

Varieties of Capitalist Interests and Capitalist Power: A Response to Swenson

Jacob S. Hacker, *Yale University*
Paul Pierson, *Harvard University*

We welcome Peter Swenson's provocative and important article published in these pages, "Varieties of Capitalist Interests: Power, Institutions, and the Regulatory Welfare State in the United States and Sweden" (spring 2004). Like his broader corpus of work, Swenson's argument is engaging, informed, and, to us at least, fascinating. It is also, however, extremely critical of arguments we have made about the role of business in the development of the American welfare state, some of which disputed Swenson's account of employer influence during the formation of the 1935 Social Security Act.¹

Swenson's response to our arguments is lengthy, and a point-by-point rebuttal would be tedious for all involved. More important, it would be largely beside the point, as none of Swenson's ingenious reply truly challenges our most fundamental claim – that a sharp decline of business power enabled the passage of the Social Security Act. Nor does Swenson successfully rebut our main concerns with *his* core claim – that he vastly understates the role of this decline in power (and the political shifts that precipitated it), and vastly overstates the role of New Dealers' anticipation of leading capitalists' interests, in enabling and shaping the Social Security Act. Indeed, in throwing up a dense new thicket of historical findings, Swenson not only bypasses our core empirical argument, but also ends up illustrating our central methodological claim: that the recent proliferation of historical ma-

terial about the early development of the American welfare state will not settle fundamental questions about causal dynamics without proper attention to basic issues in the assessment and study of power.

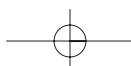
I. WHAT WE ARGUED

In our article, "Business Power and Social Policy," we advanced two lines of argument. The first was concerned with the theoretical and methodological grounding needed to undertake investigations of political power. The second applied the insights won from this initial analysis to the early development of the American welfare state.

We began the article by distinguishing between two basic forms of business power: *instrumental* power gained through direct lobbying and pressure, and *structural* power enjoyed by virtue of employers' distinctive control over jobs and investment, which creates an automatic signaling device that politicians are encouraged by electoral pressures to heed. We then married this longstanding – but, today, mostly ignored – conceptual dichotomy with insights from institutional analysis. Building on research by David Robertson and others, we argued that the uniquely decentralized organization of American federalism prior to the Depression greatly accentuated the structural power of business.² Decentralization created fear of capital flight on the part of state policymakers when policies that might hurt the profits of large numbers of business firms were under consideration.

1. Jacob S. Hacker and Paul Pierson, "Business Power and Social Policy: Employers and the Formation of the American Welfare State," *Politics and Society* 30 (2002): 277–326. The previous works to which our article, in part, responded are Peter Swenson, "Arranged Alliances: Business Interests in the New Deal," *Politics and Society* 25 (1997): 66–116; and *Capitalists against Markets: The Making of Labor Markets and Welfare States in the United States and Sweden* (New York: Oxford University Press, 2002).

2. David Brian Robertson, "The Bias of American Federalism: The Limits of Welfare State Development in the Progressive Era," *Journal of Policy History* 1 (1989): 261–91; David A. Moss, *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy* (Cambridge, MA: Harvard University Press, 1996).



Most welfare-state policies, we argued, were severely hampered by this fear. We demonstrated the crucial role of business's structural power during this period using a range of evidence: statements from state legislative debates, the energetic pursuit of social compacts among the states, the pattern of social policymaking at the state level, and the extensive policy interventions in areas where state action did not threaten profits.

Much of this changed, we argued, in the 1930s. The severe economic crisis that worsened through the early 1930s, coupled with the massive political victories of Democrats, shifted the locus of social policymaking to the federal level. This shift greatly reduced the threat of exit and, hence, the structural power of business. To be sure, employers scarcely became politically impotent, but they did have to rely far more heavily than in the past on their instrumental lobbying power. Moreover, they did so in a political environment characterized by relative organizational weakness on their part, divisions among business sectors, widespread public mobilization, and well-organized populist challenges, such as the Townsend Movement for old-age pensions. The result was that items moved onto the policy agenda that nearly all business leaders had opposed in the past and which nearly all organized business groups opposed at the time. Some segments of business, of course, were less hostile to the Social Security Act than others. In general, however, business leaders found themselves operating in a climate of diminished influence, selecting from a list of options not of their own choosing. In sum, the decline in the general veto power of business, prompted by the nationalization of political power in response to the massive electoral victories of the Democrats, enabled passage of the Social Security Act of 1935.

II. IMPLICATIONS FOR THE ANALYSIS OF BUSINESS POWER

From this foregoing summary, it should be clear that our thesis is not simply concerned with the New Deal period, much less with Swenson's interpretation of it. We looked across more than a half-century span, stretching from the late nineteenth century to the years immediately after World War II, precisely in order to show that what distinguishes early American welfare state-building is not business strength or weakness but marked variation in business power over time. In doing so, we cast our argument in important part as a criticism of prior *institutional* analyses, particularly of the pre-New-Deal period – which, we claimed (in sympathy with Swenson), had paid insufficient attention to the power of business, or to the ways in which political institutions shaped and mediated it.

At the same time, however, we challenged the ex-

tensive scholarship that argued for the importance of business's instrumental power during the New Deal. Most of this work, we felt, misused historical materials to vastly overstate the ability of crafty corporate leaders to shape key features of social legislation. Our disagreements with this influential vein of argument were embodied in a series of propositions about the study of political influence. These propositions, we believed, would help protect scholars against common pitfalls that attended the use of the historical record to make causal inferences about power relations.

The first, and most important, of these propositions is that analysts of power need to take into account agenda control and alternative specification in judging the influence of contending actors. Consider Figure 1, drawn from our article, which describes a continuum of options stretching from those most preferred by one side of the debate (A) to those most preferred by the other (B). In this simple representation, it makes a profound difference whether the alternatives from which A and B choose are A_1 and A_2 or B_1 and B_2 . If the choice is between A_1 and A_2 , both options more favorable to A than to B, one would make a huge mistake to assume that B won out because the eventual option selected was A_2 – was merely the better of two bad options for B.

Yet this is precisely what most of the work on business influence during the New Deal has done (and, we will argue, Swenson also does, though in somewhat different fashion). Scholars go to huge pains to demonstrate that business leaders shaped the details of this or that amendment or bill, failing to investigate the underlying issues of whether they were choosing among second-best options and how far from their true preferences the option ultimately selected lay. Our crucial point was that, during the debate over the Social Security Act, even supportive business leaders (and certainly the vast majority who were actively opposed) were usually choosing from among what they regarded as inferior options. To the extent that they steered legislative details in their favor – and, as we demonstrated in our article, the evidence of direct influence is notable for its thinness – they overwhelmingly did so to prevent worse alternatives from being realized.

Along similar lines, we further argued that this caution made it imperative that analysts of business influence – and indeed, of relations of power in general – specify as best they could the underlying aims of leading political contestants. Much of the scholarship arguing for the direct influence of business proceeds relatively atheoretically, retrospectively inferring preferences from business actions or public statements. Demonstration of *some* business support for *some* aspects of the Social Security Act, in this approach, is sufficient to show that business got what it really wanted, when in fact, for all the reasons just discussed, it cannot by itself show any such thing. In this

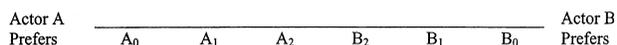
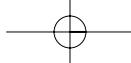


Figure 1. Ranked Policy Preferences of Two Political Actors

crucial respect, Swenson is to be commended, for he offers a careful account of business preferences that purports to identify why some large employers (so-called “segmentalists”) would gain from New Deal labor market and social policy reforms.

Our final warning was that after-the-fact business support or acceptance of a policy was consistent with several alternative interpretations of the relationship between business preferences and that policy *prior* to enactment. Here, we quoted Stigler’s capture theory of regulation as an example of the confusion that a single-minded focus on after-the-fact effects can create. Stigler writes: “Truly intended effects [of a policy] should be deduced from the actual effects.” Effects do, of course, tell us something about intentions. Some effects, however, are unintended, and many more are only partially foreseen. Moreover, even if all a policy’s effects are foreseen and intended, post-facto support of a policy does not prove pre-enactment congruence between actors’ preferences and intended effects. This is the case because support of a policy after the fact, as with support during the heat of legislative battles, may reflect strategic acquiescence – the realization that, in the present context, it cannot be overturned. It can also reflect the reciprocal effect of a policy on the interests or organization of actors themselves. Policies *create* politics – by, for example, fostering supportive groups, administrative organs, and public preferences – as well as reflect politics. Finally, after-the-fact support might indicate not the victory of subsequently supportive actors *at the time of passage*, but rather their ability to shape the implementation and development of the law *after passage* – a very different process.

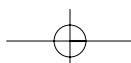
To sum up our message to students of business power, then, we argued for the importance of clearly distinguishing different possible mechanisms of employer influence (structural and instrumental), systematically considering the role of agenda setting and anticipated reactions, and recognizing the dangers of interpreting *ex post* acceptance as clear evidence of *ex ante* interests. We also argued that it was essential to generate observable implications of competing causal interpretations consistent with these considerations. Further, we argued for the considerable advantages of examining policy development over the long-term (in our case, roughly 1910 through 1950), precisely so that arguments about changing structural conditions, loss of agenda control, and adaptation to new circumstances could be scrutinized.

III. HOW OUR ARGUMENTS RELATE TO SWENSON’S CLAIMS

Those are the main outlines of argument, and we appreciate the opportunity to reiterate them here. Yet some of the claims that Swenson attributes to us in his article have only a tenuous connection to what we argued. We have no commitment, for example, to what Swenson calls the “equivalency premise” – the idea that business (and labor) interests are identical across nations and/or over time, making changes in the balance of class power the prime source of welfare state development. Although the historical puzzle that we addressed was the comparatively late development of the American welfare state, we used comparisons across policy areas *within* the United States (for example, between social welfare policies and developmental policies) and *over time* to establish our claims, rather than parallel treatments of contrasting cases. Thus, we had no opportunity or motive to argue in favor of the cross-national equivalency of employer interests. However, all of the propositions that we did establish – that by the 1930s employers no longer had the impersonal check on action that their structural power at the state level had provided; that they did not set the policy agenda or dictate the main alternatives on the table; that there is overwhelming evidence of widespread business opposition to the Social Security Act, both in public statements and in private and retrospective assessments; and that the direct influence of employers on key portions of the Act was far more limited than most accounts emphasizing business influence have suggested – make it clear that the potential scope for any explanation emphasizing a massive interest shift to account for the Social Security Act is comparatively limited.

In Swenson’s eyes, our contention that employers operated from a political disadvantage boils down to the naive claim that “those few prominent capitalists who expressed sympathy for reform did so only to be invited into deliberations about the legislation, and thus to be in the position to make it as benign as possible.”³ This is a claim we did not, and would not, make. Our argument is much more straightforward, and it goes to the heart of Swenson’s evidence and arguments. It consists of two parts. First, we claim that employers faced a political situation in which some options (such as inaction or a set of publicly overseen private codes of conduct) were no longer on the table, while others pushed by populist forces that sought ends most business leaders feared were. As a result, even the positions of vocally sympathetic employers – of which, the historical record makes clear, there were few – were colored by the larger political reality that some social reforms were destined to pass.

3. Peter Swenson, “Varieties of Capitalist Interests: Power, Institutions, and the Regulatory Welfare State in the United States and Sweden,” *Studies in American Political Development* 18 (Spring 2004): 1–29.



Second, we contend that however this context affected business strategies, the alleged ability of New Dealers to respond to “signals” sent by the handful of less hostile employers rested on the transparent political weakness of the overwhelming numbers of employers and business groups vocally opposed to the Social Security Act.

Let us elaborate on these points, for they are our most important and Swenson spends surprisingly little time addressing them in his lengthy response. Swenson’s key argument is that New Dealers – primed from their past interactions with business to see through the apparently unbreakable wall of organized corporate opposition – aggressively and extensively responded to favorable signals from capitalists that stood to benefit from the Social Security Act, with the goal of heading off potential opposition to the law after its passage. As we showed in our article, Swenson can marshal only the sketchiest evidence that New Dealers were thinking along these lines at the time, or that where they did, it had much influence on their legislative agenda. But in any event, there is a much more fundamental problem with Swenson’s claim. Even if he could show that New Dealers had the motives he identifies, that would not change the basic fact that the signals sent by this small constellation of supportive employers were rooted in a hugely disadvantageous strategic situation – one that deeply shaped the alternatives that they supported and their ability to achieve them.

Swenson implies that for large “segmentalist” employers with extensive private benefits and above-market wages, the compulsory social insurance programs of the Social Security Act were not just the best they could have hoped for under unfavorable political circumstances. Rather, it was what they truly preferred – or would have preferred, if they had not been “temporarily stupefied by ideology and inexperience” but instead had the “clear and objective view” of the handful of corporate liberals.⁴

Yet this is to miss essential features of a stunning new political landscape, a landscape over which Swenson passes almost without comment. With Democrats holding huge margins in Congress, the Depression worsening, and populist challenges mounting, employers were pressed to choose among a set of more or less interventionist government responses – not between action and inaction. Business representatives frequently called for “delay” and “slow movement” – the classic pleas of opponents who know they are on the political defensive. Failure to do anything was simply not an option once outside pressures had pushed social insurance and other reforms onto the agenda.

In short, by bringing the Democrats to power and shifting policymaking to the federal level, the Depression also shifted the agenda of policy options

4. Swenson, *Capitalists Against Markets*, 209-10.

sharply away from the non-interventionist orientation that had marked previous rounds of business-dominated policy debate at the state level. Whatever influence can be shown to have been wielded by the small group of business leaders who were sympathetic to the Social Security Act, whatever effort was made by New Dealers to anticipate these far-sighted leaders’ preferences, the substantial decline of business power that resulted from these dramatic shifts was a precondition for it. “No massive decline of business power, no Social Security.”⁵

Before moving on, we should admit that while Swenson expends much energy criticizing this important claim, we are not entirely certain that he disagrees with it. In his recent *Capitalists Against Markets*, for example, Swenson writes of the New Dealers:

The reformers were not, to be sure, 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. What they sought in responding to those pressures was post facto cross-class alliances, and therefore durable, politically robust legislation.⁶

The implication of this giant caveat seems to be that the policy agenda was *not* set by business leaders, even sympathetic ones, in the 1930s. This is precisely what we argued, and, as we have argued, it carries huge implications that Swenson does not confront.

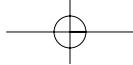
Nor does Swenson, in his *Studies* article, dispute the veracity of the assessment we cite by Kodak-Eastman Treasurer Marion Folsom, the lead business figure among his *dramatis personae* of corporate liberals, that “only about five per cent of employers” were for “anything along the lines of Social Security.” Perhaps this is why, in his otherwise hard-hitting article, Swenson ends by noting that: “All this *probably* explains the Social Security Act better than a sudden loss of capitalist power.”⁷

However, if Swenson accepts that the options on the table were not of business’s choosing, that the number of sympathetic employers was very small, and that any influence they wielded was wielded precisely because the *overall* influence of employers had sharply declined, then his argument is severely compromised. If these propositions are true, as our article strongly indicates they are, then Swenson has not truly challenged our fundamental point, which is also the most important point for judging the influence of employers on the Social Security Act: that a major decline in overall business power permitted New Dealers to lay the foundation of the American welfare state.

5. Hacker and Pierson, “Business Power and Social Policy,” 309.

6. Swenson, *Capitalists Against Markets*, 194.

7. Swenson, “Varieties of Capitalist Interests,” **TK** (emphasis added).



IV. HOW POWER ANALYSIS COMPROMISES SWENSON'S EVIDENCE

Indeed, we would go further: The loss of employer control over the political agenda is not simply at odds with Swenson's thesis that the Social Security Act was highly consistent with the interests of important segments of the business community; it also clouds all of the evidence that Swenson adduces in favor of it.

Swenson believes that the signals that sympathetic employers sent to New Dealers were sincere – and, in fact, may well have understated their support for the Social Security Act. Yet it is crucial to recognize that even among the most sympathetic group of employers, the choice was never between no bill and the Social Security Act. It was between the Social Security Act and other politically feasible responses to the exigencies and populist demands of the Depression. Compared with the more radical options on the table in the early 1930s, the Social Security Act undoubtedly appealed to some large employers. Yet this decidedly does *not* mean that it represented their first choice – or even one of the more favored choices – among the entire universe of potential options that might have been on the table under less politically adverse circumstances.

New Dealers well understood this. Swenson provides virtually no direct evidence for his claim that they acted on the basis of their fear of an eventual business backlash against the Social Security Act. (Nor, we should note in passing, is it clear why they would base their judgments about employers' *long-term* response to New Deal reforms – a response only relevant because they expected it to endure after the Depression passed – on signals that employers sent during an period of atypically severe economic distress.) By contrast, there is abundant evidence that New Dealers played up the threat of more radical alternatives in nearly every interaction they had with business representatives. As Edwin Witte, staff director of the CES, warned business leaders in April 1935,

Whether business wants it or not, a federal old age pension bill is certain to be enacted by the present Congress and unemployment insurance is not far off. The real question is whether legislation along these lines shall be constructive or destructive. Through opposing all action business interests are inviting extreme and unsound legislation on these subjects and other aspects of economic security.⁸

The fact that business was choosing among a restricted list of alternatives compromises even the seemingly "hardest" evidence that Swenson offers in

8. Edwin E. Witte, "The Social Security Act and the Business Men" (address to the Minneapolis Civic and Commerce Association, 18 Apr. 1935), 1, General Records of the Executive Director and Staff, CES, Box 3, National Archives and Records Administration, College Park, MD.

support of his thesis. Consider, for example, the cost estimate regarding Old-Age Insurance (OAI) – the public retirement portion of the Social Security Act – that we and Swenson both cite. These estimates were prepared for a business consulting firm by Murray Latimer, an architect of OAI and pension policy expert who moved back and forth between the public and private sectors. As Swenson notes, they showed that it would cost less for employers to integrate their private pension plans with OAI than to provide the same benefits privately: "[T]he price for private insurance was . . . 33 to 100 percent more than what OAI was going to charge to guarantee the exact same benefits their workers were to receive with OAI."⁹

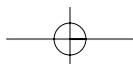
In all of these calculations, as Swenson's own italics emphasize, Latimer is comparing the integration of private plans and OAI to the provision privately "*of the exact same benefits their workers were to receive with OAI.*" Yet without a federal social security program, there would of course have been no requirement that employers provide comparable private benefits. Latimer's comparison – prompted by the so-called Clark Amendment, which would have allowed employers operating private plans *as generous as OAI* to "opt out" of the federal program – simply took for granted that employers would be required to provide privately the same level of pension protection that OAI delivered publicly.¹⁰

To be sure, some employers in the 1930s had private pension plans that were already comparably generous. But, as we demonstrated, the number of such employers was likely miniscule. Not only was the overall number of pension plans relatively small at the time, but in addition, most private plans in the 1930s – even the most generous – were far inferior in their scope and generosity to OAI. Federal OAI imposed a fixed 2 percent payroll tax divided equally between employers and workers (originally slated to rise to 6 percent in 1948). By contrast, the best early study of private pensions estimated that, in 1927, "pension payments represented less than 1 percent of current payrolls *of the establishments maintaining pension systems.*"¹¹ Not surprisingly then, a 1939 analysis by the economist Paul Douglas concluded summarily that "the benefits provided by the existing private plans

9. Swenson, "Varieties of Capitalist Interests," TK.

10. Indeed, given that the Clark Amendment threatened such massive requirements on employers, inviting extensive federal scrutiny of their private plans, what is perhaps most surprising is not that large employers with private plans eventually lost interest, but that 145 companies initially backed the Amendment, including Gulf Oil, Kimberly-Clark, C & H Sugar, Jantzen, and even Folsom's Eastman Kodak Company. "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, Murray Latimer Papers, George Washington University, Washington, D.C.

11. Murray W. Latimer, *Industrial Pension Systems in the United States and Canada* (New York: Industrial Relations Counselors, Inc., 1932), 231 (emphasis added).



are, in the great majority of instances, inferior rather than superior to those promised under the [Social Security Act].”¹²

Thus, even for the small segment of the business community that maintained private plans, the Social Security Act was generally not a cost-free proposition. True, it helped them provide more, but it also *required* they provide more. Add to this the fact that OAI entailed a loss in managerial discretion over a large share of benefits for a large share of their workers – not to mention the inherent risk of government profligacy and mismanagement against which businessmen constantly railed – and it is extremely difficult to believe that even the small segment of the business community that already operated private plans overwhelmingly considered it a first-best option.

E. E. Schattschneider once wrote that “the definition of the alternatives is the supreme instrument of power,” and at least since then, political scientists have recognized that analyzing only conflicts over alternatives once they reach the political agenda misses the fundamental issue of whether the alternatives on the table are more or less favorable to one side in the debate. Yet that is exactly what Swenson does, and as a result, he vastly overstates the power that sympathetic employers wielded.

V. ANTICIPATION AND AFTER-THE-FACT SUPPORT

Swenson does not effectively dispute our claim that employers operated from a severe political disadvantage, much less provide strong evidence that on key issues of policy design, New Dealers were principally interested in heading off future business backlash. What, then, is the basis for his confidently expressed thesis about the intense desire of New Dealers to accommodate large employers’ anticipated interests? As we argued in our article – in conjunction with our third methodological warning about the (mis)interpretation of after-the-fact support – much of the force of Swenson’s claims stems from his documentation of a surprising degree of business support for key elements of the Social Security Act in the decades *after* its passage. Yet this is precisely the sort of evidence that we contend historically minded social scientists must treat extremely carefully. In our article, we showed (using recollections of participants as well as primary and secondary historical materials) that Swenson greatly overplays his hand in two respects. First, business support for the Social Security Act was not as quickly forthcoming as Swenson argues. Second, and more important, it was not nearly as unambiguous in its meaning as he believes.

For Swenson, the growing-after-the-fact acceptance of the Social Security Act by business is clear evidence

of his claims about New Dealers’ “arranged alliances.”¹³ Yet Swenson all but ignores what was actually going on politically after the Social Security Act passed. Subsequent business failure to challenge the Social Security Act did not self-evidently signal business’s satisfaction with the law. It also evidenced recognition of the broad popularity of the legislation, as well as the unfavorable legislative climate for such changes during a period of Democratic ascendance.

Moreover, the growing support for the Social Security Act, and particularly for old-age insurance, among large employers stemmed in part from organized labor’s mounting pressure on these employers to expand pensions for blue-collar workers *during the 1940s*. It also reflected quite assiduous efforts on the part of employers – again, *after 1935* – to shape the climate of laws governing their use of private pensions to supplement Social Security, a practice that was only sanctioned by federal tax law in the early 1940s.

But we do not need to delve into the 1940s and 1950s to cast doubt on Swenson’s case. There is plenty of reason for doubting this thesis in the historical record of the 1930s. We have already noted that, at the time, employers with private plans were choosing from a highly restricted list of options. Yet it is also crucial to recognize how few such employers there were. Employers with private plans outside of the railroads (which were subject to a separate program, already passed) represented a minuscule portion of the overall business community, employing at most 5 percent of the civilian workforce. Rainard Robbins, who wrote a confidential report for the Social Science Research Council after passage of the Act (which Swenson and we both cite), confidently estimated that by talking with just forty or so employers, he reached firms employing “more than 50% of those covered by retirement plans in industry with railroads omitted.”¹⁴ However much new evidence can be brought to bear on the question of whether employers with private plans anticipated the effects of OAI, the fact remains the employers that are the object of this blizzard of historical details represented only a tiny fraction of corporate America.

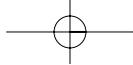
How much, within this small group, was anticipated in advance? We did not claim, as Swenson writes, that the consequences of the Social Security Act for existing benefit plans were “anticipated by neither reformers nor corporate American until after passage and implementation.” Our exact statement was that these effects were “partly anticipated, partly unexpected, and partly the result of business-friendly policies passed after 1935.”¹⁵ Some business repre-

13. This is, of course, the title of Swenson’s 1997 article cited earlier.

14. Robbins, “Confidential Material Collected on the Clark Amendment.”

15. Hacker and Pierson, “Business Power and Social Policy,” 310.

12. 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.



sentatives and policymakers certainly did recognize that one way that businesses operating private pension plans could adjust to OAI was to supplement its benefits with private pensions. Initially, however, there was true confusion among many sponsors of private plans about what the best course of action would be. Robbins's report notes that fully twenty-seven of the forty-two employers that planned to maintain their private plans were "still uncertain as to what they shall do" a year after the Act's passage.¹⁶ Indeed, it was not until the Revenue Act of 1942 that Congress officially sanctioned the increasingly common practice of "integration," whereby employers that operated tax-favored plans reduced their benefits for rank-and-file workers to reflect OAI benefits.

Furthermore, in his strenuous attempt to demonstrate anticipation, Swenson again misses our main claim about why the Social Security Act in general, and OAI in particular, became more embedded over time. It was not principally the effects of the legislation on corporations' private benefits to which we pointed, effects that even as late as the early 1940s, would have applied only to that small fraction of the business community that sponsored private plans. Rather, our main claim was simply that the strategic political context made reversal highly difficult, whether or not employers desired major reform. The American structure of political institutions privileges the legislative status quo; the Democrats still held power, albeit, after 1938, less completely than they once had; and, perhaps most important, the Act was extremely popular. As Folsom put it,

If [employers had] 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.¹⁷

Indeed, contrary to what Swenson's account of quick business acceptance implies, not until the 1950s was big business support of the Social Security Act fully clear. The 1939 *Fortune* poll that Swenson trumpets – impressionistic and unscientific as it was – certainly suggests that most employers did not want to repeal the Social Security Act outright.¹⁸ But neither does it indicate strong support: The majority of business executives surveyed wished to "modify" Social Security – which could mean anything, including

16. Robbins, "Confidential Material Collected on the Clark Amendment."

17. Marion B. Folsom, "Social Security Administration Project," pt. 3, no. 158, tape recorded in 1965 (New York: Columbia University Oral History Collections, 1976), 199–200.

18. "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.

making it voluntary – and 17.3 percent wished to repeal it, while roughly a quarter wanted it to remain unchanged. Moreover, there is the uncomfortable fact that the Chamber of Commerce (with the overwhelming support of its members) came out in the early 1950s for a Social Security reform plan that would, the Chamber argued, prevent the "dangerous and swelling stream" of Social Security from "bursting out of control."¹⁹

The clearest example of manifest business support of OAI came *after* World War II during the debate over the 1950 amendments, when many large employers lined up in favor of an expansion of OAI benefits. Yet, far from representing motives that dated back to the exigencies of the Depression, big-business support for the expansion of OAI in 1950 was substantially a product of organized labor's increasing success in demanding generous pensions for rank-and-file workers. Because most employers reduced their promised pension benefits in proportion to OAI benefits, and because blue-collar workers, in particular, received disproportionately high "returns" from OAI, employers realized that union demands could be met for less cost by expanding OAI than by upgrading company plans. The following exchange between Colorado Republican Eugene Millikin and Herschel Atkinson of the Ohio Chamber of Commerce before the Senate Finance Committee in 1950 nicely illustrates the shift in business strategies – and its relative recency:

Senator Milliken: And, of course, those companies that have the provision whereby their pension shall be reduced by the amount of the basic Federal pension – those companies, of course, are rooting and tooting for a better level of Government pensions?

Atkinson: Yes.

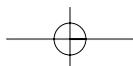
Senator Milliken: Quite naturally and quite understandably.

Atkinson: Yes; I think that those feelings are evident.

Senator Millikin: The system has gained some new and strange adherents *in the last year or so*.

Atkinson: I must confess that that is true, sir. . . . Such pressures have been exerted by our Government in labor-management negotiations which involve organized labor's demand for such things as \$100-a-month pensions. . . . Now it is perfectly natural that managements which felt compelled to accept, under Government pressure, terms which otherwise might not have been agreed to so precipitously, are not to be found in the van of those resisting material liberalization of OASI benefit

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



amounts. What else could be expected in a situation of this sort?²⁰

Let us sum up the evidence on the after-the-fact business support of OAI. The vast majority of employers did not operate pension plans in 1935. Of the comparatively small number that did, many were at first genuinely confused about how to respond to the Social Security Act. Although integrating private plans with OAI was certainly foreseen as an option, it was not sanctioned by federal tax law until the early 1940s. What is more, the huge advantages of integration that prompted many employers to convert to or set up integrated plans in the late 1940s and early 1950s were a product of labor demands for pensions for rank-and-file workers – demands that did not result in major gains at the bargaining table until after World War II. To understand all these developments as reflecting the unclouded intent of the founders of OAI is to miss the multiple concerns and confusions that fed into the Social Security Act's creation, as well as to skip completely over the political debates and developments of the late 1930s and 1940s. More fundamentally, as we have argued, it is to miss the extent to which there were larger political realities that limited the options available to employers. It is simply not possible to surmise what any group of employers "wanted" in 1935 or after without taking into account the context of political power.

VI. WHY MORE HISTORICAL FACTS ARE NOT ENOUGH

In the end, then, Swenson neither proves his case nor effectively disputes ours. The details he brings to bear add importantly to our understanding of the New Deal period. Yet, because few of them are truly germane to our core claims, Swenson's counterattack actually succeeds in illustrating our overarching methodological point – that deeper and more prolonged investigations of the historical record, on their own, will not resolve the enduring issue of business's role in early welfare-state building.

This point is especially relevant for readers of *Studies*, which is rightly admired for its commitment to energetic and meticulous historical research. Lest we be misunderstood, we should make clear that we, like Swenson, are strong advocates of archival research and other intensive historical investigation. We ourselves did much archival research in preparing our article (and laying the groundwork for related works), and many of the documents that Swenson cites were also cited in our article.

Our differences with Swenson thus do not rest on our lack of awareness of the key pieces of evidence he adduces in favor of his thesis. Rather, our differences reflect the larger point of our article: Interpreting historical evidence requires careful attention to the strategic context within which actors operate and vigilance against common pitfalls of using the historical

record to judge power and interests – attention we believe Swenson does not sufficiently give and pitfalls into which we think he unfortunately falls.

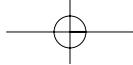
Furthermore, Swenson's use of historical sources is less than fully balanced. He presents at length evidence consistent with his arguments while failing to acknowledge much of the counterevidence we presented. Simultaneously, he chastises us for carefully acknowledging evidence potentially consistent with a highly weakened version of his thesis – namely, that *some* large employers recognized that there were *some* advantages to the Social Security Act *in comparison with* competing options on the table, and that informing employers of these advantage was *one* strategy, among many, that New Dealers adopted in their multi-faceted effort to secure political support. We are ready to engage in a full consideration of this modest claim. But we think it is important to recognize that its veracity hinges, again, on the general political weakness of the vast majority of employers that were publicly opposed to the Social Security Act. This is because New Dealers could not have appealed to the small segment of employers that preferred the Social Security Act over competing options unless the much larger group of employers that were hostile to the Act were not capable of blocking its passage.

At the same time as he takes us to task for not recognizing the incontrovertibility of his thesis, Swenson greatly downplays the extensive available evidence that much of the business community was vocally opposed to the Social Security Act. "Hacker and Pierson," he writes, "bring no new evidence to the debate that Theda Skocpol and her collaborators have [not] already offered."²¹ Yet we did present additional evidence of widespread capitalist opposition. In any case, much of what Skocpol and her collaborators said is simply true, and we are happy to echo it. The business testimony at hearings on Social Security *was* overwhelmingly skeptical or hostile. Sympathetic statements from Folsom and the favorably inclined dry-goods retail industry *were* drowned out by the cries of business opponents, who, all told, claimed to represent more than 15,000 firms.²² Swenson quotes liberally from an informal survey of industry opinion by the National Publishers' Association, yet he never quotes the Association spokesman's own summary of that survey: that "industry and the business [*sic*] should appreciate very much, very slow action in regard to the bill, particularly old-age pensions and un-

20. Testimony of Herschel C. Atkinson to House Committee on Finance, *Social Security Revision Hearings on H.R. 6000*, 81st Cong., 2d Sess., 1950, 1493–94 (emphasis added).

21. Swenson, "Varieties of Capitalist Interests," 20.

22. House Ways and Means Committee, *Economic Security Act: Hearings before the Committee on Ways and Means, House of Representatives, Seventy-Fourth Congress, First Session, on H.R. 4120*, 74th Cong., 1st Sess., 21 January–12 February 1935; Senate Finance Committee, *Economic Security Act: Hearings before the Committee on Finance on S. 1130, United States Senate, 74th Cong., 1st Sess., 22 Jan.–20 Feb. 1935.*



employment security.”²³ Swenson suggests, rather implausibly, that sympathetic employers had reason to understate their support even as the bill neared passage (revealingly, one reason he gives is that most businesspeople strongly disagreed with them). But whether the vocal opposition was muted or accentuated by its strategic context – and Swenson gives little reason for ignoring the powerful 1934 private admission by Robert Lund, the chairman of the National Association of Manufacturers, that what business representatives were doing “was attempting to adjust ourselves and modify or change or meet half-way the situation” – the fact remains that it was broad, uncompromising, and noisy.²⁴

Among the additional pieces of evidence that we proffered, perhaps the most powerful was Folsom’s oral-history recollections of business’s orientation, which is worth quoting in its entirety:

Back in those days – the thirties – there were very few business people at the time who were informed about Social Security matters. Although they had their own individual employee benefit plans, they were quite skeptical of the federal government getting into this field. They were not very well informed on it, and I would say the great majority were against the federal government getting into old-age insurance and unemployment insurance. I recall that they were worried when the bill finally passed about several aspects of it. . . . As I recall there were five of us employers on this original advisory council and we were in a distinct minority because we all felt that something ought to be done and we were willing to help.

Folsom’s recollection is important because it comes decades after the Social Security Act passed, at a time when he had little incentive to misstate actual business support. In the same interview, Folsom noted that many business leaders *did* come around to supporting aspects of the Social Security Act in the 1940s and 1950s. But the reasons he offered fit more closely with our argument about strategic acceptance and transformation of interests than with Swenson’s neater claim about confidently anticipated interest congruence. As Folsom put it,

23. Testimony of L. C. Morrow to Senate Finance Committee, *Economic Security Act*, 788. Privately, even generally progressive employers generally advocated caution and delay. See “Memorandum: Views of Messrs. Flanders, Leeds, and Julian of the Industrial Relations Committee of the Business Advisory and Planning Council of the Department of Commerce on Economic Security,” 24 Oct. 1934, “Memos – Relations with Congress,” Materials Related to the CES, Lateral Files, Social Security Administration Historical Archives (hereafter cited as SSAHA), Baltimore, MD; Business Advisory Council, “Report of the Committee on Social Legislation regarding Old Age Security Sections of the Bill H. R. 7260,” 30 Apr. 1935, “Reports,” Materials Related to the CES, Lateral Files, SSAHA.

24. Statement of R. Lund, National Industrial Conference Board Meeting, 25 Oct. 1934, 54–55, Hagley Museum Library.

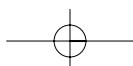
Of course there are different type of business people, but I’ve found a great majority . . . to be pretty realistic. They might not like some of these things, but they adjust to it and they don’t kick. And then they eventually come around to thinking: “Well, maybe we were wrong. Maybe this is the right way to do things.”

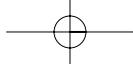
Given our general argument about the need to situate historical evidence within a broader analysis of power relations, we do not think that any of these individual statements definitively settle the issues we discuss. But we do believe that in light of the clear and powerful political shifts fostered by the Depression, which greatly undercut employers’ structural power and shifted the policy winds against them in Washington, the preponderance of the growing evidence on business’s role during the New Deal strongly reinforces the key historical propositions that we advanced in our article: (1) that employers were operating from a position of weakness rather than strength in the 1930s; (2) that they did not control the agenda and, as a result, were frequently pressed to choose among inferior options; (3) that the overwhelming majority of vocal and organized employers expressed opposition to the Social Security Act; (4) that the inability of this overwhelming majority to get its way was a precondition for whatever influence was wielded by the small minority who were sympathetic; and (5) that subsequent business support for the Social Security Act was the result of a mix of factors, including strategic political acquiescence, labor demands for private benefits, and the reshaping of business preferences by the legislation – not simply anticipated favorable consequences for the small number of employers that operated private benefit plans before 1935.

VII. WHY WE NEED POWER ANALYSIS

Swenson concludes his article with a statement that calls into question the ecumenical tone of his earlier assertion that interest analysis “probably” better explains the Social Security Act than power analysis. He writes: “[T]he use of power analysis in the comparative political economy literature has produced virtually nothing in the way of analytically and empirically powerful explanations of variations across countries in labor market and social policy making.” This is a breathtaking statement. Although disputes continue, there is simply no set of claims in comparative political economy that have been so prominent, and so repeatedly subjected to close scrutiny, as those that emphasize the relative power of partisan forces and economic interests.²⁵ Certainly, the assertions that

25. See, among many others, Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990); Evelyn Huber and John D. Stephens, *Development and Crisis of the Welfare State: Parties and Policies in Global Markets* (Chica-





Swenson advances against these claims have not received, much less withstood, anything like the same kind of broad comparative investigation.

Nor would Swenson's claim about the irrelevance of power analysis be endorsed by scholars, such as David Soskice and Peter Hall, whom Swenson cites in its support. Hall, after all, pioneered the institutional study of political economy on the assumption that "the organization of policy-making affects the degree of power that any one set of actors has over the policy outcomes." And while it is certainly true that Hall and Soskice, in their important joint work on "varieties of capitalism," have paid careful attention to the interests of economic actors, their clearly stated goal is not to supplant power analysis but to provide a perspective on comparative capitalism in which both actors' interests *and* their strategic position – including their relative power – are taken into account.²⁶

go: University of Chicago Press 2001); Walter Korpi, "Power, Politics and State Autonomy in the Development of Social Citizenship," *American Sociological Review*, 54 (1989): 309–29; and Duane Swank, *Global Capital, Political Institutions, and Policy Change in Developed Welfare States* (Cambridge: Cambridge University Press, 2002).

26. Peter Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York: Oxford University Press, 2001).

Interest analysis is surely vital. Yet interest analysis without power analysis is trajectories without motion, direction without energy. This should be obvious. Why do we care about the preferences of employers if not for the fact that they are among the most powerful actors in the political economies of democratic capitalist societies? Why would reformers seek to forestall future business backlash were it not for the influence that angry employers might wield? Swenson throws out power analysis at the deep peril of his own argument, and thus his closing diatribe against it is puzzling.

Puzzling but perhaps not surprising, for it is in keeping with his overall attack – an attack that, in pursuit of a pure account of anticipated interests and arranged alliances, fails to grapple with our most basic claims. Swenson produces a lopsided vision of the Social Security Act's formation and passage, one that, stunningly, all but ignores one of the most profound *political* shifts in modern American history: the rise of Democrats in the 1930s and the "thunder on the left" that accompanied it. We would not use the modifier "probably" in describing our conclusion that power shifts were more crucial than shifts in employer interests for the shape and timing of the Social Security Act.

