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THE ARCHITECT OF SOCIAL SECURITY

Social Security isn't just the federal government's most important domestic program; it's also the most far-reaching result of the Wisconsin Idea, a unique product of the UW's economic doctrine, the state's progressive politics, and a professor named Edwin Witte.

BY JOHN ALLEN

Paul Ryan is on the run. "I can only talk for about six minutes," he told me over the phone in early December. "This is a very busy time."

Ryan represents Wisconsin's first district in Congress, where he sits on the House's powerful Ways and Means Committee. In December, the House of Representatives was working feverishly to tie up its end-of-year business: tax cuts, spending cuts, appropriations. The Ways and Means Committee was at the center of all that activity.

"I'm sorry about the brevity," Ryan said. He's terse, but not irritable — though he certainly had cause for irritation. For if Ryan was on the run, his prize bill wasn't.

That bill, H.R. 1776, is a 127-page document with a straightforward, if pedestrian, title: "To reform Social Security by establishing a Personal Social Security Savings Program and to provide new limitations on the Federal Budget." It's Ryan's attempt to address the looming shortfall in the national retirement fund by diverting a portion of the Social Security tax into private accounts.

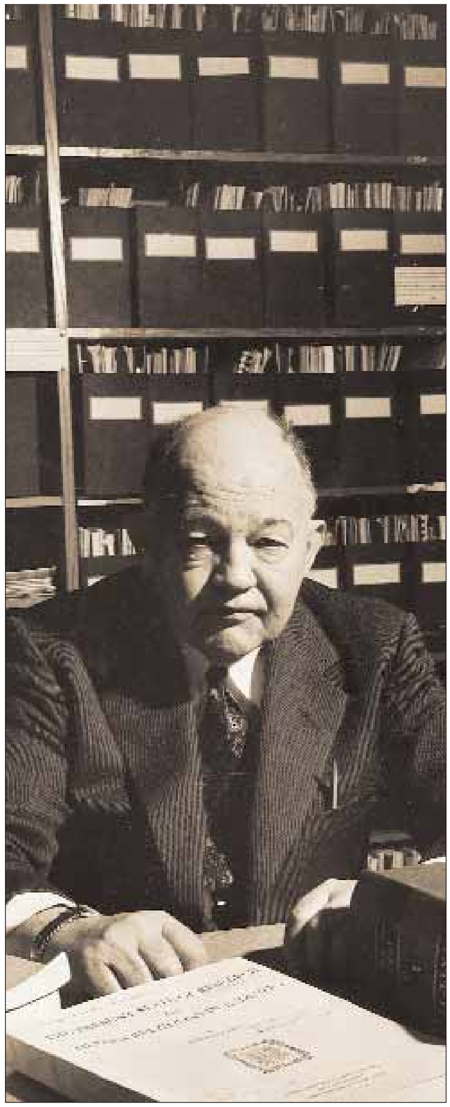
Social Security "is the most important program we have in the federal government," he said. "It's the largest tax for the majority of workers in America, [and] it prevents most people from going into poverty in old age." And, he warns, it's going broke — slowly, but inevitably. He believes his reform package could not only save the program, but offer people the chance to better their station in life. "Right now, half of American workers are investors," he says. "That means the other half aren't. We can make everyone a member of the investor class."

Last April, when Ryan introduced H.R. 1776, it seemed to have a bright future. President George Bush, fresh off re-election, had called for such a plan in his State of the Union Address — it would, he'd said, be the major domestic focus of his second term. But the public never really got on board. Throughout 2005, AP polls showed opposition to privatization plans running at about 60 percent. By the end of the year, Bush seemed to have given up on the plan, talking of "a diminished appetite in the country" for altering Social Security. Ryan's bill was stalled and not likely to be revived.

For Ryan, this inaction was frustrating, the result, he fumed, of "politics and demagoguery."

His opponents, naturally, see it differently. One of them, Tammy Baldwin JD'89, represents Wisconsin's second district, including Madison, and she believes Ryan is overstating his case. "Because of the time we have to fix Social Security, I see it as more of a challenge than a crisis," she says. Turning the program into a series of personal accounts, rather than the pay-as-you-go system in which current workers' taxes pay the benefits of retirees, is too radical a change — a violation, she feels, of the spirit of Social Security. "Social Security is one of our most successful programs," she says, "because it speaks to a deeply held value, an intergenerational commitment and investment in the common good."

Political science professor John Witte '68, too, believes that "we could make the program solvent indefinitely with just minor changes." He has a strong personal interest in the program. He turns sixty this year, making him just a few years shy of eligibility. But he also happens to be the grandson of Edwin Witte '09, PhD'21, the longtime chair of the UW's economics department and the man whom the Social Security Administration refers to as "the father of the Social Security Act," though John Witte says his grandfather "never used or even acknowledged that title." He maintains that his grandfather had a particular vision for Social Security, and that vision didn't include personal accounts or private investment. "My grandfather meant for Social Security to be conservative," he says. "It's a rock, and you need a rock."



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Edwin Witte's vast files and thorough research habits helped create Wisconsin's Legislative Reference Library.

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This particular rock is likely to dominate American finance for the next century, but it's also a relic, a direct outgrowth of the Wisconsin Idea when it was at the peak of its influence. In the early decades of the twentieth century, the university brought together a unique blend of personalities, theory, and politics, and Social Security, which John Witte calls "the most important piece of American legislation of the last hundred years," is one product of that mix.

When Edwin Witte came to the UW from his native Watertown, Wisconsin, the university was dominated by the leaders of the Progressive movement. Though most weren't socialists, they were generally convinced that capitalism was broken, and that only scientifically applied government intervention could fix it. John Commons, one of the leading economic theorists of his day and an evangelist for active government, dominated the UW's economics department and drove this principle into his students, including Witte.

A faculty fixture from 1904 until 1933, Commons was a proponent of a school of thought called institutional economics, which in his eyes aimed to redress the inequities of the free market. Institutionalism, he wrote, emphasizes "management over equilibrium, or control instead of laissez faire," and encourages the regulation of economic matters. His teaching blended in history,

John Commons, the legend of the UW economics department, sits in his office in Sterling Hall. Commons was one of the great forces of the Wisconsin Idea, designing legislation on labor and industrial regulation during the state's Progressive era.

sociology, and psychology to place economics within the vast context of human social development.

One of the early proponents of the Wisconsin Idea, Commons promoted an economic doctrine that stressed fairness over the creation of wealth — a popular philosophy during Wisconsin's Progressive era. His writings infused many of the state's labor and industrial laws in the early twentieth century, and he virtually wrote Wisconsin's workmen's compensation law, the first such program in the country. It was largely in tribute to Commons that Theodore Roosevelt, when he was running for president on the Progressive Party ticket in 1912, said, "All through the Union, we need to learn the Wisconsin lesson of scientific popular self-help, and of patient care in radical legislation."

Commons was Witte's mentor through graduate school and afterward. He helped land Witte a position as chief of the Wisconsin Legislative Reference Library from 1922 until 1933, enabling them to continue pursuing Commons's progressive agenda. The reference library was more than a research office — it was also where most of Wisconsin's laws were drafted. While Witte was becoming an expert at writing bills, he also read deeply about the social insurance plans that were gaining popularity in Germany and Britain, writing articles about them for academic and political journals. And when the Depression hit Wisconsin, he designed an unemployment insurance plan for the state — another national first.

Unemployment insurance would not, Witte knew, directly launch Wisconsin into economic health. But he expected it would address the underlying causes of the Depression. It would, he hoped, "promote recovery by helping to allay the frightful sense of insecurity which is one of the greatest obstacles standing in our way." He believed that if people felt more secure, they would be willing to buy more, invest more, launch more businesses — if they had some sort of safety net, they would engage in the potentially risky ventures that make the economy go.

Witte's line of reasoning found wide appeal, particularly at the White House. When, in the summer of 1934, President Franklin Roosevelt decided to give America an economic safety net, his administration chose to do so through a government-sponsored insurance program. Edwin Witte was the only economist in the country who had experience turning such a plan into working law.

But when Roosevelt needed him, Witte was no longer in government. Commons had retired in 1933, and Witte returned to the UW to take up his professorship. Witte wasn't a particularly prominent academic then. His list of publications was relatively short — up to that time, he'd written only one book, *The Government in Labor Disputes,* an expansion of his doctoral dissertation published in 1932.

"I've never been much interested in economic theory," he once confessed to Commons. Instead, he preferred "to have a part in solving practical problems and shaping political developments."

That was the attitude the Roosevelt administration was looking for. It didn't need academic credentials — it needed action.

The summer of 1934 wasn't a good time to be in Roosevelt's administration. He had been in power for fifteen months, but though his Democratic Party held both houses of Congress and had passed much of his New Deal legislative program, the Depression showed no signs of ending. More than a quarter of the country's working population was unemployed and more than half of the nation's elderly didn't have enough money to support themselves. With midterm elections approaching, Roosevelt faced a potential rebellion within his own party as the public demanded that government do more to protect them from poverty.

To counter the rising calls for action, Roosevelt created a Committee for Economic Security — by which he meant "security against the hazards and vicissitudes of life … especially those which relate to unemployment and old age" — chaired by his second assistant secretary of labor, Arthur Altmeyer '14, MA'20, PhD'31.

Altmeyer was another Commons disciple, and he'd worked with Witte in Wisconsin state government and as an unpaid lecturer in the UW's economics department. On July 24, 1934, he offered Witte the job of executive director of the Committee for Economic Security — essentially, the committee's head technician, its highest ranking non-political employee.

Witte immediately accepted, and though he wrote later that he "had no previous indication of being considered for this position," he must have had some inkling, for he left Madison on July 25. He didn't even wait to get formal permission to take a leave from the university. Two days later, he wrote to Glenn Frank, then the UW president, to apologize for not taking "the time to see you before I left for Washington. As you were gracious enough to say, however, the working out of a national program for social insurance is such an important work that it would not do for me to turn down the opportunity to be associated with it."

Witte was given a staff of actuaries, statisticians, financial managers, and sociologists to study the problems of creating a nationwide insurance program that would cover tens of millions — and ultimately hundreds of millions — of citizens. For the next five months, they spent their days examining those problems: how to unify the various old-age and unemployment programs that some states had set up, how to phase in a payroll tax without the expense serving to worsen unemployment, and what to do about all those Americans who were already retired or would reach retirement without making adequate contributions to the new insurance program. Each night, he met with his executive overseers from 8:30 to 11:30 to decide which aspects of his staff's work to include in the law.

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The committee's work generated considerable excitement, and in the 1934 midterm elections, Roosevelt saw his majorities in the House and Senate increase. But Witte worried that the public was misinterpreting the nature of his effort. "The present popularity of unemployment insurance is, to a considerable extent, due to the prevailing notion that it is a substitute for relief," he wrote. "This is a very erroneous assumption."

Confusing social insurance with relief would, he feared, undermine the psychological effect of the program. Insurance was a respectable, middle-class institution that people could rely upon without shame when they fell into difficult straits. Relief, however, was for the poor, and particularly the incurably poor. As one of his staffers put it, relief has "a disastrous psychological effect … which in turn breeds more dependence. The quality of self-respect which perhaps more than any other helps to build and maintain a sturdy community has an important dollars and cents value to society."

Witte also wanted people to believe old-age insurance was respectable so that they would take advantage of it, retire, and open up job mobility. The program was designed, his staff wrote, "with the definite purpose of encouraging retirement at the age of sixty-five. It is recommended that retirement be compulsory at the age of seventy in order to increase the opportunities of younger workers."

Witte and his staff slaved away for five months, and when their labor was complete, they had generated more than two thousand pages of neatly typed memos and studies. From these, Witte and Altmeyer put together the draft of the legislation that would become the Social Security Act and presented it to Roosevelt on January 15, 1935. Witte hoped he could then return to Madison, but he was required to testify at the Congressional hearings on the bill, which lasted well into February, and then to defend it from political attacks.

The bill met opposition from both conservative and liberal elements. UW president Glenn Frank, who had felt that creating the social insurance program was so important, changed his mind when he saw the bill. He chaired the Republican policy committee, which circulated a pamphlet declaring that the plan's "promised Utopia is … one more whited sepulcher" for America's business community. Its taxes, they said, would cripple any recovery and lead to deeper unemployment. Any attempt to construct a social safety net ought to wait until after the economy recovered.

Others were more severe. Industrialist Henry Ford publicly scoffed at the idea of social security. "No government can guarantee security," he said. "It can only tax production, distribution, and service and gradually crush the poor to pay taxes."

But Witte felt that conservative attacks on the program presented less danger than those from the left. "The strongest opposition we have comes from groups that think that our proposals are too moderate and too pro-employer," he wrote. "Business men, in my opinion, make a very serious mistake in opposing the President's program. In doing so, they merely invite more extreme measures."

And there were many more extreme measures. A group of clergy wrote an open letter to the president in 1935, demanding socialism and declaring that "there can be no permanent recovery as long as the nation depends on palliative legislation inside the capitalistic system."

Witte wanted his social insurance program to save the capitalist system, not undermine it. He hoped to preserve the sense of liberty and dynamism of market economics — and believed that a minimum sense of security would encourage people to have more confidence in the market. "It is only when people are not undernourished, enjoy good health, and have hope for bettering their lot, or at least for being spared the direst consequences of want, that they put forth their best efforts or are capable of doing so," he said.

In the end, Congress passed the Social Security Act with overwhelming support: the vote ran 371 to 33 in the House, 77 to 6 in the Senate, making Witte's plan law on August 15, 1935, just thirteen months after he'd left Madison for Washington.

Witte called his work on the bill "the most rewarding experience of my life," but he was eager to get back to teaching. When various federal employees wrote him asking for an opportunity to join the new Social Security Administration, he told them that he was leaving government and had turned down any opportunity to take a leadership role in the implementation of the program. "I have made up my mind that I could not accept," he wrote to one applicant, "as I have had all the administrative experience that I want."

It didn't work out that way. Witte returned to government work many times during the remainder of his career, serving as an adviser to the Social Security Administration during the program's launch and as chairman of the War Labor Relations Board in Detroit during World War II.

But he also taught extensively, advising some fifty-six doctoral candidates through their dissertations and filling the ranks of American economists with institutionalists in his and Commons's tradition. Social Security didn't encourage him to retire at sixty-five. Rather, he stayed on the faculty until 1957, when he

The Great Econ Fracas

Edwin Witte's interventionist, pro-labor stance on many political and economic issues may have been popular with Franklin Roosevelt's administration, but it often put him at odds with other economists. One of his most severe conflicts came over the work of Milton Friedman, today the nation's foremost advocate of free-market policies. But when they clashed in 1940, their struggle wasn't so much political as academic — a far more vicious arena.

Friedman was then just a lecturer at the UW, and though he was still trying to finish his doctoral dissertation, another UW economics professor, Harold Groves, asked him to evaluate the university's statistics courses, then taught through the School of Commerce. Friedman was brutal in his assessment. "A student cannot secure training at UW sufficient to qualify him to teach advanced statistics or to do independent work in the field of statistical methods," he wrote. "Even if he takes all the work offered, he will be but indifferently qualified to do research involving the application of modern statistics."

The memo impressed Letters and Science dean George Sellery, who wanted to hire Friedman full time starting in the fall of 1941. But Friedman had offended not only the Commerce faculty, but also professors in Witte's economics department, where the executive committee voted against offering Friedman a job. "The situation is such that the appointment of Mr. Friedman will intensify the bitterness within the department," Witte wrote to Sellery and UW president Clarence Dykstra. "It may even result in the resignation of some of the most valuable members of the department, and may lead to a row which may reach not only the Regents but the Governor and the Legislature."

Sellery and Dykstra went to the regents anyway, and asked them to hire Friedman without departmental approval. But after a copy of Friedman's statistics memo found its way into the pages of *The Capital Times*, the issue became a scandal. Ultimately, Friedman settled the matter by withdrawing himself from consideration.

Witte succeeded in holding the UW's economics department together, but he couldn't stop the spread of Friedman's influence. After landing on the faculty of the University of Chicago, he developed his free-market monetarist theory of economics, which earned him a Nobel prize in 1976 and has dominated American politics from the Reagan administration to the present.

— J.A.

Edwin Witte (circled at left) poses with the members of the UW's Socialist Club for the 1912 *Badger* yearbook. Two members of that year's club ended up with long careers on the economics faculty: Witte, a professor from 1933 to 1957, and Selig Perlman (not pictured), a labor theorist who became a professor in 1927 and retired in 1959. Both were disciples of John Commons.

turned seventy and Wisconsin law required him to retire.

The Social Security program that Witte designed quickly grew in popularity. As early as 1937, before the program had paid a single cent in retirement benefits, Arthur Altmeyer could claim that "both labor and employers have come to accept the Federal old-age insurance plan as something permanent, as something apart from administrative change." Though the Social Security Act has been amended seventeen times in its seventy years, each piece of legislation has been designed to extend or strengthen the program.

As they were drafting the original bill, Witte and his actuaries calculated the program's revenues and expenses for forty-five years, until 1980. They predicted, with relative accuracy, the lengthening of the American life span and the growth of the elderly segment of the population, from 5.4 percent (or around 7 million) in 1935 to 11.3 percent (or more than 20 million) in 1980.

But they failed to predict the effect of the post-World War II baby boom — or, more importantly, the baby bust that followed. Because of the drop in fertility rates that began in the late 1950s, young workers make up a smaller portion of the population than they once did, and retired people make up a larger and larger portion. In 1945, just before the baby boom began, there were nearly 42 workers paying into Social Security for each retiree taking benefits out. In 2005, this ratio had dropped to 3.3 to 1, and by 2030, it will fall to 2.2 to 1. This deficit of workers is what threatens Social Security's — and the economy's — future.

"The remarkable thing about today's Social Security debate is that everyone agrees about the numbers," says Cameron Sholty, the Wisconsin director for Freedom Works, a lobbying group that supports Ryan's and other efforts to privatize Social Security. He sees it as fitting into previous legislative efforts at strengthening the program, and maintains that personal accounts would save Social Security, not end it. In that respect, he feels that his work is the true heir of Commons, Witte, and their Wisconsin Idea colleagues.

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"In a way, this is a uniquely Wisconsin debate," he says. "Social Security reform is a progressive idea. It bucks the status quo. We want to make sure that this is around for future generations. We believe this is the only way to do it."

But Tammy Baldwin remains convinced that Social Security's genius lies in its status as a rock, as something immune to the vicissitudes of the free market. She believes that the same concerns that drove the Wisconsin Idea's progressive policies are as valid today as they were in Witte's time. "We need part of our retirement plan to be guaranteed, inflation adjusted, and risk free," she says. "If we privatized Social Security, and then there was another market crash, then we'd just have to re-create the system, or something very like it."

John Allen is associate editor of *On Wisconsin.*