

Visions of American Social Security: Issac M. Rubinow, John R. Commons, and Edwin E. Witte

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Introduction

Social concern with review of the welfare state programs of advanced capitalistic nations has been growing since the close of the 20th century. It is said that these programs were developed after World War II in order to improve people's standard of living and eliminate various adverse effects brought about by *laissez-faire*.

In the early 20th century, discussions about the welfare state program occurred primarily in European countries such as Britain, Germany, France, and Belgium. But in the United States establishment of the social security system was comparatively delayed. The beginning of the welfare state in the United States is frequently connected to the Social Security Act of 1935 (SSA). When President Franklin D. Roosevelt signed the SSA into law on August 14, 1935, he called it the "cornerstone" of a system of government-provided social protections that would take care of basic human needs while preventing the likelihood of crippling economic depression and mass poverty in the future. This act was associated with Old Age Assistance (OAA) for the low-income elderly; Old Age Insurance (OAI) for retired workers; Unemployment Insurance (UI) for workers who lost their jobs; and Aid to Dependent Children (ADC) for single, principally widowed, women with children.

However, a range of studies have claimed that there were actually various plans dealing with questions of social security from the Progressive Era. For instance, from a viewpoint of the history of American risk management policy, Moss claimed that the federal government as the ultimate risk manager played an important role in building the workers' insurance, social security, product liability law, and so on in the first half of the 20th century.¹ Rutherford's stance is that

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John R. Commons (1862–1945) established the Wisconsin Institutionalism in the 1900s and this intellectual movement affected the social policymaking process from the 1920s onward.² Although such researchers have maintained continuous interest in the design process of the social security system in the United States, little research has drawn on the original texts to consider these processes as an emergent outcome of the state-level discussion and controversy around social security which occurred during the 1910s. It is important for the development of thinking in this area therefore to clarify the relationship or gap in the design of social legislation and other systems through a detailed analysis of the original texts.

In consideration of such paucity, this paper examines the fashion by which visions of social security before the New Deal spread broadly into the SSA. To such end, it is necessary to examine the American Association for Labor Legislation (AALL)³ in that the AALL was the most significant organization lobbying for labor legislation reform such as workmen's compensation, unemployment insurance and old-age pension between 1910 and World War I.⁴ The leading characters in the AALL, for example, Commons, John B. Andrews (1880–1943), Issac M. Rubinow (1875–1936),⁵ and William M. Leiserson (1883–1957),⁶ played a significant role in building American

1. David A. Moss, *When All Else Fails: Government as the Ultimate Risk Manager* (Cambridge, MA: Harvard University Press, 2002).

2. Malcolm Rutherford, *The Institutional Movement in American Economics, 1918–1947: Science and Social Control* (New York: Cambridge University Press, 2011).

3. The AALL was founded as Richard T. Ely proposed in 1906. As a branch of the International Association for Labor Legislation, the AALL was formed to promote an appropriate labor legislation and to conduct an inquiry into the labor conditions. John B. Andrews was appointed executive secretary in 1909. He founded the American Labor Legislation Review with the object of recording advances in social reforms. Refer to Daniel Nelson, *Unemployment Insurance: The American Experience, 1915–1935* (Madison, WI: University of Wisconsin Press, 1969), 3–27.

4. Refer to John Dennis Chasse, "The American Association for Labor Legislation: An Episode in Institutional Policy Analysis," *Journal of Economic Issues*, 25, no. 3 (September 1991): 799–828; Chasse, "The American Association for Labor Legislation and the Institutional Tradition in National Health Insurance," *Journal of Economic Issues*, 28, no. 4 (December 1994): 1063–1090.

5. Rubinow was born in Grodno, Russia and arrived in New York City in 1893. He qualified at New York Medical College in 1898 but abandoned medical practice in favor of statistics and social work. He concentrated on social insurance studies, and his efforts brought about his appointment as executive secretary of the Social Insurance Commission on the American Medical Association (AMA) in 1916. Rubinow was also active in Jewish welfare work. He later served as executive director of the Zionist Organization of America (1928), and secretary of B'nai B'rith from 1929 to 1936. Refer to Philip Elkin, "The Father of American Social Insurance: I. M. Rubinow," *The Review of Insurance Studies*, 3, no. 3 (1956): 105–112; J. Lee Kreader, "Issac Max Rubinow: Pioneering Specialist in Social Insurance," *Social Service Review*, 50, no. 3 (September 1976): 402–425.

6. Leiserson was born in Estonia, and taken to New York City in 1890. He worked on the economist John R. Commons's staff, studying labor conditions in Pittsburgh. He served on chairmanship of the Ohio Commission on Unemployment Insurance. Refer to J. Michael Eisner, *William Morris Leiserson: A Biography* (Madison, WI: University of Wisconsin Press, 1967), 6–21.

social security programs taking European ideas into account. The typical issue taken up was the problem of unemployment insurance due to the background of recession resulting from the development of American industry. In the context of the United States during this period, it might be possible to classify the causes of unemployment into the following two patterns. First, though the workers had the desire and the ability to work, they were laid off or dismissed against their will. That is, unemployment emerged through the qualitative change of labor demand due to the development of technology in the American industrial society during the Big Business period. Second, the workers, namely “new immigrants,” had never found employment, and they were still seeking work. Moreover, it has been often discussed that unemployment insurance plans at that time were of the following four types.⁷ First, European types, for instance, the British type and the “Ghent scheme” of Belgium.⁸ Second, the “Ohio Plan” that Rubinow and Leiserson had developed, was based on insurance against risk principles. Third, the “Wisconsin Plan” that Commons propounded, had put emphasis on the prevention of unemployment through each employers’ liability. Finally, the “American Plan” that Andrews suggested, was a compromise of the above plans.

Among these plans, Edwin E. Witte (1887–1960)⁹ focused on the idea of unemployment insurance, which had been elaborated in the two states of Ohio and Wisconsin, to build a social security system at the federal level. Witte was deeply involved in the establishment of the SSA. In order to rebuild American society

7. Refer to Roy Lubove, *The Struggle for Social Security 1900–1935* (Cambridge, MA: Harvard University Press, 1968); David A. Moss, *Socializing Security: Progressive-Era Economists and the Origins of American Social Policy* (Cambridge, MA: Harvard University Press, 1996); Malcolm Rutherford, “Wisconsin Institutionalism: John R. Commons and his Students,” *Labor History*, 47 (May 2006): 161–188.

8. Refer to Joseph L. Cohen, *Insurance against Unemployment with Special Reference to British and American Conditions* (London: P. S. King & Son Ltd., 1921), 84. “This system of subsidies from public funds towards provision made by workmen against unemployment is known as the ‘Ghent scheme,’ from the name of the town where it was first successfully operated in 1901.” According to Cohen, Henry R. Seager was described to make the best use of the experience of Britain for the United States at “the First American National Conference on Unemployment” in 1914 (Cohen, op. cit., 51).

9. Witte was born near Watertown, Wisconsin, and spent most of his life living in Wisconsin. He received his B. A. in history from the University of Wisconsin-Madison in 1909 and his Ph. D. in economics in 1927. At Wisconsin, he originally worked with Frederick Jackson Turner, and later did his Ph. D. under John R. Commons. Joining the faculty at Wisconsin, he worked with Commons, Selig Perlman, Robert M. La Follette, Sr., Robert M. La Follette, Jr., E. A. Ross, and Arthur J. Altmeyer who were developing the Wisconsin progressive movement and working on public policy issues of the day. Refer to Wilbur J. Cohen, “Edwin E. Witte (1887–1960): Father of Social Security,” *Industrial and Labor Relations Review*, 14, no. 1 (October 1960): 7–9; Theron F. Schlabach, *Edwin E. Witte: Cautious Reformer* (Madison, WI: State Historical Society of Wisconsin, 1969).

after the Great Depression, Witte made an issue of the construction of the social security system at the federal level beyond the network of local community or individual self-help efforts. President Roosevelt organized the Committee on Economic Security (CES)¹⁰ to play the central role in designing the SSA program. This committee consisted of Secretary of Labor Frances Perkins as chair, Assistant Secretary of Labor Arthur Altmeyer as chair of the “technical board,” and Witte, attached to the post of “executive director” by their recommendations. The ideas of the Ohio Plan and the Wisconsin Plan had a major influence on the framework of the SSA, especially the programs of unemployment insurance and the old-age pension can be strongly presumed. The features of these plans are summarized below.

Table. Ohio Plan and Wisconsin Plan

	Ohio Plan	Wisconsin Plan
Purpose	Maximizing and Assuring Workers' Benefits	Stabilizing Employment
	Relief of Losses of Unemployment	Prevention of Unemployment
Risk	Risk Spreading	Risk Shifting
Fund	Pooling in One Statewide Fund	Experience-Rated Insurance Fund (Segregated Employer Reserves)
Contribution	Employer, Worker, and State	Employer

The present study was undertaken in order to investigate how the ideas of the Ohio Plan and the Wisconsin Plan foreshadowed later development of the design of the SSA. The study focuses on Witte’s vision of unemployment and the old-age pension during the 1930s and attempts to investigate how his vision is associated with the thought of Rubinow’s Ohio program and Commons’s Wisconsin program, which made a striking contrast in the second decade of the 1900s.

Considering this aim, this paper is structured as follows: Section I reviews Rubinow’s idea about the “principle of insurance” and unemployment insurance. Section II describes Commons’s view on the relief and prevention of unemployment, that is, the public employment office, and his public-utility theory of labor based on “industrial goodwill.” The section will furthermore explore his design of an institution in which goodwill concretely functions through his

10. The CES actually had four parts: an executive leadership group; an Advisory Council; a Technical Board; and an Executive Director. Refer to Edwin E. Witte, *The Development of the Social Security Act: A Memorandum on the History of the Committee on Economic Security and Drafting and Legislative History of the Social Security Act* (Madison, WI: The University of Wisconsin Press, 1962), 3–64.

discussion on group insurance. Section III looks at how Witte considered the design of unemployment insurance and the old-age pension around the New Deal. The final section shows Witte's vision of social security programs.

I: Rubinow and the Ohio Plan

The first thing to be noticed is that Rubinow provided a framework for social insurance in the United States. He regarded the "principle of insurance" as "the distribution of losses now and in the future" and "the subsequent elimination of risks."¹¹ He made use of the advantages of this principle in order to set up insurance for workers always exposed to the threat of economic risks.

In the workingman's psychology, therefore, insurance of any kind is never a matter of choice between a danger and a slight discomfort, when the arguments for insurance are so overwhelming that they can be trusted of themselves to produce the necessary results. Rather is it a selection between a possible deprivation in the future and a certain serious loss in the present which the payment of the premium requires.¹²

Rubinow proposed his social insurance plan on the basis of statistical data, such as the actual conditions of workers' standards of living, wages and living expenses. His original perspective as a statistician was included in this plan. As pointed out by Rubinow, the statistics and census at that time were lacking in legitimacy, and generally optimistic conclusions had been derived from these measures.¹³ In order to arrive at a more accurate understanding of the standard level of American workers, he drew on data from the "Saving Banks Deposits and Depositors in the State of Connecticut, 1880-1910," and concluded that the prevailing view of workers was "a myth without much foundation in fact." Rubinow's view of their conditions at that time was expressed as follows:

- (1) From two-thirds to three-fourths of all productive workers in the United States depend upon wages or small salaries for their existence.
- (2) From four-fifths to nine-tenths of the wage-workers receive wages which are insufficient to meet the cost of a normal standard of health and efficiency for a family, and about one-half receive very much less than that.
- (3) If a certain proportion of wage-workers' families succeed in attaining such a standard, it is made possible only by the presence of more than one worker in the

11. Issac M. Rubinow, *Social Insurance with Special Reference to American Conditions* (New York: Henry Holt and Company, 1913c), ch. 1.

12. *Ibid.*, 6.

13. *Ibid.*, 29-41.

family.

- (4) This condition, however, can only be temporary in the history of any workingman's family.
- (5) The increase in the standard of wages is barely sufficient to meet the increased cost of living.
- (6) An annual surplus in the workingman's budget is a very rare thing, and is very small.
- (7) The growth of savings bank deposits in the United States is not sufficient evidence of the ability of the American workingmen to make substantial savings. A large proportion of these savings belong to other classes of population, and in so far as information is available, the average workingman's deposit is very small.
- (8) The analysis of the economic status of the American wage-worker does not disclose his ability to cope with the various economic emergencies without outside assistance.¹⁴

Rubinow pointed out that the maintenance of the workmen's ability to earn their wages was indispensable in the United States. From his viewpoint of actuarial science, people who need social insurance cannot have it, and people who can have social insurance do not need it. Therefore, it is necessary to prepare the system of "workmen's insurance" not via a commercial company but by a public agency. As argued by Rubinow:

It is the direct object of social insurance to protect this standard from the onslaught upon it by various physical and economic dangers, though it goes without saying that by this amount of protection the general standard is upheld and its improvement facilitated.¹⁵

Rubinow's social insurance plan was aimed at sustaining and improving the average living standards of workmen. He argued for an Americanized scheme of unemployment insurance based on this principle. The benefit of such insurance, even though it was impossible to completely eliminate unemployment, would be to widely distribute the risk across a large number of unemployed in a period of recession. He thought of the problem of unemployment as caused by industry or employers, that is, as an economic problem for the statistical data rather than as an individual, personal or cultural one. In Rubinow's words:

The greatest share of unemployment is due to faults of industrial and economic

14. *Ibid.*, 43–44.

15. *Ibid.*, 44.

organization, over which the employee, as an individual in any case, has no control. Unemployment is due to disturbances in the demand for labor and not in its supply, which is fairly constant or at least slow in its changes.¹⁶

In Europe, there were two types of prescriptions for unemployment: one being the public employment office by W. H. Beveridge and the other being public works. Both methods did not adopt strong measures for workmen against destitution due to unemployment. Rubinow argued that both management and labor should be held responsible for the burden of contributions to support an unemployment insurance system which spread the risks, because unemployment had both economic and social aspects. Rubinow adjudged the ideal method to involve the proper averaging of wages over the entire period including the time of employment and unemployment, namely “Compulsory Subsidized Unemployment Insurance.” This plan met the following three conditions. (1) A true averaging of income may only be obtained by means of the insurance method. (2) This insurance must be compulsory, and, (3) industry or the social surplus must participate in this process of loss distribution, as in other forms of social insurance.¹⁷

Rubinow considered the Ghent system of Belgium to be voluntary mutual insurance managed by each trade union and subsidized by municipalities. Yet as this system insured union members only, he suggested the extent of insurance be forcibly enlarged so that it could be adapted to all workmen in the United States. As it could hardly be expected that workers suffering from extreme poverty would prepare for the future, Rubinow pointed out that it was necessary for the unemployment insurance system to switch to a compulsory system from a voluntary system. In addition, Rubinow’s plan was designed to maintain motivation to manage risks in the future between employers and employees. The basic vision of his social insurance system was inherited by Ohio Governor George White’s Ohio Commission on Unemployment Insurance (1931–32), and led to the “Ohio Plan” that was influential in the formation of the SSA.

II: Commons and the Wisconsin Plan

1. The Public-Utility Theory of Labor

Commons took up the issue of the organization of the labor market, the methods of mitigating unemployment, and unemployment insurance on the basis of his experience of projects dealing with the history of labor in the United

16. *Ibid.*, 450.

17. *Ibid.*, 455.

States.¹⁸ His point of view on unemployment and his ideas on how to relieve and prevent it revolved around the concept of “goodwill.” He considered unemployment to be the most serious labor problem, and quoted Beveridge’s “reserve army” in the following passage to explain the situation of being unemployed.

By far the largest source of supply in general is that of applicants seeking work, either at the gates or at employment offices. This means a constant over-supply of labor relative to demand, a “reserve army” of labor unemployed but ready to be employed.¹⁹

Commons recognized that the problem of unemployment occurred not only during a period of temporary recession but also perpetually. He tended to hold an excessive turnover over the limited labor demand in that a worker wanted to overcome the present unemployed condition. This had a negative influence upon industrial relations and the state. In his view, unemployment caused “enormous immediate loss in wages and weakening of moral fiber which comes with uncertainty, habits of irregular work, and occasional lapses into destitution,” and on the other hand, “damages of the cost of teaching and training to a new job applicant attendant on an excessive turnover to the employers, and raises a marked increase in the crime for the state.”²⁰ In brief, Commons thought that unemployment had a harmful effect on not only workmen but also employers and the state. As a solution, he proposed a systematic labor market overseen by the federal government through a public employment office.

The participation of the United States in WWI had aroused public interest in the problem of the “reserve army” and unemployment. However, before WWI, there had been active movement of private organizations, municipal administration and the state for the relief of unemployment. Classified advertisements and private employment offices were the media to match the desires of both the job applicants and the employers who requested workers. However, classified advertisements were inefficient, and the private employment offices often lacked neutrality as a desirable labor market in that they were often used as a means of

18. The first part of the project is John R. Commons, Ulrich B. Phillips, Eugene A. Gilmore, Helen L. Sumner, and John B. Andrews, *A Documentary History of American Industrial Society* (Cleveland, OH: Arthur H. Clark, 1910–1911), and the second comprises the first two volumes of John R. Commons and Associates, *History of Labor in the United States*, 4 vols. (New York: The Macmillan Co., 1918 and 1935).

19. John R. Commons, *Industrial Goodwill* (New York: McGraw-Hill Book Co., 1919), 75.

20. John R. Commons and John B. Andrews, *Principles of Labor Legislation*, (2nd ed., 1920; 3rd ed., 1927; 4th ed., 1936) (New York and London: Harper and Brothers, 1916), 261–262.

industrial strikes by powerful employers' associations and labor unions. In reaction to these deficiencies, the public employment office was established by the state.

The agitation for public employment offices has been due partly to the search for a remedy for the abuses of private agencies and partly to a deepening conviction that it is a proper function of the state to help the unemployed find work. The first American state to make provision for employment offices was Ohio in 1890, followed by Montana in 1895, and New York in 1896. The majority of the present laws have been enacted since 1900.²¹

The state-managed public employment office's role was twofold: First, it served suitable labor exchange from an impartial viewpoint. Second, it systematically distributed public works to the private industry under a shortage of labor forces. It was essential for staff in the public employment office to have advanced management skills and technical knowledge. The labor exchange succeeded with the support of employer and employee; indeed, if they had doubt in this system, an efficient work placement could never be realized. In this connection, the Wisconsin Industrial Commission was set up in Milwaukee, Wisconsin in 1911. This commission was comprised of a chairman elected by the general population and representatives of employer and employee. The chairman played a vital role in advising both the employer and employee. He suggested the method of arranging a job and the improvement of transactions of business, and promoted use of the public employment office.²² Commons believed that if the adoption of the staff of public employment offices earned the mutual agreement of the industrial commission to improve their qualitative levels, the ideal labor market would be established.²³

Taking these matters into account, the discussion now turns to how Commons designed a scheme for the prevention of unemployment. When the United States took part in WWI, the demand of labor forced by the munitions industry had risen rapidly. Related to this, Commons proposed the foundations of the public employment office at a federal level as a system of a more nation-wide labor market, and considered it insufficient to exchange interstate labor forces systematically at a state level. In order to investigate a useful device for decreasing the number of occupational turnovers, Commons focused on the intangible relations between employer and employee of companies that coped well with the problem of unemployment.

21. Commons and Andrews, *Principles of Labor Legislation*, 270.

22. *Ibid.*, 271–272.

23. Commons, *Industrial Goodwill*, 79–80.

Commons presented “public-utility theory of labor” suitable for new working conditions through the improvement of the two labor theories that were the main currents in the early 20th century. The first theory, “the commodity theory of labor,” assumed a setting of a factory employing primarily immigrants to the United States. The immigrants were engaged in occupations not requiring high-level skills, because their lifestyles were different and they could not speak English. The employer paid them according to the supply and demand of the labor market, and treated immigrants as a mere “commodity.” The second theory, “the machinery theory of labor,” was based on the employers’ concern whether the cost of production could be reduced and the output could be increased. As for the method of payment of wages, the piece-work system and the premium plan and so on were adopted. Such methods gave the worker the motive to increase output; in line with the scientific management propounded by F. W. Taylor. In fact, the features of these methods and systems regard the workers’ value as “a productive machine.” Commons further explained,

The machinery theory, like the commodity theory of labor, is not false, it is incomplete. You cannot, it is true, overcome the law of supply and demand. But you can modify it, if you know how, within limits. You cannot permanently withstand those improvements which, by enlarging output, reduce costs, but you can limit the improvement itself at the point beyond which, if carried too far, it increases costs elsewhere more than it continues to reduce them. Successful business is always a scheme of finding that correct proportion of different factors which brings the largest net income from all of them together.²⁴

In order to improve imperfections of both theories, Commons presented a “public-utility theory of labor” based on industrial goodwill that meant amicable relations between the employer and employee. For instance, the Ford motor company decreased the number of turnovers and turned out profit, through laborers regarded not only as productive machines but also as customers. The deciding factor in decreasing the number of turnovers was reciprocity that the employers on one hand gave the worker full treatment as customer to expect a good reputation to spread; on the other hand the workers kept on working in the company, and spread a good reputation to others. Therefore, Commons paid attention to the intangible labor relations to decrease the damages of excessive turnover, and thought of the reciprocity of the industrial relations as “goodwill” which was one of the intangible properties.

This goodwill had a special meaning in the United States by which the Thirteenth Amendment had forbidden involuntary servitude.²⁵ The processes

24. *Ibid.*, 17.

25. “Neither slavery nor involuntary servitude, except as a punishment for crime whereof

which maintained this useful interdependence were more advantageous to both the employers and workers than the other rivals in a labor contract, and also had profits mutually in the future. These relationships held up well in not only a labor contract but also between a producer and a customer. For instance, it is a well-known fact that a “trademark” is one form of goodwill dealt with in a market, but goodwill has a fragile character as it is based upon relations essentially supported via a private network.

It seems reasonable to presume that Commons’s “public-utility theory of labor” tried to expand the specific goodwill between the industrial relations to the entire field of American industry in that his theory was intended to harmonize their class struggle and to decrease labor movement, and as a result, to prevent unemployment. Therefore Commons claimed that the federal government had to accept good relations between the employers and workers, and it was essential that this relation be recognized as useful by the Supreme Court.²⁶

2. The Design of the Institution: Group Insurance

Although it was recognized that specific goodwill was influential in preventing unemployment, Commons next considered the design process of social insurance actually functioning based on goodwill between employers and employees before the New Deal.

Commons called for the enactment of a workmen’s compensation law, unemployment insurance, and an old-age pension system through activity in the AALL. In order to contribute to stability and development of American industry, Commons perceived that it was vital to prepare social insurance not for property-owners, like marine insurance and fire insurance, but for laborers who had their ability to work as their only property and kept irregular work.

Commons tried to develop this scheme of social insurance based on industrial goodwill of the contributory type. In 1919, he maintained that social insurance as compulsory group insurance should be made into legislation, decreasing various economic crises and high labor turnovers. Workers did not join voluntary self-insurance as they could not afford to pay the premium and were often indifferent to problems in the future except for “the craving to be decently buried.”²⁷

Commons characterized the group insurance offered by insurance companies—life insurance, disability pension, old-age pension, and sick benefit—to be “elastic and cheap.” In this case, “elasticity” of this insurance was made

the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.” (The Constitution of the United States: Amendment XIII, Section 1).

26. Commons, *Industrial Goodwill*, 74–82.

27. *Ibid.*, 83.

“universal for all employees in the establishment, without medical examination or selection of risks,” when the workers joined it. “Cheap” meant that the premiums of the group insurance were figured at about 1–1.5% of the pay-roll, so that the number of insured was more than that of self-insurance. Although only a few companies adopted this kind of group insurance, industrial goodwill became stronger in the companies that adopted group insurance and “it is believed to be followed by a reduction in labor turnover, or by what is equally valuable, a reduction in strikes and in the power of organized labor to attract employees away from their allegiance.”²⁸ In this respect, employers adopting group insurance acquired dominant power, namely goodwill, which attracted workers from business rivals. This was the reason why Commons paid attention to it.

Group insurance may not have appeared to be attractive from the perspectives of both employers, who did not wish to adopt it voluntarily prior to present profit, and workers who wanted to receive their present high wage-rate in the future as well. However, group insurance played an important role in assisting the worker to gain stable employment in compensation for his potential economic crises in the future—instead of limiting the “liberty” of the employer’s and employees’ present profits. As a result, both the employer’s and the employees’ mutual profits were fulfilled at the same time, and the “liberty” of each other expanded. Commons attempted to impose compulsory insurance on all employers in the American industry by means of legislative actions of the state and federal government, expanding the advantages of this group insurance to them. Commons further explained,

If all employers are required by law to insure all their workers against death, old age and premature old age, then not only is this form of welfare made universal but it cannot be practised at the cost of liberty. The workers then are freed from that menace which now threatens to play upon their anxiety for decent burial and for the future of family and self in order to tie them to their jobs.²⁹

Commons claimed that if employers and employees were compulsorily insured, the following would be achieved. First, when employers were compelled to defray a part of the premium, they had no choice but to consider the efficient exclusion of economic damages and were induced to decrease its amount. Second, group insurance must be compelled through legislation of the state and the federal government, so that employers were required to do what other employers were voluntarily doing and the state and the federal government had to show the worker and his family the minimum standard of benefit.

28. *Ibid.*, 86–87.

29. *Ibid.*, 90.

It should be mentioned that Commons's design of social insurance was aimed at building up a new and close employer-employee relationship and maintaining stable working conditions at each level of companies. Furthermore, Commons also intended to stabilize not only the community of a variety of workers, including immigrants, but also the whole of American industry through the diffusion of industrial goodwill, bringing the benefits of social insurance to both the employer and employee.

III: Edwin E. Witte as a "Cautious Reformer"

1. Evaluation of the Unemployment Compensation Bill of 1921³⁰

It is well known that Witte is considered to be "the Father of Social Security."³¹ As a student of Commons at the University of Wisconsin during the Progressive Era, Witte perceived the "Wisconsin idea" which was designed through the cooperation with the state government and the university in the early 1900s.³² Witte pointed out that unemployment increased in the United States during the prosperous 1920s, from the report and the index numbers of employment published by the United States Bureau of Labor Statistics and the state labor department in 1927.³³ Witte quoted the following words from the 1923 report of the committee on business cycles and unemployment of President Harding's Conference on Unemployment: "Nothing is more demoralizing for wage-earners than the feeling of insecurity of employment."³⁴

The numbers of those unemployed had increased by the rapid improvement of machines and production processes in the United States since the prosperity of big

30. This section is based on Edwin E. Witte, "Unemployment Insurance," Address at the Milwaukee County League of Women Voters' Public Welfare School of Citizenship at Milwaukee (March 2, 1928) in *Social Security Perspectives: Essays by Edwin E. Witte*, ed. Robert J. Lampman (Madison, WI: University of Wisconsin Press, 1962), 215–223.

31. Refer to Wilbur J. Cohen, "Edwin E. Witte (1887–1960): Father of Social Security," *Industrial and Labor Relations Review*, 14, no. 1 (October 1960): 7–9; Warren J. Samuels, "Edwin E. Witte's Concept of the Role of Government in the Economy," *Land Economics*, 43, no. 2 (May 1967): 131–147.

32. Refer to Charles McCarthy, *The Wisconsin Idea* (New York: The Macmillan Co., 1912); Vernon Carstensen, "The Origin and Early Development of the Wisconsin Idea," *The Wisconsin Magazine of History*, 39, no. 3 (Spring 1956): 181–188; Arthur J. Altmeyer, "The Wisconsin Idea and Social Security," *The Wisconsin Magazine of History*, 42, no. 1 (Autumn 1958): 19–25; Robert J. Lampman, ed., *Economists at Wisconsin: 1892–1992* (Madison, WI: The Board of Regents of the University of Wisconsin System, 1993), c. 4; John D. Buenker, *The History of Wisconsin* (Madison WI: State Historical Society of Wisconsin, 1998), 569–610.

33. Witte, "Unemployment Insurance," 216.

34. *Ibid.*, 215.

businesses at the end of the 19th century. Witte claimed that the following four industrial reasons rather than an individual caused this unemployment: (1) there are many casual and short-time jobs in the industry; (2) there are seasonal ups and downs in practically all industries; (3) there are recurring periods of acute business depression; and (4) the displacement of men by machines and the increase in productive efficiency.³⁵

Witte emphasized that the fourth reason was important in that it was unemployment peculiar to America. In the United States the mass production method had been introduced in the electrical equipment industry and automobile industry, and the immigration law of 1924 (Johnson-Reed Act)³⁶ exercised a great influence on that situation in the 1920s. The Act not only created a dramatic decline in “new immigrants” as low-wage workers, but this decline also led to further mechanization to make up for the decrease in labor forces. Witte considered such unemployment of the 1920s to be “widespread unemployment.”

It can be said that Witte’s view on unemployment was similar to that of Commons. Commons was very closely involved in the production of legislation dealing with workmen’s compensation and setting up the Wisconsin Industrial Commission, and with proposed legislation dealing with unemployment compensation. Witte was in favor of Commons’s proposal for unemployment insurance, namely the “Huber Bill”³⁷ that aimed at unemployment prevention based on the idea of workmen’s compensation and group insurance (related to the notion mentioned in section II-2). The purpose of the “Huber Bill” was not to give benefits to the unemployed, but to prevent unemployment itself. If an employer considered expanding the work force, they would bear the risk of paying compensation when they reduced it. Therefore, they became cautious with the expansion of the work force.³⁸

The British unemployment insurance system was considered to be paying

35. *Ibid.*, 216.

36. This act limited the number of immigrants allowed entry into the United States through a national origins quota. The quota provided immigration visas to 2% of the number of people from that country who were already living in the United States in 1890. The purpose of this act was to completely exclude immigrants from Asia and to further restrict immigration of Southern Europeans and Eastern Europeans.

37. Witte summarized the chief provisions of this bill as follows. “Employers are to share the costs of industrial unemployment with their workers, in much the same manner as they bear a part of the cost of industrial accidents under workmen’s compensation. Whenever an employee is laid off and cannot find other suitable employment, and provided that he has worked at least six months during the preceding two years, the employer must pay him unemployment compensation at the rate of \$1.00 per day, but for not more than 13 weeks (In seasonal industries employers are liable for compensation only for the normal season.)” (Witte, “Unemployment Insurance,” 217–218).

38. *Ibid.*, 218.

“doles” to the unemployed. The unemployed increased during the recession period after 1920. With unemployment insurance funds under a uniform contribution from employers, employees, and the state, benefits were paid to both insured workmen and workmen who were not entitled to payment. For these flat contributions, employers did not try to prevent unemployment. Witte recognized that under the British system a “deterioration of the morale of the unemployed there has undoubtedly occurred, but certainly not as much as would have occurred had no aid been given them.”³⁹ There were some differences between the Wisconsin bill and the British unemployment insurance. The Wisconsin bill contemplated payments from the employer only in that there was an incentive to employers to reduce unemployment. Unemployment insurance would not be counted on as a relief measure, because the financial reserves of the workmen in the United States were greater than those in Britain.⁴⁰

Although Witte put a high value on the “Huber Bill,” it can be presumed that scheme could not have become an effective means of eliminating the large amount of unemployment brought about by a significant social change such as the Great Depression. To this end, Witte was skeptical about the system of prevention of unemployment by employer’s liability.

2. The Potential of Witte’s Unemployment Insurance⁴¹

Witte came to point out the value and limitation of the unemployment insurance in 1935. He gave the following four points about the limitations of unemployment insurance: (1) unemployment insurance will not solve the problem of the business cycle; (2) unemployment insurance will not give jobs to the millions of wage-earners now employed, nor will it make relief unnecessary; (3) unemployment insurance will not directly benefit any group in society other than the wage-earners and salaried employees; and (4) unemployment insurance is not well suited to many groups of industrial workers who can legally be brought under its provisions.⁴²

Unemployment insurance had such limitations, but Witte thought that it was still an effective measure to furnish economic security to wage-earners and “Real progress is made not by depressing all to the lowest prevailing level, but rather by raising the submerged to higher standards.”⁴³ What is to be noted is the fact that

39. *Ibid.*, 221.

40. *Ibid.*, 222.

41. This section is based on Edwin E. Witte, “Job Insurance: Its Limitations and Value,” *Economic Forum*, 2, no. 4 (Winter 1935b) in *Social Security Perspectives: Essays by Edwin E. Witte*, ed. Robert J. Lampman (Madison, WI: University of Wisconsin Press, 1962), 224–234.

42. Witte, “Job Insurance: Its Limitations and Value,” 225.

43. *Ibid.*, 226.

Witte did not regard unemployment as a definitely insurable risk by statistics. In Witte's words:

It is impossible definitely to forecast what the rate of unemployment will be in any industry and still less [to predict] the hazard to any employee not merely of losing his employment, but also of being unable to find another job. It is possible, however, to create reserves which can be drawn on when unemployment occurs.⁴⁴

When a worker who engaged in an industry lost his job, he could receive a benefit from this unemployment reserve as "a legal title to a definite share in the current production" unlike the British dole.

Witte perceived the intention of President Roosevelt that it was necessary to make the residuum of the unemployed as small as possible during a depression. The cause of unemployment was cyclical depression, that is to say "Any wage-earner runs the risk of losing his employment through no fault of his own."⁴⁵ It is certain that savings decrease consumption, and the depression results from the fall of purchasing power. However, Witte criticized the explanation that mass purchasing power during depression was caused by savings for unemployment insurance, namely "Unemployment reserves may represent not additional savings, but rather directed savings."⁴⁶ These directed savings reserved a part of income for unemployment insurance. The workers saved up money for the uncertainty of the future and wanted to protect their economic security. Therefore, "compulsory unemployment insurance system, with contributions from all insured employees, will undoubtedly represent additional savings for some of the insured workers,"⁴⁷ operating to reduce the net total savings rather than to increase them.

As pointed out by Witte, President Roosevelt was also interested in two points: First, a nationwide unemployment insurance system; Second, reserves managed under the same agency which was responsible for the credit policies of the country.⁴⁸ When depression came, these savings were not overly influential on mass purchasing power and business conditions in general, because a nationwide unemployment insurance system was not established during the prosperous 1920s. Witte also noted that the system of unemployment reserves did not work well when it was needed at a particular time such as a recession. In this respect, the controlling board had to intelligently handle the reserve funds to maintain economic security.⁴⁹ Taking these matters into account, it is probable that the

44. *Ibid.*, 229.

45. *Ibid.*, 228.

46. *Ibid.*, 229.

47. *Ibid.*, 230.

48. *Ibid.*, 232.

49. *Ibid.*

unemployment insurance system brought merit to employers. Without this system, some employers paid not only a dismissal wage to a discharged person, but also a tax for the industry, considering the total cost of a dismissal wage almost compared with the cost of the unemployment insurance. Therefore, the employer had an incentive to remove irregularity in employment as much as possible. Witte insisted on the value of unemployment insurance as follows:

It is however, of great value, particularly to steady, regularly employed industrial workers who are unemployed for short periods because of seasonal layoffs or any of the other numerous minor industrial disturbances. It can be of service to them, also, in the early stages of a depression. It is of value to the general public because it serves as a first line of defense for the largest group in our entire industrial population.⁵⁰

It could be said that Witte intended not to solve all the problems of industry but to give protection to individuals against the many hazards of our modern economy. That protection for economic security combined unemployment insurance with other measures such as old-age pensions and mothers' pensions and so on. It can be presumed that Witte did not think that an employer could completely prevent unemployment nor consider unemployment insurance to be a relief, but truly sought a feasible plan to deal with a depression. Therefore, Witte's plan of unemployment insurance varied from the ideas of Rubinow's Ohio program and Commons's Wisconsin program and also the "dole" of Britain.

3. Unemployment Compensation as a Cooperative Federal-State System⁵¹

The discussion turns to how unemployment risk could be spread widely over the class of workers through the "principle of insurance" and how the economic losses due to unemployment should be compensated in the design process of the unemployment insurance. In addition, it should also be emphasized that the discussion must extend even to which agent put this insurance into practice. In the relationship between the federal government and the state, it was often difficult to construct measures against unemployment around the New Deal. The problem was not only whether the federal government should admit to expand the realm of state government to federal level, but also how they fulfill an important role at the interstate level in the Constitution of the United States.

50. Ibid., 233-234.

51. This section is based on Edwin E. Witte, "Major Issues in Unemployment Compensation," *Social Service Review*, 9, no. 1 (March 1935a) in *Social Security Perspectives: Essays by Edwin E. Witte*, ed. Robert J. Lampman (Madison, WI: University of Wisconsin Press, 1962), 235-256.

Witte did not think that only unemployment compensation could solve the problem of loss of income due to unemployment and compensate all needs, in that the period and amount of benefits could be received as the unemployed persons' right based on their contributions. He considered the unemployment compensation to be supplementary to public assistance rather than its replacement. As argued by Witte:

Unemployment insurance, then, should be regarded merely as a front line of defense against the hazard of unemployment. It is of value principally during the period just after the loss of a job when the worker has a reasonable expectation of returning to his old line of work within a short time. At this stage, the unemployed worker is, naturally, very reluctant to accept unaccustomed work which will remove him from immediate consideration for reemployment when hoped-for new orders come in.... For such workmen, something beyond unemployment compensation is needed. That something more may be direct relief or work relief, both of which differ fundamentally from unemployment compensation in that they are based upon need rather than a contractual right.⁵²

In fact, in the Federal Emergency Relief Act enacted in May 1933, the federal government assigned the financial responsibility to states that received a federal subsidy in order to take their relief programs. The Federal Emergency Relief Administration (FERA) was also responsible for carrying out a public unemployment relief program, namely, direct relief and work relief by the federal and state governments. Witte regarded the public unemployment insurance not as a mere remedy but as scheme to recover loss of income. Although he intended that it should spread the risk of unemployment among people engaged in labor, including when they did not have a new opportunity to work on their own, the introduction of the new national system by the federal government had "no constitutional basis" at that time. Therefore, he proposed the following system based on the intention of President Roosevelt.

The President has characterized the desirable relationship of the federal and state governments with respect to unemployment compensation as a "cooperative federal-state system"—a New Deal in government, in which there is not a conflict over the respective rights of the federal and state governments, but a joint attack on the grave problems of insecurity.⁵³

52. Witte, "Major Issues in Unemployment Compensation," 237.

53. *Ibid.*, 241.

Witte also maintained his interest in the operation of this cooperative federal-state system and the problems attendant through interstate competition. A certain company that did not want to bear the cost for unemployment insurance was bound to transfer into other states that had not introduced that system. Therefore, Witte suggested the following three types of unemployment insurance to cope well with this problem; (1) The national plan: The federal government imposed a payroll-tax on the employers and a requirement to provide a uniform compensation to workers; (2) The tax-refund plan (or the subsidy plan) by the federal government: the state government which operated the unemployment compensation system in accordance with the minimum standards got the federal subsidies; and (3) The tax-offset plan by the federal government: The federal statute levied a payroll tax on all employers but offered credits of up to 90% of the total to the employers who paid proper contributions in accordance with the standards of each state.

There is a possibility that application of the uniform federal tax by the federal government could help to solve the problem of unequal contribution in each state. It should be mentioned that Witte considered the third type of plan, that of tax-offset, to be appropriate unemployment insurance as a cooperative federal-state system at the federal level, aiming to realize this plan in the Social Security Act of 1935.

4. Witte's Old-Age Pension Plan⁵⁴

There were two types of old-age security program in the Social Security Act: On the one hand, the old-age assistance program (Title I) provided cash benefits for poor old-age people based on their "need," on the other hand, the old-age benefits program (Title II) was a contributory pension such that when the insured workers paid the premium in advance, they were entitled to receive benefits as their "right."⁵⁵ Old-age assistance can be defined as public assistance given to poor people over the age of 65 who were not taken to any public facilities. The state government had to meet the following conditions on public assistance. (1) Implementation based on state law for old-age assistance; (2) State government to pay at least a portion of the cost of old-age assistance; and (3) Prohibition of more severe conditions of age, residence, citizenship and so on than the eligibility of federal law. Witte was apprehensive about the proportion over the age of 65 receiving public assistance and their amount of allowances in that there were differences of application and coverage among each state.

The old-age benefits program had the following problems. First, there was an

54. This section is based on Edwin E. Witte, "Old Age Security in the Social Security Act," *The Journal of Political Economy*, 45, no. 1 (February 1937): 1-44.

55. Witte, "Old Age Security in the Social Security Act," 2.

issue concerning the financial resources of the program. Either the “pay-as-you-go” system or deficit system had to be selected. Witte had insisted that the former held advantages for the older and younger generation, but the CES’s opinion leaned towards deficit financing in the draft of the SSA. It was decided to levy a special tax, for the problem of a widening generational inequality.⁵⁶ Second, there was a problem in the constitutionality and the management of this nationwide system. Witte pointed out that it was not clear whether to allow the federal government to have the power to force the public to join the old-age pension system. But in terms of its management, Witte sought to enact a system of compulsory old-age pension by the federal government in the United States, as in the European countries.⁵⁷

Concluding remarks

As mentioned above, it was necessary to initiate a new sort of social security and social legislation in the United States at the beginning of 20th century. Rubinow, who insisted on the need for social welfare of a European type of relief by public assistance, propounded the “Compulsory Subsidized Unemployment Insurance” which later developed into the Ohio plan, advocating state-wide pooled funds. Commons and Andrews defined insurance “as an arrangement for distribution among many of the losses sustained by a few,” and insisted it as the contributory type.⁵⁸ Although their intentions were reflected into the Wisconsin plan which focused on individual employer reserves, this plan would provide inadequate benefits. Therefore, the Wisconsin reformers considered it to be impractical.

In order to deal with the crisis and social collapse of the economy that resulted in the Great Depression, the federal government had been requested to expand the regulation and control to all areas of the economy. The great expansion of the role of the federal government as a new social control in the field of industrial relations, banking system, and security trading was the remarkable feature of the New Deal. However the court declared unconstitutional a lot of legislations established in the New Deal. When President Roosevelt attempted to execute “the Court Packing Plan,” its confusion created conflict in Congress. The CES members as well as Witte were interested in how to build a feasible plan in this historical context.

Witte considered that the SSA was not what he had intended to be called a cooperative federal-state system of social security in that there was insufficient distribution of income, eligibility based on means test, and management left to the

56. *Ibid.*, 29.

57. *Ibid.*, 36–37.

58. Commons and Andrews, *Principles of Labor Legislation*, 354–355.

discretion of local governments. Concerning the old-age pension, the survivor's pension, and the disability compensation, the European type which included relief by public assistance had a great influence on those provisions. Moreover, the unemployment insurance adopted in many states combined the elements of the experience-rated insurance fund (Wisconsin plan) and the pooled fund (Ohio plan). It should be mentioned that the meaning of this combination was not only the advantage of the spread of unemployment risk and the maintenance of the workers' purchasing power to provide stable benefits, but also the prevention of unemployment through each employer contributing. It can be said that the management of that system was left to the discretion of each state in order to suit the disposition of the American people who were cautious with government intervention.

What Witte intended was not to solve all the problems of the industry but to give protection to individuals against the many hazards of our modern economy. That protection for economic security combined unemployment insurance with other measures such as old-age pensions. Witte intended to realize the plan which was a cooperative federal-state system of unemployment insurance based on tax offset in the SSA. At first he tried to expand the idea of the Wisconsin plan, that is, prevention of unemployment into a nationwide effort, but it could not be applied to all realms of social security. He then also intended to take advantage of the Ohio plan, with its base of insurance against risk principles. On examining the historical context, Witte was the very embodiment of the "Wisconsin Idea." Therefore, it also has to be admitted Witte knew that the only way to execute the social security program in reality was through compromise within the framework of realization of welfare.

Moreover, it should be evident that the social legislations of the New Deal that resulted in the 1930s were less a direct reaction to the problem of widespread unemployment during the Great Depression, and more an emergent outcome of the discussion and controversy around social security and unemployment insurance systems of the 1910s.

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