

# **The Switchmen of Social Policy**

**Ideas, Interests and the Origins of Unemployment Insurance in the  
U.S.**

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## Abstract

This paper approaches the conceptual question of the how ideas and interests can be linked for explaining institution-building and path-creation in modern Capitalist welfare states. The question will be developed along a historical case study on the interest formation processes that led to the introduction of the first American unemployment insurance as part of the Social Security Act in 1935. It is shown that the debate among researchers of the rise of the American welfare state is centered around three labor market actors: The power resource models concentrating on the labor movement and/or the employer side and more state structuralist views stressing the interests of an independent administration. It is argued that those approaches have the common problem of pursuing an objectivist concept of interest. actors' interests are deduced from fixed socio-economic and political structures. This creates two explanatory gaps: First, they are not able to sufficiently explain historical timing and the direction of interest shifts where other ways would have been historically possible. Second, they cannot explain the concrete institutional design, understood as a particular pattern of institutional regulations, that was chosen by U.S. policy-makers. It is argued that both empirical puzzles can be solved if ideas and political culture are taken seriously for the analysis of historical interest formation and institutional path-creation.

Based on the Weberian image of ideas functioning as "switchmen" for the dynamics of interests it can be shown that the interest formation process was not only a question of economic structures but also a question of the cultural evolution of social knowledge. When the Great Depression made older interest positions obsolete or even dangerous to the socio-economic position of the three labor market actors a window of opportunity for the adoption of new perspectives opened up. Already since 1911 there had been an intensive academic debate on unemployment insurance structured by two schools of thought: The "Ohio School of Thought" wanted to copy European nation-wide compulsory unemployment insurance systems. It was a historical coincidence of different socio-economic and cultural processes that gave the opposing "Wisconsin School of Thought" a big advantage at the end of the 20s. The Wisconsin School of Thought offered a new perspective for collective labor market actors to pursue their material interests with the help of unemployment insurance, although for many years they had perceived such a welfare system as contradictory to their interests.

When older worldviews eroded Depression the Wisconsin School of Thought became the new dominant perspective in social policy and guided the interest shift in the Depression. Moreover, the shared set of ideas on unemployment insurance among the materially conflicting political actors in U.S. social policy pre-shaped the political arena for the legislative process that led to the Social Security Act. Through influencing the forming of interests ideas set the tracks for the unanimously and tacit adoption of some features. At the same time for other, strongly contested issues ideas shaped which alternative outputs were discussed and other possibilities were completely left out although – from an objectivist point of view – those "un-debated" features would have meant a material gain for one of the sides.

## I. Introduction

Explaining the rise of the welfare state in western capitalist societies has always been a big issue in political and social science. In order to analyze the origins of processes of social policy path creation in different countries many political scientists have concentrated on the interplay between socio-economic background conditions and organized political interests. Structural economic changes, strength or weakness of the labor movement and employers' associations, ethnic and religious social cleavages, as well as structures of party competition have been argued to be major influences on the development of modern capitalist welfare states.

At the same time there are many theoretical innovations in the analysis of the emergence and change of political institutions that focus on the impact of ideas and cultural patterns on the shaping of institutional settings. Mainly springing from sociological organization theory there is a widespread consensus in institutional theory that ideas matter for the legitimation of institutions and their power to morally sanction strategic actors.

However, little has been written about the question *how* ideas matter and how to conceptualize their relationship to the 'hard' organized interests and economic structures of a society for the analysis of institutional path creation. Most frequently, path creation is conceptualized as springing out of a contingent starting point, where one of possible options gains power advantages based in the strength of organized interests (Esping-Andersen 1985; Skocpol 1992). Through lock-in processes and increasing returns for the chosen path afterwards institutions become stable and long-lasting (Pierson 2000a). Controversely, many sociological approaches stress that ideal paradigms and cultural traditions matter a lot for the process of institutional path-creation because they create legitimation and offer meaningful but constrained orientation for actors (Dobbin 1994; Offe 1996). In this paper I want to show how these two approaches can be connected: The crucial subject therefore is how ideas and interests can be connected for the analysis of institutional path-creation.

I want to offer an answer to this question by arguing that ideas are very important explanatory variables for both the *process of interest formation* and the concrete *internal structure of the institutional output*. Taking the introduction of the national unemployment insurance system in the United States Social Security Act of 1935 as an empirical case study, I will show how ideas influence processes of institution-building through the impact they have on the formation of actor's interest.

I will show in part II that the dominant theoretical approaches for the explanation of the rise of the American welfare state have two explanatory problems: First, wherever interest-based approaches primarily root their concept of interest in the socio-economic or institutional structure of a society, they have severe limits in explaining *interest shifts*. Second, it is not possible for those approaches to sufficiently explain why *one particular institutional design* was

introduced, because they most frequently focus on the “if” of institutional path-creation and not on the “how”. But a historical view reveals that different systems would have been possible in the structural and material interest context of the moment of path-creation.

I will lay out a theoretical framework in part III showing how historically grown ideas, understood as elements of social knowledge, influence the political processes of path-creation in two ways: First, ideas shape the way political actors make sense of the social problem, its causes and possible solutions and thereby influence the direction of interest shifts in moments of crises, when actors seek new ways of pursuing their material interests. Second, connected with this re-formation of interests a political arena for the detail questions of unemployment insurance is shaped that defines consensual issues and narrows the options that are subject to political conflict, thereby indirectly constraining the possible institutional outcome. In part IV I will describe the historical development of the debate on unemployment insurance in the United States between 1911 and 1935. I will show how through these twenty years of debate dominant ideas emerged that shaped the way actors made sense of the concept of unemployment insurance. When the Great Depression drove the pursuit of the “old” interests unprofitable, the actors turned to these discursively dominant ideas and adopted them for new interest seeking strategies. Then I will show how this new structure of interests, which was based on a dominant set of ideas, filtered the process of designing the new institution of unemployment insurance in the U.S. New Deal Social Security Act.

## **II. What is puzzling about the Rise of the Welfare State in the U.S.?**

The biggest part of the literature that seeks to explain the origins of country-specific institutional paths in social policy concentrates on the question whose interests were the key factors behind the processes ( Pierson 2000b; Esping-Andersen 1985; Trampusch 2000). On the question of the origins of the U.S. welfare state - mainly the processes that led to the Social Security Act of 1935 - an intensive debate has occurred between the social-democratic view of welfare state analysis, more business-centered approaches and a structural-administrative perspective.

The social-democratic view generally focuses on political strength and organizational resources of the labor movement and socialist parties in a country as the main explanation of welfare state expansion (Esping-Andersen 1985; Korpi/Palme 2003). The most prominent business-centered approach in the analyses focusing the political economy of the welfare state is centered around the terms of “Asset Specificity” or “Skill Specificity”. As Torben Iversen argues, social benefits can secure and stabilize work income over time and therefore make it easier for employees to risk long-term investments in skill specificity. As the employers need skilled

employees they can be quite interested in social welfare, especially if production structure and market regime systematically rewards those long-term strategies (Iversen 2005; Mares 2001). This more business-centered approach opposes the power resource model by showing that social policy can be very profitable and efficient for employers and companies. Obviously, both approaches have difficulties explaining the Social Security Act of 1935, because it was a remarkably extensive and surprisingly comprehensive step toward a modern democratic capitalist welfare state in the European sense.

But there are authors from both sides of the river that have tackled this issue. Sympathizing with the business-centered approach Peter Swenson has developed an interest coalition approach for the analysis of welfare state expansion in the United States and Sweden (Swenson 2002). After a more corporatist management strategy that included cooperation with the trade unions had failed in the United States at the turn of the century, progressive corporate liberals started to define an efficiency wage-high productivity strategy. This created an interest for those corporate liberals in pursuing state- or industry wide systems of unemployment insurance in order to exclude low skill and low productivity competitors from their markets. Unemployment insurance could become an instrument to punish companies that wanted to opt out from the efficiency wage strategy. With this interest shift it was possible to build a coalition between business interests and labor that became the basis for the New Deal Social Security Act of 1935. Swenson's brilliantly argued work provoked strong reactions among authors that were sympathizing with the labor-side of the power resource approach, while at the same time they were stressing historical institutionalist models of timing and socio-economic context. Jacob Hacker and Paul Pierson argued that the accumulation crises of the Great Depression had caused to process that made the Social Security Act possible: First, business power was weakened very much, and second, the New Deal administration was facing a strong street pressure and competition within the Democratic Party by radical leftists like Huey Long or the Townsendites. Hacker and Pierson opened their argument for a third influential interest that had been stressed by Theda Skocpol before, especially in her analyses of early New Deal economic policy, namely the interest of an independent administration (Weir/Skocpol 1985; Skocpol/Finegold 1982). The New Deal brought into power a young and professionalized elite that was strongly connected with the academic experts on economic policy and social work. This group used the access and influence they were given in a moment of economic crisis to expand federal intervention capacity, in a system that had always been too fragmented to be centrally shaped before.

So the debate is in a situation of stalemate concerning the question if the employers had changed their interest, if they had just become weaker or if they did not matter at all for the politics of the New Deal. The three sides have gathered remarkably convincing historical

material too prove their point: Swenson shows the very supportive statements some employers gave in the congressional hearings and interprets the official reluctance of the National Association of Manufacturers and the U.S. Chamber of Commerce as rhetorical “smoke” that was adequately disregarded by Roosevelt. The other authors have stressed this very strong reluctance as showing that it was not about new interests but just about a new power balance. There is also wide evidence about the strong administrative network the New Deal brought into power and the many academic experts that took part in the early New Deal. Liberals like Felix Frankfurter, Louis Brandeis, Rexford Tugwell or Harry Hopkins came into power as a reaction to the dramatic socio-economic downturn of the Great Depression. Introducing social policy was an important part of their concepts to renew the American economic policy and re-establish socio-economic stability through more central planning (Weir/Skocpol 1985).

In this paper I want to try to show that the dead-end this discussion can be overcome by taking more seriously the influence of ideas on the formation of interests and the concrete institutional design: The common problem with all explanatory approaches is that they root their concept of interest primarily in socio-economic structures and leave out cultural or ideational influences. Although Swenson describes that corporate liberals had a sense for marrying moral and efficiency, he does not work this out but concentrates on the structure of the production processes as striking explanatory variable. For Hacker and Pierson it is no question that the “street” or trade union interest in the Depression was the expansion of social policy. Skocpol and her co-authors stress a network-connection between New Dealers and academic experts, but in the end the ascribed object interest of the New Dealers is not rooted in programmatic ideas but in the expansion of structural federal intervention capacity.

All three approaches build their concept of interests out of external and given material structures only without taking into account a central insight of historical sociology: Social processes show a systematic openness and can only *afterwards* be deduced from their structural context. If we want to understand how certain institutions or actions came about in the beginning we have to analyze the interplay of material structures and the ways actors make sense of the world on the basis of their social knowledge and values. If we only stick to the objective material structure, this will have two problematic consequences: First, it fails to endogenize the direction of the interest shift. It could have gone in a different direction because material structures are not deterministic. There is broad historical evidence that in the forefront to the New Deal social policy legislation interests changed for all the three actors. The trade unions were reluctant against social policy legislation until the middle of the 1920s and switched over to a new strategy when William Greene became president of the AFL in 1925. At least a good part of the employers turned away from strong opposition already at the beginning of the 1920s. The New Deal administration also meant a shift to new policies that

were not just an expression of a party shift in power: Democrat president Wilson and even progressive president Theodor Roosevelt had made no efforts in any social insurance legislation after the turn of the century. Of course, we as scientists later in history know that social policy came about in the 30s and looking at the actors we can easily connect to their socio-economic context and look for factors that made it profitable for those groups to pursue social policy. But a historical view treats politics as a process that could have gone another way. For example, after the old cartelism broke down it would have been possible *and profitable* for employers to return to more radical closed shop policy. There must have been a learning process or paradigm shift, at least among some employers. The same is true for the other groups: The American Federation of Labor (AFL) had always seen universal social legislation as a state attack on the autonomy of the American worker, even in times of crises. The recourse interest new administrative elite shares with academics alone is not sufficient to understand a new emphasis on central planning and social policy that had been avoided by Progressivist and Democratic administrations for many decades and was potentially dangerous to the federal budget. The strong leftist competition within the Democratic Party is a good explanation for the necessity to apply new concepts of federal policy. But where did that come from? Why did they listen to Wisconsin Progressive academics but not to Harvard laissez-faire apologists or to the Socialist concepts of Europe? Taking into account the historical openness of politics means seeing a puzzle in the fact, that different interests converged in the direction of the social policy that was implied in the end. If that is not seen as an explanandum but as the explanans, the analysis suffers from a functionalist bias.

This is strongly connected with the second conceptual problem: Objectivist concepts of interests put the primary focus on the question of general approval or refusal of any social system for the unemployed. The question of the concrete institutional design is very often a secondary question where political system and policy paradigms are said to be important, but this never gets worked out in detail. But this hierarchy of puzzles is problematic: Very often in politics the concrete legislative details of an institution are crucial to the question of approval or refusal in the end. A closer look into the different institutional issues that were debated in the question of unemployment insurance reveals that any of the cited interests groups and coalitions was favoring some issues and refusing others, while at the same time some issues were not explicitly favored by one of the sides but somehow made their way into the legislation. Many authors would claim that this is a question of the structure of the political game and strategic bargaining. But we will see, that there are conflicts and consensus among the actors in the legislative process of 1935 that cannot be sufficiently explained by the systemic features of the United States or that did not become subject to bargaining, at least building on the narrations given by the participants of the process. It will be possible to see how the concrete packaging of

regulatory aspects was not only based on plans developed in the back offices of the labor ministry. It was strongly rooted in the interest constellation among labor market actors from the very beginning that had been pre-shaped by dominant political ideas.

### **III. A Conceptual Framework for Analyzing the Formation of Interests and its Consequences**

Tackling the two explanatory deficits that I isolated in the last section is possible by expanding the concept of interest from a phenomenological perspective: As many sociologists have argued, the intentional rational actor faces a problem of social complexity in defining a rational strategy (Schütz [1953] 1971; Giddens 1984; Beckert 1997). In order to act rationally and strategically in a complex environment the rational actor has to build expectations and assumptions about the causal mechanisms and probable reactions of other actors in the social world surrounding him. He will do this by filtering certain social facts and processes out of reality on the basis of his personal experience and the cognitive and normative worldviews he got socialized into. This means that ideas like economic theories, political traditions and social values concerning the appropriate social order are structures that interact with the hard socio-economic material interests, they are necessary tools for developing rational policy preferences out of those material interests. This has been described by Max Weber in a very famous citation:

„Not ideas, but material and ideal interests, directly govern men's conduct. Yet very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest.“ (Weber [1916] 1973 transl. by SM)

The image of “switchmen” points to the pre-political character of the interlink between interests and ideas. If the process of interest formation for every actor is influenced by the ideas, experience and knowledge he has in regard to a certain social problem, political culture is directly connected to the socio-economic structure of politics. We will now have a closer theoretical look how this image could be filled with content, which types of ideas influence interest dynamics in which way.

#### **Types of Ideas: Normative and cognitive modes of looking at the world**

One very important line of categorization of ideas is the question which mode of looking at the world they constitute, the mode of observing and analyzing the world with the help of cognitions or the mode of evaluating different worlds with the help of norms and values.

First, in interpretative and phenomenological social theory ideas are meaningful representations of the social world. They are actor knowledge and contain every-day-theories that make it



possible to act meaningfully in the social world surrounding them. (Schütz [1953] 1971; Schütz [1932] 1960; Weber [1905] 1982; Lepsius [1986] 1990). This means, ideas are meaningful ways of looking at the world, cognitive framings of the social world as a meaningful environment. Collective actors in Political Economy like employer groups, trade unions and administrative agencies are rational actors in the sense that their most important goal is the maximization of their material and organizational political resources. From a phenomenological point of view this strategy is necessarily unclear to the actor who is trying to develop a set of policy preferences concerning one certain social problem. Facing the question of a welfare system for the unemployed, employers have to translate their aim of profit maximization and protection of the freedom of property and contract into more concrete policy preferences, they have to form their own concrete interests. If they think of unemployment insurance primarily as a cost threat they will probably reject it, if they focus the gain of mass purchasing power it will be in line with their material interests. The same is true for the trade unions: If they think of the unemployed primarily as potential competitors on the labor market, their interest in high wages will be transformed into approval of unemployment insurance. If they see unemployment insurance as a means by which the state can intervene into working class autonomy they will refuse it strongly. Again, similar questions arise for the federal or state administration. If the government expects unemployment insurance to stabilize employment it will insist on it, if they think of it as a relief system creating individual "dole" dependence they will refuse it. This means that political actors rationally planning the pursuit of interests in a complex environment like politics, have to translate abstract interests like profits, income, job security or electoral support into concrete political positions or strategies that can guide their actions. The important political worldviews in the social environment an actor grew up in, or an organization followed over many years, will influence how this actor carries out strategical and rational decisions. (Biernacki 1995; Biernacki 2001; Pierson 2000a; Pierson 2000b). Therefore, actors will tend to orient themselves towards a historically grown set of knowledge that can be referred to as political culture (Dobbin 1994; Beckert 2004; Swidler/Arditi 1994; Geertz 1973). This knowledge does not necessarily have to be nationwide, most frequently actors will build their political identity and worldviews out of a combination of wider societal and more narrow, group-specific socialization processes.

Second, for many of the classical sociological authors ideas are primarily normative evaluations of social order, concerning concepts of how the social order *should* be constructed according to core social values and normative principles (Parsons [1937] 1979; Durkheim [1912] 1984; Hirschman 1986). They contain normative justifications for individual actions, institutional rules or the whole social order (Habermas [1981] 1995). These normative principles enable the actor to rank different options and thereby decide build policy preferences or form interests in a

rational way. Judith Goldstein und Robert Keohane have brought the normative and cognitive aspects of ideas together for the analysis of international relations by stressing that ideas can carry *principled* (normative) and *causal* (cognitive) *beliefs* at the same time (Goldstein/Keohane 1993). These analytical categories will be found very closely knit together in policy paradigms. For example, Marxism as an idea binds together a causal analysis of the capitalist class society and the normative values of social equality and individual autonomy.

### **Types of Ideas: Problem Definition and Possible Means**

The second dimension of ideas is the question of the subject or content of ideas. If welfare state regulation is understood as purposeful administrative actions to shape or reshape a set of social relations (Lessenich 2000), it requires a simultaneous answer to many different social regulation issues. It would be misleading to understand a whole ideology like Marxism or Liberalism as one idea. It is a set of ideas concerning different fields or different problems. First, ideas can define a social problem. This requires a cognitive and a normative principle simultaneously: The actors need clear cognitive expectations regarding cause and consequence the problem, e.g. unemployment, and a clear assumption about how these consequences violate a particular social value and therefore make it a problem. Then, a cognitive element is always added: The threat of a political uprising can only be the normative basis for the definition of the social problem of unemployment if the actors cognitively expect unemployed people to be politically offensive and revolutionary. Once identified, a social problem can only be tackled if the political actors have economic, social, psychological or even naturalist theories how this problem came about. Without this understanding they will not be able to develop a rational strategy in favor or against a certain institution. But the answer to this puzzle is not only a cognitive perception of causality in the real world but also a normative task: There are always too many causal theories in the world and the political actor has to decide which of the possible causal models he finds most relevant.

The second content type of ideas is concerned with the possible means or instruments he or she sees for the solution of the identified problem. Although this will be often tightly connected with the problem definition, it is not inevitable. For example, unemployment can be seen as an unavoidable consequence of the cyclic economic rise and fall while at the same time means-tested and need-based social security are thought to be the appropriate and appreciated instrument for reducing the gravity of the problem. Especially for the question of welfare state there are also questions of governability (cognitive) and the morally right balance of interventionism and freedom (normative) involved. It is important to notice here that this does not mean mixing up policy preferences or institutional rules with ideas. Ideas can give the normative or cognitive justification for the adoption of a certain concrete policy detail, but they

concern the legitimation and meaning of a certain rule, not the rule itself. They offer guidelines and meaningful orientation in the process of seeking new rules, but they have a basic openness to different concrete rules. They rather point to certain levers or mechanism that could solve the problem without giving concrete details.

The following table shows to which questions about political issues ideas give answers, ordered along the two dimensions of mode and content of ideas<sup>1</sup>:

*Table 1: Types of Ideas as answers to regulatory questions connected with a certain social problem*

	<b>Problem Definition</b>	<b>Institutional Means</b>
<b>Cognitive</b>	What <u>caused</u> the problem and what are the <u>consequences</u> ?	Which are possible <u>levers</u> for solving the problem?
<b>Normative</b>	What should be the primary <u>goal</u> in this problem?	Who is <u>responsible</u> for solving the problem? Which <u>interventions</u> are desirable?

After having defined types of ideas we should now go on analyzing the impact ideas can have on interest formation and institutional preferences in politics, a social field where socio-economic interest conflict is always strong.

### **Ideas, Interests and Institutional Preferences**

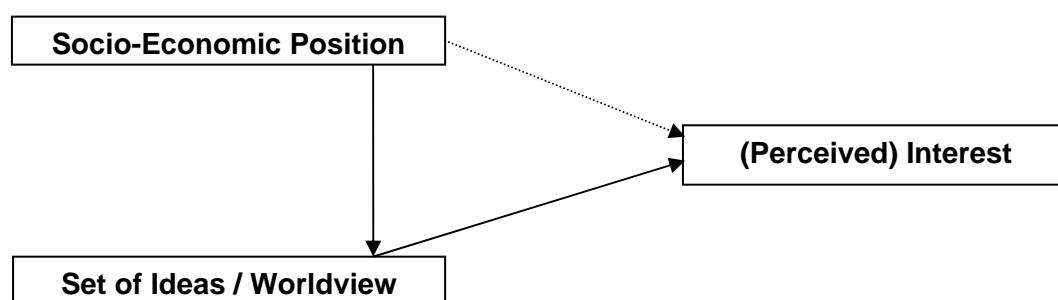
When actors form the interests that will guide their political action, they are in the center of an interplay between the social knowledge they have and the socio-economic constraints and possibilities they objectively have. If they want to build concrete interests in a certain social issues like unemployment, they will try to maximize their material socio-economic position by rationally choosing an action out of those possible options that are defined by the knowledge and normative worldviews they built on. They seek the improvement of their socio-economic position through the lense of the ideas they have about the world. If unemployment insurance is politically debated, the rational actor will connect this issue with his abstract material interests

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<sup>1</sup> This functions as a heuristic for the empirical observation of ideas but also should offer, at the end of my dissertation project, a possibility of comparing the U.S. and the German case and developing the overarching question which types of ideas have which influence on politics.

by framing it on the basis of his social knowledge and values<sup>2</sup>. The worldviews contained in the process of interest formation influence afterwards, which institutional aspects this actor will see as serving or contradicting the actor's interest. For example, if trade unions think of unemployment insurance as a penalty for employers that lay off too many people and therefore as a means of stabilizing company employment, they will not concentrate on the benefit side but on the financing side of the institution, even if it is possible from an objective point of view to show that they would materially gather from the benefit side as well. Therefore we reach a two-dimensional concept of the interest formation process:

*Diagram 1: A sociological concept of interest formation processes*



We know now that a political actor approaches the political arena with a certain interest that is based as well on his material position in socio-economic structures as on a set of ideas.

This two-dimensional concept also means that in moments of interest shifts there are also both dimensions involved: Socio-economic crises can create a window of opportunity in which the old interest positions or coalitions are not profitable anymore or endanger the socio-economic position an actor has achieved. This will not automatically lead to a change in the interests this actor perceives as his own. At the same time there must be a set of ideas the actor can build his new interest on. These ideas are not freely chosen but belong to the knowledge structures an actor is socialized into. But still, this set of ideas will rearrange the actor's interests if this new perception offers stable expectations for higher socio-economic gains to him (Blyth 2002). Of course, this is no functionalist or efficiency-related argument: He can be wrong about his expectations and there will be many unintended consequences. But somehow there must be a socio-economic basis that promises "gains". These "gains" or the socio-economic improvements an actor is trying to achieve are normally called "interests" in the literature. But

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<sup>2</sup> However, of course the question remains why a certain problem is debated at all. But this is only a question for the very first debate on a problem somewhere in the world. At least for the modern Western capitalist societies of the 19th and 20th century it is quite obvious that if one country started tackling a problem institutionally it would be discussed in all others. At the latest after the introduction of the British system of unemployment insurance in 1911 this issue was present in Western capitalist societies and all political actors formed interests about it.

with this two-dimensional concept of interests it is also possible to shed a light on the question why the interests changed into a certain direction and not in others that would also have been possible solutions for a situation of crisis.

### **Interest Dynamics**

The two-dimensional approach to interests can also contribute to the question of the concrete institutional design that was asked at the beginning of this paper. Weber's picture also contains the term "dynamics of interest" that is pointing to the question of political interaction and conflict. Classically, on the cognitive as well as on the normative side sociologists stress the role of ideas as means of social cooperation. Structural functionalists like Talcott Parsons, Emile Durkheim or Niklas Luhmann have pointed out the importance of social values and communicative codings for the constitution and stability of any social order. Norms and common ways of thinking can bind together antagonizing interests and thereby secure social coherence or encourage cooperations where interactions would otherwise drift apart (Rehberg 1994; Habermas [1981] 1995).

In contrast to this approach, Marxist and Non-Marxist approaches in social inequality research have claimed that ideas can also be used as power resources and means for carrying out conflicts and should therefore not be seen to harmonistically. For example, Pierre Bourdieu stresses the notion of symbolic capital, meaning that in every social field there are not only fights about the material positions between the participating actors but also fights about the symbolic positioning in the field, referring to the social acknowledgment of the position an actor has built (Bourdieu 1983). Influencing the dominant way the participants in a social field see the field structure can create power in the hands of an actor, a view that Bourdieu shares with Michel Foucault. In this sense ideas would basically function as all other material power resources. But many authors that analyze the impact of ideas point to the different logic of ideas that can be described as their power being rooted in the "sharedness" that makes them discursively powerful. Michèle Lamont and Laurent Thévenot emphasize that political actors in a political conflict will try to gain political power by presenting their positions as being more adequate for the common interests as others. They referred to this process as a 'raise to commonness' that shows some closeness to the Habermasian thoughts on legitimation (Lamont/Thévenot 2000; Habermas [1981] 1995). For the sociology of organizational fields and markets Neil Fligstein has shown that cognitive and normative "concepts of control" can be pushed through by powerful groups as dominant ways of organizing. These concepts afterwards secure the power position of the protagonists in a field (Fligstein 2001; Fligstein 1996). All these concepts point the commonness" or "sharedness" of ideas as a very important feature of their influence on social interaction. The possibility of using ideas as a power resource

lies in their *persuasive power* even to those actors that have a different opinion or preference. For political processes this means that there can be underlying shared cultural or ideational structures that shape the policy process by constituting the possible argumentative positions actors can take on (Beckert 2004). The ‘switchmen’ picture here is understood as ideas setting the common tracks for political actors although their interests stand in contrast to each other. Even where policies are fought about, those fights have the character of a fight about the common good or the *volonté general*, at least in democratic societies.

This leads to a two-dimensional table for the possible interest dynamics that can occur when rational actors interact on the basis of the question if socio-economic positions and ideas are shared or not:

*Table 2: Interest Dynamics depending on socio-economic position and ideational patterns*

		Socio-Economic Background	
		Shared	Different
Ideas	Shared	Consensus	Filtered Conflict
	Different	Programmatic Conflict	Conflict

Any two collective actors in political economy do not always have either fully conflicting or consensual interests (Cells 1 and 4), they can also stand in a partial socio-economic or ideational conflict (Cells 2 and 3). Actors with the same socio-economic background can get into ideational or programmatic fights. We know this, for example, from conflicts between different political wings within trade unions or employers’ associations, even if they are representing the same industry. For my project these interest dynamics *within* the collective organizations is taken out of the analysis. I am focusing on the defined “official” interest of collective actors and their interaction in politics. The socio-economic background of the competing collective interests in politics will always be highly conflicting in a democratic system. But also for those actors it is not always necessary to have a corresponding – and therefore total – conflict also about the worldviews (Beckert 2004). Shared ideas or the socialization in a common political culture with dominant ways of thinking about certain issues can define overlapping parts of the interests. Although both actors ultimately pursue very different goals, their interest can converge to a certain policy. We know this concept from all works about interest coalitions. But as already argued above, even if an explanatory approach has successfully endogenized the ideational aspects of interest shifts there still remains the problem that the coalition is

cooperative only for the Yes/No-Dimension. Even between protagonists of an interest coalition there can be deep conflicts on certain issues. Moreover, some of the features of a new-born institution do not even become subject of the debate at all, although from an objectivist point of view they are materially important for the coalition members. They are taken-for-granted on all sides. Very often those features while others are not even explicitly debated. Integrating the common ideational roots of interest coalitions would allow more than an interest coalition approach: First, it would allow to explain those institutional features that are taken-for-granted by every actor, although they cannot be directly derived from the socio-economic bases of the coalition. Second, for those issues that were debated strongly, it would be possible to explain why these features became the center of debate while others were left out of the discussion completely, although from an objective point of view they would have meant a gain for at least one of the actors involved. The influence of ideas on the process of interest formation can create *some* institutional aspects that are consensually accepted, while others are consensually rejected, or it can define *which* aspects are contested and *what* are the sides of the conflict around those issues. Thereby shared ideas “filter” the possible institutional outputs by setting the arena and possible tracks for the political conflict. Now the important question is: How did this turn out empirically for the first U.S. unemployment insurance system of 1935?

#### **IV. The Creation of Unemployment Insurance in the United States between 1911 and 1935**

In this part I will develop the historical process that led to the introduction of unemployment insurance in the United States in 1935. I will show that the debate about unemployment insurance, which began in 1911, showed a struggle between two sets of ideas that was centered around a different perception of the first European unemployment insurance systems. For various historical circumstances as socio-economic crises, the political eruption of the First World War, the fates of the decreasing Progressive Movement as well as the socialist labor movement, one side of the debate prevailed and became the dominant way of thinking about unemployment insurance among academics. But it was not before the Great Depression that this idea became dominant and shared among the conflicting labor market policy actors, because that year was a time of re-configuration of interests caused by socio-economic crisis. The old laissez-faire paradigms in American economic and social policy became heavily discredited because of the material distress it had caused. So most of the actors were seeking new orientations and in the field of unemployment policy they found a dominant set of ideas that even connected very well to some distinct worldviews labor market policy actors had been holding for many decades. So this constellation between the development of socio-economic

thought and the social, economic and political context of the early 30s made an interest shift possible that did not only make unemployment insurance generally possible but that also set the arena in such a way that a very distinct American path of social policy was created in unemployment insurance.

### **The Explanandum: U.S. Unemployment Insurance in the Social Security Act of 1935**

The most striking institutional feature about the system of unemployment insurance that was introduced in 1935 is that it is actually not an insurance system. The federal government simply established a payroll tax for all employers in the United States. The reason why it can be called an unemployment insurance is a feature that was unique in Capitalist welfare states of the time: This employer payroll tax was an "offset tax", that meant, it was waived for those employers who were contributing to a system of unemployment insurance on the state level. The aim of this tax was not to collect money for the budget but to urge employers to take part in lower level insurance systems for the unemployed. The idea of offsetting a tax in order to provoke certain policies on the company level was developed by Judge Louis Brandeis on the basis of a real estate tax case before the Supreme Court. Progressive Senator Robert F. Wagner and Congressman John L. Lewis implied this concept for unemployment insurance in their 1934 Wagner/Lewis Act for unemployment insurance. Roosevelt stopped this attempt for reasons of the fiscal administration but the offset tax system found its way into the unemployment insurance in the 1935 Social Security Act. The condition for getting the tax offset was the contribution into a system of unemployment insurance. Employer contributions were inevitable, but there was no direct concern with the question of employee contributions. It was possible for the state or industry systems to imply employee contributions, but the federal act did not make it obligatory. Moreover, no state contribution or tax support was institutionalized. The administering of the collected tax was given in the hands of the secretary of finance and the federal administration with the creation of a Federal Unemployment Trust Fund but there was no tax-financed contribution to any benefit system. The interesting fact about the benefits of this new federal system is that there were no benefits. It was left over to the states to imply their own schemes of benefits. There were discussions about the benefit side, but nobody ever wanted to establish more than very minimal benefits. There two additional aspects that were decisive for the unique character of the American unemployment insurance system: First, there was a possibility left open for the states to introduce employer reserves into the system. This means that the contributions single companies pay to a system should depend on their employment record. Second, a question that has to be answered by every system of unemployment insurance is what will happen to those unemployed that are dropped out of the system at the end of the benefit eligibility. Here the Social Security Act clearly stated that every



unemployed should get a chance of taking part in a public works program as the secondary means of fighting unemployment. There was a strong institutional path of private charity for the unemployed by the Red Cross and other private charity organizations. Moreover, Roosevelt had created a federal public relief system. So, it would have been possible to connect a secondary relief system to the drop-outs of unemployment insurance as it had been done in Germany and other countries. But none of the relevant actors ever proposed this. On the contrary, all actors consensually rejected this feature although it would have been institutionally possible.

We will now turn to the question how this institutional outcome came about. To understand the importance of the formation of interests for the whole process it is necessary to start the analysis at the beginning of the academic and political debate about unemployment insurance.

### **The Explanans: The history of unemployment policy ideas and the development of labor market interests**

The introduction of the first British system of unemployment insurance by Lord Beveridge in 1911 was immediately noticed and heavily debated in all other Western European and North American societies and the United States are no exception (Rodgers 1998). We will now follow the debate and the political process on this topic through 24 years in order to show how the original pluralism of the debate changed and one dominant set of ideas influenced interests and policy preferences of the relevant actors.

#### **Two competing schools of thought: Ohio vs. Wisconsin**

Two theoretical approaches on unemployment insurance shaped the American debate on unemployment. They can be described as convergence to and divergence from the European model on. The so-called "Ohio" school of thought (Blaustein 1993:46) was founded by medical doctor and economist Isaac M. Rubinow, Russian immigrant and graduate from Columbia University. Already in 1913 he argued in his very influencing book "Social Insurance" in favor of an American compulsory and nation-wide social insurance system for the unemployed, sick and old-aged as it had been introduced in Europe, especially in Germany and Great Britain (Rubinow [1913] 1916). He justified this claim with his experiences and studies on the endangered social and medical well-being of the working class in America. Alleviation from the "destitution" of the unemployed workers, which meant economic, psychological, moral hazard and widespread suffering among the unemployed, stood in the centre of his thoughts. He claimed that unemployment insurance should be the pivotal point for every social policy aiming at the protection of the health of the American population. As the reasons for unemployment lay in the unavoidable cyclic character of the capitalist economy it would be the responsibility and the

capacity of the federal state to build an unemployment insurance system capable of protecting the standard of life of the American Worker. Wherever private charity and local relief were not able to prevent destitution, the federal state had the right and duty to introduce a compulsory system of unemployment insurance.

The other and more influential side of the debate did not fully develop before the 1920s. It was led by John Roger Commons, economic historian, sociologist and professor at the University of Wisconsin. He criticized the European models for the compulsory character of their social policy as “un-American” and set the focus on the responsibility of the single employer for the employment record of the whole nation. Building on an institutionalist view of economic processes Commons made the problem of unemployment a question of effective governance that is able to equal out the economic cycle by setting the right incentives for the employers (Commons 1934; Commons 1950; Commons [1934] 1961). The prevention of unemployment in strong intellectual parallel to the workmen compensation legislation for industrial accidents became his line of thought: The purpose of a new social policy in an American sense - in his view - would be the stabilization of private employment through incentives for employers to avoid layoffs and hire new workers. These incentives could be set by an unemployment insurance system that distinctly focuses the single employer (Blaustein 1993:46). This line of argument is referred to as the “Wisconsin School of Thought”. Although the two schools were actually not developed at the same time, it is very enlightening to measure the two patterns of ideas in the debate along the conceptual tables of the last part, therefore spanning the arena of ideas that shaped the American debate:

*Table 2: Ideational Poles of the Debate on Unemployment Insurance in the U.S.*

	<b>Problem Definition</b>	<b>Institutional Means</b>
<b>Cognitive</b>	Inevitable Economic Cycles Vs. Dysfunctional Governance	Coercion and Alleviation Vs. Incentives and Prevention
<b>Normative</b>	Abolition of Destitution Vs. Stabilization of Growth and Employment	State Responsibility Vs. Employer Responsibility

Only by breaking down ideologies and “schools of thought” into a set of different ideas that is patterned in a certain way will it become possible to show, how one of the two sides managed to connect to other values of American political and social culture. So, how did the Wisconsin pattern of ideas prevail over its main and much older competitor? The empirical question is:

How did the Wisconsin pattern of ideas emerge and become dominant in its historical socio-economic context?

### **The course of the debate between 1911 and 1935**

What Commons did was not the invention of a new school of thought. He mainly weaved together different ideational streams and traditions that had been stable or become stronger in the concrete historical context of the twenty years preceding the Social Security Act. There are many more or less separate social, economic and cultural processes that have to be seen together to understand how this pattern of ideas became dominant.

#### *Deserving and Undeserving Poor: the Gospel of Self Help in U.S. Relief Policy*

Already since the middle of the 19<sup>th</sup> century American public policy had been built on a conception of public assistance that mainly focused on supporting the independence of the poor from state relief. Especially the "outdoor relief", which meant financial assistance that is not conditioned upon work in a poorhouse, was in the centre of the opposition the American Association for the Improving of the Conditions of the Poor (AICP) pursued since the 1840s. The ideal way of helping the unemployed in their view was not to give them money but to educate them to support themselves independently, as described in a very much read book from 1884 called 'Public Relief and Private Charity' by Josephine Shaw Lowell. It contained the important concept of the "friendly visitor" that went to the houses of the poor to help them learn to maintain a morally acceptable - which means work-oriented - life in the sense of the Protestant ethic that later became the paradigm American social work was built on at the turn of the century (Katz 1996; Bremner 1991; Breul 1965). As this intellectual connection between moral sanity and work was enlarged with religious convictions, Katz calls this public policy tradition the "Gospel of Self Help". This paradigm shaped the conceptual line that was drawn between "deserving" and "undeserving" poor, defining the undeserving part as those people that were not able to work because of physical or mental deficits. All others were forced to work in the poorhouses or, at least, to discipline themselves morally to permanently pursue work in any form as a condition to get any relief.

This way of thinking was not only favored by the social reformers of the late 19<sup>th</sup> century, it found wide support in American society. The oldest and craft-oriented trade unions that were gathered in the American Federation of Labor (AFL), founded in 1886. The founding myth or consensus of the AFL was centred around the ideology of the strong and autonomous American worker that is willing to earn his living out of his hands' work, protecting his freedom and pursuing his interests by autonomous organization and opposing any state-oriented or collectivist interference with his concerns, even if it is supporting his interests. Samuel Gompers,

the legendary founder and president of the AFL until 1925, contributed this point of view to many of the congressional hearings on the question of unemployment, frequently blocking legislative efforts with his militancy:

“We ask that when you recommend an investigation of social insurance it shall be with the understanding that the rights of the workers and the freedom secured by the workers shall not be frittered away by a patch upon our social system, and that under that patch there shall be a germ that shall devitalize the American citizenship and take away from them the vital principles of freedom of action in the exercise [sic!] of their normal activities and their higher and best concept of human welfare, combined with freedom. That is the attitude of the American labor movement as best I can express it.” (U.S. House of Representatives. Committee on Labor 1916:155)

In the time of the “discovery of unemployment” (Katz 1996) in the crises of the late 19<sup>th</sup> century a new group of undeserving poor emerged: Mass protests of unemployed workers crying for “Work or Bread”. The new aspect was that there was a group that was obviously willing to work and able-bodied but for over-individual economic reasons they could not get any job. But significantly, they were not demanding relief but the possibility to work. This shows how widely spread the “Gospel of Self Help” was in the United States. The demarcation line between deserving and undeserving poor was turned into “earned” and “unearned idleness” for the unemployed as in many other countries. But it is important to stress that in the United States “unearned idleness” was not understood as a justification for getting relief, it was an appeal to society and politics to create work opportunities and support the self-help of the working class.

### *The Repression of Socialism*

Analyses of American exceptionalism very often cite the “Gospel of Self Help” and the founding paradigm of the AFL as main reasons for the lack of socialist and social-democrat movements in the United States. This is short-headed because at the turn of the century the race between socialist and non-socialist labor movement in the United States was quite open. The “Knights of Labor” that had been founded in the 1870s were gaining support explosively in the violent mass strikes of the 1880s, as for example in the 1886 “Haymarket Riots” of Chicago. From the very beginning those strikes were put down by massive brutal police and military engagement, frequently involving civic militias and the National Guard, fake trials and even death penalties. Every socialist trade union like the International Workers of the World (IWW), that was orienting itself along the ideology of class struggle, was suppressed that way between the 1870s and the 1920s. The Wilson administration used the outbreak of patriotism in the First World War as a means for breaking up the radical labor movement with a twofold strategy of repression on the one and integrating the craft unions on the other side (Fusfeld [1987] 2007). Simultaneously, the AFL found a lot of its demands fulfilled in the policy of the National War Labor Board (NWLB). Many regulations demanded the acknowledgement of trade unions for manufactures

that wanted to take part in the war-time rationing of consume and demand. Accordingly, membership in the AFL exploded in the War years while most of the socialist labor organizations broke down. In the debate on unemployment policy the most important influence of the labor movement is the fact that Isaac M. Rubinow was member of the Socialist Party. The Socialist Party has never been an important factor in United States politics, there were only two Socialist members of congress between 1911 and 1935, namely Victor Berger from Wisconsin (1911-1928) and Meyer London from New York (1915-1925). Nonetheless, it was the Socialist Party that started the first hearings on unemployment insurance, in fact, Meyer London started the hearing in 1916 immediately after taking his seat. And their most important witness always was Isaac M. Rubinow. The hearing can be described as a show-down between Samuel Gompers and Isaac M. Rubinow. And it presented a Rubinow who was constantly fighting against Gompers' charges for being a socialist pursuing a strong state and a weak American worker. And together with its strongest defender the whole European-style compulsory unemployment insurance plan got heavily discredited as socialist. Even up to the 1935 hearings, when there was wide consensus about the need for a social system for the unemployed, the European concept still had the odor of a Socialist and Etatist intervention into American society, understood as the threat of weakening the spirit of the American worker.

#### *Social Insurance and the Progressive Movement*

The most important ideological roots of the ideas that became dominant in the later debates on unemployment insurance was the half-hearted and hardly successful first try to push through a system of social insurance by the Progressives at the turn of the century. The Progressive Movement was by no means a distinct and coherent social movement (Schlesinger [1957] 2002; Rodgers 1998; Nelson 1969; Flanagan 2007). All diffuse progressive political organizations in the United States had a common focus on reorganizing the local communities along the standards of efficiency, democratic transparency and civic virtues, thereby reducing administrative corruption and moral hazard caused by growing poverty and unbearable working conditions. The most important Progressive organization in the field of labor legislation was the American Association of Labor Legislation (AALL) that was founded in 1905 by a group of students, many among them disciples of John R. Commons. Originally started as a study group for the situation of labor in the United States, Secretary John B. Andrews turned the AALL into the most important American pressure group for labor legislation and social insurance in the first half of the 20<sup>th</sup> century. Together with Florence Kelley's National Consumers League (NCL) the AALL managed to push through child labor reductions and higher working standards in many states. With the exception of accident insurance, there were no real successes in the field of social insurance during the Progressive Era. In the field of unemployment insurance this was

not surprising: The Progressives did not put much effort in pursuing unemployment insurance. Part of it can probably be attributed to the Progressives' refusal of any policy that seemed to have a socialist touch. They very much saw their goals as a third reformist way between laissez-faire and socialist radicalism. Another part is that many of the protagonists of social welfare among the Progressives saw unemployment as a more or less insurable risk that cannot be calculated in a proper way unless better data and statistics were collected. But there is also a purely economic reason for this: Unemployment and growth were fluctuating quite calculable between 1880 and 1920. Employment was fluctuating but constant on the average and economic growth was cyclic but followed an overall upward trend. Therefore the herds of unemployed shouting for "Work or Bread" were a quite temporary phenomenon that was seen much more as an expression of economic development than as a permanent social risk facing all workers like sickness, accident or old age.

Meanwhile, Progressives together with liberals in both parties were quite successful in implementing systems of workmen compensations for victims of industrial accidents, the precursors being Wisconsin and New York. It is in this field that John Roger Commons first appears as an important expert and father of the Wisconsin Workmen Compensation Act. The political context of this development was a growing number of successful lawsuits against employers in cases of industrial accidents that also contained the problem of defining the legitimate level of responsibility an employer had for the safety of his employees (Commons 1934). Commons developed a system of workmen compensation that forced all employers of one industry to build up a fund for the victims of potential accidents. It was made possible for companies to get their contributions back if they had a low accidental record. The Wisconsin Industrial Commission, a corporatist council that had been implemented by Commons and to which he was the most important advisor, built up a sub-commission on the question of industrial accidents. In this commission employers and trade unions discussed and decided about the regulative issues under guidance of academic experts that had studied the topic. Therefore the first and up to 1935 only success in American social insurance policy was the introduction of a system of accident insurance built on the principles of prevention and the responsibility of the employer that should be provoked by institutional regulation.

#### *The Crisis of the European Systems and the Wintering of the Progressive Thought*

One of the main reasons why in the post-war crisis of 1920 America again did not turn towards a system of unemployment insurance was stuck to a very marginal welfare state was the extremely fast recovery of the crisis. While the European economies were suffering from severe production breakdowns as a symptom of war recovery, American economy was back in a normal pace already by 1921. Moreover, the metal industry sectors that were in deeper crises at

the end of the war, like iron and steel, were not as dominant for the structure of the whole economy as they were in European countries like Germany. These economic factors prevented the unemployed once more from getting into stronger protests that could have been comparable to the revolutionary outbreaks in central Europe in those years. Additionally, there was no political power left after the Wilson Era that could have been capable of organizing the unemployment protests. There was another element of historical timing that made the chances for a system of unemployment in the European-Ohio sense even worse: In the post-war crisis the British system was turned into a universal benefit system that, at the bottom of the recession, did not even require the payment of individual contributions any more. All other European systems got into trouble in the 20s as well. From the American point of view this was seen as a proof that any system of unemployment insurance would be self-expanding. From a later point of view it can well be argued that the European systems performed quite well if the severeness of the crises is taken into account. But the reception of the European development in the American debate was solely focusing on the self-expansion and the moral hazard caused by the "dole". This totally blurred the conceptual borders between relief and the European system of unemployment insurance in the American thinking although the concept had originally been developed as a way of putting individual rights in the place of relief dependency, thereby overcoming the structures of old poverty policy.

Probably even a renewed concept of unemployment insurance would not have reached the high ranks of federal politics because the 20s witnessed a restoration of older laissez-faire economic and social policy in all areas. The conservative presidents Harding, Coolidge and Hoover turned around the governability gains the country had reached through Progressive reform (Schlesinger [1957] 2002). They built on the networks that had been established between politics and business in the Progressive Era for administrative support of huge infrastructural projects, that primarily aimed at improving the profit conditions for the big corporations (Flanagan 2007). Thanks to the Progressive reforms the conservative federal government was now much more able to help the corporations with gaining efficiency and profits by public investment. At the same time, the Progressive Party broke down in the middle of the 20s, the Democrats were deeply divided between Southern Conservatives and east-coast Progressives and the often lonely fighter for labor and social legislation left in Congress was Robert La Follette from Wisconsin. As Arthur Schlesinger describes, the Progressive thought left federal politics and was limited to certain issues and regions (Schlesinger [1957] 2002).

It seems that the Progressive Thought over-wintered in the time of the conservative presidents by finding shelter in the new "settlements" of New York and Chicago. Settlements like Hull House in Chicago and Henry Street Settlement in New York City were developed out of the Progressive claim that it was necessary to bring together poor people and people from other

strata in one living and working place. The idea that a capitalist society was in constant danger of drifting apart and it was necessary to institutionalize a commonality between the different social strata was a Christian thought from the Social Gospel movement.. A whole new generation of academics and social reformers grew up in these settlements. They were bound to become the new administrative elite in the New Deal: Francis Perkins, later secretary of labor, Harry Hopkins, later chairman of the Federal Emergency Relief Agency (FERA), and Adolf A. Berle, later one of the most important advisors to Franklin D. Roosevelt in the field of trust policy, they all lived in settlements during or after their academic education and came into intensive contact with Progressive thought in a time when big politics was not Progressive anymore. There is apparently a line of ideological heritage from Theodor Roosevelt to his distant cousin Franklin D. Roosevelt that can be drawn through the settlement houses. Although the Progressive skepticism on a European concept of unemployment insurance was also conserved in this wintering, the possibility of regulating capitalism in order to tame it to the democratic “common good” was transferred from one generation of administrative elite to the other.

#### *Stabilization Optimism and New Emphasis in Business*

The restoration of laissez-faire policy in the conservative 20s does not mean that the whole question of unemployment was driven out of the political debate. Already since the first conferences on unemployment in New York and Chicago in 1914 there was a strong focus on the need for anti-cyclical programs of public works for the unemployed in order to protect their independence from state and private charity. But after the fog of war economics had disappeared the economic debate of the 1920s re-discovered the business cycle to a greater extent than ever before: Business and employment cycles became the most important challenge to academic experts and open-minded manufacturers that wanted to develop a strategy for future development and profits. The recession of 1920 was the eighth recession the United States had experienced since the end of the Civil War and through all the years there were two phenomena that could always be observed: First, a long term upward trend of growth, wages and employment, and second, a short-term business cycle of about eight years, alternating between periods of boom and recession. Institutionalist economic theory offered a fitting explanation for this observation: Thorstein Veblen and John Roger Commons both had worked out a conceptual separation between “industry” and “business”. “Industry” meant the production-side of economics that is about investing in the expansion of production and the long-term growth of wealth and income. “Business” meant the speculation-side of economics in the fields of financial capital and rents, where profit-seeking actors artificially reduced the supply of capital and land in order to raise the prices above their “natural” level of scarcity and thereby reducing potentials for growth and destabilizing the industrial development (Commons



1950; Commons [1934] 1961). From an institutionalist point of view economic policy could serve the common good by regulating the financial system to set the right incentives against speculation and in favor of long-term expansive investment strategies. Anticyclical systems of public work were thought to be able to achieve two goals at one time: First, directly reducing unemployment without risking relief dependency, and second, helping the economy to overcome the scarcity of expansive investments by stimulating private entrepreneurship with an improved infrastructure like better railroads or cheaper energy. It was in these years that institutional stabilization of economic development became a major thought in American political culture, while this was not connected with unemployment insurance before the middle of the 20s.

The macro-problem of stabilizing employment and growth was to a great deal a mirror of a new management strategy in the growing consumer sectors like the textile or automobile industry. Henry Ford and Frederick Taylor were the important founders of a "New Emphasis" (Nelson 1969) in American management. Stable working relations became a new solution for those industries that had suffered a lot in the mass strikes and recessions at the beginning of the 20<sup>th</sup> century and therefore found it hardly profitable to go on with the open conflicts about trade unionists' "closed shop" strategy (Swenson 2002; Nelson 1969). They also hoped to weaken the labor movement that had gained so much weight in the First World War by establishing better and stable relations with their company employees. It is significant that Henry Ford was the first to adopt company social programs and at the same time he was one of the toughest enemies of trade union acknowledgment. But it was not only a new employer strategy in regard to the trade unions but also an expression of a new strategy of productivity enhancement: Well-paid, healthier workers that had less fear of unemployment and old age were thought to be more productive. They also were thought to be more flexible and willing to gain the necessary skills to switch between different tasks in times of recession and short work. Consumer-oriented businessmen like Edward Filene or Henry S. Dennison were looking for ways of smoothing out the business cycle in their companies by long-term employment commitment and scientific advised production planning for the future. Like the state was recommended to postpone infrastructural investments to recession times, they were trying to reduce their production output in boom times in order to keep up more demand for times of economic downturn. Procter & Gamble developed a employment guarantee plan for their employees providing them 48 weeks of work each year and the Dennison Company developed one of the first unemployment insurance systems on the company level. But still, the separation between stabilization policy and social insurance remained. As Dennison said in one of the hearings on unemployment insurance „[...] the Dennison Company has not done a tremendously big thing

along the insurance lines but we have done a beautiful job in the way of prevention" (cited from Nelson 1969:51).

Academic debates and new groups of industrial managers carried on the debate about unemployment policy in the United States in the 20s while federal politics did not develop any legislative efforts in this direction.

### *John R. Commons and the Wisconsin School of Thought*

John R. Commons did not create his concept of unemployment insurance in a stroke of ingenious creativity. Ideas do not fall from heaven even if an economic theorist thinks about them all day. Commons was not only an economist but also a pragmatist political advisor, he drew on his experience in the Industrial Commission of Wisconsin and on his knowledge about the state of the art political thought of his time. The brilliance of his thought, which he lay down first in a very influencing article together with his faculty colleague Don Lescohier and two company owners, was that he wove together the most important lines of the debate on employment and social policy in the United States and made unemployment insurance a core means to bring these thoughts together. The pamphlet was named "Can business prevent unemployment?" but it was actually directed at federal policy as a call for the necessary institutional regulation to make business follow this direction:

First, he freed the concept from its closeness to European state socialism by stressing the responsibility of the employer for the provision of stable employment:

„The business man, who controls the steadiness of labor incomes, bears the responsibility of seeing that they are assured." (Lewisohn, et al. 1925:152)

With this thought he could build on the perspective parts of the employers had already adopted because out of their new Fordist management theories. He also connected to the position of the labor movement by not interfering with workers' self help in the question of a securing a standard of living. His new perspective was only focusing the question of employment stability, not the problem of social risks and the destitution of the working class. Unemployment insurance became a means of economic policy instead of social policy that carried the danger of etatism from the perspective of the AFL.

Second, Commons position connected the social reform program of the Progressive movement to the new optimism in pragmatic economic planning and stabilization. The concept of employer incentives for stabilizing employment was seen as a limited and therefore legitimate state intervention in order to direct the profit seekers interest in the direction of the "common good" in the sense of Theodor Roosevelt. The stabilization thinking of new management strategies as well as the trends in economic research laid the bases for his reformulation of the regulatory tasks connected with unemployment. It could be understood as a science-led

structuring of capitalism that was able to bring growth to unforeseen levels while at the same time getting rid of the immanent tendency to crisis. As Commons wrote in his autobiography in a brilliantly short, but important sentence:

„I was trying to save Capitalism by making it good.“ (Commons 1934:143)

Third, it was Commons' own experience in the field of industrial accident insurance in Wisconsin that guided his position. He extended the idea of prevention to the field of unemployment insurance and defined this perspective as the "American" way in separation from the European approaches. Commenting on the unsuccessful bills for unemployment insurance during the 20s in Wisconsin and other states he said:

"These American bills, however, have differed radically from the laws in England and on the Continent, emphasizing prevention rather than relief." (Lewisohn, et al. 1925:158)

This thought did not only connect to the AFL fear of state intervention and compulsory and the Gospel of Self Help but it also offered an intellectual link between unemployment insurance and the employment consensus in the preceding debates: Any form of private or public employment was better than any form of relief and setting incentives was much better than state coercion with a compulsory system since this concept was based on the "natural" profit seeking instead of countering it:

„As to the effect of the plan upon regularization of employment, it is the belief that the natural impulse to secure as much work as possible will be intensified by the desire of the manufacturer to keep his payments to the unemployment fund as low as possible. The agreement furnishes an incentive [...]" (Lewisohn, et al. 1925:208f.)

Summing up, Commons' concept was not the invention of a great political thinker alone, it mainly brilliantly combined many ideas in the field of economic policy and management that labor market actors and other interest groups were favoring at that time. The discursive locus of the Wisconsin School of Thought was exactly at the interlink of many different ideational paths that had developed autonomously but were strongly connected to their socio-economic and political context. The decline of the socialist labor movement, the marginal success of the Progressives and the backlash to laissez-faire in the crisis of 1920 were as important as Fordist management concepts and old poverty policy traditions in creating a historical context that led to a dominant position for Commons' concept in the academic debate from the middle of the 20s on. But still, and this is a very important limitation: The centrality and new positioning of the question of unemployment insurance by the Wisconsin School in the academic debate cannot account for its influence in the politics of the 30s alone. Looking into the congressional hearings on the question of unemployment before the Great Depression it is quite obvious that Commons' position was not spread widely among political collective labor market actors like the AFL, the NAM, the U.S. Chamber of Commerce or even among those employers that had

adopted company plans. They wanted to keep this systems in their own hands or at least in the hands of some industrial committee. In the last hearing on the question of unemployment before the Great Depression started in 1929 all statements by organized interests or governmental protagonists were still differentiating sharply between unemployment insurance as a means of European-style relief and public works and company plans as a means for stabilizing employment. Commons wove together a perspective that connected the strongest social and economic policy traditions of the United States and was therefore ideationally powerful. But it needed a socio-economic erosion like the Great Depression to make the political actors notice it and reorient themselves accordingly.

### **The Great Depression and the Erosion of Interests in Unemployment Policy**

The Depression had eroded classic interest positions concerning the problem of unemployment among all relevant labor market actors: As long as unemployment insurance meant the European compulsory and nation-wide insurance scheme, the federal administration across Democratic Woodrow Wilson and the Conservative Republican Presidents of the 20s had no interest in pursuing such legislation. Even the most critical opponents of a pure laissez-faire policy between 1911 and the Great Depression had not demanded more than the expansion of company plans and the introduction of federal public works programs to reduce the severeness of future crises. The Wilson administration and the Conservative administrations of the 20s had framed their interest in the question of unemployment insurance on the Rubinow concept of unemployment insurance and this perception led to the rejection of such a system. Of course, the federal administration pursued the same abstract material interest that state structuralists cite already before the Depression: The maximization of federal administrative capacity and the protection of their power resources. As long as they saw unemployment insurance from the Rubinow perspective they rejected it as carrying the danger of self-expansion and relief dependency that would have reduced fiscal autonomy of the federal level for the future. Moreover, they regarded a compulsory unemployment insurance as a threat to their congressional support endangering especially the support from the Southern States that were constantly trying to maximize their state autonomy. Finally, federal administrations were quite sure that such a system would have never gotten through the Supreme Court and therefore reduced their power position in the political process. With the Great Depression a new federal administration came into power with the same underlying structural interests. But the severeness of the crises showed the new administration that sticking to the old framing of social and economic policy could also reduce federal administrative capacity and endanger their administrative interests. New interpretations had to be found to secure the interests of the federal administration for the future in a changed socio-economic context.

Something similar happened on the side of the labor movement and the employers. The AFL had lost many members since the end of First World War and in the Great Depression it became visible that framing their interests as refusing all types of state social policy could maybe strengthen the organizational resources they needed in wage conflicts, but at the same time trade unions' interest in stable employment could be heavily disregarded by such a policy. All marginal trade union systems of unemployment compensation collapsed in the Depression and the AFL had to face the question of trade off between wages and employment stability. At the same time they saw that company social policy plans were reducing trade union strength in the big corporations. Finally, when more radical organizations gained support among the workers in the early 30s, they started looking for a new framing of their interests that would allow them to reinstall their former organizational power position and secure the material interest of their members for future depressions.

Some of the employers had already begun to reframe their interests with what Swenson calls the segmentalist employment strategy and Nelson calls "New Emphasis" in management. As long as unemployment insurance was seen as the European state model, it would have meant a weakening of the attraction company social plans would have had for those workers they wanted to reward for efficiency enhancing. Therefore they refused a state unemployment insurance. For the employers in classic sectors as steel chemistry or the commercial branch of the economy it primarily meant an additional cost load on their payroll anyway, and a state intervention into their freedom of property that reduced profit margins. The Great Depression brought the other side of employers' material interests to the forefront, that has always been described as the common interest of all capitalists: The interest in stable conditions for production and the maintenance of a stable political and social order. It was the experience of a throat-cutting and merciless competition among all employers throughout the breaking down of the whole economy in the Great Depression that made the old position obsolete. Otherwise they could have enhanced their concepts of private company social plans.

But the story of unemployment insurance in the U.S. was not only a question of demand for a new orientation because of economic distortions, it was also a question of a supply of those new orientations. And John Roger Commons was the only credible supplier of a new perspective on unemployment, although we already know that his idea was made up out of older ideas that had developed in different contexts.

### **The interest shift at the beginning of the 30s**

I will now show that the interests of the main labor market actors, the trade unions, the employers and the federal government changed in the Depression. Driven away from the old principles by economic distress all three actors were attracted by the Wisconsin School of

Thought. They built their new strategies with the help of a set of ideas that had become dominant in a process of independent but interacting socio-economic and cultural developments. The empirical material that is supposed to show this interest shift are mainly the proceedings of two big congressional hearings on the question of unemployment insurance in 1931 and on the legislation of the Wagner / Lewis Act of 1934. It is important for the first question of my paper to look only at those hearings that took place before the Social Security Act because I want to show that the interest shift was not the result of the administrative will to enact such a social legislation but rooted in the economic and ideational interest context.

### *Trade Union Interest*

The AFL had totally turned around their position of older days in the 30s and they did not even try to hide this shift:

“We believe a man will maintain his independence and his manhood better if he is permitted to earn a living, but we have found from experience that we have not yet mastered our economic forces, so that we can maintain an economic order which will guarantee and grant to the workers of the country even limited opportunities to earn a living. That being the case we are inevitably be forced to this position: That industry must assume its obligation [...] through this plan, which will bring to the workers at least a sufficient amount of income to take care of them during periods of seasonal unemployment.” (U.S. House of Representatives. Committee on Ways and Means 1934:256f.)

This citation illustrates that the interest shift had been caused by the experience of the Great Depression. It also shows that the shift towards the support for a state unemployment insurance is directed by the idea of “mastering the economic forces” which means an institutional regulation of the economy to make the self help possible that the AFL still favored. The Gospel of Self Help was no new orientation for the AFL, but the combination with the employer responsibility that had been brought to the front by Commons, it was possible to frame unemployment insurance as a piece of labor market policy rather than social policy: Controlling employers’ behavior opens the way for the AFL to support an unemployment insurance that is focusing the employer with an regulatory effort and is not carrying the danger of weakening the trade unions by direct state interference into the income structure of the worker. So the AFL combined three of the four ideas that Commons’ had woven together for the issue of unemployment insurance, but it is important to notice that they did not completely take over the arguments of setting prevention incentives for the employer. Green took up the idea that the stabilization of employment will in the end be very profitable to the employers. But the interpretation of this stabilization is focused on the worker in the Green’s statement:

“ I am confident that a full return on the investment made by industry will come through the maintenance of a trained force. As you say, it will create in the mind of the worker a feeling of security. [...] If we would only create a social order, an industrial order, an economic order, where a working man and his family depended on him could enjoy the thrill of feeling secure, we would

ally a lot of this terrible unrest which is filled with such grave social complications." (U.S. House of Representatives. Committee on Ways and Means 1934:258)

In the perspective of the AFL, prevention and stabilization were not achieved by the incentives to the single employer but by the higher employment stability of the single worker. In fact Green believed that employers would pass on the cost to the consumer anyway. But it is important to stress here that Green built on the employment stabilization argument in his step towards an unemployment insurance and not on the destitution or need of the Great Depression. He stresses several times that unemployment insurance can only be a means of stabilizing normal, seasonal unemployment. He also argued with the need to increase purchasing power in recessions, in order to stabilize the economic development. This expressed the closeness to the "taking off the top of the wave" argument now also applied in favor of unemployment insurance. Here we can see the interplay between ideas and material interests: William Green is orienting himself along the lines of the Wisconsin School of Thought but *through this thinking* he addresses the abstract interest of securing the income and job stability of the trade union members. Although from an objective point of view an unemployment insurance built on the principles of the Ohio School would have been good achievement for the members of the trade unions, it was the stabilization thinking as a connection of employment stabilization and an anticyclical redistribution of purchasing power that opened the way to supporting the unemployment insurance on the side of the AFL.

### *Employers' Interests*

The interest shift among the employers towards the state or federal institutionalization was only partial. All employers had learned that in spite of all their scientific planning and rational management of the production process they had not been able to protect themselves from severe economic downturns and existential competitive threats. They all were asking themselves what could be possible ways of reinstalling stable profitability, growth and secure their market position. John R. Commons offered unemployment insurance as a way of stabilizing employment and steady growth without the cost and moral danger everybody had been fearing about unemployment insurance in the old sense. Again, the system was seen as aiming to the stabilization of employment in normal times and not connected to the needs of the Depression. As Gerald Swope, president of General Electric, testified in Congress:

"We are coming out of this depression, but before we get into another period of slump we should have unemployment insurance set up under the leadership and direction of the Federal Government [...]" (U.S. House of Representatives. Committee on Ways and Means 1934:129)

It is important to stress that this turn to a federal or state social policy was something new in the interest position of the employers, even among the protagonists of the "New Emphasis". After the decline of their profitability and the intensified conflict between them and low-

productivity, low-price competitors companies, they were forced to recognize their interest in a stable economic order that would allow them to pursue their segmentalist strategies. Commons' set of ideas offered them the argument of setting state and therefore universal incentives for all employers. Although they had already been convinced of the strategies of employment stabilization and prevention before, it was Commons' structural argument about dysfunctional economic institutions that offered a new framing of their interests, making it possible to unite their internal company stabilization goals with their external interest in reducing low-productivity competition under the issue of unemployment insurance. As Marian B. Folsom from Kodak Eastman Company said in the 1934 hearing:

"There is no question about it that with the adoption of a plan of this sort, if you have unemployment reserve legislation adopted, in the future employers will do a better job in stabilization. [...] In our opinion it would be very desirable to have legislation adopted simultaneously in the several industrial states, so that employers in one State would not be placed at a disadvantage with employers in other States." (U.S. House of Representatives. Committee on Ways and Means 1934:71)

It is the experience of the crisis that makes employers of the New Emphasis seek new ways of stabilizing their competitive strategy. They re-discover Commons' argument about unemployment insurance as a way of institutionally stabilizing the whole economy and adopt it. Of course, this was no conscious search for ideas. Being socialized in the American political culture and participating in the debate already since the First World War, they knew where to turn to in order to find new strategies. Gerald Swope, for example, had lived in Hull House in Chicago for several years, which is true for many other new corporate liberals. As Swenson describes, many of them were eager to match moral and efficiency (Swenson 2002:47 ff.), and Commons' concept opened a way to a new efficient economic order that at the same time built on ideas of the Progressive Movement.

But it would be short-headed to only take into account the employers that welcomed unemployment insurance. Although these opponents only got short attention in the hearings, they had a big influence on the public debate. Something important can be learned from their position: Taking the interplay between ideas and interests or economic structures serious means also seeing the borders of ideational influences. Only where ideas can connect to abstract material interests will they have a strong impact that can cause position shifts. Of course there was also a group of those employers profiting from low labor costs and low prices in their pursuit of competitive success against the high productive and very often monopolist segmentalist corporations that did not welcome the strategy of those companies. They also had been subject to severe suffering in the Great Depression and were seeking new ways to achieve stable profitability. They were represented in the legislation process by the National Association of Manufacturers (NAM) and to a certain degree by the U.S. Chamber of Commerce that was the only group that fought violently against the legislation to the very end.



### *The Interest of the Federal Administration*

A new federal administration coming into office on top of the Great Depression had a twofold task: First, overcome the most urgent problem pressure. Second, re-establish federal action capacity and social legitimation for future crisis.

In his often-cited inauguration speech, which contained the famous words “the only thing we have to fear is fear itself”, Roosevelt described an urgent need for federal action proposing that the old laissez-faire paradigm was nothing else than foolish optimism in a dark reality that required political action. The first task of the new federal administration was coping with the most urgent Depression problems. In the question of unemployment Leuchtenburg argues that Roosevelt – not having a clear emergency concept of economic policy and no time to develop it - turned to his experience as governor of New York. In adoption of the New York Temporary Emergency Relief Agency (TERA) Roosevelt built the first national system of federal relief, the Federal Emergency Relief Agency (FERA), that was bound to spend 3 billion dollars between 1933 and 1936 for the poor and unemployed. He also intensified a classical American instrument of labor market policy, public works programs. In the National Industrial Recovery Act (NIRA) - named on purpose after the wartime National Recovery Act - he also founded the Public Works Administration (PWA) and the Civil Works Administration (CWA). These two agencies for creating public works on different levels of the states were later merged into the Works Progress Administration (WPA) in 1935. This was the most ambitious set of federal action in labor market policy in the history of the United States (Leuchtenburg 1963:120ff.). Roosevelt’s closing of the banks to restart the financial markets and the rationing policy of the NIRA helped American economy to surpass the valley of the Depression, although it is not clear how much of this development was actually owed to Roosevelt’s policy. Roosevelt thought of the Emergency Relief measures as an unavoidable instrument for overcoming the suffering of the American citizens. But at the same time it was very important to him that these would not turn into permanent relief systems and remain ultimate instruments in times of very severe crises only. But this even broadens the empirical puzzle: Why did the federal administration turn to adopting federal social insurance legislation in a time when the economy was in apparent recovery, overcome with the help of older labor market policy instruments?

There are two reasons for this interest shift that again connect economic crisis and a dominant set of ideas. For every government or administration there main structural interests is expanding action capacity, which means securing administrative power. In a federal and democratic-republican political system this translates into minimizing resistance from the legislature, the autonomous states, the Supreme Court and maximizing electoral support. As long as the issue of unemployment insurance was defined by the Ohio School of Thought, it was rational for

federal administrations of all colors to leave this issue to the states: This satisfied the autonomy-seeking Southern States in congress, the Supreme Court, and because of the widespread fear of socialism such a strategy could not harm the legitimation of the federal government. Unemployment was not seen as a problem of dysfunctional federal regulation, but as a minor problem of matching and seasonal imbalances and it was left over to the states to decide about disciplinary or coercive measures to cope with it. The Depression changes the setting here as well: As the Republicans lost all their majorities completely, the new most important danger arising for the electorate support of the New Deal government came from the political left. Although we already saw that the communists' trials of organizing protests of the unemployed were not very successful there was another tradition where radical opposition could come from: Radical Christian and Anti-Wall Street movements like the Townsendites. Named after Francis Townsend, a Democratic politician and defender of a public health system. Together with the "Share Our Wealth"-Movement by Catholic Father Charles Coughlin these groups demanded a redistribution of the national wealth, expropriating the bankers and financial capitalists and give the money back to the American workers who had created that wealth. They wanted to promote an old age pension of 200 dollars a month for every old person over the age of sixty in America. This movement gathered 7.5 million supporters up to 1935 and criticized the New Deal administration as being obedient to Wall Street and big business. This conflict also had a strong regional component with the Townsendites trying to become the representants of the Southern States and the West Coast against big business in the North-Eastern states that was controlling the new federal administration. This regional component made the movement even more dangerous as the Southern States had a traditionally strong structural position in Congress. And the old position on labor market policy that avoided anything more than emergency relief and public works might have led into a race between Huey Long and Franklin D. Roosevelt in the Democratic primaries of 1936. The Depression had reinforced the call for federal policy in order to restore social and economic justice along older Populist lines. But with the old Ohio paradigm in power, federal emergency relief and public works were the only suitable means for the federal administration. Every step towards unemployment insurance would have been blocked by the Supreme Court and the Southern States. So the new federal administration found itself in a dilemma: Growing unrest from the left made it necessary to expand federal action capacity for social security but all instruments that could be justified with old paradigms were already used up. This is the material background to an explanation of the feeling that Roosevelt and the New Deal administration had about the necessity of a new perspective on social and economic policy even though the Depression was in rapid recovery already. As many historians argue, the early New Deal was everything else than a coherent policy program set into power. Instead Roosevelt and his secretaries built on many different

political traditions, especially that of the Progressive Age and Theodor Roosevelt's New Nationalism (Leuchtenburg 1963:32ff.; Rodgers 1998:416ff.). As already shown, many protagonists of the New Deal had been educated in settlement houses and carried on the tradition of social reform. So it is again important to stress that the economic problem pressure and the ideational turn in the new federal administration are only analytically separated. This argument is not building on a conscious pursuit of new ideas. If the New Dealers had looked for the most innovative ideas, they would have probably arrived at the newer underconsumptionist theories of Alwin Hansen. They did not switch to these thoughts before the re-election of Roosevelt. What they did in the early New Deal, between 1932 and 1936, is answering the new crisis challenge with an old set of ideas they brought with them, in the question of unemployment insurance it were the thoughts of John R. Commons and the Wisconsin School of Thought. Secretary of Labor Frances Perkins' words in the Wagner/Lewis Hearings show that the Wisconsin School had arrived in the White House: :

"[...] in all fairness, some part of this burden in the future, must fall upon the employers, those to whom those workers ordinarily look for jobs, for security, and sympathy, and steady purchasing power. The technique of stabilization of industry is by no means perfect, but there is, nevertheless, a growing body of experience among certain types of employers who are in industries where those techniques are possible, which indicates that at least in some industries most of the unemployment has been more or less unnecessary and that by the right kind of cautious and careful planning a very large degree of the instability of the industry and therefore of the tendency toward unemployment of our fellow citizens who sell their labor to that industry, could be prevented." (U.S. House of Representatives. Committee on Ways and Means 1934:10)

Perkins also related to the older views saying that ten years ago political debate had not been "socially conscious" enough to recognize the possibility of building on the employer's responsibility for stabilizing employment. The Commons view on unemployment insurance offered the federal administration a way of pursuing their interest of securing electorate support and expand administrative capacity with a system of unemployment insurance that was a piece of economic stabilization policy and not a European compulsory social policy in the classic sense. Therefore the veto dangers of Supreme Court and the Southern States were reduced.

### **Ideas and Interest Shifts in the Introduction of U.S. Unemployment Insurance**

Having reached this point of argumentation, it is possible answer the first question raised in this paper: It was asked how the interest shift on all three labor market policy sides in the forefront of 1935 can be explained. It was argued that those approaches which can be found in the literature of the rise of the American welfare state have a common problem: They define political interests as relatively fixed and externally given by the objective socio-economic structures and the embedding of those structures in the collective actor organizations. But from a historical point of view this is only part of the story: Of course, the distortions of the Great

Depression were important as *push-factors* for the motion of interests. But still the question is left open, which *pull-factors* can explain why the new interests actors changed their position from refusal to approval of unemployment insurance and to this particular new interests. A power resource model with fixed structural interests cannot explain where the drive towards approval of unemployment insurance came from in the first time. A more historical point of view is offered by Peter Swenson, when he claims that the new political interest among the segmentalist employers was based on their trial to improve their competitive position against low-price companies in their industries. But this approach still leaves open the question of direction of the shift: Why did the employers turn to state unemployment insurance as a way of reaching that goal? What opened the way for a certain view on this institution that made it an instrument for pursuing competitive interests? The answer I have given here is that actors that find their chances for a successful pursuit of their interests in a deep crisis will try to find new perceptions of their socio-economic goals. In those moments political culture is an important influence: Being part of the ongoing political and academic debate since 1911 many political actors knew about a different way of looking at social insurance and the problem of unemployment. However, this new worldview would nonetheless have stayed in the academic world if the Great Depression had not caused a situation in which old positions on all sides had come into material trouble, thereby creating a need for the supply of new ideas. In the field of unemployment insurance the Wisconsin School of Thought copied the logic of workmen compensation for industrial accidents instead of the European forerunners. Stressing the responsibility of the single employer for the stabilization of employment and the possibility for the federal government to set institutional incentives accordingly this view fell on futile grounds on all three labor market policy sides in times of severe crises. Trade unions, employers and the New Deal administration could connect on this worldview to re-build stable expectations about the fulfilment of their interests with the help of unemployment insurance. This facilitated the building of a coalition of nearly all sides concerning the "if" of unemployment insurance. We have seen that each group interpreted the shared understanding slightly different, setting a focus on certain ideas of the ideational pattern called Wisconsin School of Thought. The reasons for this perceptive differences are the differences in material positions.

### **Ideas and Institutional Design in the Introduction of U.S. Unemployment Insurance**

In this paper social integration and social conflict are always seen as two sides of one medal: Ideas reduce conflict by framing the views actors take on in a common direction, creating opportunities to find common approval or even tacit taken-for-grantedness of certain regulatory features. At the same time, conflicts will never vanish completely from politics as long as there are underlying material struggles and social cleavages. from each other. We will now see what

happened in the field of unemployment insurance after interests had shifted on all sides of the labor market policy table.

In fall 1934, Roosevelt installed the "Committee on Economic Security", composed of Secretary of Labor Frances Perkins, chief executive of the FERA Harry Hopkins, Secretary of Treasury Henry Morgenthau, Attorney General Homer Cummings and Secretary of Agriculture Henry Wallace. The CES had the task of developing a set of social insurance legislation directed at supporting the workers with bearing the "hazards and vicissitudes of life" (US House of Representatives. Committee on Ways and Means 1935:13). On the 15<sup>th</sup> November 1935 a huge "National Conference on Economic Security" took place that can be described as the founding process of a Advisory Council for the CES, composed of 23 academic and public experts on social and economic policy. There were five representants of the trade unions among them, five employers and thirteen representants of different welfare state interest groups. The legislation the CES developed remained surprisingly unchanged in the field of unemployment insurance throughout the legislative process so it is justifiable to concentrate on the struggles in the Advisory Council as setting the important lines of conflict for the whole legislative process (Witte 1962). It will now be shown that ideas influenced the institutional features in the Social Security Act by setting the arena for the political conflicts, pushing some questions in the forefront while leaving other features out of consideration at all.

### *Offset Tax*

From a structural point of view, it was quite clear that adopting a nation-wide compulsory social insurance would have meant big trouble for the New Deal administration in Congress and Supreme Court. The offset tax idea was a brilliant way of re-configuring the federal administrative problem with the help of the Commons way of thinking. Experience at the beginning of the 30s had shown that the incentive problem described by Commons for the employer side also had a different aspect: The lack of incentives for the states to adopt such systems autonomously because of the fear of competitive disadvantages. The set of ideas composed of employer responsibility and stabilization incentives opened a new framing possibility to the new federal administration that turned this problem upside down: Introducing a direct federal tax that could be offset against state systems turned the advantage of not having such a system into a disadvantage for the regional employers creating pressure on the states to adopt such systems. It would not be enough to see this new interest position in the federal administration as being rooted in the pure structural constraints of the political system: They could have easily stuck to the concept of granting federal aid to the states that were willing to put such cost load on their regional employers. It was the interplay between the dominant set of ideas and the specific structural interest constellation in the different levels of

U.S. government that created the administrative preference for the offset tax system. The trade unions favored this feature for not directly involving a regulation or coercion of the workers and the employers welcomed the idea as they were expecting a mid-term profit gain from a self-coercion like that, especially in the question of handling the low price competition. Nonetheless, there was strong conflict about if the states should gather the contributions, pay the benefits and get a "tax credit" for that, or if the money should be gathered in federal hands first and then granted as "subsidies" to the states. The last system was favored by the trade unions, for they thought it would be easier to imply benefit standards with this system. The tax credit system was favored by the federal administration because it meant minimizing the administrative costs on the federal level. The employers were quite indifferent on this question so in the end the administration prevailed with the tax credit system because all supporters of unemployment insurance thought the legislation safer in the Supreme Court with this solution.

#### *Benefits: Replacement Rate and the Discussion about Benefit Duration*

Another striking difference between the European systems lies in the very limited character of the benefits planned in the system. Although the Social Security Act left the question of benefits over to experiments in the different states there was a strong recommendation in the CES report to set the benefits to the unemployed to 50% of the weekly wage with a limit of 15\$ a week. The whole debate focused on the question of benefit duration and a waiting period at the beginning. While the CED proposal saw the maximum duration at 15 weeks, after a waiting period of 4 weeks the trade unions demanded a help for 26 weeks after a waiting period of two weeks. Of course, there was an interest among the American trade unions to maximize the benefits as long as it is not endangering the self-help and independency of the unemployed worker. But the interesting thing about this issue is that the question of duration was the only discussion focus. There were no discussions about different levels of need for protection among different occupational group or similar extensions of the benefit system. The AFL was not interested in unemployment insurance as a means for securing the standard of living for the single worker. Instead, they were looking for a way to stabilize employment and an anti-cyclical shift of purchasing power. Therefore the AFL thought of the benefits as an avoidance of destitution only to the degree necessary to carry on the individual search for a self-sustaining income. This is why the duration issue was much more important to them than the overall sum of benefits. On the side of the employers and the federal administration the issue is quite clear: The most important feature of the whole unemployment insurance plan was the financing side that was carrying the employment stabilization incentives for the single employers. Any exceeding benefits would have meant the danger of benefit dependency. This would have spilled over into the public relief systems in the end and also was endangering the

productivity efforts for the single employee. Benefits had to be kept low enough to ensure the work incentive. This also explains why there was no focus on the question of controlling the unemployed, an issue that had been so important in the German debate.

*Contributions: State contributions, Employer Contributions and Joint Contributions*

In the field of financing and contributions there was one issue that was consensually taken-for-granted by all relevant actors: The refusal to have a tax support out of the General Treasury for unemployment insurance. Built on Commons' ideas about the institutional regulation of economic processes by setting incentives, the federal administration's interest was a quite "un-American" strong regulative intervention into the production process. Therefore it is not enough to simply explain the lack of any tax support as an expression of laissez-faire self-regulation thinking. Moreover, nobody raised the issue of self-administration for the unemployment insurance, federal administration was unanimously accepted. The refusal of tax support on behalf of the federal administration is quite easy to understand: The interest in a sound financial basis, strengthened with the fear of a self-expanding permanent relief-system. For the trade unions, it is harder to understand why they did not favour tax support to the unemployment insurance system. We have to keep in mind that the Wisconsin School of Thought also normatively ascribed the responsibility for the unemployment to the employers. As William Green said in the Social Security Act, unemployment insurance contributions were nothing else than "overhead costs of production which employers meet" (US House of Representatives. Committee on Ways and Means 1935:390). The interest focus of the trade unions therefore rested on the question of distribution of risk prevention between the wage and the price side. The labor movement wanted to put burden of unemployment cost back on the employer and his price calculation instead of paying it out of the wages. Shifting this burden over to the state was seen as state wage subsidies weakening the labor movement in the long run. The employer responsibility thought opened a new view that allowed for an unemployment insurance without state interference into the concerns of the labor movement. A tax support for unemployment insurance would have reduced the stability effects of the system the segmentalist employers were aiming at because it would have reduced the cost burden for the low price competitors. Again, the stabilization thought influenced employers' position to refuse any state contributions to the system by opening a connection to their competitive interests.

But nonetheless, the employers favored additional employee contributions, hoping that the employees will feel more responsibility for the system and to reduce moral hazard on the side of the unemployed. Here the fear of relief dependency and self-expansion of the system comes back: Employers saw the danger of a constant political expansion of the unemployment

insurance once it was enacted. A similar thought guided the administration view on this topic: Employee contribution would have encouraged the worker to regard unemployment insurance as an individual social right, this was important in the question of the legitimation of such legislation in comparison to other leftist proposals, connecting onto the Gospel of Self Help. At the same time, participating in the financing of unemployment insurance would have created a substantial interest on the trade union side to limit benefits and contributions as an additional shield against a call for tax support or higher employer contributions. Although the AFL was sharing the fear of relief dependency and singing the Gospel of Self Help at any possible time, for them there was no similar competitive interest in the game that could have created a consensus on the need for employee contributions. Instead, the AFL built on their argument about the shifting of costs from wages to prices: If employers were thought to shift the payroll tax over to the consumers and customers were mainly workers there was no sense in letting consumers pay twice for unemployment insurance. However, we see the root of this conflict in the way different interests between trade unions and employers were developed on the bases of shared understandings: The goal of stabilization and setting the right incentives had been connected on the side of the trade unions to their interest in stable employment and growth through a redistribution of purchasing power. The employers had connected these ideas to the stabilization of competition and inner-company work relations. This created a consensus on the refusal of tax support in the new institution. But still, in conflict about the employee contributions the different material backgrounds of the two actors re-appear. In the end, this issue was left over to the decision of the autonomous states.

#### *Financial Architecture: Federal Trust Fund and Employers' Reserves*

Already in the first passage, before Roosevelt explained some of his thoughts on unemployment insurance and old-age pensions in more detail, there was one sentence that was very surprising for an economy build on laissez-faire politics and the Gospel of Self Help:

"[...] sound financial management of the funds and the reserves, and protection of the credit structure of the Nation should be assured by retaining Federal control over all funds through trustees in the Treasury of the United States. [...] Thus, States will largely administer unemployment compensation, assisted and guided by the Federal Government." (US House of Representatives. Committee on Ways and Means 1935:14)

There was not much discussion about the institutionalization of a huge federal or - if the incentives worked - state administered money fund for social policy. Although the NAM and the U.S. Chamber of Commerce frequently referred to the problem of state autonomy, not even those strong opponents ever criticized the state for becoming an important financial actor. The stabilization thinking of the Commons' School had been born within the question of credit and finance stabilization in the 20s. Moreover, a very severe and unprecedented symptom of the



Great Depression had been the breaking down of banking and the stock markets. Therefore all employers turned to new concepts of stabilization of capital as they had looked for a stabilization of work relations after the end of cartelism. They found the arguments by Commons and adopted a multiple stabilization strategy. For the financial markets, stability could not be expected from free market interaction alone this became quite clear and the industrial manufacturers were heavily dependent on the stable supply of capital to pull themselves out of the depression with new investments. It is quite puzzling why the trade unions made no assault on the money in the legislative process, although they had well studied the German system and the Belgian Ghent system. William Green made one small side remark about a possible AFL participation in the administration of unemployment insurance but union density was too small and the organizational structure of the AFL too loose, so the AFL in the end did not dare to tackle the task of administering such a huge social system. Moreover, they were convinced that the employers were the responsible group for unemployment so there was no need to put the load of administration on the back of organized labor.

But there was one feature of the financial and administrative architecture of the system that was contested heavily, namely the question if all money of a state unemployment insurance system should be pooled together or if separate reserves for different employers should be established depending on their employment record. For the employers it was quite clear that the whole system made only sense if single employer reserves were possible. Otherwise there would have been no competitive effects and the high wage companies would have had to pay the unemployment of the low wage companies. The trade unions had a different approach to employment stabilization: They followed the line of thought to the point that a countercyclical stabilization of work relations was necessary and they also saw the need for incentives for the employers but they did not follow up to the reserves solution. A system of company reserves would have allowed the single employer to pay better benefits to non-union workers and was carrying the danger of opting out of all well-performing companies from social policy and organized labor. This shows the two-headedness of interests again: No shared view can completely overcome the underlying conflict about acknowledgment between employers and trade unions. But again here the conflict was channelled by ideas, leading to a consensus about state financial control while shaping a strong contrast in the question of single company reserves. Again, this issue was left over to the states in the end.

#### *Public Works as Secondary System*

Another important feature of the Social Security Act unemployment insurance in comparison to the European systems is the fact that no American worker could count on an adjacent relief system after the exhaustion of his or her benefits. The report of the CES demanded that every

worker should be given a work opportunity in a public employment program instead. This is a much more important focus on the welfare impact of such programs than in Germany for example, where those programs were primarily intended to test the work willingness of the unemployed. In the United States these programs were thought to be the appropriate next step of supporting workers by public policy. This is even more puzzling if it is taken into account that there was a functioning system of federal emergency relief in existence in 1934/35. The reason why none of the actors found it politically attractive to call for public relief measures for long-time unemployed is the idea-based interest constellation of the three groups: All were focusing on the stabilizing effects of unemployment insurance. For the employers, this idea translated in skill and productivity protection and stable competition structures. Skills were thought to be preserved much better with public works programs than with relief measures and many of the bigger corporations could also gain from a better infrastructure. The trade unions welcomed public works programs as a way of increasing purchasing power without endangering the self help of the American worker. For the federal administration this avoidance of relief dependency meant securing the federal budget and providing an alternative to the basic income approach of the Townsendites. The CES report bring these positions together defining a consensual feature of the new legislation:

“Work maintains occupational skill, The required expenditures have an important stabilizing effect on private industry by increasing purchasing power and employment, and the completed works frequently produce self-liquidating income.” (US House of Representatives. Committee on Ways and Means 1935:25)

Summing up, we have analyzed the design of the first American unemployment insurance along the lines of the five regulatory fields administration, contributions, benefits, insurance logic and the secondary protection system for the unemployed that are dropped out of the systems. In each field we find one feature or lack of a feature that is purely consensual as it was taken for granted by every actor. Moreover, we then find in four of the five fields a channelled conflict about two other features being in the center of the debate. The following table shows this structure of the debate about the institutional design:

	<b>Consensual Root</b>	<b>Channeled Conflict</b>
<b>Administration</b>	Offset Tax	Tax Credit vs. Subsidies
<b>Contributions</b>	No State Contributions	Employer vs. Joint Contributions
<b>Benefits</b>	Minimal Amount	Long vs. Short Duration/Waiting Period
<b>Insurance logic</b>	Federal Trust Fund	State Pool vs. Employer Reserves
<b>Secondary protection</b>	Public Works	---

Most of the contested features were left over to the state legislatures in the end. Only in the question of administration there was a clear decision for the tax credit system based on the fear of the U.S. supreme court. We see that there was a strong ideational influence on the institutional output, but it was not by harmonic consensus among all actors but by the channelling of the conflict, by letting conflict grow on a consensual basis. The shared set of ideas functioned as a consensual root through which all actors re-formulated their interests. This created partial consensus and partial conflict.

## **V. Conclusion**

The guiding theoretical topic of this paper was how ideas influence the creation of institutions, illustrated with the introduction of the first unemployment insurance in the United States in 1935. I have answered this question with two mechanisms that can be understood as a concretion of Max Weber's famous image of ideas being the "switchmen" for political interest dynamics. To understand Weber's image correctly, it is important to recognize that two logics are connected here: The inevitable *conflicting* structure of abstract and structural material interests and the *integrative* impact of shared worldviews. In labor market policy and welfare state creation the interacting political actors have structurally divergent material interests. But in a certain piece of legislation these can come together, as Marx has explained for the state regulation of the working day. I have shown in a historical analysis of the processes that led to the first American unemployment insurance how these interest shifts and coalitions can only be sufficiently explained if the impact of social and economic ideas is integrated. First it was necessary to follow the history of ideas on unemployment insurance through 25 years of debate that preceded the Social Security Act. Here I showed that a worldview built out of prevention, stabilization by incentives, employer responsibility and the Gospel of Self Help prevailed over the older European view that connected social coercion, the protection of the standard of living, reduction of destitution and the cyclical inevitability of unemployment. This dominance was not a question of a self-referential cultural or social scientific development alone. It was embedded in a structure of economic crises, political suppression, the rise and fall of the Progressive Movement and other fields of economic and employment policy. But already before the Great Depression captured the American economy the Wisconsin School had won dominance in the academic debates out of many independent processes that interconnected at a certain point. When the Depression got deeper, the old political interest structures became obsolete. Trade unions, employers of all industries and the federal government saw their ultimate structural interests not pursuable with the same strategies anymore. They turned to those professionally working on those questions and found John R. Commons. Of course, this was not a conscious

process, many new protagonists on all three sides had been infected by Progressive and institutionalist thought throughout their biographies. The Wisconsin School transformed unemployment insurance into a pursuable means for all three actors to fulfill their socio-economic interests. But, only where the new set of ideas could connect to probable material gains did the interest shift take place. That is why a good deal of the employers still violently fought against the adoption of such a legislation. But they did not manage to successfully block the three-side interest coalition.

Still, if we show the importance of ideas for interest shifts, this does not answer the second question, namely how the concrete institutional features of the first unemployment insurance can be explained. My analysis has shown that the shared set of ideas that was still part of the interest structure in the legislative process had shaped the political arena already before the interest dynamics of 1934/35 started off. The ideational background of the Wisconsin School can explain why unique features like the Federal Unemployment Trust Fund, the prioritization of public works, the absence of any state contributions, the lack of deeper benefit and the offset tax system, all five never tried in Europe before, could become undisputed parts of the legislation, although there would have been material gains for some actors in them. Moreover, the ideas can explain why of all possible disputes the main conflicts were centered around the questions of employer reserves, benefit durations, joint contributions and the tax credit question. I have shown that ideas influence institutions *through* their impact on interest formation and changes. Like Weber's switchmen worldviews set the common tracks for conflicting parties, thereby influencing the possible political outcomes behind the back of the political actors, shaping politics already before politics start.

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