope, author of the Swope Plan, to lunch to get his views on unemployment insurance and old age pensions. Swope described to Roosevelt GE's own joint contributory pension plan, in which both employer and employee had a vested interest (Loth, 1958:235). Before the luncheon was completed, Roosevelt—his political imagination triggered by Swope's proposal for a federal system that provided coverage from the cradle to the grave—asked Swope to summarize his ideas. Two weeks later, Swope presented the completed proposal to the president, a detailed statistical document that included plans for unemployment, disability and old age pensions. Roosevelt immediately began pushing for a comprehensive social security measure that incorporated both unemployment and pensions (Loth, 1958:236). In a speech on June 8, 1934, he clearly discarded income redistribution as a goal of Social Security and committed himself to a contributory plan, declaring, "I believe that the funds necessary to provide this insurance should be raised by contribution rather than by an increase in general taxation" (Roosevelt Papers, Official Files, 494a, Box 1). Thus, the parame-

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[2] In contrast, the first old age pension bill in England was passed because of direct pressure from organized labor (Quadagno, 1982).

ters of the debate were narrowed to contributory measures that had already been used by monopoly industries and that did not affect the existing distribution of wealth.

Organized labor's struggle for bargaining power and union survival precluded its involvement in social welfare issues, so the potential pressure from workers for a radical income-redistribution welfare program was lost. Townsendites, who rallied the most effective political constituency, based their arguments on the issue of age rather than class, a strategy that focused the debate on pensions for the aged rather than adequate protection for workers. An age-based rather than a class-based movement in effect gave state managers the freedom to shape welfare programs in a way that was functionally compatible with the existing economic structure.

The Creation of the Committee on Economic Security

In order to implement this program, Roosevelt selected the members of the legislative planning committee, the Committee on Economic Security (CES), to exclude all adherents to any school of thought advocating a more radical, redistributory social welfare policy. Instead, supporters of the Wisconsin approach who believed in a preventative, business-centered philosophy and who supported contributory pension plans were chosen. Prevention, according to Princeton economist, J. Douglas Brown, could be achieved through the individualization of benefit rights, which related the prevention of old age poverty "to the individual's customary way of life and the normal costs of sustaining that way of life" (Brown, 1977:5). In other words, social insurance was not to be used to redistribute income; existing inequities in income need not be leveled through the mechanism of old age pensions.

Secretary of Labor Frances Perkins, Harry Hopkins, Director of the Federal Emergency Relief Administration, and Secretary of Agriculture Henry Wallace were given the task of selecting the membership of the CES. In testimony before the Senate Finance Committee, which held the hearings on what came to be called the Social Security Act, Perkins represented the administration's viewpoint. Welfare benefits, she argued, would help to resolve the economic crisis, for "by paying over moneys to persons who would otherwise not have any income, you are creating purchasing power which will regularly, year after year and month after month, sustain the purchases which are to be made from the great manufacturing and mercantile systems of the country" (U.S. Congress, Senate Finance Committee, 1935:104–105). From the administration's perspective, the stabilization of the economy, not the welfare of workers, was the goal of national welfare programs—a goal that coincided with the interests of monopoly capital.

Arthur Altmeyer, former secretary of the Wisconsin Industrial Commission, which supervised the administration of unemployment relief in that state, and former Director of the Labor Compliance Division of the National Industrial Recovery Administration, was given the task of organizing the CES and later became Chairman of the Technical Board on Economic Security, one of the subcommittees to the CES (Altmeyer, 1966:xi). Altmeyer was not only well schooled in the Wisconsin philosophy but had also worked closely with businessmen in the NRA, who approved of his selection. As Folsom (n.d.:95) recalls in his memoirs "I naturally liked Altmeyer's approach because he came from Wisconsin. . . . and they were on an individual reserve basis."

Altmeyer invited Edwin Witte, former student of John Commons and secretary of the Wisconsin Industrial Commission, to chair the CES, and Witte was given the task of selecting other staff members. Before making these selections, he consulted with a number of people who had some part in the development of the program "or who were reported to me to have valuable ideas on the subject" (Witte, 1963:16). At the specific request of Roosevelt, he made a special trip to consult with Gerard Swope, John Raskob of General Motors and Walter Teagle of Standard Oil, all members of the Business Advisory Council. In trying to decipher the will of the President, Witte's first impression was that Roosevelt had only consulted with Perkins and his advisor Raymond Moley prior to the creation of the CES. He later learned that Roosevelt had also discussed the subject with Swope, Raskob and Owen Young (Witte, 1963:19). Thus, the main purpose of Witte's visit to the industrialists was to "get from them their ideas on what ought to be done, which they had previously presented to the President" (Witte, 1963:19). As Witte (1963:89) recalls.

> I had several conferences with Mr. Harriman [President of the United States Chamber of Commerce] during the fall and again immediately preceding his testimony before the Senate Finance Committee. Mr. Harriman's 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 acceptable form.

In addition to the technical board, an Advisory Council on Economic Security was created to assist the CES. The members of the Advisory Council selected by Roosevelt from a list prepared by Altmeyer and Witte included labor, citizen and employer representatives. The employers selected were a group of moderate welfare capitalists, including Swope, Marion Folsom of Eastman Kodak, and Teagle, along with Morris Leeds, president of Leeds and Northrup, and Sam Lewison, vice president of Miami Copper Company. Roosevelt had preferred to have Swope or Young chair the council, because they were businessmen who recognized the inevitability of social security legislation, but was advised by Perkins that this would be politically unwise ("Suggestions for an Advisory Council," Altmeyer Papers, CES File 2, Box 1). Instead, a Southerner, Frank Graham, president of the University of North Carolina, was selected as a means of restraining some of the expected opposition from the South.

Business Reaction

In its official capacity the Advisory Council had little impact, but the employer members exerted considerable influence on the legislation in a variety of unofficial ways. One of the major concerns of the employers was to obtain as much federal control over the legislation as possible to regulate competition from companies who might otherwise find ways to circumvent the proposed taxes. As Brown explained in testimony before the Senate Finance Committee (1935:284) hearings on social security, the benefit of the employer contribution was that

> it makes uniform throughout industry a minimum cost of providing old-age security and protects the more liberal employer now providing pensions from the competition of the employer who otherwise fires the old person without a pension when superannuated. It levels up the cost of old-age protection on both the progressive employer and the unprogressive employer.

Business leaders were satisfied with the shape of the old age insurance (OAI) portion of the act, for it involved complete federal control over the imposition of employer and employee contributions. In fact, when this plan ran into opposition by CES members because it was national in scope, "help came from an unexpected source, the industrial executives on the Committee's Advisory Council . . . their practical understanding of the need for contributory old age annuities on a broad, national basis carried great weight with those in authority" (Brown, 1972:21).

The OAI provisions thus represented the acceptance of approaches to social welfare created by private businessmen. They retained the joint contributory format reminiscent of private pension plans and did little to redistribute income. Only those with employment records received benefits, insuring that America's social welfare system would continue to be connected with the private labor market. Further, benefit levels were set low so as not to compete with existing wage levels.

In contrast to OAI, the unemployment insurance portion of the Social Security Act stimulated great debate among the various committees charged with creating the legislation. The technical board proposed three possible options: an exclusively federal system in which the federal government would collect payroll taxes and provide uniform compensation to workers; a federal subsidy plan in which the federal government would collect payroll taxes and distribute them to states operating unemployment compensation systems according to acceptable national standards; and a federal tax-offset plan, comparable to the Wagner-Lewis bill, in which the federal government would assess payroll taxes but forgive 90 percent of them if employers paid required contributions to insurance systems set up according to each state's standards (Altmeyer, 1966:17). Since Roosevelt had virtually eliminated the possibility of an exclusively federal plan, the choice was really between the subsidy plan, which gave the federal government the power to regulate the states to insure uniformity in state laws, and a tax-offset plan, which gave the states greater flexibility in establishing their own programs.

The Advisory Council as a whole was divided and voted 9 to 7 in favor of the subsidy plan, which was unanimously favored by the employer members. They preferred the subsidy plan because it could incorporate contributions by both employer *and* employee into its format and "because they operated in many states and didn't want to be caught in the variations and the requirements of the separate states" (Altmeyer, *Memoirs*:151). In contrast, the tax-offset plan required only employer contributions. Employee contributions were viewed as a way of keeping employer costs down (Wilbur Cohen, telephone interview).

When it appeared that the CES favored the tax-offset plan, the employer members of the Advisory Council made several attempts to influence the direction of the proposed legislation. After a meeting between members of the Advisory Council and the CES in which it appeared that the CES was not going to take the Advisory Council recommendations seriously, members of the Business Advisory Council (which included Leeds and Teagle, who were also Advisory Council members) leaked a story to the *New York Times* reporting that the Advisory Council favored the subsidy plan and that this was an upset for the administration (*New York Times*, December 7, 1935). The employer members of the council also made a direct attempt to obtain the agreement of Witte and Stewart by inviting them to a private dinner at the Hotel Shoreham on December 6. As Witte (1963:60) recalls:

> I was invited by Mr. Teagle to have dinner with him that evening and found that all employer members of the advisory council were present, plus Dr. Stewart, and that the purpose of the meeting was to talk over the position the employer members should take on the several controversial issues affecting unemployment insurance. I excused myself as soon as I decently could do so following the dinner, but Dr. Stewart remained.

Finally, the BAC prepared a confidential memorandum entitled "Preliminary Memorandum on Unemployment Insurance" presenting their position, which was also leaked to the newspapers. Given a great deal of publicity, it caused the CES considerable embarrassment (Witte, 1963:90).

When the employers realized that the subsidy plan might fail, they expressed their concerns in a joint letter to Frances Perkins on December 15, 1934, proposing a substitute plan to reduce unemployment taxes for companies with low rates of unemployment, i.e., a system of merit rating. Companies that stabilized unemployment, they argued, should be rewarded by lower contributions to the fund, for if companies with lower unemployment rates were forced to subsidize competing factories or plants, "there would arise a species of unfair competition that might even force out of business the truly low cost concern" (Altmeyer Papers, 1934, CES File 1, Box 1). As Folsom explained in his defense of a plan that would penalize companies with high unemployment rates:

> We're saying that if the needle trades industry can't operate any other way besides having periods of idle time, that ought to be reflected in the price and charged to the consumer and not be made a burden on the other industries in the state . . . We say, it's the consumer's fault if they have this seasonal lay-off. Why not let the consumer pay for it? (Folsom, *Memoirs:* 105–106)

The idea of merit rating, which intensified individual employer responsibility for the operation of the economy, was favored by Roosevelt because it was the only part of the entire social security measure that provided employers with incentive to reduce unemployment. Initially rejected by the House Ways and Means Committee, it was unanimously restored by the Senate Finance Committee and further liberalized to favor monopoly industries. In its restored form there were fewer limitations on additional credits for employers, and states were not required to establish pooled funds (Witte, 1963:141).

The employers did lose a major battle, because the subsidy plan they favored, which ensured uniform costs and allowed the possibility of employee contributions, was not adopted by Congress. The inclusion of merit rating, however, did provide more stable companies a distinct advantage over companies with greater yearly fluctuations in unemployment rates. According to Schlesinger (1958:314), "merit rating increasingly placed the burden of unemployment compensation on the industries least able to bear it; costs which might have been socially distributed were instead assessed in a way which further weakened the already weak." When the merit-rating clause was introduced into the bill, the employers were reasonably satisfied and dropped their support for the subsidy plan (Wilbur Cohen, telephone interview).

Why did the employers lose the battle for the subsidy plan? The main reason was the heated opposition from manufacturers' associations, such as the National Metal Trades Association (of which United States Steel Corporation was not a member), the Illinois Manufacturing Association, the Connecticut Manufacturer's Association, and the Ohio Chamber of Commerce, who represented manufacturers in highly competitive industries. One concern of these manufacturers was that numerous other costs could still vary from company to company, depending on such factors as prevailing wage rates and access to raw materials, even though welfare costs might be equalized. Further, monopoly industries had a buffer that protected them from the costs of the proposed taxes in the form of a greater percent of working capital beyond payroll costs, whereas nonmonopoly manufacturers were unlikely to have cash working capital greater than 10 percent of the total annual payroll. According to Illinois Manufacturing Association representative John Harrington (U.S. Senate Committee on Finance, 1935:686), "50 percent of the manufacturers in Illinois are today reduced to a hand-to-mouth basis as regards cash-working capital." These companies also had a poorer ability to pass the taxes on to the consumer; since this involved a period of adjustment they would have to finance themselves out of their immediate working capital.[3] Finally, businesses that were primarily local wanted direct assurance that unemployment benefits would not undermine prevailing minimum wages. Thus, they argued "that a person who declines to accept the wage provided in the minimum wage laws or in industry in which a minimum wage agreement is in effect, should not be a beneficiary of the fund" (Testimony of George Chandler of the Ohio Chamber of Commerce, U.S. Senate Committee on Finance, 1935:1104).

While nonmonopoly companies preferred no legislation, if legislation was inevitable, then they argued for as much state control as possible. The legislation that was eventually passed reflected the sensitivity of congressmen to the local business community, whose support was more critical for their continued political survival than that of monopoly capitalists operating on the national political scene.

Monopoly capitalists could use direct intervention with national state managers to shape federal welfare programs to conform to business standards, whereas companies in the competitive sector of the economy asserted their different goals through political pressure on their congressional representatives. Clearly, there can be no single one-to-one relationship between the interests of capitalists and the form of the state when different groups within the business community disagree on economic goals. Each group may exert political influence, but the means at their disposal varies. State managers, who vary in their position in the state hierarchy, have different constituencies to respond to and different barometers of business confidence to weigh in decision making.

The Southern Compromise

As of 1935 no Southern state had passed any pension legislation, and the aged poor in the South had only the poor law. Because both the unemployment title and the old age insurance title of the Social Security Act excluded agricultural and domestic labor and because approximately three-fifths of all black workers were employed in these categories, most black workers were not covered by either program (Wolters, 1975:194).[4] The structure of the legislation left most black workers with old age assistance as the only source of support.

Southerners, who packed the powerful House Ways and Means Committee, raised the greatest objections to the old age assistance title, which threatened to set federal standards that would intervene in existing local regulations. The particular focus of concern of Southern congressmen was a clause specifying that states had to furnish assistance sufficient to provide "a reasonable subsistence compatible with decency and health." High rates for old age assistance grants would, they feared, subsidize the children of aged blacks, who would then be more independent and less willing to perform farm labor for low wages (Roosevelt Papers, Official Files 494a, Box 1). Further, Southern industrial wage scales, which were in fact considerably lower than Northern wage scales, could also be undermined. For example, the ratio of payrolls to the value of output was 33.9 percent in Massachusetts, but only about 25 percent in Georgia, North Carolina and South Carolina in cotton manufacturing (Mulford, 1936:17).

In response, black leaders argued for greater federal control of standards, explaining that, "In many communities there is a prevailing idea that Negro persons can have such a reasonable subsistence on less income than a white person," and that local standards would become the rationale "to give less assistance to aged Negroes than to aged whites" (U.S. Senate, Committee on Finance, 1935:489). Further, the residence requirements for OAA were likely to be particularly unfair to blacks engaged in migratory labor since they could be used to deny benefits. Southern congressional support, however, was necessary for passage of the act, and blacks had no political power. The "decency and health" provision was eliminated, leaving the states free to pay pensions of any amount and still recover 50 percent of the costs from the federal government. States were also granted the right to impose additional provisions to make criteria for eligibility more stringent than those stipulated in the bill. Finally, unlike OAI, recipients of OAA could remain in the labor force as long as their wages were low enough for them to qualify for assistance under locally established criteria. Thus, OAA could be used as a supplement to earnings and continue to function as a traditional form of labor control.

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[3] A study conducted by the Bureau of Research and Statistics in 1936 concluded that "there is a basis for the claim of inequality in the pay-roll taxes . . . between major industries." The profits of industry would not be seriously affected, however, because "ultimately it is believed the employer's share will be practically entirely passed in some manner either to the consumer in the form of higher prices or back to labor in the form of suppressed wages" (Mulford, 1936:38).

[4] Austria, Belgium, Bulgaria, Czechoslovakia, France, Great Britain, Italy, the Netherlands and Spain all had coverage for agricultural workers and domestics in their pension plans (U.S. Senate, Committee on Finance, 1935:51).

The absence of state pensions in the South rather than the presence of state pensions elsewhere was the more significant factor in shaping national legislation. It was not an entrenched bureaucratic structure but an entrenched planter aristocracy that made OAA a locally administered program.

The Aftermath

A poll taken by *Fortune* magazine in 1939 asked businessmen to evaluate the New Deal. Overall, business reaction to the Social Security Act was moderate. Only 17.3 percent felt it should be repealed, while 2.43 percent were satisfied with it in its present form and 57.9 percent wished some modifications (*Fortune*, 1939:52). In contrast, over nineteen percent wanted to see the Federal Housing Authority repealed, 21.4 percent the Wages and Hours Law, 44.4 percent the Works Progress Administration, 40.9 percent the Wagner Act, and 66.2 percent the undistributed-profits tax (*Fortune*, 1939:52). None of those who wanted the Social Security Act repealed were large manufacturers (*Fortune*, 1939:90).

Big business had good reason to react positively. When the Social Security Board faced its first major task of establishing 26 million accounts for individuals, they consulted with BAC members, and Marion Folsom helped plan the creation of regional centers. In July the board, assisted by the BAC, hired the director of the Industrial Bureau of the Philadelphia Chamber of Commerce to serve as head registrar, and the BAC insisted on starting registration as soon as possible (McKinley and Frase, 1970:347). At the suggestion of Gerard Swope, J. Douglas Brown was appointed chair of the new Advisory Council (Brown, 1972:23). Thus, businessmen helped select the personnel for a major federal welfare program.

Businessmen also found that there were decided benefits to the legislation. Folsom (1939:42) wrote an article explaining how he integrated the Eastmen Kodak pension plan with social security:

> We adjusted our plan so that the cost to the company remained practically the same as before and the employee received the same benefits from the company contribution he previously received, part coming from the Government and part from the insurance company. We have since 1936 adopted supplementary plans for several subsidiary companies.

According to Folsom (1939:41), pensions were good business, for they allowed employers to eliminate the hidden pension costs of keeping on older employees, and the help afforded by the Social Security Act allowed Kodak to extend its coverage to its subsidiaries, secure in the knowledge that competing companies had the same costs.

The strongest reactions against the Social Security Act came, not from the business community, but from those who had advocated more radical measures. Members of the American Association for Social Security claimed that many states had turned "their old age pension system into sinks of corruption," that the residency requirements had to be changed "to permit pensioners to migrate freely from state to state without loss of pension privileges," that the benefit structure was inadequate and did not include wives of pensioners, and that it was "socially unfair and economically dangerous for the government to shift its responsibility for the accumulated burden of old age dependency to the workers" (Epstein, 1938:2–3). The 1939 amendments to the Social Security Act increased the size of benefits, extended them to dependents, and advanced the date on which they were to begin. They were supported by social-insurance advocates who found themselves curiously aligned with members of the Business Advisory Council and the insurance industry.

What led business leaders to support expansion of the program? The critical issue was the impact of the build-up of the large reserve of accumulated insurance funds on the economy. Between 1935 and 1938, welfare capitalists Leeds, Filene and Dennison did a study of the causes of the Depression. In their report, entitled "Toward Full Employment," they advocated a Keynesian solution based on compensatory fiscal policy (Brents, 1983a:17). Insurance executives also expressed concerns about the build-up of a huge reserve on the grounds that it would induce unwarranted expansion of the program (U.S. Congress, Senate Committee on Finance, 1937:14–15). The passage of the 1939 amendments mollified social-insurance advocates' demands for liberalization of benefits, while simultaneously reducing the amount of the full reserve.

CONCLUSION

Several conclusions about how economic power gets translated into political power can be drawn from this analysis. In regard to corporate liberalism, there is certainly ample evidence in the historical record of substantial welfare-capitalist involvement. Business executives had a direct impact on the Social Security Act by serving on policy-forming committees and by testifying before Congress. They also exerted influence in a less formal manner through a variety of interactions with state managers who held varying degrees of power. Tactics included informal discussions with Roosevelt and committee members, letter writing, proposal development, and attempts to coopt lesser figures.

Although these business executives were directly involved in the policy-formation process, they were only partially successful in influencing the shape of legislation. Their lack of success on the issue of unemployment insurance in particular reflects the divergence in interests between monopoly and nonmonopoly companies. Monopoly corporations, which operated on a multistate and often multinational basis, were unconcerned with traditional means of labor control reflected in state and local welfare policies, such as unemployment and old age pension laws, because many had already implemented more sophisticated measures through company-sponsored unemployment and pension schemes. In contrast, businesses operating in highly competitive markets with great seasonal or cyclical fluctuations and lesser amounts of working capital feared losing the more traditional labor-control mechanisms that supported the needs of local economies. They also feared the imposition of taxation which would further hamper their ability to compete. Not having direct access to national state managers, they pressured their congressional representatives and fought to keep the proposed welfare legislation under state rather than federal control.

In a hierarchical state structure, capitalist groups with varying economic interests exerted their influence at different levels in the hierarchy. State managers could not act autonomously, but were, as Block (1977b) has argued, highly responsive to business confidence. Business confidence, however, was not a single variable. National state managers operating within the broad constraints of the economic crisis of the Depression were more immediately responsive to the goals of monopoly capitalists, but the implementation of those goals was confined within the parameters of a federal system in which nonmonopoly corporations could exert pressure on local state managers. Since no legislation could pass without congressional support, a "states rights" agenda served to maintain the confidence of the rest of the business community. Economic power, then, gets translated into political power through the direct intervention of corporate liberals and through the hierarchical structure of the state, which allows competing factions to petition state managers for direct agendas in social policy. State managers' concerns with business confidence are not just reflected in their sensitivity to the determinants of investment decisions; rather they are directly expressed in political decisions resulting from direct pressures from factions that organize.

This analysis also demonstrates the inadequacy of Skocpol's model (Skocpol, 1980; Skocpol and Finegold, 1982; Skocpol and Ikenberry; 1982), which argues that organizational or administrative factors such as patterns of political party organization, degree of bureaucratization or the presence of existing state programs are primary policy determinants. The fact that states had local poor laws, pension plans, and unemployment insurance proposals already in operation or pending was a factor in shaping the outcome of the Social Security Act. But by 1935 few states were actually giving out old age pensions and only Wisconsin had actually implemented unemployment insurance. The reason why there was such concerted resistance to the idea of federal intervention was because of the threat such intervention posed to local control of labor. More important than existing bureaucratic structures were political pressures exerted by locally dominant economic interest groups. Dominant groups won't support state actions that aren't in their best interests, and state actions cannot succeed without this support. Political structures simply cannot be analyzed as autonomous entities but must be considered in terms of their underlying economic dimensions.

It is also important to explain why a piece of legislation with such a high level of "class content," i.e., a social-welfare measure, was implemented with almost no working-class input. This can be partially explained by the fact that the pension debate was structured around age-based rather than class-based issues. The Townsend movement, not organized labor, was the source of pressure for reform, and the argument the Townsendites used to advocate a national pension did not challenge the prevailing ideology on how to resolve the crisis of the Depression. According to Townsendite arguments, pensions would preserve the free-market system by stimulating the economy through the expansion of purchasing power. Organized labor, ambivalent about the benefits of a national welfare system, focused its concerns instead on issues more directly involved with organization maintenance and never supported a radical alternative that could have expanded the limits of the debate and led to a major redistribution of income. Thus, state managers remained free to lay the groundwork for a social-welfare program that could sustain and enhance the conditions for capitalist economic activity. Their mediating or organizational function was not between workers and capitalists but between divergent groups within the capitalist class.

The most complex issue to resolve still is whether class interests are imbedded within the state or whether various factions operate outside the formal structure of the state. What was at stake in the debate surrounding the Social Security Act was the nature of the state itself. Organized labor, nonmonopoly capital, and Southern agricultural interests were struggling to keep social-welfare measures outside the jurisdiction of the state, whereas a core group of influential monopoly capitalists, national state managers and various citizen coalitions argued for increased centralization. The outcome of this battle was a reorganization of the state in a manner that expanded its role and incorporated previously fractionated interest groups more firmly within its jurisdiction.

In the final analysis, this case study provides substantial support for Poulantzas's thesis that the state functions as a mediating body, weighing the priorities of various power blocs within it. While Block's distinction between corporate leaders and state managers is relevant, state managers do not respond to a unified set of concerns centering solely around business confidence. Rather they are responsive to the interests of competing factions unequally represented within the state. Dominant economic interests operate at a higher level within the state hierarchy, giving them greater access to decision makers. This fact has provided ample ammunition for corporate liberal arguments, for direct intervention by monopoly capitalists is often most visible. Corporate liberal arguments cannot explain why these interventions sometimes fail, however, because corporate liberalism underestimates the weight other power blocs carry. The state mediates between various interest groups who have unequal access to power, negotiating compromises between class factions and incorporating working-class demands into legislation on capitalist terms.

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