Introduction

EARLY in the twenty-first century some of America's best-known corporations went bankrupt or teetered close to the edge of economic viability. Among them were Bethlehem Steel, National Steel, Polaroid, Enron, Lucent Technologies, and WorldCom. As their financial solvency disintegrated, so too did the promise of social welfare support and long-term economic security these firms had offered workers and their families.

Old-line steel companies, once the keystone of twentieth-century American capitalism, now claimed they could no longer survive under the weight of company health insurance and pension benefits. For Bethlehem Steel, for example, with 75,000 retirees on its pension rolls—more than five times the number of current employees—the unfunded retirement liability of the company stood at $2 billion, and unfunded health care costs at another $3 billion. The LTV Corporation simply liquidated itself, leaving 70,000 employees and retirees without the health care and pension benefits the company had proffered workers.[1]

Some companies had failed to put sufficient funds in reserve to pay for future retiree benefits, yet the bill still came due. Other companies like Enron and Polaroid had used company stock to meet their retirement pledges—after all, there was always plenty of paper. Unfortunately, once their stock nosedived into worthlessness, paper was all the employees had left. The Houston-based energy company Enron Corporation had once been touted as the flagship of the "new economy," but in the fall of 2001 Enron's stock bubble burst, precipitating the nation's largest corporate bankruptcy. Just as the stock plunged, the company instituted a lockdown on employee 401(k) plans, blocking employees from shifting their retirement savings out of Enron stock. Thousands of employees were left with empty retirement nests. Kathleen Salerno, an Enron employee for seven years, found that her "personal [retirement] account amounted to $46. Another friend with almost twenty years service had $102. . . . Now friends and co-workers have lost everything."[2] Not only will former Enron workers receive no future supplemental retirement income from their years at Enron but many had to postpone immediate medical care for themselves and their family members. One laid-off worker cancelled his cancer surgery. Another stopped the therapy service for his three-year-old autistic son. Workers severed from the bankrupt Polaroid Corporation and the floundering Lucent Technologies told of similar personal tragedies.[3] It was clear that even in the newest, most dynamic sectors of the economy company welfare schemes could not provide security against the risks of sickness, old age, and unemployment. Indeed, the very attachment of benefits to firms heightened their insecurity.

The Big Steel companies were unionized, so their welfare pledges could not be so easily dissolved. The health and pension benefits were embodied in legally binding contracts, some of them a half-century old. The steel industry called these obligations "legacy costs," but the question is, what is the exact nature of that "legacy"? Is it the legacy of "overly generous" union contracts, as financial analysts suggested, or is it the legacy of a persistent corporate political strategy? Since the late nineteenth century, American employers have relied on a program of welfare capitalism to deflect incursions into the workplace from the regulatory state or organized workers. Welfare capitalism encompasses social welfare benefits and health, safety, or leisure programs offered through the workplace, programs established and directed by the employer. In periods of labor upheaval and social reform American firms have relied on workplace social welfare as a private, managerial response to political pressure from the state and workers, especially when workers sought to use the state to improve working conditions and guarantee economic security. Ironically, the steel industry's burdensome health and pension obligations arose as a cost of their deliberate corporate strategy, designed to tip the balance of state power away from workers and toward business. The employee benefits programs that came to full fruition in the 1950s and 1960s represent a political settlement forged amidst the social upheaval of the New Deal and the growth of union power. These "fringe benefits" emerged from a political battle that American business leaders believed they had won since corporate executives had managed to thwart a more expansive welfare state, industrywide collective bargaining, workers' ability to turn to other sources for needs unmet by work and wages, and union control of firm-based insurance. Out of this conflict emerged a public-private welfare regime that relied heavily on private sources and permitted the distortions and inadequacies that have become so manifest in recent years. Any narrative of the American welfare state, therefore, must be told within the context of the century-long story of welfare capitalism.[4]

The United States has a mixed welfare system in which social provision is dispensed through public and private institutions. Designated groups within the population—veterans, the elderly, the long-term disabled, the medically indigent, and poor children—receive benefits through the public sector. Most of the able-bodied working population, however, depend on private sources, primarily business firms, to assist them in meeting the costs of sickness, hospitalization, vacations, and old age. More than two-thirds of the American population under age 65 depend on employer-sponsored health plans; job-based health insurance has remained the primary door to health coverage for nonelderly Americans. In 2000, employers spent $874 billion on employee benefits, including $186 billion on employee retirement programs and $300 billion on health insurance.[5] Despite the overwhelming dependence of a majority of the population on employer-provided benefits, the development of this private system has been largely neglected. This book uncovers the historical emergence of a system of voluntary insurance and pensions based in employment and investigates its interaction with and effects on the public social insurance system.[6] In addition, I show how strategic decisions about insurance benefits and income support were embedded within contests to define the ideological meaning of security—job security, health security, economic security—as this concern gained legitimacy in the wake of the New Deal.

By analyzing the historical development of private-sector insurance and corporate social welfare programs, this book offers a study of the closely linked politics of social provision and industrial relations. Although the New Deal was a watershed in American political culture and political economy, employer-provided welfare also represents a strand of continuity from the pre–New Deal period. Hence, this book spans the 1910s through the 1950s, reconnecting the threads of American labor relations with the struggle over economic security. Rather than viewing the 1930s as a definitive break, a chasm separating welfare capitalism from the welfare state and from collective bargaining, I emphasize continuity in the provision of social benefits from the 1920s into the post–New Deal period.[7] Beginning with the origins of specific private social welfare plans within the welfare capitalist and scientific management movements of the 1910s and 1920s, I trace the development of group insurance through the Depression and the New Deal to the post–World War II period. Gauging business responses to industrial relations imperatives, both on the shop floor and in the wider polity, and to political developments in social policy, I show how these pressures affected the specific nature of the company social welfare plans themselves. In turn, I uncover the ways in which American labor relations and labor policy affected social policy.

The politics of the New Deal put *security* at the center of American political and economic life. The enactment of federal mortgage assistance, bank deposit insurance, minimum wages, Social Security, and laws bolstering labor's right to organize created social and economic entitlements that legitimized the modern state. Though initially excluding many women, Latinos, and African Americans, the entitlement to security was capable of being expanded upon, and indeed would be, as various groups of Americans mobilized to demand inclusion and full citizenship rights. Yet the New Deal did not simply create the welfare state; it launched a new economy of welfare in which the ideology of security proved a powerful construct. The New Deal's politics of security set in motion a rapid expansion of the insurance, health care, and income maintenance options offered by nonstate institutions. Insurance companies, seeking to preserve a commercial market in group insurance, aggressively marketed new lines, such as group retirement annuities, hospitalization insurance, and disability benefits, both to supplement and to compete with the incipient welfare state. This book traces the fate of the New Deal emphasis on social entitlement as the private sector competed with and emulated the values of the New Deal.

Life insurance companies would have to compete with a whole range of players who were stimulated by the politics of security. Labor unions, consumer cooperatives, hospitals, and new nonprofit agencies and alliances had begun experimenting with programs that would meet the demand for income support beyond the wage relation. Mobilized citizens and social movements had played a critical role in pushing security to the center of American politics in the 1930s. New Deal legislation, in turn, stimulated further citizen engagement, as workers and community residents took action to make these policies a living reality in their communities. After the passage of the National Labor Relations Act in 1935, incipient unions had to fight for recognition and power. With government housing funds available, labor groups organized to win federal funding for working-class housing.[8] And with the passage of Social Security, unions and community groups sought to organize local residents, both to demand expansions of government income support and to build institutions that could provide social services. These activists and community members hoped to construct nonprofit organizations distinct from both employer welfare plans and commercial insurance policies. In the 1930s and 1940s, trade unionists, leftists, African Americans, rural residents, women's auxiliaries, and physicians experimented with economic security programs aimed at generating security independent of employers. Even after World War II, organized labor promoted benefit programs that would have involved labor representatives and consumers as planners and would have broken the links between benefits and the individual firm, options they continued to push for well into the 1950s. Organized labor hoped to use the power of the federal government to bolster these efforts, thus firmly connecting citizens to an expansive welfare state.

American corporations fought aggressively to sever the links between the workers and the state. In the post–World War II period company health benefits, disability payments, and pensions were part of a major offensive by employers to regain the ideological high ground in American society. Employers recognized the social and political premium placed on security as vividly as did the Democratic Party, the labor movement, and the architects of federal Social Security. After World War II, the National Association of Manufacturers called on business leaders to enlist in "the competition for leadership in a welfare economy." As one business executive proclaimed in 1949, "Now . . . it is high time for business leaders of the United States to get back into the act and enter this competition in a big way for the greatest of all stakes."[9] As the public welfare state expanded together with the union movement, American business firms and commercial insurance companies became partners in creating and expanding nonstate alternatives to public social insurance. Using the public Social Security program as a foundation, large firms came to offer supplemental pensions, disability wages, and unemployment benefits. Employers also provided paid sick leave, hospital insurance, medical insurance, and, less often, retiree health benefits. At the apogee of this system, in the late 1970s, private pensions covered 49 percent of the private wage and salary workforce (40 million people), while private hospital and surgical coverage reached more than 80 percent of Americans.[10] When it comes to the United States' unique mix of private and public social welfare, business and government cannot be thought of as inversely proportional levers. Private welfare schemes have developed, expanded, and contracted in tandem with public ones.

The terms *public* and *private* are not mutually exclusive. Private economic arrangements are always sustained by an element of state support. Private nursing homes and hospitals, for example, receive public funding from various sources. Further, because of the economic and political power of big business in the United States, public social legislation could often be turned into public mandates for business-controlled programs. From Progressive Era workmen's compensation laws enacted in the 1910s to managed care companies' contracts with Medicare in the 1990s, public programs have been used to promote the commercial insurance trade. Thus, we have to consider two questions: In what historical moments did public legislation substantively challenge employers' prerogatives over the conditions, compensation, and security of employment? And how did the ensuing political struggles between business, labor, and the state turn this result around, enabling business to use government to facilitate its ability to insulate and control such ostensibly public matters?

The politics of security involved a political struggle between business and labor; commercial insurers and nonprofit, community- or labor-controlled means of social provision; the state; and private capital.

What differentiates the period after the New Deal from the previous era is that workers had an opportunity to transform employer gratuities into employee rights. The New Deal did create new working-class entitlements and did democratize the nation's political and economic life. What happened, then, to the social democratic possibilities unleashed by the New Deal, the Congress of Industrial Organizations movement, and World War II?[11] This book uses the story of struggles over health security and old-age security, social rights, and the welfare state to answer this question and thus to trace the fate of New Deal liberalism—as a set of ideas about the state, security, and labor rights—in the 1950s, the 1960s, and beyond.

We will see, for example, how commercial cash-indemnity health and disability insurance emerged dominant over nonmarket alternatives such as union-based health centers, community health cooperatives, and service-based health plans (the original Blue Cross model). Despite a presumptive "labor-management accord" in the postwar years, management often implemented welfare plans without consulting a union or labor representative. Management offered insurance coverages that met the imperatives of industrial relations more than the security needs of American individuals and families. Additionally, the emphasis on medical insurance eclipsed the orientation toward community public health and occupational health that had characterized earlier group health center approaches. These choices in favor of cash-indemnity insurance and private pensions not only affected the balance of power in post–World War II labor-management relations; they also influenced the direction of governmental social policy and the increasing fragmentation of the American welfare state.

Security occupied a central place in American cultural and political life from the 1930s through the 1960s, but varying players clashed over who would get to define it.[12] As chapter 4 shows, security was grounded not just in the liberal notion of rights but also in the communitarian norms of solidarity and shared social responsibility of grass-roots, Popular Front politics. For many of the trade union or activist women and men who worked on what they called "social security" issues—which went beyond social insurance to include health care clinics, housing, public health measures, minimum wage struggles—building security meant building community institutions, linking grass-roots activity with national social policies. In the political lexicon of the New Deal order, *security* embodied a class challenge and collective power. Public social programs, of course, encompass and represent a particular relationship between individual citizens and the state, as well as one between citizens. The ideology of security also defined a relation between the state and the economy. New Dealers identified economic security as a grand national project, "a great cooperative enterprise" among "the citizens, the economic system, and the government."[13] Therefore, in addition to the idea that there is a public claim to resources of the nation, security entailed an explicit element of public power. The state would compel that claim to be distributed sufficiently to ensure Americans a standard of living and social well-being above subsistence.

Private providers of benefits, while accepting security as an important value, waged a battle to influence its meaning as well. For employers, workers' security plans demonstrated that the firm was a generous employer, bestowing its beneficence on workers. Insurers and employers used the language of free enterprise, individual initiative, and voluntarism to characterize security. They endeavored to shift its emphasis away from the state and the political arena to private, individual economic relationships. Amid these political and economic struggles of the immediate postwar period, the labor-liberal conception of security narrowed until it meant security primarily as a right of the wage worker. Security would provide support for periods when the wage income was interrupted, for example, by old age or disability, or supplemental support for wage earners, such as health insurance. For those who received the fruits of welfare capitalism, the link between security and the state became increasingly attenuated. By the 1960s, middle-class and working-class Americans saw General Motors, IBM, AT&T, or local employers as a source of social security. Since then, such workers have proved increasingly unwilling to support expansions of public welfare programs beyond supplements to their employer-provided benefits. Insurers and employers thus redefined the meaning of security, creating a new private, firm-centered definition of security.

In the 1940s, when the federal government played an essential role in labor-management bargaining, employment issues became highly visible. Industrial relations were very much a public matter, their outcome seen as having general ramifications for the entire political economy. But after 1950 the federal government withdrew from this arena. Congress, the courts, and the White House deferred to employers and to purveyors of private insurance when it came to providing for working, nonindigent, nonelderly Americans. Neither the New Deal nor the Fair Deal created a sufficient basis in labor policy, law, or welfare policy to enable workers to prevent employers from unilaterally implementing management-chosen benefits or from determining which groups of workers received income support or insurance benefits. In the 1950s collective bargaining became merely a system of privatized mediation of economic security issues. Democrats, the New Dealers' heirs, came to see the expanding private social security system as increasingly necessary to supplement the stalled public welfare state. They accepted business leaders' contention that "the costs of these benefits are private business costs, have no relation to employee compensation, and are therefore of no concern to employees or others."[14]

A collective bargaining agreement is a reflection of the balance of power. Under the postwar industrial relations system, management maintained the balance of power at the level of the firm through control of production, finance, and discipline and ultimately through plant closure.[15] Management, not the unions, controlled social welfare. Historians celebrating postwar unionism have focused solely on labor's apparent success in winning important benefits at the bargaining table. They have rarely, however, considered the details of these plans.[16] If we take health coverage as an example, the specific nature of the chosen health plan had major political ramifications in the workplace and in the polity. Management's choice of commercial group health insurance over service plans such as Kaiser Permanente or Blue Cross often represented a significant political victory for management, for only the employer was a legal party to the group insurance contract. Employers excluded health benefits and pensions from grievance procedures. Thus, managers did resurrect welfare capitalism, even in an era of union power.

The privatization of this social agenda had manifold consequences. Besides creating uneven, unequal benefits across regions and sectors, it left many Americans outside the fold. Few unions could follow in the footsteps of a powerful union like the United Automobile Workers. Beyond the oligopolistic sectors where domestic competition was minimal, companies rarely replicated the benefit packages set in steel and auto, especially once the industrial union movement stalled in the late 1950s. As in the case of the public welfare state, the gender discrepancies grew more stark. In the early years of the CIO and community activism surrounding social security, women were critical players in trying to build a community, social-union movement. Yet the CIO organized largely male-dominated production industries, and collective bargaining contracts focused on benefits for the worker, rather than institutions for the community, reinforcing the patriarchal assumptions of the family wage in private as well as public benefits.[17] Industrial relations experts of the early postwar era thought that collective bargaining could itself substitute for the weakness of the U.S. welfare state, extending the benefits of social citizenship to ever greater sectors of the workforce. But collective bargaining could not and did not substitute for social policymaking at the national level. Instead, the new definition of social citizenship ascendant with the New Deal came under attack as private benefits boomed and public ones stagnated.[18] The parsimonious expansion of public benefits became evidence that worthy citizens were served best not by the state but by the private sector. Thus, after forty years of expanding the reaches of social citizenship, we are now reining it in, sharply curtailing our delineations of who is entitled to what from the state. The concept of economic security has regained an atomistic ideological cast.

In writing about the American welfare state I am fortunate to have a wealth of new scholarship on which to draw. The institutionalist approach of historical sociologists and political scientists has greatly enhanced our understanding of welfare state development over the last decade. By focusing on the organizational structures of American politics—bureaucracies, courts, parties, and Congress—these scholars have shown how U.S. federalism, the regional divisions of the polity, and the degree of bureaucratic development within the state have shaped social policy formation and implementation. Moreover, the competition among state agencies over programs and ideas had substantive consequences for public and private welfare systems, as chapters 4 and 5 in this book demonstrate. Nonetheless, an exclusive focus on autonomous state structures tends to obscure nonstate power relations.[19]

Departing from this institutional approach, this book explores the influence of social movements and mass politics and of the wider economy, especially economic relationships and economic power, in shaping public and private welfare policies. Mobilized groups of people created shifts in social and structural power relations, which in turn influenced state behavior. Grass-roots movements pushed economic security to the center of national politics in the 1930s, provoking major transformations in both private and public social welfare. While the state is capable of independent action, we still have to consider how the state is bound up within a network of relationships among economic institutions (business firms and financial intermediaries), labor unions, and service institutions. Thus, this book attempts to demonstrate how institutional relationships between business, labor, and the state determine social welfare regimes and labor's compensation, both wage and nonwage.[20] Moreover, these relationships shift over time, and as the balance of power tips toward different players, a new set of political options becomes possible. In order to explain the passage or defeat of social policies and the structure of particular public and private social welfare benefits in the United States, it is necessary to examine the balance of power in the political economy. This was just as true of health insurance politics in the 1990s as in the 1940s.

As a historiographical theme, *corporate liberalism* no longer explains the course of American reform. Business leaders may have tried to domineer social legislation, but they did not always get what they wanted.[21] Yet, when we widen our view beyond the state, it is clear that business firms have a tremendous ability to affect the nature of U.S. social provision. They do so not just by shaping a particular piece of legislation but by making strategic choices within their own firms and communities about the transfer of resources beyond wages and about the structure of employment within their firms. Labor unions too affected social welfare, by establishing wage structures, benefit standards, bargaining regimes, and expectations outside of the state. Social policies and income support provisions have a dynamic of their own: they raise expectations, possibilities, or frustrations, which are acted on in numerous venues.

The growing literature on the gendered and racialized welfare state has also had an essential impact on how we understand the historical development of American social policy and the welfare state. The historians in this school have shown how gender assumptions about family roles and family maintenance and gender-based power within the government forged a welfare state that, in turn, conferred different, and substantially unequal, levels of economic security on women and men, people of color and whites. By focusing on programs such as Social Security and Aid to Families with Dependent Children, they demonstrate that labor market discrimination, as well as gender and racial divisions in labor, were reproduced in the welfare state.[22] The private benefits system that wrapped itself around the public welfare state base could only replicate these inequities. Indeed, the employer-based benefits system widened wage and income disparities among workers rather than closing them. And insofar as the state has encouraged and shaped Americans' heavy dependence on firm-based benefits, it too was often an agent promoting or hardening the lines of social stratification in twentieth-century American society.[23]

Life insurance firms were essential to the creation and maintenance of the private welfare system. Chapter 1 uncovers the origins of the modern private benefits system: group insurance. In the 1910s and 1920s, life insurance companies created group insurance—life insurance, accident and sickness insurance (disability wages), and pensions—which could be sold to employers to cover thousands of workers under one policy. Insurers such as the Equitable Life Assurance Society and Metropolitan Life promoted group insurance as a social and economic innovation that would improve relations between capital and labor—and without social insurance legislation. These companies sold the idea that American employers could and should meet the social welfare needs of their workers. Although most workers received little, insurers had laid a foundation for the proliferation of private security programs during and after the New Deal.

But what would happen to welfare capitalism in the era of the welfare state? Chapters 2 and 3 examine the response of employers and insurers to the Great Depression and the Social Security Act. After examining the early history of industrial pensions, Chapter 2 investigates efforts to sustain welfare capitalism during the early years of the Depression and the challenges raised by popular social movements that demanded state action. Chapter 3, on the Social Security Act and the 1939 amendments, explores the relation between an ascendant politics of security and the coalescing welfare capitalist view that the welfare state should be a minimal base supplemented by private institutions. I do not intend to revisit the debate over whether the Social Security Act was a creature of business interests; I come down on the side that it was not.[24] Instead, this chapter looks first at the ways in which insurers and welfare capitalists sought exemptions from a public social insurance program and then at how they tried to adapt welfare capitalism to the newly expanded state. In response to the Social Security Act, many employers turned to private, managerial strategies, as well as to political, legislative ones. Insurance companies, who came around to supporting the Social Security Act by 1936, served as advisers and intermediaries for employers on both fronts. Insurers came to see Social Security as a great boon to the "security business." After 1935 the language and rationale for welfare capitalism shifted from scientific management and industrial efficiency to "security," as large insurers eagerly embraced the politics of security. Subsequently, New Deal liberals consciously and inadvertently encouraged the development of this "supplemental" social security system, first, through tax laws and amendments to the Social Security Act and, second, by accepting the ideological arguments for private supplementation of the public welfare state.

In chapter 4 the attention shifts to focus on how social welfare experts, health reformers, community activists, and labor unions were swept up in the search for security as well. As New Dealers enacted old-age pensions, unemployment insurance, and aid to poor children, they also began planning for a new round of benefits, inaugurating an era of social experimentation, particularly at the local level. Among various prototypes, I also contextualize the origins of Blue Cross, group-practice medical plans, community health plans, and health care cooperatives.[25] Organized labor and Popular Front activists developed a broad social democratic agenda that included government programs for unemployment, old age, disability, and health insurance linked to a nationalized social wage. From the mid-1930s, they pushed hard for both state-provided social security and "voluntary" social security linked to unions or community institutions.[26] Indeed, their ability to conceptualize a national health program depended on their experiments with voluntary health plans that were built at the community level and outside the employment relation.

World War II would affect private and public welfare benefits in contradictory fashion. On the one hand, as chapter 5 shows, the federal government became directly involved in running local health care programs and providing health insurance on a national basis. Many New Deal liberals hoped to build on these precedents after the war, drawing on experimental programs such as Emergency Maternity and Infant Care. On the other hand, strategies chosen by the Social Security Board and the National War Labor Board would channel public and private economic security projects into much narrower parameters in the postwar period.[27] The momentum for health security, as well as for other social welfare benefits, shifted to employers and channeled independent community initiatives into the mold of collective bargaining.

Chapter 6 demonstrates how employers circumvented union plans for employee benefits, implementing their own programs based on group insurance that enabled management to dominate—firm by firm, even plant by plant. In the 1930s and 1940s insurers created group hospital, surgical, and medical policies to build on the security foundations laid by the federal government. Employers, anxious to quell demand without further empowering the state or the unions, eagerly began signing up for basic group insurance policies. The commercial policies offered a perfect fit with management needs because of the way in which insurers defined risk. They insured something against loss, calculating premiums and benefits based on exposure to loss, or risk. Naturally, insurance companies sought to minimize their own risk exposure, and therefore they would only cover persons who were not exposed to too much risk. In designing group insurance these companies found that "employed individuals enrolled on a group basis . . . are undoubtedly the best risks"—thereby constructing what has since appeared to be a natural link between insurability and employment.[28] But social insurance and public welfare proponents claimed that those who needed protection were all the people who were regularly exposed to economic insecurity and ill health, that is, everyone, healthy or sick, employed or unemployed. They wanted risk to be pooled at the societal level. Such open-ended inclusion was precisely what commercial insurers sought to shield their companies against. In the case of health insurance, risk meant exposure to medical care or health services, and what was lost was the cash used to pay for them. By necessity, then, coverage had to be limited, and commercial cash-indemnity plans covered only a fraction of any given set of medical costs. Commercial insurance applied a variety of mechanisms to protect this principle, including highly varied premiums and deductibles for routine care. The more one used medical care, the higher the premium became, and the lower the net benefits. Those who had health problems and needed the services had to pay the most money. Insurers defined risk either as a characteristic of individuals or, in the case of group insurance, circumscribed groups of individuals. Risk, then, should be pooled only among the safest groups.[29] This orientation attenuated any connections between individual health and community health, individual security and social security.

Moreover, because insurers designed health insurance within the construct of the family wage—a single breadwinner and dependent family—they forged a health care system in which many people had no direct access or claim to medical care. Their only claim was through a wage earner; in turn, the wage earner became dependent on the employer for meeting all family needs. Insurers, then, not only made possible the resurrection of welfare capitalism; they perpetuated its patriarchal character.

Chapter 6 demonstrates how, despite the range of health care alternatives that existed in the 1940s, commercial cash-indemnity insurance emerged dominant. The commercial life insurance industry enabled business firms to contain the reach of the New Deal state. They underwrote private welfare benefits, fragmented demand for expanded public benefits, and helped insulate firms through their increasingly significant role as financial intermediaries. By revealing this nexus of welfare and investment, we can see how these institutional linkages fragmented and redirected the development of American social provision, privileging private, firm-based benefits. Insurers soon received the support of the medical community, which helped commercial insurers undermine the health programs that organized labor had advocated.

Collective bargaining drew a boundary around the well-paid, organized working class and left other workers out in the cold. But the problem with private group insurance was not simply its restrictive demography. The benefit policies themselves were inherently flawed. Commercial group health insurance was the most inflationary, limited form of health coverage available, even when it was incorporated into a collective bargaining contract. Yet because organized labor could not penetrate the links between insurance companies and employers, often longstanding associations dating back to the 1920s, they could not win the benefits they thought would best meet workers' security needs. Likewise, most unions did not have the power to control the administration of pensions and annuities. By the mid-1950s, neither organized labor nor Democratic liberals had the ideological commitment or the political weight to use the state to recast private welfare plans as matters of public security and public interest. Through tax policy, labor "reform" politics, and the Cold War embrace of "free" collective bargaining, Democratic policymakers allowed private insecurity to endure. Business interests were able to alter the role of the state in industrial relations politics and in fact use it to sustain an increasingly insular, private, firm-centered definition of security.

The reach of firm-based benefits would continue to grow into the 1970s, after which even this carefully circumscribed system began to shrink.[30] Yet the historical ideological legacy of the American public-private welfare state—the basic welfare state, contained and limited, with all other needs met by private sources—continues to dominate policy proposals and legislation up to the present day. Indeed, we are now witnessing the unraveling of the New Deal system of social entitlements. A Democratic president presided over the dismantling of Aid to Families with Dependent Children. A Republican president has launched an active campaign to privatize Social Security. The positive language of security has been replaced by the pejorative nomenclature of dependency. Solutions to social and economic security, many claim, lie in an "opportunity to invest."

In this context, this book demonstrates several key principles in the relationship between business, social welfare, and the state. First, proponents of social welfare privatization have argued that if we reduce or eliminate the role of the state in social welfare provision, business will fill in the gap. But this claim ignores our history. Business firms increased their commitment to corporate social welfare programs when government itself expanded its social welfare and labor intervention roles. The very language that has been attached to current welfare privatization proposals is the phrase *personal responsibility*—not *corporate responsibility.*

Second, for more than half a century critics of national health insurance and an expanded welfare state have tried to discredit national, public programs by claiming that such programs would be "political," inefficient, and inflationary; private programs, by contrast, would be intrinsically "apolitical" and efficient. This historical work demonstrates that private benefits were political, inefficient, inflationary, and unreliable from their inception. Indeed, the very logic of organizing benefits around employment is a flawed concept. By perpetually fragmenting risks (through experience rating or employer self-insurance), rather than pooling them, it utterly subverts the social purpose and the economic efficiency of insurance. The administrative and financial burden of such a system has only grown more immense over time, especially as ever-increasing numbers of Americans have gone to work in service-sector or small firms, shattering even the isolated actuarial islands of those who worked in mass-production industries.

Third, business enterprises are not stable foundations for long-term social security. Profitable firms prosper and decline as markets change; in the large scheme of things they are rather temporary institutions. No one knows this better than business managers themselves. In response to the collapse of Enron in 2001, Secretary of the Treasury Paul O'Neill (a former chief executive officer of ALCOA) remarked insouciantly, "Companies come and go . . . it's part of the genius of capitalism."[31] Consequently, the management view of social welfare has always been Janus-faced and politically contingent. Business and insurance executives have long recognized that firms cannot always bear the social benefits burden; that there are firms that cannot or will not pay for them at all; and that it is financially advantageous to avoid such benefits. Meanwhile, corporate executives assured their workers, their communities, and the public that there was no need to call in the state; they could meet all economic security needs, at least until the company merged, "down-sized," or relocated to meet other cost imperatives.

This inconsistency raises the issue of accountability in two senses. To what degree do firm-based benefits confuse an administrative convenience with an actual assumption of employer responsibility for social needs? Workers and voters once strove to make business more accountable to labor and to the public. A temporary change in the balance of power during the 1930s and 1940s, when unions and the federal government commanded significant public support, had pressured employers to expand these programs and offer more meaningful benefits than in previous years. But once the ambitions of the federal government shrank and the labor movement went into retreat, many business firms renounced the private welfare state as well.

This book is a work of political economy that links labor policy, social policy and social welfare, institutional economic relationships, and political culture. It shows that the private social security system is just as much a legacy of the New Deal and the Fair Deal as federal Social Security. This study moves beyond the traditional assumptions about post–New Deal labor policy and social provision by demonstrating the extent to which collective bargaining itself was part of an ongoing story of the development of private benefits. And this work restores to discussions of social provision, the welfare state, and welfare capitalism the centrality of economic power and economic relationships in a liberal capitalist political economy.