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Employee Benefits and Social Welfare: Complement and Conflict

By LAWRENCE S. ROOT

ABSTRACT: Employee benefits constitute a major vehicle for the provision of income security for Americans. Since the 1940s, wage supplements, particularly in the form of pensions and health insurance, have expanded to provide protections that are the province of public programs in most other Western countries. Building upon the precedents of the welfare capitalism of the early 1900s, the growth of employee benefits has been actively stimulated by federal tax and regulatory policies. The emergence of employee benefits as a major source of income security and health insurance has reduced the aggregate need for public programs, but it has left those in lower-paying, less stable jobs—disproportionately women and minorities—both unprotected and with fewer political allies to press for improved protections. The implementation of the employee benefit programs has also created financial interests in the existing structure that would resist changes that would diminish their role.

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PROVISIONS for income security in the United States have involved public programs, private provisions, and employee benefits. The first two are traditionally a part of assessments of income security on a national basis. In fact, much discussion of national social insurance policies focuses solely on them. But an understanding of social welfare in the United States demands greater attention to the role played by employee benefits.

Increased reliance upon the work place for basic income security and health insurance has resulted in a de facto system that is highly unequal in its coverage. Those with better jobs—higher pay and greater job security—have more protection; those with worse jobs are less likely to be covered for medical expenses or loss of income. Although this is not surprising as a labor market phenomenon, the implications for social welfare in the United States are less obvious and yet critical for understanding income security in the United States.

Three aspects of this "occupational welfare" system, to use Titmuss's term, are of particular interest.[1] First, employee benefits reinforce the resource disparities arising from pay differentials. Those with the fewest current resources are the least likely to have protection against the costs of medical care or the loss of earnings. Second, the coverage of large segments of the population through the vehicle of employee benefits reduces the aggregate demand for improvements in governmental programs. Thus, those who remain unprotected through the work place are more isolated politically, decreasing the potential pressure for governmental actions to meet their needs. Third, the institutional structures that have arisen in the implementation of employee benefits have created a new set of vested interests that present a significant source of resistance to change.

The growth of benefits in the work place has been a function of conscious choices made on the federal level and reflected in labor and tax policies. This has had a profound influence on employment costs, income protection, and the political prospects for social welfare policy. In the following pages, we first consider the social and political context within which employee benefits have expanded. The resulting coverage is then assessed in light of the extent to which it provides income protection for the population. Finally, we examine the implications of employee benefits for the labor-management relationship, institutional interests, and income-security policy.

BENEFIT STRUCTURE BEFORE THE NEW DEAL

The current structure of employee benefits in the United States arose in the late 1930s and 1940s. Prior to that time, the benefits that accompanied pay tended to be fringe. They added only marginally to the employment package and were usually under the unilateral control of management. Public programs at the time were also relatively undeveloped. Worker's compensation, which had arisen on a state-by-state basis after the turn of the century, provided some benefits for those workers injured in the course of their employment. But that legislation was stimulated as much by a concern for limiting the liabilities of employers through civil action as by the concern for the welfare of the injured employee.[2]

1. Richard M. Titmuss, "The Social Division of Labor," in his *Essays on the Welfare State* (Boston: Beacon Press, 1969).

2. Roy Lubove, *The Struggle for Social Security* (Cambridge, MA: Harvard University Press, 1968), pp. 54-57.

It was not until the 1930s that an upsurge of labor union organizing, combined with a more active governmental role, changed the very nature of both public programs and the social welfare provisions of the work place. But the idea of services as a part of the employment relationship did not begin in the 1930s. We find direct precedents for employee benefits in the welfare capitalism of the 1920s and earlier. Employers at different times have provided a variety of benefits, from pensions and medical care to housing, recreation, and social services.[3]

Many of the early patterns presaged later employee benefit structures and other more current management directions.[4] Health care became an interest of businesses for a variety of reasons. Early models for the health maintenance organization (HMO) were developed in response to the need to provide medical services in remote work sites. Company clinics became more common when liability from work-place injuries made on-site treatment a prudent investment. There was also an interest in providing physical examinations to identify individuals who were more likely to be injured.

Employee representation plans were another very visible aspect of welfare capitalism. While progressive companies experimented with this form of work involvement in the pre-New Deal period, they assumed a more attractive role for employers only when the growth of labor organization in the 1930s stimulated employers to seek in-house alternatives to unions.[5] The approaches associated with welfare capitalism often embody multiple goals, combining a reward system with means of developing greater industrial discipline. The physical examination that became a part of the service repertoire of management also could be used as a vehicle for identifying troublesome employees—for example, those inflicted with what employers might have called the disease of unionism. Employee benefits continue to serve multiple purposes, such as pension structures that make labor mobility more costly.

Welfare capitalism reached an early height in the planned town of Pullman, now a section of south Chicago.[6] Not only did the company design and build the town, but it created rules to govern the behavior of the town's residents, from prohibiting alcohol to determining which plays had the proper moral tone for the town's only theater.[7] Pullman attracted international attention as a progressive response to the changing social and economic relations that accompanied the rapid industrialization of the late nineteenth and early twentieth centuries. Special trains brought visitors from the Chicago Exposition of 1892 to see the wonders of the new industrial planning. But the experiment was short-lived. A pay decrease for Pullman employees led to a massive and bitter strike. Soon after, formal control of the town by the company ended.

In addition to company activities, the early unions also organized social welfare

3. Stuart D. Brandes, *American Welfare Capitalism, 1880-1940* (Chicago, IL: University of Chicago Press, 1976).

4. The range of company-sponsored services are suggestive of the contemporary interest in corporate management styles that have been associated with the larger Japanese companies, incorporating services such as recreation and housing into the employee-company relationship.

5. For example, see Carroll R. Daugherty, Melvin G. DeChazeau, and Samuel S. Stratton, *The Economics of the Iron and Steel Industry* (New York: McGraw-Hill, 1937), pp. 908 ff.

6. Stanley M. Buder, *Pullman: An Experiment in Industrial Order and Community Planning, 1880-1930* (New York: Oxford University Press, 1967).

7. Ibid., pp. 60-74.

activities such as the health clinics of the International Ladies' Garment Workers' (ILGWU), which still exist in New York and elsewhere. Mutual assistance funds provided monetary and in-kind support to disabled workers and to the families of deceased workers.

The principles of welfare capitalism exerted a powerful influence on the early development and definition of the appropriate roles for governmental programs and the work place. This can be understood in terms of the traditions of a laissez-faire government as well as the voluntarism and individualism that have characterized popular social thought in the United States. Resistance to governmental involvement in social welfare was heightened by the patronage and corruption associated with the administration of the Civil War pensions.[8] This, coupled with a general antagonism toward what were perceived as the foreign roots of public social welfare programs, reinforced the vesting of the work place with social welfare roles.[9]

Early employment-based services offer an intimation of the subsequent development of employee benefits, but the major expansion of benefits that took place after World War II was predicated on two institutional factors that profoundly influenced labor policy: (1) the expansion of unionism and collective bargaining; and (2) the development of public policies that favored the inclusion of employee benefits as a part of pay.

PUBLIC POLICY AND THE GROWTH OF EMPLOYEE BENEFITS

Prior to the 1930s, the federal stance toward unions was a negative one, characterized by the use of injunctions against union activities and charges of criminal conspiracy for organizing. With the passage of the National Industrial Recovery Act (NIRA) in 1935, the stagnation in union organizing ended. Section 7(a) of the NIRA suggested that employers should recognize the right of their employees to form associations.[10] This was interpreted to mean that union organizing had at least the tacit support of the government.

This perceived change in public policy ignited drives for union organization. A group of union leaders from the American Federation of Labor formed the Committee on Industrial Organization and, subsequently, went on to create a separate association, the Congress of Industrial Organizations (CIO).[11] Organizational drives were undertaken in a variety of key industrial sectors. Union membership climbed from 3.8 million in 1935 to 10.2 million in 1942, and continued growing until 1960 when the trend began to reverse itself.[12]

With this expansion of membership came a rise in the use of collective bargaining and the formulation of regulations to govern its application. These developments, together with tax changes

8. Ann Shola Orloff and Theda Skocpol, "Why Not Equal Protection? Explaining the Politics of Public Social Welfare in Britain and the United States, 1880s-1920s" (Paper delivered at the Annual Meeting of the American Sociological Association, Detroit, MI, 2 Sept. 1983).

9. Lubove, *Struggle for Social Security*, p. 83.

10. National Industrial Recovery Act, 48 Stat. 195 (1933).

11. For a discussion of this period, see Walter Galenson, *The CIO Challenge to the AFL: A History of the American Labor Movement, 1935-1941* (Cambridge, MA: Harvard University Press, 1960).

12. Leo Troy, *Trade Union Membership, 1897-1962,* Occasional Paper 92 (New York: National Bureau of Economic Research, 1965), tab. 1, p. 1.

and wartime controls on wages, influenced the environment within which employee benefits emerged.

The War Labor Board was the governmental body responsible for overseeing labor-management relations during World War II. The board promoted a more favorable climate for unions by rulings that facilitated union maintenance, for example, by permitting the deduction of union dues from pay. The wage policy of the board also encouraged the expansion of benefits. While wages were tightly controlled, the board permitted improvement in nonwage remuneration, principally in the form of pensions and insurance. The inflationary pressures that might otherwise have been translated into wage increases were channeled into benefits.[13]

Wartime expansion of benefits led to postwar conflicts when unions sought to include the benefits in collective bargaining. Companies objected, insisting that they were a discretionary prerogative of the company. The dispute was settled in 1949 when the U.S. Supreme Court ruled that benefits were a form of wage and therefore a mandatory item for collective bargaining.[14]

Other governmental policies—particularly tax policy—created the incentives for the growth of employee benefits. The Social Security Act (1935) had already established a base on which private pensions could be built. An employer could provide a small pension that, taken alone, would be insufficient, but that was meaningful as a supplement to the social security benefit. When Congress failed to increase social security benefit levels in the face of high postwar inflation, unions turned instead to the bargaining table to secure a more adequate retirement income.[15]

The importance of this period in the evolution of social welfare provisions in the United States cannot be overestimated. Organized labor was a political linchpin among constituents of expanded governmental services. Once one route for achieving some measure of income security was created, the pressures for more universal programs necessarily abated. The beginnings of collectively bargained benefits changed the expectations for the work place and created a new set of goals and standards for employment.

The influence of governmental actions is also seen in tax policy that encouraged and shaped the development of employee benefits. Since the 1920s, pension trusts had enjoyed exemptions from federal taxation and were governed by federal regulation to ensure that they were used for the intended purposes.[16] Increases in corporate taxes—particularly the postwar excess profits tax—made deducting pension contributions more attractive and, in effect, reduced the net cost of providing pensions.

Policies concerning the personal income tax system made pensions and group insurance more attractive to the worker, by not taxing employer contributions as current income. This reflects a purposeful ambiguity in the tax laws. Corporate taxation policy interprets benefits as a business expense, in the same category as pay. On the other hand, for personal income taxes—the taxes paid by employees—they are not considered

13. George Rubin, "Major Collective Bargaining Developments—A Quarter-Century Review," *Current Wage Developments*, p. 43 (Feb. 1974).

14. *Inland Steel Co.* v. *National Labor Relations Board*, 336 U.S. 960 (1949).

15. Bert Seidman, "Pensions: The Public-Private Interplay," *American Federationist*, 83:19 (July 1976).

16. The impact of tax policies on pensions is summarized in Alicia H. Munnell, *The Economics of Private Pensions* (Washington, DC: Brookings Institute, 1982), chap. 3.

current income. Employer contributions for insurance premiums are not taxed at all and pension contributions are taxed at the point at which the pension is received, when the person is usually in a lower tax bracket.

This favorable tax treatment of employee benefits is a form of public subsidy—a tax expenditure supporting insurance and pension protection primarily for middle-income and upper-income employees. The largest of these tax expenditures—losses of tax revenue—comes from the exclusion of pension contributions, approximately $25.8 billion in 1982 and projected to rise to $48.5 billion by 1987.[17] The exclusion of employer contributions for health insurance and medical care is the other large expenditure in this context—$15.3 billion in 1982 and expected to reach almost $27 billion by 1987. In 1982, these two tax expenditures cost about as much as the total federal funds expended for all forms of public assistance, Medicaid, and food stamps.[18]

THE EXTENT OF EMPLOYEE BENEFIT PROTECTION

The decentralized nature of employee benefits complicates the process of estimating their coverage. Determining how many people are currently covered through employee benefits is subject to differing interpretations and assumptions. One estimate suggests that in companies with pension plans, 1 out of 7 workers are not eligible to participate because of their age or length of service.[19] Further, persons may be participants even though they may leave the company before vesting—in which case they receive no pension benefit at all. Although the Employee Retirement Income Security Act (ERISA) established mandatory vesting provisions, private plans generally require 10 years of service before an employee is assured of receiving pension benefits. The effects can be seen in the incidence of private pensions among the elderly. Although approximately 40 percent of the work force participated in pension plans 20 years ago, only about 20 percent of aged households—individuals and families—currently report income from private pensions.[20]

Turning to health insurance, there are several factors that complicate measures of coverage. For example, the depth—comprehensiveness—of coverage can vary greatly. Particular medical procedures may be covered for all "reasonable and customary" charges, but more than half of the participants in health insurance programs are covered only up to a fixed fee for the service, leaving the patient responsible for charges over that amount.[21]

Double-counting of covered individuals also raises problems for health insurance

17. *Tax Expenditures: Budget Control Options and Five-Year Budget Projections for Fiscal Years 1983-1987* (Washington, DC: Congress of the U.S., Congressional Budget Office, 1982), tab. A-1.

18. U.S., Department of Commerce, Bureau of the Census, *Statistical Abstract of the United States, 1981,* 102nd ed. (Washington, DC: Government Printing Office, 1981), tab. 521, pp. 320-21.

19. Daniel J. Beller, "Coverage Patterns of Full-Time Employees under Private Retirement Plans," *Social Security Bulletin,* 44:4 (July 1981). Subsequent public policies, initiated in 1984, have lowered the minimum age at which a person is eligible for a company pension plan as well as altering requirements to extend greater pension rights to the spouse of the covered worker.

20. Melinda Upp, "Relative Importance of Various Income Sources of the Aged, 1980," *Social Security Bulletin,* 46:5, tab. 1 (Jan. 1983); and Martha Remy Yohalem, "Employee-Benefit Plans, 1975," ibid., 40:22, tab. 2 (Nov. 1977).

21. Daniel N. Price, "Private Industry Health Insurance Plans: Type of Administration and Insurer in 1974," *Social Security Bulletin,* 40:3 (Mar. 1977).

statistics, inflating the estimates of coverage. Both husband and wife in two-earner households may have health insurance through their respective work places. In such cases, they are counted as two separate families, resulting in overestimates of coverage.

Given these limitations, we can construct a picture of the extent of coverage of the work force through employee benefits. The percentage of the work force receiving health insurance has steadily increased since the 1940s. This increase has been accompanied by an improved standard of coverage. The extent and standard of coverage are illustrated in Figure 1, in which the percentage of the work force covered is charted over time.

We can see a steady rise in the percentage of the work force participating in health care insurance programs. Hospitalization insurance covers many of the most costly aspects of a medical incident. The percentage of the work force covered rose steadily until the 1960s and then remained relatively constant.

Figure 1 also indicates a change in the quality of health insurance for those workers covered. Hospitalization coverage tends to be the basic level of coverage—the sine qua non for the development of health care coverage. Thus, the expansion of coverage for hospitalization indicates the extension of protection to new groups of workers. The percentage of the work force covered increased from 50 percent in the 1950s to around 70 percent by the mid-1970s. This increase in coverage has been very gradual since 1960, reflecting a slowing of the extension of health insurance. The rise in the other components of health insurance, particularly in regular medical coverage, reflects a filling-in of coverage for those already protected against the costs of hospitalization. Between 1950 and 1970, the percentage of those with hospitalization coverage who had regular medical coverage increased from 34 percent to over 90 percent. The pattern for surgical services shows a similar movement, from coverage of 73 percent of those with hospitalization in 1950 to almost 97 percent in 1970. The growth of major medical programs—not shown in Figure 1—parallels that of the other components of health care insurance although the incidence of coverage is considerably lower. Thus, the changes in health insurance coverage after 1960 represent some change in the comprehensiveness of coverage, but very little expansion of the proportion of workers covered by employee benefit health insurance.

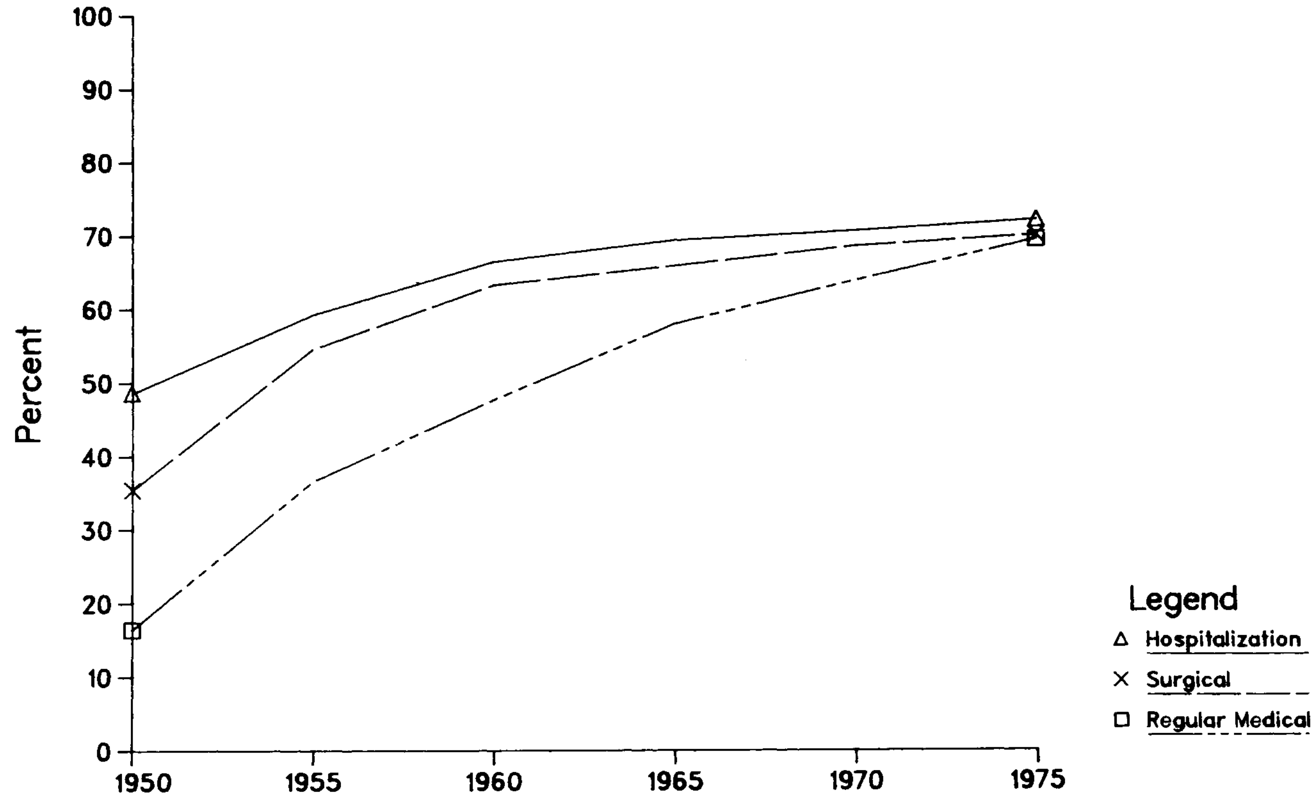
This interpretation of the coverage statistics suggests that health insurance protection is not expanding to include new groups of workers. In light of this, we should not expect to see private sector efforts continuing to include a larger and larger proportion of the population.

Pension plans have also expanded steadily over the last 30 years. Among nongovernmental employees, the percentage covered has steadily increased, although at a slower rate than that observed for health insurance. In 1975, 46.2 percent of the private-sector work force participated in pension plans. If we assume that all of the 15 million government workers in 1975 participated in some form of pension plan, the percentage of the work force covered in 1975 was about 56 percent.

These overall estimates suggest the extent to which employee benefits offer protection for workers and their families. Although the nature of the coverage varies, employee benefits now play a prominent role in the personal social welfare picture of most workers. A significant proportion, however, still

FIGURE 1

PERCENTAGE OF THE WORK FORCE WITH HEALTH INSURANCE



SOURCE: Martha Remy Yohaiem, "Employee-Benefit Plans, 1975." *Social Security Bulletin,* 40, tab. 2 (Nov. 1977).

remains without any form of health insurance or pension.

EMPLOYEE BENEFITS AND PRIVATE SECTOR DECISION MAKING

Employee benefit growth has changed the context within which private sector decisions are made. On a societal basis, pensions and group health insurance, in particular, have reduced the demand for social insurance and created vested interests that would resist change. The benefits have also changed the situation of employers, altering the cost structure of employment—with a variety of implications for the private policies of the firm.

Employee benefits and labor market decisions

The introduction of employee benefits into the labor-management agreement changes the calculus of hiring and termination and creates barriers to labor mobility. Estimates of benefit costs vary widely, depending largely upon the scope of the definition. The U.S. Chamber of Commerce periodically surveys medium-sized and large firms in order to estimate employee benefit costs. They estimate that $435 billion were expended for employee benefits in 1980. This total represents 32.3 percent of wages and salaries and includes 9.4 percent for contributions to government programs; 8.3 percent for pensions and insurance; 13.7 percent for payment for time not worked, such as rest periods, vacations, and sick days; and 0.9 percent for other bonus or profit-sharing programs.[22]

Governmental programs—such as social security, workers' compensation, and unemployment insurance—account for about one-half of the total employer expenditures for income-security programs. (See Figure 2.) Prior to the mid-1950s, the proportions going to social insurance—public benefits—were somewhat higher than those for pensions and group insurance—private benefits. By the 1960s, that relationship was reversed, with the govermental programs accounting for less than one-half of the total.

The expansion of employment costs for both governmental—public—benefits and private benefits has several specific implications for personnel decisions.

1. The increase in the cost of employment decreases the demand for labor and makes production more costly.
2. As a fixed cost, employee benefits make it relatively less expensive to use overtime.
3. Higher employee-benefit costs associated with particular groups—for example, health insurance for those over 50—may negatively affect the employment prospects of those groups.

The first point reflects the basic economic principle that increased cost will usually result in decreased consumption—in this case, consumption of labor. A corollary is that the added employment costs increase the labor costs of American industries, placing domestic products at a competitive disadvantage with trading partners. Social insurance costs that are public expenditures in most Western European countries are a part of the labor-management relationship in the United States, enlarging differential costs of production. Although the shifting of these employer costs to governmental programs would probably entail increasing the tax burden, the effects of such a shift on the cost structure facing the company would depend upon the

22. Chamber of Commerce of the United States, *Employee Benefits 1980* (Washington, DC: Chamber of Commerce of the United States, 1981), tab. 21.

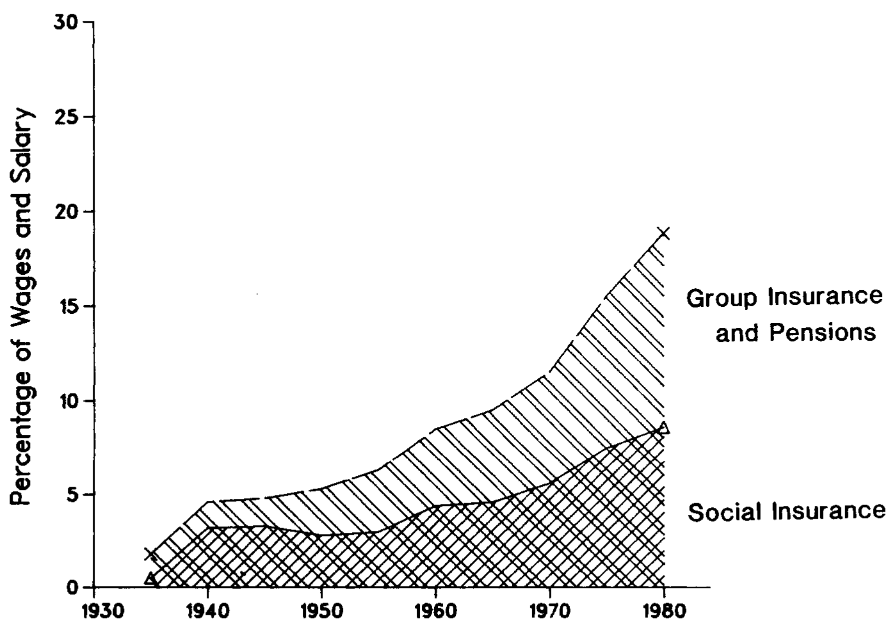
manner in which such an additional tax burden was applied. For core industries, which include most of those that provide the most comprehensive benefits, the added costs of taxation would very likely be lower than the costs currently faced through their company programs.

The influence on the scheduling of work is another aspect of the interplay between employee benefit costs and personnel policy. Because of the added expense of insuring an individual and his or her family, it may be cost-effective to schedule overtime rather than hire new workers. Although the precise effects of this use of overtime are difficult to measure, the costs of the employee benefits, coupled with the expense associated with hiring—which is also exacerbated by the administration of the pension and insurance plans—tilts the decision toward increased use of overtime rather than more hiring.

Employee benefits also create incentives to avoid hiring individuals who are likely to increase the costs of health insurance or pensions. This may be a particular problem in the case of middle-aged and older workers, for whom health insurance premiums can be considerably more costly.[23] Although these differential costs are usually not directly seen by the employer because of group insurance pooling, they nevertheless present an area of concern. For example, a recent management survey found that 21 percent of employer respondents identified increased employee benefit costs

23. Lawrence S. Root, "Employee Benefits and an Aging Workforce" (Project report, Travelers Companies and the Institute of Gerontology, University of Michigan, Ann Arbor, May 1984).

FIGURE 2
EMPLOYER EXPENSES FOR PUBLIC AND PRIVATE BENEFITS



SOURCE: Chamber of Commerce of the United States, *Employee Benefits 1980* (Washington, DC: Chamber of Commerce of the United States, 1981), tab. 22.

as their primary concern in the employment of an older worker.[24] Although the Age Discrimination in Employment Act clearly prohibits an employer from using age as a criterion for most jobs, its implementation regulations address the issue of differential employee benefit costs and outline ways in which employers are permitted to adjust for that difference.[25] These adjustments may require arrangements that are logistically difficult and raise additional questions of cost-effectiveness in themselves.

A current innovation in employee benefits may eliminate some of the employers' concern with age-related cost differences. "Flexible benefits"—or "cafeteria plans"—are now being developed in the wake of a relaxation of Internal Revenue Service (IRS) interpretations that had previously limited the extent of participant choice in employee benefits. Until recently the IRS had held that wide latitude of choice by the individual participant renders benefits the equivalent of cash and, therefore, taxable as personal income. Beginning in the mid-1970s, the IRS liberalized its interpretation of the law, opening up the option of employee benefit plans with greater participant choice. Because of this change, employers are developing alternative packages of benefits from which the employee can choose. For example, an employee may have a specified amount of money from the employer and from his or her own contributions to be applied to a benefit package. The options could include a variety of health insurance or pension plans, as well as specialty insurance—for example, vision, legal services—increased vacations, and—subject to taxation—cash payments.[26]

Flexible benefits offer one solution to the problem of age-related cost differences. They also permit the avoidance of redundant or unwanted benefits, such as double health insurance coverage of many two-earner families. But the introduction of participant choice changes the nature of the program, moving it further from the principles of group insurance. For example, those who have the greatest need for health insurance tend to select it, resulting in an insured group that is more heavily representative of higher-risk individuals or higher-risk families. This phenomenon—adverse selection—increases the costs of health insurance and limits the effectiveness of the socialization of risk.

Flexible benefits offer the employer a distinct cost-control advantage. Under most traditional benefit structures, the employer is committed to a range of services. If the costs of those services increase, the employer must either absorb those added costs, increase the employee contribution, or alter the plan by, for instance, decreasing the services covered. With flexible benefits, the employer is committed to a specific contribution for benefits that the employees can allocate according to their own preferences. As the cost of a particular benefit—such as health insurance—rises, it consumes a larger proportion of an employee's total resources allocated to benefits. In this way, the effects of inflation are shifted to a large extent from the employer to the employee.

24. William M. Mercer, Inc., "Employer Attitudes: Implications of an Aging Work Force" (Chicago: William M. Mercer, Nov. 1981), p. 29.

25. For a discussion of permissible adjustments, see "Employee Benefit Plans; Amendment to Interpretative Bulletin," *Federal Register*, 25 May 1979, pp. 30648-62.

26. Tax treatment of flexible benefits remains in flux. The movement toward allowing greater choice is balanced by a concern for lost federal revenues particularly in light of benefit arrangements that can serve as large-scale tax shelters for upper-income personnel.

Aside from the impact of their cost, however, employee benefits offer some organizational advantages to the employer, particularly to the extent that they discourage turnover. This advantage for the employer is a distinct disadvantage for the employee. Pensions reward long service; a worker typically achieves vested rights to a pension after 10 years of employment. Changing jobs before retirement usually results in the loss of all benefits or the considerable reduction in their eventual level. The lack of portability of pensions is the critical factor in this situation. For most pension plans, credits earned with one employer cannot be transferred to another. But even if a person achieves vested rights, job changes are costly. Pension levels are usually frozen at the point of vesting, subject to the devaluing effects of inflation even before the recipient reaches retirement age.

Health insurance through the work place also inhibits job mobility. For many workers, it is a necessity that they would not risk by resigning to look for another job. Interviews with both workers and managers suggest that for many older persons, health insurance may be the principal reason why they would not leave an undesirable work situation.[27]

Capitalization and institutional interests

The growth of employee benefits as a major form of income protection has altered major institutional relationships, creating pension fund investment power and spawning vested interests that would resist any major reorientation of income-security measures. Public policy initiatives in social welfare must now consider this more complex environment for change—one in which insurance companies and institutional investors have a major stake.

We have discussed the expansion of pensions since the 1940s in terms of its effects on the income security of individuals. The financial structure of pension funds represents another aspect of employee benefits that has had an impact on the structure of capital formation and investment. The dramatic increase in pension assets during the last 20 years is illustrated in Figure 3. Since 1970, the assets of both private plans and those of state and local governments have more than tripled. This rapid expansion is in part attributable to inflation and the more stringent funding requirements of ERISA, but it also reflects the real growth of pensions in size and resources.

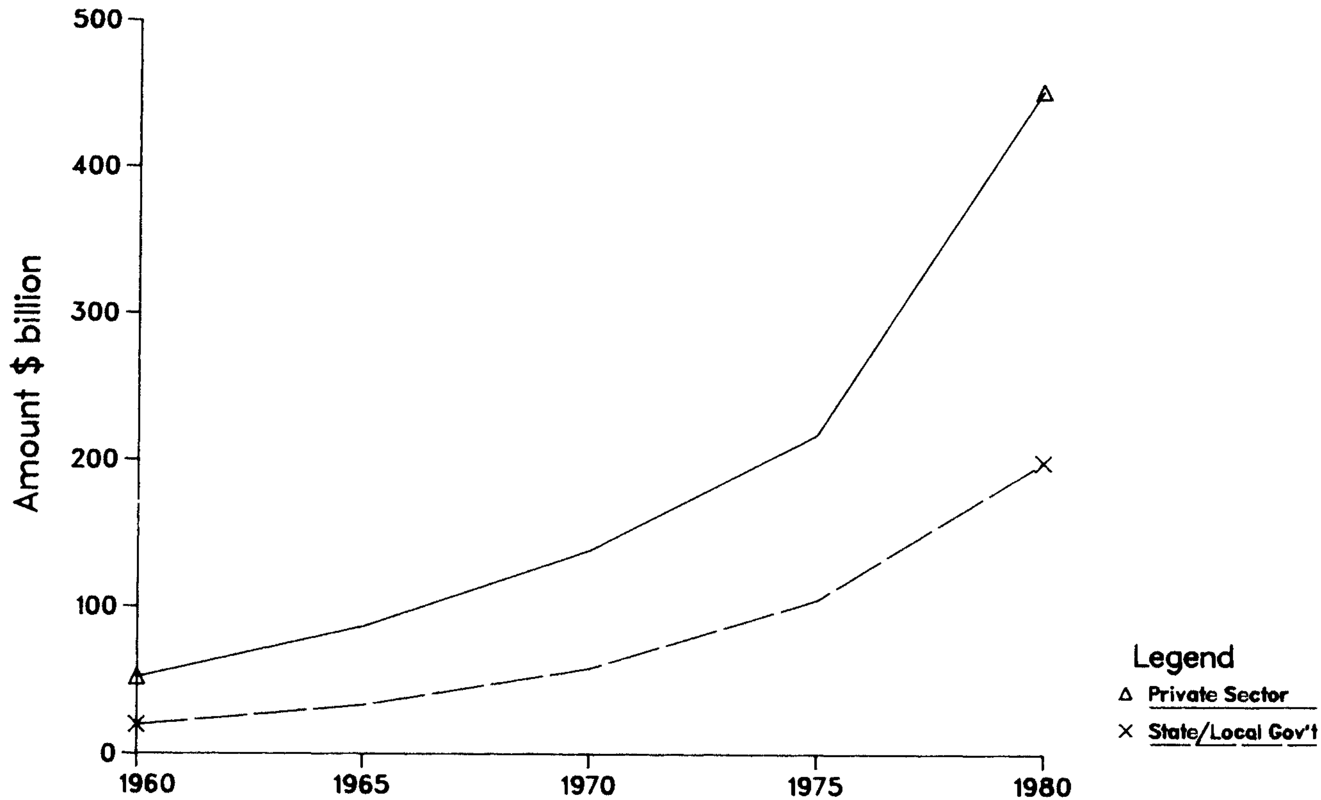
This expansion has been a principal source of investment capital in the last 30 years. It has been suggested that the growth in the ownership of capital stock in the United States is, in effect, worker ownership of the means of production.[28] While this view may have some formal validity, it suggests a much greater degree of participant control of the resources of pension funds than actually exists.[29]

27. I observed this in field studies with steelworkers. See Root, *Fringe Benefits: Social Insurance in the Steel Industry* (Beverly Hills, CA: Sage, 1982). It was also confirmed in subsequent interviews with human resource personnel. For example, a vice-president for personnel of a large business-information service described the loss of health insurance as a principal reason why several employees were unwilling to take advantage of early-retirement provisions of the pension plan.

28. Peter F. Drucker, *The Unseen Revolution: How Pension Fund Socialism Came to America* (New York: Harper & Row, 1976).

29. The question of the control of investments, however, has become a matter of public debate. For example, pressures for more socially responsible investment policies for pension funds have addressed questions of the racial and environmental policies. But these attempts to influence investment policy remain relatively rare and do not yet suggest a growth in participant involvement in pension-fund decision making.

FIGURE 3
PENSION FUND ASSETS



SOURCE: Kenneth T. Rosen, "The Role of Pension Funds in Housing Finance," *Housing Finance Review*, 1:151, tab. 1 (Apr. 1982).

Pension funds are usually administered by third-party institutional investors. The decisions about the specifics of investments are thus distanced not only from the individual participants in the plans but also from their employers.

The administration of the "great bulk of retirement funds" is in the hands of about 25 major commercial banks.[30] Because of the traditions of the trust department operations that handle these investments, the orientation is toward greater use of shorter-term vehicles, such as corporate stock, rather than bonds or mortgages. For example, 60 percent of pension assets in 1980 were invested in corporate shares, while bonds accounted for only 21 percent; U.S. government securities, 11 percent; and mortgages, only 1 percent. The remaining 7 percent were in demand deposits and other miscellaneous investments.[31] The growth of pension plans, then, has created the potential for major capital development, but the administration of these funds has focused on investments with greater liquidity. Thus, the potential of pension plans for creating a critical mass of long-term investment capital has been largely negated by the specifics of their administration.

Whatever the investment behavior, however, pension funds are now an important part of the financial landscape. Changes in social insurance programs that might decrease the use of pension plans will threaten the well-being of these large institutional investors; the very existence of the pension plans has created powerful advocates for their continuance.

In a similar fashion, the expansion of health insurance as an employee benefit has created vested interests in our current system of medical care coverage. The income of life insurance companies has become increasingly dependent upon health insurance premiums and, to a lesser extent, upon retirement funds. In 1960, life insurance premiums accounted for 52.2 percent of the income of the 1441 life insurance companies then operating. At that time, health insurance represented less than 18 percent of income, and annuity considerations only 6 percent. Twenty years later, life insurance premiums were only 31 percent of income, while health insurance and annuities contributed 40 percent—22 percent and 18 percent, respectively.[32] Shifting to a national health insurance plan that would bypass these insurers or place greater controls on them would surely be resisted.

IMPLICATIONS FOR THE FUTURE OF THE WELFARE STATE

Employee benefits have altered social welfare in the United States by reducing the demand for social insurance and creating vested interests that would oppose changes in the existing institutional arrangement. On the other hand, the growth of employee benefits has raised standards for income security nationally. As a society, we have grown to expect a higher level of income and health care than in the past. Patterns initially established at the bargaining tables of the major unions have become a basic part of the wage package for virtually all

30. Kenneth T. Rosen, "The Role of Pension Funds in Housing Finance," *Housing Finance Review*, 1(2):149 (Apr. 1982).

31. Ibid., tab. 2, p. 154.

32. U.S. Bureau of the Census, *Statistical Abstract of the United States: 1981*, tab. 884, p. 526. Virtually all of the group health insurance—96 percent—is tied to the work place. See Amy K. Taylor, "Employment-Related Health Insurance," in *Health—United States, 1980*, U.S., Department of Health and Human Services (Washington, DC: Government Printing Office, 1981), p. 87.

employees of medium-sized and large firms.[33]

While employment-based protections now cover the majority of the work force, almost one-third does not have any coverage for health insurance and only about one-quarter of those now retiring receives private pensions in addition to social security. Although the introduction of employee benefits has clearly improved the income security of many persons, the existence and expansion of employee benefits has occurred at the expense of the development of social insurance. This raises a fundamental dilemma: those workers who receive few if any benefits remain unprotected—and the existence of extensive private benefits for the majority of the working population makes enlargement of social insurance programs less likely.

The basic nature of employee benefits raises a further problem: workers and their families tend to lose protection just when they need it most—when unemployed. The Congressional Budget Office estimated that 11 million people lost their health insurance in 1982 because of unemployment.[34] In response to the crisis precipitated by the loss of insurance protection of the unemployed, various legislative propôsals have been discussed for programs of health insurance for those who have been laid off. The rationale for assisting the 11 million persons who are recently unemployed, however, appears no stronger than the arguments for extending health insurance to those who are working full-time but have no employee benefit health insurance.

Using employee benefits as a major building block of income security raises the problem of the "have-nots." The have-nots may be those who have recently lost their jobs. More often, however, they are those employed in secondary-sector jobs, which pay low wages and provide few benefits. These jobs tend to be in small establishments. In companies with 25 or fewer employees, only 55.4 percent have health insurance, compared with 92.3 percent for companies with 26 to 250 employees. Almost all of those employed in larger companies are covered —97.8 percent in companies with 251 to 1000 employees and 99.3 percent in those with over 1000.[35]One out of 5 workers is employed in a company with fewer than 20 employees.[36]

Low benefits are also associated with certain occupations. The service sector is a key example, offering earnings 20 percent less than the average wage in manufacturing.[37] Even with that low base, employer expenditures for employee benefits represent only 13.9 percent of wages compared to 23.1 percent in manufacturing.[38]

Any understanding of the differential impact of employee benefits on income security would be incomplete without the explicit recognition of their impact on disadvantaged minorities and women, who are much more likely to have jobs that are characterized by inadequate or nonexistent benefits. Of all employed women 21 percent are in service occupations, while only 8.8 percent of males are. Among whites, 12.3 percent work in

33. U.S., Department of Labor, Bureau of Labor Statistics, *Employee Benefits in Medium and Large Firms, 1981* (Washington, DC: Government Printing Office, 1982), tab. 1, p. 11.

34. *Ann Arbor News*, 25 Jan. 1983.

35. Taylor, "Employment-Related Health Insurance," tab. A, p. 88.

36. U.S., Department of Commerce, Bureau of the Census, *General Report on Industrial Organization: 1977 Enterprise Statistics* (Washington, DC: Government Printing Office, 1981), tab. 3.

37. Bureau of the Census, *Statistical Abstract: 1981*, tab. 678, p. 404.

38. Chamber of Commerce, *Employee Benefits 1980*, tab. 22, p. 31.

service industries; 25.0 percent of blacks and other minorities do.[39] A listing of jobs with disproportionate numbers of women or minorities is presented in Table 1. Only those jobs with at least twice the proportion of women or minorities found in the national labor force are included. Other jobs that are characterized by low wages and benefits also have high proportions of minorities or women, but not twice as high as that observed in the work force. For example, women constitute 71.1 percent of the retail sales work force, less than the 84.8 percent that is twice their proportion in the labor force generally. Those jobs that are characteristically located in smaller establishments—such as seamstresses, laundry workers, child care workers, and household workers—are among the most heavily segregated by race or sex.

Given the impact that employee benefits have had on the national income security picture in the last 40 years, we should take a broad definition of "social welfare policy." Labor and tax policies have had a profound influence on the social welfare situation of Americans. Many recent policy initiatives have

39. U.S., Department of Labor, Employment and Training Administration, *1978 Employment and Training Report of the President* (Washington, DC: Government Printing Office, 1978), tabs. A-15 and A-16, pp. 205-8.

TABLE 1
OCCUPATIONS DOMINATED BY WOMEN AND MINORITIES

Occupation	Women	Minorities
Registered nurse	x	
Preelementary teacher	x	
Bank teller	x	
Billing clerk	x	
Bookkeeper	x	
Cashier	x	
File clerk	x	
Keypunch operator	x	
Postal clerk		x
Receptionist	x	
Secretary	x	
Stenographer	x	
Telephone operator	x	
Seamstress	x	
Laundry/dry cleaning operative		x
Textile operative		x
Taxicab driver/chauffeur		x
Cleaning service worker		x
Waiter	x	
Health service worker	x	x
Child care worker	x	
Hairdresser/cosmetologist	x	
Household cleaner/servant	x	x

SOURCE: U.S., Department of Commerce, Bureau of the Census, *Statistical Abstract of the States: 1981*, 102nd ed. (Washington, DC: Government Printing Office, 1981), tab. 675, pp. 402-4.

NOTE: The occupations listed are those for which the proportion of women or minorities is greater than twice that observed in the general work force.

focused directly on the mechanisms of the private sector as an alternative to governmental social welfare programs. A recent example is the creation of the individual retirement account (IRA) as a vehicle for retirement savings. This change in the tax policy is intended to increase retirement savings—but its effects are necessarily limited to those with sufficient resources to take advantage of the opportunities for savings. For example, asset income is almost nonexistent for most aged black households.[40]

Another expression of the desire to build upon private sector mechanisms was a short-lived health insurance proposal of the Carter administration. It would have required employers to provide basic health insurance as an employee benefit. It would also have expanded existing governmental programs to include those who remained uncovered.[41] The plan was criticized by small businesses, which claimed that the added cost would threaten their continued viability. Such an approach—expanding private sector efforts and filling in with a governmental program—represents one possible direction for addressing the problems of coverage. It builds upon the existing institutions, avoiding the disruption of—and the resistance of—these interests. But employers who are currently not offering benefits are often in the most financially precarious situations and may not be able to support the additional employment costs.

40. Lawrence S. Root and John E. Tropman, "Income Sources of the Elderly," *Social Security Review*, 58(3):398 (Sept. 1984).

41. This National Health Plan barely saw the light of day, arising shortly before the economic situation began to dictate spending restraint as the only politically feasible course. It is outlined in U.S., Office of the President, *Special Analyses: Budget of the United States Government; Fiscal Year 1981* (Washington, DC: Government Printing Office, 1980), p. 423.

A more recent policy change also built upon the public-private mix, but with the goal of achieving cost savings for the Medicare system. A little-discussed provision of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 called for employees over age 65 to have the option of continuing with their employee-benefit health insurance program rather than being covered under Medicare as first payer. Prior to that change, employers used the Medicare coverage as the basic health insurance for their over-65 workers, providing a supplemental health insurance plan through the work place to bring total protection up to the level enjoyed by the rest of the work force. This carve-out of the services covered by Medicare resulted in a considerable savings in health insurance premiums for these older workers. Under the new arrangement, it has been estimated that the health insurance bill for workers over 65 will increase threefold.[42]

The Carter administration proposal and Medicare changes in TEFRA both sought to expand the role of the private sector, using employee benefits as a means for meeting the health insurance needs of workers. Concern about rising federal deficits, inflation, and interest rates all argued against expanding governmental social welfare. In this regard, the recent political climate has consistently favored greater privatization. The Reagan administration has attempted to shift responsibilities away from the government. But even before the election of 1980 the political stance of the Carter administration also favored building on private sector structures, rather than expanding government activities. Although private sector activities do meet some social welfare needs, there is little to suggest that they will expand

42. *Wall Street Journal*, 21 Sept. 1982.

to compensate for government cutbacks.

The intensive recent attention given to the problems of future funding of Social Security suggests a strong desire to constrain further the obligations of government and the obligations of future taxpayers. Several developments, however, suggest that our accustomed reliance on employee benefits to play a fundamental social welfare role may have to change in the coming years.

1. Persistent high unemployment may result in increasing pressure for governmental action for national health insurance. Even with economic recovery, there is some suggestion that for large numbers of the work force, industrial jobs that once provided high wages and benefits will be replaced with service sector jobs lacking these benefits.[43]

2. The rising cost of health insurance may result in pressure from employers to shift some of the costs to government programs. This may be exacerbated by the rising average age of workers, projected to increase from 37.4 in 1980 to 40.8 in 2000.[44]

3. With increasing numbers of female-headed households, the concentration of women in no-benefit or low-benefit jobs may create additional support for changes in the current dependence upon the work place for insurance and retirement income.

In addition to these factors, the future directions for social welfare policy in the United States will depend upon the state of the economy and broader political trends. The tension between the role of the private sector and that of government may change the political relationships that have characterized social welfare initiatives in the past. For example, business leaders who have been opposed to the expansion of governmental social programming are finding that the costs of benefits have become too much of a burden on the corporate ledger. As this happens, we may see a reorientation of political support and the formation of new coalitions for social policy change.

43. *Ann Arbor News*, 31 Oct. 1982.

44. Employment and Training Administration, *1978 Employment and Training Report*, tab. 2, p. 87.