DAVID BRIAN ROBERTSON

The Bias of American Federalism: The Limits of Welfare-State Development in the Progressive Era

Welfare state programs developed later in the United States than in other nations. Today, American programs are less widely accessible, less uniform, and often less generous than programs abroad. Explanations for this relative conservatism usually focus on the lack of a socialist movement or a socialist ideological tradition in the United States. Yet during the Progressive Era, when the gap between the American and European welfare states widened significantly enough for contemporaries to acknowledge it, the forces for social reform had never been stronger in the United States. In many ways these forces resembled those in England, which at the time was laying the foundations for a model welfare state.

The federal political structure of the United States was a necessary condition for the development of American exceptionalism, as the defeats of public health insurance proposals in the 1910s clearly illustrate. Early in this century, American federalism retarded state social expenditure, skewed policy design, and erected obstacles to the enactment of public health insurance in any state, despite reformers' emphasis on such insurance as the logical next step for American social policy after worker's compensation.

States rather than the national government were the important social-reform arenas in the Progressive Era. Faced with well-known resource disparities among the states, perceived "beggar-thy-neighbor" economic development strategies, and constitutional limits on taxation and business regulation, state policymakers felt enormous pressure to maintain an attractive "business climate" characterized by low taxes, balanced budgets, and limited social expenditure. Cumulatively, interstate economic competition created a policy drag even in the most progressive states. Federalism in the American context also induced a conservative bias into the organi-

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Table 1: Initiation of Core[a] Sickness, Old Age, and Unemployment Insurance Programs in Selected Capitalistic Democracies

	Sickness	Old Age	Unemployment
Australia	1944	1908[c]	1944
Austria	1888	1906	1920
Canada	1957	1927[c]	1940
France	1930	1910	1914
Germany	1883	1889	1927
Italy	1886[b]	1919	1919
Netherlands	1913	1913	1949
Sweden	1891[b]	1913	1934[b]
United Kingdom	1911	1908[c]	1911
United States	1965	1935	1935

[a]A "core" law is the introduction of a compulsory system covering a majority of workers. Although the American Medicare Law meets the criterion, eligibility is limited to retirees.
[b]Subsidized voluntary systems that served as the functional equivalent of broad-based pension or insurance schemes.
[c]Noncontributory old-age pensions.

Sources: Peter Flora and Jens Alber, "Modernization, Democratization, and the Development of Welfare States in Western Europe," and Robert T. Kurdle and Theodore Marmor, "The Development of Welfare States in North America," in *The Development of Welfare States in Europe and America,* ed. Peter Flora and Arnold Heidenheimer (New Brunswick, NJ, 1981), 59, 108; T. H. Kewley, *Social Security in Australia: The Development of Social Security and Health Benefits from 1900 to the Present* (Sydney, 1965).

zation of conflict by providing significant advantages to business, fragmenting social reform proponents, and forcing policy entrepreneurs to design policy proposals that were exceptionally cost-effective in the short run and that would not adversely affect the state's business climate.

This argument does not assert that business elites dictate state social policy or that hard evidence supported the claim that high public spending and unionization rates drove businesses to conservative states. Instead, it assumes that state legislators and other policymakers, even when inclined to expand social protections, moderated their inclinations because of anecdotal evidence that businesses abandoned states with unfavorable business climates because they were electorally vulnerable to charges that they had "lost" business, and because some businesses exploited this vulnerability by indicating their options to policymakers. The complex design of state governments made an extraordinary majority necessary to enact social reforms and thus reduced the likelihood that state governments would take policy risks in the direction of "welfare state" programs such as public health insurance.

Table 2: Number of States Adopting Selected Social Insurance and Pension Programs Through 1934

	1911–1920	Total through 1934
Worker's compensation[a]	41	43
Mother's aid[b]	40	45
Aid to the blind[c]	10	27
Old-age pensions[d]	0	28
Unemployment insurance	0	1
Medical insurance	0	0

[a]Worker's compensation laws enacted in Kentucky (1914), Montana (1909), and New York (1910) were declared unconstitutional.
[b]In ten states with such laws, no families received aid as of 1921–22. In addition to three states without such laws, three states had discontinued mother's aid payments by the end of 1934.
[c]Three states enacted pension laws for the blind before 1911: Ohio (1898), Illinois (1903), and Wisconsin (1907).
[d]An old-age pension law enacted in Arizona in 1915 was declared unconstitutional; an old-age pension law enacted by the territory of Alaska in 1915 withstood a challenge to its constitutionality.

Sources: U.S. Bureau of Labor Statistics, *Workmen's Compensation Legislation of the United States and Canada, 1919,* Bulletin 272 (Washington, 1921); Commons et al., *History of Labor in the United States* (New York, Macmillan, 1935), 575–77; Robert H. Bremmer, ed., *Children and Youth in America: A Documentary History* (Cambridge, MA, 1971), 393; U.S. Committee on Economic Security, *Report to the President* (Washington, 1935), 69, 71; U.S. Bureau of Labor Statistics, "Public Pensions for the Blind in 1934," *Monthly Labor Review* 41:3 (September 1935), 584–601; Daniel Nelson, *Unemployment Insurance: The American Experience, 1915–1935* (Madison, 1969), 162–91.

Policy experts have long recognized the exceptional tardiness and meagerness of American social policy.[1] David Collier and Richard Messick chart the international diffusion of social security programs, mapping ripples of innovation from Central Europe, to the British Isles, to the remainder of Europe, and finally to the Middle East, Asia, and parts of Latin America. The United States, an exception to their categorization, falls into the last, most laggard and otherwise least prosperous group of nations.[2] Table 1 compares the dates of the adoption of major "welfare state" programs in several capitalist democracies. Many European governments had created old-age pensions by the end of World War I and unemployment insurance by the 1920s, but the American Social Security Act first created similar national programs in 1935.

The diffusion of income-maintenance programs proceeded in a peculiar pattern within the United States as well (Table 2). No American state adopted health insurance independent of the federal government. Only

Wisconsin (in 1932) enacted unemployment insurance prior to the introduction of a national plan by the Roosevelt administration, although a few states (notably New York) enacted unemployment insurance programs before the fate of the federal Social Security Act was certain. Yet almost every state enacted "mother's aid" and worker's compensation laws in the decade of the 1910s.

Policy effort continues to be relatively limited in the United States. In the mid-1980s the various levels of American government together collected a lower share of gross domestic product in taxes (29 percent) than Britain (38 percent), West Germany (38 percent), or Sweden (51 percent) and spent less per capita on social insurance than any of these nations.[3] Table 3 shows that by the early 1980s the United States spent less of its national product on unemployment insurance and health, and less than most on pensions, than other large capitalist democracies. Total social expenditure remained lower than all these nations except for Australia.

American social policy also has been relatively exceptional in design, as well as in timing and expenditure. Its social programs permit wider disparities in the distribution of benefits and services, frequently allow less intrusion into business decisions, and more extensively make eligibility and benefits levels dependent on an individual's employment experience. Except for the Social Security Act titles related to contributory pensions, even nationally authorized income-support programs geographically vary because states determine eligibility and benefit levels for federal programs.[4] Spending on other income-maintenance and social programs also varies greatly across the states.[5] Federal grant programs typically do little to mitigate this policy unevenness[6] and some exacerbate it.[7] National government macroeconomic and microeconomic policies intrude less on private enterprise than other industrial democracies,[8] and Social Security benefits depart from other national schemes in heavy reliance on wage-based benefit schedules and the absence of flat grants.[9]

Health policy illustrates the conservatism of the American welfare state in all these respects. The United States remains the only major industrial democracy lacking comprehensive national health benefits.[10] By 1930 most West European nations had established national sickness benefits, while the U.S. government did not create the limited Medicaid and Medicare programs until 1965. In contrast to the American states, a Canadian province (Saskatchewan, in 1944) preceded its national government in implementing a public health insurance plan.[11]

The late and limited development of public health insurance had lasting policy effects. American government funded 43 percent of the nation's health care costs in the mid-1970s, while the French and West

Table 3: Social Expenditures[a] as a Percentage of Gross Domestic Product, Selected Capitalist Democracies, 1981

	Unemployment Insurance	Health	Pensions	Total Social Expenditure
Australia	0.8	4.7	5.6	18.8
Canada	2.3	5.6	4.6	21.5
France	1.9	6.5	11.9	29.5
West Germany	1.4	6.5	12.5	31.5
Italy	0.7	6.0	13.2	29.1
Netherlands	1.0	6.7	13.0	36.1
Sweden	0.5	8.9	11.8	33.4
United Kingdom	1.4	5.4	7.4	23.7
United States	0.5	4.2	7.4	20.8

[a]Spending by all levels of government.

Source: Organization for Economic Cooperation and Development, *Social Expenditure, 1960–1990; Problems of Growth and Control* (Paris, 1985), 34–40, 69, 72.

German governments funded 75 percent, and the British and Swedish governments funded more than 90 percent.[12] In late 1983 16 percent of Americans had no health insurance at all. Americans depend more heavily on participating in the labor market for health security than do counterparts in large West European nations. With 65 percent of Americans in the mid-1980s deriving health insurance primarily from their employers, a majority of citizens' health security depended on retaining their job.[13] Those outside the labor force had uneven protection, with only half the nation's poor covered by Medicaid. In 1987 fifteen states did not extend Medicaid coverage to the "medically needy" (those with extraordinary medical expenses) and forty-one states did not extend Medicaid to recipients of Aid to Families with Dependent Children with an Unemployed Parent (AFDC-UP).[14]

Such societal characteristics as economic development, demographics, political-party and interest-group competition, national culture, and elite ideology are usually associated with international differences in social policy effort. Scholars such as Frederic Pryor and Harold Wilensky compared expenditures as a measure of government effort and commitment. These authors concluded that industrialization, demographic change, and incremental budget growth were more closely related to differences in welfare expenditures than such political factors as party competition and ideology.[15] David Cameron, in contrast, linked party competition to aggregate public-sector spending and concluded that "lacking a left-of-center party that has organized labor as its core electorate, the United States lacks a potential political proponent for a large public sector."[16] Collier and Messick compared differences in the dates that nations introduced income maintenance programs and concluded that such social policy innovations diffuse in a recognizable pattern spreading outward from Central Europe.[17]

This approach lends itself well to the precise measurement of slivers of policy divergence, but it begs larger questions of American exceptionalism. One limitation is that contemporary data do not speak to the evolution of policy divergence. Since it is as reasonable to posit that policy affects politics as it is to hypothesize that politics affects policy,[18] Cameron's conclusions about the importance of left-wing parties or groups cast little light on the question of whether (and in what way) American policy differences preceded, accompanied, or followed its unusual organization of conflict. Another limitation is that the narrow definition of "welfare state" necessitated by these measurement techniques results in conclusions that use one aspect of American exceptionalism to explain another. For example, Wilensky uses the timing of adoption as an independent variable, thus begging the crucial question of why timing differs and how laggardness, spending, and design relate to one another. As a result, these studies treat American exceptionalism as a deviant case inexplicable in terms of statistical evidence. The United States remains an anomaly in both the Wilensky and the Collier and Messick studies, for example, and these authors fall back on its classical liberal ideology to account for the American case.[19]

Scholars who examine the absence of socialism in the United States overcome the limitations of contemporary aggregate data studies by sifting qualitative as well as quantitative historical evidence. "Socialism" in these studies is defined either as an ideology embraced by politically influential organizations and a portion of the citizenry, or more concretely as a mass movement manifested by influential socialist trade unions in the economic sphere and a socialist political party that consistently exercises legislative representation and sometimes wins or shares governing power.

The first school of thought asserts that no politically significant socialist ideology has emerged in the United States and that Americans have less government because they prefer less government.[20] Lockean liberal political values militate not only against the welfare state but against collectivist solutions implied by socialism and labor unions. In Louis Hartz's view, the lack of feudalism in American history nourished a form of liberalism so pure that it made Americans especially hostile to collectivism and government action and exceptionally attached to self-reliance, individualism, voluntarism, and localism.[21] Variations on this theme include the assertion that American businessmen have been more hostile to government than their European counterparts,[22] and that American labor unions and their leaders (notably Samuel Gompers, president of the American Federation of Labor) differed from those abroad in their lack of class consciousness,[23] their commitment to "voluntarism," and their antipathy to protective labor legislation and social insurance.[24]

The second school of thought about the absence of socialism in the United States emphasizes the lack of a strong, sustained socialist mass movement. With a working class that was cleaved by ethnic and religious divisions and relatively satisfied with high wages,[25] the United States lacked a constituency for far-reaching social reforms when other nations began to erect the welfare state. With an electoral system biased against third parties, no socialist political party could win the sustained electoral success necessary to realize protective and redistributive legislation.[26]

The absence of socialism arguments provides a rich store of hypotheses about the differences between American and European societies. In three ways, however, these arguments are limited in their ability to explain the policy differences that distinguish the American welfare state.

First, socialist ideas and electoral success thrived in some places in the 1910s, but no state enacted unemployment or health insurance programs. Socialism made itself felt in state and local politics, where the chief responsibility for welfare lay. Seventy-four cities elected socialist mayors in 1911. In 1912–13, twenty socialists served in the legislatures of nine states, and in 1914–15 thirty-four served in fourteen states.[27] Yet this pattern of socialist strength is unrelated to the pattern of policy adoption in Table 2, in that states with and without a strong socialist presence adopted some reforms and shunned others. Moreover, socialist electoral strength in the United States was quite similar to that in Britain into the early 1910s, as is evident in Table 4. During this period, the most intensive early period of welfare state innovation in Britain, the American Socialist Party increased its percentage of the popular vote between national elections at a faster rate than did the British Labour Party—even though a potentially large addition to the socialist total could not contribute due to exclusionary voting laws in the South.[28]

Second, the most industrialized American states (e.g., Massachusetts) had unionization patterns and rates of growth more similar to Britain than to the American average.[29] Socialist strength in the AFL increased dramatically in the 1910s. At a 1912 AFL convention, a socialist who challenged Samuel Gompers for the presidency of the federation received one-third of the vote. In New York and other industrialized states, the

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Table 4: Comparison of British Labour Party and American Socialist Party Support in National Elections, 1906–1912

	Percentage of Popular Vote in Election Years				
	1906	1908	1910	1910	1912
U.K. Labour Party	4.8		7.0	6.4	
U.S. Socialist Party	2.8			6.0	

Source: Congressional Quarterly's Guide to U.S. Elections, 2d edition (Washington, 1985), 347–48; Peter Flora, *State, Economy, and Society in Western Europe, 1815–1975* (Frankfurt, 1983), 151.

state labor federations departed from Gompers's opposition to labor legislation and social insurance. They exerted considerable effort to enact such initiatives as public health insurance.

Third, as in England, a favorable climate for reform made the non-socialist parties quite amenable to social reform. For example, the Progressive party platform in 1912 promised programs to prevent industrial accidents, diseases, and involuntary unemployment, to prohibit child labor, to establish a "living wage" for workers, to establish a six-day week in industry, and to establish pensions for soldiers and their widows.[30]

Two approaches to American exceptionalism go beyond the society-centered "absence of socialism" arguments. Each identifies an important structural bias fundamental for understanding American welfare state development.

Ann Shola Orloff and Theda Skocpol directly confront the limitations of the absence-of-socialism argument in an explicit comparison of British and American reform in the late nineteenth and early twentieth centuries. They conclude that "socioeconomic development, the rise of the industrial working class, and new liberal values . . . were comparably present in both countries" and "cannot sufficiently explain" their policy divergence.[31] Instead, they argue that the relative weakness of American public administration made American reformers loathe to entrust expenditure programs to public officials selected through patronage systems. Unlike their British counterparts, American reformers refused to join with unions in support of noncontributory pensions. Without noncontributory pensions as a starting point, the United States could not replicate the British experience and develop a contributory pension scheme. In contrast, American reformers had supported worker's compensation laws because "they did not mandate (as pensions and social insurances would have done) new fiscal functions for barely established civil administrators or for potentially 'corrupt' party politicians."[32]

Orloff and Skocpol correctly focus on fiscal conservatism as the distinguishing feature of the reforms that American states did and did not adopt. This argument, however, places an enormous and unsustainable burden on patronage, underdeveloped administrative capacity, and the prior establishment of noncontributory old-age pensions as a necessary or a sufficient condition for the failure of American social insurance proposals in the 1910s. The problem is especially pronounced in the case of public health insurance reformers' own top priority.

First, noncontributory old-age pensions were not a precondition of contributory social insurance in all nations. While means-tested national pensions were indeed established before contributory old-age insurance in several capitalist nations (Australia, Belgium, Canada, Denmark, France, Italy, and the United Kingdom), others established compulsory contributory old-age insurance first (in addition to the United States, these included Austria, Finland, Germany, the Netherlands, Norway, Sweden, and Switzerland).[33] Where pensions preceded insurance, contributory insurance programs could lag behind means-tested pensions by as much as thirty years or more, as in Australia and Canada (Table 1).

Second, the Progressive Era social reformers who sought to emulate foreign welfare state development became creative and accomplished builders of alternative institutions by the mid-1910s. They had developed independent commissions, juvenile courts, and other new agencies that could be and were entrusted with managing significant transfer-payment programs. In the case of new public institutions, such as public employment offices, patronage politics merely increased the reformers' resolve to insulate these new institutions from political influence.[34] The allegation that patronage politics necessarily corrupts transfer-payment programs was prominently refuted among the leaders of the public health insurance movement. The American Labor Legislation Review's 1916 volume on social insurance featured an address by the manager of New York's social insurance fund, who argued that the worker's compensation experience proved that such programs could be managed in an effective and nonpartisan way.[35] When opponents of state health insurance in Illinois used the prospect of corruption to undermine the case for the plan, reformers refuted these claims in a minority report to the state health insurance commission.[36]

Third, Orloff and Skocpol argue that state worker's compensation programs involved "little or no public spending" and in most places "merely required businesses to insure their employees against injuries" through private insurers or self-insurance. It is true that, of thirty seven states that mandated such insurance in 1919, only six required employers to pay into a state fund. But seventeen states in the late 1910s had state-run plans covering a substantial and increasing share of small and medium-size employers (in addition, three states established state mutual associations).[37] In 1919 employers paid $3.41 million into the New York state fund, and California's $3.25 million in premiums that year represented a third of net premiums paid by the state's employers.[38] By 1922 the Census Bureau reported that in the aggregate state governments had collected a total of $77 million annually in premiums for all insurance trust funds (excluding public employee retirement). These state trust fund revenues at the time exceeded state revenues from individual income taxes ($43 million) and corporate income taxes ($58 million).[39]

Finally, social reformers, especially after 1911, strongly supported the expansion of social insurance, though they emphasized health insurance rather than old-age insurance as the highest priority. Henry R. Seager's objections to "national pensions of any kind"[40] prior to 1910 did not preclude him from advocating the American Association for Labor Legislation's model compulsory state health insurance law in 1916, when he served as the AALL president.[41] California's Social Insurance Commission reported in 1917 on its poll of the social insurance views of 3,256 members of the American Economic Association and the National Conference of Charities and Correction. Of 675 replies, 87 percent favored social insurance, and of those, 77 percent favored compulsory social insurance. Just under half (46 percent) indicated that health insurance was the highest priority, and 44 percent indicated that old-age insurance should rank first or second in priority. Virtually none supported noncontributory pensions as opposed to contributory insurance. About 40 percent supported federal social insurance, while 52 percent favored state action; however, the commission report indicates that "the economic advantages of federal action are recognized by a very large number of these students [of social problems], but state action is usually preferred for constitutional reasons" indicated on their responses.[42]

An alternative theme emphasizes the conservative effects of America's federal political structure on social policy effort.[43] Analyses of contemporary expenditure data often find that federalism is associated with relatively late program adoption and modest public expenditure. The former British colonies of the United States, Canada, and Australia are federal systems whose social policy spending now lags behind the Germanic nations, as well as the United Kingdom itself (Table 3). Several scholars point out that its decentralized structure provides the necessary structural element missing in the "absence of socialism" accounts of American exceptionalism, particularly by fragmenting potential reform coalitions.[44] Lowi argues that federalism limited political party cohesiveness and retarded the development of socialism in America,[45] and Grodzins argued that American decentralized political parties worked against centralized, uniform social policy designs.[46]

Although he confined his analysis to the United States, Grant McConnell developed a detailed argument about the conservative effects of uncentralized government. In McConnell's view, American culture places a premium on local policy control. Local homogeneity and parochialism militate against innovation and redistribution. Localized policy-making works in favor of interests that already enjoy a resource advantage (such as business), thus resulting in policies that support the status quo.[47] This analysis is consistent with Klass's more explicitly cross-national argument that American exceptionalism results from the peculiar emphasis on localized altruism in the United States.[48]

Decentralization is essential for understanding American policy unevenness, but the explanatory power of the McConnell argument is limited in two ways. First, it equates American federalism with localism, thus holding that the former has no inherent conservative effects apart from localizing conflict. Though McConnell treats states merely as an intermediate step on a scale of local-state-national policy, the states always have been more than simply larger versions of small communities. When American policy diverged from Europe, the states were the most important social policy units in the United States. The Tenth Amendment, Dillon's Rule, and state laws regarding the fiscal conduct of local governments effectively subordinated local governments to state policymakers.

A second problem is that the McConnell argument equates localism and conservatism. Even if local control were as extreme as McConnell suggests, localism cannot explain the pattern in policy innovation and diffusion in the Progressive Era, particularly the absence of public unemployment or medical insurance in any jurisdiction in the United States. If localism is inherently conservative, business should have routinely opposed the extension of state and national power, but in fact business often lobbied for such extensions. If homogeneity is essentially conservative, Scandinavian welfare states should also lag behind most others; but if some other factor is not at work, then social insurance should have emerged in American states as industrialized as Britain (i.e., Massachusetts) or as culturally receptive to government effort as Germany and Scandinavia (i.e., Wisconsin).

In short, the missing piece of the puzzle of American exceptionalism is a structural factor that accounts for the rejection of health insurance in favor of fiscal restraint among widely varying jurisdictions in the 1910s.

America's federal political structure limited the policy consequences of the backlash against industrialization. The federal structure of the United States kept intense pressures for expensive collectivized social policies relatively in check, protecting property rights and business autonomy. Relative to Europe, this political structure yielded few and uneven protections for citizens.

Federal systems are economically "free trade" zones. States have very little power to prevent businesses from entering or leaving their borders, or to enact legislation that overtly discriminates in favor of in-state businesses.[49] They lack the power of even small nation-states to use tariffs, exchange rates, and other policies to promote and protect business within their jurisdiction.[50]

In such a political structure, social policy restraint and unevenness is a function of two conditions, one legal and one economic. The first condition is the degree to which state governments' policy efforts are permitted to vary. As Aaron Wildavsky put it, "federalism means inequality."[51] Each American state enjoys relatively wide discretion over the level and scope of many social programs, taxes, and business regulations. The second condition is the degree to which resources vary among the states. If the states differ significantly in wealth and potential tax revenues as they do in the United States, they will behave much like business firms in a competitive market. The most marginal competitors will tend to cut unnecessary costs in order to attract business. In the private sector such competition causes marginal firms to lower wages, to permit unsafe working conditions, and to engage in a variety of unsavory practices labeled "unfair competition." Among states, this competition causes marginal (i.e., poor) states to restrain tax increases and spending and to direct other state expenditures toward lowering business costs. In both cases, wealthier competitors feel pressure to follow suit, and in the absence of national legal limitations they more or less do so.

These conditions were well met in the United States as it industrialized.[52] States enjoyed a wide discretion to set policies regarding corporate banking, insurance, family, welfare, and criminal law. Federal policies circumscribed that discretion in the Progressive Era often reflected the success of large corporations seeking interstate uniformity and limits to state regulation.[53] Extreme resource disparities existed among the states, particularly between those in the South (and to a lesser extent the West) and the industrial heartland of the Northeast and Midwest. While estimated per capita wealth of the United States was $1,165 in 1900, the South's per capita wealth was only $509, a figure that includes railroads, mines, and other properties owned by outside interests. With 28 percent of the population, the South had only 11 percent of the taxable income under the federal income tax law of 1913. More widely publicized was the Southern wage differential: compared to the $518 national average for manufacturing workers in 1909, Southern workers earned $452 on average.[54]

Government leaders recognized that these disparities gave a potential economic advantage to states that minimized taxes and social protections, and some federal policymakers successfully resisted deliberate efforts to reduce these disparities. Justice White's opinion in the crucial Supreme Court ruling against federal child labor standards (*Hammer v. Dagenhart,* 1918) bears this out: "There is no power vested in the Congress to require the state to exercise their police powers as to prevent possible unfair competition. Many causes may corroborate to give one state by reason of local laws or conditions an economic advantage over others. The Commerce clause was not intended to give to Congress a general authority to equalize such conditions."[55]

The conditions for fiscal constraint were more pronounced in the United States than in neighboring Canada, another former English colony and also a federal system. State and national revenue systems were separated from the beginning in the United States. The Civil War reinforced the fiscal self-reliance of the states. In contrast, fiscal equalization was an established principle from the outset in Canada (although federal subsidies to the provinces reduced but did not eliminate interprovincial resource differences).[56]

Under these conditions state policymakers usually made decisions on the assumption that a good business climate was of paramount concern for the state's well-being and their continuation in office. In the absence of overwhelming support for such policies, state policymakers everywhere were reluctant to undertake reforms that required large tax increases or that imposed unwelcome constraints on politically influential and potentially mobile in-state businesses. Proponents of business restrictions could not match these business advantages, a fact that in turn worked against the development of "collectivist" countermovements like those in Europe and fragmented and isolated political parties and interest groups. These cumulative effects forced reformers to moderate their objectives in the face of "political realities" imposed by a fragmented and decentralized policy process biased against collectivist social programs.

Then as now, state policymakers lacked definitive evidence that state business climate actually affected business behavior.[57] The point is not that business routinely abandoned states with expansionist social policies but that state policymakers usually acted as if this were the case for three reasons. First, anecdotal evidence seemed to confirm the validity of policy caution. Second, elected officials were vulnerable to the charge that they had "lost" jobs and taxes (and were quite willing to take undeserved credit for business expansion). Third, businesses were sometimes willing to use the threat of relocation or of competitive disadvantage to exercise leverage over political decisions, regardless of the empirical validity of these arguments.

State policymakers' fear of placing their state at a competitive disadvantage permeated social policy discourse during this period.[58] It was taken for granted that any new policy departure had to be justified as an economy move or one that would not place key industries at a disadvantage. This fear created a "drag" on state social and regulatory policy in the most industrialized American states.

Policymakers in the most industrialized states responded to evidence that business would relocate to states with better business climates. In 1903, after New Jersey and Delaware had attracted corporations away from Massachusetts by loosening their corporate charter laws, the state repealed many of its strict chartering provisions. The state forfeited its right to determine the value of corporate property and the amount of stock that could be issued on it, and removed most of the liability for corporate debts from corporation officers. Once viewed as organizations tolerated to serve the public, corporations in the state were now seen primarily as vehicles for private profit, and regulations came to be seen as excessive government interference with property rights.[59]

States limited the backlash against business by restricting unionization and resisting demands for labor protections. State courts frequently ruled that strikes were illegal. Where strikes occurred, courts used injunctions to force strikers back to work. California upheld the right to strike but determined that all picketing was illegal, a precedent followed by Massachusetts and other states. While many viewed the Federal Clayton Act of 1914 as a guarantee of trade union rights, this largely symbolic legislation did not effectively preempt state law and left a wide disparity in business and union power: "While the workingmen's right to strike is restricted, the employer's right to discharge is absolute," observed the authors of the definitive labor legislation text of the era.[60]

Protective regulations specific to a particular industry frequently were not enacted in states where that industry was influential. For example, the glass industry moderated or fended off child labor laws by arguing that

Table 5: Growth of State Government Expenditures, 1902–1922

	Millions of Dollars			Percent of Total General Expenditure		
	1902	1913	1922	1902	1913	1922
State General Expenditure on:						
Education	62	137	366	33.3	35.3	27.3
Highways	6	30	373	3.2	7.7	27.8
Welfare	10	16	42	5.4	4.1	3.1
Hospitals	28	47	105	15.1	12.1	7.8
Corrections	14	28	64	7.5	7.2	4.8
Total State General Expenditure	186	388	1343	100.0	100.0	100.0

Source: U.S. Census Bureau, *Historical Statistics on Governmental Finances and Employment, 1977 Census of Governments,* vol. 6, Topical Studies, no. 4 (Washington, 1977), 51.

such laws would force employers to relocate to another state. Southern cotton mill owners successfully defeated effective child labor laws with similar arguments.[61]

Competitive pressures constrained the growth of state fiscal capacity and skewed budgetary priorities. Personal and corporate income taxation expanded slowly, with nine states, including Mississippi, Delaware, and Virginia, having enacted such taxes by 1920. States such as Missouri enacted income taxes because severe budget shortfalls undermined the necessary image of fiscal responsibility. Missouri's incoming governor in 1917 assured legislators that an income tax "would not work a hardship on anyone . . . [and that o]ther states have such laws, which fact removes the objection that they may cause an injustice to such enterprises as come into competition with similar industries elsewhere."[62] Of the states that enacted income taxes in the 1910s, only Massachusetts and New York were among the industrial leaders. California rejected an income tax when employers lodged the interstate competition argument, and business opposition to the Wisconsin tax helped defeat the Progressive movement in mid-decade elections.[63]

State budgetary priorities reflected these concerns as well. Table 5 shows that state expenditures grew significantly during the Progressive Era, but that commercial promotion in the form of highway building (the twentieth-century successor of canal building and railroad subsidies) absorbed increasing shares of the increased state expenditures. In contrast, states reduced the budget share of institutions (asylums, hospitals, prisons) and nearly halved the share of welfare. Education increases were justified in part as essential to an attractive business climate (they also helped socialize immigrant populations and coincided with classical liberal values).

In these circumstances social insurance and income maintenance programs spread slowly and unevenly across the states. According to the American Association for Labor Legislation, "The objection that a compensation act would seriously add to the burdens of industry in the state where it was enacted, and thereby handicap that state in its industrial competition with other states was effectively interposed to prevent such legislation in Massachusetts in 1904, and again in Connecticut in 1909."[64] The New York legislature took up the issue of worker's compensation in 1898. A dozen years passed before the state enacted such a law, and when it did it exempted employments vulnerable to interstate competition. Then the state's supreme court ruled the law to be unconstitutional. After amending the state constitution, New York enacted a new worker's compensation program in 1914. In 1911, the Wisconsin workmen's compensation law became the first to survive a court challenge, establishing a precedent that enabled 42 states to enact such laws by the end of 1919. Mississippi, however, did not adopt a worker's compensation law until 1948.[65]

Policy innovations that spread rapidly did so because they cost little and were unobjectionable to business. Workmen's compensation laws were widely adopted by industrial states after 1911 because incremental liberalization of state employer liability laws had made compensation laws increasingly attractive to business. These programs protected employers from the uncertainties of judicial liability awards and saved litigation costs.[66] State legislatures rapidly approved "Mother's Aid" laws because such laws, whose broad support reflected sympathy for the plight of widows, also permitted local courts an alternative to the more costly institutionalization of destitute families.[67] Such pensions were always discretionary and never entitlements. New York's governor, for example, instructed counties to provide mother's aid allowances only in cases where the alternative was institutionalization.[68] Old-age pensions and aid to the blind were less compelling and spread to fewer states.

Public unemployment or medical insurance programs threatened business climate and state budgets and were considered seriously in only a few states. In Massachusetts, a nine-member Special Commission on Social Insurance in 1916 endorsed in principle the American Association for Labor Legislation's plan for unemployment insurance, but declared that the time was not yet ripe for state action. The Massachusetts Commission had heard testimony from supporters as well as bitter opponents in the business community. In 1922, another special commission concluded that "the adoption of any State insurance against unemployment would neither be to the interest of Massachusetts industries nor to the permanent advantage of Massachusetts wage earners."[69] Unemployment insurance was not enacted in any state until 1932, despite the introduction of such bills in New York, Wisconsin, and other states.[70] Economist Paul Douglas identified interstate economic competition as the force that "restrained the more progressive states from pioneering [in social insurance] as they would have liked and kept the country as a whole closer to the legal conditions in the less progressive states."[71]

Several additional features of American political structure held this conservative policy bias in place during the period from the 1870s to the 1920s. At both the state and federal levels the separation of powers made coherent redistributive policies difficult to achieve. The separation of elected executives from legislatures (and, at the state level, from each other), and the separation of legislatures into two houses with different electoral calendars and constituencies, created numerous opportunities to block legislation. State legislative sessions were infrequent (only six states had annual sessions in 1918, while forty-one of the rest met every other year, and Alabama's legislature met on a quadrennial basis).[72] Only an extraordinary consensus could allow a reform to be enacted and implemented in any jurisdiction. Parliamentary systems presented fewer obstacles and facilitated reform. Since other federal systems such as Canada used parliamentary arrangements at the provincial level,[73] reforms were easier to enact there than in the United States but more difficult to enact than in Britain.

State and federal courts posed an additional obstacle because of their extraordinary powers to revoke legislation by declaring it unconstitutional. In the late nineteenth and early twentieth century, courts at both levels frequently invoked the "due process" and "equal protection" clauses of the Fourteenth Amendment to strike down social legislation. The U.S. Supreme Court did not automatically strike down all such labor regulations or social programs, but when it did its actions severly impeded the progress of reform by delaying action and by causing reformers to develop more conservative policy designs whose constitutionality would be less in doubt. Adverse decisions in *Lochner* v. *New York* (1905) and *Hammer* v. *Dagenhart* (1918) cast doubt on the constitutional status of labor market regulation at either level of government. State supreme courts profoundly affected the social insurance movement by striking down early worker's compensation laws in Maryland, Montana, and especially in New York, where the court ruled that "in its final and simple analysis [compulsory worker's compensation insurance] is taking the property of A and giving it to B, and that cannot be done under our constitutions."[74]

Such obstacles could be met, if at all, only with constitutional amendments until the sea change of the New Deal. In the case of health insurance, investigating commissions such as Wisconsin's used the legislation's likely unconstitutionality as an argument against a compulsory state plan.[75] Even where state policymakers favored health insurance, enacting suitable amendments further delayed the policy process, fatally so in California.

The American federal political structure encouraged corporate growth while it worked against centralized political parties and broad-based social movements; thus political structure contributed to tilt the balance of political conflict in a conservative direction. While political parties and interest groups evolved in some states as industrially advanced as northern Europe, others developed in the agricultural economies of the South and West that chiefly exported crops and raw materials to more developed states and foreign nations.[76] Political parties became diverse and ideologically incoherent coalitions that attracted participants of diverse views. States used their control of election laws to maintain the status quo and to prevent the development of more coherent third parties that challenged the dominance of governing coalitions. Such laws distilled the outburst of votes for the People's Party in 1892 and the Socialist Party in 1912 and made it impossible for third parties to establish a stable electoral base. In southern states, election restrictions established in the 1890s dramatically cut the protest vote. The percentage of voters casting votes against Democratic candidates in the region fell by a third in the 1890s and again by a third between 1900 and 1904.[77]

Similarly, the political structure induced important interest groups to organize as state-oriented confederations. Self-employed professionals and craftsmen secured state licensing laws for attorneys, physicians, and other groups seeking professional autonomy. Trade unions, the most obvious vehicle for organizing the backlash against industrialization, followed the same path. The most successful workers' organizations were the craft unions, more individualistic, skilled, and in more limited supply than their mass-industry counterparts. The craft unions gained strength by negotiating these benefits through collective bargaining. Thus the skilled trades that dominated the AFL championed voluntarism and gave little more than symbolic support to universal coverage of labor regulations that would broadly benefit industrial workers. Instead they successfully lobbied for dozens of very narrow state laws regulating the safety, supervision, and apprenticeship requirements for the building, metal, and other trades. In states where a particular group of workers, such as miners, had gained critical mass and demanded protection, laws with narrow application were enacted. For example, fifteen states (all but Pennsylvania west of the Mississippi) had statutorily limited miners' workdays to eight hours by 1921.[78]

Policy design as opposed to effort depends on the alternatives proposed by authoritative reformers and officials.[79] Both European and American visionaries brought ambitious proposals to legislators' attention. American reformers, however, confronted a government structure designed to slow and restrict the pace of social change and to protect the uninhibited use of property. Such pragmatic policy authorities as John R. Commons and Louis Brandeis adapted by making a virtue of necessity, viewing localized policy as a positive good and the states as laboratories in which to perfect social policy.[80]

Stymied by constitutional limits to nationalized programs, reformers joined campaigns for uniform state laws in worker's compensation, child labor, and legal and commercial procedures. The reformers worked hard to prove that uniform laws would leave no state at a commercial disadvantage, but would, at the same time, improve the "business climate" nationwide.[81] The paradox was that, to pass a uniform law in any given state, the law had to be drafted and promoted in such a way as to convince political and business leaders that they would not be placed at even a temporary competitive disadvantage with respect to nonadopting states. At the same time, their arduous state-by-state campaigns to win reforms exhausted their limited resources.

Aware that the British national income maintenance schemes that they often admired could not be replicated perfectly under such conditions, American reformers altered proposals to reward businesses for assuming proprietorship of public policy and performing in a socially responsible way (through devices such as "experience rating," which had proved itself politically feasible in the worker's compensation campaigns). To the degree that businesses could be induced to absorb the costs of social provision as a matter of enlightened self-interest, the threat to state business climates posed by higher taxes or stricter policing could be reduced. This logic favored proposals linked to improved performance of the labor supply and redistributive programs limited to the workforce and linked to labor market attachment. It is noteworthy that the leading reform organization in the Progressive Era drive for social insurance was named the American Association for Labor Legislation.[82]

In turn, "welfare capitalists" became more important to reformers because these business leaders provided working models for the kinds of policies the system would permit.[83] Private companies that had established industrial insurance and other benefits for their workers had proved that capitalist enterprises could promote social welfare and still retain reasonably extensive control over investment decisions while remaining competitive.

Furthermore, private business offered progressive reformers a social welfare instrument potentially immune to political patronage. According to John R. Commons,

> It is remarkable what influence business men have on government at the points where they can make a profit or avoid a loss. In the midst of even the most corrupt municipal politics they nearly always succeed in having an efficient fire department. . . . When business men want factory inspectors to be made exempt from politics, because they want them to help keep down the accident-tax on business, then the factory inspector becomes a new man.[84]

The crucial 1915–20 campaign for public health insurance illustrates the cumulative effects of American federalism on the social policy development. In 1916, proponents were more optimistic about their chances to win the health insurance battle than they had been about worker's compensation. The American Medical Association endorsed public health insurance, and in early 1916 some of its leaders worked closely with the AALL in drafting the model legislation. The National Association of Manufacturers endorsed public health insurance in principle. Potential opponents believed that public health insurance was inevitable, with a growing tide of support cresting as legislatures met in 1917.[85]

Energetic American social insurance experts advocated the most ambitious of the European plans. The American Association for Labor Legislation's model bill resembled the German and British plans in funding and coverage. As in Britain, employers' contributions would rise proportionately for exceptionally low-paid workers.[86]

Federalism, though, had biased the battle for compulsory public health insurance against the proponents and had subtly altered the very proposal they put forward. Most important of all, almost no proponent expected a national public health insurance law. Washington had little interest in or capacity to administer a national program. Few participants conceived of the national government even having such jurisdiction. A notable exception was Congressman Meyer London of New York, the lone socialist in the U.S. House of Representatives, who held hearings on national social insurance in 1916. The bureaucracy offered little base for the construction of policy. In 1883 Congress had disbanded a National Board of Health created four years earlier. In 1916 the U.S. Public Health Service had only recently evolved from the Marine Hospital Service, and like other national agencies (such as the Labor Department) could do little more than issue reports and convene meetings of state and local public health officers.[87] The national government provided some health benefits only within its limited jurisdiction. The Kern-McGillicuddy Bill of 1916, an AALL-drafted worker's compensation plan for the U.S. Civil Service, included provisions for treatment of occupational diseases. Similar benefits had been extended to employees of the District of Columbia, U.S. territories, and to longshoremen within federal jurisdiction by 1933.[88]

Instead of seeking a national law, the AALL circulated 13,000 copies of a "model" state law and pursued the exhausting uniform state law strategy. Its success in winning state approval for worker's compensation laws bolstered the AALL's confidence that it could win successive health insurance laws in the state legislatures. By 1917 the model law had been introduced in only fifteen of the state legislatures. Only eleven had created commissions to investigate health insurance and only ten appropriated funds for that purpose. These included the largest industrial states, but not the West (except for California) or the South, where compulsory social insurance met with opposition to any public benefits for blacks. Of these ten only four—California, New Jersey, Ohio, and New York—reported in favor of compulsory health insurance (two Massachusetts commissions came to opposite conclusions in 1917 and 1918).[89]

Medical doctor and socialist Isaac Rubinow became the chief lobbyist for the bill. In 1916 alone he delivered a hundred lectures in six states on the strengths of the plan.[90] The energy that such reformers invested in winning passage in only a few key states suggests the vulnerability of their strategy to concerted opposition in sequential political battlegrounds. Devastating opposition emerged from two sources: the insurance industry, which targeted industry-wide resources on key states in order to slow the momentum of reform, and from the medical profession, which proved more effectively organized at the state than at the national level.

As it had done in promoting worker's compensation, the AALL tailored its bill to "American conditions" before the proposal entered the state legislative process in order to reduce its impact on business and state budgets. The AALL plans differed from the British model in ways that foreshadowed later American social insurance policies, notably unemployment insurance. The original AALL plan provided for a smaller government share of the funding (20 percent compared to 25 percent in the original British plan and 22 percent in the final British law). Later, the reform coalition's New York proposal included no public funding at all. The AALL model bill anticipated that employers and employees would each contribute 40 percent of the cost, with the rationale that "our experience with workers compensation acts shows how much can be accomplished when we make it financially profitable." The model bill provided for employer-subsidized contributions for exceptionally low-paid workers; in contrast to the British plan, the AALL bill made no provision for the public subsidy of such contributions. The plan recommended "experience rating," that is, rate reductions for employers with low rates of sickness, in the hope that such a provision would link sickness prevention to business self-interest.[91]

The last provision particularly invoked the pro-capitalist spirit of the worker's compensation campaigns (which had been supported by the National Association of Manufacturers and the business-dominated National Civic Federation), but failed to create a united front for health insurance. Life insurance companies strenuously opposed the AALL plan as a direct threat to profitability and market share.[92] Among other benefits, the model bill provided a stipend for funerals. The reformers had calculated that such stipends would enhance the bill's prospects, for they were "the benefits most eagerly desired by our wage earners."[93] However, such benefits were also the most lucrative to insurance companies. In 1915 Prudential held 38 percent of industrial benefits, while Metropolitan Life held 34 percent. Prudential employed the leading spokesman for the opposition, vice-president Frederick L. Hoffman, who campaigned nationwide against the proposal. A vice-president of Metropolitan Life, Lee Frankel, spearheaded the National Civil Federation's opposition to the plan.[94] Rubinow later believed that, by insisting on funeral benefits, the movement for public health insurance "signed its own death warrant,"[95] indicating his belief that the insurance industry played a decisive role in defeating the bill.

The insurance companies took full advantage of their opportunity to stop health insurance in the major states, and they fully exploited the "Prussian" inspiration of the AALL plan. The companies had honed their state-level lobbying skills in the late nineteenth century, when large infusions of corporate funds beat back many (but not all) state efforts to impose restrictive regulatory laws.[96] The insurance companies created the Insurance Society of America to discredit the AALL effort and to target their superior resources in key states.

The industry was especially effective in California, where a constitutional amendment to enable the legislature to enact a health insurance law could not legally be put to a referendum until nearly two years after the state's Social Insurance Commission recommended it. The Insurance Society produced the effective and widely circulated antihealth insurance tract with a picture of the Kaiser and the words " 'Made in Germany,' Do You Want it in California?" on its cover. The insurance companies pumped cash into the California campaign and channeled funds to allies such as the Christian Scientists. In November 1918 the proposal was crushed in the referendum by a two-and-a-half to one margin.[97] Having succeeded in California, the insurance coalition could take aim at the next battleground, the New York state legislature.

The distinction between worker's compensation and health insurance explains why the business-oriented National Civic Federation could oppose the latter after supporting the former. Since some state courts provided very generous awards to workers, uniform compensation laws attracted not only reformers but also businessmen interested in a more predictable and less risky compensation system. No such logic motivated business to accept health insurance because employees could not as easily establish grounds for a lawsuit.[98] While clever, the AALL's strategy of casting health insurance in terms of occupational disease could not sway business opinion or a large majority of state policymakers. Where state liability laws imposed potentially greater costs than benefits, business could justify uniform state social insurance laws. Where states imposed no such costs, business in general had little reason to support reform; and state policymakers and particular segments of business, such as the insurance industry, had every reason to oppose it. The Illinois investigating commission advised that "the facts should be squarely met. If there is no rational basis for a contribution by the employer [in contrast to worker's compensation] the requirement that he shall contribute is in effect an increase in the wage scale established by law."[99]

Since legislative authority for occupational standards and medical liability remained in state hands through the Progressive Era, both the American Federation of Labor and American Medical Association adapted by becoming loose, state-based confederations. This fact permitted local unions and medical societies to take independent stances on the health insurance issue. Local units of both organizations viewed the measure in terms of material benefits that could be won or lost through state action. In the United States, state laws provided the doctors with benefits that their British counterparts could obtain only through national health insurance, a key distinction in the base of political support for public health insurance in the two nations.

The AFL's decentralization actually benefited the cause of health insurance in the key state battlegrounds. The AFL had restructured itself and decentralized legislative responsibility to state federations of labor in 1886 (this was viewed as adapting the union movement to "American" conditions). The national AFL became a loose union confederation whose national conventions voted on policy much like the U.S. Congress, as an aggregate of state and local interests. Such policymaking "contained" significant socialist and communist influence to a few jurisdictions, and in national AFL conventions overwhelming majorities could consistently defeat radical proposals.[100] Though Gompers opposed compulsory health insurance in particular and disliked the reformers in general (he quit the AALL in 1915 while remaining in the National Civic Federation), in the progressive states labor federations went their own way. Twenty-nine state labor federations, predictably including New York, Massachusetts, and the other most industrialized states, endorsed the concept by 1919. New York's federation worked most closely with the AALL in drafting and sponsoring that state's proposal and winning Senate approval of the bill in a 30–20 vote in 1919. This bill included several concessions to opponents, including more autonomy for doctors and more limited coverage to mollify employers.[101]

The effort to assuage the doctors came too late to head off their vitriolic opposition, which more than offset the support of state union federations. While the American Medical Association had worked with the AALL on the original draft of the model bill, its leaders did not anticipate the threat such a bill would pose for members of state and county medical societies. These societies had only recently won a large measure of professional autonomy through state liability and licensing laws. The AMA's strength in 1916 derived not from national leaders but from the grass-roots.

Like the AFL, the AMA in 1901 reconstituted itself as a confederation of state and local units. Its national House of Delegates represented state medical societies, which provided the most tangible benefits to doctors. Local and state medical society membership provided one material benefit by pooling malpractice liability. A member of the medical society could secure far lower rates for malpractice insurance and retain a larger share of his fees. Licensing, normally controlled by the state government but actually delegated to a panel of medical society members, provided a second material benefit. Through tighter state licensing requirements, the doctors were able to restrict entry into the medical profession and drive up their incomes. The period form 1916 to 1920, during which the medical profession's attitude toward public health insurance evolved from apathy to opposition, coincided with an especially dramatic drop in the number of practicing physicians.

AMA membership grew ninefold by 1910, and the state medical societies became vital political forces in time to win favorable protective legislation from the states and to become battle-hardened for the fight against health insurance.[102] The doctors' opposition to compulsory health insurance grew intense just as the bill appeared on state legislative agendas. The opposition in New York bubbled up from county medical societies outside New York City. The national AMA House of Delegates did not officially condemn health insurance until after the fate of the New York proposal was sealed.

Unlike their British counterparts, American doctors did not need such insurance to protect their professional independence and income. Had public insurance offered a higher, guaranteed income, the American medical profession might not have effectively opposed it. Indeed, the British Medical Association called a late strike against the law in Britain, but low-paid general practitioners ignored the organization because they could increase their income by fifty percent through the government plan. What the British doctors won through national health insurance, the American doctors had already won through self-regulation under state auspices.[103]

America's federal political structure was a necessary condition for the development of the exceptional American welfare state. Understood as a political system that set relatively autonomous political units in economic competition with each other, federalism under American conditions provides a straightforward reason that American reformers faced severe fiscal limits in policy designs and why no "welfare state" emerged among the American states in the 1910s. Federalism complicated the drive for health insurance and simplified the task of defeating it, even as it structured incentives for opposition precisely at the state level. Its cumulative, indirect effects on business's political advantages, on the bias of political organizations, and on the strategy of reformers make American federal political structure the most comprehensive explanation for the delay, modesty, and unevenness that distinguish American social provision. It is a necessary part of the explanation of American exceptionalism that fills explanatory gaps left by societal characteristics such as culture, interest groups, and political parties.

The policy inventions of the past become the policy structure of the present. The failure of progressive era health insurance reforms altered health insurance debates and designs during such reform periods as the New Deal and the Great Society. Both the legacy of the progressive era and the continuing impact of federalism shaped the development of

American social welfare, civil rights, education, urban, environmental protection and other domestic policies now in place.[104]

The fact that conservatives continue to advocate policy decentralization in the United States amplifies the importance of federalism in social policy outcomes in the late twentieth century. The Reagan administration's Domestic Policy Council recognized the effects of federalism in the American context in recommending the decentralization of a broad range of policies:

> When the size of government is kept as localized as possible, there is the potential that jurisdictions will compete against one another in the kinds of public goods they provide, the kinds of regulation of private activity they permit, and the way they tax their citizens. . . . Ill-conceived public policy over the long-run leads to the exodus of business and talented individuals; the State's tax base erodes and its infrastructure deteriorates. States are thus strongly encouraged to rectify misguided public policy in order to maintain fiscal health and to enhance their appeal to potential residents.[104]

Such views reflect a keen appreciation of the policy impact of federalism, and an understanding that welfare state proponents less frequently share.

University of Missouri, St. Louis

Notes

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10. Howard M. Leichter and Harrell R. Rodgers, Jr., *American Public Policy in a Comparative Context* (New York, 1984), 68–77.

11. G. R. Weller, "Common Problems, Alternative Solutions: A Comparison of the Canadian and American Health Systems," *Policy Studies Journal* 14:4 (June 1986), 604–20; Malcolm G. Taylor, *Health Insurance and Canadian Public Policy* (Montreal, 1978), 69–104. In 1988 Massachusetts became the first American state to enact a plan for universal health insurance coverage for state residents; *The New York Times,* 22 April 1988, 8.

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53. William Graebner, *Coal-Mining Safety in the Progresive Period: The Political Economy of Reform* (Lexington, KY, 1976; Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York, 1963); Donna J. Wood, "The Strategic Use of Public Policy: Business Support for the Pure Food and Drug Act," *Business History Review* 59:3 (Autumn 1985), 401–32.

54. C. Vann Woodward, *Origins of the New South, 1877–1913* (Baton Rouge, 1951), 318–19.

55. The impact of this logic on reformers is evident in the prominent quotation of this passage by Frederic P. Lee of the U.S. Senate's Legislative Drafting Service in his article, "Possibilities of Establishing a National Minimum of Safety in the Coal Industry," *American Labor Legislation Review* 14:1 (March 1924), 70–80.

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57. Thomas R. Plaut and Joseph E. Pluta, "Business Climate, Taxes, and Expenditures, and State Industrial Growth in the United States," *Southern Economic Journal* 50:1 (July 1983), 99–119; Margery M. Ambrose and Susan Welch, "State Legislators' Perceptions of Business and Labor Interests," *Legislative Studies Quarterly* 13:2 (May 1988), 199–209.

58. For example, the U.S. Industrial Commission in 1902 suggested that competition among manufacturers in different states constituted a greater obstacle to the limitation of working hours than foreign competition: "Whereas a single State with advanced labor legislation can not protect itself against the cheap labor and long workday of another State, the entire Union is able, through the protective tariff, to restrict the competition of the longer workdays and lower wages of European and Asiatic Labor, and to make it possible to raise the level of wages and to reduce the limit of hours to the furthest extent that domestic competition will permit"; U.S. Industrial Commission, *Final Report of the Industrial Commission* (Westport, 1970), 775.

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60. John R. Commons and John B. Andrews, *The Principles of Labor Legislation* (New York, 1916), 104–12.

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