Employee Benefits and Social Insurance
The Welfare Side of Employee Relations
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Introduction

The primary purpose of this chapter is to examine the role of employers in the development and evolution of employee benefits and social insurance during the twentieth century. Employee benefits voluntarily provided by employers are one component of welfare capitalism, a human resource (HR) strategy that emerged among progressive employers early in the century as a way "to win workers' cooperation, loyalty, and hard work through positive HR practices, such as above-market pay, job security, employee benefits, promotion from within, and employee participation plans," and to avoid unions and fend off government intervention in labor markets (Kaufman 2001). Because employer-provided benefits are often competitive with or complementary to social insurance (benefits for workers provided by insurance arrangements operated or mandated by government), we also examine the history of social insurance.

Table 6.1, which provides data from the National Income and Product Accounts (NIPA) on employer-paid employee benefits and employer contributions for social insurance, illustrates the enormous growth of these expenditures in the twentieth century. In 1929, employee benefits and social insurance represented 1.3 percent of wages and salaries; by 2000, these employer expenditures had increased to 18.2 percent of payroll. We identify five historical periods: the Progressive Era (1900–1920), the Period of Normalcy (the 1920s), the New Deal and World War II Era (1930–45), the Post–World War II Era through 1990, and the Modern Era of the 1990s. (A comprehensive study would also consider various subperiods, and we recognize that other authors might select different names or dates for their primary periods.) We examine the nature and growth of employee benefit and social insurance programs and the associated political, legal, and economic factors. We also focus on specific programs (such as retirement benefits and health insurance) with particularly important developments.
Table 6.1

Employee Compensation and Components, 1929–2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages and salaries</th>
<th>Other labor income (employee benefits)</th>
<th>Employer contribution for social insurance</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ Billions</td>
<td>$ Billions</td>
<td>As % of wages and salaries</td>
<td>$ Billions</td>
</tr>
<tr>
<td>1929</td>
<td>50.5</td>
<td>0.7</td>
<td>1.3</td>
<td>0.0</td>
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<tr>
<td>1930</td>
<td>46.2</td>
<td>0.6</td>
<td>1.4</td>
<td>0.0</td>
</tr>
<tr>
<td>1935</td>
<td>36.7</td>
<td>0.6</td>
<td>1.7</td>
<td>0.0</td>
</tr>
<tr>
<td>1940</td>
<td>49.9</td>
<td>0.9</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>1945</td>
<td>117.5</td>
<td>2.3</td>
<td>2.0</td>
<td>3.5</td>
</tr>
<tr>
<td>1950</td>
<td>147.2</td>
<td>4.8</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>1955</td>
<td>212.1</td>
<td>8.5</td>
<td>4.0</td>
<td>5.2</td>
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<tr>
<td>1960</td>
<td>272.8</td>
<td>14.4</td>
<td>5.3</td>
<td>9.3</td>
</tr>
<tr>
<td>1965</td>
<td>363.7</td>
<td>22.7</td>
<td>6.2</td>
<td>13.1</td>
</tr>
<tr>
<td>1970</td>
<td>551.5</td>
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<td>1975</td>
<td>814.7</td>
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<td>1980</td>
<td>1,377.4</td>
<td>185.4</td>
<td>13.5</td>
<td>88.9</td>
</tr>
<tr>
<td>1985</td>
<td>1,995.2</td>
<td>282.3</td>
<td>14.1</td>
<td>147.7</td>
</tr>
<tr>
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<td>390.0</td>
<td>14.2</td>
<td>206.5</td>
</tr>
<tr>
<td>1995</td>
<td>3,441.1</td>
<td>497.0</td>
<td>14.4</td>
<td>264.5</td>
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<tr>
<td>2000</td>
<td>4,837.2</td>
<td>534.2</td>
<td>11.0</td>
<td>343.8</td>
</tr>
</tbody>
</table>

*Source: U.S. Department of Commerce, Bureau of Economic Analysis, Tables 6.3A, 6.3B, and 6.3C (wages and salaries); 6.11A, 6.11B, and 6.11C (other labor income); 3.6 (employer contribution for social insurance); and 6.2A, 6.2B, and 6.2C (compensation).*

during each period. For the entire scope of our study—the twentieth century—we are especially interested in the reasons why employers generally supported the increasing importance of employee benefits.

The Progressive Era

During the Progressive Era, 1900–1920, some employers instituted a broad range of employee benefits in what was known as “welfare work,” and most states adopted the first social insurance program, workers’ compensation (Tone 1997, 2). The underlying impetus for these new workplace practices can be traced to the developments in the United States in the last few decades of the nineteenth century, when the nation rapidly industrialized and much of the population moved from farms to urban areas (Jacoby 1997, 3). Industrialization and urbanization were accompanied by business cycles in which unemployment and wages fluctuated widely. In the 1890s,
for example, the unemployment rate averaged 4.1 percent in 1890-92 and 13.1 percent in the rest of the decade (Bureau of the Census 1975, Series D-86). These unstable labor markets adversely affected workers, in part because they could not rely on homegrown food to tide them over during downturns (Jacoby 1997, 3-4).

Large firms emerged along with moguls of industry, who amassed considerable wealth and influence. Many labor markets were more like monopolies—where employers had superior bargaining power—than like competitive markets, where employer needs and worker desires interacted to determine working conditions. As a result, workers were subject to long hours, onerous working conditions, and—for many children and women—employment in marginal jobs.

There were very few options available for dealing with these unfavorable by-products of industrialization. Some workers who prized their independence relied on individual savings and skills to cope with the adverse conditions (ibid., 4), and the most influential employer association of the time, the National Association of Manufacturers (NAM), was content to make employees individually responsible for their own situation (Tone 1997, 35-36).

A second option was collective action by workers, an effort to offset the superior bargaining power of employers by demanding higher wages and benefits that would ameliorate the economic insecurity associated with industrialization. Unions of various types emerged, ranging from the inclusive Knights of Labor to the craft-based unions affiliated with the American Federation of Labor (AFL). Almost all employers resisted independent unions, although the NAM was particularly concerned with the union “menace.” There were a number of incidents of labor violence during this period, such as the Homestead, Pennsylvania, strike in 1892, which resulted in the deaths of nine strikers and seven Pinkerton detectives hired to guard the Carnegie Steel Corporation (ibid., 16, 28).

A third option was government intervention. Federal and state governments responded to the labor strife primarily by assisting employers in their efforts to break strikes. Despite this, however, governments did seek to identify and remedy some of the adverse effects of industrialization through legislation (ibid., 23, 25-28). Thus, between 1877 and 1894, all northern industrial states but Illinois passed laws mandating sanitation and safety features in factories. By the beginning of the twentieth century, twenty-eight states had child labor laws that regulated matters such as the maximum number of working hours during a day, and sixteen states limited work hours for women. The federal government also acted to a limited extent. The U.S. Department of Labor was organized in 1888 and became a source of information for reform efforts, such as the favorable study of the German system of cooperatives.
of compulsory insurance published in 1893. The NAM and other more conservative elements of the employer community worked to defeat or weaken legislation that regulated employer practices or established social insurance programs, although (as discussed below) some employers supported the enactment of workers' compensation laws.

Finally, there was a small but influential group of progressive employers that began to voluntarily improve working conditions or indemnify workers for adverse outcomes (Jacoby 1997, 4). This strategy is generally known as welfare capitalism, although the term used in the Progressive Era was "welfare work."

Welfare Work

John R. Commons (1903) coined the term "welfare work," which he defined as "all those services which an employer may render to his work people over and above the payment of wages." The meaning of "welfare" at the time encompassed those services provided by employers on a voluntary basis as opposed to benefits mandated by government, and it is not to be confused with the modern meaning of "welfare"—namely, "grudging aid to the poor" (Tone 1997, 37, 38).

The scope of benefits provided by some employers under welfare work was broad. Mandell (2002, 3–4) identifies four categories: (1) programs that promoted health and safety at the workplace, such as ventilation systems, guards on machinery, clean toilets, well-appointed restrooms, and factory gardens; (2) activities that focused on health and safety in the workers' homes, including counseling for personal matters and cooking classes; (3) a wide variety of educational, recreational, and social activities that ranged from English classes to noontime dancing; and (4) financial benefit plans, such as pensions, sickness benefits, and life and health insurance.

Beginning in 1904, the National Civic Federation (NCF), which was described as the "leading organization of politically conscious corporate leaders" throughout the Progressive Era and supported voluntary labor reform by employers, assisted individual companies in providing welfare work through its Welfare Department. By 1911, it had more than five hundred employers as Welfare Department members (Tone 1997, 38–39, 45–47).

The implementation of welfare work was not confined, however, to these employers. Jacoby (1997, 13) reports the NCF counted 2,500 firms pursuing a gamut of welfare activities. These firms typically were large (more than a thousand employees); were in industries in which workers exercised some control over production processes or in which workers influenced profitability through their demeanor; were located in larger cities, where there
was more competition for workers; were in the North, where the threat of labor legislation was greater; and employed a relatively large share of women. Welfare work was also more prevalent in the expansive phase of the business cycle, when labor markets were tight, and it peaked during World War I, when workers were scarce (Tone 1997, 52–63).

The employers who provided such benefits were castigated by other employers and the NAM. Tone argues, however, that all three parties were often in the same political camp in their opposition to government intervention in the workplace. For instance, NCF employers opposed universal sickness insurance, in part, they argued, because U.S. workers were fiercely independent and did not want the government involved in attempts to improve working conditions. Gertrude Beck, secretary of the NCF Welfare Department, argued that government programs would undermine workers' morale because they would be viewed as “charity,” which would erode individual initiative and destroy workers' self-respect; in contrast, welfare work, which allowed workers to earn benefits such as pensions through their hard work and loyalty, would validate manhood by supplying the financial basis for independence (ibid., 35–39, 41–42, 45).

The notion that government was not the appropriate source of most forms of protection for workers also resonated with much of the labor movement. Indeed, Samuel Gompers, president of the AFL, was vice president of the NCF until his death in 1924, and at least one third of the NCF Executive Committee were union members (ibid., 46). This alliance with employers was consistent with the unions' strategy of "voluntarism," which endorsed government support and endorsed collective action by workers as the preferred means to achieve labor's goals.

Employers who did adopt welfare work expressed a variety of motives for their policy. Some claimed to be solely motivated by kindness (ibid., 63), and undoubtedly, moral obligations—often reinforced by religious beliefs—did play a role (Jacoby 1997, 14). Mandell (2002) analogizes welfare work in a company to the Victorian family: the employer as the authoritative father, the employees as the subordinate children, and the welfare manager as the mother responsible for creating a harmonious household—a role facilitated by the fact that many welfare managers were women.6

Most employers admitted, however, "altruism within the workplace was a profit making venture" (Tone 1997, 64). Employers felt that workers would be cheaper and more productive if they spent their careers with a single firm rather than moving among firms in an open market; they also believed welfare work would inhibit the growth of unions and government regulation of the labor market (Jacoby 1997, 4, 14).

Why did employers pay additional compensation in the form of employee...
benefits and services rather than just pay workers higher wages? First, welfare work may have allowed employers to pay lower wages. Employers were less risk averse than employees, and they were better able to purchase insurance on more favorable terms because of economies of scale and the reluctance of insurers to sell insurance policies to individual employees (because of the adverse selection phenomenon). Both of these factors could lead workers to accept lower wages in exchange for employer-provided benefits, although employers who provided benefits claimed that they were paying the same, if not better, wages than competing firms without the benefits. Second, since benefits such as pensions and vacations were only given to long-term employees, they promoted worker loyalty to the firm (Tone 1997, 79, 87), and longer tenures made it easier for employers to increase the work pace and hasten the introduction of new technologies (Jacoby 1997, 15). Third, paternalistic employers felt they knew better than workers how to spend additional funds: Higher wages might allow workers to patronize brothels and dance halls, a detriment to worker productivity, whereas employer-provided meals, supervised recreation, and health facilities would increase productivity (Tone 1997, 79–80)—arguably a motivation more properly termed condescension and manipulation (Jacoby 1997, 15).

Retirement Benefits

Employee Benefits

Retirement benefits were the most expensive component of employee benefits. The Grand Trunk Railway of Canada organized the first pension system in North America in 1874, and the American Express Company established the first private pension plan in the United States in 1875. After the turn of the century, pension plans spread rapidly through the railroad industry, were predominately noncontributory (i.e., employers paid all of the costs), and by 1920, covered 76 percent of all railroad employees. The public utilities, banking, and insurance industries also established noncontributory pension plans between 1900 and 1920, and Carnegie Steel Company set up the first enduring pension plan in manufacturing in 1901 (Latimer 1932a, 20, 27).

Latimer reports that in all U.S. and Canadian industries, employers established 12 pension plans between 1874 and 1900 and another 275 plans between 1901 and 1920; 271 were still operating in 1929 and covered 2.3 million employees, almost all (97.6 percent) in noncontributory plans (ibid., 42, 45). A few unions had also developed pension plans in this period—the Granite Cutters’ plan created in 1905 was the first to actually pay benefits from a specific fund designated for pensions—and by 1920, union pension plans
protected 264,700 workers, or 5.2 percent of total union membership (Latimer, 1932b, 21, 128).

**Social Insurance**

Between the mid-1870s and 1920, many elderly Union veterans of the Civil War received federally funded old-age pensions—"nearly two-thirds of the native white persons over sixty-five years of age," excluding the South (Rubinow 1913, 407). Rubinow predicted that these pensions would serve as an "entering wedge for a national system of old-age pensions" because the rapid decline in the number of surviving veterans would free up funds for a national scheme (p. 409). However, some scholars and reformers argue that the Civil War pensions became instead an obstacle to a broad system of pensions in the Progressive Era, repelled as many reform-minded Americans were by the "political corruption" associated with the pensions (Skocpol 1992, 532–33).

Another obstacle to a federal program of national old-age pensions was its constitutionality with respect to private-sector employees. The U.S. Supreme Court’s conservative interpretation of the commerce clause of the Constitution prevented enactment of any federal social insurance programs and protective labor legislation for private-sector (nongovernment) workers. (Civil War veterans had been government employees and thus escaped this constraint.) Thus, it was left to the states to legislate protection for most workers. A 1909 proposal to establish an "Old-Age Home Guard of the United States," which would permit men and women over sixty-five to enlist in order to receive pensions as "pay," was an ingenious but ultimately unsuccessful effort to finesse this constitutional issue (Rubinow 1913, 410–11).

During the 1910s, the constitutional limit on federal action prompted forty states to legislate "mothers’ pensions"—financial support for widowed mothers—which, however, did not become a basis for a broad-based program applicable to workers, in part because of another legal constraint. State and federal constitutions were generally interpreted to limit efforts to regulate working conditions in the belief that such laws would infringe on the rights of workers and employees to freely negotiate contracts. Gender-based reforms, a hallmark of the Progressive Era, were a very significant exception: The courts upheld interference with "free contracts" rights to protect female workers (all being actual or potential mothers, in the courts’ eyes) (Skocpol 1992, 530–31).

**Workers’ Compensation**

Until the early twentieth century, the only remedy available for a worker injured at work was a common-law negligence suit against the employer. If
the employee won the suit, the recovery could be substantial, as the damages could include compensation for lost wages and such nonpecuniary consequences as pain and suffering. However, even if the worker could prove the employer was negligent, a negligent employer had several defenses that were insurmountable legal hurdles for many workers. Initial reforms took the form of employer liability acts, which eliminated some of these employer defenses. Nonetheless, employees still had to prove negligence, which remained a significant obstacle to recovery. The conventional wisdom in the early twentieth century was that the average award in negligence suits was low. However, the occasional large award prevented employers from being entirely satisfied with this legal remedy.

Workers’ compensation statutes, which provide cash benefits and medical care to injured workers, were designed to overcome the perceived deficiencies of the common law and employer liability acts. The workers’ compensation principle includes liability of the employer without fault: The employee need not prove negligence by the employer, only that the injury is “work related” (although there are legal obstacles to meeting the work-related test, in many cases); however, the benefits paid to the workers under the program are the employer’s only liability for work-related injuries and diseases. Thus, workers’ compensation statutes eliminated the employee’s right to sue the employer for negligence (although there are limited exceptions to this exclusive remedy doctrine).

Williams and Barth (1973) review the political and legal factors that affected the adoption of workers’ compensation:

In 1898, the Social Reform Club of New York drafted a bill proposing automatic compensation for some types of industrial accidents. This bill was opposed by various labor organizations that did not accept the concept of compensation at this time. They were fearful that State development of guildlike provisions for pensions and other welfare benefits would reduce the workers’ loyalty to the unions. They supported legislation modifying the employers’ common law defenses which they believed would produce court awards much higher than automatic compensation. Agitation along these lines resulted in the Reform Club’s compensation bill “dying on the drawing board” and ultimately led to the passage of employer liability statutes.

In contrast to this opposition by labor leaders, many private corporations, particularly the railroads, had come to favor such plans.... The National Association of Manufacturers in 1910 openly endorsed the idea of workmen’s compensation legislation. They realized that employer relief funds were too costly for small manufacturers and could not provide an adequate solution to the problem of industrial injuries....
By 1910, labor had shifted its position because of the failure of liability statutes to provide a remedy, and began to work actively for compensation legislation. The National Civic Federation, which claimed to represent business, labor, and the public, managed to unify the various labor organizations and gain the attention of the State legislatures. With labor and industry lobbying for effective compensation legislation, the movement toward reform was in full swing ... [and beginning with Wisconsin in 1911.] 24 jurisdictions had enacted such legislation by 1925. [Pp. 16–18]

This account must be viewed with caution, however, as historians disagree about the role of the NCF in enacting workers' compensation legislation. Weinstein (1968) argues that the NCF support of workers' compensation laws indicated the organization's willingness to support reform legislation. Tone disagrees, claiming instead that the NCF recognized the inevitability of some form of legislation to deal with industrial accidents and thus involved itself in the reform movement to gain public approval while it weakened the legislation. The model legislation drafted by the NCF did not propose universal coverage of employees, did not make the law mandatory for employers, and did not remove all employer defenses to liability, all of which were features of the laws actually enacted by the states during this period (1997, 48–49).

Why was workers' compensation for industrial accidents—a serious problem, to be sure— -- the first and only U.S. social insurance program adopted between 1900 and 1920, while other deleterious by-products of industrialization such as unemployment were largely ignored? First of all, workers' compensation was unique among like issues in that a legal remedy—tort suits—already existed, and, according to Berkowitz and Berkowitz (1985, 160), "workers were beginning to enjoy considerable legal success at the beginning of the compensation era," which would have become a major concern to employers. Once employers recognized the need for a concerted response to the workplace-injury problem—and presumably assumed that the solution would be costly to most employers—they saw an advantage to a government program that would mandate participation (hence cost sharing) by most private-sector employers. Otherwise, a voluntary solution would enable a recalcitrant employer to opt out and thus gain a competitive advantage over more responsible employers.15, 16, 17

Obstacles to Social Insurance During This Era

There were several reasons why the reform movement that emerged in 1900–1920 had only limited success in enacting effective social insurance legis-
tion to remedy the woes of workers affected by industrialization. Workers in general were never effectively organized into a political party, as was the case in some other countries, in part because of the emphasis on individualism in the United States. The union movement was largely confined to skilled workers, and the leaders of the AFL generally opposed government solutions, reflecting both their experience with the generally hostile government interventions in strikes and their belief that provision of benefits by government would undermine their organizing ability.

There were, to be sure, proponents of social insurance legislation. The reformers included experts who belonged to organizations such as the American Association for Labor Legislation, founded in 1906 to promote social insurance and protective labor legislation (Moss 1996, 1–2). The reformers drew not only on their critical analyses of industrialism and urbanization but also on foreign models of social insurance, including pensions in Germany and workers’ compensation in Britain (Tone 1997, 30). These reformers were aided by journalists, dubbed the Muckrakers.18

Offsetting the efforts of reformers and journalists to enact social insurance laws were employers, who (except for their mixed support for workers’ compensation statutes) opposed government intervention in the labor market. Many employers, including those who were proponents of welfare work, used employee benefits as a way to reduce the threat of government regulations and social insurance programs.19 Tone (1997, 31–33) indicates this strategy was successful: By the end of the Progressive Era in 1920, welfare capitalism had triumphed over government reform.

Government officials and bureaucrats also arguably had an impact on the reform movement. Skocpol (1992, 41) is a leading proponent of what she terms the “structured polity” approach to explaining the origins and transformations of systems of social protection. Domhoff (1996, 231) explains this approach as “meaning that social movements, coalitions of pressure groups, and political parties must be given their due” in explaining the policies pursued by government. Skocpol argued that public sentiment and organizations based on gender that intended to honor and protect soldiers (men) and mothers were the effective political forces in the United States from the nineteenth into the early twentieth century. She further argued that the dearth of social insurance programs directed at workers in general can be explained by various factors, including early democratization for white males, which discouraged U.S. industrial workers from operating as a class-conscious political force (Skocpol 1992, 50). However, Skocpol’s analysis has been challenged by other scholars, probably most aggressively by Domhoff, who argues that the dearth of social legislation in the United States during the Progressive Era, relative to other countries, “is that the working class is weaker and the
capitalist class stronger in the United States than elsewhere” (1996, 238). He cites as evidence U.S. employers’ success in defeating the movements for health insurance, unemployment insurance, and old-age pensions and in enacting workers’ compensation programs that served their interests. The clash between the explanations for the development of government programs proposed by Skocpol and her associates and the class dominance theory asserted by Domhoff resurfaces later in this chapter in analyses of the 1930s.20

The Period of Normalcy

Welfare Capitalism

The political environment was more conservative in the 1920s than in the Progressive Era, and the threats of unionization and government intervention were less compelling (Jacoby 1997, 20–21). As a result, many employers who had viewed welfare work as a roadblock to unions or government intervention were reluctant to continue to expend resources on employee benefits. Indeed, when a labor surplus emerged after World War I, many employers dismantled their welfare work programs (Tone 1997, 62). Mandell (2002, 9–10) explains this, in part, as the unwillingness of employers to grant welfare managers (the mothers in her analogy of welfare work to the Victorian family) the authority they demanded to implement the obligations that corporate leaders (fathers) had to their employees (children). One consequence of this resistance was that welfare managers, largely women, were replaced by personnel managers, almost exclusively men, who were thought to have expertise in the “manly art of handling men.”

An elite group of companies moved from the paternalism associated with welfare work in the Progressive Era to a comprehensive version of welfare capitalism in the 1920s, which included financial benefits, career jobs, company unions, and supervisor training. Although the companies that utilized this strategy employed at most only a fifth of the industrial workforce, “welfare capitalism came to be seen as America’s future” (Jacoby 1997, 20, 32).

Jacoby indicates there were a “slew of welfare programs that provided monetary benefits: pensions, stock ownership plans, paid vacations, mortgage assistance, and health insurance”; although they had several objectives, the most important was “to create a body of stable, loyal, and productive employees” (ibid., 24). Thus, employers departed from the paternalistic pattern of the Progressive Era’s welfare work by limiting benefits to those employees with a minimum level of tenure and providing benefits specifically desired by the workers.
The degree to which firms practiced welfare capitalism varied considerably, from large employers who endorsed the strategy, including employee benefits and company unions, to traditional companies which adopted few or none of the practices. Firms more likely to implement welfare capitalism had relatively low labor costs, were profitable, had steady product demand, were unorganized, and had centralized personnel departments (ibid., 26–29).

One employer organization that promoted welfare capitalism in the 1920s was the Special Conference Committee (SCC), which included executives from ten of America’s leading companies. The “SCC had close ties to the Rockefeller interests; until 1933 it was chaired by Clarence J. Hicks, former head of the personnel department at Standard Oil of New Jersey” (ibid., 21).

The 1920s also saw the emergence of Industrial Relations Counselors, Inc. (IRC), whose origins can be traced to the 1914 Ludlow Massacre at the Colorado Fuel and Iron Company (CF&I)—a Rockefeller family holding—where twenty-four striking miners and members of their families were killed by militiamen (see Kaufman’s detailed discussion of IRC’s history in Chapter 3 of this volume). As a result of the ensuing negative publicity, John D. Rockefeller, Jr., under the tutelage of William Lyon Mackenzie King, the future Canadian prime minister, pursued a more enlightened labor relations policy in the family properties. He later created and funded a permanent staff in 1922 to carry this work forward through research and consultation. In 1926, this staff moved from the Rockefellers’ law firm of Curtis, Fosdick, and Belknap to become Industrial Relations Counselors, Inc. (Hicks 1941, 119), which was underwritten by the Rockefeller family until the 1930s. IRC conducted industrial relations studies, provided technical support to employers, and published information, such as *Vacations for Industrial Workers* (Mills 1927). The combined influence of the SCC and IRC helped spread the practice of welfare capitalism during the 1920s. Kaufman, in Chapter 4 of this volume, describes the distinctive philosophy promoted by IRC and the SCC (known as the “Rockefeller approach”) as the promotion of greater cooperation and unity of interest between capital and labor to achieve both greater efficiency in the firm and an elevated moral and ethical basis for the employment relationship.

**Health Benefits**

**Employee Benefits**

Until the 1920s, employer-provided private health insurance in the modern sense was virtually unknown aside from certain employer-sponsored mutual benefit associations that paid some medical expenses and/or had arrangements with associated physicians. Some firms provided or allowed workers
to purchase "group health and accident" policies, but these plans typically provided limited cash payments for lost work time rather than direct medical-care reimbursement or provision (National Industrial Conference Board [NICB] 1923, 117–19; 1929b, 16; 1931, 64).24

Medical services provided on the job might range from first aid for a work-related injury to more comprehensive treatment, including, in a few cases, company dentists and "oculists." Company-owned hospitals were available to some railroad workers, notably those of the Southern Pacific in San Francisco. Many firms had company doctors—at least in part as a response to workers’ compensation requirements—who, in some cases, also screened potential new hires "in order to place employees in their proper work." These companies saw this as a strategy to reduce total compensation costs through selective expenditures on employee benefits (NICB 1921, 5).

Social Insurance

Several proposals for state-run health insurance plans were defeated in the years during and after World War I. The origins of the plans can be traced to 1915, when a group of reformers decided that the success in persuading states to enact workers’ compensation statutes should be followed by efforts to enact health insurance. The American Association for Labor Legislation took the lead in a multiyear research, publicity, and legislation-drafting project. The draft laws were enacted nowhere, however. During the war, the concept of health insurance was suspect because some of the countries with such laws were the "enemy," and the political environment in the postwar period, with its "passionate striving for 'normalcy,'" was equally inhospitable. The opposition to health insurance consisted of a formidable "united front": Employers—led by several employer organizations, including the National Civic Federation—objected to paying their 40-percent share of the program, taxpayers objected to their 20-percent share, workers objected to their share of the tax, and many workers and unions also objected to the compulsory nature of the program. Insurance carriers, who feared government competition, and the medical profession, led by the American Medical Association, which perceived a threat to doctors’ professional standing and income, also strongly opposed the health insurance legislation (Rubinow 1934, 207–208, 210–215).

Retirement Benefits

IRC played an important role in promoting and evaluating employee benefits, particularly retirement benefits, as evidenced by Latimer’s (1932a) comprehensive survey of pension plans. Aside from the 287 pension plans in
existence by the end of the Progressive Era, Latimer identified an additional 131 plans established between 1921 and 1929, 126 of which were still operating in 1929 and covered almost 508,000 workers, 84.1 percent in noncontributory plans. All the employer pension plans surveyed by Latimer that were still in operation in 1929 covered 3.7 million workers, a maximum of 14.4 percent of the workers encompassed by his study (which excluded the public sector and the professional occupations). In addition, union pension plans covered 798,700 workers by 1930, 20.5 percent of total union membership (up from 5.2 percent coverage in 1920) (Latimer 1932a, 42, 46, 54–55; 1932b, 128).

Latimer cites three employer objectives that underpinned the adoption of pensions during both the Progressive Era and the 1920s. First was the advisability of removing from service elderly persons no longer able to perform their tasks efficiently, particularly when (as on the railroads) public safety was a consideration. Second was the desire to develop a stable and competent workforce: Pensions were thought to prevent strikes and promote long, loyal, and uninterrupted service. Third, a humane method of dealing with older (and incapacitated) workers enhanced a company’s reputation and its ability to attract capable workers. Latimer concludes that rarely, if ever, had pensions been established as the result of demands from employees. Nonetheless, the assumption was that pensions, once offered by employers, would be very attractive to workers (Latimer 1932a, 18–19).

Latimer goes on to provide an interesting assessment of the evidence concerning the effect of pensions on employer and employee behavior. He argues that (1) pension plans have no important effect on employment stability and an equally inconsequential effect on labor mobility, (2) pension plans have little effect on reducing strikes, (3) the evidence is “hardly compatible with the theory that pensions reduced the ability of unions to organize workers,” and (4) those employers with pension plans did not consequently have reduced wages. He argues, however, that the pension plans he examined had serious deficiencies, such as insecurity (due to factors such as inadequate financing) and inflexibility (due to factors such as excessive service requirements for eligibility). He then offers a comprehensive outline of an ideal pension plan with twenty-nine main features (ibid., 753, 757, 760, 784, 902–38, 945–52). The Latimer study for IRC thus provides a commendable model for analysis of employee benefits: Theories about the effect of pensions on the behaviors of employers and employees are critically examined in light of available evidence, flaws of existing plans are identified, and guidance is provided for improved pension programs.

Although pensions were the most common form of employee benefit in the 1920s, Latimer’s survey indicates nonetheless that most workers did not
have pension coverage and vesting was not necessarily a feature for those who did. Since high turnover rates typically characterized the workforce of that era, many workers who were employed by successive firms with pension plans did not actually collect retirement benefits even if they lived to retirement age.

The result of such limited pension protection was that many elderly men either worked until they dropped or ended up as public charges. In the pre-New Deal period, the short-term solution for elderly without means of support was typically county- or charity-operated poorhouses and old-age assistance plans. Many in the 1920s believed the underlying problem to be inadequate thrift by workers when they were young and the “contempt for the careful husbanding of … resources” and “free spending of money” by workers (not unlike today’s lament about the lack of personal saving) (NICB 1929a, 1).

To counteract these unfortunate worker habits and instill more prudent worker behavior, employers often provided and facilitated savings arrangements. These began simply as a location for workers to deposit their savings if a financial institution was not available to handle such small sums and then evolved into either more formal arrangements with banks or credit unions or company-sponsored “investment trusts” (mutual funds), sometimes with disproportionate investment in the firm’s own stock. Payroll deductions were used to promote regular saving. As with modern 401(k) plans, employers sometimes subsidized employee contributions, which in some instances were based on profit sharing. Apart from paternal stimulation of thrift, employers saw such plans as promoting “harmonious” labor relations, raising worker morale, and reducing labor turnover (ibid., 27–28, 32–33, 75).

In the absence of tax incentives for employers to “pay” for benefits, firms often limited themselves to providing mutual benefit associations through which employees could take care of their own needs; in return, employers expected to garner employee gratitude without the risk of employees becoming dependent on the firm for illness, disability, or old-age support. Some firms, however, would guarantee the payment of benefits if the associations ran into financial difficulties (National Industrial Conference Board [NICB] 1923, 94–95).

**Explanation of the Developments**

**Employee Benefits**

The total cost of employer-provided benefits was $650 million in 1929, 1.3 percent of payroll (Table 6.1). Although the NIPA data begin in 1929, these relatively low costs probably were typical of the 1920s. For example, Epstein (1936, 160–61) conducted a survey of 514 large corporations in 1926 and found that the unions have been more likely to pay for benefits. In no inc were, of ben...
found that, on average, employers annually spent $17.04 per worker on all their welfare work, including old-age benefits, health insurance, restaurant subsidies, baseball clubs, and the like. The largest expenditure was for pensions at an annual per capita cost of $10.75. Since large employers were more likely to provide welfare work, the average expenditures for all employers were even less.

One reason for the paucity of employer-provided benefits in the 1920s is that the threat of unions, which had induced some firms to offer benefits during the prior two decades, declined in the aftermath of World War I. But even if unions had been more powerful in the 1920s, their goal would not necessarily have been to push for employer-paid benefits, which were often seen as paternalistic and in competition with what unions could provide themselves.

Another reason is that since few employees paid income taxes, there was no incentive for employers to provide nontaxable benefits to workers. There were, to be sure, a minority of employers who provided a comprehensive set of benefits to their employees during the 1920s, in part because of a conviction that welfare benefits were a good investment. Nonetheless, most employers apparently were not persuaded that such benefits improved profitability through reduced turnover or increased productivity, nor were they driven by the typical Progressive Era paternalistic belief that such benefits promoted thrift, temperance, and moral behavior among workers.

Social Insurance

The effort to establish a social insurance program for health care was a notable failure during the 1920s. However, the federal government established three welfare programs during this period, two related to World War I—vocational education to provide trained workers for the war effort and vocational rehabilitation to provide assistance to disabled veterans—and the third—an infant and maternal health program—partly as a political response to women, who had finally earned the right to vote (Berkowitz and McQuaid 1992, 73–76). These welfare programs helped lay the groundwork for the massive expansion in government programs in the era of the New Deal and World War II.

The New Deal and World War II Era

The U.S. economy plunged into a severe depression in the 1930s, with the unemployment rate soaring from 3.2 percent in 1929 to 24.9 percent in 1933 (Bureau of the Census 1975, Series D 86). The unemployment rate remained above 14 percent until 1941, when it dropped below 10 percent for the first
time in more than a decade. The Depression caused a fundamental shift in
the political environment, and the business community lost prestige and in-
fluence, in part because of its reactions to the crisis, illustrated by the follow-
ing passage:

“You are always going to have, once in so many years, difficulties in busi-
ness, times that are prosperous and times that are not prosperous,” said
Albert H. Wiggin of the Chase. “There is no commission or any brain in
the world that can prevent it.” Senator La Follette, startled, asked Wiggin
whether he thought the capacity for human suffering to be unlimited. “I
think so,” the banker replied.

If depression was inherent in the system, then so was recovery…. Little
could be worse than trying to meet an economic crisis by passing laws.
“Lifting the individual’s economic responsibility by legislation,” said the
President of the N.A.M., “is to promote the very habits of thriftlessness in
his life which produce his dependency upon such a process.” [Schlesinger
1957, 178]

The Depression also significantly affected unions. As the prestige of the
business community waned, the appeal of unions waxed, which helped them
attract members and political support. They shifted from an organizing strat-
egy largely confined to skilled workers to one that included unskilled work-
ers in mass-production industries. Furthermore, the futility of trying to achieve
economic gains for workers in a dysfunctional labor market led most union
leaders to abandon the policy of voluntarism, in which government action
was considered a threat to the benefits that unions could provide their mem-
bers, and to embrace government intervention in the labor market.

One consequence was the enactment of legislation favored by unions,
including the National Labor Relations Act (NLRA) in 1935, which protec-
ted the rights of workers to organize, bargain collectively, and engage in
strikes. The change in the statutory framework was accompanied by Su-
preme Court decisions that affirmed the right of Congress to use the
Constitution’s commerce clause to regulate industries that affected inter-
state commerce. Its 1937 decision in National Labor Relations Board v.
Jones and Laughlin Steel Company upheld the constitutionality of the NLRA
and was one of the decisions that helped validate enactment of protective
labor legislation, such as the Fair Labor Standards Act, and social insurance
programs during the 1930s.

Greater government intervention and union influence were both reinforced
during World War II. The unemployment rate was below 2.0 percent from
1943 to 1945 (Bureau of the Census 1975, Series D 86), and the economy
Table 6.2
Selected Components of Employer Contribution for Social Insurance, 1929–2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Wages and salaries $ billions</th>
<th>OASDHI $ billions</th>
<th>As % of wages and salaries</th>
<th>Unemployment insurance (UI) $ billions</th>
<th>As % of wages and salaries</th>
<th>Employer contribution for social insurance $ billions</th>
<th>As % of wages and salaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>50.5</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1930</td>
<td>46.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1935</td>
<td>36.7</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>1940</td>
<td>49.9</td>
<td>0.3</td>
<td>0.6</td>
<td>1.0</td>
<td>2.0</td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>1945</td>
<td>117.5</td>
<td>0.6</td>
<td>0.5</td>
<td>1.4</td>
<td>1.2</td>
<td>3.5</td>
<td>3.0</td>
</tr>
<tr>
<td>1950</td>
<td>147.2</td>
<td>1.3</td>
<td>0.9</td>
<td>1.5</td>
<td>1.0</td>
<td>3.4</td>
<td>2.3</td>
</tr>
<tr>
<td>1955</td>
<td>212.1</td>
<td>2.8</td>
<td>1.3</td>
<td>1.6</td>
<td>0.8</td>
<td>5.2</td>
<td>2.5</td>
</tr>
<tr>
<td>1960</td>
<td>272.8</td>
<td>5.6</td>
<td>2.1</td>
<td>2.9</td>
<td>1.1</td>
<td>9.3</td>
<td>3.4</td>
</tr>
<tr>
<td>1965</td>
<td>363.7</td>
<td>8.3</td>
<td>2.3</td>
<td>3.8</td>
<td>1.0</td>
<td>13.1</td>
<td>3.6</td>
</tr>
<tr>
<td>1970</td>
<td>551.5</td>
<td>18.5</td>
<td>3.4</td>
<td>3.7</td>
<td>0.7</td>
<td>23.8</td>
<td>4.3</td>
</tr>
<tr>
<td>1975</td>
<td>814.7</td>
<td>36.1</td>
<td>4.4</td>
<td>7.4</td>
<td>0.9</td>
<td>46.7</td>
<td>5.7</td>
</tr>
<tr>
<td>1980</td>
<td>1,377.4</td>
<td>67.2</td>
<td>4.9</td>
<td>15.7</td>
<td>1.1</td>
<td>88.9</td>
<td>6.5</td>
</tr>
<tr>
<td>1985</td>
<td>1,995.2</td>
<td>114.3</td>
<td>5.7</td>
<td>25.5</td>
<td>1.3</td>
<td>147.7</td>
<td>7.4</td>
</tr>
<tr>
<td>1990</td>
<td>2,754.6</td>
<td>170.8</td>
<td>6.2</td>
<td>21.3</td>
<td>0.8</td>
<td>206.5</td>
<td>7.5</td>
</tr>
<tr>
<td>1995</td>
<td>3,441.1</td>
<td>217.5</td>
<td>6.3</td>
<td>29.3</td>
<td>0.9</td>
<td>264.5</td>
<td>7.7</td>
</tr>
<tr>
<td>2000</td>
<td>4,837.2</td>
<td>300.1</td>
<td>6.2</td>
<td>28.5</td>
<td>0.6</td>
<td>343.8</td>
<td>7.1</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Tables 6.3A, 6.3B, and 6.3C (wages and salaries); 3.6 (OASDHI, unemployment insurance, and employer contribution for social insurance).

was regulated to suppress excess demand through mechanisms such as wartime wage controls, which limited increases in take-home pay but allowed employers to provide additional compensation as deferred income, including pensions.

As a result, employer contributions for employee benefits increased modestly between 1930 and 1945, from 1.4 percent to 2.0 percent of payroll. However, the most striking development during these fifteen years was the increase in employers’ contributions for social insurance programs, including the unemployment insurance program, from nil to 3.0 percent of payroll (Tables 6.1 and 6.2).

**Employee Benefits**

As the economy slid into the Depression, a few companies tried valiantly to maintain their employee benefits programs or to provide assistance to workers,
including extending emergency loans or waiving rent on company housing (Bernstein 1960, 290). But most employers were overwhelmed by the adverse economic conditions, and most company-provided benefits were cancelled: Niceties such as paid vacation were often suspended or discontinued (NICB 1935, 9); group life-insurance terminations exceeded new sales during 1929–33 (NICB 1934, 28); employees covered by noncontributory pensions were required to contribute (IRC 1936); and stock purchase plans tended to be discontinued as share values declined.

The Conference Board reported that “in some cases, it was difficult to explain the situation to certain uneducated elements of the working force who could not comprehend why they were not paid in full (by the stock plans) and, consequently, employee morale suffered.” Even where companies had seemingly conservative savings arrangements with local banks, bank failures sometimes led to plan terminations and employee losses (NICB 1936a, 13–14, 23). IRC suggested that the rise of unions in the 1930s was partly attributable to embittered workers who felt management had enticed them into money-losing investments (IRC 1945b, 7).

While most companies reduced or eliminated employee benefits and other components of welfare capitalism, three leading companies—Kodak, Sears Roebuck, and Thompson Products—were an exception. “These modern manors preserved an American tradition of vehement employer opposition to organized labor” (Jacoby 1997, 7) and managed to avoid both unionization and the ravages of the Depression. They shifted the emphasis from control to consent, educating their managers about human relations and weakening the foreman’s coercive “drive” system. In place of discretionary benefits, they provided generous welfare plans designed to supplement social insurance. Between the 1930s and 1960s, these firms succeeded in modernizing welfare capitalism into what Jacoby terms “a kinder, gentler sort of paternalism” (ibid., 5).

Jacoby identifies other vanguard companies (including Standard Oil of New Jersey) that did not feel the Depression’s full fury and could more easily avoid layoffs, deter unionization, and maintain welfare programs (ibid., 33). In addition, IRC’s efforts to promote such benefits were an important counterbalance to the tendency to cut benefits because of the economic duress. Clarence Hicks, who retired from Standard Oil of New Jersey in 1933 and subsequently became the chairman of the board of trustees of IRC, provides a rationale for these benefits when he argues (1941) that security of the employee is a matter of mutual concern for workers and management because insecure workers have a costly effect on efficiency; moreover, the type of worker that values security most dearly is the most effective employee because of his foresight, reliability, and initiative. Hicks
also endorses employee involvement in the development, operation, and financing of these programs and the necessity of formal rules on which workers could rely (ibid. 98–102).

This argument for employee benefits was subject to a major qualification, however, articulated by Bryce Stewart (1930), a director of research for IRC, in this comment on employer unemployment insurance plans:

It should be emphasized that no industry can safely undertake any industrial relations scheme on a voluntary basis except in so far as the scheme pays its own way. In the degree that efficiency is promoted and unit costs are reduced by greater stability and esprit de corps in the employed force, such plans may be counted on to broaden in scope. In so far as the costs are uneconomic, the operation of competition will ultimately bring about deliberation and perhaps withdrawal of the plan. [p. 221]

Retirement Benefits

Employee Benefits

Between 1929 and 1932, the number of workers covered by employer-based pension plans and the adequacy of pension benefits declined significantly. Almost 10 percent of the pension systems operating in 1929 were discontinued, closed to new employees, or suspended by 1932, the most rapid rate of decline in the entire history of the pension movement. Those plans that did continue to operate during this period were more likely to require employee contributions and, for about 30 percent of the workers, to provide reduced benefits or have more difficult eligibility requirements (Latimer 1932a, 846, 861–66). Unions also experienced severe financial difficulties with their pension plans but were hobbled by the fear that to improve their financial condition through increased contribution rates would result in large losses of members (Latimer 1932b, 124–25)

Although many employers dropped or scaled back their pensions during the Depression, a number—primarily small firms relatively unaffected by the slump in the economy—did establish new plans—a great majority of which required employee contributions (Latimer 1932a, 886). The overall trend in pension plan contraction reversed dramatically between 1932 and 1938 with the creation of 281 new private pension plans, an unprecedented period of extraordinary rapid growth. More than 75 percent of the 515 old and new plans active in 1938 were contributory, but since many larger employers still maintained noncontributory plans, only about 29 percent of all covered workers were required to pay into their pension plans (Latimer and
Tufel 1940, 7). Many of these 515 plans provided pensions that were integrated with the old-age benefits provided by the new federal Social Security system enacted as part of the New Deal (discussed below). Latimer and Tufel caution, however, that there was little prospect that the government would provide “adequate retirement provisions for the great majority of industrial workers”, and therefore there would be a continuing need for private retirement systems to supplement the Social Security benefits (ibid., 44). However, critics of private pension plans argued that these plans were unable to provide much protection. Epstein (1936, 148) asserted that they covered hardly more than 10 percent of all U.S. wage earners, and that because of service requirements and other limitations, no more than 5 to 10 percent of covered workers would eventually qualify for private benefits.

Social Insurance

The reduction in pension coverage as the Depression worsened in the early 1930s, coupled with declining employment opportunities, had a devastating effect on the economic status of older workers, which ultimately gave rise to populist social movements of the elderly, such as the Townsend Crusade and its proposed $200 monthly pensions. The New Deal political response was the creation of the Social Security system.

President Franklin D. Roosevelt appointed the Committee on Economic Security (CES) in 1934 to draft the Social Security Act. The committee consisted of (1) five Cabinet members, with Secretary of Labor Frances Perkins as chair and Edwin Witte from Wisconsin as executive director; (2) an Advisory Council of distinguished individuals outside the federal government, which included Walter C. Teagle, president of Standard Oil Company and later a member of IRC's board of trustees; and (3) a Technical Board of representatives from various federal departments and agencies, among them Murray Latimer, a former IRC employee and author of its 1932 volume on pension plans, who served as chairman of the Technical Board's Old Age Security Committee. As a key member of the Technical Board, Latimer argued against exempting employers with existing pension plans from the Social Security system and testified before Congress in favor of the legislation. One of the committee's key advisers was Professor J. Douglas Brown of Princeton University's Industrial Relations Section (Witte 1962, 24, 27, 30, 158–59).

The Old Age (OA) component of Social Security covered virtually all workers in the private sector engaged in commerce and industry. Although initially funded with appropriations from general revenues, beginning in 1937 employers and employees were subjected to a payroll tax to fund the program. The contribution rate between 1937 and 1949 for both employers and
employees was 1.0 percent of the first $3,000 of pay. Benefits for retired workers aged sixty-five or older began in 1935; benefits for spouses and children were added in 1939, along with benefits for survivors of insured workers. The original law did not automatically increase old-age and survivor (OAS) benefits in response to changes in the Consumer Price Index (CPI). Features of Social Security's old-age benefits (trust funds, employer and employee contributions, benefits based on earnings history, etc.) were modeled after the private sector's pre-New Deal defined-benefit pension plans (Mitchell 2001).

**Unemployment Insurance Benefits**

The national unemployment insurance (UI) program was a component of the Social Security Act of 1935. However, it warrants separate treatment, in part because of the important contributions to the design of the program made by IRC.

The UI program is a federal-state system. The original UI program only covered employers with eight or more employees and excluded numerous types of employment, including farm workers, service for nonprofit organizations, and governmental employment (most of these exemptions have since been removed). A federal tax is assessed against all covered employers, which is largely forgiven if a state has a UI program that meets several federal standards, including the use of experience rating for determining employer assessments. This federal-state system was adopted in part because of the fear that a strictly federal system would not survive a constitutional challenge. Although Supreme Court decisions by the late 1930s would have affirmed the constitutionality of a federal UI program, the federal-state system, once in place, has persisted.

IRC was a major contributor to the development of the unemployment insurance program. Between 1927 and 1932, IRC maintained a branch office at the International Labour Organization in Geneva from which it conducted research on unemployment insurance in several European countries. One result was a series of volumes describing social insurance in various countries (Great Britain by Gilson 1931; Switzerland by Spates and Rabinovitch 1931; Belgium by Kiehel 1932). In the United States, IRC surveyed the use of unemployment benefits by companies as a means to regularize employment (Stewart 1930). As the Depression deepened and the need for unemployment insurance became more pressing, Bryce Stewart, director of research for IRC, coauthored a blueprint for reform (Hansen et al. 1934).

After President Roosevelt appointed the CES, Stewart was selected under an unusual arrangement to head the staff responsible for the study of unemployment insurance. He was never placed on the payroll of the
CES, but almost the entire research staff of IRC was. Stewart and the IRC staff remained in New York throughout their assignment for the CES, and Merrill Murray, the director of the Minnesota Employment Service and one of Stewart’s coauthors of the 1934 blueprint, was hired as Stewart’s principal assistant and placed in the CES office in Washington (Witte 1962, 29).

Witte’s account makes numerous references to Stewart’s contribution to the activities of the CES. Nonetheless, he lost on two crucial design issues. Stewart supported a federal UI program—rather than a federal-state system—and as a second choice, a federal-state system with subsidies from the federal budget rather than a self-supporting system solely financed by employer contributions (ibid., 125). Had Stewart’s views prevailed, the history of the UI program might have been quite different. For example, the pressures on states to compete for employers by scaling back benefits (to reduce employers’ costs) might have been muted.

**Explanation of the Developments**

The 1930s provided the crucible in which the primary social insurance programs for the United States were created. There is a dispute among scholars about the determinants of the contents of the unemployment insurance and old-age programs (similar to the arguments concerning the influences on social insurance during the Progressive Era). Skocpol and her associates, in their state autonomy theory, argue that elected and appointed officials represent the state (i.e., government), which has its own interests and goals and which plays a major role in shaping legislation. Orloff (1993), who presents a modified version of this viewpoint for her analysis of the 1930s, attributes the legislative enactments to “the activities of party officials, elected leaders, state bureaucrats, social scientists, charity workers, and social reformers.” She denigrates the influence of business in her assessment of the enactment of the Social Security Act of 1935: “The act passed overwhelmingly, showing the weakness of U.S. business as an interest group at this juncture of American history” (ibid. 76, 297).

Domhoff (1996) supports a “class dominance” view that emphasizes the influence of business interests on American policy making; he argues that a “Rockefeller Network,” which funded *inter alia* the Social Science Research Council, the Industrial Relations Section at Princeton University, and IRC, dominated decisions about the design of the Social Security Act. Berkowitz (1996) agrees that Douglas Brown and Murray Latimer, both prominent figures in the “Rockefeller Network,” were intimately involved in the creation of the old-age sections of the act and that many of
their preferences prevailed in its design, including a national program. However, Brown, Latimer, and Walter Teagle lost the battle on other aspects of the old-age program such as the program’s funding mechanism. As for unemployment insurance, Berkowitz indicates that IRC did help write various versions of the law. However, as Witte (1962) noted, Bryce Stewart’s views did not prevail on several key issues, such as the solely federal versus federal-state cooperative design dispute. Berkowitz concludes: “In the contest [concerning the design of the Social Security system], IRC won some and lost some, just as Edwin Witte did. The Rockefellers were in the arena but did not always prevail” (1996, 4).

The Post–World War II Era Through 1990

Overview of Developments

Employee benefits surged after World War II, from 2.0 percent of payroll in 1945 to 13.5 percent in 1980, and then grew more slowly until reaching 14.2 percent of payroll in 1990 (Table 6.1). The primary sources of this increase were pension and profit-sharing plans, which increased from 1.5 percent of payroll to 7.5 percent between 1948 and 1980 before declining to 5.5 percent in 1990, and group health insurance, which steadily increased from 0.3 percent to 6.8 percent of payroll between 1948 and 1990 (Table 6.3).

This period also saw substantial increases in employer contributions for social insurance, which grew from 3.0 percent of payroll in 1945 to 7.5 percent in 1990. The largest source of this growth was due to the Social Security Old Age, Survivors Disability, and Health Insurance (OASDHI) program, for which employer expenditures increased from 0.5 percent to 6.2 percent of payroll in the forty-five year period (Table 6.2). Unemployment insurance contributions as a percent of payroll actually declined through much of this period, which reflected the generally buoyant economy. The combined employer expenditures on employee benefits and social insurance programs more than quadrupled between 1945 and 1990, from 4.9 percent of payroll to 21.7 percent. As discussed below, there were significant variations among firms in the size of expenditures.

Retirement Benefits

Employee Benefits

There was an explosive growth between 1950 and 1975 in the number of workers covered by private pension plans, from 9.8 million to 30.3 million workers. Several factors facilitated this proliferation of pension plans. The
federal tax code was amended during World War II to clarify the favorable tax treatment of pension and welfare funds. After the war, several major unions pressed for pensions, facilitated by the National Labor Relations Board’s decision in a dispute between the United Steelworkers and the Inland Steel Company that pensions were a bargainable issue. The Steelworkers and the United Auto Workers made pensions a priority demand in negotiations, which culminated in strikes won by the unions. Pensions soon spread among other unionized and unorganized industries (Stein 1979, 6–8).

Significant spokespersons in the employer community also supported the adoption of pension plans. Pension plan design was now characterized in equity terms. Rather than just terminating elderly workers when they became “superannuated,” IRC (1950) advised employers that

[pension] benefits ... should be large enough to make elderly employees, if not positively willing to retire, at least willing to acquiesce in the termination of their service without any sense of grievance and with some realization that the company has made as generous provision for retirement as could be reasonably expected. [P. 1]
The growth of pension plans in the first twenty-five years after the war was accompanied by some abuses. In response, Congress enacted the Employee Retirement Income Security Act (ERISA) in 1974, which established standards in all areas of funding and administration that significantly changed the structure of the pension system (Stein 1979, 11). For example, ERISA established minimum requirements for vesting, required employers to cover employees on a basis that did not discriminate among workers, and created the Pension Benefit Guaranty Fund (PBGC) to guarantee benefits of defined benefit plans if they are terminated.

One immediate aftermath of ERISA was a drop in new plans and an increase in terminations of plans. Stein postulates that growth in coverage could be expected to decline, as most unionized and many large firms already had pension plans of some kind (ibid., 18, 21). His predictions were actually optimistic, as the percentage of the private-sector workforce covered by employer-sponsored pension plans declined from around 50 percent in the 1970s to around 45 percent in 1988 before rebounding to about 50 percent in 2000 (Munnell, Sunden, and Lidstone 2002). Munnell, Sunden, and Lidstone attribute the stability in the overall coverage figures between 1979 and 2000 to offsetting changes for men (down from about 55 to 51 percent of all male workers) and women (up from about 36 to about 44 percent of all female workers). The extent of coverage dropped for all males except those workers in the highest earning quintile (top 20 percent) due to declines in union membership and male employment at large firms and the rapid growth of 401(k) plans, which made employee participation in pension plans voluntary. Female coverage increased because of higher earnings, an increase in full-time work, and—to a lesser extent—because of increased unionization and female employment at large firms.

Munnell, Sunden, and Lidstone further report that the existence of pension plans varied sharply by size of firm: 68 percent of large firms (more than 1,000 employees) provided pensions in 2000 as compared with only 23 percent of small firms (fewer than 25 employees). Firms with less than 100 employees accounted for about one third of full-time employees, a factor in the low overall rate (50 percent) of workforce coverage.

Munnell, Sunden, and Lidstone also document a second major shift in private pension plans in recent decades—from defined benefit plans (which generally provide retirement benefits based on final salary times a percentage that increases with each year of service) to defined contribution plans (where the employer and often the employee contribute a specified dollar amount or percentage of earnings each year into an account, the balance of which is available for the employee upon retirement). The number of active participants in defined contribution plans increased from less than 30 percent
of all pension plan participants in 1975 to almost 70 percent in 1997. The most rapidly growing type of defined contribution plan is the 401(k) plan, in which participation in the plan is voluntary and the employee as well as the employer can make pretax contributions to the plan. As Munnell, Sunden, and Lidstone indicate, these characteristics of 401(k) plans "shift a substantial portion of the burden for providing for retirement to the employee" (ibid., 6-7). Despite this drawback for workers, participants in 401(k) plans as a percentage of participants in all defined contribution plans increased from about 25 percent in 1984 to about 70 percent in 1997.

Munnell, Sunden, and Lidstone further note that the framers of ERISA did not mandate employer-sponsored retirement plans and instead provided the Individual Retirement Account (IRA) for workers whose employers did not provide a plan. However, as of 1996, only about 4 percent of eligible persons contributed to an IRA. As a result, the authors conclude:

> The pension story remains the same whether or not IRAs are included in the analysis. Private pension plans provide substantial benefits to middle- and upper-income workers, but a significant portion of the workforce—particularly those with low earnings—end up without any source of retirement income other than Social Security. [Ibid., 9]

**Social Insurance**

Social Security benefits were considerably enhanced in the decades following World War II (Social Security Administration 2000). Coverage was extended in several steps: farm and domestic workers in 1950; most professional self-employed workers in 1954; many federal employees in 1983; and most state and local government employees in 1986 and 1990. Automatic adjustments in Social Security benefits based on increases in the CPI began in 1972, with the formula modified in 1977 and 1983. Significant new benefits were added: disability insurance (DI) in 1956 for disabled workers who were fifty to sixty-four years old and for disabled children; DI benefits for younger workers in 1960; health insurance (HI) benefits, commonly referred to as Medicare, in 1966 for persons aged sixty-five or over; and the extension of HI benefits to disabled persons in 1972. These extensions of the Social Security program led to an increase in the contribution rate for both employees and employers: from 1.0 percent of the first $3,000 of earnings in 1937-49 to 7.65 percent of the first $51,300 of earnings in 1990.

The Social Security program experienced several financial problems in the postwar period. The 1972 formula for protecting benefits against inflation was defective and, coupled with high levels of unemployment that...
reduced contributions, led to amendments in 1977 that increased taxes and lowered benefits, in part by changing the cost-of-living-adjustment formula (Stein 1979, 8–9). Then in the early 1980s, the OAS trust fund was depleted, in part because of the static growth of wages (IRC 1996). A commission headed by Alan Greenspan recommended changes, enacted in 1983, that inter alia increased the tax rate, subjected some of the benefits to taxation, and increased the retirement age in stages.

These 1983 changes were supposed to solve the Social Security funding problem for seventy-five years, but they were based on economic and demographic assumptions that were too optimistic. One consequence has been a spate of proposals to significantly reform the OAS components of the program. Boskin (1986) proposed separating Social Security into two parts, one that would base OA benefits on worker contributions and one that would guarantee a minimum adequate level of retirement income for all citizens. His proposal was followed by others from conservative groups, such as the CATO Institute, to privatize at least a portion of the OA benefits by requiring participants to establish IRAs. Privatization has not yet been adopted, however, in part because many analysts agree that "effecting a smooth transition from social security to a privatized individual annuity program would be very difficult and expensive" (IRC 1996, 6).27

Health Benefits

Employee Benefits

Initially, unions had little enthusiasm for the sickness plans sometimes found in the nonunion workplaces that they organized in the prewar period (Bureau of Labor Statistics [BLS] 1942, 200). These sickness plans—essentially offerings of paid sick leave and disability (not modern health insurance)—persisted through the war (IRC 1945a). However, since doctor opposition in the 1930s and 1940s defeated proposals for government-run health insurance at the national and state levels, privately negotiated health insurance became commonplace in union agreements in the postwar period.

Unions tended, where such plans were available, to tilt toward "capitation" systems such as Kaiser Permanente in California or HIP in New York. The flat costs per employee were easier to budget and negotiate (Mitchell 2001). Such arrangements later became the models for modern HMOs and managed care. Fee-for-service plans, including major medical supplements—although often negotiated by unions—were seen by organized labor as obstacles to a better system of universal coverage and capitation (IRC 1957, 28).
As unions obtained health benefits for members, many nonunion employers also began to offer health insurance. The employer-provided plans became more comprehensive in the 1950s. Major medical insurance supplements that wrapped around more basic plans—or were part of them—covered 3.6 million workers and their dependents in 1956, up from less than 300,000 in 1952 (ibid., 3).

Hicks (1941, 103–6) had been a strong early advocate for group health insurance plans. He notes that younger workers had greater concern for the cost of illness than for insecurity in old age. He observed that the cost of treating illness had mounted steadily with the advance of medical science, and the legitimate concern of employers is not just with work-related illnesses, “but in the total health picture of the employee and his family.” Hicks also points out the lower costs that resulted from employer-based group health insurance.

The rapid growth of employer-provided health care benefits between the end of World War II and the 1970s was followed by a period of decline. Between 1979 and 1992, the percentage of civilian, full-time, year-round workers who received health insurance through their employers dropped from 82 percent to 73 percent, according to data cited by Gottschalk (1998), who provides this explanation:

From the Second World War until about the 1970s, employer-based health plans covered an increasing proportion of Americans. From then onward, however, coverage began to shrink as the initiative in industrial relations shifted radically from union to nonunion firms and from labor to management in ways that would have important consequences for the private-sector safety net, including health benefits. Many nonunion firms initially provided comparable wage and benefit packages to attract the best workers and to keep unions at bay. Yet as firms became increasingly adept at slowing and then stopping the expansion of collective bargaining and union membership, the initiative in the private sector shifted. In an important reversal, innovations in labor-management relations began to originate in nonunion firms and then spread to union ones. Nonunion firms were the first to experiment widely with cutbacks in benefits and with new ways of organizing the work place and the work force, notably a greater reliance on part-time and “contingent” workers. [Pp. 13–14]

Social Insurance

The United States stands in contrast to other developed countries because of the relatively limited government role in the provision of health insurance for active workers. Almost all of the attention given this issue of American
exceptionalism has been focused on the federal government. Generally, the failure of the Truman Administration to enact a federal health plan in 1949 has been taken as the turning point after which the United States decisively moved to a system of (incomplete) job-based private coverage (Poen 1979). The difficulty with that view is that by 1949, job-based health care had already become embedded in the personnel practices of many firms, especially those with union contracts. As such, the actual turning point most likely came earlier.

Our candidates for the critical point and place are California at the end of World War II. Earl Warren, the governor and a progressive Republican, formulated his own proposal for a single-payer, fee-for-service comprehensive state health plan. The Warren plan, based on a 3 percent payroll-tax split between employers and workers, was presented to the California legislature in early 1945.

It is interesting to speculate on what would have happened if Warren had succeeded in implementing his plan. Senator Robert Wagner and others in the U.S. Congress who supported government-provided health insurance might have shifted their objectives toward a federal-state partnership, perhaps using unemployment insurance as the model. A plan based at the state level might have had more appeal to conservatives in Congress than a federal program. The Truman plan of 1949 might have followed a model of supporting existing state initiatives rather than the purely federal program the president actually proposed.

Alas, Warren was unable to pass his proposal. Part of his problem was a split within organized labor. The California AFL backed the Warren plan, but the CIO insisted on a plan based on capitation rather than fee-for-service. Meanwhile, the California Medical Association, based on advice from its campaign consultant that it could not defeat the Warren proposal without an alternative model, substantially expanded its Blue Shield plan.28

There is a tendency to assume that the American system of incomplete employer-provided health insurance was inevitable. However, history suggests that had Warren been more careful in drafting and promoting his health proposal and had the AFL and CIO not been split, California and then the United States might have adopted a Canadian-style system of health insurance.

More recent prominent national efforts to enact health insurance include the plans proposed by President Nixon (Gottschalk 1998). The original Nixon plan proposed in 1971 required employers to pay 65 percent of the cost of the insurance premiums for employees who worked twenty-five hours or more per week. The plan would have maintained private insurance carriers, and so gained their support. It also received qualified support from the NAM and the U.S. Chamber of Commerce, although they argued that employers
should bear a smaller share of the costs. The National Federation of Independent Business (NFIB) opposed the proposal, arguing that small employers could not afford the program. In addition, the labor movement and leading Democrats opposed the plan. Senator Ted Kennedy and Representative Martha Griffiths supported a national health insurance plan financed from a new payroll tax and general revenue; this would have made the federal government the single payer, eliminate commercial health care insurers, and provide all Americans with a package of benefits. After several years of stalemate, a new Nixon proposal was introduced in early 1974; the labor movement, still in favor of a single-payer model, opposed the new proposal, which now garnered the opposition of the NAM. Gottschalk asserts that the unwillingness of unions to endorse any compromise that fell short of full-blown national health insurance caused a rupture with some Democrats, including Senator Kennedy.

By the late 1970s, organized labor for the first time embraced the idea of health insurance based on mandates for employers, a strategy that might have led to the enactment of the Nixon plan if it had been adopted by unions earlier in the decade. Ironically, by the time labor was converted to the employer-mandate approach, the tide of employer interest was shifting away from providing benefits at the workplace. According to Gottschalk:

With the retrenchment of the public-sector safety net and the decline of the unionized work force, employers began to feel less pressure to provide good benefits as a way to prevent the expansion of government programs or to compete with unionized firms for the top workers. In summarizing the tenor of a major conference in 1978 … sponsored by the Conference Board, … David A. Weeks concluded … that the basic assumptions about employee benefits may no longer be true. He predicted that benefit packages would probably not continue to improve, and that employees would be required to contribute more for items like health insurance and pensions in the near future. Most significantly, he predicted that companies that were considered leaders in providing liberal benefits would no longer be given credit for their “progressiveness and farsightedness.” ²⁹ [Ibid., 13]

Workers’ Compensation

Workers’ compensation, the oldest of the social insurance programs, was criticized in the decades after World War II because benefits lagged behind wage increases and the proportion of the workforce covered was less than for the Social Security and unemployment insurance programs.³⁰ One consequence of the criticism is that the Occupational Safety and Health Act of 1970 (OSHAAct) contained a section added at the insistence of New York
Senator Jacob Javits that established the National Commission on State Workmen’s Compensation Law. Most of the members were Republicans screened by the Nixon White House, and many represented employers, private carriers, and state agencies—in part to ensure that the Commission did not recommend the same fate for state workers’ compensation programs that had befallen state safety programs under the OSHAAct—namely, federalization.

The Report of the National Commission on State Workmen’s Compensation Laws (National Commission on State Workmen’s Compensation Laws, 1972) was surprisingly critical of state workers’ compensation programs, describing them as generally inadequate and inequitable. The Commission made eighty-four recommendations for virtually all aspects of state programs and designated nineteen of the recommendations dealing with coverage and benefit levels as essential. The Commission rejected federalization, that is, a federal takeover of state programs. However, the Commission members unanimously recommended that Congress should enact federal minimum standards for the state programs if states did not comply with the nineteen essential recommendations by 1975. The Commission offered the rationale for federal standards: Without a floor being placed under state coverage and benefits, states would be impeded from enacting adequate laws that would increase employers’ costs because legislatures would be threatened by “the specter of the vanishing employer” fleeing to a lower-cost jurisdiction.

This attempt to introduce a federal presence into the workers’ compensation programs was unsuccessful for several reasons. Many states improved their laws (although none complied with all nineteen essential recommendations). Senator Javits and Senator Williams from New Jersey introduced federal standards legislation that preceded the 1975 deadline and contained so many extraneous requirements that even the former chairman of the National Commission testified against the bill. Carriers and employers began to have second thoughts and eventually largely opposed the bill. The labor movement was ambivalent because most unions preferred federalization to federal standards. Furthermore, many participants in state workers’ compensation programs, including attorneys, agency administrators, and lobbyists, resisted the loss of state control over the program. Eventually, the political climate turned more conservative and the moment for realigning the control of workers’ compensation passed.

Explanation of the Developments

The postwar decades were generally prosperous. There were recessions, but the unemployment rate never exceeded 10 percent in any year between 1945 and 1990, and there were extended periods of prosperity, most notably the
1960s, when the longest peacetime expansion until then took place. Superimposed on these business cycles were several secular economic trends that affected the development of employee benefits and social insurance programs, including the increasing competition in product markets and the growing reliance on contingent workers.

The political environment varied over these decades. To greatly simplify, the conservatives were dominant in the 1940s and 1950s (as witnessed by the enactment of the Taft-Hartley Act in 1947 and the Landrum-Griffin Act in 1959, both of which favored management over labor); liberals had considerable influence in the 1960s and early 1970s (as evidenced by the Great Society legislation under President Johnson and the OSHAct and ERISA laws under Republican Administrations); and then more conservative views prevailed for the rest of the 1970s and 1980s.\(^{31}\) The most significant development concerning participants in the political process involved unions, which grew after the war to encompass about one third of the labor force by the mid-1950s, and then generally declined for the balance of the period.

**Employee Benefits**

The tax code was an important reason for the growth of employee benefits in the first few decades after the war. Both the union and nonunion sectors were stimulated to create health, pension, and other employee benefits. Larger firms became more aware of "tax efficiency" in their benefit offerings, probably because they had personnel managers who could understand the concept. Thus, for example, large firm pension plans tended to be noncontributory, unlike many of those in small firm plans, where employees paid their share of the pension expense in after-tax dollars (IRC 1949, 13-16).

Further changes in the tax laws may have contributed to the decline in the prevalence of employer-provided pensions later in the postwar era. The marginal tax rates for individuals were cut during the Reagan Administration in the 1980s, which reduced the incentives for employees to pressure employers to pick up a larger share of retirement plan costs. Reagan and Turner (2000, 476-77) estimate that these declining tax rates explain almost 20 percent of the decrease in private pension-plan coverage of young males between 1979 and 1988.

In the years immediately after the war, the strong union movement that emerged made pensions and other employee benefits major bargaining goals, aided by favorable court rulings that required employers to bargain about such matters. A result, in part, of the dramatic growth in union plans was that the U.S. BLS as well as private organizations such as the Bureau of National Affairs, issued numerous reports for several decades...
after the war that summarized the terms of union health insurance and pension plans. The 1947 Taft-Hartley Act essentially made union contracts public documents; thus, union plans were easier to report than nonunion plans, which were not public information. Such a high profile made union practices appear as norms of good practice to be emulated and helped to spread employee benefits to more and more workplaces.32

Although corporations that remained nonunion in the immediate postwar period were generally overlooked by industrial relations scholars or, worse, viewed as aberrant (Jacoby 1997), by the 1970s, nonunion employers had become the innovators in human resource management techniques and began a trend of shifting employee benefits expense to workers (Gottschalk 1998). This trend grew as employers sought to offset their obligations and costs under federal legislation, such as the OSHA Act and ERISA, and unions, declining in strength, could offer only limited opposition.

Social Insurance

In the early postwar decades, when unions were at their peak strength and some segments of the employer community supported reform, social insurance programs expanded. After about 1970, the political environment changed, and efforts to establish new programs or enact federal standards were defeated (in some instances, facilitated by union strategic errors), and by the end of the period, important components of Social Security were threatened with privatization.

More specifically, the Social Security program was greatly expanded in the first few decades after the war, including increases in the generosity of OAS benefits and the addition of disability benefits. From the 1970s on, however, a series of funding problems forced an increase in taxes and a scaling back of the protection. By the 1980s, the program faced more fundamental challenges, such as the proposals to privatize the OA component. These proposals reflected factors such as the aging of the workforce and the changing political environment.

Several efforts to provide health care coverage for working Americans were unsuccessful. The California proposal of Governor Warren almost succeeded in the 1940s and could have established a movement toward state-level health care plans.33 One chance for national health care reform during the Nixon Administration was scuttled in part because unions insisted on a comprehensive plan run by the government rather than using employer mandates as a primary source of the protection. During this period, many employers were willing to support the employment-based financing mechanism, and so union intransigence was a major reason why the plan failed.
Workers' compensation also had a possibility for national involvement in the 1970s, when the deficiencies of the program convinced representatives of most participants in the system—including employers—that federal standards were necessary for the survival of the program. In this instance, overly aggressive legislative proposals in Congress, lack of full support from labor (since many unions wanted complete federalization of the program), and the change in the political climate by the late 1970s doomed the effort.

The Modern Era of the 1990s

Overview of Developments

The six-decade trend of increasing rates of employer expenditures on employee benefits and social insurance programs, which began in 1929, reversed during the 1990s. Employee benefits dropped significantly, from 14.2 percent of payroll in 1990 to 11.0 percent in 2000, largely due to lower employer contributions for pensions and health insurance (Table 6.3). Employers' social insurance contributions also declined, albeit less dramatically, from 7.5 percent of payroll in 1990 to 7.1 percent in 2000 (Table 6.1). Employer's Social Security contributions remained at 6.2 percent of payroll, but there was a decline in unemployment insurance program taxes (Table 6.2) and a sharp drop in the employers' costs of workers' compensation from 2.18 percent of covered payroll in 1990 to 1.25 percent in 2000 (Mont et al. 2002, Table 13).

Expenditure rates for employee benefits were not uniform among either employers or segments of the workforce, however. Although 48 percent of all private-sector workers participated in retirement plans in 1999, for instance, participation rates noticeably varied by employee category, as illustrated by the following BLS data (2001b, Table 1):

- 79 percent of unionized vs. 44 percent of nonunionized workers
- 69 percent of professional/technical employees vs. 45 percent of clerical/sales employees and 42 percent of blue-collar/service employees
- 56 percent of full-time vs. 21 percent of part-time workers
- 81 percent of employees in large firms (with 2,500 or more employees) vs. 30 percent in small firms (with less than 50 employees)

Although 53 percent of all private-sector workers had health care benefits in 1999—somewhat higher coverage than retirement benefits—there were similar disparities in coverage by employee category and employer size:

- 73 percent of unionized vs. 51 percent of nonunionized workers
- 68 percent of professional/technical employees vs. 51 percent of clerical/sales and 48 percent of blue-collar/service workers
Table 6.4

Percentage of Total Compensation Represented by Selected Benefits, March 2001

<table>
<thead>
<tr>
<th>Type of benefit</th>
<th>Percent of total compensation*</th>
<th>Type of establishment</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>All private</td>
<td>Union</td>
</tr>
<tr>
<td>Defined benefit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>retirement plans</td>
<td>1.0</td>
<td>3.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Defined contribution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>retirement plans</td>
<td>1.9</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Health insurance</td>
<td>5.6</td>
<td>8.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Legally required</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>benefits</td>
<td>8.3</td>
<td>8.4</td>
<td>8.3</td>
</tr>
</tbody>
</table>

*For private-sector employers.

- 64 percent of full-time vs. 14 percent of part-time employees
- 71 percent of employees in large firms vs. 41 percent in small firms

The most prevalent employee benefits in 1999 were paid vacations and paid holidays (79 percent and 75 percent, respectively, of all private-sector workers) (ibid., Table 3). Conversely, there were limited offerings of more esoteric benefits, such as employer assistance for child care (6 percent of workers eligible), adoption assistance (6 percent), subsidized commuting (4 percent), and fitness centers (9 percent) (ibid., Tables 3–5). There were some firms in the 1990s that attracted workers with even more exotic benefits, such as corporate concierge services and lactation rooms for nursing mothers, but these benefits were uncommon and were usually found only in large firms or particular industries; for example, although 17 percent of all workers had wellness programs, these were available to 30 percent of employees in the finance, insurance, and real estate sectors (but to only 4 percent in the retail trade) and to 54 percent of employees in large firms (but to only 4 percent in small firms).

The BLS data in Table 6.4 point to the (intercorrelated) impact of size of establishment and unionization on employer expenditures for employee benefits and social insurance. The patterns for employee benefits and social insurance differ. Defined-benefit pensions and health benefits both represent a larger fraction of the compensation dollar in larger establishments and in union establishments. Defined-contribution pension expenditures are correlated positively with size, but negatively with unionization. Conversely, legally required benefits (the social insurance programs)—required for almost all employers
regardless of size—are essentially the same percentage of compensation in both unionized and nonunion firms, and there is a tendency for these benefits to decline as a percentage of compensation as firm size increases.

**Retirement Benefits**

The share of private-sector workers who participated in pension plans increased from about 45 percent in 1990 to more than 50 percent in 2000 (Munnell, Sunden, and Lidstone 2002, Figure 1). Despite the increase in coverage, employers were able to reduce their expenditures on retirement benefits from 5.5 percent to 3.8 percent of payroll because the rise in the stock market caused many defined-benefit pension plans to be funded in excess of actuarial needs. There were no major changes in the OA component of the Social Security program during the 1990s, although the discussions of privatization continued and intensified.

**Health Benefits**

Employer contributions for health insurance declined after 1995, in part a temporary victory in the battle to contain costs through the implementation of managed care. In addition, some employers in the 1990s eliminated their health insurance plans, and many of the plans that did continue shifted some of the cost to employees through increased deductibles, copayments, and employee contributions toward premiums.

Congress rejected the major social insurance initiative in health care, namely the Clinton Administration’s proposal of 1993–94. The plan contained a complex set of provisions and would have relied on employers to finance most of the program. While the notion of employer-based financing now garnered the support of the labor movement, employers generally opposed the legislation and private insurance carriers led a successful attack on the proposal.

**Other Social Insurance Programs**

The long expansion in the economy during the 1990s reduced benefit payments and employer contributions for the unemployment insurance program. The workers’ compensation program also experienced lower costs as a result of an unanticipated decline in workplace injuries and a concerted effort by employers and carriers to constrict eligibility and reduce benefits (Spieler and Burton 1998). The reason for employer and insurer reform efforts was the significant increases in employers’ costs and benefits in the late 1980s and early 1990s, as well as underwriting losses for the carriers. The
success of the employers and carriers reflects, in part, their increasing power relative to unions in many states.

**Explanation of the Developments**

This discussion is abbreviated because some of the developments of the 1990s are examined in the concluding section and placed in a longer-term context. The longest period of economic expansion in U.S. history began in 1991 and lasted for the rest of the decade. The unemployment rate peaked at 7.5 percent in 1992 and then declined every year through 1999, when the rate was 4.2 percent, which resulted in a decade average of 5.8 percent. The annual increase in the CPI dropped from 5.4 percent in 1990 to 1.6 percent in 1998 before increasing to 2.2 percent in 1999, which resulted in a 3.0 percent average annual increase for the decade. Medical care costs also increased at a modest rate in the 1990s, averaging only a 5.3 percent annual increment for the decade. Perhaps the most spectacular performance of the 1990s was the stock market: The Standard and Poor's (S&P) composite index almost quadrupled during the decade, from 334.59 in 1990 to 1,327.33 in 1999. However, stock prices increased much more rapidly than corporate earnings, as witnessed by the decline in the S&P earnings/price ratio from 6.47 percent in 1990 to 3.17 percent in 1999 (Clinton 2001, Tables B-42, B-62, B-64, B-95).

The 1990s can be characterized as a decade when there were wide variations among employers in the variety of benefits provided to workers, but the overall employer expenditures of employee benefits and social insurance programs declined. There were several reasons for the overall pattern of decline and the shifts in expenditures among some categories of benefits. The booming economy and stock market reduced the funding requirements for existing programs, notably retirement benefits and unemployment insurance. In some areas, such as health care, employers shifted some of the costs to employees. For retirement benefits, there was a reduction in the relative importance of employee benefits (employer expenditures for pensions and profit sharing dropped from 5.5 to 3.8 percent of payroll between 1990 and 2000) compared with the importance of social insurance (employer contributions to OASDI remained at 6.2 percent of payroll over this period). There also apparently were shifts among social insurance programs in expenditures for some sources of income loss. For example, while workers' compensation benefits and costs plummeted in the decade, the expenditures of the Social Security DI program increased, leading to speculation that some of the costs of work-related disabilities were shifted from the state programs to the federal program (Mont et al. 2002).
Conclusion: Employee Benefits and Social Insurance in the Twentieth Century and Beyond

This section summarizes the factors that contributed most significantly to the development and growth of employee benefits and social insurance during the twentieth century and speculates about the future of employer expenditures for them. As shown in Table 6.1, compensation (which includes employer expenditures on employee benefits and social insurance) grew much more rapidly than wages and salaries after 1929. Legally required social insurance programs, such as Social Security benefits, account for some of this trend, along with the increased spread of employee benefits, most notably pensions and health insurance in the post–World War II era. There was a reversal of this trend in the 1990s, apparently in part because employees assumed a larger share of the economic risks associated with employment. The intriguing question is whether the experience of the last decade was a temporary or permanent reversal of the long-term trend toward greater employer expenditures.

The Economic Environment

The value of human capital has increased throughout the twentieth century as workers have become better educated and better trained and, as a result, have been able to create greater value for their employers and the economy as a whole. The carnage in the workplace that resulted from workplace injuries and diseases in the early part of the century reflected many employers' practices of treating workers as expendable commodities. As workers have become increasingly skilled, employers have had greater incentives to retain current workers and their skills. Thus, fringe benefits that tie workers to a particular employer have become an increasingly rational use of resources and are likely to continue to be in the future.

Economic fluctuations have certainly influenced the developments of the twentieth century. The leading example is the Depression of the 1930s, which produced a national problem of unemployment that, in turn, created a climate for reform. The previous solutions to the unemployment problem—reliance on the private sector to produce jobs and on the limited resources of public programs and private charities to care for chronically unemployed workers—came to be considered inadequate by management, labor, and the public.

Certain economic conditions of the past decade that enabled employers to reduce their expenditures on employee benefits and social insurance appear to be transitory. For example, a repeat of the stock market's performance
seems unlikely given that it derived in large part from an unsustainable rise in stock prices that outstripped the growth in corporate earnings. Moreover, while the overall rate of inflation remains low through 2002, the modest increases in health care costs of the 1990s appear to have been replaced by double-digit jumps in health care insurance premiums.

Perhaps a more permanent legacy of the 1990s is that economic incentives for corporate management underwent a transition as their financial rewards became more closely tied to performance of company stock, based on the theory it would increase the alignment of financial interests between management and shareholders. However, the unintended consequence in some firms was the irresistible urge for management to inflate short-term profits by dubious or even illegal accounting techniques in order to artificially inflate stock prices. The time horizon for corporate planning appears to have shortened as a result, and we doubt that reforms resulting from the Enron and other scandals of 2002 will appreciably correct the management myopia.

Another significant economic development of the 1990s that appears likely to persist is the increasingly competitive environment that many firms face due to deregulation of domestic industries, the increasing integration of domestic and foreign markets via globalization, and the rapid pace of technological change. The increasing competition has abetted the tendency of management to think about short-term solutions as well as encourage management to shift risk to others—notably workers. One manifestation of this shifting of risks to employees is the emergence of the corporate strategy to retain permanent employees in “core” competencies of the firm while relying on contingent workers or employees of other firms for “noncore” firm functions, such as maintenance or HRM.

The Legal Environment

In the early part of the twentieth century, the Supreme Court’s interpretation of the Constitution’s commerce clause severely limited the ability of Congress to regulate employers or to establish social insurance programs. Thus, workers’ compensation of necessity was established for private-sector workers by state laws. In addition, both the Supreme Court and state courts limited government efforts to regulate employment relations under the guise of protecting the rights of workers and employers to sign contracts. The exceptions were confined to subsets of the workforce for whom special treatment could be rationalized, such as women and children.

The courts in the 1930s largely overturned the legal doctrines that had restricted government intervention in the labor market. The reinterpretation
of the commerce clause by the Supreme Court also permitted the federal government to potentially regulate all aspects of employment relations. Indeed, the legal factor likely to represent a continuing significant influence is the constitutional principle of preemption, under which states can only regulate employment relations, including employee benefits, with the "permission" of Congress. An obvious example is the regulation of pensions, whereby ERISA precludes states from regulating employers who provide such benefits (although insurers are still subject to state regulations).

The favorable tax treatment for employer expenditures on such programs as retirement plans and health insurance stimulated the growth of employee benefits and employers' contributions to them in the post-World War II period, although undoubtedly some employee benefits would exist absent such treatment. Woodbury and Huang (1991) estimate is that if tax preferences were eliminated, employer contributions to pensions would be halved and employer contributions to health insurance would be cut by more than one fifth.

The Political Environment

Economic crises affected the political environment during the twentieth century, most notably the Depression of the 1930s, which resulted in the ascendancy of President Roosevelt and the Democratic Party. The resulting New Deal included the most fundamental changes in government intervention in employment relations in U.S. history. Other changes in the political environment have been less dramatic, although the relationship between the economic environment and the political environment still can be identified. For example, the election in 1992 of President Clinton and Democratic majorities in both houses of Congress can be attributed in large part to the recession of the early 1990s.

The 1990s nonetheless exemplify why the economic environment is not a deterministic influence on the political environment. Congress reverted to Republican control in 1994, in part because of the increasing prominence of a conservative movement led by Newt Gingrich. Many of the debates of the 1990s, such as those about deregulation and privatization, still resonate and affect decisions concerning employee benefits and social insurance.

The political process can no longer be characterized as a struggle between traditional camps or interests. For example, President Clinton was identified with the "New Democrats," who endorsed positions on issues such as welfare reform that traditionally were associated with Republican (i.e., conservative) views. As another example, health care reform was shaped by the competing interests of insurers and trial lawyers more so than by those of
labor and business. Perhaps the recent experience suggests that the key participants in the political process are now interest-group representatives, consultants, and think-tank wonks (not always mutually exclusive categories).

The experiences since 1990 provide little assistance in sorting out the conflict between the theorists who argue that class explains social policy (the Domhoff view) and those who argue there is an independent role for the state (including elected and appointed government officials) in affecting policy (the Skocpo view). The first theory gains credence from the synchronous strategy of the Bush II administration to eliminate the estate tax while cutting the growth of Medicaid benefits. The second theory seems compelling in explaining the demise of the Clinton health care reforms of the 1990s: The incompetence of the team responsible for the design of the plan provides a telling example of the influence of government bureaucrats on the fate of social insurance initiatives.

Retirement Benefits

The aging workforce ensures that the issue of economic security for retirees will become more pressing in coming decades. The high rates of returns on investments, which allowed employers to reduce pension plan contributions in the 1990s, are very unlikely to reoccur in coming decades. Indeed, in the short run, the stock market decline between 2000 and 2002 will probably require significant increases in employer contributions to fund defined benefit plans, which is likely to further encourage defined contribution plans.

The OAS components of Social Security are projected to begin to run a deficit within the next twenty years, given the current levels of benefits and payroll taxes. A de facto constraint on reform is an apparent unwillingness by Congress to increase the tax rate. One possible "solution" is to further reduce the CPI formula for benefit adjustments. A more fundamental type of reform involves partial privatization of the OAS program, perhaps by allowing individuals to invest some portion of their contributions. Although there is a precedent for private-sector involvement in social insurance, such as the workers' compensation program, the proposal for privatization of OAS benefits is highly charged and seems unlikely in the near future. In any case, privatization is unlikely to reduce the amount of employer contributions to Social Security.

Health Benefits

The problems of higher costs and inadequate coverage of workers are testing the capability of the workplace-based system of health care. It is not clear
whether a fundamental solution is feasible. In the meantime, the likely outcome will be even higher costs for employers, coupled with greater cost shifting to employees and diminished coverage. Those employers who continue to provide health care are likely to face additional but limited regulations, similar to those provided by the Family and Medical Leave Act (FMLA). One likely result will be an increasing disparity among employers in the extent of health care benefits provided to their workers.

Health insurance is sometimes regarded as a “merit good”—something we think people ought to have regardless of their preferences. Of course, that does not explain why we think people should have it as part of their employment compensation packages as opposed to other sources of provision. Outside the United States, for example, there are various health insurance programs run through governments or quasipublic institutions. Nonetheless, the failure of comprehensive health care reform in the 1990s has probably doomed any comprehensive solution for the next decade. Moreover, even incremental reform will be hard to achieve, as evidenced by the 2002 struggle to add prescription benefits to the Medicare program.

Unemployment Insurance

The unemployment insurance program will experience short-term problems as a result of the 2001 recession, such as exhaustion of benefits for many long-term unemployed and the depletion of state reserves. Perhaps the most challenging issue for the UI program is the extent to which funds collected from employer and employee contributions should be diverted to uses other than ameliorating the short-term effects of involuntary job loss due to economic conditions. For example, the UI funds have been used in New Jersey to provide medical care for uninsured patients, and now there is a proposal to fund cash benefits for workers who are temporarily unemployed because of health conditions covered by the FMLA.

Workers’ Compensation

The early 2000s present a challenging situation for the private insurance industry, which is experiencing serious underwriting losses. However, unlike the experience of a decade earlier, the source is not escalating losses that result from higher benefit payments. Indeed benefits and costs as a percent of payroll have declined substantially since the mid-1990s. Rather, premiums are declining in part due to the increased competition among carriers, a result of deregulation of the insurance markets in most states (Thomason, Schmidle, and Burton 2001, 287–90). Since employers are not experiencing
rapidly increasing costs for workers’ compensation, it will be difficult for

carriers to build political coalitions to further reduce benefits and tighten

eligibility standards.\textsuperscript{35}

There appears to be no prospect in the next decade of the federal govern-
ment displacing the state dominance in the workers’ compensation arena.
One possible source of federal intervention is the experience during the 1990s
in which more disabled workers qualified for DI benefits under Social Secu-

rity, while fewer workers received workers’ compensation benefits. Defend-

ers of the integrity of the DI program may view this as evidence of cost

shifting between programs and may argue that states should be required to

reinstate traditional standards of eligibility. Realistically, this probably is not

a serious enough threat to the DI program to warrant federal intervention

into the workers’ compensation system.\textsuperscript{36}

The Role of Employers

Progressive employers who were motivated by genuine concerns for work-

ers played a critical role in the emergence of the workers’ compensation

program, the Social Security system, and various forms of employee ben-

efits. However, profitability was certainly a motive as well, since firms that

engaged in welfare capitalism believed that, over time, workers who were

treated well and who received generous benefits would be more loyal and

productive and, thus, long-run profit would be enhanced by progressive em-

ployment policies. The analogy from chess is the gambit, whereby an imme-

diate loss of a pawn—which may exhilarate the novice who captures the

prize for the moment—allows the master to control the end game.

The strategy currently motivating much of American management, how-

ever, appears to represent the collapse of the end game into the next move.

Executive compensation tied to stock prices, elimination of workers who do

not perform the core competencies of the firm, shifting of risk of retirement

benefits to workers—all are manifestations of the emphasis on the short-

term rewards, perhaps best described as corporate planning based on instant

gratification.

There are, to be sure, some long-existing employers, many identified with

welfare capitalism, continue to resist the addiction to short-term returns. There

are certainly younger firms that have adopted aspects of welfare capital-

ism and have thrived.\textsuperscript{37} Moreover, there are various employer organizations

that have promoted progressive employment policies during the last cen-

tury. Perhaps the leading contributor among the employer community dur-

ing the formative years of welfare capitalism and the Social Security system

was Industrial Relations Counselors. Indeed, IRC has been an important
promoter of "welfare capitalism" throughout most of its seventy-five-year history, including the post–World War II era, when IRC's philosophy and research helped promote the spread of pensions and health insurance. Although IRC has ceased to be a dominant force in recent decades, other employer organizations such as the Business Roundtable have assumed a leading role in promoting an employer philosophy that is more focused on capturing the king rather than on gloating over the capture of the pawn or, spare the thought, on glorifying the role of the rook.

Acknowledgments

We appreciate the assistance provided by Eugene McElroy, David Bensman, Douglas Kruse, and participants in the Proseminar offered by the Rutgers University School of Management and Labor Relations.

Notes

1. Chapter 7 in this volume, by Mitchell, focuses on profit-sharing and employee ownership plans, bonuses, and other forms of incentive payment systems.

2. Unfortunately, the NIPA data make a confusing distinction between (1) workers' compensation insurance policies purchased from private carriers and workers' compensation benefits provided by self-insuring employers (which are treated as "other labor income") and (2) workers' compensation insurance policies purchased from state funds or benefits paid directly by government funds (which are treated as "employer contributions for social insurance"). We consider both these categories of employer expenditures to be forms of social insurance. The published NIPA data are not sufficiently disaggregated until 1948 to allow the construction of a "proper" series on employer contributions on all sources of workers' compensation expenditures.

3. There are two limitations to the NIPA data. The earliest year with data is 1929, and although employee benefits were a small proportion of payroll that year, there were important examples of employee benefits and social insurance in preceding decades. In addition, the NIPA data do not include employee contributions for benefits and social insurance. Before World War II, most employees did not pay income taxes, and so there were no particular incentives for employees to try to have employers pay for benefits. Such incentives did exist after the war, however: Employees' earnings were subject to tax, so they would have to purchase benefits with after-tax dollars, whereas employers' expenditures for benefits were tax-deductible. In recent decades, various tax provisions have allowed employees to purchase benefits with pretax dollars. Thus, the portion of total benefits purchased by employers and employees included in the NIPA data is likely to vary over time.

4. There were also important examples of unemployed protestors outside the union movement, such as Coxey's Army, which marched from the Midwest to the White House lawn, where federal troops disbanded the disgruntled petitioners (Dulles 1955, 180).
5. For other accounts of welfare work (or more generally, welfare capitalism), see Bernstein (1960) and Brandes (1970).

6. The Victorian family model of welfare work succeeded in many companies during the Progressive Era, although (as discussed later) it was unsuccessful after World War I.

7. A similar argument can be made for employer financing of social insurance benefits. Workers' compensation provides a good example: Moore and Viscusi (1990) estimate that workers placed such a high value on workers' compensation benefits that they accepted reductions in wages that exceeded the costs of the program to employers.

8. Latimer (1932a, 30) reported "probably more than 95 percent of all [railroad] pension payments are now being made with no cost to the employees."

9. Berkowitz and McQuaid (1992, 5-6) discuss the evolution of the pensions for Union soldiers, noting that Congress "passed an inordinate number of special acts granting pensions to people whose requests had been denied by the Pension Bureau." Moreover, the original limitation of pensions to veterans disabled by wartime injuries was dropped in 1906 to allow any Union veteran over sixty-two years of age to automatically qualify for benefits.

10. An example of the defenses available to employers was the fellow servant rule, which absolved the employer from any liability if the worker was injured through the negligence of a fellow employee.

11. As a result, the employers' liability approach was abandoned in all jurisdictions except the railroads, where it still exists.

12. The view that the pre—workers' compensation approaches were inadequate is found in the legal treatise that is currently dominant. Larson and Larson (2001, §2.05), after reviewing the results of New York and Illinois commissions that examined industrial accidents under the pre—workers' compensation approaches, concluded that, for death cases, "the precompensation loss-adjustment system for industrial accidents was a complete failure and, in the most serious cases, left the worker's family destitute."

13. The "conventional" view that workers were unsuccessful in their suits before the introduction of workers' compensation has been questioned in recent decades. Berkowitz and McQuaid (1992) indicate that by the end of the nineteenth century, employers faced legal difficulties because people regarded suits that involved industrial accidents as a way of striking back against powerful and arrogant employers. They cite Posner (1972), who studied a sample of appellate court cases between 1875 and 1905 and found that juries decided for employers in less than 10 percent of cases. Posner also found that the number of negligence suits increased from 92 to 736 per year over this thirty-year period. Because of this adverse legal experience, the expenditures of employers on industrial liability insurance increased from $200,000 in 1887 to more than $35 million in 1912 (Berkowitz and McQuaid 1992, 44-45).

14. The most hazardous time was probably about 1907, when more than seven thousand workers were killed in just two industries: railroads and mining (Somers and Somers 1954, 9).

15. Ely (1903, 405-6) discussed the "problem of the twentieth man" as a justification for government intervention in the labor market: Nineteen employers might want to improve working conditions but would be prevented by the recalcitrant twentieth employer who refuses to go along and thus gains a competitive advantage in the product market. Kaufman (1997, 36-39) further examines this rationale for government regulation.
16. Many of the early workers' compensation statutes were elective because of concerns about the constitutionality of mandatory programs. However, employers who did not elect coverage lost their common-law defenses to negligence suits and so had a strong incentive to choose coverage.

17. The necessity for reform at the state level limited the ability to deal with competition from backward firms. Employers could use their influence in business-friendly states to reduce costs by depressing benefits and then could persuade legislators in states more sympathetic to workers to hold benefits down by threatening to relocate jobs to low-benefit, low-cost states. As a result, the decentralized nature of workers' compensation probably reduced the overall adequacy of the program. Some sixty years after workers' compensation programs emerged, the National Commission on State Workmen's Compensation Laws in its report (1972, 125) attributed the general inadequacy of state laws to the likelihood "that many States have been dissuaded from reform of their workmen's compensation statute because of the specter of the vanishing employer, even if that appariition is a product of fancy not fact."


19. In addition, large insurance companies, such as Metropolitan Life, were able to develop methods to sell policies to individual workers and viewed government programs as a threat to their business.

20. The search for an explanation of why more social insurance programs were not enacted in the Progressive Era has spawned a variety of theories. Moss (1996, 7, note 14) discusses five schools of thought, including Skocpol's assertion that hostility against patronage politics made all proposals for public spending suspect (which Moss discounts as a factor for the failure to enact social insurance programs other than old-age pensions). Another of the five schools is the Berkowitz and McQuaid (1992, 2-3) theory that the U.S. government lacked the administrative capacity to undertake elaborate social welfare programs until well into the twentieth century, in contrast to private-sector employers, who achieved this capacity much earlier—indeed, well before 1890 for the railroads.

21. Hicks (1941, 137) refers to the organization as the "Special Conference Group" and indicates that the number of companies in the group later grew to twelve.

22. Also see Beaumont (2001, 21-26) and Domhoff (1996, 128-30).

23. John D. Rockefeller, Jr., also provided a gift to Princeton University in 1922 that established the Industrial Relations Section (Hicks 1941, 147).

24. Rates charged by insurers reportedly would be increased "when the percentage of insurance on negroes, Mexicans, or employees of the yellow race, together with women" covered by such policies exceeded a specified level (NICB 1934, 14).

25. There were also three pension plans established between 1874 and 1929 for which the date of origin is unknown (Latimer 1932a, 42).

26. Latimer's analysis of why employers adopted pension plans is consistent with what Domhoff (1996, 134) terms the "predepression thinking of the Rockefeller network on pensions."

27. Other contributions of IRC to the development of the Social Security program and its relationships to retirement benefits include the study by Stein (1979).

28. When Warren's proposal was defeated (by a single vote) in the state assembly, he immediately returned to the legislature with a more limited hospital-only plan—but that also failed. Then in 1947, recognizing that private job-based health insurance had expanded significantly absent a state plan, Warren introduced a proposal for a
state-run catastrophic health plan with a pay-or-play feature. Employers could provide the mandated coverage on their own or they would have to pay into a state fund that would provide it. This proposal was also defeated.

29. The prediction about the lack of credit for progressive employers was borne out in the debates over the proposed Clinton Health Security Act in 1993, when executives from PepsiCo and General Mills criticized the comprehensive health benefits provided by the Big Three automakers as socially and economically irresponsible (Gottschalk 1998). The opposition from significant portions of the employer community contributed to the demise of the Clinton plan, as discussed in the next section.

30. This discussion is based on the experience of coauthor Burton, who served as chairman of the National Commission on State Workmen’s Compensation Laws in 1971–72. Thomason, Schmidle, and Burton (2001, Chap. 2) provide an extended discussion of developments in workers’ compensation since 1960.

31. President Carter, although a Democrat, was constrained from promoting progressive legislation by serious inflation problems during his term.

32. IRC provided intellectual guidance and justification for the rapid growth of employer expenditures on retirement benefits and group health care insurance during this era. In addition, IRC played an important role in advocating flexible benefit programs in the postwar period.

33. One by-product of the enactment of ERISA in 1974 is that efforts similar to the California plans proposed by Governor Warren in the 1940s would now be impossible because states have been precluded by ERISA from regulating employer pension and welfare funds (including health care plans).

34. The Family and Medical Leave Act of 1993 inter alia requires employers to maintain coverage on any group health plan provided by the employer for an employee who is on a leave protected by the act. The FMLA is discussed by Willborn, Schwab, and Burton (2002, 669–80).

35. Another reason why further limitations on eligibility are less likely is that the Oregon Supreme Court held unconstitutional the simultaneous elimination of workers’ compensation benefits through higher compensability standards together with the prohibition of tort suits for those workers no longer qualifying for workers’ compensation benefits. Smothers v. Gresham Transfer, Inc., 23 P. 333 (Oregon 2001) is excerpted and discussed in Willborn, Schwab, and Burton (2002, 978–85). Employers, carriers, and politicians in other states may be reluctant to squeeze more employees out of the workers’ compensation system because their courts may also find the exclusive remedy provisions that protect employers from tort suits are no longer valid.

36. Ironically, state efforts to consider integration of work-related and non-work-related sources of the need for medical care (and/or cash benefits) into a unified disability program—generally referred to as “24-hour coverage”—have been stymied in part by federal law. Specifically, the Supreme Court held in District of Columbia v. Washington Board of Trade, 506 U.S. 125 (1992), that ERISA, which exempts most aspects of state workers’ compensation laws from federal preemption, nonetheless preempted a District of Columbia law that required employers to maintain health insurance benefits for workers who received workers’ compensation benefits, and this decision has been interpreted as prohibiting any state efforts to regulate health care for disabled workers beyond the traditional care provided by workers’ compensation.

37. Continental Airlines is noteworthy because in the last decade it has simultaneously increased profits, achieved high ratings from travelers, and been rated by employees as a great place to work.
INDUSTRIAL RELATIONS

to

HUMAN RESOURCES

and

BEYOND

The Evolving Process of Employee Relations Management

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Editors, 2003

M.E. Sharpe
Armonk, New York
London, England