

586 5

**ADMINISTRATION OF  
STATE UNEMPLOYMENT COMPENSATION LAWS**

---

---

**HEARING**

**BEFORE THE**

**COMMITTEE ON FINANCE  
UNITED STATES SENATE**

**SEVENTY-SIXTH CONGRESS**

**FIRST SESSION**

**ON**

**H. R. 5482**

**AN ACT TO INCREASE THE AUTHORIZATION FOR  
APPROPRIATIONS FOR THE ADMINISTRATION  
OF STATE UNEMPLOYMENT COMPEN-  
SATION LAWS**

—————  
**APRIL 12, 1939**  
—————

Printed for the use of the Committee on Finance



**UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON: 1939**

## COMMITTEE ON FINANCE

PAT HARRISON, Mississippi, *Chairman*

WILLIAM H. KING, Utah  
WALTER F. GEORGE, Georgia  
DAVID I. WALSH, Massachusetts  
ALBEN W. BARKLEY, Kentucky  
TOM CONNALLY, Texas  
JOSIAH W. BAILEY, North Carolina  
BENNETT OHAMP OLARK, Missouri  
HARRY FLOOD BYRD, Virginia  
PETER O. GERRY, Rhode Island  
JOSEPH F. GUFFEY, Pennsylvania  
PRENTISS M. BROWN, Michigan  
OLYDE L. HERRING, Iowa  
EDWIN O. JOHNSON, Colorado  
GEORGE L. RADCLIFFE, Maryland

ROBERT M. LA FOLLETTE, Jr., Wisconsin  
ARTHUR CAPPER, Kansas  
ARTHUR H. VANDENBERG, Michigan  
JOHN O. TOWNSEND, Jr., Delaware  
JAMES J. DAVIS, Pennsylvania  
HENRY CABOT LODGE, Jr., Massachusetts

FALTON M. JOHNSTON, *Clerk*

# ADMINISTRATION OF STATE UNEMPLOYMENT COMPENSATION LAWS

WEDNESDAY, APRIL 12, 1939

COMMITTEE ON FINANCE,  
UNITED STATES SENATE,  
Washington, D. C.

The committee met in executive session, pursuant to call, in the Senate Finance Committee room, at 10:30 a. m., Senator Pat Harrison (chairman) presiding.

The CHAIRMAN. There is before us today for consideration H. R. 5482, to increase the authorization for appropriations for the administration of State unemployment-compensation laws. This bill passed the House on April 10. I have asked Mr. Altmeyer, of the Social Security Board, to be present and answer any questions submitted by members of the committee and to give us an explanation of the necessity for this legislation. At this point the bill and the report of the Ways and Means Committee which accompanied H. R. 5482 will be placed in the record.

[H. R. 5482, 76th Cong., 1st sess.]

AN ACT To increase the authorization for appropriations for the administration of State unemployment compensation laws

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 301 of the Social Security Act is amended to read as follows:*

"Sec. 301. For the purpose of assisting the States in the administration of their unemployment compensation laws, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1936, the sum of \$4,000,000, for each fiscal year thereafter up to and including the fiscal year ending June 30, 1938, the sum of \$49,000,000, and for the fiscal year ending June 30, 1939, and for each fiscal year thereafter, the sum of \$80,000,000, to be used as hereinafter provided."

Passed the House of Representatives April 10, 1939.

Attest:

SOUTH TRIMBLE, Clerk.

[H. Rept. No. 368, 76th Cong., 1st sess.]

The Committee on Ways and Means, to whom was referred the bill (H. R. 5482) to increase the authorization for appropriations for the administration of State unemployment-compensation laws, having had the same under consideration, report it back to the House without amendment and recommend that the bill do pass.

## GENERAL STATEMENT

The Social Security Act provides, in titles III and IX, for a Federal-State system of unemployment compensation. Title IX lays certain taxes on employers of eight or more individuals and provides that when and if any State passes an unemployment compensation law and taxes such employers for the purpose of paying benefits to unemployed individuals, the employers may credit the taxes paid to such States against the Federal tax up to 90 percent of the Federal tax. This leaves 10 percent of the total taxes under title IX in the hands of the Federal Government.

Title III of the Social Security Act provides that, for the purpose of assisting States in the administration of their unemployment-compensation laws, certain appropriations shall be made by Congress. The Social Security Board is authorized to grant to the States which have unemployment-compensation laws approved by the Social Security Board, the total amount which may be necessary to cover the costs of proper administration. The act as written provides that for each fiscal year after 1936 the Congress is authorized to appropriate the sum of \$49,000,000 for this purpose.

At the time the act was written there was no way of knowing how rapidly the States would respond to the incentives so provided, by passing unemployment-compensation laws. Consequently, it was impossible to predict what amount might be necessary in future years to cover the costs of administering such laws. The sum of \$49,000,000 was probably a reasonable limit on appropriations for this purpose during the initial period. However, the States have responded very rapidly, as everyone might have wished, and today every State in the Union has an unemployment-compensation law and all but two States are actually paying benefits to unemployed workers—and these other two will begin to pay benefits in July.

The costs involved in developing such a program have thus increased more rapidly than might have been anticipated at the outset. During the fiscal years 1937 and 1938 the necessary appropriations were well within the authorization of \$49,000,000 fixed in the Social Security Act. During these years the State agencies were gradually developing, and their necessary expenditures increased as their operations expanded. At the present time, with all but two States actually paying benefits, operations are at a level which requires expenditures well beyond the \$49,000,000 authorized by the Social Security Act. The Board has already found it necessary to grant to the States for the current fiscal year almost \$49,000,000, and it seems likely that approximately \$12,000,000 more will be needed to carry through the fourth quarter. Beginning with the first quarter of the next fiscal year, all States will be paying benefits so that the expenditures are likely to be not less than \$17,000,000 or \$18,000,000 per quarter for the present activities.

Information which the Social Security Board has made available indicates that the cost of administering those State systems which have been longest in operation was at a maximum during the first few months after benefits were first paid. If this experience is indicative of what may be expected in other States, it would seem that expenditures at the present time are probably as high for all of the States taken together as they are likely to be, except as additional functions are required of the State agencies. There are some such added functions which must be provided for. Certain activities connected with so-called employers' merit ratings are authorized by the Social Security Act but have been undertaken by the various State agencies only to a very limited extent because of the pressure of more immediate problems. However, inasmuch as the majority of State laws provide for merit rating to go into operation in the near future, a large part of the annual cost involved in the operation of such a program will need to be incurred in the fiscal year 1940, so that the modified rates can be put into effect in 1941. It will be necessary, therefore, to increase the appropriation for the coming fiscal year above the amount required for present operations.

Although the Federal Social Security Act now exempts certain classes of employees from coverage, the tendency at the present time is to amend the State acts to include certain of these exempted occupations. Furthermore, many State unemployment compensation laws have extended coverage to employers of one or more, rather than limiting coverage to employers of eight. These developments naturally increase somewhat the costs of operation of the State programs.

When consideration is given to these various factors, it seems clear that the total cost of operating the State systems may eventually reach \$80,000,000 per year. In order that the Congress may be in position to make the necessary appropriations for carrying on this important service, it seems both necessary and advisable at this time to amend the Social Security Act to increase the authorization in title III to at least \$80,000,000.

Such authorization in the basic law does not necessarily mean that this sum will be spent each year. The States are required to present their requests for funds to the Social Security Board and the Board determines the amounts which are actually necessary for the proper and effective operation of the State laws. As experience shows where economies can be made, and as laws are simplified to eliminate some of the more cumbersome and expensive procedures now necessary, expenditures may be expected to decrease somewhat. The experience of the

23 States which have paid benefits since January 1938 justifies this assumption. For the quarter January 1 to March 31, 1939, the allotment to these States was something over a million dollars less than for the corresponding period last year. With a few exceptions the States have, in the main, done a very good job in setting up and getting into operation a system such as unemployment compensation in the short period of 3 years. In some cases costs are probably still too high, but, with the help of the Social Security Board, these States, too, may be expected to bring their operations in line with the general experience.

It should be pointed out, too, that the \$50,000,000 suggested as a maximum authorization is well within anticipated receipts from the 10 percent of pay-roll taxes under title IX which will be retained by the Federal Government. The actual collections, in the year 1937, were over \$90,000,000, and the estimate for 1938 is somewhat above that amount. Unless business activity should be much less in the future than anything we have known in the last 5 years, collections may be expected to run over \$90,000,000 annually. Since the 10 percent retained by the Federal Government was intended to cover the costs of administration of the unemployment-compensation system, an authorization of \$80,000,000 annual appropriation is therefore very conservative.

It may be mentioned in passing that during the early years of the English system costs were regularly well above 10 percent of collections. To be sure, the coverage was small and costs relatively large, but these costs ranged from 26 percent in 1913 down to 10.5 percent in 1922-23, and were less than 10 percent for only 3 years up to 1932. In view of this experience a 10-percent operating cost would not seem unduly high, and the system as a whole in this country is actually operating well below that level.

#### CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives changes in existing law made by the bill are shown as follows: Existing law proposed to be omitted is enclosed in black brackets; new matter is printed in italics; existing law in which no change is proposed is shown in roman.

SEC. 301. For the purpose of assisting the States in the administration of their unemployment compensation laws, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1938, the sum of \$1,000,000, [and] for each fiscal year thereafter [the] up to and including the fiscal year ending June 30, 1938, the sum of \$1,000,000, [to] and for the fiscal year ending June 30, 1939, and for each fiscal year thereafter, the sum of \$80,000,000 to be used as hereinafter provided,

#### STATEMENT OF ARTHUR J. ALTMAYER, CHAIRMAN, SOCIAL SECURITY BOARD

The CHAIRMAN. Mr. Altmeier, at the time we passed the Social Security Act, what amount was authorized to be appropriated for administration of unemployment compensation laws?

Mr. ALTMAYER. \$1,000,000 the first year and \$80,000,000 thereafter.

The CHAIRMAN. At that time, how many States had unemployment compensation laws?

Mr. ALTMAYER. Only one—Wisconsin.

The CHAIRMAN. Since that time, practically all of the States have enacted laws and come into the system?

Mr. ALTMAYER. All of them.

The CHAIRMAN. And you are seeking for this fiscal year and each fiscal year thereafter an authorization of \$80,000,000?

Mr. ALTMAYER. Yes.

The CHAIRMAN. Actually, that sum does not come out of the Treasury as a matter of fact, does it?

Mr. ALTMAYER. It comes out of the Treasury, but it is more than covered by the 10 percent of the Federal tax under title III which is retained by the Federal Government. So that the net effect is that the cost of administration of these State unemployment compensation laws does not affect the Treasury position financially.

Senator VANDENBERG. How much does the 10 percent produce?

Mr. ALTMAYER. About \$90,000,000.

Senator VANDENBERG. So you think there is a margin of about \$10,000,000?

Mr. ALTMAYER. Yes, sir.

The CHAIRMAN. And you feel that there should be a margin of about \$10,000,000?

Mr. ALTMAYER. Yes, sir; because there are some Federal expenses for the Bureau of Internal Revenue and for our Bureau of Unemployment Compensation that must be taken into account, and we think that that slight margin ought to be retained, because later on—I am just speculating now—some of these State funds may go broke—some of these small sparsely settled States with bad unemployment experience—and then the question will arise whether the Federal Government will grant any assistance to them. So that the slight amount that is accruing to the Federal Treasury now because the 10 percent of the tax retained by the Treasury exceeds the cost of the administration of the States, may well be needed to help some of those States.

Senator VANDENBERG. What happens, using your expression “when the State goes broke”—what happens to the whole system in that State?

Mr. ALTMAYER. They either must increase their contribution rates, reduce their benefit rates, or quit.

Senator VANDENBERG. In which event the workers who made the contributions lose them?

Mr. ALTMAYER. In only about four or five States now do the employees make any contributions. The whole cost is borne by the employers.

Senator VANDENBERG. Then the employers would lose what they had put into this particular fund?

Mr. ALTMAYER. What they have put in would have been used up in benefit payments.

Senator VANDENBERG. What do you contemplate would happen in those States?

Mr. ALTMAYER. I just started to speculate, and probably it is not properly a part of the record on this bill.

Senator VANDENBERG. It is very interesting.

Mr. ALTMAYER. You have to face that eventuality on a State-by-State system, because in these smaller States, the coverage is so thin that the 3-percent contribution may not be sufficient to pay any adequate system of benefits. And I might say even in the larger States, your own State of Michigan, with very bad employment experience, might go broke, or a State like West Virginia with a bad coal situation might go broke, in fact—

Senator VANDENBERG (interposing). You mean that the fund goes broke? You don't mean that the State goes broke?

Mr. ALTMAYER. I mean the fund goes broke. If the employment curve had not started going up in the latter part of 1938, the West Virginia fund would have gone broke.

Senator VANDENBERG. How many States are anywhere near the danger line?

Mr. ALTMAYER. There are none of them near the danger line now, because the drain on the fund declined, and their collections at the

present moment are in excess of their current payments. I just mentioned that as an eventuality for the future so that I would not be so much concerned about any slight excess that the Government may be getting under title III, because the 10 percent retained by the Federal Government upon this year or next year would be in excess of the grants to the States to cover their costs of administration.

The CHAIRMAN. I may say for the benefit of those gentlemen who came in after a preliminary statement was made, that we have before us a bill that has passed the House increasing the authorization from \$49,000,000 to \$80,000,000 for the administration of State unemployment compensation laws. The \$80,000,000 is well within the receipts from the 10 percent of the pay-roll taxes under the act which will be retained by the Federal Government. In explanation of this bill, Mr. Altmeier states that when we passed the original Social Security Act, it carried an authorization the first year of only \$4,000,000 for the administration of unemployment compensation, and each succeeding year, \$49,000,000, and at that time there was only one State which had unemployment insurance. That is correct, is it not?

Mr. ALTMAYER. Yes, sir.

The CHAIRMAN. And now all the States have these laws?

Mr. ALTMAYER. Yes, sir.

The CHAIRMAN. So it is necessary to have the increased authorization for that reason.

Senator VANDENBERG. This seems to be retroactive, Doctor. Does that mean there has been a deficit in the previous years?

Mr. ALTMAYER. It is not intended to be retroactive. It is intended to be effective immediately to cover the present fiscal year.

Senator VANDENBERG. It reads: "For each fiscal year after June 30, 1936, the sum of \$49,000,000 is authorized." Is that the existing authorization?

Mr. ALTMAYER. Yes.

The CHAIRMAN. So that up to June 30, 1938, the situation remains as previously fixed by statute?

Mr. ALTMAYER. Yes, sir.

Senator KING. Are you sure that that would be the interpretation placed upon that language?

Mr. ALTMAYER. Yes, sir.

Senator KING. In other words, the new authorization begins the first of next July?

Mr. ALTMAYER. The new authorization begins for the present fiscal year. It would be applicable to the present fiscal year, as the language reads.

Senator VANDENBERG. What is the balance in that fund at the present time?

Mr. ALTMAYER. There is practically no balance, and that is the situation that I want to describe to you. This \$49,000,000 top authorization has now been reached. There was an appropriation in the last year's Independent Offices appropriation bill of \$40,000,000, and an additional appropriation of \$9,000,000 in the first deficiency bill of this year, which brings the total amount to the top of \$49,000,000. That is just sufficient to cover the April 15 and May 1 pay rolls of these State agencies; in other words, they will not be able to meet their May 15 pay roll.

Senator KING. There must be a veritable army, then, of employees. I would like to know where this \$40,000,000 has gone, and where this \$80,000,000 is to go. It seems to be an exorbitant sum.

Mr. ALTMAYER. With a Nation-wide unemployment insurance system now in effect, covering 27,000,000 workers, the benefits that were paid out last year amounted to \$394,000,000. The benefits in future years may well be in excess of that amount for the reason that there were only 23 States in full operation during the last calendar year. Now, all States except two are actually paying benefits, and those two, Illinois and Montana, will start paying benefits on July 1 of this year. So as I say, the benefit payments this year and the succeeding years will probably be in excess of the benefit payments last year. As a matter of fact, they have been running at the rate of about \$10,000,000 a week.

Senator KING. Payments for unemployment?

Mr. ALTMAYER. Unemployed workers, and that covers about 1,000,000 workers that are actually receiving benefits currently.

Senator VANDENBERG. Then is my calculation correct that it costs about 12½ percent to administer the distribution of \$400,000,000?

Mr. ALTMAYER. No, sir. The Social Security Board felt that it was the intent of Congress that the cost of administration should not exceed this 10 percent, and it therefore advised the States that it would regard the 10 percent as the maximum reasonable cost of administration. Accordingly in scanning these budgets which the States submit, and incidentally they are required to submit line-item budgets just the same as the budgets that we submit to the Appropriations Committees of the two Houses, we have been able to scale down their administrative expenses month by month. In the first months, before they got shaken down, the cost of administration was necessarily higher because they had not been shaken down; and, secondly, because they had been confronted with a mass of claims in January 1938.

Senator CONNALLY. Doctor, may I ask you a question there?

Mr. ALTMAYER. Yes, sir.

Senator CONNALLY. Do we pay all of the expenses of State administration?

Mr. ALTMAYER. Yes, sir.

Senator CONNALLY. Doesn't that stimulate them to be wasteful?

Mr. ALTMAYER. It is a somewhat anomalous situation.

Senator CONNALLY. I do not think that we did right in doing that. They have no incentive to cut down. They fill up the pay roll. They do all of the appointing of all of the jobs, and we pay all of the expenses.

Senator JOHNSON of Colorado. But the money is collected from the States. I do not know why we should not pay it, inasmuch as that was the contract that Congress made with the States when they passed this law. What excuse have we now for abrogating our contract with the States? It all comes right out of the States, from the employers and employees of the States.

Senator KING. Where does this \$40,000,000 and the \$80,000,000 come from?

Senator JOHNSON (Colorado). It comes from the States and part of it is given back to them.

Senator CONNALLY. Is that correct, Doctor?



Mr. **ALTMAYER**. The situation is this, under title IX of the Social Security Act, there is a uniform Federal tax levied on pay rolls. It is 3 percent. Against that uniform 3 percent tax, the employers are permitted to offset up to 90 percent thereof, any contributions they have made into a State unemployment compensation law that meets the standards laid down by the Social Security Act, so that in effect the Federal Government receives a net 10 percent, or three-tenths of 1 percent measured on the pay roll instead of the full 3 percent measured on the pay roll. That three-tenths of 1 percent has amounted to about \$90,000,000 a year since the tax went into effect on January 1, 1936.

Senator **CONNALLY**. We incur a lot of expense in the collecting of that tax, do we not?

Mr. **ALTMAYER**. Yes; the Bureau of Internal Revenue incurs some expense, and our Bureau of Unemployment is necessarily under some expense.

Senator **DAVIS**. You are collecting, as I understood you to say, \$90,000,000, and here you are asking for an appropriation of \$80,000,000. Is that reserve of \$10,000,000 sufficient to carry on?

Mr. **ALTMAYER**. We do not expect to ask the Appropriations Committee for the \$80,000,000. We are suggesting \$80,000,000 as the reasonable amount that we will be able to stay within indefinitely, but it still leaves \$10,000,000 to protect the Federal Government against any net cost to the Federal Government due to the operation of these State unemployment compensation laws.

The **CHAIRMAN**. How much did you request last year, for instance, of the Appropriations Committee?

Mr. **ALTMAYER**. I forget what it was last year, but this year we asked for \$74,000,000.

Senator **VANDENBERG**. Let me get back to the calculation that I put up to you a little while ago. If you paid out \$394,000,000 in benefits, and it cost you \$49,000,000 to administer the payments, why is that not 12½ percent of administration cost?

Mr. **ALTMAYER**. For this reason, sir, that there were only 23 States that were paying benefits, so you cannot apply the total cost of administration of the 61 jurisdictions to the benefit payments in the 23 States.

Senator **VANDENBERG**. Suppose all of the States were paying benefits as they will next year, will they not?

Mr. **ALTMAYER**. Yes, sir.

Senator **VANDENBERG**. How much is it estimated that they will pay out?

Mr. **ALTMAYER**. They are paying out now at the rate of \$10,000,000 a week of benefits.

Senator **VANDENBERG**. That would be \$520,000,000?

Mr. **ALTMAYER**. Yes, sir.

Senator **VANDENBERG**. How much are you going to ask for to administer it?

Mr. **ALTMAYER**. As I said a moment ago, we asked for, as I said, \$74,000,000, but we have been able to scale that down, so we are going to ask for \$12,000,000 or \$13,000,000 more than we have already received, which would make it \$62,000,000 for this present fiscal year.

Senator **VANDENBERG**. That is close to 12 percent, is it not, on \$520,000,000?

Mr. ALTMAYER. Yes; those figures worked out that way, but we do not know whether it will be \$520,000,000. It may be more and it may be less. When I mentioned this 10 percent, I should like to say this, that I was referring to the contribution collections in the States, and measured on the contributions collected, the cost of administration of the State unemployment compensation laws now is 9 percent. It has been progressively reduced. It was something over 10 percent, and we have scaled it down to 9 percent.

To give you some basis of comparison, I might say that under the British unemployment insurance law, which went into effect in 1912, it took 26 percent of the collections to administer the law in the first year, and it was not until 1922 that Great Britain was able to get down to 10 percent cost of administration, and it was not until 1932, 20 years after that, that it was able to stay below 10 percent. So taking into consideration that in Great Britain you have a smaller country with a simpler pattern of benefits, the 9-percent cost of administration that we have been able to achieve in this country in the few months that we have been in operation, does seem to be reasonable, but I think that we can still make improvement in administration and cut the cost of administration.

Senator VANDENBERG. Does each State decide for itself in the first instance what its budget is, and then pass the budget to you for okay?

Mr. ALTMAYER. We have 12 regional offices. We have a representative from the regional office go over these budgets as they are being prepared by the State agency, and discuss the items that are being included therein. Then it is sent into Washington for final review before it is presented to the Board. That is a line-item budget.

Senator VANDENBERG. How many employees all told, does it take throughout the States to administer title III?

Mr. ALTMAYER. I think including temporary employees—and there are a great many temporary employees in these early months—because we encouraged the employment of temporary employees rather than putting permanent employees on—I think it runs around 35,000.

Senator DAVIS. That is in the United States?

Mr. ALTMAYER. Yes, sir; in all of the States.

Senator BYRD. How many have you here at Washington?

Mr. ALTMAYER. In that Bureau?

Senator BYRD. Yes.

Mr. ALTMAYER. Maybe about 350.

Senator BYRD. How many have you in the whole set-up?

Mr. ALTMAYER. In the whole Social Security Board, there are 9,500. At one time we had 10,500, and we have been able to reduce that number by 1,000.

Senator BYRD. In Washington?

Mr. ALTMAYER. At Washington and Baltimore and in the field. You see, we have five or six buildings in Washington, and a very large warehouse building in Baltimore where the central records are kept for the old-age insurance system.

Senator BYRD. What is the average of the salaries of these 35,000 in the States?

Senator VANDENBERG. And who fixes those salaries?

Mr. ALTMAYER. I have not those figures before me, but I will insert it in the record.

Senator BYRD. I wonder, if it is not too voluminous, Mr. Chairman, but I would like to see included in the record the list of these salaries in excess of \$3,000 with the names.

Mr. ALTMAYER. In the States?

Senator BYRD. In the States.

The CHAIRMAN. Can you get that?

Mr. ALTMAYER. I think we could, but it might require sending out to the States for the names. We have the salaries, probably, but we would not have the names of the recipients.

Senator BYRD. In addition to that, state how much is spent in each State, and what the benefit payments have been in each State, and the ratio of cost in each State.

Mr. ALTMAYER. Yes, sir.

(The material requested is as follows:)

TABLE I.—Number of personnel receiving more than \$3,000 per annum, and average salary rate, by States (as of July 1938) <sup>1</sup>

State	Number of personnel over \$3,000	Average annual salary rate, total personnel	State	Number of personnel over \$3,000	Average annual salary rate, total personnel
*Alabama.....	6	\$1,234	Nebraska.....	1	\$1,449
*Alaska.....	4	2,585	Nevada.....	4	2,009
*Arizona.....	4	1,567	*New Hampshire.....	2	1,363
*Arkansas.....	5	1,594	New Jersey.....	15	1,002
*California.....	35	1,353	New Mexico.....	2	1,628
*Colorado.....	5	1,507	*New York.....	75	1,358
*Connecticut.....	16	1,392	*North Carolina.....	11	1,308
*Delaware.....	6	1,763	North Dakota.....	3	1,572
*District of Columbia.....	3	1,543	Ohio.....	11	1,490
*Florida.....	2	1,635	Oklahoma.....	5	1,615
*Georgia.....	5	1,661	*Oregon.....	3	1,350
*Hawaii.....	2	1,812	*Pennsylvania.....	59	1,523
*Idaho.....	( <sup>2</sup> )	1,429	*Rhode Island.....	10	1,542
*Illinois.....	7	1,568	*South Carolina.....	4	1,231
*Indiana.....	14	1,453	South Dakota.....	4	1,701
*Iowa.....	5	1,421	*Tennessee.....	5	1,397
*Kansas.....	2	1,529	*Texas.....	20	1,443
*Kentucky.....	3	1,446	*Utah.....	5	1,569
*Louisiana.....	6	1,392	*Vermont.....	3	1,220
*Maine.....	5	1,219	*Virginia.....	4	1,245
*Maryland.....	7	1,364	Washington.....	3	1,601
*Massachusetts.....	30	1,265	*West Virginia.....	8	1,345
*Michigan.....	23	1,215	*Wisconsin.....	16	1,394
*Minnesota.....	5	1,408	Wyoming.....	2	1,704
*Mississippi.....	3	1,309			
*Missouri.....	14	1,652	United States.....	537	1,393
*Montana.....	3	1,543			

<sup>1</sup>Indicates States paying benefits during July 1938.

<sup>2</sup>Does not include per diem or part-time personnel.

<sup>3</sup>No employee receives over \$3,000.

TABLE II.—Expenditures estimated for the fiscal year 1938-39 and cumulative benefit payments to Mar. 31, 1939, under State unemployment compensation laws

	Estimated expenditures July 1, 1938, to June 30, 1939	Cumulative benefit payments to Mar. 31, 1939	
		Month benefits first payable	Amount
Alabama.....	\$775,405	January 1938.....	\$2,245,231.12
Alaska.....	44,004	January 1939.....	68,552.00
Arizona.....	292,586	January 1938.....	2,232,680.76
Arkansas.....	374,133	January 1939.....	395,616.64
California.....	4,319,876	January 1938.....	33,455,974.83
Colorado.....	426,059	January 1939.....	854,220.41
Connecticut.....	1,448,976	January 1938.....	12,909,215.97
Delaware.....	229,095	January 1939.....	216,061.72
District of Columbia.....	492,895	January 1938.....	2,179,573.10
Florida.....	573,220	January 1939.....	247,256.29
Georgia.....	779,799	.....do.....	543,621.62
Hawaii.....	190,476	.....do.....	15,048.76
Idaho.....	266,381	September 1938.....	1,338,074.56
Illinois.....	1,710,732	July 1939.....	.....
Indiana.....	2,187,293	April 1938.....	20,257,600.49
Iowa.....	708,162	July 1938.....	4,970,014.33
Kansas.....	492,673	January 1939.....	793,501.86
Kentucky.....	743,480	.....do.....	836,149.00
Louisiana.....	827,624	January 1938.....	3,823,050.20
Maine.....	331,322	.....do.....	8,602,279.30
Maryland.....	1,064,320	.....do.....	11,974,135.23
Massachusetts.....	2,849,500	.....do.....	32,115,643.00
Michigan.....	2,904,218	July 1938.....	49,095,036.02
Minnesota.....	1,545,161	January 1938.....	11,315,633.16
Mississippi.....	899,319	April 1938.....	1,974,719.32
Missouri.....	1,351,413	January 1939.....	1,133,578.95
Montana.....	158,799	July 1939.....	.....
Nebraska.....	367,641	January 1939.....	494,719.42
Nevada.....	174,653	.....do.....	161,792.30
New Hampshire.....	348,169	January 1938.....	2,120,345.00
New Jersey.....	2,294,950	January 1939.....	4,227,808.21
New Mexico.....	202,752	December 1938.....	347,673.15
New York.....	9,873,860	January 1938.....	110,009,833.60
North Carolina.....	1,289,039	.....do.....	9,718,663.64
North Dakota.....	183,027	January 1939.....	178,652.83
Ohio.....	2,508,928	.....do.....	4,228,762.16
Oklahoma.....	650,714	December 1938.....	1,629,501.35
Oregon.....	734,177	January 1938.....	7,565,113.08
Pennsylvania.....	7,367,008	.....do.....	94,717,773.60
Rhode Island.....	763,821	.....do.....	10,468,661.54
South Carolina.....	565,303	July 1938.....	1,170,363.66
South Dakota.....	148,685	January 1939.....	182,319.06
Tennessee.....	835,879	January 1938.....	7,276,555.63
Texas.....	2,236,446	.....do.....	12,568,371.93
Utah.....	309,823	.....do.....	3,032,850.73
Vermont.....	224,884	.....do.....	1,923,979.21
Virginia.....	898,358	.....do.....	6,894,753.38
Washington.....	765,692	January 1939.....	1,780,539.69
West Virginia.....	1,218,678	January 1938.....	13,345,900.83
Wisconsin.....	1,199,785	July 1936.....	12,764,323.17
Wyoming.....	182,244	January 1939.....	884,072.96
Total.....	\$ 65,409,505	.....	508,367,339.88

<sup>1</sup> The estimated expenditures for the fiscal year 1939 totaling \$65,409,506 are to be met from appropriations received and requested for the fiscal year 1939 totaling \$62,000,000 and unencumbered funds in the amount of \$3,509,695 brought forward from the fiscal year 1938.

TABLE III.—Ratio of expenditures for the administration of State unemployment compensation laws for the third quarter of fiscal year 1933-39 to average quarterly collections for the period Mar. 1, 1938, to Feb. 28, 1939

State	Third quarter expenditures, fiscal year 1939	Average quarterly collections for the period Mar. 1, 1938, to Feb. 28, 1939	Ratio of expenditures to average quarterly collections
Alabama.....	\$170,167	\$1,412,453	\$12.0
Alaska.....	11,821	134,185	8.8
Arizona.....	63,131	514,477	12.2
Arkansas.....	101,130	812,047	12.4
California.....	1,068,992	13,600,511	7.8
Colorado.....	111,746	1,217,354	9.1
Connecticut.....	328,419	3,848,917	8.5
Delaware.....	97,449	533,625	10.9
District of Columbia.....	125,586	1,670,860	7.5
Florida.....	169,931	1,504,900	11.2
Georgia.....	216,071	2,072,759	10.6
Hawaii.....	38,410	442,203	8.3
Idaho.....	63,293	438,023	12.9
Illinois.....	317,001	18,106,867	1.7
Indiana.....	501,113	4,505,663	11.1
Iowa.....	166,754	1,985,553	8.3
Kansas.....	128,068	1,444,987	8.6
Kentucky.....	224,130	1,934,454	11.4
Louisiana.....	192,802	1,958,369	9.8
Maine.....	120,939	970,211	12.4
Maryland.....	246,189	2,913,836	8.7
Massachusetts.....	916,261	9,246,619	9.9
Michigan.....	794,147	9,628,516	8.2
Minnesota.....	387,676	3,420,123	11.1
Mississippi.....	93,693	615,538	15.1
Missouri.....	444,069	4,872,321	9.1
Montana.....	45,123	670,645	4.7
Nebraska.....	105,152	972,953	10.5
Nevada.....	43,776	216,403	20.2
New Hampshire.....	74,433	745,301	10.2
New Jersey.....	658,672	7,879,893	8.3
New Mexico.....	51,764	351,873	14.7
New York.....	2,274,985	23,078,903	6.8
North Carolina.....	305,900	2,574,268	11.8
North Dakota.....	42,723	230,376	15.8
Ohio.....	818,813	12,764,837	6.4
Oklahoma.....	155,856	1,504,378	9.7
Oregon.....	183,117	1,508,957	11.7
Pennsylvania.....	1,611,742	15,673,717	8.6
Rhode Island.....	178,025	1,348,705	12.3
South Carolina.....	131,451	1,098,285	12.3
South Dakota.....	39,803	253,219	13.9
Tennessee.....	218,890	2,046,136	10.3
Texas.....	541,006	5,721,921	9.4
Utah.....	78,674	630,975	12.0
Vermont.....	51,904	953,175	14.7
Virginia.....	212,335	2,426,658	8.7
Washington.....	222,553	2,452,580	8.9
West Virginia.....	254,889	2,323,264	10.6
Wisconsin.....	277,908	4,102,345	8.7
Wyoming.....	69,185	349,341	14.0
Total.....	15,683,455	194,446,366	8.00

Senator VANDENBERG. You can answer the question who fixes these salaries.

Mr. ALTMAYER. Yes.

Senator VANDENBERG. Who does that?

Mr. ALTMAYER. That is a problem that will come before this committee in connection with the recommendations that we have made for changes in the Social Security Act. It came up last spring before a subcommittee headed by Senator Walsh. In title III of the Social Security Act, which is the title that makes grants to the States for unemployment compensation administration, there is a provision that reads that the State agency shall establish "such methods of administration (other than those relating to the selection, tenure of

office, and compensation of personnel) as are found by the Social Security Board to be reasonably calculated to insure full payment of unemployment compensation when due." That parenthetical expression "(other than those relating to the selection, tenure of office, and compensation of personnel)" is an anomaly when taken in connection with the basic standard that "the methods of administration must be reasonably calculated to insure the full payment of unemployment compensation when due" and when compared with other language which says that we shall make grants only to cover the proper cost of administration, because it is absolutely impossible to have proper administration without proper personnel.

So in an attempt to reconcile the apparent anomaly or inconsistency in the language of the law as it now stands, we have said that we have no jurisdiction whatsoever over the selection, tenure of office, and compensation of individual employees. However, we do believe that proper administration requires the setting up of reasonable objective standards for the selection of personnel, and following that policy, the States have in the case of about 41 jurisdictions, adopted merit systems of one sort or another, not entirely satisfactory, but nevertheless an approach to a systematic system of personnel selection. Senator VANDENBERG. Then, as I understand your answer, the scale of salaries is not standardized but is fixed by each State; is that correct?

Mr. ALTMAYER. Yes; except that we do exercise influence to keep the scale in accordance with the payment of similar personnel in other State agencies within that State, but, as Senator Connally mentioned a few minutes ago, it is a somewhat anomalous situation in that the Federal Government should pay 100 percent of the cost of administration for a State operation.

Senator JOHNSON of Colorado. Mr. Altmeyer, may I ask you this question? Can you break down and separate the State employees who are paid with Federal funds and the Federal employees who are paid with Federal funds? You have both in the regional offices?

Mr. ALTMAYER. No, sir.

Senator JOHNSON of Colorado. In the regional offices and in the headquarters here, there are many divisions in the Social Security Departments. Unemployment is only one of them?

Mr. ALTMAYER. Yes.

Senator JOHNSON of Colorado. And I think that we will be interested in knowing whether or not a part of this \$80,000,000 is being paid to carry some other division, whether you have it all segregated and have it allocated as it should be, and whether the unemployment division is carrying more than its burden or not in the Social Security Departments. Can you show that?

Mr. ALTMAYER. I do not think you need to worry about that, because we get a specific appropriation for grants to the States, and we cannot use that money for any other purpose except in making these grants to the States for unemployment administration.

Senator BYRD. Could the grants not be used by the States for administration expenses after the money goes to them?

Mr. ALTMAYER. You mean of this \$80,000,000 that we are suggesting?

Senator BYRD. Yes.

Mr. ALTMAYER. The money is intended solely for the administration of State unemployment compensation laws.

Senator JOHNSON of Colorado. That does not all go to the States?

Mr. ALTMAYER. Yes; it does.

Senator JOHNSON of Colorado. Does not some of it go to your regional offices?

Mr. ALTMAYER. No, sir.

Senator JOHNSON of Colorado. All of it goes to the State?

Mr. ALTMAYER. Yes, sir.

Senator CONNALLY. Is this fund that you use in part to pay these unemployment agents in connection with the Labor Department?

Mr. ALTMAYER. The Employment Service; yes, sir.

Senator CONNALLY. The Employment Service under the existing law is a sort of a hybrid outfit, is it not?

Mr. ALTMAYER. Yes.

Senator CONNALLY. The Labor Department pays some of the cost and you pay some of the cost?

Mr. ALTMAYER. Yes.

Senator CONNALLY. And it comes out of this \$80,000,000?

Mr. ALTMAYER. Yes.

Senator KING. Why should you pay any part of that?

Mr. ALTMAYER. Because the Social Security Act requires that the State law shall provide for the payment of unemployment-compensation benefits through public employment offices or through such other agencies as the Social Security Board may approve. We have never approved of any other agency, and we think it would be unwise to approve of any other agency through which to pay benefits, because it is most important that these unemployed workers shall be kept in touch with employment opportunities and shall be referred to jobs that are available, not only for their own sake, because the benefits are much smaller than the wages they might earn on jobs, but in order to protect the fund against the payment of benefits to workers for whom jobs could be found.

Senator GERRY. Dr. Altmeyer, how much does it cost the Federal Government to administer this unemployment insurance besides the amount you are giving the States?

Mr. ALTMAYER. I have not those figures. I would estimate off-hand, probably about \$3,750,000 for our Bureau of Unemployment Compensation and the Bureau of Internal Revenue, both.

Senator BYRD. When a grant is made to the States, for example, for old-age pensions, can any part of that benefit be used by the States for administration costs?

Mr. ALTMAYER. Yes, sir.

Senator BYRD. Have you any figures on how much of that is being used for overhead costs in the States?

Mr. ALTMAYER. Under the old-age assistance law, which is title I of the Social Security Act, it provides that the Social Security Board shall make grants to the States to cover the 50 percent of the cost of paying old-age assistance, and then it provides that to that sum the Secretary of the Treasury shall add 5 percent which may be used either for the payment of assistance or for the payment of administrative costs.

Senator BYRD. But you stated a few minutes ago that no parts of the grants were used for administration costs that were paid by the Federal Government?

Mr. ALTMAYER. Which grants?

Senator CONNALLY. He is talking about this particular grant.

Senator BYRD. What I am trying to get at is what control has the Federal Government got over the States when the money is given to the States for grants for old-age pensions, that that money is not used for overhead expenses?

Mr. ALTMAYER. We have this control, that our auditors check over all of the payments.

Senator BYRD. I understand that, but have you figures to show how much of it is going for overhead and how much of it is going to the people who actually get the pensions?

Mr. ALTMAYER. None of the grant that we make to the States, except this flat 5 percent which is added on by the Secretary of the Treasury, is used for administrative costs, and our auditors check over all of the payments to the States to make certain that is used only—

Senator BYRD (interposing). If the State draws on the basis of \$5 a month for old-age pension, that grant has all got to go to the people who receive the payments?

Mr. ALTMAYER. Yes, sir.

Senator BYRD. And the only part of that would be the 5 percent?

Mr. ALTMAYER. Yes.

Senator VANDENBERG. I understand you to say that you are going to do this job with \$62,000,000 this year?

Mr. ALTMAYER. Yes, sir.

Senator VANDENBERG. Then why authorize \$80,000,000?

Mr. ALTMAYER. Except that this is a continuing matter, and we expect next year that it will be more than \$62,000,000.

Senator VANDENBERG. How much do you think it will be next year?

Mr. ALTMAYER. We think that it may be as much as \$76,000,000.

Senator KING. A jump from \$62,000,000 to \$76,000,000?

Mr. ALTMAYER. Yes.

Senator KING. Why?

Mr. ALTMAYER. Because Illinois which is a large State, and Montana will be in full operation by July 1939, and then secondly, because in 1940, the States will be obliged to begin to put in effect what is known as experience rating, whereby employers with favorable employment insurance are given credit and employers with very bad employment experience are charged with a debit. That is an unusual item of expense that will come into operation next year, and will not be so costly in subsequent years. We think that as a long-run proposition that the costs will probably run around \$72,000,000.

Senator VANDENBERG. Are you figuring any expansion in coverage as adding to the expenses?

Mr. ALTMAYER. No; it is not figuring any expansion of coverage.

Senator VANDENBERG. You are recommending an expansion of coverage?

Mr. ALTMAYER. Yes, sir.

Senator VANDENBERG. Does that proportionately increase the expense of operation?

Mr. ALTMAYER. Somewhat, but not in proportion to the expanded coverage, because you already have the administrative set-up.

Senator VANDENBERG. On the other hand, you will be pioneering in many of these fields, and won't you have pioneering expense?



Mr. **ALTMAYER**. Yes; when you cover domestic workers and agricultural workers, you have special problems.

Senator **VANDENBERG**. So this figure of \$80,000,000 will probably have to be revised anyway, if you get your expansion of coverage?

Mr. **ALTMAYER**. It might be.

Senator **VANDENBERG**. So I do not see why you do not take the authorization needed for this year and see what happens with the expanded coverage.

The **CHAIRMAN**. The question of just what amount is to be appropriated is up to the Appropriations Committee.

Mr. **ALTMAYER**. Yes, sir.

The **CHAIRMAN**. And you want to have the legal backing behind you for whatever you require from the Appropriations Committee?

Mr. **ALTMAYER**. Yes, sir.

Senator **KING**. Have the States exhibited any attitude toward economy, or do they desire to employ what any practical businessman would conceive to be too many employees and pay too high salaries?

Mr. **ALTMAYER**. Well, I would say on the whole that they have cooperated very well. There is that danger when the Federal Government is paying 100 percent of the salaries and other expenses, to not be so careful.

Senator **JOHNSON** of Colorado. Yes; but you authorize their expenditures, you authorize every position, and while perhaps outwardly you do not state the salaries, in reality you do. You put limits on them, you control them. You do in my State, I know.

Mr. **ALTMAYER**. I say on the whole the States have been reasonable.

Senator **KING**. Those were questions that were propounded by the Senator. I would like to have you answer them.

Senator **JOHNSON** of Colorado. They were not exactly questions. They were statements, and he does not deny them.

Senator **KING**. I will put them in interrogative form. You fix the salaries, don't you?

Mr. **ALTMAYER**. We raise a question about it, we object if a State persists in paying salaries that were out of line with the salaries paid comparable positions elsewhere in other State agencies.

Senator **VANDENBERG**. How would you enforce your objections?

Mr. **ALTMAYER**. We have never been put to the test. In view of that parenthetical language, if it came to a legal test, there may be some question.

Senator **CONNALLY**. Don't you think you ought to have authority to prescribe these things and say "We require some sort of a qualifying standard for these people"?

Mr. **ALTMAYER**. Yes, sir.

Senator **CONNALLY**. And exercise some control, more direct than you have now, over salaries?

Mr. **ALTMAYER**. Yes, sir; we think so.

Senator **CONNALLY**. Because when it is somebody else's money, and a State machine is in control of all of the appointments, it is a great temptation to increase the salaries, increase the number and lower the standards of the appointees, because some State senator or representative has a man that he wants for a job. He then goes over and puts him on whether he is qualified or not. It seems to me that we ought to amend this law, and in your other bill—there is a general bill coming in?

Mr. ALTMAYER. Yes, sir.

Senator CONNALLY. Have you done something about that?

Mr. ALTMAYER. We have recommended definitely that that parenthetical expression be changed to a positive statement that the methods of administration shall include a systematic method for the selection of the personnel on a merit basis.

Senator CONNALLY. You ought to have authority to approve it or disapprove it. We ought to give you statutory power.

Mr. ALTMAYER. We do not think we ought to have the authority to pass upon John Jones or Mary Smith, but we do think that the States should be required as a part of proper methods of administration to set up a systematic merit system with reasonable objective standards.

Senator CLARK. The very thing happened in my State that Senator Connally was talking about. And it was absolutely impossible for the system to function for a while.

Senator CONNALLY. Why shouldn't you have the authority to say that Bill Jones did not pass an examination and was not qualified?

Mr. ALTMAYER. If we found that they were not conforming to their own merit system, certainly; but they should not have to submit the qualifications of Mary Smith or Bill Jones to us. All that they should be required is to set up a systematic merit system and observe it.

Senator CONNALLY. Sure. But in order to see whether they observed it or not, you might be required to investigate particular cases. Here is a fellow that has been put on in defiance of this act, he has no qualifications, and he is being overpaid. I am strong for the States having all of the authority, but when we give them the money, it is our responsibility, and the Federal Government should have the right to hold down the salaries.

Senator BYRD. Is there much variation in salaries between the States?

Mr. ALTMAYER. Yes, sir; there is some.

Senator BYRD. You think now that you have not the authority to require standard salaries for doing the same work in the different States?

Mr. ALTMAYER. It is quite doubtful whether we have that authority. Furthermore, if we have that authority, I do not think it would be proper for us to lay down a uniform standard for the whole United States.

Senator CONNALLY. You do that with your own employees?

Mr. ALTMAYER. Yes, sir; but they are Federal employees.

Senator CLARK. These others are paid by the Federal Government?

Mr. ALTMAYER. Yes; but they are actually State employees. You take down in a certain State that is represented by a Senator who is on the Appropriations Committee, he raises the proper question, "Are you permitting the payment of salaries in excess of the salaries paid other State employees holding comparable positions?" If we laid down a uniform salary scale, it would be too high in that particular State, and perhaps too low in another State. It would affect the morale of State employees generally and be bad.

Senator KING. It seems to me it would be very improper to apply a uniform rule. Take the State of New York, there, their salaries are very high for the county and State employees, much higher than in most other States. I should believe that it would be very unjust

to take some of the other States, some of the Southern States, and some of the Western States and compel them to pay the same salaries there that are paid in New York, because going into private life, you could get employees, stenographers, and accountants, and others, for very much less than they are paying in New York. I do not see why the State there should be compelled to pay higher salaries than comparable work in the State, because New York pays the higher salaries. If you did that, you would create a vast amount of trouble there, because the other State employees and other employees would insist on having higher wages too.

Senator CLARK. That works just as well the other way, Senator. People in Utah, Missouri, Virginia, and Iowa who pay Federal taxes are, as Federal taxpayers, being taxed to pay higher salaries in New York for doing the very same work that is being paid to people in Iowa, and with Federal funds being used for that purpose, and it seems to me that it is discrimination against those States.

Senator JOHNSON of Colorado. It seems to me that you are overlooking the important feature of this law, and that is that this law is set up differently from any other law or any administration that we have in the United States. It is set up on a State basis. The States were coerced and compelled to set up unemployment insurance departments in order to get their 90-percent credit, and you have told them to do that, and you have compelled them to set these offices up, and the money is all collected from them, and you give them 90 percent back as a credit, and you take the other 10 percent and use it for administration. It is all the States' money.

Senator CLARK. As a matter of fact, the States collect it and send it down here. The 10 percent as well as the 90 percent. They are given credit for the 90 percent, and they get the 10 percent back for administration.

Senator JOHNSON of Colorado. It is entirely different from other departments of government. You cannot compare it with any other set-up that you have in the United States, because it is entirely different and on a different basis.

Senator KING. As far as I am concerned, I would like to see the States have as much control as possible—it is a State affair—and the Federal Government have more limited authority.

Senator VANDENBERG. Doctor, you want to hold down these State expenses as much as you can?

Mr. ALTMAYER. Yes, sir.

Senator VANDENBERG. And you are largely dependent upon moral suasion, as a matter of fact?

Mr. ALTMAYER. Yes, sir.

Senator VANDENBERG. Why would it not be to your advantage as a matter of moral suasion to have the authorization a little closer to your actual expenditure than to have all of this latitude? I should think that you would be much better off with your various States if you had an authorization of \$70,000,000.

Mr. ALTMAYER. The trouble is this—if you fix it too close to what we need this year, then we will run into the situation where we may run short in the middle of the next congressional session again, probably. Then we would have to come in as an emergency proposition, and it is unsatisfactory from that standpoint. As long as it is well within the 10 percent net collections as it is, and as long as the Appro-

priations Committee of both Houses have to pass upon the estimates that we submit, I recommend that you allow some leeway there so that we do not have to bother you in the middle of the next congressional session, because we have reached the top of the authorization.

Senator VANDENBERG. Might it not work the other way, that if you reached the top of the authorization, you might stop there for a few moments and catch your breath?

Mr. ALTMAYER. Well, as I say, if the records showed that we had not made progressive reduction under the present plan, then I think that your fears would have greater foundation, but we can demonstrate on the present record that we have brought about a progressive reduction in State administrative expenses.

Senator VANDENBERG. Well, you need \$62,000,000 this year?

Mr. ALTMAYER. Yes, sir; and probably \$76,000,000 next year.

Senator VANDENBERG. And you need \$76,000,000 next year provided you do not expand the coverage?

Mr. ALTMAYER. Yes.

Senator VANDENBERG. And if you expand the coverage, you need more than \$76,000,000 next year?

Mr. ALTMAYER. Perhaps so, but I would hope to still stay within the \$80,000,000.

Senator KING. You are not recommending increasing the coverage?

Mr. ALTMAYER. Yes.

The CHAIRMAN. As a matter of fact, the Ways and Means Committee of the House for weeks has been having public hearings with reference to a number of suggestions and recommendations which the Board has made; they have finished their hearings and are beginning to draft a bill now in executive session, but this is a matter, as I understand it, that is separate and distinct from the matters being considered by the Ways and Means Committee. What are the necessities that call for immediate action on this legislation?

Mr. ALTMAYER. Because the \$49,000,000 which is the present appropriation will be exhausted after the salaries are paid for the period ending April 30.

Senator VANDENBERG. Suppose that you had stayed inside of the \$49,000,000, what would it have done to the system?

Mr. ALTMAYER. It would have broken it down.

Senator VANDENBERG. Why?

Mr. ALTMAYER. Because they could not have paid the benefits promptly.

Senator HERRING. What would the States have said to you after they had sent you the money for that purpose?

Mr. ALTMAYER. That we had broken faith with them.

Senator CONNALLY. I think you ought to have your \$80,000,000 authorization, because the only thing that we are doing is to make the authorization. If we authorize \$80,000,000, it does not necessarily mean that the Appropriations Committee is going to give you \$80,000,000.

The Chairman. The Appropriations Committee would have to pass on that.

Senator KING. As I understand the testimony up to date, the contention is that the State pays all of the expenses of this entire system. As I understand it, it is not true and I would like to have a balance sheet. How much does the Treasury of the United States have to pay, aside from that which it gets from the States?

Mr. ALTMAYER. Nothing.

Senator KING. Take your set-up here, your thousands of people employed, and all of the activities and all of the machinery that is employed in the administration of this law; certainly a part of that is paid out of the Treasury of the United States.

Senator VANDENBERG. The regional boards are paid out of the Treasury of the United States, aren't they?

Senator KING. And you are paid out of the Treasury?

Mr. ALTMAYER. Are you talking about unemployment compensation? I am not clear on that.

Senator JOHNSON of Colorado. The whole 10-percent tax collected from the States is not given back to them in the \$49,000,000, or will not be paid back to them in the \$80,000,000. There will still be a balance left out of the 10 percent, and I imagine maybe Uncle Sam and the Federal Treasury are making a profit out of it. He is making the difference between what he pays back and the 10 percent that he collects.

Senator KING. I think if a balance sheet is presented it will show that the Federal Government at the end of the next fiscal year, supposing the whole system should collapse and we should want to wind it up, you would find that the Federal Government was in for many millions of dollars.

Senator CLARK. It is a fact, is it not, that the Government has been taking the taxes that have been paid and has been using them for our current expenditures?

Senator BYRD. They give I O U's for it.

Senator CONNALLY. It is a bookkeeping arrangement.

The CHAIRMAN. You have reduced your request for this increased authorization to the lowest amount that you think is safe?

Mr. ALTMAYER. Yes, sir.

The CHAIRMAN. That is, \$80,000,000?

Mr. ALTMAYER. Yes. I might say that, on unemployment compensation, there is no question that the Federal Government has collected more than it has granted or will grant to the States, even with its increased authorization.

Senator VANDENBERG. What happens to the balance?

Mr. ALTMAYER. That is in the general Treasury.

Senator VANDENBERG. And is that a trust fund or does that belong to the Federal Government?

Mr. ALTMAYER. No, sir; it is just a part of the general Treasury fund.

Senator VANDENBERG. Is there any obligation attached to it whatsoever?

Mr. ALTMAYER. No, sir.

Senator CONNALLY. That is the 10 percent of the tax that is collected.

Senator VANDENBERG. You collected \$90,000,000 and you are going to spend \$80,000,000, and that leaves \$10,000,000 profit, and I want to know if that is a profit or a trustee account?

Mr. ALTMAYER. No, sir; it is not a trustee account at all.

Senator JOHNSON of Colorado. Does any State pay more than they should at the present time in the administration of the department in their State?

Mr. ALTMAYER. What do you mean? For the cost of administration?

Senator JOHNSON of Colorado. Is it excessive?

Mr. ALTMAYER. Is it higher than it should be?

Senator JOHNSON of Colorado. That is what I mean. Is the overhead expense in a single State in the Union such that it is exceeding what it should be in your opinion?

Mr. ALTMAYER. Well, we would be derelict in our duty if that were so, but I want you to understand that we think still that the States with more experience in this administration can cut their present administrative cost and should do so, and we will ask them to do so.

Senator JOHNSON of Colorado. Fine.

Mr. ALTMAYER. To illustrate what I mean: I have just had a comparison made, and the same States that were in full operation a year ago, comparing those States with the third quarter of a year ago and the third quarter this year, were spending \$1,000,000 less, so they have actually cut their administration costs, and I think they can cut it some more.

Senator VANDENBERG. Would it be an incentive for the States to cut it if the balance each year were refunded to them?

Mr. ALTMAYER. It might be. I think the whole question can very well be gone into as to whether the present system is the right system.

The CHAIRMAN. Has the Ways and Means Committee given any consideration to that question?

Mr. ALTMAYER. No, sir; I think it is a very difficult question. It is working fairly satisfactorily now—we think it is, and with only a year's benefit of experience really back of us, it would seem the part of wisdom to let it go along for another year or so to see what changes should be made in the set-up. I agree that there is this anomaly that you mentioned, and there may be better ways of working this thing out, but I want to say this, that this unemployment compensation system is the only long-range program for tackling the unemployment problem in this country that we have right now, and it is important, it seems to me, that we ought to try to strengthen that and expand it if we can to afford greater protection so that we can be relieved of some of these emergency programs that have been set up.

Senator KING. Dr. Altmeyer, I am recurring to a subject that causes or caused considerable controversy some time ago when the measure was enacted. You recall that Senator George and others offered measures under the terms of which those business organizations which had their own unemployment and pension systems might be excluded from the operations of the act, and you—I won't say you, but those who were urging this present plan—opposed that. What has been the effect with respect to those corporations like the A. T. & T. and the Eastman Kodak Co? What has been the effect upon all of those organizations that had those fine systems? I have had perhaps hundreds of letters making bitter complaint against the compulsion of coming under this system. One man wrote me that he was getting \$156 under his plan, and he would be reduced here to \$75 or \$80 a month. Have you disposed of them absolutely and wiped them all out?

Mr. ALTMAYER. I think you are referring to the old-age insurance system.

Senator VANDENBERG. He is talking about title II, isn't he?

Mr. ALTMAYER. Yes. Senator Clark, you will recall, proposed an amendment to exempt from those titles these private pension plans.

Senator KING. Exactly.

Mr. ALTMAYER. There was much discussion, and after the adjournment of Congress, it was continued, Senator, as I recall.

Senator KING. We had hearings after that.

Mr. ALTMAYER. There were two main ways in which it could have been done. It gets into a pretty technical discussion, but the upshot of it seemed to be that probably the private pension plans would be better off to attempt to superimpose their plans on the basic Federal insurance system than to seek exemption, because the exemption would carry with it so much Federal control that it would be, to use a slang expression, "a pain in the neck" for the companies and for the insurance carriers. The actual effect of the introduction of the Federal old age insurance system, has been to encourage the adoption of new systems. There has been a tremendous growth in these private pension plans since 1935 when the Social Security Act went into effect, in fact my recollection is that there have been more systems set up since that time insured through private insurance companies, than were set up in all of the time previous.

Senator KING. That was for old-age insurance?

Mr. ALTMAYER. Yes.

Senator KING. But some of these companies had, in addition to old-age insurance, unemployment benefits?

Mr. ALTMAYER. There were a few companies that guaranteed employment.

Senator CONNALLY. There is nothing to inhibit the companies from adding to the benefits that their employees are receiving under it?

Senator HERRING. There are many that superimpose this plan and are paying the difference.

The CHAIRMAN. Mr. Altmeyer, it seems to me that your statement that administrative costs have been reduced and the comparison with England's experience, is quite in point.

Senator KING. Let me ask another question. Have you found in any of the States that the amount which you paid or were called upon to pay out exceeded the amounts collected from the grants? In other words, was the outgo greater than the income?

Mr. ALTMAYER. Under these unemployment laws?

Senator KING. Yes.

Mr. ALTMAYER. Yes, sir. In Michigan, it was 200 percent during the time that they were paying benefits to the end of this calendar year. And in West Virginia it was—

Senator KING (interposing). How will you make up those deficits if they should persist in many States? Would you increase your rates?

Mr. ALTMAYER. The Social Security Act takes care of that in this way, that it required that the States build up a reserve, not pay benefits for 2 years after their contribution rate went into effect. So the States had to their credit on January 1 of this year, as I recall, \$1,100,000,000 in reserve to take care of these periods where the benefit payments exceed the collections.

Senator VANDENBERG. Are you talking about title III now?

Mr. ALTMAYER. Yes.

Senator KING. That is unemployment insurance?

Mr. ALTMAYER. Yes.

Senator KING. I suppose the strikes have added to the outgo in unemployment?

Mr. ALTMAYER. No, sir; because under these State unemployment-compensation laws, compensation is payable only for involuntary unemployment, and there is a specific provision that benefits are not payable when unemployment is due to a strike, a lock-out, or an industrial dispute in which the worker is participating or is financially interested. Four States have slight modifications of that.

Senator KING. Have you discovered that some of those who were getting benefits were also getting benefits from the Works Progress Administration or from other organizations that were set up?

Mr. ALTMAYER. It is possible, and that is one big problem—to coordinate these various activities at the State and local levels, and right now in one State we have under way a plan that is being tested out to avoid overlapping between these various programs.

The CHAIRMAN. Thank you, Mr. Altmeyer.

(Whereupon, at 11:30 o'clock, the hearing was closed.)