

Ideas, private institutions and American welfare state ‘exceptionalism’: the case of health and old-age insurance, 1915–1965

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Traditional theories of welfare state development divide into two camps: societal accounts and institutional accounts. The aim of the present article is to amend and enrich the institutional approach to US social policy by reconsidering key aspects of the genesis of the American welfare state: 1) showing that concepts such as ‘policy feedback’ and ‘path dependence’ need to be extended to encompass the effect of *private* social policies; and 2) taking *policy paradigms* and *agenda setting* more seriously than is the norm in institutional scholarship. The empirical analysis is divided into two parts. The first part explores the activities of the American Association for Labor Legislation (AALL) in the decade beginning in 1910 and the genesis of Social Security in the 1930s, while the second part examines the effect of the private benefit developments on policy choices between 1935 and 1965.

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In comparative research on social policy, it is accepted wisdom that the US welfare state is unique. Even in contrast with other broadly similar nations, such as Canada and Britain, the US spends a small proportion of national economic output on public social programmes.¹ Its unemployment insurance and social assistance programmes are fragmented and modest, and it lacks both national health insurance and universal family allowances – programmes omnipresent elsewhere. Whether the American model is described as ‘minimal’ or ‘residual’, ‘liberal’ or ‘laggard’, there is near unanimous agreement that it represents an exceptional case (for example, Berkowitz & McQuaid, 1994; Gilbert & Gilbert, 1989; Levine, 1988; Orloff, 1993; Skocpol, 1992).

No such unity holds, however, when it comes to *explaining* America’s distinctive status. Indeed, comparative students of the welfare state have offered a veritable flood of competing explanations, with some citing America’s tradition of anti-government individualism while others point to the weakness of the US labour movement and the failure of socialism to take root in American

soil.² In the last fifteen years, however, the leading efforts to explain American exceptionalism have embodied what has been termed an *historical institutional* perspective on welfare state formation. This perspective, conceived of as an alternative to *societal* theories that stress economic conditions, cultural values, class conflict, or interest-group power, instead places emphasis on the distinctive development and organisation of US political institutions, which, the argument goes, have routinely prevented the consolidation of political authority necessary to enact domestic social reforms. Unlike societal explanations – the major empirical proving ground of which has been the nations of Europe – this neo-institutional perspective has gained credence and influence primarily as an account of America’s distinctive welfare state design.³

¹ In 1995, for example, public social spending comprised 17.1% of GDP in the US, compared with 25.9% in the United Kingdom, 30.4% in Germany, and 36.4% in Sweden (Adema, 1999: 30).

² For prominent arguments focusing on ‘national values’, see Levine (1988) and Rimlinger (1971). The ‘weakness-of-labour’ explanation is less popular – or perhaps more taken-for-granted – in writings on the US (but see Quadagno, 1988). It is common, however, in comparative analyses that include the US, such as Esping-Andersen (1990) and Huber and Stephens (2001).

³ For example: Orloff (1993), Skocpol (1992) and Weir (1992). Although primarily concerned with the American case, comparative works drawing on this perspective do exist, including Hacker (1998), Maioni (1998) and Pierson (1994).

The aim of this article is to amend and enrich the institutional approach to US social policy by reconsidering key aspects of the genesis of the American welfare state. Our central claim is that institutional theories need to be at once more historical in approach and more concerned with factors, such as private social welfare policies and policy paradigms, that are usually viewed as the province of societal accounts. By highlighting the constraints on policy change created by political structures, institutional arguments generally offer strong explanations regarding the prospects for policy reform. They are less capable, however, of explaining the specific policy choices that give form to the welfare state – the policy options that are (or are not) on the political agenda when opportunities for change arise. Moreover, although institutional theories emphasise the historical feedback effects of large-scale public policies, they typically pay little or no attention to the parallel effects of *private* social policies, such as employee benefits and private insurance activities. We shall demonstrate that these kinds of private social welfare practices have been as influential in shaping welfare state development in the US as have the public social programmes that are typically examined closely by institutional theorists.

Accordingly, our amendments to the institutional approach take two forms. First, we show that concepts such as ‘policy feedback’ and ‘path dependence’ – central themes of institutional research – need to be extended to encompass the effect of *private* social policies (that is, social benefits sponsored by employers or other non-governmental organisations). This extension, we argue, suggests a previously overlooked interface between societal and institutional perspectives, identifying a *structural* basis for the influence of societal groups such as employers and insurers. By fostering vested interests, shaping public expectations, and embedding institutions, the spread of private social provision (usually in response to indirect state encouragement) may constrain the scope for government programmes even if political conditions are otherwise permissive. Thus, while institutional theorists are correct that state actors often enjoy relative autonomy, attention to private social policies indicates some of the real limits of state autonomy, even when direct societal mobilisation may be largely absent.

The second component of our discussion argues for taking *policy paradigms* and *agenda setting* more seriously than is the norm in institutional scholarship. We argue that rather than formulate explanations based on such broad concepts as national values or political culture, theorists should focus on the specific policy paradigms held by domestic political actors, the ways in which such ideas are formulated and promoted within particular institutional settings and the intersection of this ‘policy entrepreneurship’ with opportunities for policy change created by larger shifts in the political environment (Kingdon, 1984).

The two sides of our argument are closely linked. Private social policies have been a critical influence upon the thinking of social welfare activists in the US, and their development has deeply shaped the range of policy options that have been seen as feasible when windows of opportunity for major government-led action have opened. As we shall demonstrate, this stands out clearly in the formative development of old-age and health insurance. During the New Deal, private pensions sponsored by employers (and often run by insurers) were seen as an important model for federal old-age insurance, while at the same time the glaring insufficiency of these private alternatives as providers of security was taken as proof that a federal programme was needed. In a similar but revealingly different fashion, social insurance advocates took the growing dominance of employment-based health insurance after World War II as a sign that a successful public programme would have to be modelled on Blue Cross-Blue Shield and targeted at residual populations left out of private coverage, such as the elderly and poor.

To illustrate these theoretical claims, we will re-examine the formative development of the two largest areas of American social provision: retirement security policy and health insurance policy. Although these two areas have been well tilled by historians and social scientists, crucial elements of the story are not well understood or well explained by existing accounts. In particular, because most scholars have examined US policy from a cross-national perspective, they have neglected a crucial question concerning cross-policy differences *within* the US: Why was public old-age insurance enacted in 1935 and dramatically expanded after World War II, whereas public health insurance was not enacted until 1965 – and then in a distinctly partial fashion? This question in turn points to two anomalous features of the American case that require both emphasis and explanation: first, the massive role played by tax-favoured, employment-based private benefits in the provision of health insurance (and, to a lesser extent, pensions); and second, the ‘exception within an exception’ of federal old-age insurance, which has flourished in a political and institutional context otherwise hostile to expansive public social protections. Before addressing these empirical questions directly, we shall turn to the core theoretical issues at stake.

Theories of welfare state development and American ‘exceptionalism’

Despite the diversity of social policy research, traditional theories of welfare state development divide fairly neatly into two camps: societal accounts and institutional accounts. Societal accounts, as the label implies, emphasise factors that are viewed as largely independent of political institutions, such as economic trends, cultural values

and the power of societal groups. Institutional accounts, by contrast, stress the characteristics of political institutions themselves – for example, the centralisation of political authority, the ‘capacity’ of administrative organisations and the framework of electoral rules. Inevitably, these two perspectives overlap, and in recent years, scholars have worked to bridge their boundaries (for example: Esping-Andersen, 1990; Huber & Stephens, 2001; Skocpol, 1992). Nonetheless, clear differences of emphasis remain, with societal theorists viewing institutions as a reflection of and prism for outside influences, whereas institutional theorists see institutions as autonomous and powerful players in their own right. Rather than rehash a debate that has been amply reviewed elsewhere, this section first reviews the major shortcomings of societal approaches to which institutional accounts are a response, and then suggests that, in rejecting some elements of societal perspectives, institutional theorists have tended to minimise the key role of private social welfare policies and political actors’ policy paradigms.

Societal accounts

Societal accounts have evolved from a concern with development, to an interest in values, to a focus on groups. For scholars concerned with development, the crucial influence on the welfare state is the pace and character of economic growth. For those interested in values, it is a nation’s political culture. And for those focused on groups, it is the balance of power between contending demographic, interest or class groupings. What all these arguments share is an assumption of precedence for forces largely independent of government structures and policies, whether such forces are economic, cultural or demographic. Thus Harold Wilensky, an exponent of the development thesis, contends that ‘economic level is the root cause of the welfare state’ (Wilensky, 1975: 47). Daniel Levine, a values theorist, explains that welfare states differ because ‘nations perceive reality in their own ways and act according to those perceptions’ relation to their own history’ (Levine, 1988: 11). John Stephens, a proponent of group analysis, argues that the welfare state is ‘a product of the growing strength of labor in civil society’ (Stephens, 1979: 89).

Because societal accounts have typically been employed to explain either broad differences between nations or the distinctive experience of Northern Europe, they have generally fared poorly when projected onto the American experience. The association of economic development and the welfare state, for example, looks tenuous when one turns to the US, a nation that has married rapid growth with a comparatively small public sector. Nor have theories focusing on worker mobilisation proved adept at explaining America’s peculiar policy pattern. Organised labour in the US had trouble achieving its policy ends even when levels of mobilisation were

comparable to those abroad, and American welfare state initiatives often did not find their primary champion in the working class, which came to rely more on voluntary workplace benefits than did workers in Europe. Because of these explanatory soft spots, societal accounts have tended to see the US as a negative case explained by the absence of one or more crucial societal factors, such as socialist agitation or collectivist values (for example, Rimlinger, 1971).

The basic conceptual problem with societal accounts is not that they identify the wrong explanatory factors – some do, some do not – but that they generally pay insufficient attention to the way in which societal forces are mediated, and even created, by political institutions and previously enacted public policies. It is obvious, for example, that public views of social policy both shape and are shaped by the framework of social provision that exists in a nation. Yet national values explanations almost always assume that public policies are a result of popular understandings, rather than the other way around. Such explanations also tend to strip away the actual political processes by which public opinion or cultural values are translated into policy outcomes, thus flirting with the Panglossian conclusion that mass publics always and everywhere get what they want from government.

Similarly, the thesis that working-class power is the paramount force in welfare state development frequently assumes a necessary correspondence between labour mobilisation and political power, despite the reality that such institutional features of a polity as electoral rules may enhance or retard the ability of the labour movement to gain representation (Korpi, 1983; Stephens, 1979). Indeed, the demands of societal groups such as labour and business may be deeply shaped by the institutional and policy context within which they operate – as when, for instance, labour bargains for private benefits because it cannot achieve its ends through governmental means (Gottschalk, 2000). There is, in short, no necessary correspondence between social demands and policy outputs. Institutions refract, distort and reconstruct societal forces even as they respond to them, and established policies may endure even after the original conditions that gave rise to them no longer hold sway.

The virtue of societal accounts is their insistence that welfare state development does not occur in a vacuum, but instead responds to broad economic forces, enduring cultural currents and major shifts in the balance of class power. The effect of these influences, however, is neither absolute nor universal. It depends crucially on the way in which a polity’s institutional framework filters and responds to them – the chief subject of institutional analysis.

Institutional accounts

The ‘new institutionalism’ in the social sciences is now over two decades old. In research on the welfare state,

writings that adopt a broadly institutional perspective are legion, and even theorists who emphasise the primacy of social forces now generally acknowledge and discuss the mediating role of political institutions. Although institutional scholarship first arose as a rather polemic ‘state-centred’ response to societal accounts like Marxism, it has evolved into a broader perspective in which state autonomy is a less central claim and a variety of arguments about the role of institutions and policy feedback effects (sometimes uneasily) coexist (Steinmo, Thelen & Longstreth, 1992; Weaver & Rockman, 1993). Despite this diversity, scholars who adopt the institutional perspective generally make three common arguments: that state officials are not simply political referees or agents of outside forces; that political institutions are relatively long-lived and resistant to rapid change; and that the structure of such institutions – the ‘rules of the game’ they establish, the incentives for action or inaction that they foster – decisively shapes political behaviour and outcomes. In addition, some institutional theorists stress that because of the long-term feedback effects of institutions and policies, the social policy process is highly ‘path-dependent’, with decisions at an earlier point in time heavily influencing the available options at later historical junctures (Pierson, 2000b).

Because many institutional arguments were initially formulated to explain American exceptionalism, they offer a strong basic account of why social policy development in the US took a comparatively distinctive track. According to this narrative – now familiar after more than a decade of refinement – the constitutional structure adopted by the Framers in response to the twin fears of royal tyranny and mass rule divides political power in a way intrinsically inimical to the construction of authoritative majorities, programmatic parties, powerful bureaucracies and large-scale social programmes. Unlike most continental European states, which grew out of powerful monarchies and were forced to engage in a constant struggle for survival, the American state never experienced the high degree of centralisation and rationalisation that would later become the foundation for welfare state developments in Europe. Moreover, with universal (white male) suffrage arriving early and winner-take-all elections encouraging broad catch-all appeals, political parties organised around working-class demands had a difficult time gaining ground in the US during the late 19th and early 20th centuries, at the same time that they gained power elsewhere. Lastly, the extreme decentralisation of policymaking from the Civil War to the New Deal – reinforced by the Supreme Court and the business-backed Republicans – gave corporations substantial influence through the threat of capital flight from reformist states. As a consequence, the US entered the 20th century with a relatively undeveloped, patronage-ridden national administrative

state, non-programmatic political parties, and a fragmented constitutional structure that fostered a highly decentralised form of federalism – all of which have hindered the passage and expansion of national programmes of social insurance and assistance (Orloff, 1993; Skocpol, 1992).

This is a convincing story, particularly for explaining why the US was so comparatively slow to implement basic social programmes and why major social policy developments in the US have occurred in such an episodic fashion. Nonetheless, it still leaves important questions unanswered. In the first place, the perspective is better at specifying the opportunities and constraints that political institutions create than at explaining the policy choices that occur within this ‘political opportunity structure’. Political institutions embody the rules of the game that political actors follow as they seek their goals. They do not necessarily tell us what goals those actors have or what issues they deem important. As Peter Hall has complained, ‘The recent work that focuses our attention on the state has been of great value, but the state at which we are now looking largely remains a black box’ (Hall, 1993: 275).

Institutional analysis is not, of course, silent with regard to these questions. Institutions influence the definition of actors’ interests by making certain alliances and outcomes more likely than others (Weir, 1992). States also give rise to fiscal and military exigencies that encourage political actors within them to follow certain courses of action rather than others. And the administrative capacities of a state may push the agenda for policy action in some directions and away from others (*ibid.*). Still, the institutional perspective is considerably more instructive as an explanation of the *prospects* for policy reform than as an explanation of the specific *form* that policy change takes. If the question is merely why the American welfare state is ‘smaller’ or ‘less developed’ than European welfare states, then it may be enough to cite America’s distinctive framework of political institutions. But if the question is why the American welfare state has taken the structure that it has, then systematically unpacking the forces that shape actual policy choices seems unavoidable. One way in which institutional theorists *have* taken up this question is through their exploration of processes of policy feedback and ‘social learning’. In his classic book on British and Swedish social policy, Hugh Hecló memorably claims that ‘[g]overnments not only “power” (or whatever the verb form of that approach might be); they also puzzle’ (Hecló, 1974: 305). ‘Policy-making’, Hecló argues, is a process in which ‘policy invariably builds on policy, either in moving forward with what has been inherited, or amending it, or repudiating it’ (*ibid.*: 305, 314). Yet, in addition to being vague, arguments about ‘social learning’ still leave largely unexplored the competing ideological frameworks and policy understandings that

cause political actors to 'learn' different lessons from prior policy and then 'move forward', 'amend' or 'repudiate' it (Pierson, 2000a). Political actors not only 'puzzle' and 'power'; they also advance conflicting visions of the good and competing policy paradigms that aim to achieve them (Campbell, 1998; Lieberman, 2002).

Two concepts offer important insights into these ideational processes. The first is the notion of 'policy paradigms' introduced by Peter Hall to analyse major shifts in economic policy in Britain. According to Hall, a policy paradigm is an interpretative approach shared by a group of politicians and policy experts – 'a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing' (Hall, 1993: 279). Policy paradigms integrate values and technical preferences; they are both philosophical and technical; they are often shared by a broad community of leading policy activists and specialists at any given time; and, as was true with the British repudiation of Keynesianism examined by Hall, changes in them often represent the most fundamental and consequential shifts in the policy process.

The second helpful concept, introduced by John Kingdon, is that of 'policy entrepreneurs' – individuals whose 'defining characteristic, much as in the case of a business entrepreneur, is their willingness to invest their resources... in the hope of future return' (Kingdon, 1984: 126). Whether motivated by narrow economic interests or a vision of the public good, these policy leaders are crucial in bringing together their own favoured solutions with a recognised public problem during moments of political opportunity. As Kingdon has argued, it is possible to offer systematic generalisations about what drives these three 'streams' of factors – problems, solutions and politics – and about what brings them together. Dramatic 'focusing events' such as an economic or military crisis, for example, often open a 'window of opportunity' for proposals that skilful policy entrepreneurs have been trying to elevate on the agenda for years. Similarly, dramatic shifts in the political 'stream' – a major change in partisan control of government, for example – may suddenly bring into currency long-percolating solutions congruent with the basic governing philosophy of newly ascendant leaders (*ibid.*).

If discussions of social learning in institutional accounts would benefit from closer attention to agenda-setting processes, they would also do well to cast their eyes beyond previously enacted public programmes and bureaucratic actors. As the earlier quote from Hecló suggests, much of the discussion of ideas in institutionally-minded scholarship has exhibited a strongly 'technocratic' character, seeing the content of policy paradigms as emerging out of relatively autonomous learning processes in which previous public policies and administrative

capacities are the dominant influences. Yet policy entrepreneurs and other political actors may also be influenced by and learn from *private* structures of social provision, such as employer-provided benefits, charitable activities and private insurance markets. Just as the perceived failure or success of a public programme may shape future state responses, the perceived failure or success of private social benefits may affect the propensity of state actors to intervene in private markets or supplant voluntary institutions of social provision. Furthermore, when private benefits are widely relied upon by citizens, they may shape political mobilisation and public expectations in much the same way that widely distributed public benefits do, creating strong political incentives for the maintenance or encouragement of existing *private* networks of social provision. If institutional accounts truly aim to understand the historical legacies of past policy decisions, the concepts of policy feedback and path dependence need to encompass private as well as public social policies. This is especially true in the US, where private social spending comprises approximately a third of net public and private social spending (Hacker, 2002).

Bringing in private institutions strengthens an often-neglected theme of institutional analysis: the crucial importance of timing and sequence in the development of political institutions and public policy. Scholars have long recognised that the order in which nations undergo large-scale economic or political transformations makes an important difference in the character and outcome of those changes (for example, Moore, 1966). But most comparative social-policy analysis, institutional or otherwise, tends to take a 'point-in-time' approach, examining the correlates of observed outcomes at discrete periods across nations or other units of analysis (Pierson, 2000b). This approach, though often valuable, misses a central reality of politics: *often it is the sequence and timing of an event or decision that is the most crucial determinant of policy outcomes*. If factor A comes before factor B, the effect may be very different to that if B precedes A, even though the same basic factors are involved. Similarly, the effect of particular events or decisions within one institutional or policy context may be fundamentally different than their effect in another context. In these cases, it is the *path* of policy development – when events and decisions occur relative to previous events and decisions or to large-scale institutional and policy changes – that ultimately provides the most convincing explanation of outcomes.

We can bring these insights together to suggest that the *relative* development of public and private social institutions is an important part of the explanation for why government policy takes the form that it does within particular domains of social policy. Specifically, when private social institutions come to play a core role in the provision of social protection *in advance* of the

passage of public social programmes, then it is more difficult to enact public social programmes, and government's role is more likely to be limited to subsidising private social provision and filling the gaps it creates. Conversely, when public programmes emerge in advance of widespread private social benefits, then private social benefits are likely to play a supplementary role, building on top of, rather than directly competing with, public social programmes. These roles are not just the result of the habituation of citizens to private forms of social provision, or the rise of organised groups with a vested interest in private benefits, though both are likely to be important. They are also, in many cases, reflections of the influence of private social policies on policy-makers' governing conceptions of the appropriate shape and scope of *public* social programmes.

In the next section, we develop these claims further by turning to our analysis of the development of health and old-age insurance in the US, with the aim of showing not only that an amended institutional approach makes more understandable the disparate character of these two areas, but also that it provides a richer perspective on American exceptionalism more generally.

Health and old-age insurance in the US, 1915–1965

This section traces roughly half a century of political struggle over two areas of US social policy: retirement pensions and health insurance. These two areas represent the largest domains of social spending in the United States (and, in fact, in all affluent nations), and thus any argument about welfare state development needs to explain their trajectories. Yet our crucial justification for choosing these two areas, as already noted, is embodied in a question: Why has US health and pension policy followed such divergent paths? In social security, the United States has a relatively generous public pension programme, but proposals for health insurance following the social security model repeatedly failed at the same time as social security took root and grew. When we look across nations, major differences can often be traced to major causes: different political institutions, divergent economic structures, disparate ideals. But when we compare policy areas within a single nation, such holistic explanations are no longer as simple, and we need to look for more subtle variations in policy characteristics or development. These kinds of internal comparisons – rare in social policy research – draw out in finer detail than cross-national work often can the sources of policy development in an area and also allow more concrete conclusions about the effect of elusive temporal factors such as timing and sequence.

It is important to emphasise, however, that we are not calling for a theory of welfare state development that simply adds new factors to an already crowded research agenda. Our claims build on both institutional

and societal accounts to make precise claims about *when* and *in what way* ideas and private social policies matter. Our key hypotheses are threefold. First, when large-scale political or economic shifts open up windows of opportunity for major social policy reform (a rare event in American politics, as institutionalists convincingly argue), the policy paradigms held by those in positions of policy authority are likely to be crucial in determining the direction of reform. Second, in those areas where private social benefits are a significant source of social protection, the policy paradigms of such influential actors are likely to be closely informed by the operation and perceived performance of these benefits. Third, and perhaps most important, when private social benefits become a core source of social protection for workers *before* the large-scale entry of government into that policy domain, government intervention in that area is likely to be constructed so as to bolster or work around those private benefits, both because they usually have strong vested interests in their continuance (both among interests and the citizenry as a whole) and because directly challenging them entails large social dislocations and fiscal costs. As we shall demonstrate, each of these hypotheses is strongly supported by the American historical record, and each deepens and enriches our understanding of the ways in which institutional constraints *and* societal demands are reflected in welfare state development.

The AALL agenda

To understand the development of US health and old-age insurance in the early 20th century requires examining the ideas and activities of the American Association for Labor Legislation (AALL). Founded in 1906 by progressive social scientists and reform-minded philanthropists, this organisation fought primarily at the state level to promote social and labour legislation. Theda Skocpol suggests that the fragmentation of American political institutions and the political legacy of Civil War pensions doomed the AALL's campaigns (Skocpol, 1992). But although her analysis helps explain why the prospects for social reform were so unfavourable during the Progressive Era, it does not explore the policy paradigm that was at the centre of the AALL's efforts and, as a result, has little to say about some crucial policy choices. For example, why did the AALL decide to fight for health insurance instead of old-age insurance? Why were old-age pensions not at the centre of the AALL's agenda – and thus of state legislative agendas – before the 1920s? In this brief analysis, we sketch answers to these questions by exploring the agenda-setting process that lay behind the social policy debates of these decades.

While attempting to import European social reforms into the US, the members of the AALL were driven by a distinctive paradigm of social insurance that explains some of their most important policy and strategic choices

(Moss, 1996). These reformers saw social insurance largely as a tool to encourage employers to prevent social risks like work accidents, sickness and unemployment. Knowing that they would have to compensate workers, employers would work to prevent these contingencies from occurring. Most AALL reformers did not believe, however, that old age was a social risk that could be prevented by employers. This was one reason why the AALL did not push for old-age programmes during the Progressive Era.

For the AALL, in fact, health insurance was the real priority – a reflection of its belief that ill health was a leading preventable cause of poverty and unemployment. After the failure of a 1914–1915 campaign in favour of unemployment insurance, the AALL organised a nationwide movement to convince state legislators to adopt a ‘model bill’ on health insurance.⁴ Although the proposal received the tepid support of the American Medical Association (AMA), doctors soon realised that public health insurance could hurt their interests, and fraternal organisations and commercial insurers, which feared that the movement of government into the field would crowd out alternatives, quickly joined them. Overshadowing this mobilised opposition was the ever-present concern of state leaders that employers would leave states that implemented costly social reforms – a concern that gave employers significant influence in state legislative debates (Hacker & Pierson, 2002). After an intense ideological and political struggle, the AALL proposal was defeated in all states and virtually disappeared from the agenda.

Nonetheless, the demise of the AALL campaign did not leave the political terrain unchanged. By trying and failing to enact compulsory insurance, the AALL’s ill-fated effort predictably soured social insurance advocates on the prospect of touching the hornet’s nests of organised interests again. More importantly, however, it mobilised and brought into alliance interests with common leanings against government solutions. The best organised of these groups was of course the medical profession, which emerged from the debate over compulsory health insurance bristling with political confidence and vigilant against future threats. Thus, when the Depression struck the country in 1929, the campaign for health insurance was long dead, and reformers viewed the issue warily. This unfavourable timing, we shall see, had a direct impact on New Deal deliberations regarding health insurance.

The road to social security

During the 1920s, the AALL was a declining organisation forced to navigate in an adverse political environment. Paradoxically, it is during this conservative decade that

old-age pensions were placed at the centre of the national policy agenda. The leading figure of the movement for old-age pensions was Abraham Epstein, a Russian-born social reformer who decided in 1927 to quit the AALL in order to found his own organisation: the American Association for Old-Age Security, which would later become the American Association for Social Security (Leotta, 1975). In his campaign, labour unions and the Fraternal Order of Eagles supported Epstein. During the 1920s, social reformers focused almost exclusively on old-age assistance for the indigent elderly, not old-age insurance for workers. Because of the intra-state mobility of American workers, they believed that old-age insurance could only take the form of a federal programme (Andrews, 1929: 357). Facing strong opposition from the Supreme Court and enjoying little federal support, they recognised that a federal programme of contributory insurance was impossible at the time and instead devoted their efforts to pushing a ‘model bill’ for state assistance legislation. At the end of the decade, the legislative outcome of these campaigns was decidedly modest, for much the same reason that the AALL’s health insurance campaign had been. By 1928, only two states (Montana and Wisconsin) were distributing old-age pensions, and in only some of their counties (Leotta, 1975).

As a consequence of the Great Depression, the first half of the 1930s saw the proliferation of state old-age assistance programmes. In 1934, no fewer than 28 states, plus Alaska and Hawaii, were operating similar means-tested programmes. The number of state pensioners increased significantly, from only 70,000 in 1931 to more than 200,000 in 1934 (Douglas, 1936: 7). By that time, however, states were facing pressing budgetary problems, and the pressure for a federal intervention in the field of old-age security became irresistible.

Before we turn to New Deal debates, however, it is essential to clarify the significance of what we have discussed so far. The story of old-age pensions between 1920 and 1935 shows the critical importance of timing and agenda setting. Because the issue of old-age security was at the centre of the legislative agenda in 1929, and since bills were pending in front of many state legislatures, these laws were enacted quickly in reaction to the Great Depression. This social catastrophe created a window of opportunity for legislation that had already been on the political agenda for a number of years. This stood in stark contrast to the situation prevailing in the field of health insurance. At the end of the 1920s, health insurance was not on the legislative agenda in most states and no bill was enacted by state legislatures either before or after 1929.

The opposition of the AMA was an important part of the reason for the stalemate on health insurance, to be sure, but this outcome was also a result of unfavourable timing. The AALL’s ill-fated early effort to enact compulsory health insurance at the state level had

⁴ On unemployment insurance, see Sautter (1991). Regarding the history of health insurance, see Numbers (1978).

simultaneously scared social insurance advocates away from the cause and mobilised a sizable core of opposition to the health reformers' ideal. It was probably not immaterial either that health insurance was now primarily seen not as a way to offset lost wages during spells of sickness – the AALL's conception – but rather as a mechanism for providing an ever-more-expensive social service (Starr, 1982: 258–259). As a result, few reformers believed that a federal health insurance programme would be an efficient method to stimulate consumption or to fight the most dramatic social problem of the 1930s, namely, unemployment. Perhaps for this reason, no social movement emerged during the New Deal to fight for health insurance (Maioni, 1998; Starr, 1982: 266–270). In stark contrast, old-age pensions were pushed to the fore by existing state legislative movements and, increasingly, by a powerful social force new to the political scene: the so-called Townsend movement.

Founded in 1933 by a California doctor, the Townsend movement proposed to create a generous federal pension scheme that could stimulate the economy and encourage the elderly to leave the job market. The Townsend Plan was simple and lavish: a \$200-a-month pension for all American citizens of 60 and older, to be financed by a national transaction tax. Even if the goal of the plan was as much to pump up the economy – by forcing retirees to spend their pensions within a month – as to help the elderly, the Townsend Plan was rapidly supported by thousands, if not millions, of elderly Americans (Holtzman, 1963). Confronted by this popular plan, politicians were under pressure to move quickly, and by 1934, old-age assistance was at the centre of the federal legislative agenda. Yet Congress was reluctant to adopt the Townsend Plan. Considered unrealistic and dangerous by most economists and politicians (Douglas, 1936), it sparked the search for a more moderate alternative that could still convince the elderly population that the federal government was taking action.

By 1934, the enactment of some sort of old-age assistance was predictable.⁵ Nevertheless, President Roosevelt wished to integrate old-age assistance into more comprehensive social legislation, using the popular assistance programme as a lever to pass more controversial programmes such as unemployment insurance (*ibid.*, 1936: 10–11). During the summer of 1934, the Committee on Economic Security (CES) was created to prepare the Roosevelt administration's proposals on social protection. From the beginning, Roosevelt believed that an old-age insurance scheme should be included with these proposals. To understand the source of this conviction requires a brief glimpse into his basic policy commitments regarding social insurance and the influence of the private insurance sector on them.

⁵ In 1934 Republicans indeed supported bold action in the field of old-age assistance (*New York Times*, 1934).

As Raymond Richards suggests, Roosevelt probably discovered insurance principles in 1921 when he became Vice-President of the Fidelity and Deposit Company of Maryland, one of the most important surety bonding firms in the country (Richards, 1994: 138). Because of his job, he developed close ties with a manager of Metropolitan Life. Through these connections, Roosevelt became familiar with the principles of insurance. During his tenure as governor of New York (1929–1932), he publicly showed an interest in the application of these principles to social risks such as old age and unemployment. In general, his discourse regarding social insurance was founded on a critique of public assistance, considered by him as a mere dole. As a fiscal conservative, Roosevelt wanted workers to 'purchase' their own security instead of depending on taxpayers' money (Leff, 1983). He also saw social insurance as a way to establish some sort of 'earned rights' that would protect the social insurance system against future political attack (Schlesinger, 1959: 308–309). The influence of private actuarial models on Roosevelt and the New Dealers is a significant example of 'policy transfer' from the private to the public sector. This influence was indeed decisive in shaping the Social Security Act, especially in the field of old-age security. Without Roosevelt's push for social insurance, social security guru Arthur Altmeyer insisted, 'we would probably have today a national noncontributory form of social security in the country' (Altmeyer, 1965: 258).

The paradox here is that the genesis of social security was also closely related to the perceived failure of private welfare programmes. In fact, the progress of private pensions illustrates well the slow development of fringe benefits in America before the 1940s (Sass, 1997). In 1935, according to the American Council of Life Insurance, 2.8m workers had some form of pension protection – or roughly 5% of the civilian labour force (and 9% of the employed, non-agricultural labour force) (American Council of Life Insurance, 1973).⁶ Because pension plans were often terminated and were a fairly recent development, the number of elderly Americans who actually received pensions was still quite small: only 140,000 of the 6.5m citizens aged 65 and older received them (Latimer, 1932: 55, 893). Though the development of private pensions actually continued during the Great Depression, such a modest private system was not a major obstacle to the enactment of old-age insurance.⁷

⁶ Labour force statistics are from Department of Commerce (1975).

⁷ The only exception was an amendment to the Social Security Act, presented in 1935 by Senator Clark (D.-Missouri). This amendment would have permitted employers who were running pension plans to opt out of the federal old-age insurance programme. Considered a threat to the integrity of the programme, it was fought by the Roosevelt administration, put to the side by Congress, and later repudiated even by its own sponsors.

During the New Deal, old-age insurance was conceived by key figures in the Roosevelt administration as a fiscally conservative and sound social policy – inspired by existing private insurance and pension schemes – which could protect the federal treasury against ‘excessive’ demands from state officials or social forces like the Townsend movement. Opposing any participation of the federal treasury, Roosevelt wanted old-age insurance to be fiscally autonomous (Leff, 1983). In general, these policy paradigms about social insurance were shared by members of the CES and by the Secretary of Treasury, Henry Morgenthau. And because no state had implemented an old-age insurance plan, the road was open for this policy innovation.⁸

In its report, then, the CES recommended the establishment of a federal old-age insurance programme that would be financed by equal contributions from employees and employers. According to the members of the CES, this programme should gradually become the most important source of security for the elderly, relegating old-age assistance to a residual task (Committee on Economic Security, 1935: 25). Even if the Ways and Means Committee considerably reduced Social Security coverage in a series of legislative battles, the Roosevelt administration won the war and the Social Security Act of 1935 established a federal old-age insurance programme.

Old-age insurance versus health insurance during the New Deal

If the Social Security Act included a federal old-age insurance programme, the legislation did not even mention health insurance. Although the members of CES studied the feasibility of including compulsory health insurance alongside old-age pensions, there was never deep commitment to the goal among leading figures, who were principally concerned with economic recovery and the demands of the aged. Political opposition reinforced the CES’s reluctance. Even an offhand call for a study of health insurance in the Social Security bill drew a firestorm of protest from the AMA, which convened an extraordinary emergency meeting of its delegates and mobilised local societies – and, through them, members of Congress – against the offending language (Starr, 1982: 269). Witte and other key committee members, including the head of the CES, Labor Secretary Frances Perkins, were convinced that any mention of health insurance in the final legislation ‘would spell defeat for the entire bill’ (Witte, 1962: 184, 185, 188).

Why was health insurance lower on the agenda of New Deal reformers than other controversial proposals for social insurance, and than it had been in the decade

beginning in 1910? Certainly health insurance was not postponed because the New Dealers believed that private alternatives were sufficient. The Report of the CES stated categorically (and wrongly, it turned out) that ‘voluntary insurance holds no promise of being much more effective in the near future than it has been in the past’ (Falk, 1965: 41). Although some opponents of government involvement were touting the virtues of voluntary health insurance, one CES member recalled that ‘[t]his was pipsqueak stuff . . . That argument was advanced, but there was no substantial supporting ground for it in going operations’. The best estimates of private coverage during the early 1930s indicate that no more than two to three million workers and their dependents enjoyed the protection of employment-based health insurance (Field & Shapir, 1993: 66). Moreover, rising medical costs and utilisation meant that health care was a significantly greater burden on middle-class budgets than it had been during the Progressive Era. Thus, neither the reach of private alternatives nor the objective severity of the problem can explain why compulsory insurance had dropped from the priorities of reformers just when the opportunity for change seemed greatest.

Instead, three principal factors – one philosophical, one political and one historical – underlay the diminished prominence of health insurance as a reform imperative. Philosophically, the New Dealers involved with the health provisions were less enamoured than the AALL had been with the concept of prevention, the idea that forcing employers to confront the cost of ill-health and accidents would impel business to reduce disease and encourage public health. This shift robbed health insurance of much of the ideological cachet it had once enjoyed.⁹ Far more critically, however, health insurance lacked any natural connection to the demands of mobilised political forces such as the Townsend movement or organised labour. On other fronts, diffuse social demands for policy change could be credibly invoked as action-forcing mechanisms and counterweights to the organised resistance that social insurance faced. No such natural constituency existed for health insurance, however real the problems it addressed.

To this, lastly, one must add the lessons and legacies of the first campaign for compulsory health insurance less than two decades before. In the wake of the AALL’s defeat, health insurance had faded from the wish-list of progressive reformers, who ceded the initiative to groups pushing for old-age pensions and unemployment insurance. At the same time, the health insurance campaign mobilised a formidable core of interest-group resistance that new reform efforts would have to overcome. The combined result of these effects was to forestall the

⁸ As underlined earlier, reformers always believed that old-age insurance had to be a federal programme.

⁹ But the prevention did guide the choice of the Wisconsin model of experience-rated unemployment insurance.

same state-level legislative percolation and grassroots coalition-building that spilled over into New Deal debates about unemployment and old-age insurance. Ironically, then, health insurance faltered during the New Deal, not because it had arrived too late as a compelling political issue, but because it had arrived too early. If it had emerged from continuing state-level agitation without the baggage of prior defeat, perhaps there would have been greater social pressure behind proposals for change – and a less cohesive and resourceful opposition lying in wait.

As it was, health insurance did not benefit from the political window of opportunity created by the New Deal. After the 1938 congressional elections, southern Democrats and conservative Republicans forged a conservative coalition that blocked most social reforms (Patterson, 1967). Instead of fostering the passage of national health legislation, the 1940s were characterised by the multiplication of private welfare institutions that would have a fundamental impact on the development of both old-age and health insurance in subsequent decades.

After the New Deal: (private) policy feedbacks

As already mentioned, the development of private social welfare institutions was quite slow before the 1940s. Despite the fantastic hopes generated by the expansion of corporate ‘welfare capitalism’ before the 1930s, health insurance and private pensions never covered a significant share of workers prior to World War II (Hacker, 2002).

Ironically, however, the implementation of old-age insurance stimulated the development of private pensions and health insurance, especially after the enactment of the 1939 amendments to the Social Security Act (Dobbin & Boychuck, 1996). In the 1940s, tax incentives and regulations implemented by the federal government (and heavily shaped by the lobbying of corporations and insurers) further encouraged the multiplication of fringe benefits (Hacker, 2002: chapters 2 and 3). Crucial changes in the tax code made between 1910 and 1930, for example, created a special tax exclusion for employer-provided pension plans. These changes were codified in the Revenue Act of 1942, which created the first rules governing the distribution of private pension benefits and allowed corporations to factor in social security benefits in meeting them. Congress did not codify the health insurance tax exclusion until 1954, but corporate health plans had been receiving favourable treatment for many years before that. As tax rates rose in the 1940s, the value of these special exclusions rose dramatically, at the same time as firms were trying to seek employees in an increasingly tight labour market. The wage-control regulation of World War II also exempted fringe benefits up to 5% of wages from controls, and after the war, key court rulings paved the way for labour unions

to bargain with employers over what was becoming an increasingly sizable sphere of social protection.

If the exact effect of these decisions is unclear, there is no doubt that the expansion of fringe benefits during the 1940s was striking. From 1939 to 1946, for example, the number of private pension plans expanded from only 659 to 9,370, and the share of the population covered rose dramatically (Ghilarducci, 1992). Private health insurance – primarily under the auspices of the expanding Blue Cross-Blue Shield network of health plans – grew even more quickly, its coverage increasing from 10% of the population in 1940 to almost half by the end of the 1940s. Unable to obtain comprehensive social protection through government programmes, labour unions decided to fight to win fringe benefits through collective bargaining. Again, the federal government helped stimulate this development, and the 1950s were characterised by the further multiplication of private pension and health plans (Brown, 1997–1998).

The development of private welfare institutions during the 1940s and 1950s had a direct impact on the policy choices that were made during these two decades. If federal decisions and tax policy stimulated the expansion of fringe benefits, private welfare institutions in turn created powerful feedback effects on federal policy-making. Yet these feedback effects were different in the pension field than with regard to health insurance. Because a comprehensive old-age insurance programme was created in 1935, *before* the large-scale emergence of private social benefits, private pensions were largely considered supplementary schemes. Despite lingering business opposition, employers came to perceive old-age insurance as a basic floor of protection necessary for private pensions to thrive. Indeed, because most pensions were ‘integrated’ with old-age insurance (meaning employers took social security benefits into account in setting pension amounts), expansion of old-age insurance was seen as a means to reduce pension costs.

After the 1950 expansion of the programme and the rejection of a Chamber of Commerce proposal challenging the programme in 1953, a political consensus emerged in defence of the programme as an essential foundation for private pensions and personal savings. In this sunny vision, old-age insurance and private pensions were generally viewed as harmonious elements of an integrated system in which public benefits provided a stable floor of protection on top of which private benefits could flourish. Here, then, the dominant policy paradigm – propagated by business, labour and social security advocates alike – celebrated the essential role of the federal government, which administered the main pillar of the American retirement system.

In the field of health care, by contrast, the development of fringe benefits during and after World War II had a totally different impact. Because no federal health insurance programme was enacted during the

New Deal, private schemes were seen as an alternative – not a supplement – to federal intervention (Hacker, 2002). For the AMA and the business community, the expansion of private health insurance demonstrated that federal health insurance was unnecessary. Between 1948 and 1950, President Truman failed to convince southern Democrats to back his health insurance proposal, and no plan of public insurance was enacted. The absence of sustained enthusiasm for this reform – even within labour union ranks – was in part a result of the AMA campaign, but also, and more fundamentally, of the belief that the private sector would develop a generous health insurance system without direct federal intervention.

Not all activists shared this belief, of course. Starting in 1951, federal advocates of social insurance decided to push for old-age insurance for the elderly, known later as ‘Medicare’ (Marmor, 1973: 14–16). In doing so, however, they strategically adopted an approach based on the stated rationale that the federal government needed only to compensate for clear failures of the private insurance market, such as the limited coverage of the elderly and poor. This new approach was a major retreat for the advocates of national health insurance, incomprehensible without an appreciation of the constricting legacies of previous policy developments. The elderly were, after all, the most identifiable and clearly ‘deserving’ group left out of employment-based coverage. Poorer and sicker than the rest of the population, they rarely enjoyed health insurance after retirement, and few could obtain affordable insurance on their own. Elderly pensioners were also the one group for which organised labour felt no ambivalence when it came to demanding public health insurance. Forced to defend their ideas in a hostile political climate and faced with deeply rooted private social protections, reformers cast their proposal as simply extending accepted insurance practices to the aged.

Private health insurance, in short, created deep ideological and political obstacles to the emergence of national health insurance. During and after the Truman administration, policy-learning and feedback effects from private institutions helped foil the campaign for national health insurance. It is hard to know whether these effects were more important than the much-studied lobbying campaign organised by the AMA. It is clear, however, that the policy choices made by health and old-age insurance advocates after World War II were deeply shaped by feedback effects from private social welfare policies. During the 1960s, the passage of Medicare and Medicaid marked the arrival of a large public programme of health insurance for the poor, the elderly and, later, the disabled – groups that were not expected to obtain private workplace insurance. At the same moment, old-age insurance was still expanding and became, during the Nixon administration, a com-

prehensive income-maintenance programme (Derthick, 1979). Without taking into account feedback effects from the private sector, their influence on policy paradigms and the contrasting historical development of health and old-age insurance, it is impossible to understand the markedly different paths taken by the federal government in these two fields.

Conclusion

The debate over the nature and sources of American exceptionalism in social policy is an old and familiar one. And yet it remains an important debate, because it continues to represent the major proving ground for the institutional approach to social policy-making – and the arena in which the approach has had the greatest and most lasting influence.

Nonetheless, for all the virtues of the institutional perspective, we have argued that it does not provide a wholly adequate framework for understanding the formative development of the American welfare state. Put simply, institutional constraints are necessary but not sufficient to explain the path-dependent journey of US social policy. Although institutional analysis can tell us much about the *prospects* for reform, it does not generally provide sufficient explanations of the *content* of social legislation. To address these shortcomings, we have suggested that institutional theories need to pay greater attention to two sets of factors that have been crucial in American social policy development: private social policies and processes of agenda-setting through which alternative policy paradigms come to guide political leaders.

The study of both these factors requires, in turn, a much more intensive focus on timing and historical sequence. Private social policies, like public programmes, are part of an unfolding historical process that creates obstacles as well as opportunities for policy-making. Although public officials do enjoy some autonomy from societal forces, they nonetheless consider private social policies and the vested interests that they create in the process of strategic decision-making. In this process, not only does the perceived failure or success of private social benefits influence the willingness of state actors to intervene in private markets, but widely distributed private benefits also shape political mobilisation and public expectations. Similarly, the agenda-setting process that precedes authoritative legislative decisions is shaped not just by public officials, but also by outside reformers, interest groups and social movements attempting to influence policy options. And these options are inspired by policy ideas and paradigms based on private as well as public precedents, as the genesis of old-age insurance strongly suggests.

Of course, policy development always follows *some* sequence, and the sequence itself may be a reflection of

deeper, less temporally bound forces. At the same time as we wish to emphasise the crucial role that these factors played in propelling the divergent paths of health care and pensions, we wish to distance ourselves from the obviously false claim that there were no other reasons why the two policy areas departed so sharply. The special power of doctors, the administrative challenges created by service rather than cash benefits – these and other factors help explain why compulsory health insurance was left out of the New Deal and why it proved such a distinctly elusive goal before and after. But these differences did not predetermine the choices that leaders made, nor can they alone explain why the two fields ended up following such dramatically different paths. Instead, their effects must be understood in the context of the governing policy paradigms of political leaders and the self-reinforcing processes unleashed by the initial divisions of state and private responsibility in each area, which in turn reshaped the aims and strategies of political actors and the policy boundaries within which they operated.

In short, arguments about path dependence do not require that paths of development are accidental or contingent. It is certainly true, as proponents of this line of theorising have emphasised (excessively, perhaps), that the concept of path dependence shows how small or haphazard causes may have large eventual effects. But the concept does not require that the initial selection of paths be wholly open. What it requires at a minimum is that an initial set of causes sets in motion a self-reinforcing process that is at least partially independent of the original causes. Factors that explain the initial choice of path also explain its endurance over time (in which case the path is merely epiphenomenal) when claims about path dependence break down. This is not true of the contrasting paths of health insurance and pensions. Roosevelt's abandonment of compulsory health insurance had nothing to do with private benefits. His was a strategic choice rooted in reform priorities and fears of the AMA. Yet as private benefits moved into the resulting policy opening, sustained and encouraged amid the post-1938 conservative ascendancy, it was the private-sector consequences of past choices that increasingly delimited the range of feasible reforms, continuing to do so even after professional power waned and rising medical costs broke the once-cohesive wall of opposition.

In sum, this article offers a more nuanced vision of the relationship between state and society in social policy development. Even in periods of relatively strong 'state autonomy', such as the New Deal or the mid-1960s, the policy paradigms that guide policy action may have their roots primarily outside the formal structure of the state. The social context for policy change is thus not simply a set of external forces creating constraints upon policymakers, but also (and sometimes more

importantly) a source of *knowledge* shaping the content and character of policies enacted. At the same time, the long-term feedback effects of private social policies can condition policymakers' actions just as deeply as the well-studied feedback effects of public policies do. Indeed, if the continued failure of national health insurance is any indication, these long-term effects may be even more important in limiting what can be achieved in specific areas than the formal institutional barriers to policy change highlighted in institutionalist accounts.

Future research on historical sequence, private social institutions and policy paradigms could help scholars better understand both the sources and the limits of innovation in social policy-making. As we have shown, examining the interaction of these crucial but sometimes overlooked factors in broader institutional context provides a richer understanding of the peculiar genesis of the American welfare state, and this may well be true of other welfare states as well.

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