

# OLD-AGE PENSIONS

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## HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-SEVENTH CONGRESS

FIRST SESSION

ON

**S. 1932**

A BILL TO AMEND THE SOCIAL SECURITY ACT TO  
PROVIDE FOR GENERAL PENSIONS,  
AND FOR OTHER PURPOSES

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DECEMBER 1, 2 AND 15 1941

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Printed for the use of the Committee on Finance



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## OLD-AGE PENSIONS

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MONDAY, DECEMBER 1, 1941

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

The committee met at 10:30 a. m., pursuant to call, in room 310, Senate Office Building, Senator Walter F. George (chairman) presiding.

The CHAIRMAN. The committee will come to order please.

On account of other committees and the death of one of the most useful men in the country, Senator Alva Adams, it is difficult to have a large attendance this morning, Mr. Downey. I presume that we might begin the hearing anyway and as a basis of this hearing the committee will have before it S. 1932 by Senator Downey, a bill to amend the Social Security Act to provide for general pensions, and for other purposes.

During consideration of the 1941 Revenue Act an understanding was reached that hearing would be had on the general subject covered by this bill and related matter so that the committee might be in position to act directly, or by way of considering amendments to any revenue bill that might consequently come before the committee.

(S. 1932 is as follows:)

[S. 1932, 77th Cong., 1st sess.]

A BILL To amend the Social Security Act to provide for general pensions, and for other purposes

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

### "TITLE I—GRANTS TO STATES FOR GENERAL PENSIONS

#### "APPROPRIATION

"SECTION 1. (a) For the purpose of providing general pensions to citizens of the United States who are sixty years of age or over, there is hereby authorized to be appropriated for each fiscal year, beginning with the fiscal year commencing July 1, 1942, such sums as may be necessary to carry out such purpose in accordance with the provisions of this title. The sums made available under this section shall be used for making payments to States which have submitted, and had approved by the Social Security Board established by title VII (hereinafter referred to as the Board), State plans to administer such payments.

"(b) Any money appropriated pursuant to the authorization contained in this section shall, insofar as practicable, be borrowed from the Federal Old-Age and Survivors Insurance Trust Fund. Special obligations shall be issued to such trust fund, in accordance with the provisions of section 201 (c), in an amount equal to the amount so borrowed.

## "STATE PLANS FOR ADMINISTRATION

"Sec. 2. (a) A State plan for the administration of general pensions must (1) either provide for the establishment or designation of a single State agency to administer the plan, or provide for the establishment or designation of a single State agency to supervise the administration of the plan; (2) provide for granting to any individual, whose claim for pension is denied, an opportunity for a fair hearing before such State agency; (3) provide such methods of administration (including methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the Board shall exercise no authority with respect to the selection, tenure of office, and compensation of any individual employed in accordance with such methods) as are found by the Board to be necessary for the proper and efficient operation of the plan; (4) provide that the State agency will make such reports, in such form and containing such information, as the Board may from time to time require, and comply with such provisions as the Board may from time to time find necessary to assure the correctness and verification of such reports; (5) provide safeguards which restrict the use or disclosure of information concerning applicants and pensioners to purposes directly connected with the administration of such pension; (6) beginning with the period commencing July 1, 1942, provide for the payment of general pensions of not less than \$20 per month, and with the period commencing January 1, 1944, provide for the payment of general pensions of not less than \$30 per month, to each United States citizen who has made application for such pension and who, at the time of such payment, is a resident of such State, is sixty years of age or older, and is not an inmate of a public institution; (7) provide that any such citizen who for any month receives a Federal Old-Age and Survivors Insurance Benefit Payment under title II of the Social Security Act or an annuity under the Railroad Retirement Act of 1935 or 1937 shall not be entitled to receive such pension for such month; and (8) provide that if any such citizen or his or her spouse, if such citizen is dependent upon and supported by said spouse, during any month engages in any occupation, trade, business, profession, or other activity from which a profit, wage, compensation, or other remuneration is realized or expected (other than the performance of services in a private home for room and board and other than the collection of interest, rents, or other revenues from his or her own investments), such citizen shall not be entitled to receive such pension for such month.

"(b) The Board shall approve any plan which fulfills the conditions specified in subsection (a).

## "PAYMENTS TO STATES

"Sec. 3. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for the administration of general pensions, for each quarter, beginning with the quarter commencing July 1, 1942, (1) an amount, which shall be used exclusively to pay general pensions, equal to the product of \$20 multiplied by the total number of pensions paid during such quarter, and (2) an amount equal to one-half of the total of the sums expended during such quarter as found necessary by the Board for the proper and efficient administration of the State plan, which amount shall be used for paying the costs of administering the State plan or for general pensions, or both, and for no other purpose: *Provided*, That for each quarter beginning with the quarter commencing January 1, 1944, the amount provided for in clause (1) shall be increased to an amount equal to the product of \$30 multiplied by the total number of pensions paid during such quarter.

"(b) The method of computing and paying such amounts shall be as follows:

"(1) The Board shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of subsection (a), such estimate to be based on (A) a report filed by the State containing its estimate of the total sum to be expended in such quarter in accordance with the provisions of such subsection, (B) records showing the number of United States citizens in the State who are sixty years of age or older, and (C) such other investigation as the Board may find necessary.

"(2) The Board shall then certify to the Secretary of the Treasury the amount so estimated by the Board, reduced or increased, as the case may be, by any sum by which it finds that its estimate for any prior quarter was greater or less than the amount which should have been paid to the State under subsection (a) for such quarter, or by any sum by which it finds that its estimate for any quarter prior to July 1, 1942, was greater or less than the amount which should have been paid to the State for such quarter

under the provision of law in effect prior to such date, except to the extent that such sum has been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Board for such prior quarter.

"(3) The Secretary of the Treasury shall thereupon, through the Division of Disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Board, the amount so certified.

"OPERATION OF STATE PLANS

"SEC. 4. In the case of any State plan for the administration of general pensions which has been approved by the Board, if the Board, after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan, finds—

"(1) that the plan has been so changed as to include any requirement not provided for in section 2 (a) or

"(2) that in the administration of the plan there is a failure to comply substantially with any provision required by section 2 (a) to be included in the plan;

the Board shall notify such State agency that further payments will not be made to the State until the Board is satisfied that such additional requirement is no longer so imposed, and that there is no longer any such failure to comply. Until it is so satisfied it shall make no further certification to the Secretary of the Treasury with respect to such State."

SEC. 2. (a) Subsections (a), (b) (1), (d) (1), and (f) (1) of section 202 of such Act are amended by striking out "sixty-five" and inserting in lieu thereof "sixty."

(b) Section 202 (m) (1) of such Act is amended by striking out "one-half of" wherever it appears therein.

(c) Section 202 (b) (2) of such Act is amended by striking out the words "one-half of a primary insurance benefit of her husband" and inserting in lieu thereof "a primary insurance benefit of her husband."

(d) Section 202 (d) (1) is amended by striking out "three-fourths of" wherever it appears therein.

(e) Section 202 (d) (2) of such Act is amended by striking out the words "three-fourths of a primary insurance benefit of her deceased husband" and inserting in lieu thereof "a primary insurance benefit of her deceased husband."

(f) Section 202 (f) (2) of such Act is amended by adding after the words "one-half of a primary insurance benefit of such deceased individual" the words "or \$30, whichever is greater."

SEC. 3. (a) Subsection (a) of section 203 of such Act is amended by striking out "\$20" wherever it appears therein and inserting in lieu thereof "\$30."

(b) Subsection (b) of such section is hereby repealed.

SEC. 4. The last sentence of section 209 (e) (2) is amended to read as follows: "Where the primary insurance benefit thus computed is less than \$30, such benefit shall be \$30."

SEC. 5. Subsection (g) of section 209 of such Act is amended by striking out "sixty-five" and inserting in lieu thereof "sixty."

SEC. 6. (a) Subsections (i) and (k) of section 209 of such Act are amended by striking out "sixty" wherever it appears therein and inserting in lieu thereof "fifty-five."

(b) The amendments made by this section shall not be applicable to a wife or child who became entitled to an insurance benefit prior to the effective date of this section.

SEC. 7. The last sentence of section 209 (g) of such Act is amended to read as follows: "In any case where an individual has received in a calendar year \$200 or more in wages, each quarter of such year shall be deemed a quarter of coverage, excepting any quarter in such year in which such individual dies or becomes entitled to a primary insurance benefit and any quarter succeeding such quarter in which he died or became so entitled."

SEC. 8. Section 1400 of the Internal Revenue Code is amended to read as follows:

"SEC. 1400. Rate of Tax.

"In addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages of the wages (as defined in section 1426 (a)) received by him after December 31,

1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages received during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.

"(2) With respect to wages received during the calendar year 1943, the rate shall be 2 per centum.

"(3) With respect to wages received after December 31, 1943, the rate shall be 3 per centum."

SEC. 9. Section 1410 of the Internal Revenue Code is amended to read as follows:

"SEC. 1410. Rate of Tax.

"(a) In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ, equal to the following percentages of the wages (as defined in section 1426 (a)) paid by him after December 31, 1936, with respect to employment (as defined in section 1426 (b)) after such date:

"(1) With respect to wages paid during the calendar years 1939, 1940, 1941, and 1942, the rate shall be 1 per centum.

"(2) With respect to wages paid during the calendar year 1943, the rate shall be 2 per centum.

"(3) With respect to wages paid after December 31, 1943, the rate shall be 3 per centum."

SEC. 10. The amendments made by sections 2, 3, 4, 5, 6, and 7 shall be applicable with respect to the individuals receiving Old-Age and Survivors Insurance benefit payments on July 1, 1942, but shall not be construed to increase any such benefit payments which became due prior to such date.

SEC. 11. Sections 1 to 7, inclusive, shall take effect on July 1, 1942; and sections 8 and 9 shall take effect on January 1, 1942.

#### STATEMENT OF HON. SHERIDAN DOWNEY, UNITED STATES SENATOR FROM THE STATE OF CALIFORNIA

The CHAIRMAN. Senator Downey, will you proceed with such statement as you wish to make at this time?

Senator DOWNEY. Mr. Chairman, I am very grateful to have an opportunity to appear before the Finance Committee to present the report and the hearings of our subcommittee to investigate the old-age pension system in support of the bill that is now pending before this committee, as well as to make a very brief statement concerning the data that have been introduced.

I, myself, Mr. Chairman, if you will permit me to say so, am very much distressed by the death of Senator Adams. I had a very deep affection for him. I had a very high admiration for his industry, courage, and intelligence, and partly because of the news of the Senator's death I am shortening the statement I would otherwise make.

I realize, Mr. Chairman, likewise, that in this time of tragic tension between the Government of this country and the governments of countries, both on the Atlantic side and Pacific side of us, there is a disposition to concentrate all our faculties on international issues, however, I am only urging the Finance Committee to give the most solemn and serious consideration to this issue of pensions.

Now, that might be a somewhat surprising statement to some of the Senators here, and I want to impress upon the members of this Finance Committee that from recent personal investigation I have made in the State of California I am convinced that there are tens of thousands of our citizens in that State either starving or on the border line of starvation, and I am convinced that in the United States, this empire of boundless farm wealth, we have hundreds of



thousands of elderly people without savings, no longer able to work, who lack sufficient food.

I have recently returned from California, where I personally investigated many of these cases myself, and the conditions are so tragic and horrible that I have no desire to lacerate the hearts of any of the members of the committee by a particular description. Since I have been in the Senate, over a period of about 3 years, I have received on an average of about 100 letters a day from elderly people in this Nation telling of their condition, probably an aggregate of 100,000 people, largely from California, but representing every other State in the Union. I have here in my possession just two recently received, and, if the committee wants, they can be duplicated by the thousands, reciting at first hand the conditions under which some of our people are living.

This first letter I want to read to the committee concerns a man approaching his sixtieth year—written by his wife. Up to a very recent time we have been allowing to a couple such as this, under our general relief laws, the sum of \$30 a month, approximately. Due to certain local conditions existing in California that relief has been cut to \$20; and I want to read to the members of this committee a description of what it means for a husband and wife to try to exist on \$20 a month, and then to ask them to realize that we now have 2,000,000 people in the United States above 65 years of age who, upon a showing of extreme need—that is, that they have no other means of support, are receiving an average pension of this same \$20 a month, which is the average amount being paid to people over 65 years, under the old-age pension system and the old-age insurance system.

The letter I first desire to insert in the record is dated at Los Angeles, with an address, and was sent to me. It starts with a reference to some of my own activities in connection with pensions, and I ask the pardon of the committee for that, but most of those letters addressed to me do have some personal reference to me, and they are introduced not for that reason, but in spite of it.

DEAR SIR: I read in the Los Angeles Examiner a publication by Mr. Joseph T. Timmons, in which he states that you will sponsor an initiative measure for the next November ballot for a \$60 per month pension for persons 60 years old or more not gainfully employed. I am glad to know that you are interested in the aged. My husband, for one, would appreciate knowing that he can get help. His name is Patrick Henry. He was injured on a Work Projects Administration project in 1939; has not been able to work since.

He is eligible for the pension now, and would be very grateful for it.

Now, if I may depart from my letter; one thing that sadly impresses me is the meek spirit in which these elderly people write these letters. Seldom is there any abuse of social conditions; nothing but most polite and considerate language used by these elderly people who are now slowly decaying and starving in this Nation.

Returning now to the letter, Mr. Reporter:

He gets some help, but his check for the month of October was cut \$9.27, and we don't have food in the house. I am not able to go out to work, as there is no one to care for him, and it is hard on me to have his check cut. He had to carry the water hose on his right shoulder when at work, which paralyzed his right side. Our President says that nobody should go hungry, but we are. Will thank you kindly for a reply.

Respectfully,

BLANCHE PENNERY.

And then:

**Mr. Downey:** All they give us is \$20.68, and \$9.27 was taken out of that, so all I had left was \$2.15 to buy food with after I paid my rent, which was \$15, and gas and light was \$3.27, and all they sent me was \$20 October 17; the check was due on the 15th. So you see, Mr. Downey, what I had left out of \$20: Rent, \$15; gas and light, \$3.27; total, \$18.27; only \$2.15 to take care of my sick husband with, so I thought I would write you, Mr. Downey, because I knew you are over them at the relief office, and they have to do what you say. For I am really in need. I have no food in the house for almost 3 weeks and no money to buy food with. I thank you again, Senator Downey.

I know there is not a Senator here who could face the misery and destitution of these poor elderly people without giving them some relief, and yet statistically and by actual investigation we know the condition described in that letter is duplicated hundreds of thousands of times in the United States, but we haven't been preparing to do anything about it.

Here is another letter, and both of these letters, I think, were written on Thanksgiving Day, which was the reason I picked them out. This is from a man who is receiving the California pension. I judge it is a case in which the pension was cut from the California amount of \$40 to \$25 or \$20, probably because of expected support from children; that is my deduction. The letter will speak for itself. I take it from this letter that the recipient was receiving about \$25 a month.

**MY DEAR MR. DOWNEY:** Just a few lines this Thanksgiving Day. Most every one around here seems to be gone to dinner somewhere, all but poor me. I am here all alone out of money, out of everything to eat again. I pay my house rent, \$15 a month, and water bill and gas bill and other little expenses. It doesn't leave me enough to live on until the first of the next month.

I am 72 years old. My right leg has been broken twice and almost every rib has been broken in a wreck. I am not able to work any. I make a loaf of bread do me a week. A small sack of potatoes a month. The last of the month, the last 2 weeks, I live on one meal a day. If I want to go to town I have to walk 2 miles as I haven't got the 10 cents to pay the bus fare. I am out of money, out of things to eat, and 10 more days to go.

This morning I thought someone maybe would bring me something to eat, but haven't as yet, and it is 2 o'clock. I worked hard to help elect you and Governor Olson. Now, will you give us old people a pension.

I am satisfied there are thousands of old people all over this United States that need your help. In the Townsend plan. Give it a trial and see if it will work.

Give this letter to the one where it will do the most good.

And then the name, signature, and address.

**Mr. Chairman,** if those letters were isolated cases that I could relieve by a check from my own funds or which could be relieved by a call from the relief authorities they would not be very important, because they would be taken care of, but I have just received a report here from the Social Security Board indicating that we have something over 2,000,000 people past 65 years of age in the same terrible condition as these, and the average pension we are now paying those 2,000,000 people, who have no other means of support, is \$20 a month and, Mr. Chairman, I would like to emphasize that that is the average. Fifty percent of them are getting less than that \$20 a month.

**Senator VANDENBERG.** What is the Federal share?

**Senator DOWNEY.** Half, but let me say the payment under old-age subsistence and insurance are almost identically the same in both

maximum and minimum amounts. Of course, in California, the origin of these letters, we are paying the maximum paid in the United States. We are taking full advantage of the Federal offer, matching the State up to \$40 a month. One of these letters comes from a man 60 years who cannot qualify under the present law and who is relegated to our brutal relief system for actual subsistence to keep him alive.

Now, I have already stated that the Social Security Board figures show that there are over 2,000,000 people who are getting a miserable meager pension—\$10, \$15, \$20 a month—that by some decree we believe we can make it possible for them to exist on. But we have a class of elderly people between 60 and 65 caught in that dreadful period between the time when they are too old to work; too old for W. P. A.—60 to 65—and too young for a pension—who are not getting any pension at all.

I have gone into their homes where I was an honored guest and have been struck by their humiliation when they have been unable to serve me anything for dinner except tea and dry bread. The condition that is described in these letters is not extraordinary, but typical of many of our people.

At my request the Social Security Board has made a report showing that we now have in the United States about 1,000,000 of people between 60 and 65 who are unable to work, have no children to support them and no savings upon which to live. They are, as I say, relegated to the unhappy relief system which is slowly starving them to death.

In the bill presented here, which I introduced as a recommendation of our committee to investigate old-age pension, we call for an amount, not one which we thought was sufficient or decent or adequate, but the highest amount that we felt it would be possible to get from Congress at this time. The bill that is now before this committee calls for a Federal contribution to everyone past 60 who is retired from gainful employment in the sum of \$30 a month, with the expectation that every State would then add whatever it desired to that amount; and I might say that in the State of California I hope that the \$30 will be raised to the sum of \$60.

Mr. Chairman, as you and the committee know, a Gallup poll was recently completed on the subject of old-age pensions. It shows a great desire on the part of practically all the American people for an adequate Federal pension. In addition to polling upon the general subject of pensions, our citizens were asked to state what amount of money they believed should be disbursed as a pension. The average amount fixed in the United States by our citizens on this poll was the sum of \$42. The New England States declared for the highest amount, about \$50; the Southern States declared for the lowest amount, an average of \$32. In California, taken as a State alone, we declared for about \$56 or \$58. We fixed the pension figure at \$30 which was approximately the amount that the people in the South wanted to give as pensions under this poll, with the expectation that in the other States, the New England States, the Middle West, and the States along the Atlantic and Pacific seaboard, the people in those States would add to that whatever they desired. We departed in one respect in our bill and report from this Gallup poll. The Gallup poll indicates 77

percent of the American people believe that pensions should be given only in the case of and on the basis of actual need, and should not be given under what we term social dividends regardless of the financial condition of the people, provided only they are retired from gainful employment.

We estimate that if a general pension was granted all those who had reached the age of 60 and were retired from gainful employment—that out of the estimated 15,000,000 of our population who will reach that age in 1945, 10,000,000 would claim the pension. That would amount to \$3,600,000,000.

We point out in our report that if the present pay-roll tax, which, under the present act will not reach 6 percent until January 1, 1949, be raised to 6 percent, effective January 1, 1944, and that if that tax were universally applied, that is, extended to all self-employed groups, farmers, farm workers, employees of the Federal Government, of State, counties, and municipalities, and all other employed individuals who are not now covered by the system, such a 6-percent tax would be levied against a pay roll of about 70 billions and would produce more than enough money to make this payment from the Federal Government of \$30 a month.

Some of my committee members suggested to me after we had filed our report that it might be well to secure from the Social Security Board a statement of what would be the cost to the Federal Government and to the State if a pension was given to people past 60, on the basis of actual need. Under the standard set up in the present law, and from the figures developed by the Social Security Board, it would appear that the cost of the plan upon which I based my questions, in interrogating the Board, would cost the Federal Government something in the neighborhood of a billion dollars. At the suggestion of my committee, as I have said, I asked the Social Security Board to let us know what would be the cost of an old-age assistance program paid to needy persons 60 years or over. Where there is only one recipient in the family such husband or wife would receive \$40 a month from the combined payment by the State and Federal Governments but where there were two recipients in the family each of such persons would receive \$25 a month or a total between them of \$50.

The plan further prescribes that the Federal Government should reimburse the State up to 80 percent—

Senator VANDENBERG (interposing). What would be the need test under your bill?

Senator DOWNEY. It would be the same as prescribed at present under the old-age assistance system, that is, the recipient should have no savings, employment, or children sufficient to support him. Now, under those standards, the data of the Social Security Board indicates there would be somewhere around a million persons between 60 and 65 entitled to receive such a pension at a cost to the Federal Government of about a billion dollars a year.

I will now ask permission of the chairman to introduce for the record the letter relating to this data dated November 28, 1941, addressed to me and containing all this data.

The CHAIRMAN. It will be incorporated in the record.

Hon. SHERIDAN DOWNEY,  
*United States Senate, Washington, D. C.*

DEAR SENATOR DOWNEY: In accordance with the requests you made by telephone on November 22, we have compiled some tentative cost estimates which might reasonably apply to the series of old-age assistance specifications you gave me. I recapitulate these specifications as follows:

(1a) Old-age assistance to be paid to needy persons aged 65 years and over.  
(1b) In the alternative, old-age assistance to be paid to needy persons aged 60 years and over.

(2) For each such recipient, whether single, married, widowed, or divorced, who is the only recipient in the family or household, the assistance payment is to be uniformly \$40 per month.

(3) For each such recipient who is one of a married couple each of whom is a recipient, the assistance payment is to be uniformly \$25 per month.

(4) Federal reimbursement to be 80 percent; State (and local) funds to provide 20 percent.

(5) Federal reimbursement to be applicable under the present \$40 maximum monthly payment per recipient.

(6) For needy recipients aged 65 years and over, assume the current percent eligible; for those aged 60 to 64, inclusive, assume, alternatively, 15, 17.5, 20, and 24.6 percent eligible (the last being the current percentage of persons aged 65 and over who are old-age assistance recipients).

For the purposes of the calculation it was necessary to derive estimates of the proportion of recipients who, it is assumed, would receive the \$40 payments and the proportion who would receive the \$25 payments. Such estimates were based upon available data concerning persons aged 65 or over, namely data on (a) the characteristics of recipients accepted for old-age assistance during the fiscal year 1939 to 40, and (b) the proportion of married persons aged 65 or over living with a spouse 65 or over, as found in our Family Composition Study. The results were then arbitrarily applied to persons aged 60 to 64 inclusive.

From such estimates it appears that the combined average monthly payments, for persons aged 65 or over or aged 60 or over, eligible for Federal reimbursement under the stated series of specifications would be about \$36 per recipient. This, I may emphasize, is a tentative figure, subject to review. Total annual expenditures for the stated series of specifications were then calculated by applying this estimated average monthly payment to specified monthly case loads. The results are shown in the tabulation included herewith. The corresponding figures from the actual experience of the old-age assistance program during the calendar year 1940 are included for convenient comparison.

As you will recall from our telephone conversations, we have used the alternative percentages (15, 17.5, 20, and 24.6) as arbitrarily assumed proportions of those aged 60 to 64 years, inclusive, who would qualify as needy recipients. I would emphasize the point that these percentages are arbitrary; it should not necessarily be assumed, from these alternative percentages used, that the percentage of persons aged 60 to 64, inclusive, who might be eligible needy recipients will necessarily be less than the average percentage of persons aged 65 and over who are recipients under the current old-age assistance programs.

It will be evident from the tabulation that the stated series of specifications, with the indicated supplementary assumptions, imply a monthly case load of 2.2 million recipients 65 years of age or over and a total annual expenditure of \$952,000,000 of which \$762,000,000 would be a cost to the Federal Government. If the age limit were lowered to 60 years, the monthly case load would range from 2.9 to 3.4 million, the total annual expenditure from \$1,258,000,000 to \$1,453,000,000, and the annual cost to the Federal Government from \$1,000,000,000 to \$1,162,000,000—depending upon the assumed proportion of eligibles among those aged 60 to 64, inclusive. These figures may be compared with an average monthly case load of 2,000,000 persons aged 65 or over in the calendar year 1940, a total annual expenditure for them of \$473,000,000, and an annual Federal cost of \$235,000,000 for this program.

I hope these notes and estimates give you the information you wished to have when you first started the inquiry and to which you again referred in our telephone conversation yesterday morning.

Sincerely yours,

I. S. FALK, Director.

Coverage	Monthly case load	Total annual expenditures	Annual State expenditures	Annual Federal expenditures
Recipients 65 years or over in September 1941 ..	1 2,204,000	\$952,000,000	\$190,000,000	\$762,000,000
Recipients 60 or over, on alternative assumptions:				
(a) If 15 percent of persons 60 to 64 are eligible .....	2,011,000	1,258,000,000	252,000,000	1,006,000,000
(b) If 17.5 percent of persons 60 to 64 are eligible .....	3,029,000	309,000,000	262,000,000	1,047,000,000
(c) If 20 percent of persons 60 to 64 are eligible .....	3,147,000	1,360,000,000	272,000,000	1,088,000,000
(d) If 24.6 percent <sup>2</sup> of persons 60 to 64 are eligible .....	3,364,000	1,453,000,000	291,000,000	1,162,000,000
Actual experience under present provisions of Social Security Act: Experience for calendar year .....	1,986,000	473,000,000	<sup>3</sup> 238,000,000	235,000,000

<sup>1</sup> Excludes recipients 60 to 64 in Colorado.

<sup>2</sup> The proportion of persons 65 and over receiving old-age assistance in September 1941.

<sup>3</sup> Includes \$3,000,000 of nonmatchable expenditures.

Senator VANDENBERG. I am not very clear about your figures. Do these figures refer only to those from 60 to 65 and not from 65 on?

Senator DOWNEY. No; the figures here give the results in alternative forms for the groups of old-age assistance recipients, including those aged 65 and over.

Senator VANDENBERG. Is your compilation from 60 to 65 or from 60 all the way up?

Senator DOWNEY. From 60 all the way up, and it is assumed that the Federal Government would give 80 percent and the State government would pay 20 percent of the amounts paid.

The CHAIRMAN. How many recipients are estimated, representing two people for each family? Does the Social Security Board give anything on which that could be estimated?

Senator DOWNEY. I am not sure they do, but I can give that to the chairman. Of men above 60, about 75 percent are married men, and of those men above 60 who are married about one-half of them have wives over 60, and about one-half have wives under 60. Perhaps I can give the Chairman what he wants in another form; in the form stated in this letter. As I have already stated, under the plan covered by the data in this letter, a married person whose husband or wife is receiving the pension would only get \$25, together a couple would receive \$50, while a single recipient in a family would get \$40. Averaging all payments, both those made to married couples and single recipients, the pensions would average \$36, which would indicate substantially more individuals receiving \$40 than would be receiving \$25.

The CHAIRMAN. The average would be \$36? That is \$36 from the Federal Government?

Senator DOWNEY. No; a total of \$36, of which the Federal Government would pay 80 percent and the State 20 percent.

The CHAIRMAN. I see; all right.

Senator VANDENBERG. If the inflationary spiral is not controlled that would disappear overnight, wouldn't it?

Senator DOWNEY. Yes; and I am glad you asked that question. And I want to say that the impact of this present inflation upon the

pensioners of this Nation is already tragic. I have already received hundreds of letters indicating the unhappy results to pensioners of the present inflation. A typical couple are residing in a little town in a defense area where they have been paying \$20 a month rent. Now, they have been forced out of that house because the rent has been raised to \$35, which they just can't pay; likewise, of course, the food these pensioners are buying is continually going up in price, so this inflation is strangling them. More fortunate people may give up 70, 80, or 90 percent of their incomes in taxes, but they do have left at least enough to buy food, but pensioners did not have enough to buy the essentials of life even before this inflation started.

I want to point out that under this plan which I have been discussing, on which the Social Security Board gave the figures, it would cost the Federal Government maybe seven or eight hundred million dollars more than it is now paying out in pensions. As the committee knows, the present old-age insurance tax is 2 percent on pay rolls in covered occupations. This year those pay rolls are about 40,000,000,000, and the 2 percent will bring in about 800,000,000. The conclusion I arrive at is that the present pay-roll tax primarily levied for pension purposes would be more than enough, added to the money the Federal Government is already spending, to take care of this situation.

Senator VANDENBERG. You mean it would still pay that and preserve the actuarial basis?

Senator DOWNEY. No; I cannot say that, Senator Vandenberg, because the more I investigate actuarial plans of the present system the less I know of it. I would say it would provide money for this plan and supply the money that would go out in old-age assistance for the next 10 years, and while I am on that subject, if I may express this idea to the committee, in our report we suggest that the age limit under this plan should be 60 years. I want to emphasize this view; looking ahead 10 years, most all recipients would then be under the old-age insurance system, and not under the old-age assistance system.

Senator VANDENBERG. And you contend that can be done under the 2-percent pay-roll tax?

Senator DOWNEY. Yes; for the next several years.

Mr. Chairman, I realize that the receipts from the present 2-percent pay-roll tax, which this year will amount to about \$800,000,000, are being used for general expenses of Government and for military purposes. I understand that Secretary Morgenthau wants to increase that pay-roll tax to a very substantial figure—I don't know how much—with the expectation that this money shall be used to support our military expenditures.

The pay-roll tax was provided for social-security purposes. Insofar as the employer's tax is concerned it is a tax on the general consuming public, upon all of us, because the employer adds the amount of that tax to the cost of his goods. It is, therefore, a general tax on all of society, and if the committee will allow me to express my own opinion, I think it would be much more humane and decent and fair to use its receipts to alleviate the present miserable condition of our own people than to continue to utilize it for our military purposes.

Senator VANDENBERG. I think you can go further than that and say for me that I consider such use and diversion of that money as a flagrant and clear breach of trust.

Senator DOWNEY. I am gratified to hear the distinguished Senator from Michigan say that.

The CHAIRMAN. It should be said a permanent diversion is not contemplated; it may be contemplated to be used, but to be replaced by the bonds of the Government.

Senator DOWNEY. Yes. I feel that the distinguished Senator from Michigan could express my viewpoint on that more aptly than I, but permit me to say that while it is true the Government is giving its bonds for the money it takes out; nevertheless, in 10 or 15 years from now, when that money is needed, the Government will again have to tax our people to get it and in all probability the tax levied will fall on labor or the consuming public. But I realize this could lead to an indefinite discussion and I don't want to open that.

Mr. Chairman, I started out to make this point: I understand that our O. P. M., our military, and our administration are actually hoping and planning on spending \$2,000,000,000 a month next year for military purposes, or approximately \$25,000,000,000. I understand that the O. P. M. hopes that in the following year we can get out military production up to \$35,000,000,000 or \$40,000,000,000 a year. Now, I think that the leaders of our Government, if they take the position that it is a wise policy for the American Government to spend \$25,000,000,000 to \$50,000,000,000 a year for military purposes while allowing our own people to exist in their present miserable and distressed condition for want of the expenditure of a billion or two billion dollars a year, for them, are guilty of a lack of foresight that cannot be condoned.

While I am on this subject, Mr. Chairman, I cannot help but say, I cannot see how any government that makes pretension to moral leadership of this world is justified in doing it when great segments of its own people are existing in poverty and degradation almost equal to the most extreme poverty and degradation found in any place in the world.

Now, I realize the attention of our leaders is so forcefully concentrated on war problems that they have largely become oblivious to anything else. Perhaps that is natural, but I must continue to raise my voice against it. To me charity should begin at home. To me the direful distress of our own people should be put ahead, at least to a reasonable degree, of the military. I cannot justify expenditures running from \$25,000,000,000 to \$50,000,000,000 a year for military purposes by a government that is unable to find a billion or two billions to save its own people from starving; and, Mr. Chairman, I would like to place in the record while I am on this line of thought this fact: These people who are now in need of food and other things are largely the people who built the capital resources of this country; made it possible for the rest of us here in Washington to live safely and easily. It is the people past 60 years who in the tail end of the pioneer period largely built this Nation, cleared and planted farms, and built the factories and railroads. Now, I know what the extreme conservatist and the callous mind says: "Yes; but they had the opportunity to save and did not save, and because they did not save they must be condemned to the condition in which they now exist"

Mr. Chairman, let me point this out to this committee: One-half of the people of the United States, or more, have never received sufficient wages or salaries or income from which they could save one single cent.



The average wage under old-age insurance before the present boom was \$75 a month, or \$900 a year. The great majority of our families have never had over \$1,500 a year, and men and women cannot raise their families and feed them and clothe and shelter them and have one dollar left for savings out of that amount. Now, these people were not responsible for the social conditions that fixed their wages; they were held inexorably in a vice from which they could not escape. Mr. Chairman, it is true that perhaps a half of our people with somewhat higher incomes have had an opportunity from time to time to save, but I should like to tell this committee some of the tragic facts that were brought out in the hearing before our committee relating to that group.

Mr. Chairman, it seems to me almost by a law of nature that 9 out of 10 families, the middle class of America, have had some major disaster strike at them, over a period of years, which has wiped out their savings; families with an income of \$250 or \$300 a month who might, during the past 10 or 20 years, have been able to save some of their income, almost without exception, have been met with unemployment, sickness, failure of a bank or insurance company, failure or disability of some relative. The patient hoarding of years has thus been wiped out by conditions almost always and entirely beyond the control of those people. Prominent in this sorry list is that sad and dreary record of lapsed insurance policies; the dreary record of families who have faithfully and diligently maintained policies for 5, 10, 15, 20 years and then had to borrow on them because of unemployment, sickness or some other terrible disaster.

Of course, Mr. Chairman, the one event which has been the climax of these very conditions was the panic of 1929. That one panic, and the 10 or 12 years of depression that followed it, wiped out the accumulations and savings of tens of millions of our people, and no one can ascribe any fault to those individuals whose savings were thus ruthlessly cut away by the depression. I would like to give to the chairman just one extreme case in that connection which might be especially interesting to the distinguished Senator from Michigan. I had a client who had been a school teacher for over 40 years and during that period of time, by most laborious and frugal savings she had accumulated \$20,000, and in a rather modest way she used to boast to me about her sagacity and prudence. She refused to go into debt for one dollar and she had her \$20,000 in Government bonds in a safe-deposit box. Now, one would have thought that that woman was absolutely safe. She came into my office in 1926 or 1927, happy, and advised me that an uncle whom she hardly knew had died in Cleveland or Detroit and left her \$20,000 in bank stock which she then placed in her safe-deposit box along with the \$20,000 in Government bonds and she was therefore content in the knowledge that she had \$40,000 until about 1930, when the bank in which she owned her stock failed. The Government came upon her for a stockholder's liability and took her \$20,000 in bonds.

Mr. Chairman, this is an extreme case, but millions of people who are past 60 and in dire want are the finest citizens America has ever known, coming from pioneer stock whose labor and toil built this Nation. They were stripped by the depression of 1929 of the

patient savings they had accumulated and I, for one, cannot understand how any American citizen can enjoy his food or his soft bed while other people—his fellow citizens—sleep cold and hungry.

Mr. Chairman, I think that is all I have to say except I wish formally to introduce into the record parts 1 and 2 of the hearings before the Special Senate Committee to Investigate the Old Age Pension System; the letter which I received from the Social Security Board dated November 28, the letters from two citizens of California that I read, the preliminary report of our committee on the old-age pension system, and the bill S. 1932.

(The letters referred to appear on pp. 9, 5, and 6, respectively, of this record. Parts 1 and 2 mentioned above are in print as separate documents, as is the preliminary report entitled "Old Age Pensions," Report No. 666, of the 77th Cong., 1st sess.)

The CHAIRMAN. Has your report been printed?

Senator DOWNEY. Yes; it has. Mr. Chairman, I want to further say that Dr. Townsend was hoping to be here today and wanted an opportunity to testify before this committee. His airplane was grounded at Omaha; whether he can be here tomorrow or not I don't know; also Arthur Johnson of the General Welfare Group has expressed a desire to be heard by this committee; likewise our special pension committee has been in receipt of letters in the last month or two from several groups and individuals desiring to be heard by the Finance Committee, and I understand your clerk has numerous requests from individuals to be heard. Now, Senator Green was a member of our old-age pension committee and Senator Green has filed a minority report. He is here to speak for himself and can do it more eloquently than I.

Senator VANDENBERG. I would like to ask you, Senator Downey, this question: Does the bill that you recommend establish a pension as a matter of right rather than a matter of need?

Senator DOWNEY. Yes.

Senator VANDENBERG. That principle is completely sound so far as I am concerned, but we are confronted with a condition and not a theory, and I notice you spent a great deal of time in a discussion on the needs basis by way of initiating this plan. Do I understand that you would consider that we had substantially stepped forward if we attempted the legislation on a needs basis at the present time?

Mr. DOWNEY. Yes, Senator Vandenberg; I think that such legislation at this time would be a very valuable thing for society, but, if you will permit me to interpolate this, I have found in my discussions with Senators in the last 3 or 4 months quite a substantial number who believe that because of this tense condition that hangs over us, this legislation should be considered on a basis of need rather than right, and that is the reason for the language of the majority reports. It doesn't express my own viewpoint; I want to make that clear; but it apparently is the thought or judgment of a substantial number of the Members of the Senate that that is the approach which we should utilize at this time in view of the other pressing problems before the country.

Mr. JOHNSON. Mr. Chairman, just how extensive are the hearings going to be?

The CHAIRMAN. I can't say; we will go on long enough to get into the record all the pertinent facts.

Mr. JOHNSON. I testified before Senator Downey's committee and my testimony which is in the record already, a copy of which is before your committee, would be substantially the same if repeated here. Of course, I would be glad to reiterate our views I have expressed and to be heard further if further testimony is to be taken.

The CHAIRMAN. It is before the committee in this record here and it wouldn't seem profitable to reiterate it unless there is something new someone would want to produce.

Mr. JOHNSON. There isn't anything new in the field of which we are aware that has transpired since the hearing held by Senator Downey, but if other organizations are going to appear formally by representation we would ask, as representatives of the General Welfare Federation, on behalf of the steering committee of 160 Members of Congress, a nonpartisan steering committee, all the members of which have signed a resolution in full support of the General Welfare Act of General Welfare Act amendment to the Social Security Act embraced in H. R. 1410, pending before your committee as S. 1178, which I understand is the only general pension measure before the committee except Senator Downey's, to be heard.

In addition, there are 180 Congressmen who have signed the discharge petition to have this measure heard on the floor of Congress, so that it is the leading general pension measure before the Nation today, and I would like to have the opportunity of being heard on it if other testimony is to be had in addition to what already appears in the record. I realize, of course, that Senator Downey introduced into the record the testimony given before his committee.

#### STATEMENT OF HON. THEODORE FRANCIS GREEN, UNITED STATES SENATOR FROM THE STATE OF RHODE ISLAND

The CHAIRMAN. If you desire to be heard we will hear you. It is impossible at this stage to indicate how long we may be going on it.

I may make an inquiry and ask you, Senator Green, do you want to be heard as to your views?

Senator GREEN. Yes; I won't take much time. I want to say this at the outset, so I will not be misunderstood, that I am heartily in accord with most of what Senator Downey has said, and I want to congratulate him on the way he conducted these hearings before the committee to which this matter was referred. Full opportunity was afforded to go into all phases of the matter, and he was very fair in dealing with those who disagreed with him as to details, including myself. I greatly regretted I could not join in the report of the majority, for that reason, but there were some phases of it on which I felt I could not agree with the majority. For one thing, I thought it was impracticable at the present time to go as far as the majority proposed going. A substantial reason why I could not go along is that it calls for an expenditure for old-age pensions of over \$3,000,000,000 in addition to what the Federal Government is now providing; it is nearer 4 billions. It seems to me that such an increase at any time would be certain to disturb the social and economical life of the country; such additional expense, with the strain on the people generally for national-defense purposes is, in my opinion, unreasonable. Therefore, I propose an increased appropriation of not nearly so large as the majority report recommended, and which is included in the bill Sena-

tor Downey introduced. Furthermore, while not unsympathetic with the dire distress of many aged people, I feel that it is but one class of needy who need help, and I don't want to see undue emphasis placed on the needs of that class at the expense of other deserving groups. There are at present more persons under 65 than over 65 needing such aid. These include the totally disabled, those now on State general relief, dependent children, and recipients of relief having medical care in addition. It seems to me that much more can be accomplished at the present time by maintaining the present social-security law, supplementing its provisions by appropriate legislation, extending the classes which benefit under it than by throwing it overboard and starting fresh with an entirely new system.

I hope that the members of the committee will be good enough to read my views as set forth in the minority report. It begins on page 23 of this report, printed copies of which you have. I have incorporated in the report my views on the bill but not a draft because I understood this committee would give only preliminary consideration thereto; other matters would require their exclusive attention. If at any time I am called upon by the committee I will be very glad to furnish the amendments which I suggest and which I think come nearer meeting the problem than those set forth and recommended in the majority report.

The CHAIRMAN. Thank you very much, Senator Green; we will be glad to call upon you in the future at some appropriate time.

Is there anyone else?

I understand, Senator Downey, that Dr. Townsend desires to appear and perhaps there will be present three or four witnesses, but you are not able to say whether he will reach here by tomorrow morning?

Senator DOWNEY. It is hoped that he will be here, but it is not certain.

A SPECTATOR. Yes; he will be here.

The CHAIRMAN. Mr. Johnson, is there anything you want to put in the record at this time?

Mr. JOHNSON. How long do we have?

The CHAIRMAN. Well, 25 minutes, 20 minutes. We will have to get over to the floor.

Mr. JOHNSON. I haven't prepared anything to present at this time.

The CHAIRMAN. That is all right, I just thought if there was anything you desired to put in the record you might do so; or do you prefer to wait until Dr. Townsend arrives and then if anything new is brought out you may be heard?

Mr. JOHNSON. I think that is advisable, Mr. Chairman.

At that time I would like to have my observations included in the record.

The CHAIRMAN. Is there anybody else present who wishes to be heard?

I think it would be wise to recess until 10 o'clock tomorrow morning, at which time if Dr. Townsend is here with his witnesses we will be glad to hear from him, Senator Downey.

Senator Vandenberg, anything you wish to present?

(No response.)

The CHAIRMAN. We will recess until tomorrow morning.

(Thereupon, at the hour of 11:30 a. m. a recess was taken until 10 a. m., Tuesday, December 2, 1941.)

## OLD-AGE PENSIONS

TUESDAY, DECEMBER 2, 1941

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

The committee met at 10 a. m., pursuant to adjournment, in room 310, Senate Office Building, Senator Walter F. George (chairman) presiding.

The CHAIRMAN. The committee will come to order, please.

Senator Thomas, do you wish to sit down?

Senator THOMAS. No; I would like very briefly to make a statement for the record.

The CHAIRMAN. That is perfectly all right.

### STATEMENT OF HON. ELMER THOMAS, A UNITED STATES SENATOR FROM THE STATE OF OKLAHOMA

Senator THOMAS. I appear before your committee as a Member of the Senate. I appear here to show my interest in the subject matter. Personally I am convinced that the present law should be amended in at least two particulars: That is not all embracive, but in at least two particulars. First, I think the system should be made wholly Federal for various reasons, I will outline only one. Under the present law the Federal Government contributes a certain amount to the respective States on condition that the States raise a like amount. In many of the States we have no difficulty in raising funds to meet the Federal contribution, so that the aged people in those States receive the full benefit of the intent of the Federal law. In less populous, and what might be termed the poorer States, they are unable, because of well-known reasons, to raise the full amount to meet the Federal contribution.

As I understand, this system means that in the larger and richer States the elderly people receive the full benefits of the Federal law while in other States they receive only a meager amount; and an all-too-small amount for their care and well being.

If the system should be made wholly Federal, then the Government could provide a plan for raising the funds, and then make payment to all citizens irrespective of their location, in like amount; and I think the citizen, irrespective of his location, is entitled to that consideration at the hands of the Federal Government.

That is reason No. 1.

Reason No. 2, why I appear here specially, is the conviction that I have that the age limit should be reduced from 65 to 60 years. It

seems to be obvious that we cannot provide work for all who desire to work, and who must have income to support themselves.

Under the present economic set-up it seems necessary to provide relief for youngsters, too young to work, or for reasons it is not necessary to go into here, that they can not find work; and because of this condition the Federal Government has provided the C. C. C. to take care of a certain class of our youngsters who are not able to find employment to support themselves at times when they should be able to support themselves; also, we provide relief for some of our youngsters in the National Youth Administration to take care of those under 20 or 21 years of age.

Under the present economic set-up, when a man reaches 45 it seems that he is passé, especially if he undertakes to get work in industry; industry doesn't want a man over 45 years of age. Most recently industry apparently wants men of ages around 20, 21, or 22, and not more than 25; that is especially true, as I understand, in the airplane industry; so it seems that men from the ages of 45 to 65 do not fare very well in our present economic set-up, so from what I know about the matter it seems to me that the committee could give consideration to the proposal to reduce the age limit from 65 to 60, but make certain requirements that men of that age, if they should make application for relief under existing law, or laws to be passed, would waive their right to compete in industry with others who may be younger.

Now, I make this request: If it be agreeable to the committee that in the event some of the witnesses who desire to appear before you on this subject, if they be unable to appear, that they be afforded an opportunity of filing their statements, and if the statement is filed, that such statement be incorporated and made part of the record as if they had appeared; that would give those who may find it inconvenient to be here at the time the committee is in session an opportunity to have their viewpoint and recommendation made a part of the record.

The CHAIRMAN. That is quite agreeable, Senator Thomas, and any witness who has not an opportunity to appear here may file a statement of his views with the committee and we will be glad to have them entered in the record.

Senator THOMAS of Oklahoma. Sometime ago a voluntary unofficial committee was gotten together, representing a few Members of the Senate, and a few Members of the House. This unofficial committee has gone over the scope of possible testimony and, as chairman of that unofficial committee, I have placed in the hands of your Secretary a sort of an agenda giving the names of certain witnesses whom we hope might appear here and testify; and, without objection, I would like to file that agenda in the record at this time in connection with my remarks.

The CHAIRMAN. You may do so.  
(The statement referred to follows:)

NOVEMBER 27, 1941.

**PROPOSED SCHEDULE OF WITNESSES TESTIFYING ON THE ECONOMIC PHASE OF OLD-AGE PENSIONS, SENATE FINANCE COMMITTEE**

Under the present circumstances where many important national issues are involved, we have attempted to keep the testimony of our witnesses limited to 15 minutes each. These testimonies will all be accompanied by over 50 charts to illustrate the facts presented.

The total time of the prepared statements should not exceed 3 hours.

On the necessity of a universal old-age pension:

1. The monthly amount necessary for a minimum of decency and health for a single aged person over 60 and a couple over 60, at present price levels.

Illustrated by three charts.

2. Economic status of persons 60 years of age and over. Percentage of persons over 60 and persons from 60 to 65 receiving the above minimum from any source; pensions, work, relative, etc.

Illustrated by two charts.

Dr. Marjorie Shearon, social science analyst.

3. Fluctuations in the purchasing power of fixed pensions.

Illustrated by 11 charts.

Senator Elmer Thomas.

4. America's capacity to produce a decent pension.

Illustrated by three charts.

Witness to be named.

On the economic effect of spending pensions:

1. Relation of money and production in the United States in the past decades. (This presentation will show that production can be increased either by more money or more velocity.)

Illustrated by six charts.

2. The importance of old-age pensions in making up the deficiency of purchasing power, when defense spending is withdrawn.

Illustrated by two charts.

Congressman Jerry Voorhis.

On the Townsend plan, H. R. 1036 (answers to four questions on the Townsend plan):

1. Why a universal and equitable old-age pension after 60 years of age, geared to our national income?

Illustrated by seven charts.

Congressman Martin Smith.

2. Will the Townsend plan replace present pensions paid from public funds?

Illustrated by one chart.

Congressman James F. O'Connor.

3. Where will the money come from?

Illustrated by 10 charts.

Ivan Tarnowsky, consulting statistician.

4. How does the Townsend plan fit into the defense picture?

Illustrated by four charts.

Congressman Homer Angell.

Unofficial Economic Committee on Pensions: Chairman, Senator Elmer Thomas; Congressman Homer Angell; Congressman Martin Smith; Ivan Tarnowsky, consulting statistician.

Senator THOMAS of Oklahoma. At the present time we have before the committee a lady who desires to be heard, Dr. Marjorie Shearon, who is a social science analyst, and without taking the time of the committee, I would like to file a statement in the nature of an introduction of Dr. Shearon, and with the consent of the committee I would like to present her for a statement at this time.

The CHAIRMAN. Very well, Senator Thomas, you may have that inserted in the record.

(The statement referred to follows:)

Dr. Marjorie Shearon is a social science analyst on the research staff of the National Institute of Health. For the past 5 years she has been a member of the staff of the Bureau of Research and Statistics of the Social Security Board, where her principal work was the study of social and economic conditions leading to old-age dependency. In 1937, she wrote the economic brief in defense of the Social Security Act, the document being entitled "Economic Insecurity in Old Age." The brief was published by the board and was used by Robert H.

Jackson, then Assistant Attorney General, when he defended and won the case before the Supreme Court. The material presented at that time by Dr. Shearon was summarized by Mr. Jackson in his legal brief and her arguments were used and cited by the late Justice Cardozo when he gave the majority ruling of the Supreme Court in a 7-to-2 decision on May 25, 1937, upholding the old-age benefits titles of the Social Security Act.

Since that time Dr. Shearon has published a paper entitled "Economic Status of the Aged" and has, during the past year, carried on her researches in this field. These are embodied in a paper bearing the title "Economic Status of the Aged in 1940 and 1941" which is to be published as a special Senate document.

Before coming to the Federal Government in 1935, Dr. Shearon was a research assistant in the New York State Department of Social Welfare, where she studied the administration of old-age assistance in New York City, and later she was assistant director of statistics in the emergency relief bureau in New York City.

The CHAIRMAN. Dr. Shearon. You may be seated at that chair if you wish to.

Dr. SHEARON. Thank you.

**STATEMENT OF DR. MARJORIE SHEARON, SOCIAL SCIENCE ANALYST, NATIONAL INSTITUTE OF PUBLIC HEALTH, BETHESDA, MD.**

Dr. SHEARON. Mr. Chairman, in introducing myself, I should say that I am a social science analyst of the Public Health Service but I have for the past 5 years been a member of the staff of the Bureau of Research and Statistics of the Social Security Board, where my principal work has been the study of social and economic conditions and the problems of our aging population. I have a prepared statement.

The following testimony is presented in answer to certain questions submitted to me by Senator Elmer Thomas. I wish to make it plain that I am speaking as an individual, that my views are at variance with those of some members of the Social Security Board, but that I have the permission of Mr. McNutt, the Director of the Federal Security Agency, to make this statement with the understanding that I speak not for the Agency but for myself alone.

The first question that the Senator asked me is this :

What, approximately, is the percentage of persons 60 years of age and over receiving less than a minimum of decency and health?

I had hoped that some of the experts in the field of cost-of-living studies either in the Department of Labor or in the Department of Agriculture would testify before me as to the amount which is needed by a single aged person and by an aged couple as a minimum of decency and health. There is no published material on this subject, so far as I know, but I believe studies now being made by the Social Security Board should throw some light on the question at a future date. I would recommend to the committee, if I may, that you request such studies, which are now in preparation. I believe they would be of great value for you to have, relating to the aged individual and the aged couple, both for subsistence and decency, but lacking that information I have gone ahead with what data are on hand.

It is to be noted that the provisions of nearly all State laws for old-age assistance call for payment to the aged person of an amount sufficient to provide a minimum of health and decency. How that minimum is to be determined is not made clear, but in practice the



amount given to aged persons receiving old-age assistance is limited by administrative practices and by the size of appropriations and has little, if any, relation to health and decency.

In the welfare field it has been customary to think in terms of a minimum of subsistence rather than in terms of health and decency, and today, in spite of the great advances that have been made during the past decade in providing greater security for a considerable part of the population, we still hew to the line of the old poor-law practices which have been handed down from the days of Queen Elizabeth.

We still think of general assistance to the unemployed and of old-age assistance and other forms of public assistance as some niggardly amount just sufficient to keep the person alive—and not always that. The present average monthly payment of about \$20 per recipient of old-age assistance is, I surmise, seldom computed with any idea that it approaches a decent standard of living. While the argument is sometimes made that the aged have other forms of income and that old-age assistance is intended only to eke out the budgetary deficiency, the fact remains that nearly three-fourths of the persons accepted for old-age assistance in 1939-40 had no other type of income, and over half of them were living alone or with relatives other than a spouse. In many instances married couples were compelled to live on a single grant of old-age assistance because while the husband might be eligible the wife, being usually under 65, would be ineligible. The grants have been inadequate not only for food, shelter, and clothing, but have generally included little or no provision for medical care and the preservation of health.

We cannot, therefore, hope to find the measure of a standard of health and decency in our present welfare practices. However, numerous studies have been made by the U. S. Department of Labor, the Heller Committee in California, the National Industrial Conference Board, and various social agencies which have been interested in standard budgets for working-class families above the relief level. Not only do we know the approximate amount needed for an independent family of four or five in cities of varying sizes, but we also know from recent analyses published by the National Resources Planning Board, based on cost-of-living studies made by the Department of Labor and the Department of Agriculture, how families actually spend incomes of varying sizes.

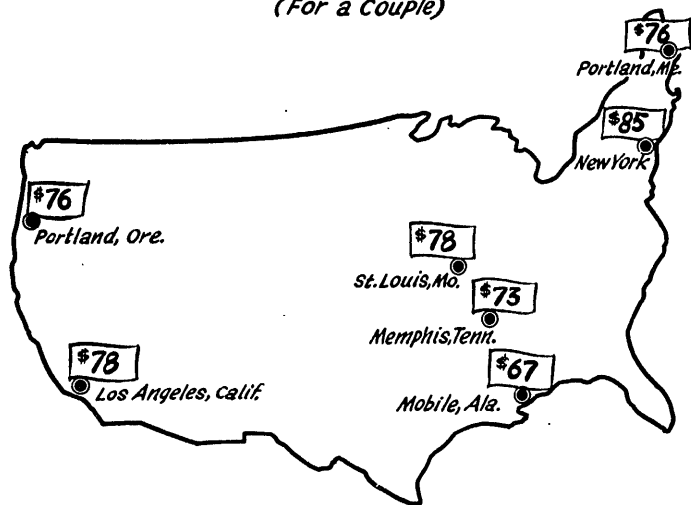
From all of this information it would appear that a single aged person, living in a large city like New York or Washington, might have a reasonably adequate standard of living which could be classified as one of health and decency if he had an income of about \$50 a month. This would provide what we customarily refer to as an American standard of living which calls for adequate food, decent housing, comfortable clothing, and a modest allowance for insurance, health, recreation, and sundries. It is true that some old persons in urban areas might survive on less. Many single persons are somehow managing to live on from \$30 to \$40 a month by doing without even the bare necessities of life. They have a minimum of subsistence which permits living in frugal and uncomfortable surroundings; they have little or nothing for the replacement of clothing which is supposed to be obtained in some miraculous way by squeezing a few cents a month out of the food budget; they must use clinics for

medical care, or, if physically unable to reach a clinic, they must go without care or depend on the private charity of some physician whose services can be obtained gratis. But if we are to provide health and decency then we must see to it that the aged person has a reasonable amount for his ordinary needs, and I believe it would be generally conceded that \$50 a month is a conservative amount in our large cities. The range in cost of living in the cities from north to south and east to west is about 21 percent, according to the Bureau of Labor Statistics, so that we arrive at a figure of from \$40 to \$50 for a single aged person. Similarly, it would seem reasonable to assume that a married couple would require about \$85 a month in a large city, the intercity range being from \$67 to \$85. Again, this is for a budget of health and decency.

## GEOGRAPHICAL DIFFERENCES

### IN COST OF LIVING

(For a couple)



Sources: Dr. Marjorie Shearon,  
Social Science Analyst.

Bureau of Labor Statistics, "Changes  
in Cost of Living," (Table 7) Sept. 15, 1940.

Dr. SHEARON. May I refer to chart 4 (see p. 22), which gives you the material in regard to the range from New York down to Alabama, Mobile, Ala.; and I think you will find it interesting to know that the amount in Portland, Maine, and in Portland, Oreg., happens to be the same.

Senator VANDENBERG. As of what date?

Dr. SHEARON. September 15, 1940.

Senator VANDENBERG. Well, these figures would vary completely from the applicable figures today.

Dr. SHEARON. Yes; they have gone away up since that time.

Senator VANDENBERG. And if you don't have adequate price control of some sort, none of your arithmetic is worth anything at all, is it?

Dr. SHEARON. That is correct, and that is a matter of concern to social workers all over the country. A paper has just been published in the November survey showing the problems occasioned by the rising cost of living, which is going up so much faster than the means of subsistence is being provided for these people on public assistance.

These figures may be compared with those given in a recent Gallup poll (August 8, 1941). In answer to the question "What do you think is the smallest income per month that a single person over 60 needs for a decent living in your community?" the replies ranged from \$32 in the South to \$50 in the East, the national average being \$42. And I suppose a great many persons in the South, particularly the Negroes, wouldn't even know what a decent living was because they have never known it.

A similar question for a couple brought replies ranging from \$59 in the South and West to \$78 in the East, the national average being \$73. These are the smallest amounts that the people of this country thought an aged person or couple could get along on decently—\$42 and \$73 a month, respectively, and that is shown in chart 2 (see p. 24), according to what people themselves thought, without any statistics or studies as to health and decency, what they thought a married couple would need in their community, and I am citing these figures to show that the figures I am giving here are in line with our general thinking about what you would need for a reasonable mode of living, nothing fancy.

Dr. SHEARON. If we assume \$85 a month for an aged couple living in New York or Washington, we find that this sum will be distributed in the following manner according to the findings of the National Resources Planning Board.<sup>1</sup>

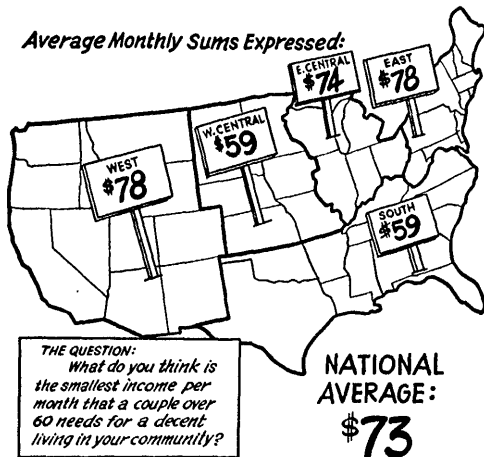
Then turning to chart 3 (see p. 24), which shows the distribution for food, clothing, and so forth, for a couple receiving \$85 a month, you will see \$35 for shelter (rent, utilities, and household operation), and if you know anything about rents in Washington—this estimate is for cities where we have high cost of living, like New York and Chicago—you will know the difficulty of getting along on that amount; the food, \$1 a day, is very conservative; 50 cents a person. It isn't very much, but one could keep alive on it, and in health if we were not in a terrible emergency.

<sup>1</sup> Family Expenditures in the United States, National Resources Planning Board, 1941, 209 pp., p. 22, table 66.

# GALLUP POLL

## on OLD-AGE PENSIONS

Average Monthly Sums Expressed:



source: Gallup Poll,  
Released Aug. 8, 1941

### CHART 2

(Chart 3, referred to, is as follows:)

### CHART 3

Monthly minimum for decency and health for a couple over 60

Food.....	\$30.00
Shelter.....	35.00
Clothing.....	6.00
Transportation.....	5.00
Medical care.....	3.00
Recreation.....	1.50
Personal care.....	1.50
Tobacco.....	2.00
Reading.....	1.00
Total per month.....	85.00

Sources: Dr. Marjorie Shearon, social science analyst, and National Resources Planning Board, "Family Expenditures in the United States" (table 66), June 1941.

Dr. SHEARON. In answering the question how many persons 60 and over have sufficient income to enjoy a standard of living that means health and decency, I submit this table (see p. 25) on the means of support of persons in this age group on January 1, 1941. This is a revision of the table I submitted before the special Senate committee in July. I have now included the latest census figures and current data up to November 30, 1941. And I might say that the proportions

are virtually the same as I had in my previous testimony, but the figures are a little higher than our estimates of the aged a few months ago.

(Chart 5, referred to, is as follows:)

CHART 5

*Means of support of persons 60 years of age and over, 1941*

	Number	Percentage distribution
Total number of persons in the United States.....	13,900,000	100.0
A. Self-dependent.....	6,264,000	45.1
By reason of:		
1. Current earnings.....	2,700,000	19.4
2. Savings, real estate or securities.....	2,325,000	18.8
3. Federal, State and municipal pensions, or insurance payments.....	708,000	5.1
4. Industrial and other private pensions.....	142,000	1.0
5. Insurance annuities.....	364,000	2.6
6. Other resources.....	25,000	.2
B. Dependent.....	7,636,000	54.9
1. Supported wholly or partially by public or private social agencies.....	2,986,000	21.5
2. Dependent on children, other relatives (including spouse in some instances), and friends, (wholly or almost wholly).....	4,650,000	33.4

Source: Marjorie Shearon, data submitted at hearings before the Special Committee to Investigate the Old-Age Pension System, U. S. Senate, 77th Cong., 1st sess., 1941, p. 215, revised as of Nov. 30, 1941, to include data from 1940 census.

Dr. SHEARON. I have divided the 13.9 million persons in the 60-and-over group into those who are essentially self-dependent by reason of earnings, savings, or pensions and annuities, and those who are essentially dependent either on social agencies or on family and friends.

I have assumed that a person with a monthly income of less than \$25 is presumably, in most instances, not dependent on his own resources. We know from observation that most persons during their active working years depend on wages, salary, and entrepreneurial withdrawals. The vast majority of persons 60 and over still depend upon earnings as their primary, and usually their sole, source of independent income. And I want to stress that point because practically everyone in the community, ourselves not excepted, depends on his monthly pay check. Whether we have a large or small income, we are watching for our monthly pay check, and, as a rule, have very little to fall back on other than it, so earnings are the important thing for everyone when they stop the means of subsistence usually stops. The person, therefore, who earns less than \$25 a month usually has no other form of income and must depend on some subsidy either from society or from family and friends. Such persons are to be found in my dependent classification. And I refer again to chart 5.

It must be recognized that the economic status of the aged is one of flux. A man at 60 may have savings that will last several years, he may have a job and own his home. Five years later his savings may be exhausted, he may have lost his job, and he may have mortgaged his home or lost it through foreclosure. But if on any particular day we take a cross section of our entire aged population I believe the economic status would look about as I have given it in chart 5.

Unfortunately, there has never been a door-to-door canvass of the aged that would reveal their means of support. Some surveys were

made years ago, but they are out of date, and even at the time they did not give a complete cross section of the means of support of all the aged. And the reason for that is they were generally made in connection with approaching State legislation when they were considering only persons who were qualifying under a means test, and it is therefore not accurate for our purposes.

Senator VANDENBERG. Again, if you don't control the inflationary spiral the class of independents will disintegrate into a class of dependents very rapidly, will it not?

Dr. SHEARON. Most certainly.

Senator TAFT. That applies, however, to about half the wage earners.

The CHAIRMAN. That applies pretty nearly to everybody.

Dr. SHEARON. I doubt, as a matter of fact, whether it would be possible to obtain the necessary information about sources of income and amount thereof by a door-to-door canvass because persons not on relief and not seeking it would probably object to giving such detailed personal information. The 1940 census did include some income questions but failed to obtain separate data on independent sources of income, such as pensions, annuities, and income from investments. Persons receiving income of \$50 or more from sources other than wages and salaries were simply asked to state that fact; and for that reason the 1940 figures have been very disappointing to those of us who hoped to get some reliable information as to the economic status of the aged. Persons over 60 and 65 who had any income would be deriving it ordinarily from sources other than from wages and those sources were not included; they were simply asked to state the facts that they had nonwage income exceeding \$50.

Thus, the man with a \$50,000 income from securities would be classified with the man who received \$250 a year from old-age assistance, since both had an income of \$50 or more from a nonwage source. The only other recent canvass that might possibly have yielded some direct information about economic status of the aged was the National Health Survey made in the winter of 1935-36. The schedule for that survey contained a question on family income, but nothing about the size or source of income of aged persons in those families, and, therefore, provides no direct information in regard to the economic status of the aged.

For these reasons I have been compelled to develop this indirect method, which I have shown on chart 5, which I have been using for the past 5 years. It indicates that roughly 55 percent of all persons 60 and over had an independent income of less than \$25 a month. If we step up the income to \$50 a month, I believe it would be conservative to say that probably at least 80 percent of the persons in this age group do not have that much, and I am inclined to believe that the percentage is even higher. I refer to chart 7 (see p. 37), which gives in pictorial form what we have given in figures in chart 5. It would require a capital investment of \$30,000 at 2 percent, or \$20,000 at 3 percent, to have an income of \$50 a month. And how many persons in this country have a capital investment of \$20,000 or \$30,000? As to earnings, we know that one-third of the workers in the 60- to 64-year group who had taxable wages in 1937 earned less than \$600 that year, and that there were fewer than 500,000 workers in that age group who had taxable wages over \$600. That is, in this group 60 to 64.

We also know that earnings decline with age except for certain skilled workers and for professional workers, and even these are not exempt from income loss after the age of 60 or 65. The number of aged workers in the labor force has declined markedly over the past decade, so that there are relatively and absolutely fewer workers in the 65-and-over group than there were in 1930. That is one of the most important points I want to bring out. We have an expanding aged group and a static or declining working nucleus in that group. It is a very serious matter. That was foreshadowed in the census of 1937, the unemployment census, where we saw there was a shrinkage in the actual and proportionate number of workers over 65. It came out much more clearly in the 1940 census where it became evident that there had been a decline in the number of male workers over 65 in the decade of 17 percent; an enormous shrinkage. Those people not working to support themselves; and there was a proportionate decline in the age group 45 to 64, ages which we have always felt in the past were the prime of life.

Senator TAFT. Do you know whether the defense program has corrected that at all?

Dr. SHEARON. It has, to a certain extent, but the number is insignificant. The Social Security Board reports that 27,000 over 65 have given up their pensions and gone back to work; 27,000 is just nothing, under the circumstances.

Senator TAFT. Just tends to delay the retirement.

Dr. SHEARON. Yes; however, the WPA is making a very careful and close analysis of this situation. It is the best thing that has been published. They are making a thorough study, and they are showing that although a few of the older workers have gone back to work, and some who would have retired have stayed on, that the number is small. During the past year some 600,000 over 55 did get employment. Well, it is such a small number as to be insignificant in the total population 55 and over. Reemployment is only in those fields where special skills are needed; it is very spotty. No employer seeks the older worker unless a younger one is not available.

Senator VANDENBERG. Well, we are not going to be at war forever, I hope, I hope.

Dr. SHEARON. No; and it is that crucial postwar period that we must think of now.

Much of the evidence I have used in drawing conclusions about the proportion of persons 60 and over who have an independent income of \$50 a month is of necessity indirect. And, I might say, that I have had direct and intimate experience in this field for many years, and it is my primary interest, both professionally and in my private time.

I have drawn not only upon studies of income and wealth and studies of family expenditures, but also upon my direct knowledge of economic conditions in our middle-aged and aged population. The more I study this whole problem, the more impressed I am with the lack of security that exists even among persons with comfortable incomes. The 35 to 40 years which workers normally have for the accumulation of savings for old age are marked by three or four severe depressions which may result in loss of employment, loss of home, loss of insurance, and loss of cash savings. Sickness, accident, and death make further inroads on savings, so that by the

time old-age is reached there is little or nothing left for the final years when income from wages or salaries ceases. It is not possible to give exact figures, but possibly two-thirds of the persons in the 60- to 64-year group have incomes of less than \$50 a month. Married women in this age group are in a peculiarly precarious position, because they are likely to be married to men who are, on the average, 5 years older than they are. (See chart 6.)

CHART 6

*Estimated marital status of persons 60 and over, Jan. 1, 1940*

Marital status	Total	Male	Female
Total.....	13, 200, 000	6, 600, 000	6, 600, 000
Unmarried.....	5, 900, 000	2, 100, 000	3, 800, 000
Married.....	7, 300, 000	4, 500, 000	2, 800, 000
Spouse under 60.....	2, 100, 000	1, 900, 000	200, 000
Spouse over 60.....	5, 200, 000	2, 600, 000	2, 600, 000

Source: Estimate by Robert J. Myers of the Social Security Board. Memorandum dated Feb. 14, 1939.

Dr. SHEARON. This is an extremely important thing. I don't think we have stressed it nearly enough, the precarious condition of women in the 60-to-64 age group whose husbands are 5 years older than they, and most of those men are not working. Such men may have retired on pensions or may be in receipt of old-age assistance for which the wives are ineligible or they may be working at small wages. Widows in this age group are often forced into an unreceptive labor market and unmarried women who have always worked find themselves jobless because of age. These dependent women are frequently reduced to dire poverty and are compelled to seek work as domestic servants or to live upon charity grudgingly given by friends and relatives who are themselves hard-pressed.

I would like to give you this table on chart 6 and to explain it just a little; it is very significant. This shows the marital status of persons 60 and over. It was prepared by one of the actuaries of the Social Security Board and has been of great use to us in all these studies. You will see that while the distribution between male and female is about equal for the total, there is a big difference between male and female when we come to the marital status. You will note that there are nearly 4,000,000 unmarried females as compared to about 2,000,000 males. Now, the unmarried include not only the single but also the widowed and divorced. I think that this reflects, to some extent, the fact that the old man whose wife dies is more likely to remarry than the elderly woman who either doesn't care to or does not have the same opportunity, but there is a marked differential there between the sexes.

When we come to the married group of 7,000,000 persons, we again note for the spouses under 60 that many of the males, a goodly proportion of the males, do have a spouse under 60; that the females, because of our marital custom, there are only 200,000 that have a spouse under 60, and this leads, of course, to a disparity in the economic condition and independence of the female.



Now, for the spouses over 60, both male and female, they are about equally divided. That table is very significant and in our thinking it shows that while the older women are—

Senator TAFT (interposing). Do you have the exact average difference of the ages of wives, the statistical data?

Dr. SHEARON. There is about 5 years' difference; it is very close to that. We do have actuarial tables, but we say there is about a 5-year differential. Now, take the woman 65 married to a man of 70, the precariousness of her condition is great, and I might by using table 6 and comparing it again with my table 5, this dependent group, dependent on children or relatives, point out that we have  $4\frac{1}{2}$  million dependents, most of whom are single women and widows; there are some wives. It is that large group of the widows and single who are just left stranded. The little bit of insurance usually doesn't last long. The insurance most of these people have is the industrial insurance which barely pays the funeral expenses. We are so inclined to think of the amount of insurance we carry and what it will provide that we fail to consider that the major part of our population carries industrial insurance averaging about \$200 per policy.

In closing my testimony, I should like to point out that much of this problem of old-age dependency is of our own making. We have a population that is aging rapidly. The absolute and relative number of middle-aged and old persons is increasing rapidly, while the number of workers 60 and over is declining and job opportunities in middle life are shrinking. As a result of unemployment or underemployment in middle life many workers exhaust their life's savings before reaching old age. If, on the other hand, we had full employment as we should have and as we could have, if we planned as well and worked as hard to increase production for peace as we do for defense and war, such full employment would keep workers from exhausting their savings in middle life and in addition would produce a national income of 100 or 110 billion dollars which would more than take care of adequate pensions for workers when they did retire. Full employment, which means full utilization of our human resources, will provide the goods and services needed by all parts of the population.

And I refer here to my final chart, which is numbered 1, which is taken from the recent publication by the National Resources Planning Board, entitled "After Defense—What?," which shows what we might have in the way of full employment if we put all our workers to work and the national income that might be ours if we chose to have it.

Under such a system we should not be thinking in terms of \$25 or \$50 a month, nor in terms of minimum budgets, whether minimum of subsistence or minimum of health and decency, but rather in terms of what we can produce. As the National Resources Planning Board pointed out in their recent report:

When we organize for maximum production on the basis of full employment, without being stopped by the costs, we discover, as have other nations, that increased production pays the real costs involved. Doing the job pays the bill. In other words, the central problem is not money, it is manpower, resources, and organization.

The CHAIRMAN. Thank you very much.

Senator **VANDENBERG**. I would like to ask you one question, referring to your chart No. 3. Of course, in the final analysis these problems come down to finding revenue to pay the bill and there are various sources of revenue available. We constantly hear that a general manufacturer's sales tax is unfair because it is a burden upon the lower income groups. I have never been able to understand that and I am, therefore, particularly interested in your chart. If we had a general manufacturer's sales tax with food, clothing, and medicine exempted, I don't find any who would have to pay a sales tax on your budget.

Dr. **SHEARON**. No; those would be the primary things. This, I might say, is a distribution as given by the National Resources Planning Board where they show how families getting \$75 a month actually did spend that amount and they show the various items of expenditure.

The **CHAIRMAN**. Any other questions from any member of the committee?

(No response.)

The **CHAIRMAN**. Thank you very much. Congressman Smith, do you wish to be heard at this time?

Senator **DOWNNEY**. I don't think Mr. Smith is here.

The **CHAIRMAN**. Dr. Townsend, will you come and sit down here, if you desire?

Dr. **TOWNSEND**. I prefer to stand, if I may.

The **CHAIRMAN**. You may make any statement you care to. The committee has under consideration the bill presented by Senator Downey, but we are not confining ourselves to any particular proposal.

#### **STATEMENT OF DR. FRANCIS E. TOWNSEND, PRESIDENT, TOWNSEND NATIONAL RECOVERY PLAN, WASHINGTON, D. C.**

Dr. **TOWNSEND**. Mr. Chairman and gentleman of the committee, my talk to you this morning will not be along the lines of statistics; I am not going to try to advocate any particular phase of legislation that I think should be enacted to meet the exigencies of the times; I am going to present my argument in the form of an ordinary, logical argument. I believe if there is anything needed in this world today more than any other it is the unity of the people in the face of the national and international crisis before us; it is essential that the American people be united. As you know very well, there is evidence right here in Congress every day there is anything but unity of opinion in America today. There is only one way to bring that about, in my estimation, and that is for the Government of the United States to demonstrate to the people at large that the common John Does of this country are as much under consideration, their welfare just as much of importance in the eyes of the Government as the welfare of any other people on earth.

I travel about over this country and I travel a great deal; I know John Doe and his wife intimately; I have dealt with him all my life and I can tell you that the expressions of opinion I get from the common people of this country are anything but conducive to loyalty to this country. John Doe is saying to himself, and I hear it on every hand, everywhere I go I hear this expression of opinion:

"Why should I fight for a government that gives so little consideration to my welfare? Here I have been tramping the country

for 12 years trying to obtain a job for myself, and it has not been possible for me to get one. I have had to go on relief; I have had to become a pauper; my children and my wife have had to go hungry, pleading with the Government for an opportunity to work and it has done nothing for me. Why should I be willing to sacrifice my life to fight for a Government that gives me so little consideration?"

Gentlemen, the industrial revolution has been on in this country for many years; it is progressing with ever-accelerated rapidity. The political revolution is starting, but it is away behind the industrial revolution. Now, the time is shortly coming when we are going to face a real crisis in America. As soon as this war ends, we are going to dump millions of men back on our labor market that cannot be absorbed; they cannot get jobs. When hungry men go rioting up and down the streets of our cities, what attitude is this Government going to take? Are we going to call out the militia and mow them down? I don't believe our Army would respond to an order to do that; I believe we would have a political revolution in this country if we attempted it. I talk to soldiers all the time, have recently; I meet them everywhere, and this is their attitude:

"What sort of a Government have we that compels us to get into a uniform and prepare ourselves for targets for Army guns at the remuneration of \$21 a month, when millions of workers in defense industries are drawing down \$10 and \$15 a day? Why should I feel any great loyalty to that Government that makes that discrimination between men?"

You take the situation throughout the country generally: Poverty is rampant. I have been making several trips through the South of late. Gentlemen, the condition of life in the South is appalling; it is as bad as it is in the slum areas of our great cities. How in the world can this Government survive any great length of time with half of its citizenship becoming more degraded continually, more cursed with poverty and ignorance and disease? We are not going to be able to survive as a Nation unless the Government immediately takes into consideration the general welfare of all the people. No government is worth perpetuation that does not take it into consideration; we have not done it in America. We have been as negligent as any nation ever has been in all the history of the world so far as taking care of the general population is concerned.

Now, the people are in a mood to revolt, and they are going to revolt; you are not going to find partisanship holding the people in line any longer. Party politics has been the curse of this country for the past 10 or 15 years, longer than that, but becoming worse with time. If partisanship is going to lull the people and keep them quiescent, if that is the hope, then that hope better be abandoned because it is not going to accomplish that. Today you will find more people who are paying no attention to party lines than ever before. I believe one of the most salutary things that could happen to this country would be to wipe out party politics; do away with the so-called party politics and have the people united on a program of progressive advancement for all types of citizens.

Of what use it is for medical science to attempt to control great diseases in this country which depend entirely, practically entirely, upon poverty; poverty is what makes for these diseases; poverty and ignorance together, and ignorance is a direct result of poverty.

If we are going to advance this country in proportion to our accomplished ability to go forward, we must of necessity find some way of making use of all our population in the matter of this advancement. The thing that has ailed this country for the last 12 years is a lack of markets, and if we just stopped and paid attention to the staple markets for goods, everybody contributing to that demand for goods by having cash in their hands with which to buy, there is no limitation whatsoever on the progress this country could make; there could be no limitation to it. You can not, however, build an America and create more wealth with a continually increased number of people who are unable to buy. There is no use advertising goods for sale to people who have not the money to buy them. The important thing for the Government to do at this time is to ascertain how to build the chain of distribution; there is one link badly out of line, broken; that is the money link; and if we can not devise some way whereby money can be equitably distributed throughout the population in such an abundance that it will permit everybody to find employment, create new industries, then this type of capitalization that we know is doomed; it is not going to last. It has already destroyed itself. The advent of the machine in this country has permitted all those who can buy and put in manufacturing devices of a machine nature to do so in hopes of increased prices for themselves, but in the process they have destroyed their own markets by laying off men. Machines cannot buy goods; men only can.

Why isn't it perfectly possible for this great rich country with the finest resources in the world, the best equipment for producing wealth—why isn't it possible for us to equitably distribute money? Instead of carrying a great percentage of our population on the backs of the producing element as a hindrance and encumbrance, why can't we set them aside and say, "If you can't produce directly, do so indirectly; create and maintain the markets for goods so that all of our people who work may find employment."

It would be infinitely cheaper for the Government to employ the elderly people of this country to act as their distributing agents and to carry them as a charity load; they would be doing some good then if we could give them a liberal pension geared to the economic picture.

I think the social security law as it exists today is one of the greatest farces in the world, a ridiculous thing. It leaves out one-half of the population entirely and fixes a status of poverty for the rest beyond which they will not be able to go. Now, if we are capable of substantially reducing the output of wealth in this country, we are certainly capable of some system of distributing it, and there is only one way unless we abandon the use of money; we must distribute money, and I say it would be infinitely cheaper to put everybody unable to work, the old, the sick, the blind, on a liberal pay roll, with the understanding that that pay roll was merely a monthly loan to them; that they would be obligated under the provisions of the law to spend that money within 30 days, thereby creat-

ing additional wealth, because nothing does increase wealth excepting the passage of money from hand to hand.

Now, gentlemen, are we going to abandon our form of government? Let it go by default? Are we, simply because we have been so able to produce that we cannot distribute? What a ridiculous attitude it is for us to assume. I want to talk frankly to you gentlemen. This Government is under heavy indictment by the people of the United States at the present time. For 12 years now we have suffered from a depression; not a single idea has emanated from either branch of the Congress to indicate that there was any effort to correct this sort of thing; any logical, sensible effort. Of course, we have the social security law which nobody likes, which is totally inadequate.

Now, I would deplore the loss of our concept; I do deplore it, the loss of our concept of an equitable, fair government. As that goes, America goes and all it stands for, and the hope of the world because if America goes into a tail spin, the tail spin which we anticipate when this war ends and we have it in order to control the great forces that will be turned loose for evil at that time; if we have to resort to a dictatorship to put revolution down; if that day comes we are never going to be able to pick up our hope of a fair and decent concept of a government of the people, for the people, and by the people again.

Now is the important time, if this Government is to act; if this Government could immediately demonstrate to the people, the people in distress, that it is thinking of their welfare, while thinking of the welfare of the rest of the world, there is nothing that this Government could do that would so inspire loyalty and confidence in the heart of everyone as to say that we are going to take adequate care of our aged, as well as our widows and children; that we are not going to permit anyone to suffer the pangs of hunger or distress or poverty in this rich and marvelous country of ours.

Gentlemen, if this is not done, look out. We will all of us have to dig our concrete cellars, deep and strong, when this thing is over, because disaster is going to overtake all of us. This proposal that we have had before the Congress for the last 6 or 7 years, trying to get it under consideration, is one which would bring about an entirely new state of mind on the part of the people. You can't expect loyalty from people who have nothing. Loyalty to a government. Positions are the essential things to fortify loyalty. If you have no home; if you have no position, you don't care much what sort of a government you have. I have heard the expression innumerable times, "Well, Hitler has done one thing for the common people; he has put them to work; he has fed them and sheltered them. That is more than our Government does."

That is a terrible indictment for the American form of government. Let us see if we cannot bring about a new era in the world. It is being forced upon us anyway; the industrial revolution is near. We have completely revolutionized our ways of producing goods; now let's revolutionize our ways of distributing goods. There is enough in America, an abundance for everybody, and there is no limitation to our ability to produce wealth, but we cannot produce wealth continuously and destroy the uses from which wealth comes—the labor of America. You cannot do that. So let us see if we can-

not now, at this time of crisis, bring about a new era that the world has been looking for for thousands of years, an era of peace and prosperity available to every country. All of the industrial countries of the world have the same possibilities we have of distributing their wealth, if they go about it intelligently. The trouble seems to be that those in a position of security are fearful of letting loose of any of their special privileges; they seem to be the withholding sort, but I want to point out there is nothing in the world that could so secure the people of wealth and importance in this country, in their possessions, as to build this America for plenty for the entire population; build up the demand for goods; the cash demand.

What else is money good for if it isn't to produce wealth? A simple distribution of money, as we have proposed for old folks, would produce in every community of this country the equivalent of a factory pay roll in that community which could be depended upon from month to month. Now, that is not an impossibility, to give every community that sort of thing. The money distributed would turn over three or four times in the course of a month, so that for every thousand dollars of money distributed four to five thousand dollars of new business would be produced.

We propose to tax the business of this country; tax all gross incomes of this country. A small percentage of their monthly intake, and use that as a distributed lot of money; money to be distributed in every community in proportion to the population of the aged, and they are about the same everywhere, about 10 percent of the population is old and helpless. Let us put them on the pay roll; let them live decently and well, conscious of the fact that in so doing we will be producing an infinite amount of business.

You need not tell me it is unfair to tax one portion of the people and not apply that same tax to other similar portions of the people. That is what we have been doing. We have contended for years that if a gross income tax were applied to all incomes in this country, corporate business individual incomes, and the money utilized for taking care of the aged alone, we could reestablish prosperity at once in this country, but the contention has been on the part of the Government heads that to do this would be unfair; unfair to the purchaser, the manufacturer, the distributor, but the Government turns right around and applies that tax to the lowest income group; the group least able to bear it. The little wage earner at the bottom of the heap is to pay a gross income tax, and it promises to be very heavy on him, 3 percent. Secretary Morgenthau has advocated even a 15-percent tax on the expenditures of the little man. If it is fair to tax the little man on his gross income, why isn't it fair to tax the manufacturer and distributor; he has an opportunity to pass it on. The little fellow has no such opportunity; there is nobody to pass it on to.

Let us have a universal form of taxation. I believe once it is tried out that it will supersede all other forms of taxation. Make everybody pay for the use they make of the public markets. It takes the effort of all of us to create and maintain that market; let's call it public property and tell everybody who makes use of it—and that would embrace all of us who make a living—let us say, "You have to pay for

the use you make of this market a small percentage of what you take in."

If we could have that in operation every 30 days this Government would know exactly what business was being done throughout the Nation, and who is doing it, and that would be mighty important. If we can't have some equitable distribution of this sort in America the machine is going to destroy not only itself but is going to destroy our civilization. Labor need not think that they can cure the evils of the wage system by shoving salaries up or wages up, for every time they do so the employer puts in a labor-saving device to enable him to throw a goodly percentage of his men off the job. That tendency is growing faster and faster; with every new device we find this army increasing. We are in this defense program, but this defense program is not going to last forever, and it is going to plunge us headlong into debt; the price of goods is going to be so high as a result of our enormous public debt that the people cannot buy these goods; hunger is bound to ensue; destitution is bound to grow unless we forestall that evil day by acting now and establishing a logical form of distribution in America. It is up to the Congress. The common people are helpless just now; they won't be when millions of them go hungry.

I pray every day that this disaster may be averted; it is the prayer of all humanity, seemingly, except the prayer of those who make the laws.

I think, gentlemen, that is all.

The CHAIRMAN. Mr. Smith?

#### STATEMENT OF HON. MARTIN F. SMITH, A MEMBER OF CONGRESS FROM THE STATE OF WASHINGTON

Mr. SMITH. Mr. Chairman and gentlemen of the committee, I consider it a real privilege and pleasure to appear before the great Finance Committee of the Senate on this occasion, and may I compliment the members of the committee on holding these hearings relating to one of the great social problems facing our Nation at a time when some people in this country are contending that we should devote our attention and our energies exclusively the international questions and the so-called national-defense program. I am not one of these, and apparently the members of this committee are not, who believe we should entirely neglect the social and domestic problems facing our Nation despite the fact we have this other emergency confronting us. I think that we can profit somewhat from the experience of some of the nations in Europe, and particularly France. It is generally recognized that the failure to consider the social welfare of a large segment of the people of France had considerable to do with undermining the morale of the French people and contributed much to the debacle and collapse of France. Certainly we in our beloved country do not want to make the same kind of a mistake and therefore I think that as we go along with our national-defense program and do everything humanly possible to make it a success, we should also be considering questions such as you have before your great committee this morning; and I am just a little bit envious that these hearings are being held here on this side rather than on the House side, because I think the glory is going to be yours.

I have been interested in this question for quite a number of years. Before I came to Congress I served on the Washington State Eagles' old-age-pension committee, with our senior Senator, Homer T. Bone; the Moose lodges of our State were also very active in the fight to secure the first old-age pension in our State. The Eagles and the Moose—I don't want to claim all the credit for the Eagles because the Moose were in the fight from the very beginning and rendered incalculable help.

Senator DAVIS. No; don't do that.

Mr. SMITH. No, Senator Davis; I am, as all of us are, deeply conscious of the leadership of that great fraternal order and yourself personally in that connection. While the Social Security Act has fallen far short of the expectations and anticipations that we had in regard to it, nevertheless, I am not quite as pessimistic as Dr. Townsend has expressed himself to be with regard to it, although I am in hearty accord with him. I cannot very well overlook the fact as an humble Member of Congress, and I do not think the American people are overlooking this fact, that in 1935 when we embarked on the social-security program, despite the fact that 42 nations in the world already had some system of old-age pensions—the United States, India, and China were the only powers in the world that did not provide any form of old-age pension. In other words the citizens of the great Republic of the United States were in the same category as the Hindus of India and the coolies of China. I therefore say that both the Members of the Senate and the House of Representatives are entitled to some credit for the attention and study we have given to this problem during the past 6 years; we have made a start and are trying to improve the legislation as evidenced by these hearings.

I have been interested in the Townsend movement since its inception; have addressed its national conventions and meetings throughout the country, and I think it provides a working basis for legislation which would provide a more suitable plan than the present system; that is why I am here this morning. Senator Thomas of Oklahoma, and Congressman Homer Angell, of Oregon, and I have been meeting for the past 2 months with consulting economists, and we have been trying to assemble facts, because my brief experience in public life convinces me that after all what our lawmakers are interested in are facts. We are influenced by sentiment and by ideals, and properly so, and it will be a sad day for America when we cease to be, but after all we have to adhere to facts and we have to legislate on basic facts.

In our discussions, Senator Thomas, Congressman Angell, and myself have allotted to each of our group certain phases of this problem, and it was decided that I should attempt to answer here this morning this question: "Why a universal and equitable old-age pension after 60 years of age, geared to the national income?"

It is our opinion that we need a universal pension because (1) the testimony of Dr. Marjorie Shearon has proved conclusively that as a group persons 60 years of age and over cannot provide for themselves. I think there is nothing particularly new or startling about that. The leading life-insurance companies for years through their actuaries have made studies of this phase of the problem. I think their studies have



shown that over 85 percent of those who attain the age of 60 have no visible means of support, so certainly that is a fact which cannot be questioned. The committee have been provided, I believe, with chart No. 7, which shows that of all persons 60 years of age and over, four-fifths have less than the minimum for decency and health; that would be 80 percent; and I believe the studies of the life-insurance companies are 85 percent, a very slight discrepancy there.

(Chart 7, referred to, is as follows:)

OF ALL PERSONS 60 YEARS OF AGE  
AND OVER

$\frac{4}{5}$  *get LESS  
than minimum  
for DECENCY  
and HEALTH...*



*Source: Dr. Marjorie Shearon,  
Social Science Analyst.*

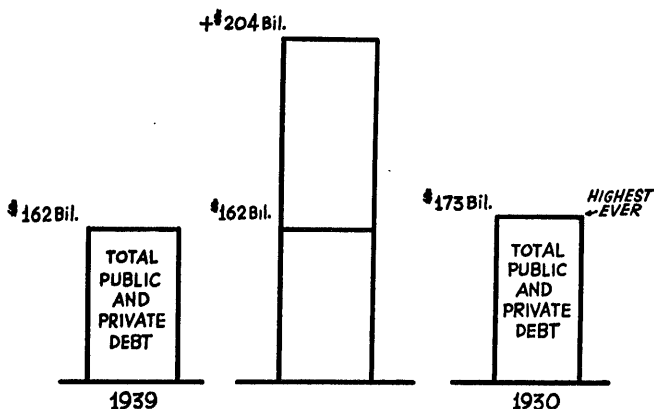
CHART 7

Mr. SMITH. (2) It is a financial impossibility for this group as a whole to save enough for old age through investment. If someone saves and invests, someone else goes into debt. If all our 13,000,000 senior citizens had been able to save enough to assure themselves only \$30 a month after 60 years of age, it would mean more than the doubling of our total public and private debt. That is shown by chart No. 8, and that to me is revealing and emphasizes a point of which I am frank to say, I had never grasped the full significance.

Mr. SMITH. In other words, in order to have a capital investment to yield \$360 a year at a rate of 2½ percent (see chart 8 on p. 38), you would have to invest \$14,400, and if we have thirteen and a half million people 60 years old and over who would have to make that kind of an investment in order to yield an income of \$360 a year, or \$30 a month, it would mean an increase in our national debt of \$204,000,000,000. In other words, it is utterly impossible; it is beyond the

realm of possibility to make the people of this country save and be frugal and thrifty enough to lay away and have an investment at the age of 60 so that they could have an income of \$30 a month, and to try to eke out an existence on that amount, which I think is impossi-

## IMPOSSIBILITY FOR EVERYONE TO INVEST FOR OLD AGE



### CALCULATIONS:

*Investment to yield \$360 a year.*

$$\$360 \div .025 = \$14,400 \text{ investment}$$

$$13,500,000 \times \$14,400 = \$204 \text{ Billions}$$

*Source: Survey of Current Business (Pg. 15), June, 1940*

CHART 8

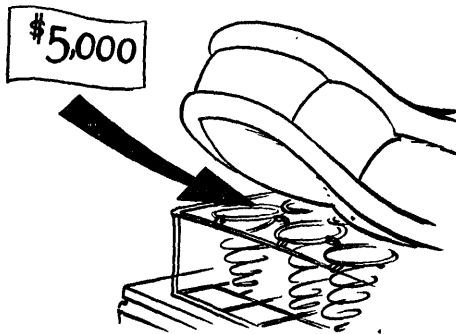
ble also, because that doesn't provide a minimum of decency, food, clothing, and shelter such as we would like to have in this country.

As Dr. Townsend has so well pointed out, we have the greatest natural resources; we have the manufacturing capacity; we have the managerial ability; we have the skilled labor; the climatic condi-

tions; we have the hydroelectric power; we have the intelligence; we have the genius, we have everything that it requires to provide, not a mere pittance, but an abundance, and even a luxury for every man, woman, and child in the United States. It is a serious reflection on us, and on every man in public life, that we have the appalling conditions of poverty, and want and destitution which have prevailed in our grand country. We have no alibi; we cannot make an adequate apology for it. It is a serious indictment to which we will have to answer and should be properly answerable; we cannot escape it.

(3) If all the present 13,000,000 senior citizens had saved enough to assure them about \$30 a month during their 12 years of life expectancy, they would have diverted from the flow of money \$65,000,000,000, which is nearly three times as much as all the active money we have in circulation today. (See chart 9.)

### IMPOSSIBILITY TO SAVE CASH FOR OLD AGE



**FOR 13 MILLION SENIOR CITIZENS  
= 65 BILLIONS**

*Nearly 3 times as much as all active money*

Source: Prof. James W. Angell,  
"Investment and Business Cycles" (pp. 338)

CHART 9

That is an important point and a point I believe that Senator Downey elaborated on in a speech before the Senate last year. It is a fact that we are suffering in our country not only from idle labor but idle capital. We have had this rapidly accumulating fund of money which is seeking investment and could not find investment. Therefore, we should at the source siphon away some of these funds through taxation and distribute them through old-age

pensions and other means in order to get that money working and make it a blessing instead of a curse to the people of our country.

If we were to try to follow Benjamin Franklin's philosophy and say to the people they should be thrifty and frugal, we have just seen it cannot be done on account of the increase in the national debt which would be necessary, but it would also take and divert from the flow of money \$65,000,000,000, which is three times nearly as much as all the active bank deposits—not the time deposits, but the active bank deposits and active accounts, commercial funds deposited in the banks of our country and the amount of currency and coin and every other medium of exchange that we have in the United States. It would be very disastrous on account of that fact, and that is a fact which we have to take into account, it seems to me.

(4) It will equalize income over the United States where some States have twice as much income per capita as others. This difference of income per capita is far from being compensated by a difference in the cost of living. We see by chart 23 (see p. 41) that, taking New York as a basis, the pricing of a monthly minimum budget is \$85, and the income per capita is \$814. In Mobile, Ala., the same budget would cost 20 percent less but the increase per capita is 68 percent less than in New York. A pension financed by a gross income tax would fluctuate according to the volume of business transacted in the Nation. With increased volume and rising prices, the tax revenue would necessarily increase and cause an increase in the amount of pensions paid therefrom. Consequently, the pensioners could better meet the higher cost of living. Of course, falling volume and lower prices would reduce the pensions, but there would be neither privation nor gain from changes in the cost of living as at present.

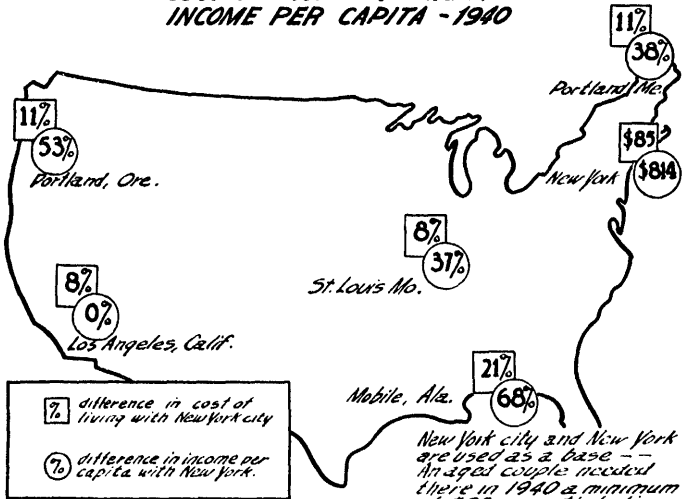
Mr. SMITH. We can afford an equitable old-age pension because, first, we have the necessary production facilities. (See chart 1, p. 42.) In 1940 we used only a fraction of our excess capacity. The National Resources Board have recently completed a study entitled "After Defense—What?" with which you Senators are undoubtedly familiar. It is a very illuminating study indicating we have the productive capacity whereby we can increase the national income, geared to production in this country, to \$110,000,000,000 a year instead of \$70,000,000,000, which is the highest we have had recently.

Mr. SMITH. We may go up to \$80,000,000,000 or \$85,000,000,000, perhaps higher, this year—it is estimated because of national-defense production. We have been depriving our people of the benefits which would accrue from increased production. It is generally becoming recognized and we cannot get away from the fact, that there is only one way to increase wealth, that is of any value to society and that is by production. Whenever you resort to artificial means, you do not add to the national wealth, because the country is no richer, no better off, and the people cannot possibly be any better off because the wealth has not been produced. Isn't it a paradox, and worse than that: Isn't it a crime that possessing the facilities in this country to produce this great, vast store of wealth and make it available to our people, yet we fail and refuse to do it? Who can justify that? Is it sanity? Is it reason? Is it logical or civilized? Authorities and the experts who

have studied this question have come to the conclusion—and it is not the mere ranting and dreams of visionaries, but hard-headed, practical men who have devoted a lifetime to the study of these problems. Last May my attention was called to a little pamphlet issued by the National Association of Manufacturers. A seminar held in New York on May 21, 1941, in which Senator O'Mahoney of Wyoming participated, and it was my privilege to be there from the House side. Other

## GEOGRAPHICAL DIFFERENCES

**COST OF LIVING VS. AVERAGE INCOME PER CAPITA - 1940**



New York city and New York are used as a base -- An aged couple needed there in 1940 a minimum of \$85 a month to live in decency and health. The income per capita in New York was \$814

In Mobile, Alabama, the cost of living was 21% less than in New York city, but the income per capita was 68% less than in New York.

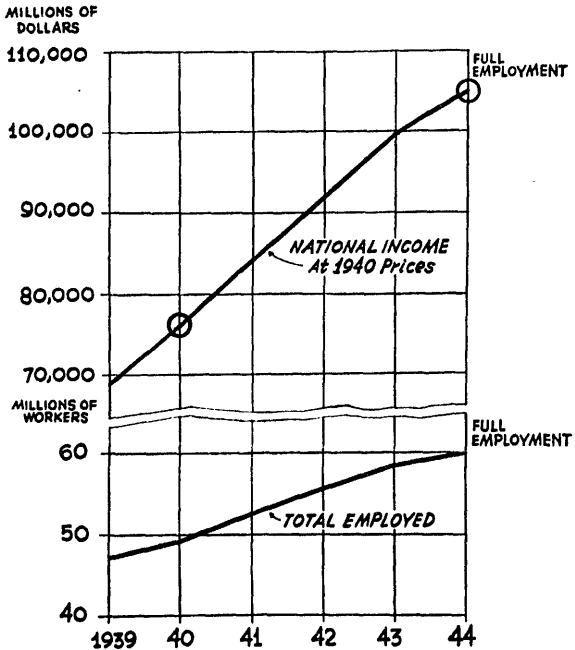
Source: Dr. Marjorie Shostrom  
Social Science Analyst  
Bureau of Labor Statistics Changes  
in cost of living (Table 7) Sept. 15, 1940  
Survey of Current Business  
Aug. 1941, pp. 18 Table 3

CHART 23

members of the panel were Mr. Stuart Chase, economist and author; Dr. Noel Sargent, secretary of the National Association of Manufacturers; Dr. Murray Shields, economist for the Irving Trust Company; Dr. Bradford Smith, Economist for the United States Steel Corporation and Prof. Ray Westerfield of Yale University. Reference was made at that meeting to a pamphlet compiled by the National Association of Manufacturers, in which they stated we could easily

increase the production of this Nation to the extent of 10,000,000,000 a year without any trouble at all, and that solely in order to modernize and bring up to date the structure of our industrial plant due to inventions and discoveries of the past 10 years in order to take advantage of new improvements in machinery and equipment.

## POTENTIAL NATIONAL PRODUCTION *at* FULL EMPLOYMENT



Source : National Resources Planning Board  
*"After Defense What?"* (Pg. 4) August, 1941

CHART 1

Wouldn't it be wiser to increase to the maximum our production, put all the able-bodied people to work and through a simple system of taxation take some of the money and newly created wealth and distribute it to the aged senior citizens of this Republic and

provide them with purchasing power? Is there anything wrong about that? Is it fallacious; is it unreasonable; illogical, un-American? Does it interfere with free enterprise? It is some such program as this that is the only thing in God's world that will save free enterprise in America; otherwise it will go down and down until it will exist no longer. You have to judge it by its fruits. If the fruits are to be vast unemployment, unutilized productive capacity, malnutrition, distress and want, so that the Government has to feed millions of our citizens out of the Public Treasury, then free enterprise deserves to go down. If those who are interested in its perpetuation have not the intelligence, foresight, and courage to solve these social and economic problems and to realize that is just as important as lend-lease to Britain or Russia, they alone will be responsible for the consequences. I voted for every lend-lease measure, because I believe it is in the interest of our own national defense, and I do not underestimate the menace of Hitlerism to the United States, but these internal, domestic problems are also menacing—

Senator DAVIS (interposing). In normal times in 6 months with all this machinery you could give us all the food we consume; in about 7 months all the coal we have been using; and you could produce all the steel in about 8 months. Now, if you could get consumer power for the rest of it, your regular annual income ought to be a hundred billion dollars or more a year.

Mr. SMITH. I think that is absolutely so, Senator Davis; and why shouldn't we do that in normal times? Is there any reason why we shouldn't? Yes; we have to provide more of our people with adequate purchasing power so they can purchase more pairs of shoes; more suits of clothes, and have better furniture in their homes and purchase all the products of the factories and the mines and the forests of this country.

Senator DAVIS. I remember the last war Labor Secretary saying that the prosperity of this country was in labor and being criticized by nearly all the newspapers in this country.

Mr. SMITH. You made that statement when you were Secretary of Labor, many times, I know, Senator. I think you made it in my part of the country, in Seattle; and, of course, if we could put that money in the pockets of the old people and retire more of the people who attain the age of 60, making jobs for perhaps, it is estimated, three to four million of our younger citizens, the raising of the standards of living all along the line would produce an improved standard of living with its consequent increased and additional purchasing power that would spell the end of most of our problems and produce a real prosperity.

Senator DAVIS. I recall one of the great New York newspapers criticizing the Secretary of Labor at that time, and they got out a special edition, probably the greatest edition of their paper ever published, and I took them up as to who would buy the advertising if there wasn't funds in the pay envelope of labor to buy the products.

Mr. SMITH. I think that you had vision, Senator, and you saw the real conditions away back there.

Senator DAVIS. And you recall, too, that we had 40 billions of debt in 1921; when it came to 1929, 20 billions of it was paid off.

Mr. SMITH. And the only way to pay it off—and I am not alarmed about our national debt, although it is something that we should certainly think about, but certainly in a country where we can produce \$120,000,000,000 of wealth in 1 year—we do not have to get panicky about a national debt of 50 or 60 billion dollars when we can produce the equivalent of that in new wealth in 6 months if we utilize the entire productive capacity of this country. The only way to pay off the national debt is through production, and distribution.

Senator VANDENBERG. Well, Congressman, you were referring a while ago to your support of various appropriations for lend-lease, all of which are undoubtedly unavoidable, but what do you think of this recent promise of our Government that in the post-war period we are going to feed and clothe and make everybody happy in the world? You rather impressed me with the idea we have quite a job to do at home.

Mr. SMITH. Senator Vandenberg, I think we will have to give that a great deal of thought and study, and certainly our first allegiance, first loyalty, is to the people of America; and I think that in our own country we will have plenty of problems to deal with. If we can help the rest of the world, I am for it; I know that we are all for it, but certainly we will have to look out for the interests of America first.

Senator VANDENBERG. That is a dangerous phrase, "America first."

Mr. SMITH. Well, I will say "America foremost."

The ratio of unemployment is nearly twice as much between 65 and 60 years of age as between 30 and 40 years; and this ratio goes on increasing after 60 years of age. Dr. Marjorie Shearon testified that about two-thirds of the persons between 60 and 65 years of age have less than a minimum of decency and health.

Pensioners should be protected against fluctuations in the cost of living. As the cost of living goes up, they would receive a higher pension; as it goes down, a smaller pension. Thus, there would be neither privation nor profit from the changes in the cost of living, as I stated a moment ago.

That is shown by chart No. 10 (see p. 45) and shows it, it seems to me, very graphically; if we increase the gross income from 440 billion to 484 billion—prices or production up 10 percent—we would increase the pension in accordance therewith, and that is a fact that cannot be seriously disputed.

Mr. SMITH. Senators, that just about concludes my testimony except that I do want to call your attention to a recent book, and I hope that it will receive a wide circulation. I have no interest in the book; I don't know the author or publisher; never corresponded with the author or never had heard of her until I read this book which was passed on to me by Mr. Beecher Hess, the national representative of the Townsend organization on Capitol Hill. The title of it is "Years Are So Long," by Josephine Lawrence; and it seems to me that it is the Uncle Tom's Cabin of the old-age pension movement in this country. I don't believe that any person can read this book and not be deeply stirred and deeply moved.

Senator DAVIS. What is the title of it?



Mr. SMITH. Years Are So Long, by Josephine Lawrence, and there is a brief review of it, and I am going to ask the committee to permit me to read it and have it incorporated in the record in that way.

Years Are So Long.

Honor thy father and thy mother—

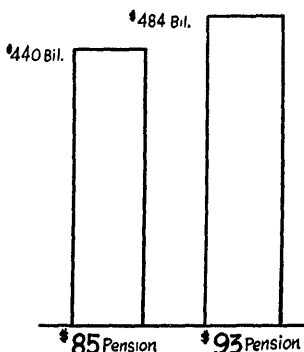
Around this theme, the author has written a poignant story touching the life of every man and every woman.

High or low, rich or poor, everyone must some day face these questions:

What do I owe my parents?

What do my parents owe me?

GROSS INCOME *UP..*  
PENSION *UP..*



*PRICES OR PRODUCTION UP 10%*

CHART 10

Should my children or my parents come first?

Have parents the right to interfere with the lives of their children?

Do I have to support my parents?

Can my children be compelled to support me?

This is the story of Barkley and Lucy Cooper, their children and their children's children. It is the story of parents, old and without income and without a job, who believed that their four children were morally bound to support them. It is the story of the four children, who were not sure that the responsibility was theirs but who had to face the problem.

Years Are So Long will make you laugh and cry, but it will also make you pause and face these great human questions.

I agree with every word of that review. I think it is one of the most appealing books that I have read in a long time and it is based on facts and I hope that many of our people will get it and read this book. I hope that many of the members of the Senate and House will read this book because, though in fictional form, it is

based on actual facts which exist in every community in America and presents a picture that we have all around us.

Senator DAVIS. Is the author of the opinion that the children owe no responsibility at all to their parents?

Mr. SMITH. Well, in the course of the story of the experience of this family, of this aged couple and their four children, and with their grandchildren, it shows how extremely difficult it is, Senator, for the children to discharge their obligation to their parents under the present social and economic conditions prevailing in our country. While some of them are disposed to do it—they want to help—immediately there arises early in the story the problem as to which of these four homes these aged people should go and whether it would be better for some of the children to make a contribution toward their support and have them live in a little private apartment or home of their own. Finally it comes down where they have to go to an institution when they are separated, and one goes to an institution and one remains with one of the children. In the very beginning what grips you the most is the disillusionment of the old couple. They thought, Senator, that there would be rivalry, a contest almost, between the four children as to which of them would want their parents to live with them. That is really what the old people thought. They had talked this over between themselves and they were undecided as to whom of the children they would really favor, and then when they come to have the family conference—and that is one of the most dramatic incidents in the book and wrings tears from your eyes—the children just felt that there wasn't anyone who could take them in, because they had their own children to rear and financial obligations. One was paying on a house, another on furniture; one had been out of employment, and had just gotten back to work; and it presents the real picture, not overdrawn a bit, which exists in millions of families today, and I know myself and I can venture that every one of you on this committee knows of scores of cases in your own community where that same condition exists among the families in the lower financial brackets.

Senator DAVIS. I will just say this: That the Moose doesn't believe in the separation of the aged; they take both of them and let them live together; one is not left one place and the other another; they provide for both of them. Our local lodges have local autonomy. They can participate in the discussion of old-age pensions if they desire.

Mr. SMITH. Yes; they provide for both. You know, one of the things that is most disappointing is that in practically all of these public institutions they have dormitories—you know, separate dormitories for the women and for the men—and for the first time in their lives they separate these aged couples. That is cruel and it is inhuman, it is unchristian, and it is uncivilized, and it is a blot and stain upon the fair name of America.

Senator DAVIS. You would do well if you would get a report of the survey of the poorhouses of the country. If you want to read about the housing conditions in some of the poorhouses, you will shed a tear as you read.

Mr. SMITH. Yes; and I have gone to some of these institutions, as you undoubtedly have, and have seen with my own eyes conditions under which these people live. Six or seven weeks ago I went out to

Blue Plains, this monstrosity, this terrible hell hole—and that is all it is—conducted by our Government for the aged who live almost in the shadow of the dome of the Capitol of the United States.

Senator DAVIS. I have tried to get a number of Congressmen and Senators to go out and look at it.

Mr. SMITH. Why, the most heart-rending spectacle you could ever see in your life, and I haven't the figures, but I would like to put a statement in the record of the meager provision made for food and clothing, and situation there generally. I think the average is only about \$8 or \$9 a year per capita for clothing, and for food it is about 26 cents per day, or about \$8 per month.

The CHAIRMAN. You can put it in the record.  
(The statement referred to is as follows:)

"THE AMERICAN WAY" IN THE NATIONAL CAPITAL.

Blue Plains Home for the Aged and Infirm: White men, 142; white women, 55; colored men, 238; colored women, 155; total inmates, 590.

Per capita budget, 24 cents to 26 cents per day; clothing budget, \$5,000 per year, or \$8 to \$9 per capita; average age, 64 years; equipment is that which has been cast off by other institutions as unfit for use; dishes are old and broken; kitchen appears dirty and filthy, all old cast-off equipment. The refrigerator is a "hole in the wall," unpainted, dirty, and not a fit place for food.

Annual appropriation for personnel, salaries, etc., \$89,100 (\$2,000 temporary labor); superintendent, clerks, general employees; staff of 70 to care for 500 inmates.

Annual appropriation for maintenance purposes, \$80,000 (for food, \$44,000 out of \$90,000).

One doctor and one registered nurse on duty.

Inmates housed in dormitories, separating buildings for men and women, couple are divided.

Old iron beds that were used during the World War in a Government hotel or dormitory now in use here.

Location of home, odor of sewage treatment plant on that side of river.

Mr. SMITH. Thank you. The figures are so low it is appalling and disgraceful. The filth, dirt, and unsanitary conditions are terrible to behold. I recall that practically all the equipment they have out there was donated to them and came out of old dormitories that we had for service men during the World War; and their cast-off dishes, everything that has been discarded as junk from other institutions. They have old, broken, cracked dishes they are using there. I was there and saw the hole in the wall where they kept food, supposed to be a kind of refrigerator or ice box—a hole in the wall white-washed and they had some food there, foodstuffs, meats. To think that these conditions can prevail here almost in the shadow of the dome of the Capitol! Furthermore, it is located where all the fumes from the garbage at Anacostia is wafted there into the nostrils of these unfortunates. I could smell it. What a disgrace it is; what a disgrace, and yet we are responsible for it; we permit these conditions to exist; and, Senator Davis, as you well said, they have existed in every part of the United States, and some of our great fraternal orders have done so much to focus attention on those conditions. I was the first dictator in Hoquiam, Wash., of Lodge 910, of the Loyal Order of Moose, 29 years ago, and am familiar with the grand work of our great fraternity is doing at Moosehaven for the aged, just as you have done for the children at Mooseheart.

Senator DAVIS. They changed that; they don't call them dictators any more.

Mr. SMITH. They don't call them dictators any more. Senator, no; that might be misunderstood. They are called governors now, I believe.

Senator George and Senators, I want to thank you very much, the chairman and the members of this great committee, for the hearing you have granted us on this legislation, and your courtesy to me. I have no misgivings as to what your committee is going to do; I know you are going to give this whole problem very earnest and serious consideration and that you realize this is one of the most important problems facing this country. I repeat again, in all our eagerness to help other nations, let us not forget the interests of our own aged people in this country who have for 4 decades, most of them, and some of them longer, toiled to produce the America that we have today; they have contributed their toil; they have given of their lifeblood to build the America that we have today. They have developed our countryside, cities, constructed our highways and improved our waterways, built our homes and factories. In their old age they should be without any financial worries; they should have a decent provision of food and shelter and clothing and they should be able to enjoy reading good periodicals and books, radio, and they should enjoy all the comforts of our modern civilization which they have substantially aided in creating.

The CHAIRMAN. Mr. McMasters, do you wish to be heard?

Mr. McMASTERS. I do, Mr. Chairman. I note with regret the unavoidable absence of two gentlemen from my State, Mr. Walsh and Mr. Lodge.

The CHAIRMAN. I think perhaps Senator Walsh is engaged in another hearing, and I believe that Senator Lodge is in the military service right at this time.

Mr. McMASTERS. So I understand, Mr. Chairman.

#### **STATEMENT OF WILLIAM H. McMASTERS, CHAIRMAN, NATIONAL PENSION COMMITTEE, BOSTON, MASS.**

Mr. McMASTERS. Gentlemen of the committee, if I am to be of any assistance to this committee, it will be along the line of comprehensive proposals rather than in the discussion of social theories. I shall, therefore, direct myself at once to those concrete suggestions with which I have identified myself during the past few years.

I favor the immediate repeal of practically the entire Social Security Act. If we establish a National Pension Act embracing all citizens who reach the age of 60, and make the amount of their monthly allotment sufficient on which to live in American comfort, we will no longer need the intricate machinery that now is necessary to carry out the complex provisions of the Social Security Act. A uniform national pension of \$60 minimum per month and a ceiling of \$75 per month for every citizen reaching the age of 60 years will settle the whole problem of pension legislation. If the maximum of \$75 per month makes an appeal to your committee, as adequate, the next question comes on—how this amount may be raised without interference with our financial structure. I feel

that there is a safe and sane method of financing that has yet to be tried, nationally. I refer to the idea of levying a straight 2-percent tax on all business transactions consummated for profit within the United States. You will readily see that every transaction that ought not to be taxed is eliminated in these words "Consummated for profit." Right here we require mathematics in order to establish the amount that may be raised under this provision.

Two years ago, when I appeared before the Ways and Means Committee of the House on this same subject matter of legislation, the gross dollar value of business turn-over in the Nation was estimated at 600 billions of dollars. Today, due almost entirely to the acceleration of business resulting from defense spending, we have mounted to 800 billions of dollars in annual business turn-over. In that enormous figure is included wages, salaries, wholesale and retail sales, transportation, building construction, manufactures, in fact, every one of the transactions that make up our national business economy. A universal tax levy of 2 percent would produce 16 billions of dollars annually, if applied against an 800-billion-dollar turn-over.

I desire to call to the attention of the committee the fact that this tax is to be collected monthly and distributed monthly. There is a wide difference in the effect of a monthly tax collection and a yearly tax collection, even though the same gross amount is involved. Once we have set in motion a monthly collection and distribution we balance our national economy.

While it is equally true that we do this in an annual tax program, it is safe to say that a monthly readjustment is more easily made than an annual effort. It is important that we give serious thought to the monthly collection and distribution in my proposal. We now advance one step further and estimate the amounts needed to establish the system of pensions that will meet with general approval.

If we are correct in our estimate of applicants, there will be approximately 8,000,000 citizens who will come under the provisions of the bill filed by Congressman Casey of Massachusetts on my behalf and others, H. R. 4013. The full requirements of this act call for \$600,000,000 per month; 2 percent on our present turn-over will produce 1½ billions monthly.

As the requirements of our National Pension Act call for only \$600,000,000 per month, there will be a revenue surplus of about 700 millions per month. I do not need to inform this Committee on Finance that this amount can readily be absorbed in any one of several current programs of the Government. I am so definitely committed to the soundness and the equity of the transaction-tax idea that I am surprised that it was not adopted long ago for all governmental financing. I base my conclusion on the proposition that our national economy is elastic and always solvent. We can just as readily do business on 98 percent of capital as we can on 100 percent. But when we consider that we are not actually consuming this capital but merely transferring the amount collected from one source to another through the established medium of money, I am convinced that once this method of taxation is put into effect, there will be no dislocation of any sort in our economic structure because of it.

I am rather surprised to find the administration and the Treasury Department worried over the present trend toward rapid circulation of funds among the people of the Nation. Only 2 years ago the lack of money in certain quarters was cause for worryment. Now, because of vast spending programs, we have the worries in reverse. I heartily agreed with the former expressions of concern. I wanted to see more prosperity in circulation. I certainly am not much concerned over the present widening of our business turn-over. And I would not favor trying to stop it by taxation. Taxation should be used for acceleration, if possible, and not for retardation of wealth distribution. I am positive that it can be used most advantageously, especially when its machinery is applied directly to the distribution of a reasonable amount per month among 8,000,000 of men and women citizens who do not now receive enough on which to live according to the accepted standards of American comfort.

Every recent suggestion along the lines of legislation of any nature has generally carried with it the idea that it would aid in the defense of the country. It has become almost axiomatic. Along that line, I now suggest a straight National Pension Act, to be financed by a monthly collection of 2 percent of the business turn-over of the Nation, will do more for national defense than all of the other defense measures so far brought to the attention of this committee.

I feel that I cannot overstress the value of this pension proposal. No stronger arm of defense can be envisioned than a prosperous and contented people. If democracy is to become something more than abstract theory, it must do in practice those things that totalitarian governments fail to do for their people. If we can finance the democracies of the world, we surely can finance our own.

If our vast, resourceful economy can be used as an instrument that will better distribute the wealth of this great Republic, then we should not hesitate to use it for that laudable purpose.

To levy a tax of 2 percent on every transaction will not disturb the economy of the country, even though it may disturb the theories of those economic fallacists who do not yet know the elasticity and strength of our Federal Reserve System or the power of the 130,000,000 of present and potential citizens on whose loyalty to our Government it rests.

A bountiful nature has been lavish with us. We should no longer delay improving the methods of better distribution of this vast bounty. A national pension such as I have suggested, in amount and effective at the age of 60, together with the repeal of all State assistance acts and most of the provisions of the Social Security Act, will do wonders for the morale of our entire society and even more wonders for the balancing of our national economy.

In conclusion, I would like to call to the special attention of the committee the very significant fact that in the conservative State of Massachusetts, only 1 month ago, the veto of our Governor on the broadening of the laws on old-age assistance was overridden by a legislature made up of large majorities of his own party in both branches. The whole trend in the Nation is in the direction of a wider spread of democracy in practice. I thank you.

The CHAIRMAN. Any questions? (No response.)

Thank you very much.

Mr. Howell, you are of Keyser, W. Va.?

Mr. HOWELL. Yes.

The CHAIRMAN. You may make such statement as you wish.

Mr. HOWELL. Well, I had nothing prepared, but I want to tell you I am a pensioned railroad conductor, put in 41 years on the railroad, and I receive \$44.05 a month pension, and my neighbor next door to me with 2 years less experience gets \$113.20; and I just wanted to show you the inequality that exists, not only in this one instance but all over the country.

The CHAIRMAN. How long were you on the road?

Mr. HOWELL. 41 years.

The CHAIRMAN. Continuously?

Mr. HOWELL. Yes.

The CHAIRMAN. And you retired on a pension of \$44.05?

Mr. HOWELL. Yes.

The CHAIRMAN. How did that come about?

Mr. HOWELL. I was retired 12 years ago before the law went into effect. At that time it was voluntary; nothing compulsory at that time.

The CHAIRMAN. I see; you were retired under the company system before the enactment of the Railroad Retirement Act?

Mr. HOWELL. Yes.

The CHAIRMAN. And that act excludes the benefits of it from those receiving pensions from company and employee plans?

Senator LA FOLLETTE. They had to be in employment at a certain date specified in the act to be eligible.

Mr. HOWELL. Yes.

The CHAIRMAN. Thank you very much for bringing that to the attention of the committee. It has been brought to the attention of the committee, and we know it has resulted in great inequality on the part of those who went out just immediately before the enactment of the Railroad Retirement Act.

Any other witnesses who desire to be heard?

Mr. JOHNSON. Yes.

The CHAIRMAN. If there are any other witnesses who desire to file a paper with the committee, they may do so by passing it to the clerk of the committee, who in turn will give it to the reporter.

All right, Mr. Johnson.

**STATEMENT OF ARTHUR L. JOHNSON, NATIONAL EXECUTIVE SECRETARY, GENERAL WELFARE FEDERATION OF AMERICA, WASHINGTON, D. C.**

Mr. JOHNSON. Mr. Chairman and gentlemen of the committee, my name is Arthur L. Johnson; I am national executive secretary of the General Welfare Federation of America, with offices at 945 Pennsylvania Avenue NW., Washington. I have been here for 5 years in Washington devoting my time exclusively to this matter, and I speak on behalf of a steering committee of 160 Congressmen who have signed the steering resolution in full support of the General Welfare Act, otherwise known as the General Welfare Act amendments to the Social Security Act. It is before your committee in Senate bill 1178, and it is the only other general pension measure before your committee except Senator Downey's measure N.o 1193. In the House it is known as H. R. 1410.

There are seven sheets of congressional signatures here to show a widespread interest on the House side in this matter, and on the Senate side there are six Senators who have indicated support, so this measure has real strength and is the leading pension measure before the Nation, with many Congressmen advocating its enactment and organizations passing resolutions in support of it. We are getting them all the time. The Farmers Union was the last to support the measure. At its national convention in Topeka a resolution was passed just 2 weeks ago in support of this measure.

Now I am not going to take up the time of this committee to go over and repeat the statements which I made last August before the special Senate committee to investigate the old-age pension system; it is part of the record, and I hope you gentlemen will take the time to read it. I devoted a great deal of time to the preparation of that testimony and to the tables therein, and they are the result not only of my own endeavors, but the endeavors of everyone I have contacted within the past 5 years who appeared to have particular qualifications to speak on this subject, and the figures there are figures I tried to get from Federal departments in most cases, and the tables set forth therein contain data which I hope will be of benefit to this committee. The comparison of the various pension measures are also there and I believe valuable because I know you gentlemen do not have the time to sit down and analyze all the various pension measures that will come before you and I know you want to have their essentials at your fingertips.

Now, I have no quarrel with the advocates of other pension plans. I do take issue, however, with some of them whose contention it is that the transfer or passage of money from one pocket to another will create prosperity. I noted with interest Dr. Townsend's statement that "Nothing except the passage of money from hand to hand" will create this prosperity.

Well now that, of course, is a fallacy; that doesn't produce wealth. The mere transfer of purchasing power doesn't produce wealth, and I want to try to guide the members of this committee away from this fallacy. Money is a mere medium of exchange and it does not multiply or increase by being transferred from hand to hand. When you take from one and give to another no new wealth is created.

We should look at the thing from the pension angle. The pension problem would be on our doorstep today with 9,000,000 needing pensions and only 2,000,000 getting pensions—and those 2,000,000 getting on an average of only \$20 a month, Federal and State—I say the pension problem would be at our doorstep today if we had not had any pension agitation whatever.

Congressman Smith said he was working on legislation in the State of Washington that the Eagles introduced or sponsored. Well, the Eagles introduced similar legislation in the various States and the pension measures adopted were based on need and were State measures until the Social Security Act took the matter over some 6 years ago and contributed 50 percent of the money paid to these people in need.

Now, there have been various charges made about the Social Security Act. I am not here to criticize. The gentleman who spoke a few moments ago, Mr. McMasters, said he would like to see the essential portions of that legislation repealed. I think it is a marvel-



ous thing; I believe that this act has within its four corners the greatest instrument for extending aid to our population of any legislation passed. It gives real social security to one-half of our people today; the only trouble with it is that the other half is without it. Let's not take away that half, but extend the act's coverage to all of our people. In a nation founded on the proposition that all men are created equal, I don't see how we can justify giving it to certain groups and not others. I therefore say the Social Security Act is a marvelous piece of work; that if it is not adequate now, it can be made so; it will gradually become so. Our social gains must be preserved. We must not move backward in our attempt at social reform; we must move ever forward. The Social Security Act stands out as the greatest stride in the progress of mankind toward real economic security in the history of the world. I am covered under that act now as an office worker and I take it that many of those here are likewise covered. Those receiving benefits under the act, those groups are gradually being extended.

First we had civil-service people getting pensions; then the railroad people, and the office and industry personnel. They are getting pensions and in some cases they are those who may least need it. The best paid of certain groups have gotten pensions through one means or another, and now we are here to plead with you gentlemen to extend the system of pensions under this contributory annuity system to others. I don't think that America can exist half slave and half free in this field. There are some 14 large groups—set forth on page 247 of the report that Senator Downey referred to yesterday—who constitute the "haves" and a like number who are being denied the benefit of this legislation. You have before the Senate now two bills that will extend the veterans' pension benefits and give the recipients a flat \$40 a month; and yesterday the House passed a bill putting you gentlemen under the pension system if you care to take advantage of it. I am under it, as I said, as an office worker, and the thing I consider inequitable is the matter of the tax. I am only paying one-fifth of the present pay-roll tax of 5 percent; my employer pays the other four-fifths; one-fifth for social security and three-fifths for unemployment compensation. In other words, we have a 5 percent pay-roll tax, and Senator Downey has brought out a thing that I have contended for for all these 5 years I have been here; namely, that the part of that tax paid by the employer is a consumer's tax and is passed on by and large to the general public, as was conceded by all the experts who testified before the Ways and Means Committee at the extended hearings 2½ years ago, which hearings consumed some 2 months. Everyone who testified there conceded that by and large the 4 percent pay-roll tax paid by the employer is passed on to the general public, so that the general public pays that tax, and so when Senator Downey included general pension benefits in his bill, which is in the record, that is something we ask this committee to give attention to. In other words, I am covered; I have quadruple benefits. I have a temporary pension awaiting me if I lose my job. At my age I can go over to the unemployment office here in the District and collect compensation for some 21 weeks. That is a temporary pension, and it is within the four corners of the Social Security Act, title III.

Under that act I have a pension at 65, a permanent one; and my wife has a pension at 69, and there is a fourth benefit. If I should happen to pass away, there is a survivorship that goes to my widow and two little children, and my widow would draw a pension of \$70 a month right now; although I have been covered for but 5 years and paid \$200 or \$250 into the fund, they would draw that payment for 15 years, until Arthur, Jr., arrived at the age of 18 set in the act. In other words, they would draw about \$14,000 and I have paid in about \$200 to \$250. Now, I get quadruple benefits; the only benefit I don't get is if I should happen to step out in front of an automobile or become sick with some chronic disease, tuberculosis or some such affliction, my family in that event is not covered. There are about 3,000,000 sick people and cripples, the blind, who are unable to support themselves, that the Social Security Board is giving attention to, which is a fine thing. But we do feel that there should be some semblance of fairness and consistency in extending the benefits of the act and that farmers, housewives, domestics, nurses, students, church employees, institutional employees, many Government employees, businessmen, professional men, the self-employed, and the unemployed should be covered.

Now the fact is the unemployed are even helping to pay that four-fifths of my social-security tax, and they get no benefits while I get quadruple benefits, as I have stated. Now, until we come to a flat general pension, we think there should be no arbitrary denial of the benefits to these groups I have mentioned.

I notice that Dr. Marjorie Shearon made this statement:

Under such a system we should not be thinking in terms of \$25 or \$50 a month, nor in terms of minimum budget, whether minimum of subsistence or minimum of health and decency, but rather in terms of what we can produce—

and then she added—

The essential problem is not money.

I disagree with that. We do not get the money out of thin air; every cent comes out of the pockets of the people in one way or another, and Congressman Smith made the statement when Senator Davis asked him about the statement which he had made while Secretary of Labor, to the effect that the prosperity of the Nation is in the pay envelope of the worker; the more income, the more prosperity there is, Congressman Smith said:

If we could but put into the hands of the old people this same money too, we would have the same thing.

Well, that little word "too" refutes the whole argument and exposes the fallacy of the plan. You cannot have your cake and eat it. It is suggested under the Townsend plan that a payment of \$50 be made to each annuitant, which would be \$7,000,000,000 per year; under the McMasters plan that amount is \$75, which would require \$12,150,000,000. Of course, at \$200 a month it would be about \$36,000,000,000 a year. All those amounts have been given and it is proposed that there be a guaranty even of \$60 a month, or \$9,600,000,000 per year.

Now, you gentlemen know that this Congress is not going to raise \$9,000,000,000 by taxes when it has only raised by taxes three billion and a half for national defense. That is about three times as much for pensions as for defense. Well, they say, "you are raising billions for defense," but remember when it comes to the raising of money by

taxes that is a different thing from appropriating the money. We are not trying to ask anything unreasonable. I think Senator Downey's bill is within reason and we are back of that bill if we cannot get the General Welfare Act amendment which provides for a \$30 a month minimum; if we cannot get that we are certainly interested in seeing Senator Downey's bill go through, which would give \$20 to our senior citizens and step it up to \$30 per month 2 years from now. He has taken a sound and logical approach, one that deserves commendation. It was said here we shouldn't be thinking in terms of \$25 or \$50 a month. I say we should be thinking in terms of the best we can do in view of the fact that we are in an international emergency; that should be taken into consideration, and if we can get \$30 or even \$20 as a starter that would be fine, and I don't think it is going up to any fanciful figure, because the tax loads cannot be carried. Now, every cent, as I said that goes to the old people has to come from the consuming public, out of the pockets of our farmers and workers.

In his testimony, Dr. Townsend says he wants to tax business, but he said that business has the opportunity to pass this tax on. That is just it; do you realize the full importance of that statement? It will be passed on by and large and the workers will pay it. He mentioned the soldiers and workers, but you cannot take it away from them and give it to the old people and still not take away from their buying power. They will have less to spend, as pointed out in the Townsend Weekly; they do have less to spend for shoes, automobiles, radios, gas and oil, by reason of the deductions made for Social Security; to that extent the purchasing power of the worker has already been reduced. The same applies to the Townsend bill or any of these measures which is going to take it from the workers and put it some place else, there is no magic in that, and when Dr. Townsend tells you that nothing produces wealth except the passage of money from one hand to another, that shows the fallacy of that plan, and I hope you gentlemen will waste no time in considering this cruel hoax on the aged. As Senator Downey has so ably stated, we have to find the proper tax to support a system of general pensions. Senator Downey hasn't worked that out fully; it has to be left to the future. Temporarily, he wants to utilize the pay-roll tax on the theory that one-half of it is now paid by the public. I would go a little further and say that four-fifths of it is paid by the general public, because he didn't consider unemployment compensation. He wants to utilize the pay-roll tax temporarily. Well, if that is done, the system is in effect. It will be a simple matter later to switch over to a proper tax basis. As Senator Vandenberg pointed out yesterday, you couldn't have general pensions financed that way and still keep the actuarial basis sound, so it would only hold us over until we could arrive at what was found to be the best way of handling it.

Now, I was very much interested in reading a statement in the paper by yourself, Mr. Chairman, about 2 weeks ago wherein you stated that before the committee went into the last revenue bill you recognized that we would have to come to a withholding tax in order to raise the money we need, but that you did not want to have it apply to wages alone; it should apply to all personal income. That is coming. I don't agree with the transaction tax; I think it is a vicious thing. I stayed up late last night until early this morning and prepared some figures that I want to present to you, which will con-

vince you that the transaction tax is the most vicious tax that could be devised. Here is what it does: You take a lawyer earning \$4,000 a year and you levy a 2 percent tax on his income, that is \$80 he would pay. Take a grocer—and I am stating these figures in order to show that to have a sound basis you must take out the cost of the material sold—if you don't, you will have a vicious tax—

Senator TAFT (interposing): The lawyer would have to charge a little more to his client.

Mr. JOHNSON. Yes; he would. Now, you take a grocer. He sells \$10,000 worth of goods and assume he pays \$6,000 for those goods, he clears then as a gross profit \$4,000. Now, that is all he gets. He is on the same basis as this lawyer theoretically being charged 2 percent, yet you charge him a total of 5 percent because he is paying on the full \$10,000, and he has to pay \$120 more than the lawyer, so you have the lawyer paying \$80 and the grocer \$200.

Now, let's come to the Townsend plan, which takes out the first \$3,000 and see how that works. The attorney would draw \$4,000 and with the \$3,000 exemption his tax would be \$20. Take the grocer, he would have a deduction of \$3,000, so as to leave \$7,000. Now, he would have to pay a tax, assuming he took in a gross income of \$10,000, he would have to pay a tax of 2 percent on \$7,000, or \$140. He would pay \$140 and the attorney who was making the same gross profit would pay only \$20. In other words, the grocer would pay seven times as much as the lawyer.

Now, take another trade or business, the jeweler, and these three illustrations will show how this thing works in cases where a party has to pay a large price for anything he sells. Take the jeweler. Say he pays \$9,000 for the jewelry he sells for \$10,000. In some occupations there is about a 10 percent margin, as gross profit. If he pays \$9,000 for the jewelry he sells for \$10,000, he has just \$1,000 left as his gross profit. Now, his tax on that would be \$20, but he would also be taxed on the \$9,000, \$180, so he pays \$200 as against the lawyer who pays \$20. In other words, he pays a 20-percent tax and the lawyer a 2-percent tax.

Senator TAFT. It seems to me the analysis is wrong; that the transaction tax simply accumulates and puts everything on the ultimate consumer. If you have a 2 percent tax, I would think it would turn over at least five times anyway and the lawyer would pay it in his food and clothing bills just the same as the grocer. The lawyer would pass the tax on the same as the grocer. As far as the immediate tax is concerned, both will pay the same tax.

Mr. JOHNSON. But they actually have to pay that 2 percent on their gross and that would drive many businesses out because it would amount to 20 percent.

Senator TAFT. It is assumed that would be passed on.

Mr. JOHNSON. Well, of course, if it was to be passed on, that would be another matter but that is simply a pyramiding of taxes which makes the transaction or gross income tax in our opinion the most vicious tax that could be devised to sustain a pension system, as it would be a tax upon tax on the same product, a tax which the consumer or common man would very largely have to pay out of his meager purchasing power. Dr. Paul Studenski, called by Jerry Cooper of the Ways and Means Committee, stated that if you took out the cost of the material, goods, or property sold, you eliminate

the vice of this tax. Now, we immediately dropped our bill at that time and put in a new bill adopting that idea. In other words, we are trying to get sound ideas and incorporate them in the bill we present. Now, you take in the case of jewelry, a jeweler that would be taking in, say \$100,000, under the Townsend tax, or gross income or transaction tax—there isn't any difference between them—he would pay out \$90,000 for the jewelry he sold. If the amount of the jewelry sold was not deducted he would pay a tax of \$1,940, whereas the lawyer would pay \$140 on the same real income, or 19 $\frac{1}{10}$  percent as against 1 $\frac{1}{10}$  percent.

Now, take the case of a broker, a broker selling stock to the extent of a million dollars a year. Suppose he would pay \$990,000 for that and clear as his gross profit just \$10,000. The lawyer would pay a tax on \$10,000 at 2 percent or \$200. So that on the same basis this broker would be paying on a million dollars and he would pay a tax of 200 percent instead of 2 percent, and it would drive him out of business, he would have to quit. When you tax under the plan Mr. McMasters presented, there isn't any exemption, you would tax everybody, even the man who would pay 11 or 12 cents, you would have some fifty or sixty million taxpayers.

We propose to take out first the cost of the material, the cost of the goods sold, and then take out the \$960 a year exemption. We believe there should be an exemption of the first \$80 a month so as not to tax the low-income group; in that way you would have just \$180.80 on \$10,000 gross profit or "value added" as a tax for the lawyer, and the same tax for the businessman. In other words, you wouldn't be taxing him on the material that goes through his hands; there isn't any money in that, that is merely something he has to lay out, to buy that material. So these are figures which provide illustrations where you get a 200 percent tax for one person and a 2 percent tax for another person. It is so inequitable that that form of tax cannot be considered sound in any sense. I think you gentlemen will find as you go into the problem, you will find that you must take out first the cost of the material. Congressman Larrabee, who introduced our measure in the House, and I, when we appeared before the Ways and Means Committee on May 12, recommended a 5 percent gross profits tax, the first 3 percent to be allocated to defense and the balance to Federal annuities. We believe that is sound and that we are coming to it. I think your statement was very appropriate and that we are coming to that form of taxation. I think that when you come to consider a withholding tax and attempt to apply it to manufacturing and sales, you must take out the cost of the material or property sold or manufactured; that is the essential difference between our plan and these other propositions you have listened to. We are trying to get a tax basis that will not pyramid as these others will. It will pyramid to a certain extent, but if you tax the full value of the materials every time they change hands, you have a very vicious proposition that no tax expert has ever advocated.

Senator TART. You certainly do not get a fair result from the plan you describe. In one industry you might have 90 percent in material; in another industry 50, and in another 10 percent; I can't see any equity or equality in that set-up.

Mr. JOHNSON. Of course, there would be some inequalities; they are bound to appear in any plan.

Senator TAFT. In one industry there may be 80 percent material, while in another only 20 percent. You certainly have never heard of a gross-profits tax that varies with every kind of business and operation.

Mr. JOHNSON. Well, we have a net-profit tax.

Senator TAFT. Yes, of course; but you are not deducting the cost of material which might in one instance amount to practically nothing and in another a very substantial amount.

Mr. JOHNSON. Of course, there will be some inequalities, but if you don't take out the cost of material you have the most inequitable form of taxation. I realize it is not perfect, but I also assume that it is contemplated that the tax will only be paid, or should only be paid on the gross profit and not on the sale price, yet unless the cost of the goods is deducted the inequalities which I have described will occur.

Senator TAFT. The ordinary grocery has a mark-up of 20 percent; a jeweler of 100 percent. The difference in the cost of doing business in the different fields might be very substantial.

Mr. JOHNSON. If the jeweler has only a 10-percent margin, as some of them tell me—

Senator TAFT. No; ordinarily a jeweler works on a 100-percent mark-up.

Mr. JOHNSON. There are some that have just a 10-percent mark-up in some lines, I am informed.

Senator CLARK. It is not gross profit at all unless you take into consideration the cost of the material and the cost of doing business. How can there be any such thing as taxable profit unless you permit the cost of doing business to be deducted; that is not profit that goes to individuals, or a profit that the individual can dispose of. It seems to me that the term "gross profit" is a contradiction in term.

Mr. JOHNSON. It is the gross profit over and above the cost of material goes that goes through the man's hands. The lawyer is taxed on his gross profit—

Senator TAFT. Oh, no; the lawyer is not taxed on his gross profit, not at all; he takes other deductions for the cost of doing business.

Senator CLARK. For his books, desks, and telephones, rent, and so on.

Mr. JOHNSON. Yes; that is on the net, but if it is on the gross—and the proposal here was a 2-percent gross profit or "value added" tax which the lawyer would pay on the entire amount that goes through his hands, and not his net income—that would be different. Now, if you tax the net income, then, of course, you have to have a much higher rate and therefore, a graduated income tax, but that could not be brought to cover enough persons to pay the senior citizen \$30 a month as a flat annuity. You would have to double the present income tax, especially the lower brackets, to get enough money. You can't double the 74 percent in the top brackets. Nor is it fair not to tax the unsuccessful businessman, who gets just as much protection from Government as the successful man.

Senator CLARK. Aside from the rate, isn't there some basis in equity in taxing what people actually receive rather than taxing on some basis that doesn't have any relation to what they receive?

Mr. JOHNSON. That is undoubtedly true.

Senator CLARK. Then the assumption of the transaction tax would be that they didn't pay it but passed it on.

Mr. JOHNSON. That would be true. In some cases they could and in some cases they could not, but then it becomes a pyramiding proposition, a snowballing, a repeated tax on the same goods. By taking out the cost of materials we do avoid that pyramiding process, and we feel that is a step forward in the taxation field. Dr. Studenski calls it a "value added tax." You take a straight transaction, say a real estate man that buys a house for \$9,500 and sells that house for \$9,000; \$9,000 passes through his hands and he has a loss of \$500; yet he has to pay \$180 tax on that, although he sustains a \$500 loss. Now, we don't tax that at all; we would tax him, however, if he bought that house for \$9,500 and sold it for \$10,000, and that tax would be on the \$500, and that would be \$10 instead of \$180. That, of course, would be a more equitable proposition. I don't say it is perfect, but it is the nearest approach under our complicated system, and the tax experts I have talked to are commending that form of raising revenue; and the Ways and Means Committee experts commended that tax as an equitable proposition, but I am glad to give thought to some of those instances you mention as not being equitable because we don't want to have any provision in the bill which can be improved on before enactment.

Senator TAFT. I think your statement contemplated a general retail sales tax.

Mr. JOHNSON. Of course, that was mentioned this morning, but doesn't that fall on the ultimate consumer and the little man who would have to pay that tax? In other words, if three of us went in to buy some goods and one of us was a millionaire—

Senator TAFT (interposing). I am only suggesting your tax would be the same; the effect would be it would finally amount to a sales tax except it is likely to be pyramided a little as it goes on.

Senator VANDENBERG. We were talking about a manufacturer's sales tax, that is a totally different proposition from the retail sales tax.

Mr. JOHNSON. Yes; I understand. We feel that this tax does have the making of a sound tax base so far as it can be made equitable under our present taxation system. Of course, it is just like Topsy—it has just grown—the same as the State pension, and there hasn't been any revision of the tax system to conform with what the States are doing. We will have to get to that sooner or later, but pending that time we do feel that a great deal more equity would be had by eliminating the tax on the materials which merely pass through the hands of the seller than if you taxed all the material, with consequent pyramiding, which would not result in anything but the consumer paying that tax. We believe that should be all brought into our annuity system. We are not asking that the workers be exempted from participation in these payments. We ask that everyone pay a little, directly or indirectly, during their producing years, which will automatically entitle them to these benefits at the retirement age. We further feel that if it is good for one-half of the population to have these benefits it is likewise good for the remaining half of the population and, therefore, we commend to you for consideration this bill.

As I said, if you can get started on any other basis, we are not wedded to this form of tax, and if you try out Senator Downey's proposition of diverting some of this money collected from the general public, and to which everyone contributes, then later on a system of

taxation which is more desirable and which better meets the needs of this particular problem can be worked out.

The CHAIRMAN. You have elaborated your whole proposal in the testimony taken by the subcommittee?

Mr. JOHNSON. Yes; I think I have covered the subject very thoroughly here. I want to reiterate that we are not wedded to any feature here. I am here to answer questions, and I have tried to follow the suggestion made by the experts over there, and if there are any bugs in the measure we want to have them taken out before they come up for consideration in either the House or the Senate.

I thank you, and ask the privilege of here inserting two additional exhibits into the record, marked "Exhibits I and II."

GENERAL WELFARE FEDERATION OF AMERICA

EXHIBIT I.—*Tax table showing inequities in taxing materials in addition to gross profit or "value added"*

[Basis: In each case it is assumed that the man paying the tax has earned \$10,000 per year over and above the cost of any goods or property he sold]

Nature of tax	Labor only taxed: Tax where no goods or materials involved, as in the case of an attorney; added value \$10,000	Inequity illustrations in cases where labor plus materials taxed		
		Case No. 1: Goods sold cost \$15,000, or 60 percent of total gross income of \$25,000; added value \$10,000.	Case No. 2: Goods sold cost \$90,000, or 90 percent of total gross income of \$100,000; added value \$10,000.	Case No. 3: Goods sold cost \$90,000, or 99 percent of total gross income of \$1,000,000; added value \$10,000.
General Welfare Act tax: Tax of 2 percent on "added value" or gross profit (gross income less cost of materials, goods or property sold), less first \$960 per year.	\$180.80, or 1½ percent of added value or real income.	\$180.80, or 1½ percent of added value or real income.	\$180.80, or 1½ percent of added value or real income.	\$180.80, or 1½ percent of added value or real income.
Townsend plan tax: Tax of 2 percent on gross or total income, including cost of materials or goods sold, less first \$3,000 per year.	\$140, or 1½ percent of added value or real income.	\$440, or 4½ percent of added value or real income.	\$1,940, or 19½ percent of added value or real income.	\$19,940, or 199½ percent of added value or real income.
Full gross income tax: Tax of 2 percent on gross or total income, including cost of materials or goods sold.	\$200, or 2 percent of added value or real income.	\$500, or 5 percent of added value or real income.	\$2,000, or 20 percent of added value or real income.	\$20,000, or 200 percent of added value or real income.

EXHIBIT II.—*Table showing how a gross income-tax levy would tax a loss*

[Basis: A real-estate man buys a house for \$9,500 and sells it at the prices indicated below]

Nature of tax	Selling price, \$9,000	Loss of \$500	Selling price, \$10,000	Gain of \$500	Tax of—
General Welfare Act tax—2 percent		None			<i>Percent</i>
Townsend-plan tax—2 percent		\$180			2
Full gross-income tax—2 percent		180			20

NOTE.—It is unsound and grossly inequitable to tax a loss in any case. An "added value" tax never taxes a loss, as there is no added value in the case of a loss. It is true that a man may be taxed under it whether he makes a net profit or not (after paying his operating expenses), but it must be remembered that he has had just as much protection and service from the Government as has the man who makes a net profit. It is but fair that he be taxed, otherwise he gets the services of the Government free of charge and the successful businessman pays the tax for his unsuccessful competitor, who may have sustained the loss through chiseling tactics or unfair trade practices of the worst sort. A net income tax puts a double load on the successful businessman, whereas a tax on "value added" taxes in proportion to the use made of the public market.



The CHAIRMAN. If there are any other statements to be inserted in the record, I repeat again you may hand them to the clerk. I see here a representative of the Social Security Board; I presume you would not have anything for the record at this time?

A SPECTATOR. None at this time, Mr. Chairman.

Senator DOWNEY. May I ask this: Do I understand that this now concludes the hearings in this matter?

The CHAIRMAN. Yes. We will recess until Wednesday, December 10, 1941, at 10 o'clock, to take up other matters.

(Whereupon, at 1:45 p. m., the committee adjourned until 10 a. m., December 10, 1941.)

(The following statements were ordered entered into the record:)

STATEMENT BY HON. ELMER THOMAS, UNITED STATES SENATOR FROM OKLAHOMA

1. Since the beginning of this year, people receiving fixed incomes such as the present social-security pension, have seen their pension cut 10 percent through a decrease in the purchasing power of the dollar, without any comparable decrease in their needs. If we had a stable valued dollar, this situation would not occur. (See chart 13.)

**COST OF LIVING GOES UP.....  
THE PENSION GOES DOWN**

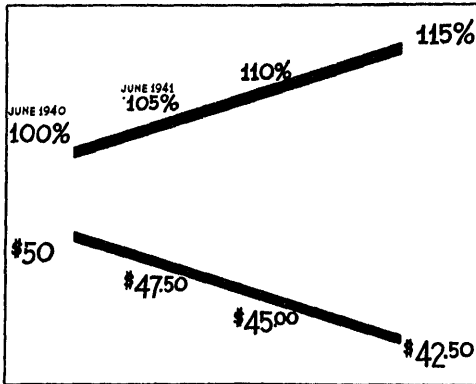


CHART 13

The stability of the value of the dollar is a most desirable condition, not only for pensioners but for all citizens. In the following we will show the desirability of stabilizing the dollar value without going into any specific recommendations.

2. A dollar can buy more or less wheat. (See chart 14, p. 62.)

A dollar can buy more or less goods and services, sold at wholesale (sold in the first transaction). The purchasing power of the dollar or the value of the dollar can be measured in any terms. It is generally valued or measured in terms of an aggregate of the wholesale prices of 900 commodities set up in an index called the wholesale price index. (See chart 15, p. 62.)

3. The dollar value as indicated in this chart is the inverse of the wholesale commodities price index, taking 1926 as a base year. Therefore, in 1926, ex-

**A DOLLAR BILL...**  
**IS A DOLLAR BILL...**

*But it buys MORE or LESS...*

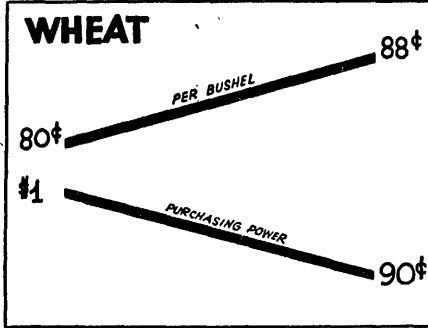


CHART 14

**A DOLLAR BILL...**  
**IS A DOLLAR BILL...**

*But its Exchange Value  
 fluctuates in terms of...*

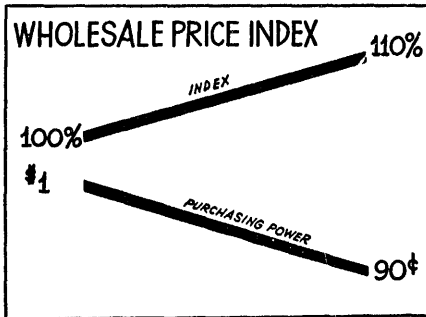
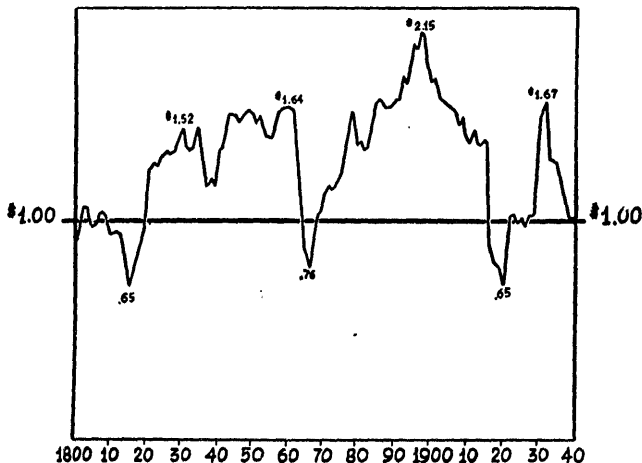


CHART 15

change value of the dollar as valued in properties, was \$1. (See chart 16.) In the past century and a half, we have had about 13 extreme ups and downs of the dollar value. In the past three decades we have had four extreme ups and downs.

## DOLLAR EXCHANGE VALUE GOES **UP** AND **DOWN**



### WHO'S HURT?

*Practically all  
U.S. people*

### WHO GAINS?

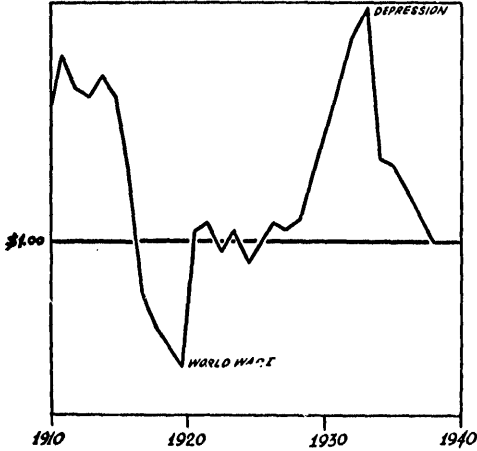
*The few Speculators  
in control of large  
funds and inside  
information*

*source: Graph exhibited in U.S. Senate  
by Senator Elmer Thomas, Mar. 25, 1937*

CHART 16

In other words, there has not been a decade in which we have not had an extreme up and down in the purchasing power of the dollar. These ups and downs hurt everyone except the very few speculators in control of large funds and inside information. (See chart 16 and chart 17, on p. 64.)

# UNSTABLE DOLLAR DURING LAST THREE DECADES

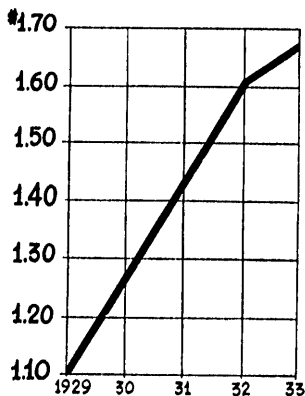


Source: Graph exhibited in U.S. Senate  
by Senator Elmer Thomas, Mar. 25, 1937

CHART 17

4. When the value of the dollar goes violently up, as in the period 1929-33, it hurts the debtors, the farmers, and the producers of raw materials, such as oil, lumber, and coal. (See chart 18.)

## PURCHASING POWER GOES **UP** PRICES **DOWN**



### WHO'S HURT?

*Debtors  
Farmers  
Producers raw materials  
(i.e.: oil, lumber, coal)*

### WHO GAINS?

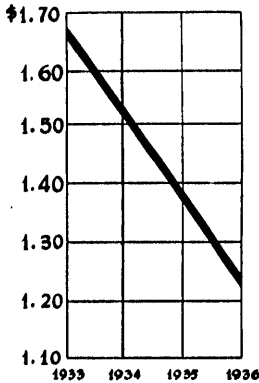
*Creditors  
Wage earners (if salaries  
are not reduced.  
Savings Accounts  
Pensioners.*

*Source: Graph exhibited in U.S. Senate  
by Sen Elmer Thomas, Mar 25, 1937*

CHART 18

5. When the value of the dollar goes violently down, as in the period of 1933-36, it hurts the creditors, the wage earners if their wages are not raised, the owners of savings accounts, life insurance, and the pensioners. (See chart 19.)

## PURCHASING POWER GOES **DOWN** PRICES **UP**



**WHO'S HURT?**  
 Creditors  
 Wage earners (if wages  
 not raised)  
 Savings Accounts  
 Pensioners

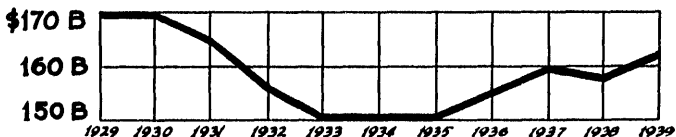
**WHO GAINS?**  
 Debtors  
 Farmers  
 Producers of raw  
 materials (i.e. lumber,  
 oil, coal)

Source: Graph exhibited in U.S. Senate  
 by Sen. Elmer Thomas Mar. 25, 1937

CHART 19

6. If it were not for our great amount of long-term debt (debt over a year's time and longer), the dollar could be stabilized at any level or value. This total long-term debt, public and private, has varied little in the past decade. The per capita debt from 1929-39 has only varied from \$1,300 to \$1,400. (See chart 20.)

## TOTAL PUBLIC AND PRIVATE DEBT



<i>1939: Total Debt</i>	<i>\$162 Billions</i>
<i>Long-term Debt</i>	<i>120 Billions</i>
<i>Per Capita Debt 1929</i>	<i>- \$1300</i>
<i>1939</i>	<i>- 1400</i>

*Source: Survey of Current Business  
June 1940, page 15, table 1*

CHART 20

7. Pending a stable valued dollar, various corporations have a clause whereby their wages fluctuate with the cost of living. For instance, the cost of living varies 5 percent, a \$30 a week wage would become \$31.50. (See chart 21, p. 68.) Among these corporations are:

Electric Storage Battery Co., Detroit, Cleveland, Philadelphia, and San Francisco.

New York Shipbuilding Corporation, Camden, N. J.

Great Lakes Engineering Corporation, River Rouge, Mich.

Associated Cloak and Suit Manufacturers, San Francisco, Calif.

The Pension bill, H. R. 1036, now before the House of Representatives, provides the same safeguard for pensioners by having their pensions fluctuate with the gross national income. This gross national income fluctuates in the same direction as the cost of living, and the cost of living fluctuates directly in harmony with the changes in the value on purchasing power of the dollar. (See chart 10, p. 69.)

## PENDING STABLE DOLLAR

*INCOME FLUCTUATING  
WITH COST OF LIVING*

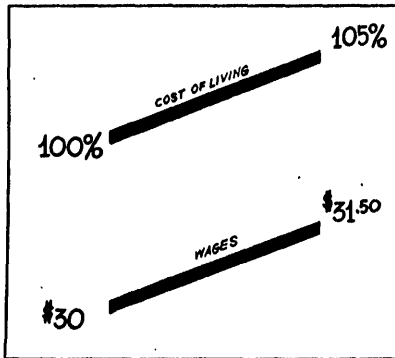


CHART 21

### OUTLINE OF TESTIMONY BY REPRESENTATIVE JERRY VOORHIS OF CALIFORNIA

**QUESTION: WHY IS THE ESTABLISHMENT OF A NATIONAL SYSTEM OF OLD-AGE PENSIONS IMPORTANT IN PREPARING TO MEET THE POST-WAR ECONOMIC PROBLEM?**

In a short time our Government will be expending in the neighborhood of \$25,000,000,000 or \$30,000,000,000 a year on armament. For a time and for a part of our people, this will bring about prosperity and employment.

But what happens to those with fixed incomes who are beyond the age where they can expect employment in high-speed industry? They are going to be even worse off economically during this boom than they were before—due to rising prices, unless some provision is made for increasing their incomes. As a matter of simple justice, therefore, we should proceed now to establish a national system of old-age pensions.



Whereas justice and fairness dictate the importance of doing this now, the very economic welfare of the Nation as a whole and even the preservation of our constitutional democracy will absolutely require it when peace returns.

If we are to avoid the most terrible economic collapse in history, if we are to keep our people employed and our farms and industries busy and prosperous, we shall have to make up by developing other sources of consumer buying power for the loss of the \$25,000,000,000 or \$30,000,000,000 of Government defense expenditures. Otherwise, our markets will fall utterly to provide outlets for our production, which by that time will have been expanded to the greatest possible extent.

Unless these means of sustaining our consumer demand are formed and applied farm prices will collapse, our industries will languish for want of a market, and, worst of all, it will be said of us that though we could put our men and resources to full use in producing weapons of war we could not do so in order to provide the necessities of life for our people in peacetime nor

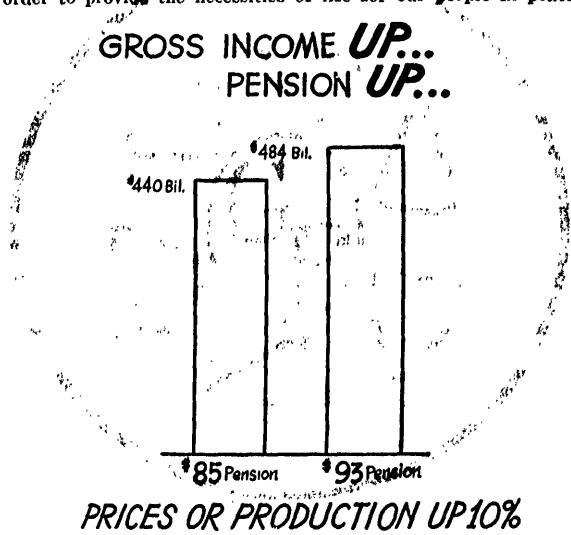


CHART 10

to help rehabilitate a war-torn world. Let us resolve that that will never be said of America again.

Our task, in a sentence, will be to provide a flow of peacetime consumer buying power large enough to make up for the decline of Government spending on armament. Either we will do this or we will face a very likelihood that, for all our effort to save democracy on the international front, we shall lose it in the misery and confusion of the aftermath.

How shall we do this?

The method of a huge public-works program has been suggested. Indeed it is about the only thing that has, so far, been talked about very much. No doubt to some extent this method can and should be used, but it cannot by any stretch of the imagination meet the situation.

However, we need a method that we can live with from year to year, which will furnish a constant core of sustained consumer buying power on which our producers can always depend, and a method that will benefit all parts of the Nation and all groups of our people equally.

What method other than an old-age pension fulfills all these conditions? I do not know of one. A national system of old-age pensions will provide a flow of purchasing power in every State and every community of the Nation. It will not cause a part of the people to become dependent on relief and thus to become an outcast group devoid of hope, and gradually losing their grip on life. Instead it will provide a decent retirement system for the whole Nation, with all groups of people and geographical regions treated alike.

The objection, of course, that will be raised is that it will cost too much, but from the standpoint of the whole national economy, it will cost nothing, since every dollar of the pension payments is quite certain to be immediately spent in the markets of our own country. If the tax that is used to support the pension system be a sound one, it can be used to channel otherwise idle money into the stream of active buying power. It is most important that this be so.

What better answer is there to this problem of poverty in the midst of possible plenty, to the ridiculous dilemma of modern man—possession of a productive machine that exceeds the wildest dreams of past ages, but being unable or unwilling to put into effect the means of decently distributing this abundance? Is it not true that part of the people can produce enough for all? Since this is true, is there any other group except those in the later years of life who can be given an income without being employed, without bad social results ensuing? I believe not.

Nor can the problem of need in old age be solved in any other way. For even if all our old people were able to save and invest enough to maintain themselves at \$30 a month in their declining years, it would require an addition to our public and private debt of \$204,000,000,000 to satisfy this investment demand. (See chart 8, p. 71.)

Because of the age of potential abundance in which we live, because of the necessity for bold measures to meet the economic problem that we will face with the return of peace, and for the sake of simple justice, we should go forward to establish a national system of old-age pensions in America.

And we should do it now.

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#### STATEMENT OF REPRESENTATIVE HOMER D. ANGELL, OF OREGON, FEDERAL RESPONSIBILITY TO OUR SENIOR CITIZENS

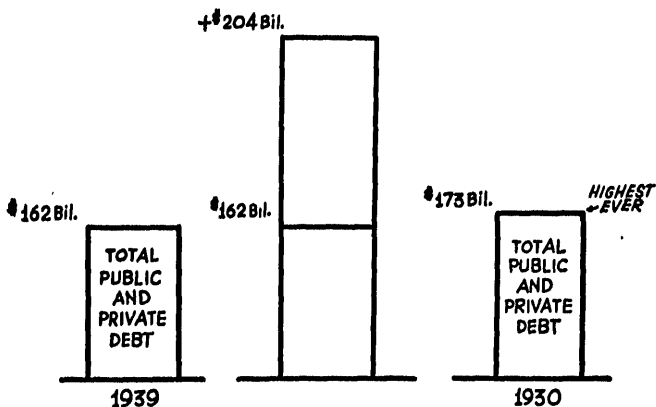
Mr. Chairman and gentlemen of the committee, I appreciate this opportunity to appear before you and to make some observations on the proposed legislation making financial provision for our elder citizens. As a Member of the House, I would not presume to do this except for the very great interest I have in trying to help in any way possible to find a solution for this serious problem confronting us, and except for the further fact that I have been a member of a group of the House which has been studying this problem for more than 2 years and we have arrived at some conclusions which I believe may be of interest to you in the study of this problem.

It is not my purpose to discuss all phases of this problem, but I would like, with your permission, to make some general observations and to discuss the question as to how the Townsend proposal fits into the national-defense program and our post-war economy.

At the outset, I am firmly convinced, based upon the study to which I have referred, that there should be enacted a Federal law providing reasonable assistance to all of our elder citizens over the age of 60 years who otherwise would be in want, financed on a pay-as-you-go basis, which in broad outline is the Townsend proposal, H. R. 1036, introduced in the House by Representative O'Connor January 3, 1941.

In seeking a solution there are two objectives: First, providing adequately for the aged; and secondly, maintaining our national economy unimpaired. In approaching this problem it is essential to consider the number of persons falling

# IMPOSSIBILITY FOR EVERYONE TO INVEST FOR OLD AGE



## CALCULATIONS:

*Investment to yield \$360 a year*

$$\$360 \div .025 = \$14,400 \text{ investment}$$

$$13,500,000 \times \$14,400 = \$204 \text{ Billions}$$

Source: Survey of Current Business (Pg. 15), June, 1940

CHART 8

within the age limits of 60 years and over. I call attention to the following table giving this data:

*Means of support of persons 60 years of age and over, 1941*

	Number	Percent age distribution
Total number of persons in the United States.....	13,000,000	100.0
A. Self-dependent.....	6,264,000	45.1
By reason of:		
1. Current earnings.....	2,700,000	
2. Savings, real estate, or securities.....	2,325,000	
3. Federal, State, and municipal pensions or insurance payments.....	708,000	
4. Industrial and other private pensions.....	142,000	
5. Insurance annuities.....	364,000	
6. Other resources.....	25,000	
B. Dependent.....	7,636,000	54.9
1. Supported wholly or partially by public or private social agencies.....	2,986,000	21.5
2. Dependent on children, other relatives (including spouse in some instances), and friends (wholly or almost wholly).....	4,650,000	33.4

Source: Marjorie Shearon, data submitted at hearings before the Special Committee to Investigate the Old-Age Pension System, U. S. Senate, 77th Cong., 1st sess., 1941, p. 215, revised as of Nov. 30, 1941, to include data from 1940 census.

According to this compilation, while there are 13,000,000 persons in the United States 60 years of age and over, there are 7,636,000, or 54.9 percent, who are supported wholly or partially by public or private social agencies, or are dependent on children or other relatives and friends wholly for their support. Furthermore, there is a considerable group of approximately a million persons classified as self-dependents who derive their support in whole or in part from pensions of various sorts. It follows from an examination of these and other statistics showing the means of support of persons 60 years of age or over, that the major portion of the group are now being supported by society or relatives or friends.

Dr. Marjorie Shearon, in her studies, concludes that of all persons 60 years of age and over, four-fifths get less than a minimum for decency and health. (See chart 7, p. 73.)

Dr. Shearon is an outstanding social-science analyst in the United States Public Health Service. She was formerly on the staff of the Social Security Board and prepared the economic brief for the defense of the Social Security Act in 1937. Her experience qualifies her to speak with authority on this subject. In considering this problem the marital status of the persons involved is desirable. The following table gives this information:

*Estimated marital status of persons 60 and over, Jan. 1, 1940*

Marital status	Total	Male	Female
Total.....	13,200,000	6,600,000	6,600,000
Unmarried.....	5,900,000	2,100,000	3,800,000
Married.....	7,300,000	4,500,000	2,800,000
Spouse under 60.....	2,100,000	1,000,000	200,000
Spouse over 60.....	5,200,000	2,600,000	2,600,000

Source: Estimate by Robert J. Myers, of the Social Security Board, memo dated Feb. 14, 1939.

MONTHLY MINIMUM FOR DECENCY AND HEALTH

What is the amount required for a minimum for decency and health of the persons falling within the provisions of the proposed law? It has been determined by a number of investigators considering this subject that a minimum requirement for a couple over 60 years of age is \$85 per month. This is the amount arrived at by Dr. Shearon in her analysis of the problem, as shown by

OF ALL PERSONS 60 YEARS OF AGE AND OVER

**4/5** get **LESS** than minimum for **DECENCY** and **HEALTH...**



Source: Dr. Marjorie Shearon, Social Science Analyst.

CHART 7

the following table, and I understand is the minimum requirement given by the National Resources Planning Board in its release Family Expenditures in the United States, table 66, of June 1941:

CHART 3

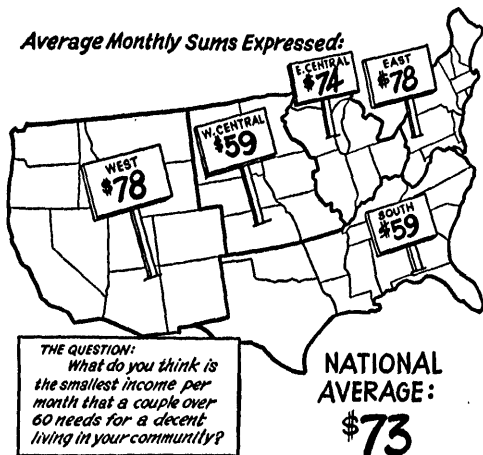
Monthly minimum for decency and health, for a couple over 60

Food.....	\$30. 00
Shelter.....	35. 00
Clothing.....	6. 00
Transportation.....	5. 00
Medical care.....	3. 00
Recreation.....	1. 50
Personal care.....	1. 50
Tobacco.....	2. 00
Reading.....	1. 00
<b>Total per month.....</b>	<b>85. 00</b>

Sources: Dr. Marjorie Shearon, Social Science Analyst, National Resources Planning Board, "Family Expenditures in the U. S.," (table 66) June 1941.

It is of interest to note in this connection that the recent Gallup poll on old-age pensions shows that the American public in response to the question, "What do you think is the smallest income per month that a couple over 60 years of age needs for a decent living in your community?" answered, \$73. This is arrived at by averaging the answers throughout the United States. The South obviously was considerably lower, namely, \$59. The West Central States gave a similar sum as the South. The West and the New England and East Central States gave the higher sums of \$74 and \$78. The following chart shows the results of the poll by geographical sections:

## GALLUP POLL on OLD-AGE PENSIONS



Source: Gallup Poll,  
Released Aug. 9, 1941

CHART 2

This poll shows that 91 percent favor Government old-age pensions and the majority approved lowering the age to qualify to 60 years.

The American Institute of Public Opinion on December 4 released the following survey, showing that 4 out of every 10 families in the United States lack sufficient purchasing power to provide proper food:

"The fact that nearly one-half of all young men called up by the draft are rejected or deferred from full military service because of physical defects raises the question of just how fit the American people are. Shocked by the high ratio of physical defects among draft registrants, President Roosevelt has said that national health is one of the most pressing domestic problems facing the country today.

"Since medical authorities trace a definite relationship between diet and physical fitness, the institute has conducted a survey among American families to determine how many believe their health suffers for lack of money to buy healthful foods. The results reveal three disturbing facts:

"1. Throughout the Nation as a whole, approximately 4 out of every 10 families—or a total of about 12,000,000 families—say the health of their families is suffering because of insufficient money for proper food.

"2. This situation shows virtually no improvement over a year ago, despite the increase in national income. In a similar survey in December 1940, 40 percent of

all families reported lack of money for food necessary for the highest health standards, while today the proportion is 39 percent.

"3. The situation in the lower-income levels of the population—families earning less than \$25 to \$30 a week—is particularly acute. Of all families below that level, 57 percent are conscious of diet deficiencies impairing their health.

"The following question was put to a carefully selected sample of adults throughout the Nation:

"Would the health of your family be better if you had more money to spend on food?"

	<i>Today</i>	<i>Year</i>
		<i>ago</i>
Health would be better.....	39	40
Health would be no better.....	61	60

"The results in the income groups under \$25 to \$30 a week are as follows:

	<i>Percent</i>
Health would be better.....	57
Health would be no better.....	43

"The Institute survey asked next:

"If you had more money, what foods would you spend it on?"

"Following is the list of foods which those families who say their health suffers from lack of money would buy if they had more money:

	National	Families earning below \$25 to \$30 a week
	<i>Percent</i>	<i>Percent</i>
"Meat," with beef mentioned first.....	45	46
"Vegetables," with small number mentioning potatoes.....	33	34
"Dairy products," with two-thirds mentioning milk and the rest eggs.....	33	34
"Fruits".....	30	30
"Bread cereals".....	5	5
"Sugar content foods".....	2	2
Miscellaneous.....	22	22
Didn't know.....	8	7

"Some persons named more than one item, hence the total is more than 100 percent."

Not only is one-third of our people underfed, underclothed, and ill-housed, but two-thirds of them are unable, with their present income—an average of \$99 per month per family—to supply the necessities of life. A study made of the income of the United States during 1935 and 1936 by the Government<sup>1</sup> discloses these startling facts with reference to our national consuming power and the deplorable economic condition of our people; 4,000,000 families, or 14 percent, had an average income of \$312 a year; 8,000,000, or 27.5 percent, had an average income of \$758; and 7,000,000 families, or 23 percent, has an income of \$1,224. Two-thirds of our families had an average income of only \$826 a year, or \$60 a month for an entire family. These disclosures show not only a lack of purchasing power but underconsumption so critical as to threaten the health and welfare of a large portion of our population. The American family is still the keystone of American democracy. If the American way is to endure, we must preserve at all costs the economic and social security and independence of the American family. If it falls, the whole structure falls. This study further shows that in the lowest income families 14 percent received only 6 percent of the food, and 42 percent of the families received only 26 percent of the food. The low-income group spent approximately a dollar a week per person for food—about 5 cents a meal—whereas the families receiving \$100 a month spent more than twice as much, or \$2.18 per person a week for food.

If families in the age groups participating in industry are unable properly to provide food for their own families, they cannot be expected to furnish maintenance for their elders who are denied the opportunity to receive any income. If these workers are in such a plight what may we expect the condition of the unemployed over 60 years of age to be?

<sup>1</sup>This survey was made by the Bureau of Labor Statistics and the Bureau of Home Economics with the collaboration of the national resources committee, covering incomes in the United States during 1935-36.

## AMERICA'S GOAL HAS BEEN MAXIMUM OF PRODUCTION WITH MINIMUM OF EMPLOYMENT

We in America are proud of our achievements in the development of our productive enterprise and the processes perfected under mass machine production which enable us to produce the essentials necessary for the maintenance of our people on a scale of living never obtained by any other organized society. By the development of technological processes and mass machine production we not only are able to provide for the needs of all of our people, but we can do so and are doing so with the utilization of only a portion of our population who are able and willing to work in productive activities. It is reported that production in 1939 approximately equaled that of 1929, but 1,000,000 less workers were employed in industry. The United Mine Workers of America recently reported that within a 5-year period 25,000 men and women were released from the steel industry alone, due to improved methods and labor-saving devices requiring less employees, and that much larger numbers would thereafter be released by the adoption of improved labor-saving machinery. I am informed that 19 men in the automobile industry are now making the same number of blocks that were made by 250 men 10 years ago.

Recently I inspected the Grand Coulee reclamation and hydroelectric power project in the State of Washington. This is the greatest man-made structure ever conceived and built. When completed it will be three times the size of the Egyptian pyramids which 360,000 slaves took 20 years to build. The immense concrete dam being constructed across the Columbia River, the second largest river in the United States, is nearing completion. It will provide 1,980,000 kilowatt-hours of electrical energy and water for reclaiming 1,200,000 acres of land. The sand and gravel going into the dam is taken from the hills several miles distant by huge electric shovels. The material is removed by mechanical belt conveyors to the sizing and washing plants, and from there to the storage bins. One man in the control tower by means of mechanical devices transfers the sand, four sizes of gravel, cement, and water to the mixing bins which are weighed automatically in correct proportions to form the concrete pursuant to Federal specifications. The concrete mixture is then carried by machines to the dam where huge cranes mechanically dump it into the structure. Through the perfected machines and mechanical devices used in this process, one man is able to do the work which without the machines would require 500 or more laborers. This is a typical example of what is taking place throughout industrial America today.

As a result of our ingenuity and accomplishments in adapting scientific processes and power machinery for mass production, our workers have not only been able to produce a much greater volume and variety of goods than heretofore to provide food, clothing, and shelter, as well as a higher standard of living for our people, but in the process we have eliminated a large segment of our population from participation in the processes. As a result, and due to other contributing factors, from 1929 to the beginning of our national-defense program, some 10,000,000 or more of our workers were unable to find employment in productive enterprise, and even now with the increased demand for manpower in national-defense production, we still have 4,000,000 or more unemployed workers. These calculations in the main do not take into consideration that larger group of unemployed who are 60 years of age or over, most of whom are denied the right to participate in productive enterprise. It is interesting to note that the United States census for 1890 shows that at that time 75 percent of all our people over 65 years of age were gainfully employed. At the present time, as I have already pointed out, 80 percent of our citizens 60 years of age or over are unable to obtain the minimum for decency and health.

The science of production has submerged the science of distribution. The very achievement of our goal, maximum of production with minimum of employment, has undermined our economy by reason of our failure to provide that distribution shall keep pace with production. Production has filled our stores, our graineries, our warehouses with foods, clothing, and other necessities of life, but in so doing has robbed the customers of the power to purchase. As a result, we have had the spectacle of our Government buying up huge quantities of the necessities of life or paying the farmers and producers to destroy them, or not to produce them, at the same time millions of our people lack food and clothing to maintain a bare minimum of decency and health.



I call attention to an observation of the United States Supreme Court in a decision written by the late Mr. Justice Cardozo (*Helvering v. Davis*, 301 U. S. 619-641), which sheds much light upon this distressing problem confronting us:

"Spreading from State to State, unemployment is an ill not particular but general, which may be checked, if Congress so determines, by the resources of the Nation. If this can have been doubtful until now, our ruling today in the case of the *Steward Machine Co.*, *supra*, has set the doubt at rest. But the ill is all one, or at least not greatly different, whether men are thrown out of work because there is no longer work to do or because the disabilities of age make them incapable of doing it. Rescue becomes necessary irrespective of the cause. The hope behind this statute is to save men and women from the rigors of the poor house as well as from the haunting fear that such a lot awaits them when journey's end is near.

"Congress did not improvise a judgment when it found that the award of old-age benefits would be conducive to the general welfare. The President's Committee of Economic Security made an investigation and report, aided by a research staff of Government officers and employees, and by an Advisory Council and seven other advisory groups. Extensive hearings followed before the House Committee on Ways and Means, and the Senate Committee on Finance. A great mass of evidence was brought together supporting the policy which finds expression in the act. Among the relevant facts are these: The number of persons in the United States 65 years of age or over is increasing proportionately as well as absolutely. What is even more important the number of such persons unable to take care of themselves is growing at a threatening pace. More and more our population is becoming urban and industrial instead of rural and agricultural. The evidence is impressive that among industrial workers the younger men and women are preferred over the older. In times of retrenchment the older are commonly the first to go, and even if retained, their wages are likely to be lowered. The plight of men and women at so low an age as 40 is hard, almost hopeless, when they are driven to seek for reemployment. Statistics are in the brief. A few illustrations will be chosen from many there collected. In 1930, out of 224 American factories investigated, 71, or almost one-third, had fixed maximum hiring age limits; in 4 plants the limit was under 40; in 41 it was under 46. In the other 153 plants there were no fixed limits, but in practice few were hired if they were over 50 years of age. With the loss of savings inevitable in periods of idleness, the fate of workers over 65, when thrown out of work, is little less than desperate. A recent study of the Social Security Board informs us that 'one-fifth of the aged in the United States were receiving old-age assistance, emergency relief, institutional care, employment under the works program, or some other form of aid from public or private funds; two-fifths to one-half were dependent on friends or relatives, one-eighth had some income from earnings; and possibly one-sixth had some savings or property. Approximately 3 out of 4 persons 65 or over were probably dependent wholly or partially on others for support.' We summarize in the margin the results of other studies by State and National commissions. They point the same way.

"The problem is plainly national in area and dimensions. Moreover, laws of the separate States cannot deal with it effectively. Congress, at least, had a basis for that belief. States and local governments are often lacking in the resources that are necessary to finance an adequate program of security for the aged. This is brought out with a wealth of illustration in recent studies of the problem. Apart from the failure of resources, State and local governments are at times reluctant to increase so heavily the burden of taxation to be borne by their residents for fear of placing themselves in a position of economic disadvantage as compared with neighbors or competitors. We have seen this in our study of the problem of unemployment compensation (*Steward Machine Co. v. Davis*, *supra*). A system of old-age pensions has special dangers of its own, if put in force in one State and rejected in another. The existence of such a system is a bait to the needy and dependent elsewhere, encouraging them to migrate and seek a haven of repose. Only a power that is national can serve the interests of all."

To summarize, in the United States today, through the use of the physical sciences and mechanical arts, the major part of the goods and services consumed are provided by scientific processes and power machinery. Our workers

are able to produce a much greater volume and variety of goods than heretofore to provide food, clothing, and shelter, as well as a higher standard of life to our people. Our productive capacity per man has multiplied manifold. In supplanting handicrafts by scientific process and mechanical devices a maladjustment has taken place in manpower or labor, resulting in unemployment and loss in purchasing power. The loss of purchasing power in the workers displaced has thrown the industrial machine out of balance. To restore this balance, purchasing power must be recovered. Fewer workers being required in productive enterprise to supply our wants, it follows a portion of the body of workers must be retired.

If any group must be retired to save our industrial structure and the profit system as well as our economy, it follows those citizens 60 years of age and over, four-fifths of whom are without means to maintain themselves in decency and health, should be retired.<sup>2</sup> Their past services entitle them to such recognition. Our industrial system which is responsible for their plight should be charged with the responsibility to provide the purchasing power to meet their needs.

#### ELDER CITIZENS AND NATIONAL DEFENSE

It has been suggested that it is inopportune now to adopt and put into effect a program providing for adequate care for our elder citizens when we are engaged in an all-out national-defense effort. I concede that no new program should be adopted which will limit or curtail our productive activities in carrying forward national defense unless absolutely necessary. We will win a hollow victory if in the winning we deprive four-fifths of our 14,000,000 senior citizens of the means to maintain themselves in decency and health. However, at the outset I feel that the premise that this program will not fit in with our national-defense efforts is untenable. The contention has been made that with the demand for manpower in war production many of our citizens falling within the 60 years and over-age group will be absorbed in industrial employment. It is true that preliminary studies already made disclose that some of the men between 60 and 65 who are skilled workmen who had been released prior to the national-defense program, owing to the demands for skilled workmen, have been put to work. This reemployment, however, is so small as compared with the total number of approximately 14,000,000 of the age under consideration, that such relief is of minor importance in finding a solution for the whole problem. Furthermore, it is obvious that the peak of such employment of these older men has now been reached, as the number available of such skilled workmen has already been exhausted. As the younger workers acquire the necessary skill the older men will be relieved.

We should note also that the reemployment of these elder citizens is limited to a few definitely defined acres contiguous to centers of defense production and therefore affords no relief to the great stretches of our territory reaching from coast to coast where no defense activity is in progress.

On the other hand, the relief granted through a sound old-age annuity program will be fairly uniformly distributed throughout all areas of the United States in proportion to population. It follows that the major portion of these citizens 60 years of age or over will continue to remain unemployed and without a minimum income for decency and health and will continue to be an obligation resting upon our national economy, regardless of where the burden may be placed. If a plan is to be adopted whereby this burden resting upon our society is to be provided for by Federal enactment, providing minimums of support to all older citizens regardless of State lines, financed in full by the Federal Government, we are in a better position under our national-defense economy to initiate it now than we have been since 1929.

Our national income is now at least \$80,000,000,000 due to our war efforts. It is predicted it will pass the 100 billion mark. The Secretary of the Treasury, Mr. Morgenthau, has, on several occasions, informed Congress through its committees that it is desirable to capture through taxation or otherwise a larger portion of this increased national income in order to prevent inflation. If that is true, it seems reasonable to assume that a Federal tax such as proposed in the Townsend program, or some comparable tax formula, will meet the problem suggested by the Secretary of the Treasury and at the same time inaugurate a long overdue program providing decent care for those of our citizens who

<sup>2</sup> See Chart 7. Source: Dr. Marjorie Shearon, social science analyst.



of about one-tenth of the population who would receive a pension is very constant throughout the Nation. (See chart 12.) The production demanded by our senior citizens will be mostly food, shelter, clothing, medical care. This will not interfere with defense production, except temporarily for clothing. We still have about 4,000,000 to 7,000,000 unemployed, according to the various estimates available.

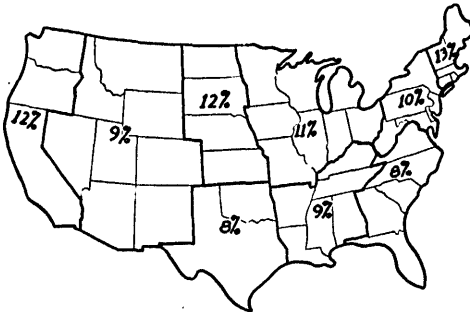
#### OLD-AGE ANNUITIES AND POST-WAR PLANS

We are gearing our industrial machinery to war production. In doing so we are draining off from nonwar production hundreds of thousands of workers. Small business is being crushed in the process. Many of these worthy enterprises built up through the years are being forced to the wall, and many of their employees are added to the unemployed. They are scattered throughout the Nation where no war activities are in progress and they cannot be absorbed therein.

The widespread increased purchasing power provided by the inauguration of this Federal pension plan would prevent this destruction of small business. It would also provide a cushion to absorb the shock from post-war dislocations when it will become necessary to transfer the war-production workers to peacetime activities. It will provide purchasing power at this critical time when our economy

### PERCENTAGE DISTRIBUTION OF PERSONS 60 YEARS AND OVER IN THE U. S.

MARCH 1941



Source: Bureau of Census  
U.S. Dept. of Commerce. 1940

CHART 12

will be strained to the breaking point. It may be an important factor in preventing complete collapse.

If we are to preserve the American way of life and protect our own democracy from disintegration and collapse, we must find a solution for our unemployment problems as well as providing a decent living for those of our citizens who under our economy are unable to be provided with remunerative employment in our system of production. The severest indictment that has been lodged against us is that while we are the richest and most favored nation on earth and while we have developed the greatest and most effective productive enterprise the world has ever known for providing the necessities of life—more than sufficient for all—we have failed miserably to provide a method by which the fruits of our industry may be shared equitably by all groups of our people.

While it is true the social-security program was an approach to this problem, it has completely failed to bring about a solution. Instead of preventing inflation, it has only added thereto. It has sucked out of industry huge blocks of purchasing power and frozen it in idleness, and has used the funds contributed for relief in meeting the ordinary obligations of the Government. It is now clearly demonstrated that these taxes, while ostensibly being a tax upon the wages of

these annuitants and their employers, are in practice passed on to the general public as an additional charge entering into the cost of the goods produced. It follows that this tax burden in the main rests upon the general public, but the general public does not have an opportunity to share in the annuities paid therefrom. It is restricted to the few favored individuals coming within the protection of the Social Security Act. Furthermore, the larger the income of the annuitant through the years the larger his monthly payment, notwithstanding the fact that with the larger income annuitants are in less need than those receiving smaller incomes. It reverses the needs test. Under it the less the need the greater the annuity.

Mr. Chairman, I hope your committee will recommend a Federal old-age annuity plan fashioned along the lines of the proposal we have discussed. In concluding my remarks, I present for your consideration the following brief outline report of the voluntary nonpartisan committee of the House on social security, old-age pensions, and unemployment to which I referred in my opening remarks:

National recovery in the United States is entirely dependent upon an adequate and sustained purchasing power in the hands of the American people. If business and industry are to be assured of opportunity for the steady production of goods, with reasonable profits, and if labor is to be assured stable and sufficient employment, with living wages, purchasing power must keep pace with production. Economic stability depends today almost entirely upon the expansion of demand. With adequate purchasing power available, demand for commodities and services will come naturally, and this demand will force increased production and in turn stabilize employment and make more work available.

Annually about 15 to 20 percent of currently received income is neither spent nor invested, but is saved. This means that this amount is taken out of circulation, reducing the volume of active purchasing power and causing more unemployment. The main question is, How, under the circumstances, are we going to consume all we can produce? Part of our people can produce enough for all of the people. It is necessary that some group be enabled to consume without taking part in production. There are a considerable number of persons in the country who, through no fault of their own, cannot take part in production. In this "age" it is almost impossible for a man to get a job after he reaches the age of 60. This group over 60 years of age, who have toiled the longest, should not be deprived of taking part in the consumption of goods. They are the victims of an industrial system for which they are not responsible.

We owe a duty to our old folks and we can perform this duty by establishing a national annuity system on a pay-as-you-go basis, drawing upon some of the idle savings as means of financing it. This plan would take care of all groups that are American citizens over the age of 60. They would be paid by the Federal Government an amount determined by prorating the tax revenue derived from the special taxes levied for this purpose. The revenue will be derived from a broad general tax plus taxes which will operate to reduce the volume of idle savings and make more funds available for active consumer buying power.

Probably the central reason for unemployment today is failure of consumer buying power to keep pace with the production of goods and services. If we are to have a full employment, it is necessary for production of goods to be continuously balanced by an equivalent flow of consumer demand.

Certain facts in recent experience have important bearing on this question. These facts are as follows:

- (1) Production tends to increase faster than employment.
- (2) Under modern scientific methods of production, part of the people are able to produce enough for all the people.
- (3) If, however, all the people do not consume their reasonable share of national production, inventories increase, production must be reduced, and even those currently employed will be in danger of losing their jobs.
- (4) In the closing months of 1930, the Federal Reserve index of industrial production stood at the highest figure on record and in the whole year 1930 the production of goods and services equaled that of 1929. This, however, was accomplished with the employment of 1,000,000 less people than were employed in 1929. It was inevitable under these circumstances for inventories to increase and for production itself to be curtailed so that today the index of production is once again falling.

(5) Various methods have been employed to try to keep consumer demand in line with production. Between 1922 and 1929 the consumers of the country had contracted a debt of between \$9,000,000,000 and \$11,000,000,000 for purchases

which they had made on the installment plan. That is, they had attempted to purchase goods in an amount of \$9,000,000,000 in excess of their incomes. This could not go on and it was one of the causes of the crash of 1929. It would have come much sooner had it not been for people buying goods beyond their incomes. They tried to stretch consumer demand to equal production. It couldn't be done.

(6) We find that persons 60 years of age and older, once they have become unemployed, find it almost impossible to get back to work again. There are various factors which cause this, among them those connected with industrial insurance and retirement systems. It is a fact, however, which must be taken practically into account.

(7) In various ways an attempt has been made to bring about better adjustment between production and consumer demand by enabling certain groups to consume even though they do not take part in production. Relief, retirement systems for Government employees, and certain categories of social security are examples of this.

If it is necessary for some group in society to be enabled to consume its share of national production without contributing to that production, then obviously this group should be those people who have worked the longest and contributed most in the past to our national wealth and to the building up of our very efficient productive machine. This evidently indicates an old-age annuity system.

It is agreed by most economists that the central cause of unemployment today is that too large a proportion of our national income is saved and set aside in idle pools of money which are neither spent nor promptly invested by their owners. This would indicate the importance not only of stimulating investment but accomplishing a transfer of a portion of the funds now held out of use in surplus savings into the stream of active consumer buying power. The best way to do this is by a system of taxation on the one hand, and the payment, of old-age annuities on the other. In our opinion such a measure would contribute as much to a restoration of confidence as anything that could be done. For all these reasons, we believe there should be a national system of pensions established in this country for those people who have passed the age where they can reasonably be expected to secure employment in industry. The particular features of such an old-age annuity system, we believe, should be as follows:

(1) It should be pay-as-you-go system. That is to say all money collected in taxes for the purpose of providing such pensions should be promptly disbursed to those eligible to receive it.

Principal criticism of the present social security contributory system (title 2) is its serious deflationary influence. In the fiscal year 1940 both the unemployment insurance system and the old-age annuity system will be taking money out of circulation at a net rate of \$50,000,000 a month. That is over the whole year those two programs will collect in tax \$1,200,000,000 more than they pay out in benefits. This literally means that \$1,200,000,000 worth of goods produced in 1940 will not be able to be sold unless the Government unbalances its budget by \$1,200,000,000 to compensate for this deflationary influence.

Furthermore those population groups, such as farmers, farm laborers, domestic servants, and others who do not participate in any way in the benefits from either the unemployment insurance or old-age annuity systems, must constantly pay a portion of the pay-roll taxes (indirectly through higher prices) to make possible the payments to the special groups which are covered. Therefore, our next point is:

(2) Pensions should be paid to all American citizens over 60 years of age who are retired from industry. (If desired to deny the pension to persons who clearly do not need it, it could be required that persons who are liable to the payment of a Federal income tax must return, at the time the tax is paid, any money received as pension payments during the previous year. This would leave the pension system as simple as possible, requiring no investigator staff or individual records.)

(3) There should be no difference in the amount of payments made by the Federal Government to people in different States. The States may, of course, supplement Federal payments as they see fit, but the basic pension system should be a straight Federal system supported by Federal taxes and with payments made directly by the Federal Government.

(4) The revenue for such a system should be derived first from broad general taxes whereby practically everyone in the population will pay at least a small amount to support this national system of old-age security. Another portion of the revenue should come from such taxes as will operate to reduce the volume of hoarded funds and to accomplish the necessary shift out of those

holdings into active consuming buying power. The gross income tax is an example of the first kind of tax, whereas, income taxes, inheritance, estate, and gift taxes are examples of the second kind.

(5) The size of the pension should be determined by prorating the tax revenue derived from the special taxes levied for this purpose among all those eligible to receive the pension. But the policy should be to fix the tax rates at such a point as to yield to each pension recipient his proportionate share of the national income.

Such a system as we have outlined would avoid the complicated system of bookkeeping now required both on the part of the individual employers and on the part of the Social Security Board itself. It would make possible elimination of the pay-roll taxes and of the attempt to maintain individual records on upward of 40,000,000 workers. It would make possible the inclusion of all occupational groups of citizens, and it would bring to an end the serious deflationary influence of the current attempt to accumulate reserve funds.

LETTER FROM LOVELL H. PARKER, WASHINGTON, D. C.

GUY & BROOKS,

Washington, D. C., December 12, 1941.

HON. EDWIN C. JOHNSON,

United States Senate, Washington, D. C.

MY DEAR SENATOR: I am in receipt of your letter of December 10, and will answer this to the best of my ability.

You ask my views on the necessity of a broad base tax such as a gross income tax to finance the various needs of the Federal Government. With respect to this question, I submit the following propositions:

I. The ordinary needs of the Government plus the extraordinary defense and war needs cannot be met by our present system of financing much longer. Our present system of financing is, of course, based upon two operations—(1) borrowing, and (2) a system of taxation in which a graduated tax upon income is the keystone; plus luxury taxes.

II. If debt repudiation is to be discarded as a possibility, our present system of financing Government necessities will still be inadequate, even after the present emergency ends.

III. If we wish to retain the important social phase of our present system which is based upon the principle of affording encouragement to progress and incentive to all we must come to some broader base tax which will secure very substantial revenue, tend to prevent the inflation of prices, and eventually bring the Government out of its present precarious financial position.

IV. The gross income tax, or the sales tax, in some form, offers the best solution of this problem. It is not based on the principle of "ability to pay," but it is based on the principle of "ability to spend."

I have no hesitation in saying that under present conditions, in my judgment, we must have some such tax. In 1938, the last year in which we have complete statistics, there were only 172,614 persons in the United States who had incomes of over \$10,000. These persons paid nearly 82 percent of the total incomes taxes paid by all individuals in the United States, although there were over 6,100,000 returns filed. One hundred and seventy-two thousand persons cannot, from their regular incomes supply any such proportion of the needs of the Government if these needs are to be substantially increased, as everything indicates. It is true that the income tax is not the only source of revenue, but it has been increased to a point where, corporate and individual, it produces over one-half of the governmental revenue.

Our present tax system is estimated to produce about \$14,000,000,000 annually. Our expenditures, due to the present war and emergency conditions, may reach \$50,000,000,000 annually. I see no opportunity for increasing the Federal revenue substantially without completely disrupting our economy except by the adoption of some new taxing medium such as a gross income tax, a sales tax, or a purchase tax.

All of the taxes above mentioned are, of course, in the nature of sales taxes and somewhat increase the price to the consumer. However, high officials in the Government have stated that consumer purchasing power should be reduced. I know of no better way to reduce consumer purchasing power than by some broad base tax like the gross income tax or the sales tax which has been mentioned.

For many years Great Britain did not impose a sales tax. They trusted to taxes based on the principle of ability to pay. This principle has been over-

worked, and Great Britain now admits it. They have adopted a tax which they state is based on the principle of "ability to spend." This tax is called a purchase tax. It is a sales tax at high rates on practically everything but the absolute necessities of life. It has proved a very substantial revenue producer. In fact, a similar tax in this country would probably produce between two and three billion dollars.

We should also look to the experience of the State of Indiana and the Territory of Hawaii with respect to the gross income tax. These taxes were somewhat unpopular at first, but have become satisfactory. The receipts from these taxes have exceeded the original estimates and have been very substantial.

It would be my suggestion that you contact the actual administrators of the law in Indiana and Hawaii in order to ascertain all the actual facts in connection with the application of the gross income tax.

In regard to your second question as to what would be the probable amount absorbed if the rate of a gross income tax was 1 or 2 percent, I would state that this is a matter of judgment, but that my personal opinion is that about 35 percent of such a tax would be absorbed, because, after all, businesses have to limit prices so as not to kill sales volume.

With sincere regards,  
Very respectfully,

LOVELL H. PARKER.

STATEMENT OF RALPH HETZEL, JR., DIRECTOR, ECONOMIC DIVISION, CONGRESS OF INDUSTRIAL ORGANIZATIONS, WASHINGTON, D. C.

CONGRESS OF INDUSTRIAL ORGANIZATIONS,  
Washington, D. C., December 12, 1941.

HON. ELMER THOMAS,  
United States Senate, Washington, D. C.

DEAR SENATOR THOMAS: In response to the courteous invitation contained in your letter of December 10, Mr. Murray has asked me to send you the attached statement of the Congress of Industrial Organizations' position on old-age and survivors' insurance.

Sincerely yours,

RALPH HETZEL, JR.,  
Director, Economic Division.

#### STATEMENT ON OLD AGE AND SURVIVORS INSURANCE

The Congress of Industrial Organizations at its third constitutional convention held in November 1940 unanimously adopted a resolution calling for a flat pension of \$60 per month with supplementary allowance to wives up to a maximum of \$90 per month for each married couple with an age limit of 60 years and eligibility to all persons and administered through a single Federal system. The complete text of this resolution follows:

"Whereas (1) the American people are entitled to a system of real security for aged people. The present dual system of State old-age pensions and Federal old-age insurance does not take care of our needs in any satisfactory way and does not exhaust the limit of our resources, and on the contrary, is now piling up an excess of taxes over benefits paid out;

"(2) A program of security for our aged must rest upon the expansion of our economic system and the distribution of social-security benefits will contribute to an expanding national income by increasing mass purchasing power and correcting the present maldistribution of income; now, therefore be it

*Resolved*, (1) That the Congress of Industrial Organizations endorses an old-age pension program in cooperation with all progressive and old-age groups based upon a flat pension of \$60 per month with supplementary allowance to wives up to a maximum of \$90 per month for each married couple with an age limit of 60 years and eligibility to all persons and administered through a single Federal system, and the additional funds for this program should be secured by taxes upon aggregates of wealth and income;

"(2) The Congress of Industrial Organizations insists that the adoption of a sound universal pension system should in no way diminish the benefits or increase the costs to individuals under various private, State, and local pension plans, but that the Federal pension plan serve as a minimum level assuring all aged citizens a decent standard of living."

This C. I. O. "\$60 at 60 years of age" program recognizes the need of taking care of all people after they reach the age of 60. There are today over



10,000,000 people above 60 years of age, half of whom have little or no other source of income to support themselves. These people must be rewarded in their old age for the services which they have given their country during the prime of their lives. The present old-age and survivors' insurance, as operated under the Social Security Act, admittedly does not adequately handle the problem. At the present time only 200,000 individuals are securing a direct monthly benefit under the present old-age and survivors' insurance. An additional 200,000 dependents are covered under the present program. There are almost 9,000,000 people above the age of 65, the age at which people are able to qualify for the present old-age benefits under the Social Security Act. Thus, only approximately 2½ percent of those people above the age of 65 are now being taken care of under the present program and they are being inadequately cared for, receiving only \$15 to \$25 a month. This amount is not sufficient to enable these old people to maintain a standard of living of health and decency.

The Federal Government has collected over \$2,500,000,000 from workers and employers on the basis of 1 percent a month from both employers and employees since the inception of this social-security program in 1936. Only \$114,840,000 had been paid out in benefits up through August 1941.

The present social-security program excludes a large number of our aged population, such as farmers and agricultural workers, domestics, those who are self-employed, employees of nonprofit organizations and a miscellaneous group of low-income wage and salaried workers. In addition the eligibility requirements, even for those who are covered by the present act, are so complicated that a large number of individuals who are now paying taxes on their wages will not be able to qualify when they reach the age of 65. Consequently, for many years to come there will be much more money collected in taxes than will be paid out in the form of benefits. Therefore, from the immediate point of view, the system operates to withdraw large sums of money from current consumer purchasing power, while in the long run it fails to set up an adequate old-age pension program.

A sound pension program would abolish both the old-age-assistance program with its antiquated needs test and the complicated Federal old-age-insurance system. In their place, a single national system should be established providing for universal eligibility and flat pension payments to all aged individuals over 60 with adequate provision for widows and dependent children and for protection in the case of permanent and total disability. This is the Congress of Industrial Organizations 60-60 old-age program.

Hitherto this progress toward a sound pension system has been blocked by the fact that we did not have a sufficient national income to sustain the cost. But as national income increases, and particularly in view of the huge expenditures being made on national defense, this obstacle is rapidly disappearing.

Moreover, one of the best ways to increase national income is to change the existing maldistribution of income and bring about a redistribution of savings into purchasing through adequate old-age pensions.

The coming year will bring wage-tax proposals presented in connection with extended social-security benefits and revision of the social-security system. Such proposals will probably take the form of a Federal wage tax for unemployment compensation and additions to the present wage taxes for old age and other benefits. Increased benefits would substantially improve the economic situation of the lower income groups by increasing and making more secure their incomes during periods of unemployment, old-age, and other hazards. If, however, such increased benefits are offset by heavy wage taxes, the net effect will probably be to reduce during the emergency the income of the very working people whose incomes need to be increased during this period.

An expanded social-security program financed by heavy wage taxes would be a form of forced savings. Workers would be paying high percentages of their incomes to the Government, which would then be repaid in the form of social-security benefits in most cases after the present emergency.

Back of the general proposal is the idea also that this war period will be used for building up large reserves, rather than for the payment of extensive benefits.

It is the Congress of Industrial Organizations' view that a substantial part of this increased social-security program should be financed by general Federal income taxes, that is, from progressive income and business taxes which are levied according to ability to pay.

This view of the Congress of Industrial Organizations was reaffirmed at its most recent convention held in the latter part of November of this year. There follows the text of the resolution as unanimously adopted by that convention:

"Whereas (1) total defense includes the defense of the welfare of the American people; and

"(2) The extension of social security to protect our people against the loss of livelihood due to unemployment, ill health, and old age is essential to their welfare; and

"(3) Substantial improvements of our social-security system can be made without any loss to defense production and, on the contrary, such improvements will effectively contribute to the increased efficiency and morale of the Nation: Now, therefore, be it

*Resolved*, (1) That the coverage of the social-security laws be extended to include all sections of the population, agricultural workers, Government employees, farmers, employees of nonprofit organizations, and self-employed middle class and professional people; and

"(2) That a single old-age security system be established providing for a minimum guaranteed monthly income to all aged individuals and couples over 60 years of age, adjusted to the level of our national income, and directed to the goal of \$60 a month for a single individual and \$90 a month for a couple; and

"(3) That similar provision be made for surviving widows and dependent children and for loss of earning power due to permanent and total disability; and

"(4) That the unemployment compensation system be placed on a uniform Federal basis providing adequate minimum benefits of 26 weeks' duration each year for total and partial unemployment, including unemployment due to temporary disability; and

"(5) That the programs of aid to blind, dependent children, and maternal and child care be expanded to guarantee a minimum security for the American family; and

"(6) That social security must be viewed as a measure for the redistribution of national income and the taxes therefor should come from progressive income taxes and not from regressive pay-roll taxes; and the Congress of Industrial Organizations expressly condemns any effort to make social security a vehicle for financing defense production."

DECEMBER 12, 1941.

STATEMENT BY IVAN TARNOWSKY, CONSULTING STATISTICIAN, WASHINGTON, D. C.

#### INTRODUCTION

I should like to precede my testimony with a few remarks.

We have had the privilege of hearing the testimony of experts and authenticated statements showing without a doubt that today all persons under 60 have 4 chances out of 5 to receive less than a minimum of decency and health when they reach the age of 60. This means for many right down to rank starvation regardless of what has been their contribution to the material and spiritual wealth of this Nation. No small wonder that the scientific and accurate Gallup poll disclosed that 90 percent of the citizens of this democracy are solidly behind a Federal old-age pension. One amazing point revealed in the poll was the overwhelming percentage of young people under 30 in favor of Federal old-age pensions.

The war program will alter very little this ratio of 4 to 5 mentioned above, as only those with skills will be reemployed while all the others will suffer more and more from increased cost of living. Therefore, the few having a minimum of decency and health today will be below this minimum very soon.

There has also been shown that even given the proper wages and income during their normal working years it would be financially impossible for our population, as a whole, to save and invest for old age. There are not that much investment opportunities available.

It has also been shown that we could have produced goods and services way beyond a decent living for those of us who have reached the retirement age, and still have left enough for a substantial increase in the income of the rest of the population. (See chart 29, p. 87.)

Now, coming to the subject of my testimony, how are we to distribute this production, or, in everyday language, how are we to finance these pensions?

I wish to say that I am not a money expert; that when I started off about a year ago to delve into the financing of the Townsend plan I was as prejudiced as anyone else, but Dr. Townsend generously gave me complete carte blanche.

Before I started these studies, if someone had asked me when I bought a \$50 suit by how much I had increased the national income that year I probably would have said about \$50. I believed that income and money were the same.

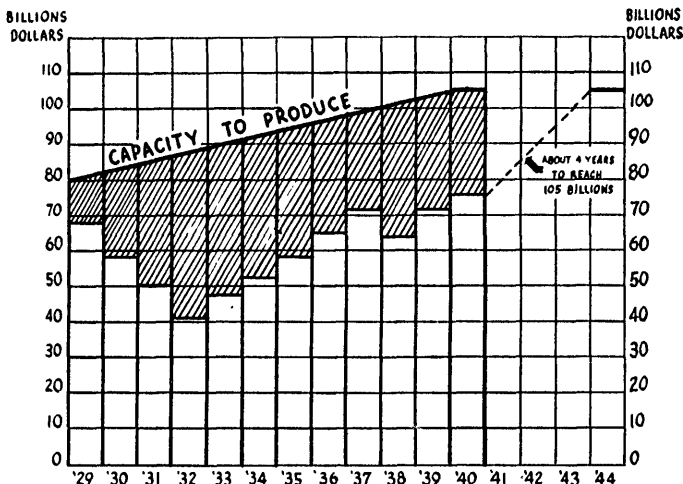
I had always believed that money spent was money gone forever; that money was wealth; that one should save everything possible; that one should never go into debt, and should get out of debt as quickly as possible.

I believed that a business should be conducted on the same basis; a minimum of spending, a maximum of saving, a minimum of debt, and that a business should, as soon as possible, stand on its own feet, using its own money.

I believed that taxes paid by business was money gone forever, and that business never saw that tax money again. I believed that any sales tax, any transac-

# LOSS OF INCOME 1929-40

CAPACITY TO PRODUCE *and* NATIONAL INCOME 1929-40  
[1940 COST OF LIVING]



**AVERAGE INCOME LOSS 1937-40  
\$30 BILLIONS PER YEAR**

SOURCE. 1929 CAPACITY TO PRODUCE - "AMERICA'S CAPACITY TO PRODUCE" - THE BROOKINGS INST.  
1940-44 CAPACITY TO PRODUCE - "AFTER DEFENSE, WHAT?" NATIONAL PLANNING RESOURCES BOARD  
COST OF LIVING INDEX - BUREAU OF LABOR STATISTICS  
NATIONAL INCOME - DEPARTMENT OF COMMERCE

CHART 29

tion tax, any gross-income tax, would be completely passed on to the ultimate consumer.

I believed that the same thing was true in our Federal Government; that spending was squandering; that going into debt would be ruinous for my children and grandchildren; that balancing the Budget was at all times our immediate goal.

I thought that increasing the velocity of money or increasing the money in circulation meant only increased prices and disastrous inflation. I was a firm believer of the old quantitative theory of money.

I thought that money spent on investment was money "tied up" in the investment. I was also convinced that what we needed was more investment for our savings, more investment in capital goods, for did not all the charts show conclusively that depressions occur when investments in capital goods decline? Following more modern thinking, I thought that all we needed to do was to reinvest our savings, regardless of the time it took.

Well, after months of untiring help from Government and private experts, after being privileged to follow a seminar on money and income under the chairmanship of Senator O'Mahoney, and a seminar on the incidence of a gross income tax under the chairmanship of Senator Edwin Johnson I want to say humbly that all my beliefs were shattered.

The minute I was able to consider the whole picture, all of us in America earning salaries and dividends, all businesses, all farmers, the services performed by the Federal, State, and local governments, then all the "sound beliefs" on which I had been brought up vanished.

May I remind you that the Townsend plan translated into bill H. R. 1036 provides for the payment of a pension to all unemployed citizens except those in public institutions. This pension is to come from a 2-percent gross income tax collected monthly and levied on all gross incomes over \$250 a month. The proceeds of the tax are to be allocated to the estimated 11,000,000 eligible annuitants on a monthly basis. In other words, the monthly proceeds of the tax are to be divided by 11,000,000 and a check of an equal amount sent to each of the annuitants.

The term "gross income" as used in H. R. 1036 is not the same as the one used by the Bureau of Internal Revenue. It means gross receipts, received monthly or annually by all persons, businesses, and corporations with no deductions other than \$250 per month or \$3,000 per year.

In our testimony we have used the economic conditions of 1940 and as a base for our calculations we have used \$80,000,000,000 as the national income. If something really fundamental is not done—such as the adoption of the Townsend plan—we will again go back into a 1940 limited production, for Prof. Alvin Hansen, special advisor to the Governor of the Federal Reserve Board in a recent book,<sup>1</sup> has shown conclusively that our economy cannot maintain itself. There are forces at work which will not be stopped by the war program, but rather accelerated to prevent our economy from maintaining itself at a full employment level of at least \$110,000,000,000 at 1940 prices.

It is with the sincerest thanks to those who have given me some insight on the function of money that I have prepared the following testimony in answer to the question on the Townsend plan asked me by Senator Elmer Thomas:

**"WHERE IS THE MONEY COMING FROM?"**

The money to pay the pensions under the Townsend plan comes from five different sources as shown in table 1.

TABLE I

1. Money not needed for old age.....	<sup>1</sup> \$1.5 billions.
2. Money not needed for aged relatives.....	<sup>1</sup> 1.0 billions.
3. Net increase cost of living, 2½ percent.....	<sup>1</sup> 1.5 billions.
Tax passed on, gross increase cost of living.....	<sup>2</sup> 4.0 billions.
4. Tax absorbed by persons with incomes over \$3,000.....	<sup>2</sup> .3 billions.
5. Tax absorbed by business.....	<sup>2</sup> 2.3 billions.
Total tax.....	6.6 billions.

<sup>1</sup> Townsend National Recovery Plan, New Ready Reference Book, Second Edition, p. 93, Appendix O.

<sup>2</sup> Townsend National Recovery Plan, New Ready Reference Book, Second Edition, p. 87, Appendix H.

We will first see how the total tax of 6.6 billion dollars was estimated and we will then analyze each one of the five items in table 1.

*Yield of two percent gross income tax.*—The Department of Commerce annually makes an estimate of the net national income. This net national-income

<sup>1</sup> Fiscal Policy and Business Cycles, Alvin H. Hansen, 1941.

figure is the best index available of the total value of all goods and services produced during a year's time. In other words, if we added together the sales value of all shoes sold, all doctors' bills, all roads built over a year's time, we would arrive at something close to the net national income.

There is no agency of the Federal Government empowered to calculate the national gross income. Nevertheless an estimate was made by the Department of Commerce for the years 1929, 1934, and 1939 (table II).

TABLE II.—Gross national income

	1929	1934	1939
Income payments to individuals.....	82	54	70
Retail sales.....	48	29	42
Sales by wholesalers.....	34	17	24
Imports.....	5	2	3
Farm products.....	10	6	9
Service transactions.....	30	21	27
Rent and royalty payments.....	12	5	8
Contract construction.....	13	4	9
Real-estate sales.....	18	6	12
Manufactured products.....	70	32	57
Mineral products.....	6	3	5
Commodity and security exchanges.....	148	32	21
Over-the-counter and new security issues.....	100	29	32
Government tax collections.....	10	10	12
Miscellaneous.....	58	25	33
<b>Total.....</b>	<b>644</b>	<b>275</b>	<b>364</b>

Source: Department of Commerce, memorandum to the Honorable James F. O'Connor, Feb. 21, 1941.

TABLE III.—Ratio of gross income to national income

	Gross income	Net income	Ratio
	<i>In billions</i>	<i>In billions</i>	<i>In billions</i>
1929.....	\$644 (\$396)	\$83	8 (4.8)
1934.....	275 (214)	50	5.5 (4.3)
1939.....	364 (308)	69	5.2 (4.5)

Figures between parentheses are gross income minus commodity and security exchanges and over-the-counter and new security issues.

If we compare the national gross income with the national net income, we see that the gross income is about 5.5 times the national net income (table III). Thus, using a national net income of \$80,000,000,000, which is somewhat close to the 1940 estimate of the Department of Commerce, we are able to estimate the gross income to be somewhere in the neighborhood of \$440,000,000,000 (chart 28, on p. 80). Since the ratio would be the same regardless of whatever national-income figure we use in this particular case, we are using \$80,000,000,000 so that computations can be made more clearly.

With shrinkage and exemptions, the taxable income is about \$330,000,000,000. Two percent of this amount is \$6,600,000,000 or \$550,000,000 per month (table IV).

TABLE IV.—Yield 2 percent gross income tax

Estimated gross income, 1941.....	\$440, 000, 000, 000
Exemptions, 20 percent.....	88, 000, 000, 000
Shrinkage, 5 percent.....	22, 000, 000, 000
	<u>110, 000, 000, 000</u>
Taxable.....	330, 000, 000, 000

Yield  $\$330,000,000,000 \times 0.02 = \$6,600,000,000$ .

Source: The Townsend Plan—New Ready Reference Book, p. 87, appendix G.

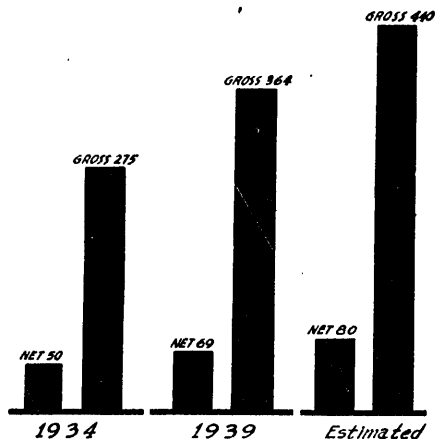
*The five sources of the pension funds.*—Item 1: Table I is money which persons will not attempt to save for old age as soon as the Townsend plan is in operation. It is estimated at \$1,500,000,000, or for 50,000,000 persons in the labor force at about \$2.50 per month per person.

Item 2 is an estimate of the amount now being spent privately on aged relatives. It would not be paid as soon as the plan is in operation. It is estimated at \$1,000,000,000 or about \$1.50 for each person in the labor force.

Item 3: One and five-tenths billion dollars is the difference between item 1 plus item 2 and \$4,000,000,000. This \$4,000,000,000 is the part of the tax passed on in increased cost of living. Per person this amounts to about \$6.50.

The average monthly expenditures of each person in the labor force being \$110,<sup>3</sup> this would amount to a gross increase in the cost of living of 6 percent. But

## GROSS INCOME vs. NET INCOME



Source: Dept. of Commerce  
Memo to Congressmen James F. O'Connor  
Feb. 21, 1941

CHART 28

item 1 and item 2 are released purchasing power, so we may deduct them from \$6.50, leaving \$2.50, the net increase in living costs.

Two dollars and fifty cents for an average expenditure of \$110 is less than 2½ percent net increase in the cost of living.

Table V indicates that the tax does not pyramid to fantastic sums; less than 5 percent on a loaf of bread, if it is assumed that all the tax is passed on.

<sup>3</sup> For a national income of \$80,000,000,000, consumer expenditures are about \$65,000,000,000 (studies of the National Resources Planning Board). For 50,000,000 persons in the labor force this makes an average of \$1,300 a year or \$110 a month.

TABLE V.—Effect of a 2-percent gross income tax on a loaf of bread

	Sale price	2 percent tax
First sale—Farmer to wheat merchant.....	\$0.79	\$0.016
Second sale—Wheat merchant to flour miller.....	.87	.017
Third sale—Flour miller to wholesale baker.....	1.46	.029
Fourth sale—Wholesaler to retailer.....	4.62	.092
Fifth sale—Retailer to consumer.....	5.73	.115
Total tax on 65 loaves of bread.....		.269

Price of a loaf of bread 9 cents. Tax per loaf  $\frac{1}{10}$  of a cent.  
This is an increase of less than 5 percent.

Source: Report of the Federal Trade Commission on Agricultural Income Inquiry, P. I. Principal Farm Products, p. 130, 1938.

At this point it is worth while recalling that a Gallup poll taken August 1941 showed that 76 percent of the voting population of the United States is willing to set aside \$3 out of every \$100 of their income to assure themselves of a \$50 pension at the age of 60.

This part of the cost can be considered as insurance. It is the simple "in and out" method of payment. Those under 60 would be paying collectively through a slight increase in living cost for all those over 60; and, in turn, when they reach that age, those below the retirement age would pay in the same manner. Under our specialized economy today we must do collectively many things which in former decades was done individually or by the family.

Item 4 is self-explanatory.

The \$300,000,000 paid out of personal incomes is only 5 percent of the total tax, therefore 95 percent of the tax comes from business.

Item 5: Two and three tenths billion dollars is the amount of the tax estimated absorbed by business. Mr. Lovell H. Parker estimates that 35 percent of the tax would be absorbed.<sup>1</sup> In all our calculations we have assumed 33½ percent. If it can be shown that business can pay for the amount of the tax absorbed through increased sales, then the tax will not be a burden on business.

I want to apologize here for going into some preliminary background to see if some of our beliefs about money are always justified by the facts.

*Money and debt.*—First we learn from table VI, that practically all money is debt, money being defined as those figures either on bank balances, checks, paper bills, or coins that are used as a medium of exchange for goods and services.

TABLE VI.—Balance sheet—Money, loans, and investment of commercial banks—  
Gold and silver purchases (as of June 30, 1941)

	Billions
Money:	
Demand deposits.....	\$37.3
Currency outside banks.....	8.2
Total.....	45.5
"Stored" money: Time deposits <sup>1</sup> .....	17.3
Total.....	62.8
Loans and investments, commercial banks.....	47.6
Gold purchases <sup>2</sup> .....	20.3
Silver purchases.....	2.0
Total.....	69.9
Stock capital banks.....	0.8
Net difference <sup>3</sup> .....	.3
Total.....	-7.1
Grand total.....	62.8

<sup>1</sup> \$13,700,000,000 are savings deposits—the turn-over of time deposits is less than 1 a year as compared to about 20 for demand deposits.

<sup>2</sup> Excluding inactive gold amounting to \$1,000,000,000 in June 1930, as well as \$2,500,000,000 of gold increment in stabilization fund through devaluation of the dollar.

<sup>3</sup> Less than 0.5 percent of money plus "stored" money.

Source: Federal Reserve Bulletin.

\* Letter to Senator Edwin Johnson, December 11, 1941.

Currency outside banks is only the small change of demand deposits. For every \$100 of currency issued there is \$100 less demand deposits. In other words, demand deposits and currency are interchangeable.

Time deposits which turn over not even once a year as compared to approximately 20 times for demand deposits may be considered as "stored money." Time deposits have very little influence on our production of goods and services. During the course of a year they might be considered in the same class as "excess reserves" of banks—in other words, as potential money.

Table V shows that if all loans and investments owned by commercial banks had to be repayed there would be only about \$20.2 billion of money and "stored" money left.

Assuming that half of the currency and half of the time deposits are in the hands of persons not owing to the banks we might get the following picture:

Money:	Billions
Demand deposits.....	\$7.5
Currency outside banks.....	4.1
<b>Total</b> .....	<b>11.6</b>
"Stored" money: Time deposits.....	8.6
<b>Total</b> .....	<b>20.2</b>

Our circulating money would be reduced to \$11.6 billions or reduced by three-fourths. All our money would be reduced by two-thirds. Therefore two-thirds of our money is debt.

We may here answer the belief: "One must stand on his own feet, get out of debt as soon as possible, do business with his own money." We have just seen that if all individuals, businesses, and corporations and the Federal Government paid back their loans to the commercial banks we would only have a third of our money left.

This conclusion is extremely important in view of the fact that four-fifths of our citizens depend solely on money to exist; only a small fraction being able to exist without money (see chart 27, p. 93).

Could we reach full employment with only 20 billions of money? The following should provide the answer.

*Relation of money and income.*—For a given amount of production we need proportionately a given amount of money. Chart 45 (see p. 94) shows the ratio between the national income, the index of our production, and the amount of money in the past two decades.

This ratio was relatively constant, around 3, for the period 1918-20; then a break occurred and the ratio today is down to 2. This ratio is called income velocity of money by Prof. James W. Angell in his remarkable treatise, *Investment and Business Cycles*.

The yearly turn-over of all demand deposits, called the velocity of money, averages around 20, as compared with 2 for the income velocity.

The belief that money and income are one and the same thing is not proved by the facts, for in the course of a year's time, there is a definite ratio between money and income.

Chart 43 (see p. 95) shows the period 1922-20 when the cost of living was very stable.

Though the ratio does not vary much from 3, it is a very sensitive number. A variation of only 0.05 means a variation in the national income of over \$1,000,000,000.<sup>4</sup>

The ratio varied from a high of 3.2 to a low of 2.9. Its fluctuations were independent of the cost of living. Therefore the belief that greater velocity means higher cost of living, or inflation, is not borne out by the facts.

During the period under consideration the national income rose from \$60,000,000,000 to \$83,000,000,000, and money rose from \$20,000,000,000 to \$28,000,000,000. During the same period we always had an excess capacity to produce of around \$8,000,000,000. Again the belief that more money in our economic system means only higher living costs or inflation is not borne out

<sup>4</sup> 25 billion dollars of money  $\times$  3 = 75-billion-dollar income. 25 billion dollars of money  $\times$  3.05 = 76.2-billion-dollar income.



by the facts. The old quantitative theory of money certainly needs to be qualified.

Analyzing further the chart: If in 1927, the low ratio point, we could have increased the income velocity by some fiscal policy to the 1923 level, the national income would have been \$84,000,000,000\* instead of \$76,000,000,000, or

# DEMOCRACY:

*THE GREATEST GOOD FOR THE GREATEST NUMBER*

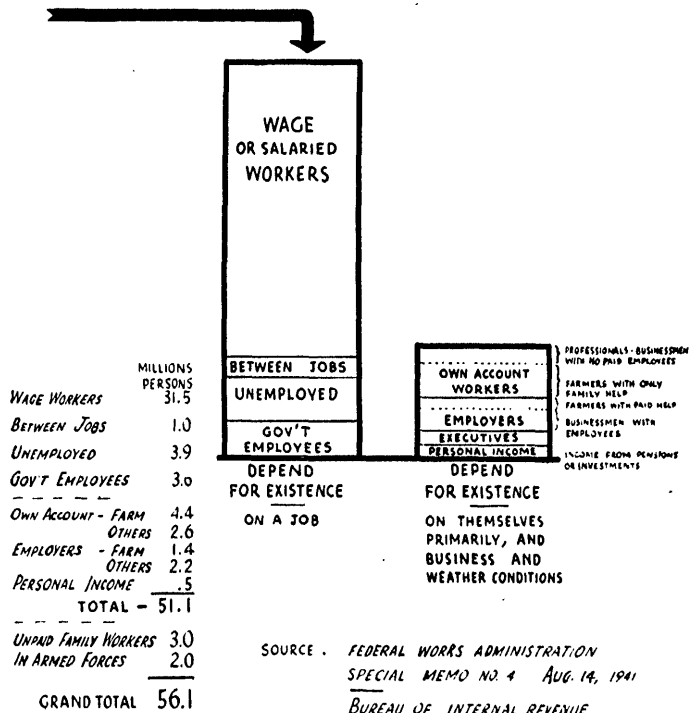


CHART 27

an increase of \$8,000,000,000, which is just about what we could have produced by utilizing all our productive capacity. Of course, beyond that point we would then run into increased prices. Up to the point of full utilization of capacity, if business is willing to produce, we should stimulate production

\* At exactly the same cost of living.

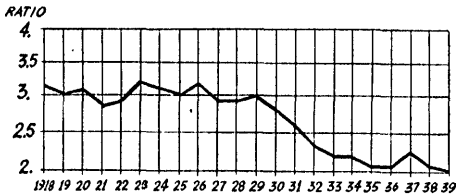
by increased velocity and without increasing prices. This is where the quantitative theory of money has to be qualified.

From 1923 to 1924 the velocity went down. Our national income was the same but our money went up \$1,000,000,000 therefore business had to go into debt nearly \$1,000,000,000, without increased production.

From 1928 to 1929 we had the same amount of money, but our national income went up \$3,000,000,000 because the income velocity increased. We gained \$3,000,000,000 additional wealth without the need of additional debt. Here is again conclusive proof that more production can be obtained with the same amount of money, if the income velocity is increased.

At this point we may well quote from the recent book by Dr. Alvin H. Hansen, economic adviser to the Governor of the Federal Reserve System: " \* \* \* the

## RATIO OF NATIONAL INCOME AND MONEY



*Money Defined as: Demand Deposits plus  
Currency outside banks.*

*Source: Investment and Business Cycles, 1941,  
By James H. Angell, pg 357, Col. 3*

CHART 45

possibilities under modern conditions \* \* \* of utilizing any given quantity of money more efficiently through changes in turn-over or velocity are so great that it may, within broad limits, safely be said, that there are no serious limits, from the side of money supply, to movements of money income." \*

Now let's take the period 1920-39 (see chart 44, p. 96): We find here an amazing change in the income velocity of money. The lowest ratio ever reached up until 1929 since the turn of the century was 2.72 in 1905. In 1939 we were down to 2.

This is not an exaggerated picture, for a difference in the ratio of 0.05 represents a difference in the national income of up to 1.5 billion dollars.

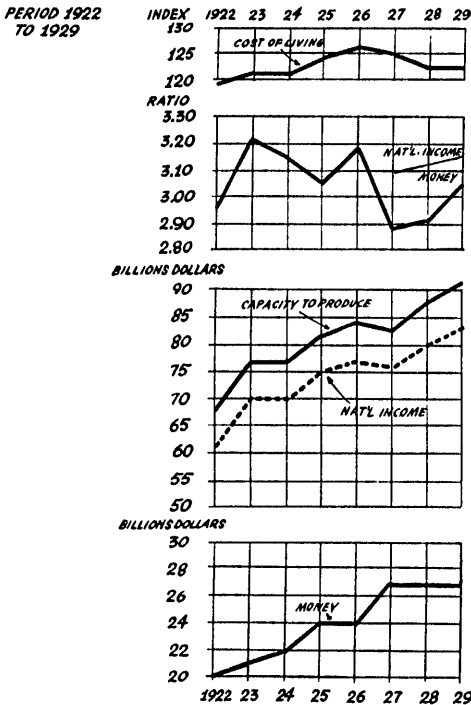
Again we see that there is definitely no constant relation between the cost of living and the velocity of money, though they do move in the same direction

\* Fiscal Policy and Business Cycles, Alvin H. Hansen, 1941, p. 37.

when there is a violent change. We find this was true during World War I, but even then the ratio did not go higher than 3.2 nor lower than 2.8.

The national income in 1929 was \$83,000,000,000, and at 1940 prices this would have been equivalent to \$70,000,000,000. To stimulate the production of \$70,000,000,000 at the 1939 ratio of 2, we needed \$8,000,000,000 more money than in

## COST OF LIVING-RATIO NATIONAL INCOME TO MONEY- CAPACITY TO PRODUCE-NATIONAL INCOME-MONEY



Sources: Bureau of Labor Statistics, *Cost of Living Index*  
*Investment and Business Cycles, 1941*, by James W. Angell, pg. 337, App. 2, Col. 3  
*America's Capacity to Consume*—pg. 148, table 2, *Brookings Institutions*.

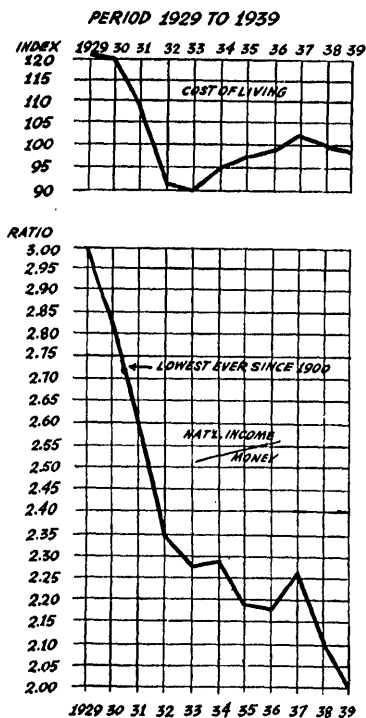
CHART 43

1929. As two-thirds of all money is debt we needed in 1939, about \$6,000,000,000 of permanent additional debt to produce the same amount of goods and services as in 1929.

*Active money.*—Is all the money we have on demand deposits and currency used during the course of a year for the exchange of new goods and services?

Prof. James W. Angell estimates that, in the course of a year's time, about 15 percent of all money does not go into the flow during the year when the income velocity reaches its peaks.<sup>7</sup> He infers that the habits of payments are rather constant due to the fact that in the three decades 1900-30 the ratio fluctuated closely around 3.<sup>8</sup> He believes that the decreases or increases in the ratio are

## COST OF LIVING-RATIO NATIONAL INCOME TO MONEY



Sources: Bureau of Labor-Statistics, *Cost of Living Index Investment and Business Cycles, 1941*, by James W. Angell, pg. 338, App 2, col 3

CHART 44

produced primarily by a certain percent of the money being hoarded during the course of a year.

<sup>7</sup> *Investment and Business Cycles*, James W. Angell, 1941, p. 339.  
<sup>8</sup> Ch. IX, *supra*.

For example in the year 1939, the amount of money was \$35,000,000,000, of which 42 percent, or \$14,000,000,000, was hoarded or did not go into the flow that year, leaving for what he defines as "active money" only \$20,500,000,000.<sup>\*</sup> His income velocity of active money is then a constant for the years 1933-39 of 3.42 (see chart 46 below). From this we may infer that for every \$100 of active money about \$350 of goods and services are produced in a year's time.

*Increasing the national income.*—There are two ways of increasing the national income.

The first way of increasing the national income from \$75,000,000,000 to \$110,000,000,000 at full employment, is to increase the amount of active money from \$21,000,000,000 to \$32,000,000,000 at the same 3.5 income velocity of active money (chart 31, p. 98). This means increasing the amount of money from \$32,000,000,000 to \$55,000,000,000, or an increase of \$23,000,000,000, if the income

## RATIO OF NATIONAL INCOME AND ACTIVE MONEY



*Active Money Defined as: Demand Deposits plus  
Currency outside banks  
minus Hoards during  
the year.*

*Source: Investment and Business Cycles, 1941,  
by James M. Angell, pp. 337, Col. 8*

CHART 46

velocity of money stays around 2. Two-thirds of the \$23,000,000,000, or \$16,000,000,000, will have to be increased debt. This means that to reach full employment either the Federal Government or private industry, or both, must go into permanent debt to the extent of about \$16,000,000,000.

The second way is to make the same amount of active money, \$21,000,000,000, go around faster, increasing by some kind of fiscal policy the ratio of active money from 3.5 to 5.2 (chart 32, p. 99). This should increase prices no more than the addition of new money (see chart 43, p. 95). What generally increases all prices is lack of time to produce and to deliver the goods and/or the lack of desire of industry to produce more or to expand plant facilities (chart 30, p. 98).

<sup>\*</sup> P. 338, supra.

## CHART 30

## WHAT GENERALLY INCREASES ALL PRICES?

**Lack of time:** Production can only be increased about \$8,000,000,000 a year (1940 prices) (sources: National Resources Planning Board, After Defense, What, p. 5).

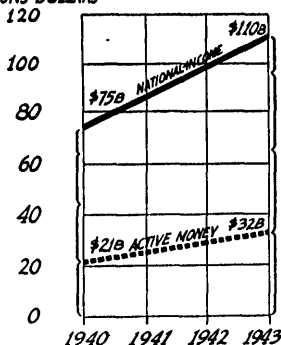
**Monopoly:** Curtailment of production to increase prices and insure profits (source: Temporary National Economic Committee final report, March 31, 1941, p. 23).

**Ultimate consumption.**—It would be difficult to find in our economy one article produced or one service rendered which is not ultimately consumed by individuals; the word "consumed" being used in the broader sense (chart 38, p. 100).

## INCREASING NATIONAL INCOME TO CAPACITY

**1<sup>st</sup> WAY**

BILLIONS DOLLARS



Source: *Investment and Business Cycles 1941*  
by Prof. James W. Angell  
pp. 337 app. 2, Col. 1 and 11

## CHART 31

In 1940 about five-sixths of our national production (national income) was consumed and paid for directly and about one-sixth was consumed and paid for collectively. However remote a product or service may be from the ultimate consumer, it will finally reach him and this will be the ultimate exchange. Business cannot thrive if there is not an ultimate consumer of its products. All the intermediaries merely pass the product on.

*Spending of \$100 on new consumer goods and services.*—Chart 30 (see p. 101) shows that there is not a product or service in our economy that is not a composite of wages, interests, dividends, and surplus.<sup>10</sup> Materials have no use for money. A tree or a domestic animal does not need money.

<sup>10</sup> Taxes are, of course, in turn used to pay salaries and to buy goods. Depreciation is used to buy capital goods.

One hundred dollars spent by a consumer goes down the line from retailer to manufacturer to raw-material producers (chart 33, p. 101).

During the past 5 years, out of every \$100 of goods and services produced about \$60 went to wages and \$40 to interest, dividends, depreciation, and surplus (chart 34).

CHART 34

*Distribution national income*

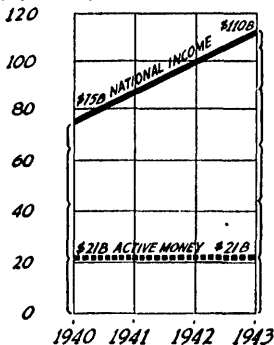
Spent.....	\$100
Wages.....	60
Interest, dividends, depreciation and surplus.....	40

Source: Average Ratio Wages and Salaries to Gross National Income, 1935-39, Department of Commerce. Temporary National Economic Committee, Lauchlin Currie, May 16, 1939.

## INCREASING NATIONAL INCOME TO CAPACITY



BILLIONS DOLLARS



Source: *Investment and Business Cycles 1941*  
by Prof. James W. Angell  
pg. 331 app. 2 Col. 1 and 11

CHART 32

When \$100 is spent, the retailer, the manufacturer, and the raw-material producer pay out wages totaling on the average \$60, and they retain \$40 for interest, dividends, depreciation, and surplus (chart 35, p. 101).

Wages will be respent in about a week's time. Let us call fast money money spent on new goods and services in a week's time.

The money retained by business will take many weeks and even months to be respent on new goods and services, let us call it slow money.

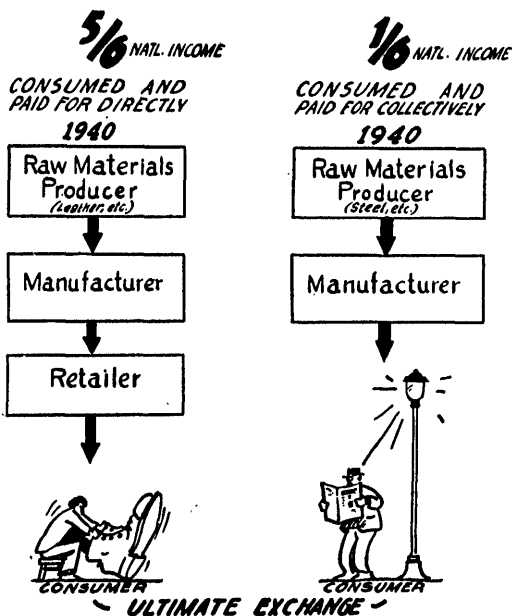
When the \$60 is respent, in turn it splits itself into fast money and slow money (chart 36, p. 102).

By the end of the second week with our initial \$100 we have stimulated the production of \$160, or added \$160 to the national income.

The slowing-down process of money had been increasing until 1940. We find definite evidence of this in the tremendous declining rate of income velocity. (See chart 44, p. 96.) Furthermore, when the average business organization needs \$100,000 for expansion today it requires only \$8,000 of outside capital as against \$28,000 required in the twenties.<sup>11</sup> Therefore, large corporations continue to pay interest and dividends which find limited investment opportunity.

The spending of \$100, in our economy, stimulates about \$250 of income during the first 2 months (chart 37, p. 102). Then the money is all back in the hands of business, its stock holders and interest holders. From there on it slows down considerably. If by some fiscal policy we could tax the money out of slow-spend-

## ULTIMATE CONSUMPTION



Source: *National Income, Dept. of Commerce*

CHART 38

ing hands and transfer it into fast-spending hands, then a new stimulation of \$250 income would ensue.

The belief that "it does not matter how long it takes for savings to be reinvested as long as they are reinvested" does not seem to be borne by the facts. Wages and salaries are practically all respent in the course of a week, the fluctuating element is the money retained for interest, dividends, etc. Part of it is spent on consumer goods, but the greater part is seeking investment. In 1928 and

<sup>11</sup> Temporary National Economic Committee Hearings, pt. 9, Savings and Investments, May 1939. Testimony of Dr. Oscar L. Altman, pp. 3684 and 3692.



CONSUMER SPENDING

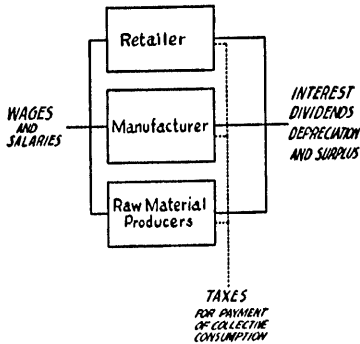


CHART 30

RESPENDING THROUGH SPECIALIZATION

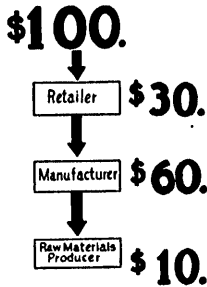


CHART 33

RESPENDING THROUGH SPECIALIZATION

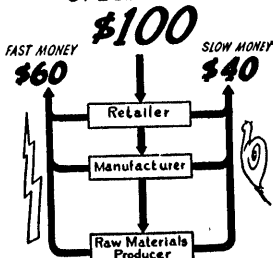


CHART 35

RESPENDING  
ON NEW GOODS AND SERVICES

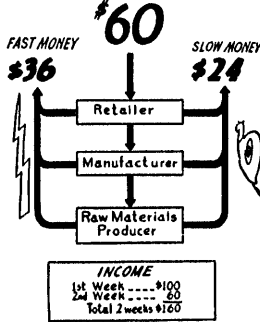


CHART 36

# CONVERTING SLOW MONEY INTO FAST MONEY

INCOME  
DOLLARS

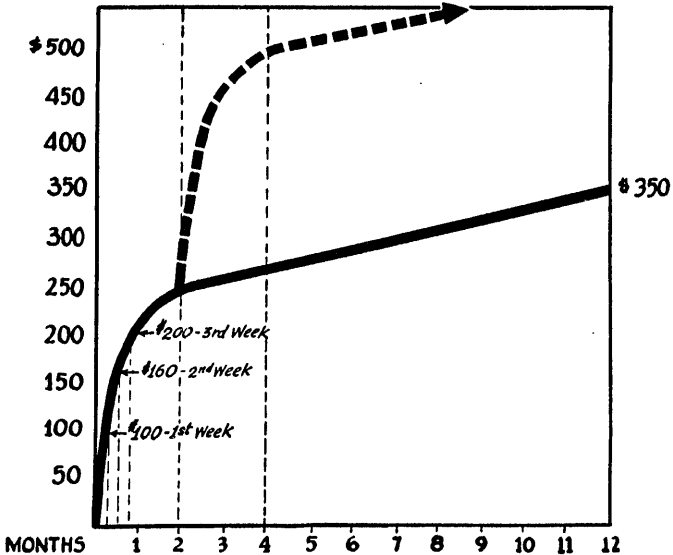


CHART 37

1929 savings apparently were reinvested more rapidly; they took less time to be reinvested into the flow and thereby stimulated a higher national income. (See chart 43, on p. 95.)

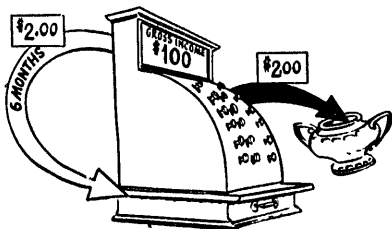
Conversely, let these savings idle along awhile and manufacturers will cease piling up inventories and producers of goods and services will discharge their personnel, with a resulting decline in the national income. There is a limit to manufacturers' patience in accumulating inventories and producers of services in maintaining an idle personnel.

*Taxing business.*—Generally business people consider tax moneys as lost, as if hidden away out of use in an old "sugar bowl" (chart 25 below).

Here is \$2, taxed out of \$100 of sales (a 2-percent gross-income tax). This \$2 of slow money takes on the average 6 months to be respent by business and its stockholders. If the \$2 went into the "sugar bowl," the businessmen not only would lose it but would have no increase in his business.

Now let's take the same \$2 and respent it promptly (chart 26, p. 104). In the course of about 2 months the money is back in the coffers of business. (See chart 37, p. 102). It is back in business channels before business or its stock-

## TAXING BUSINESS TAXES NOT RESPENT



- **LOSS** of Profit
- **NO** Increased Business

CHART 25

holders would have had time to spend it and meanwhile \$5 in income would have been produced.

Let us see what amount of slow money is converted under the Townsend plan?

	Dollars
Tax absorbed by employers.....	\$2.3 billion
Not saved for old age.....	1.5 billion
From individual incomes over \$3,000.....	.3 billion

Total ..... 4.1 billion

This makes about \$330,000,000 of slow money converted every month into fast money.

The yearly \$4,000,000,000 of slow money converted into fast money will increase the national income by the second year of operation of the Townsend plan by about \$4,000,000,000 multiplied by 2.5 or \$10,000,000,000 of income.

*Increased business.*—An increase of \$10,000,000,000 over \$80,000,000,000 is an increase of 12 percent and this means, of course, an increase in business of 12 percent.

We are now coming to the point where we may see if through increased production business can cover the amount of the tax which it cannot pass on to its customers.

Let us take an illustrative case:

Monthly sales before the Townsend plan-----	\$100,000
Gross income tax absorbed 0.7 percent <sup>1</sup> -----	700
Increased sales 12 percent-----	12,000
6 percent net income-----	720

$$\frac{12 \text{ percent} \times 7.3}{6.6} = 0.7 \text{ percent.}$$

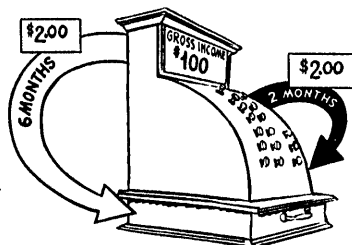
This would point to the fact that a net income of only 0 percent would cover the amounts of the tax that business has to absorb. In 1937 a study of 288 different corporations showed a net income of 0.2 percent.<sup>12</sup>

Here again the belief that taxation injures business is shown conclusively not to be true, so long, of course, as there is excess capacity. Up to the point of full employment and full productive capacity, the higher the tax and the greater the amount absorbed, the greater the amount of business.

So I hope to have at last shown that under item 4 of table I the amount of the tax paid out of business' coffers can practically all be financed through increased production.

## TAXING BUSINESS

### TAXES IMMEDIATELY RESPENT



- **NO** Loss of Profit
- **INCREASED** Business

CHART 26

From year to year the increase will go on, for an increase of \$10,000,000,000 of national income will mean an increase of about \$55,000,000,000 of national gross income, which at 2 percent will increase the tax yield by over \$1,000,000,000.

This yield will in turn allow for a greater pension, which will in turn provide for greater spending and greater production. There is naturally a limit to this process, the limit being full employment and full utilization of our capacity to increase our output per man-hour. The continuing increased output per man-hour would then be a blessing instead of a curse (chart 40, p. 105).

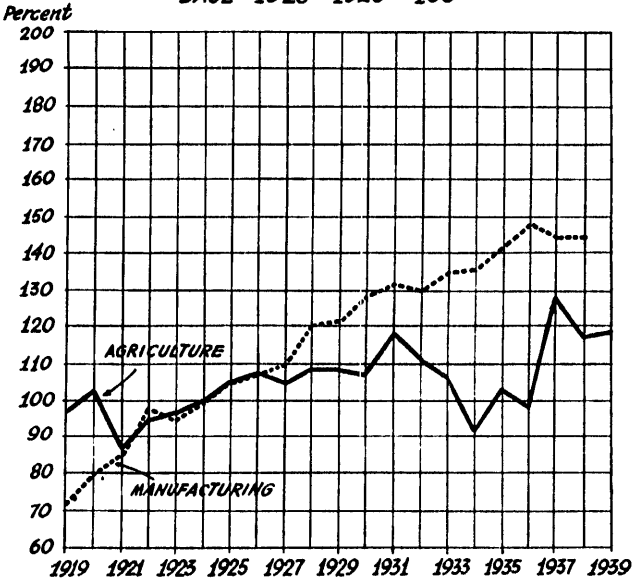
#### THE NET COST OF THE TOWNSEND PLAN

Chart 42 (see p. 105) is another way of showing where the money comes from. As we may see, a great amount of the pension money would come from cancellation of present expenses. We are now paying a bill for Federal, State, and local pensions of about \$1,000,000,000 annually and friends and relatives of aged people are paying for their support another estimated \$1,000,000,000 a year.

<sup>12</sup> Old-age pension, S. Res. 120, pt. 1, p. 161.

# PRODUCTIVITY PER WORKER IN MANUFACTURING AND AGRICULTURE 1919 - 1939

BASE: 1923-1925 = 100



INCREASED PRODUCTIVITY MAY MEAN:  
 Reduced Prices      Higher Wages - Shorter Hours  
 Expansion            or Unemployment

Source: *Technology On The Farm: 1940*,  
 Dep't. of Agriculture, Pgs. 72 and 75

CHART 40

CHART 42

Net cost, Townsend plan

Pension phase:	
Federal and State taxes already paid.....	\$1,000,000,000
Aid from friends and relatives.....	1,000,000,000
	2,000,000,000

## Employment phase:

Keeps Work Projects Administration reduced.....	\$1,500,000,000
Crime bill reduced (estimated 10 percent).....	1,500,000,000
	<hr/>
	3,000,000,000
	<hr/>

## In lieu:

Pension phase.....	2,000,000,000
Employment phase.....	3,000,000,000
	<hr/>
	5,000,000,000
	<hr/>
Cost of tax.....	6,600,000,000
In lieu.....	-5,000,000,000
	<hr/>
Net cost.....	1,600,000,000

The reemployment of about 4,000,000 people under the plan<sup>13</sup> should reduce the need for Work Projects Administration funds and we may conservatively estimate that it should reduce the crime bill at least 10 percent.<sup>14</sup> These two sums total \$5,000,000,000. In other words, if the Townsend plan came into being, these amounts would not have to be paid by our citizens. Therefore the net cost of the Townsend plan may be estimated at \$1,600,000,000. We may therefore conclude that three-fourths of the cost of the pensions would replace sums now spent otherwise, as we show in chart 42 under "In Lieu."

## THE TOWNSEND PLAN AS INSURANCE

Chart 48 (see p. 107) shows that each person of the labor force would pay monthly a premium of \$2.50,<sup>15</sup> or less than 2.5 percent of his income whereas the Gallup poll showed that the overwhelming majority of American citizens is willing to pay a premium of 3 percent.

The total amount paid by each person in the labor force would be about \$1,200 during the average 40 years of his productive life, and the amount received, if he lives the average length of 15 years after 60, would be \$9,000.

## POST DEFENSE

*The 1937-38 slump.*—If the Townsend plan had been in operation during 1937 we would have avoided the 1938 slump and business would have practically maintained its profits.<sup>16</sup>

*Keeping up the flow of money.*—Chart 41 (see p. 108) shows three ways of reintroducing money into the flow.

One hundred dollars can be spent on investment in building new industrial facilities. This money is paid out in wages, interest, dividends, depreciation, surplus, and because there is less paid out in wages in industrial machinery<sup>17</sup> than the national average only about \$200 in income is stimulated; or, \$100 can be spent on defense. Here again the money continues on and is paid out in wages, interest, dividends, etc., stimulating about \$200 in income; or, \$100 can be paid out in pensions and spent down Main Street. It goes back immediately to wages, interest, dividends, etc., but stimulates about \$250 of income, because it is directly spent on consumer purchases. (See chart 37, p. 102.)

The belief that when we invest money in a plant it some way stays there, is not borne out by the facts. The \$100 spent on investment after the creation of the factory, goes into the hands of wage earners, stockholders, etc.

In discussions on post-defense economic readjustment, the following question is often heard:

"Why worry about increasing production through old-age pensions? All we need to do to maintain full employment is a 'shelf' of good public works and a 'bank' of private industrial projects."

<sup>13</sup> The Townsend Plan New Ready Reference Book, p. 59.

<sup>14</sup> Letter from J. Edgar Hoover, Director of the Federal Bureau of Investigation, to Hon. Elmer Thomas, U. S. Senate, November 28, 1941.

<sup>15</sup> See p. 2.

<sup>16</sup> Old-age pension hearings, S. Res. 129, pt. 1, p. 161.

<sup>17</sup> Letter of Herman H. Byer, Department of Labor, to I. Tarnowsky, August 8, 1940.

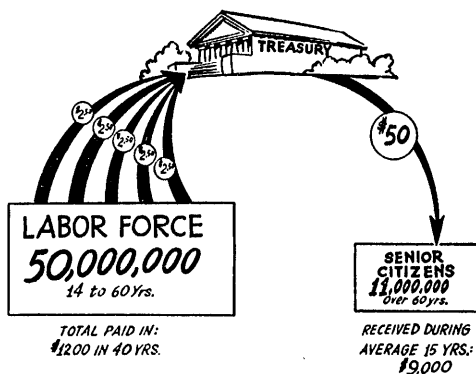
The answer to this question may be:

1. It does not seem reasonable to invest money in new instruments of production when those that we have are not functioning at full capacity.

2. If the Federal Government has to make an investment to stimulate \$10,000,000,000 or \$20,000,000,000 of income a year to maintain our economy of \$110,000,000,000, it would mean adding a permanent debt of some \$3,500,000,000 or \$6,500,000,000. Under the Townsend plan, there would be no addition to public debt, but the income velocity of money would be increased. We saw that the probable increase of income the second year would be \$10,000,000,000. For a national income of \$80,000,000,000 and an income velocity of 2, we need \$40,000,000,000 of money. With the same amount of money under the Townsend plan system we would stimulate \$90,000,000,000 in income. Therefore, the ratio of money would be brought up to 2.25 and at some time we might reach again the average ratio 3 found in the twenties, or even higher. (See chart 46, p. 97.)

## THE TOWNSEND PLAN INSURANCE FOR OLD AGE

### *Monthly Receipts and Payments*



**76% OF ALL PEOPLE AGREE  
ON \$3.00 MONTHLY PREMIUM\***

*Gallup Poll,  
August, 1941*

CHART 48

3. Spending by the Federal Government or private industry is reintroducing money into our economy in a very uneven way. Spending through old-age pensions reaches every rural and urban community of the country in about the same relative proportion (chart 12, p. 109).

4. For every \$100 spent on pensions, we get a greater and a more rapid increase in income in our economy than for every \$100 spent through investment. (See chart 41, p. 108.)

5. We can regulate more effectively the spending of money through old-age pensions than through public works because it reaches the whole economy, for which we have enough statistical information. It is difficult to determine the effect on the national income of a particular spending in a particular locality.

6. The spending of money for adequate pensions is a mandate of the people, as shown conclusively by the Gallup poll. Why not use these pensions to help at least in good part to maintain full employment?

CONCLUSIONS

In conclusion chart 47 (see p. 117) answers in a simple way the question "Where does the money come from?" Five persons in the labor force under 60

# REINTRODUCING \$100 INTO THE FLOW OF MONEY

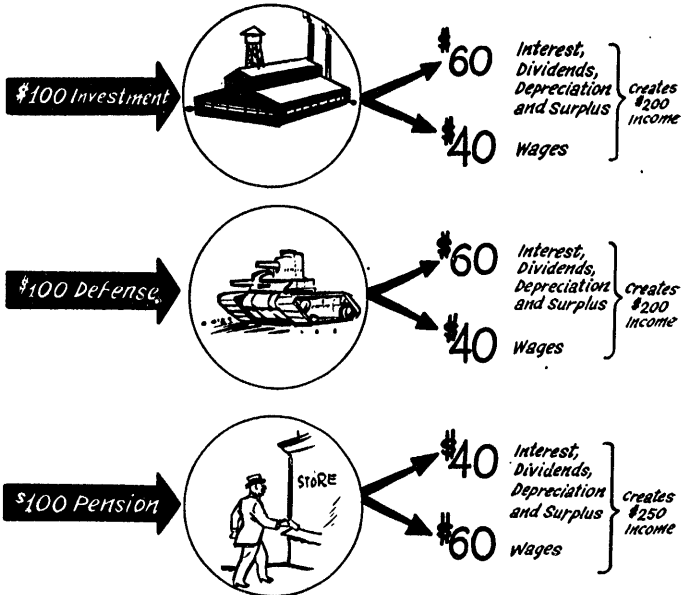


CHART 41

contribute \$6.50 a month and the 2,000,000 employers as a group \$17 a month to the \$50 pension of one of our senior citizens.

The net contribution of the persons in the labor force is \$2.50, amounting to only a 2½-percent net increase in the cost of living. The \$17 paid by the employers would practically all come out of increased production.





zens about the time when such savings are needed for purchasing power in the years past 60.

2. It makes possible the doling out, in a spirit that is almost punitive, of assistance grants that are too woefully meager to meet even on a decency level, the body and personality needs incident to advancing years.

3. It makes it possible for States (and, alas, Wisconsin does so) to make claims against the estates of the recipients after their deaths for the total amounts of the grants. Thus the children and/or other relatives of the aged poor are treated very differently from the kin of those who have had the privileges of Federal pensions (outright grants) or of Federal, State, or other retirement systems in which the pension part (in distinction from the annuity part) also comes out of tax funds.

## II. OLD-AGE-INSURANCE SECTION

1. It perpetuates the "privilege" pattern established in private corporation annuity systems whereby those who have been paid most while they worked are also paid most after they retire.

2. It misleads countless seasonal workers to anticipate annuities at 65 and thereafter because social-security deductions are made by their employers without any explanations as to the arbitrary stipulations concerning quarters, years, and minimum earnings.

3. It also confiscates the payments made by the multitudes of women who work less than the stipulated time before entering the "uncovered" occupation of marriage.

4. It also penalizes all those who are directly or indirectly engaged in providing consumers' goods and services for sale. It does so by removing that enormous but widely distributed amount of purchasing power which, used currently and more or less locally, would sustain markets,<sup>2</sup> stabilize employment, and protect little business and industrial concerns.

Because there are no assets that offset these and other liabilities in these two sections of the Social Security Act, the members of these organizations urge their speedy repeal and urge the speedy adoption of the provision of H. R. 1036. Among these assets in the provisions the members list the following important ones:

1. Deferred payments<sup>3</sup> via a flexible pension that is geared to the national income and to the changes in the cost of living for those workers of the past who were too inadequately paid at the time to live decent, comfortable lives hence couldn't possibly have saved for old age.

2. Indemnity, a gradual and at least partial redress via said pensions for those arithmetically<sup>4</sup> unsound financial aspects of our economy that permitted the borrowing of billions of dollars of savings from millions of workers, self-employed or otherwise, in all fields essential to the development of this country. Such borrowings were made with pledges to pay interest for the use of those savings and with pledges to return amounts equivalent to those savings on specific dates. Unfortunately the repudiation<sup>5</sup> of these pledges all too frequently coincided with the very years when retirement from work made the loss of those savings a bitter burden to be borne.

3. And, finally, the memberships of these organizations see in the provisions of H. R. 1036 one important positive approach to unity for which so many appeals are being made now. This unity, it is the conviction of our memberships, cannot be commanded from citizens in a democracy. Genuine unity can only be won.

Fortunately, one great aid toward winning this unity lies in the exercise of the democratic processes in the field of old-age security. These will avoid the privilege annuities, the penalizing liens against the estates only of the aged poor, and the outright grants (pensions) for special groups (usually small compared to the total number of aged citizens) that are able to bring their pressures to bear upon national or other law-making bodies.

<sup>2</sup> See exhibits 2A and 2B: The Cleveland Trust Co. Business Activity Chart and the Cleveland Trust Co. Business Bulletin.

<sup>3</sup> See exhibit 3 for evidence that enormous numbers of families in United States of America still have such incomes.

<sup>4</sup> "Remember, O Stranger, arithmetic is the first of the sciences and the mother of safety." In 1914 the late Justice Brandeis closed a letter to Norman Hapgood, editor, Harper's Weekly, with that quotation. (Pxl. Other People's Money and How the Bankers Use It. Jackson Library Edition.)

<sup>5</sup> See exhibits 5A and 5B: Dwight Morrow as quoted by Garet Garrett in A Bubble That Broke the World (pp. 13-18, Little, Brown Co., 1932). 5B, see especially statements by Metropolitan Life Insurance Co. 6 (2) and 6 (3) re losses before the age of 45, etc.

In conclusion, may I personally say that in my judgment no finer tribute could be paid to the Bill of Rights this December than the speedy enactment of H. R. 1036. Such an enactment would enable the few remaining years of those who helped to create the wealth that is the United States of America. It would also be a promise to those who will be retiring soon.

And for those age groups that will carry the tragically heavy burdens of the war now and of the peace afterwards it would be a pledge the like of which no other generations carried with them into the war services to which their Government called them.

It is because the provisions of H. R. 1036 are "deferred payments" for some, "indemnity" for others, and a "pledge" for the peace period that the members of the United Old Age Pension Groups of Wisconsin, Inc., and the Wisconsin State Conference on Social Legislation urge your committee's active service in the prompt enactment of the provisions embodied in H. R. 1036.

(EXHIBIT 1-A)

WISCONSIN STATE CONFERENCE ON SOCIAL LEGISLATION,  
Milwaukee, Wis.

MEMORANDUM ON H. R. 1036

The Wisconsin State Conference on Social Legislation, at its State Conference held at Madison, February 22 and 23, 1941, adopted a resolution endorsing H. R. 1036, which would provide for old-age pensions for persons over 60 years of age, based on a 2-percent gross income tax on all incomes over \$250 per month.

At a conference on the Rising Cost of Living and Taxation, held June 15, 1941, in Milwaukee, the following resolution was adopted on old-age pensions:

Whereas there has been for the citizens of the United States for years, way back to the Civil War, the question of the lack of income for large numbers of senior citizens; and

Whereas there have been before the Congress of the United States at practically every session, proposals to answer that question with an adequate Federal pension for all senior citizens at the age of 60 or 65 years; and

Whereas this rich country has only achieved pensions of greatly varying amounts for the very few small groups able to bring pressure to bear upon city, county, State, and Federal legislative bodies; and

Whereas the inadequacy of the Social Security Act and its amendments is recognized by all economic groups (as expressed in this editorial from the Chicago Journal of Commerce: "The amounts of retirement income provided by the social security law are entirely inadequate for employees in the medium and large income groups and it is to supplement these incomes that (private corporations) pension plans have been devised." And in a postscript by Editor Sherman J. Bainbridge, of the Townsend National Weekly (p. 12, Saturday, June 14, 1941) (people from low income groups also find the Social Security allotments inadequate): Therefore be it

*Resolved*, That this session of the Wisconsin State Conference on Social Legislation record its hearty approval of H. R. 1036, Representative O'Connor's National Recovery Act, which has been pigeonholed in the House Ways and Means Committee, Representative Doughton, chairman; and be it further

*Resolved*, That the conference ask for the early and prompt passage of H. R. 1036 in order that—

1. Recovery be promoted in the markets of consumer's goods and services; and  
2. Justice be done to the senior citizens whose jobs and savings have been wiped out periodically by depressions not of their making; and

3. Unity be fostered between labor, management, and the Government by the removal of the fears of insecurity after the 60th birthday is passed; and be it further

*Resolved*, That copies of this resolution be sent to the President of the United States, Senators La Follette and Wiley, and Wisconsin Representatives, and the Chairman of the National Defense Mediation Board.

The conference, at its State conferences, has consistently gone on record for adequate old-age pensions, supporting all legislation that would help to achieve this aim until a really equitable and liberal old-age pension system would be adopted by the Congress of the United States.

(Exhibit 1-B)

In accordance with this position, the Wisconsin State Conference on Social Legislation has also supported the liberalizing and improvement of social security,

so as to allow a minimum of \$60 per month, with a supplementary allowance for wives up to a maximum of \$90 per month for each married couple, with an age limit of 60 years.

(Exhibit 2-A)

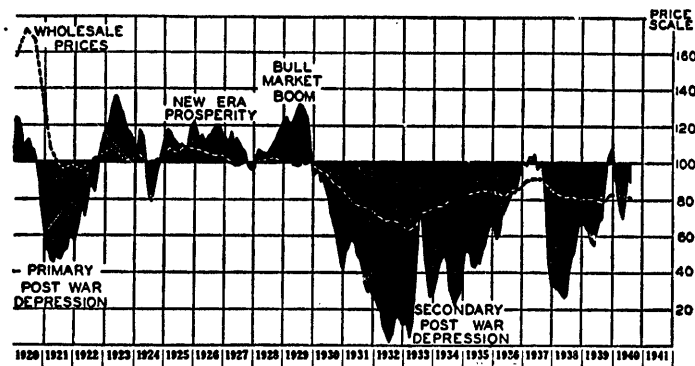
The soldiers' bonus created the 1936 boomlet.

(Exhibit 2-B)

THE CLEVELAND TRUST CO. BUSINESS BULLETIN, DECEMBER 15, 1940

Back in 1936 the soldiers' bonus was paid to the veterans of the World War, and that payment stimulated an upturn in the demand for consumers goods which developed for a time into a very plausible imitation of a real prosperity. It proved not to be a self-sustaining recovery, and the boom into which we are now moving will not be self-sustaining either, for it rests on a foundation of deficit financing, and its products are the implements of war which are in no sense income-producing.

Nevertheless this period can develop into a real industrial boom, and it can last for a long time. Our expenditures for munitions, coupled with those of Great Britain, are going to be so huge that their economic effect will be similar to that which would develop if we were to pay out a soldiers' bonus each month over a long series of months. There will be the difference that under those circumstances we should have a boom in the consumers goods industries first, and one in the heavy industries later on, while, as things are, the order will be reversed. The fact remains, however, that we are going to have a boom because so much money is going to be spent so fast that the boom is inevitable.



(Exhibit 3)

NATIONAL RESOURCES COMMITTEE REPORT ON CONSUMER INCOMES IN THE UNITED STATES (1935-36)

*Chart Tells Who Has Money in the United States*

This chart is a major exhibit in the report of the National Resources Committee to President Roosevelt. The study points out that family incomes from \$10,000 up are received by less than 1 percent of the people, while the lower one-third averages a family income of about \$471 annually.

This comprehensive study of income distribution, the first since the Brookings Institution estimates for 1929, revealed further:

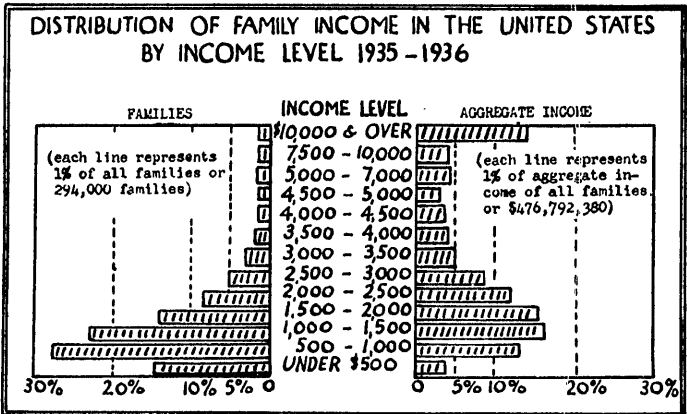
More than 4,000,000 families, or 14 percent of the total, had incomes less than \$500.

Nearly 8,000,000 families, or 27 percent, had incomes less than \$750.

Over 12,250,000 families, or about 42 percent, had incomes less than \$1,000.

Over 19,000,000 families, or about 65 percent, had incomes less than \$1,500.

Over 23,240,000 families, or 79 percent, had incomes less than \$2,000.  
 Over 25,700,000 families, or 87 percent, had incomes less than \$2,500.  
 Only about 793,000 families, or less than 3 percent, had incomes in excess of \$5,000.  
 About 294,000 families, or less than 1 percent, had incomes in excess of \$10,000.



At the very top was a little group of 75 families each having in 1935-36 an income of \$1,000.000 and over.  
 (Wisconsin State Conference on Social Legislation, Milwaukee, Wis.)

(Exhibit 5-A)

[From A Bubble That Broke the World]

The holder of a foreign bond must have bought it on faith. There was no other way. How could the individual investor examine for himself the economic resources of a foreign country and analyze its budget, or enter into the private accounts of a foreign corporation, try its balance sheet, and form a judgment, besides, of its prospects in the field?

On the science, wonder, and romance of American investments abroad, on the individual investor's perilous position in faith, and on the moral responsibility of the banker, a very beautiful essay was written by the late Dwight W. Morrow, who had been a member of the house of J. P. Morgan & Co., international bankers, then Ambassador to Mexico, later United States Senator. It was printed in Foreign Affairs, an American quarterly of international vision, in the year 1927 (a year in which our loans to foreign countries exceeded the total borrowings of all American States, counties, townships, districts, towns, boroughs, and cities). This essay became at once a classic of the kind, referred to continuously by all who wanted a theory or a philosophy of what we were doing. He was on a train, reading a Chicago newspaper, and he counted the foreign bonds listed in its daily bond table. The number was 128, where 10 years before, as he learned by inquiry, there had been only 6. He wrote:

"Examining that long list of 128 bonds, I discovered that government, municipalities, or corporations of some 30 different countries were represented—countries scattered all over the world. The list included the countries of our own hemisphere—Canada, Cuba, Brazil, Argentina, Chile, Peru, Bolivia, Uruguay—nations abroad with whom we fought and against whom we fought; governments in the Far East, such as Japan and the Dutch East Indies; and cities as widely separated as Copenhagen and Montevideo, Tokio and Marseilles.

"The contemplation of the extent and variety of America's investments in foreign bonds gives rise to three questions: Who buys these bonds? Why do they buy them? What do they get when they have bought them?"

These questions he set himself to answer. From statistical evidence he concluded that more than four buyers in every five were small investors, and bought them in amounts from \$100 up to \$5,000. On this, he said:

"The investment in these foreign loans represents the savings of the person who spends less than he produces and thus creates a fund which he is able to turn over either to a domestic or to a foreign borrower. \* \* \* When we talk about the person who is investing in foreign bonds we are not talking about a great institution in New York or Chicago or Boston. We are talking about thousands of people living in all parts of the United States. We are talking about school teachers and Army officers and country doctors and stenographers and clerks."

Then the second question: Why do they buy foreign bonds? "Here," he wrote, "statistics are of little value \* \* \*. The considerations in the minds of most of most investors are, first, the safety of the principal, and, second, the size of the interest yield. It should be borne in mind that the investor is the man who has done without something. He has done without something that he might presently have enjoyed in order that, in the future, his family may have some protection when he is gone, or in order, perhaps, that a son or a daughter may go to college. This investor wants to be certain that he will continue to receive income on the bond which he buys. He wants that income as large as is consistent with safety. Above all, he wants the principal returned to him on the day of the maturity of the bond. It cannot be asserted, however, that sentiment plays no part in our investments. It does. Many men in this country bought German bonds, after the successful launching of the Dawes plan, not only because the rate of interest was attractive and the principal seemed secure, but because they felt that they were thus associating themselves in a fine venture to help Europe back on her feet." Sentiment allowed its due weight, yet Mr. Morrow supposed safety was always the first consideration. And he asked: "If that be true, how is the investor to form an intelligent judgment as to the safety of his investment? If he should be asked this question, I think that he would put in the very forefront of his reasons for making the investment the fact that had confidence in the banker who offered him the investment. This throws a heavy responsibility upon the banker."

Thirdly, the question: What does the buyer of a foreign bond get? On that he continued: "In 1924, 40 persons in a western city put \$100 apiece into a Japanese bond maturing in 1954. What did those people get for their money? They got a promise. And, mark you, that promise was the promise of a group of people associated together on the other side of the earth. Moreover, so far as the promise relates to the payment of the principal of the bond, the promise does not mature in time to be kept by the particular members of the group who originally made it. It is a promise designed to be kept by the children of men now living. Yet somehow or other, the banker who offers that bond and the investor who buys that bond rely on the people of Japan taxing themselves a generation from now in order to pay the principal of that bond to the children of the person who invests in the bonds today. At first blush it is a startling idea. It is particularly startling at this time when so many people are saying that the various nations of the earth have lost faith in each other. Here we have printed in a middle western newspaper the record of the day's dealings in 128 foreign bond issues. Individuals in America are taking their own money, with its present command over goods and services, and surrendering that command to nations on the other side of the earth, and they receive in exchange for it a promise. The question may be asked: Nothing more than a promise? To which the answer may be made: Nothing less than a promise \* \* \*. Those nations who are borrowing in America because they actually need the money for a constructive purpose, who have a solidarity of national feeling and a sense of the meaning and value of national credit, who are not incurring obligations beyond what may fairly be considered their capacity to handle them—all those nations may be expected to pay their debts. Here again the responsibility rests heavily upon the investment banker recommending investment. The banker must never be lured, either by the desire for profit or the desire for reputation, to recommend an investment which he does not believe to be good."

Two years later the crystal burst. Within 4 years the loss upon American investments abroad was incalculable.

(Exhibit 5-B)

DISCUSSION AT WISCONSIN STATE CONFERENCE ON SPECIAL LEGISLATION, MADISON, FEBRUARY 22-23, 1941, ON SOCIAL SECURITY ACT VERSUS TOWNSEND NATIONAL RECOVERY PLAN

1. "What has been said of the Social Security Act?"

1935.—Dr. Paul H. Douglas (University of Chicago): "If unemployment should maintain its present level for a long period, then it is quite clear that we will have to use methods very different from those laid down in the present act."

1935.—Mr. Alfred M. Landon: "The Social Security Act is a fraud upon the working man."

1936.—The New Republic (June 10) Balance Sheet of New Deal: "If Congress had tried to pass a poor bill it could not have succeeded any better."

1939.—Senator Sheridan Downey in Pensions or Penury: "The act may not be a wholesale embezzlement of the public funds; but it is certainly a gallant attempt to fool all the people all of the time \* \* \*"

1940.—Senator Sheridan Downey in Highways to Prosperity: "\* \* \* its central, shameful sin is that it has failed to fulfill its very reason for being: It has made no one secure."

1940.—The Cleveland Trust Co. Bulletin: "We are going to have a highly specialized and definitely localized boom—industrial-munition regions—ship-building communities, etc., will be prosperous. At same time real or near depression can be expected in agricultural regions \* \* \*. In 1936 the soldiers' bonus created a small boom in consumers' goods—if we were to pay out a soldiers' bonus every month—the boom into which we are, however, moving will not be self-sustaining—it rests on deficit financing and its products (war implements) are not income producing."

2. "What have you said of the Townsend national recovery plan?"

\* \* \* \* \*

3. "What did Dr. Isador Lubin tell the Senate committee about our losses in national income?"

"Lost from 1930 to 1939 \$133,100,000,000 in farm income—labor wages and salaries, interest and dividend payments!" so Dr. Isador Lubin told us in December 1938. He is Commissioner of Labor Statistics in the United States Department of Labor. He used the national income for 1929 as his yardstick. That was about \$80,000,000,000. (It could easily have been 100,000,000,000 had our economic-financial machinery been properly managed.)

His figures, as indicated by his chart of December 1938, are about as follows:

1930 income lost about	\$11,500,000,000.
1931 income lost about	\$21,500,000,000.
1932 income lost about	\$30,000,000,000.
1933 income lost about	\$25,000,000,000.
1934 income lost about	\$18,000,000,000.
1935 income lost about	\$14,500,000,000.
1936 income lost about	\$5,000,000,000.
1937 income lost about	\$500,000,000.
1938 income lost about	\$8,100,000,000.

These unproduced billions add up to \$133,100,000,000 and average \$14,788,-888,888 per year that could not be used as buying power.

That is why there are now piled up in storage places millions of tons of food-stuffs, clothing, building materials that are costing us untold misery in unemployment, in makeshift work and relief! And money, too, for rent on storage places and ever larger debts, both national and local.

4. "What did Dr. Lubin tell the committee was needed by almost 17,000,000 United States of America families?"

"\* \* \* needed from now on more than \$13,300,000,000 every year by 16,200,000 families in the richest country in the world." And Dr. Lubin also told us in December 1938 that 54 percent of the United States families have less than \$1,250 a year with which to buy consumers' goods. He figured that if every one of these 16,200,000 families could spend just \$2.25 more a day, their buying power with \$36,440,000 daily would be about as follows:

\$461,000,000 more for clothing per year.
\$800,000,000 more for foods per year.

\$613,000,000 more for rent per year.  
 \$213,000,000 more for fuel per year.  
 \$385,000,000 more for recreation per year.  
 \$208,000,000 more for medical care per year.  
 \$13,500,000 more for cosmetics per year.  
 \$45,000,000 more for movies per year.  
 \$47,000,000 more for electric refrigeration per year.  
 \$224,000,000 more for house furnishings per year.  
 \$73,000,000 more for personal care per year.

"The American Federation of Labor said 11,470,000 men and women are now out of employment. \* \* \* In February 1939, 7,278,000 households were receiving relief, Work Projects Administration or other Federal aid." (Milwaukee Sentinel, April 9, 1939.)

5. "Who found the invention for reaching and then exceeding the 1929 national income and improving its distribution?"

No, Dr. Lubin did not tell us from where that increased buying power is to come.

No, the Social Security Board has not found a way of distributing this buying power needed now.

Yes, Dr. Francis E. Townsend has offered to us that necessary economic-financial invention—calling it the Townsend National Recovery Plan.

6. "What is the social invention proposed by such men as Berger, McGroarty, Hendricks, Pepper, Downey, O'Connor for the distribution of purchasing power?"

Yes; in the present session of Congress it is H. R. 1036; introduced by Representative O'Connor, of Montana.

This act faces honestly these three facts:

1. Many United States workers were never paid enough to allow for sufficient funds and property for old-age security.

2. Many employees did save carefully only to have their old-age property and funds disappear between 1929 and 1939 (the Metropolitan Life Insurance Co. told us recently that 97 percent of all men have lost their money, their business, and their property by the age of 45 years.)

3. Many others have tried for the past 10 years on farms, in shops, and elsewhere to earn enough for a decent standard of living now and for old-age security but without success. (The Metropolitan Insurance Co. also told us that only 1 man in 5,000 men recovers his financial footing after the age of 50 years. And that only 5 men out of every hundred are financially independent at the age of 65.)

The invention is the enlistment of 10,000,000 retired and retirable workers—elder citizens in an army of buyers of consumers' goods and services financing the same with a Federal 2 percent tax on gross incomes of more than \$250 per month or \$3,000 per year.

7. "How do the Social Security Act and H. R. 1036 differ as to—"

(1) Who are covered?

(2) Whose incomes are taxed?

(3) How long purchasing power is tied up?

(4) Which calls for more poverty-sharing gadgets?

8. "What should be done about the act and H. R. 1036 now?"

(1) Indorse Resolution 1A.

(2) Write your representatives.

(3) Write your Senators (Wiley and La Follette).

(4) Subscribe for Townsend Weekly.

(5) Organize a Townsend club.

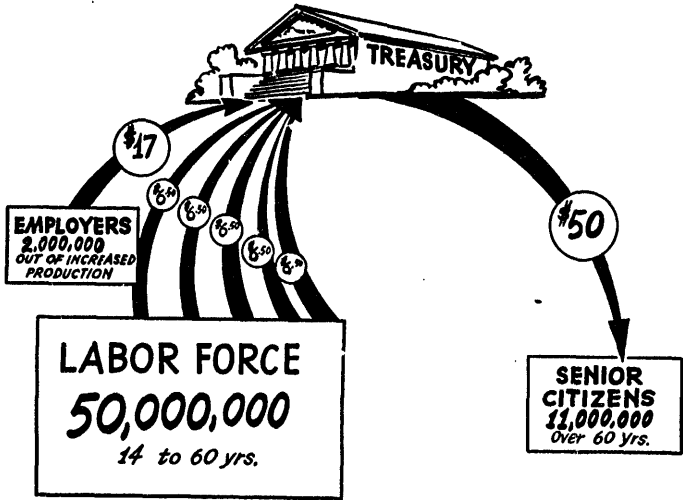
(6) Read the Downey books.

(Alma L. Binzel, Beaver Dam, Wis.)



# THE TOWNSEND PLAN— WHERE DOES THE MONEY COME FROM?

## Monthly Receipts and Payments



Paid by Labor Force out of \$100 monthly expenditures	\$6.50	
Less now paid for relatives	\$1.50	
Less now saved for old age	2.50	-3.50
<b>NET PAID BY LABOR FORCE</b>	<b>—</b>	<b>\$2.50</b>

CHART 47



## OLD-AGE PENSIONS

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MONDAY, DECEMBER 15, 1941

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

The committee met, pursuant to call, at 10:30 a. m., in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

The CHAIRMAN. The committee will come to order, please.

Who is the first witness that desires to appear this morning before the committee?

Mr. LEET. My name is Glen Leet; I am State administrator of public assistance for the State of Rhode Island. I would like to introduce the list of persons who will appear, and to state first of all that with one exception all of these people are administrators of public assistance. They administer State programs of relief, old-age assistance, aid to the blind, aid to dependent children, in different States. There are some 20 of them present, and each of them is very much interested in this minority report that has been submitted by Senator Green, because it deals with matters with which these people are in daily contact and in which they are vitally interested.

(The report of Senator Green is printed as part of a separate document, Report No. 666, of the 77th Cong., 1st sess., entitled "Old Age Pensions.")

I might state that these people, who all have everyday practical knowledge and experience in dealing with public welfare, are almost unanimous in favoring this statement of Senator Green.

So here is a list, if I might give it to you, and I will introduce first of all Mr. Clemens J. France, the director of social welfare for Rhode Island; and as we have a lot of people here, and your time is limited, we would like to ask if each one of them might make a statement—Mr. France will speak a little bit longer, but the others will try to speak not more than 5 minutes—and if we could present all of these statements, and then have questions asked at the end, I think it would enable us to cover all the various States represented.

The CHAIRMAN. Very well; the committee will be obliged to be on the floor at 12 o'clock or shortly after 12, but we will proceed with Mr. France at this time.

**STATEMENT OF CLEMENS J. FRANCE, DIRECTOR OF SOCIAL WELFARE, PROVIDENCE, R. I.**

The CHAIRMAN. Mr. France, you are the director of social welfare at Providence?

Mr. FRANCE. For the State of Rhode Island; yes, sir.

The CHAIRMAN. And you desire to make a statement before any questions are propounded?

Mr. FRANCE. I would like to; yes, sir.

The CHAIRMAN. All right, sir, you may proceed with your statement.

Mr. FRANCE. I think, Mr. Chairman, that you and the members of the Senate committee may be aware that we have just completed a 3-day session at the Mayflower Hotel, that was attended by approximately 200 directors of public welfare, administrators of social welfare, both on the State and local level. We started at approximately 9 o'clock in the morning, and through a series of round table and panels, we went through Friday, Saturday, and Sunday, all day, afternoon and evening.

It became increasingly apparent that not only were these administrators of social welfare vitally concerned with the total war and defense, but in every one of these panels it appeared that there were emerging very far-reaching problems in connection with the social security program and social welfare. If I may say so, Mr. Chairman, I think the very prompt response which you gave to our request for a hearing, and the presence of the other members here, indicates an awareness on your part that in this whole field of social security and public welfare there is a most important part which not only the Government, but we out in the field who are public officials, have to play.

I think at this point we might take a leaf from the book of the Battle of Britain. About a year ago when I was chairman of the Unemployment Compensation Board of Rhode Island, I attended a meeting in Washington of those administering the unemployment insurance and the State employment services program from all of the 48 States. Mr. Winant had not at that time been appointed Ambassador to Great Britain, but was shortly afterward, but he had, as you know, been an observer for the President, not only in Great Britain, but in other European countries. Mr. Winant pointed out that during the period of the war in Great Britain, the most significant advances had been made in the field of social security, public health, public recreation, and this whole field.

More recent observers, one of whom will speak here this morning, notably Mr. Eric H. Biddle, have pointed out that in no comparable period in the history of England have there been such great advances in the field of social security as there have been during this war period.

Now there is a reason for that.

I understand that the Senate today is going to pass on a \$10,000,000,000 appropriation for total defense, and it might seem impudent for a group of public directors of social welfare at this moment to urge the appropriation of a certain sum of money for the extension of the social-security program. However, I think the ex-

perience in Britain has demonstrated that one of the great factors in bringing about a unity of purpose, a unity of spirit, and a unity of action amongst the working people and the underprivileged people of Great Britain, has been largely these significant advances in social security. The Honorable Ernest Bevens, Minister of Labor, made the significant statement that even in the time of war, the motivating force in British national life would be continuing interest in social security.

We have filed here a statement by our own Rhode Island Senator, Senator Green, indicating many improvements which are needed in the whole social-security program. It is one of the best-considered statements which, I feel—and that is joined in by a great majority of the public-welfare administrators—one of the best-considered statements that has been put forth by a Member of the Senate or Congress.

I would like to point out, however, one significant gap in our social-security program.

If we had a chart here and could visualize the social-security program which has been adopted and approved by the national administration over the last 8 years we would see at the top fairly ample provision for aged people in the way of old-age and survivors' insurance program, and the old-age assistance program. At the bottom of that chart we would see a fairly adequate, but not as adequate as might be, provision for dependent mothers and children.

In between, we would see the unemployment-insurance program, as I prefer to call it, which makes provision for unemployed people regularly attached to industry. We would also see that we had a W. P. A. program, which has been necessarily curtailed, a National Youth program, and a C. C. C. program.

But still there is one great, vital gap between this period of childhood and age. There are millions of citizens in this country for whom the Federal Government did not make provision in the social-security program. For them we have advocated, and Senator Green has advocated in his minority views of the Special Committee to Investigate the old-age pension system, that there should be a fourth category of general public assistance.

I might outline briefly what that fourth category involves. It is not recognized generally that we have in this country at all times a large marginal population that are never regularly attached to the labor market, that never can be. It is hard to state it, a deplorable fact, but we have approximately two and one-half million feeble-minded individuals in this country, 2,000,000 of whom are not idiots or imbeciles, but simple-minded folk that can never make a regular living in a competitive labor market without certain paternal supervision, either by a local family welfare society or by a social welfare department.

Added to that group are a very large number of people that are physically handicapped in various ways. We have, as shown by the Tolan committee of the House of Representatives, millions of migratory workers, some of whom have been absorbed, but find themselves stranded without settlement, and destitute. We have some 670,000 families, according to Social Security Board reports, in which there is no employable person.

Due to the reduction in the W. P. A. program from 3,000,000 to a million and a half, we have, notwithstanding the great absorption of labor, a large number of individuals that from time to time need public assistance.

We are confronted, possibly, with a large problem of priorities unemployment. In the transition from consumer goods to national-defense industries England had as high as a half a million workers temporarily unemployed due to priorities unemployment.

It is in this field that we feel there is great opportunity for what we call a fourth category of general public assistance.

May I point out to you that there has been no proposal which has been made in the field of social security that has had more unanimous support than this fourth category. It has been supported by all of the leading national social and welfare organizations, such as the American Public Welfare Association, the Family Welfare Association of America, the National American Social Workers Association, the State government organizations representing State government agencies, by the National Council of State Administrators of Public Assistance and the National Council of Local Administrators of Public Assistance. It has had the support, and it has recently been stressed in the last annual report of the Social Security Board, by a recent report of the National Resources Planning Board, by a recent Committee on Family Security set up by Mr. McNutt, under the new agency created by the President known as the Office of Defense, Health, and Welfare Activities, and by many other private and public organizations.

Others will speak about the cost of this.

In addition to the fourth category, there are other gaps, but may I say this in connection with the fourth category—in our own State we have a liberal, progressive young Governor. He and I have been trying to work out a State-wide program in this field of general public assistance. We find it is going to cost us, even on the level of last year, about \$3,000,000 in a little State like Rhode Island. With the rising costs of living and the impact of war we believe it may cost our little State \$4,000,000. We are going to try to finance it. We do not know how we are going to finance it. Other States are confronted with the same problem.

In closing, I would like to divert just for a moment. When the last World War closed, I had the opportunity to spend a period, which extended itself to nearly 3 years, in the British Isles. I went there in the interests of a movement in which our National Government was unofficially interested, but could not, for certain reasons, be officially interested. A very large segment of our population were also interested in this movement.

During the course of my stay in the British Isles, because of this particular assignment, I met a good many political and also a good many intellectual leaders in England. We became very well acquainted, because I lived there quite a period of time. After we became acquainted, a good many of these people, particularly the intellectuals, sort of chided me or kidded me, if I may say so. This was the form which their kidding took: They said that America was a great country, but it was primarily a materialistic country, and they said, "You have never created or produced a great dramatist or poet like Shakespeare; you have never produced a first-class novelist or composer;

you have never produced a great sculptor or a great painter or even a great philosopher, and you really haven't produced a first-class scientist like Galileo or Kepler."

Well, I am free to confess that this sort of annoyed me, but one evening when we were sitting around over some Scotch and soda, something occurred to me, when this same topic had come up, and I said, "Well, I guess that is true, but we did produce an Abraham Lincoln." I have a feeling at this time that maybe the mind of America is not so brilliant as some other people's, but I am sure that the heart of America always has been and always will be great. I think that the heart of the men in this Senate and this House has demonstrated in the past few years that you are deeply concerned with these human welfare values, and I think we have typified the spirit of Abraham Lincoln in the last few years more than ever before.

I do urge, with all the earnestness that I can, that with millions of underprivileged people who are going to feel the impact of this war with greater severity than any other group, that in the interests of national unity of purpose and spirit, and action, that what my colleagues have to say here is deserving of your worthy consideration.

I thank you.

Mr. Chairman, I have a written statement which embodies what I have said here, and certain other technical facts. Could I have leave to insert this in the record?

The CHAIRMAN. Yes, you may have it included in the record, as part of your remarks.

(The statement referred to is as follows:)

John G. Winant shortly before he was appointed by the President, as Ambassador to Great Britain, spoke at the annual meeting of employment security administrators, a group of men coming from every State in the Union. The text of Mr. Winant's address dealt with the significant advances made in England in the field of social security since the start of the war.

More recently other observers have emphasized the same point. For example, Mr. Eric H. Biddle only yesterday, at the annual conference of social welfare administrators, said, in effect, that in no comparable period in British history had there been such significant advances in the field of social security as during World War No. II.

There is a sound reason for this. In a total war, in a total national defense, the morale of the whole people must be pitched to, and held at, the highest possible level.

Mr. Biddle, speaking of actual experience of 6 months in England, says:

"Perhaps the most significant thing in England today is the realization on the part of the working people that they are needed and wanted—that they belong. On all sides, they see concern for their well being; recreation programs, welfare workers in the industrial plants, special food rations for workers engaged in heavy work. For the first time in his life, many a British worker is getting recognition of the importance of his effort. Significantly there are fewer man-days lost in Britain today through strikes and lockout than at any time in the history of the Ministry of Labor."

It was this which led the British Minister of Labor, the Honorable Ernest Bevin, to say:

"Even during this war, we must accept social security as the main motive for all our national life."

Put in a nut-shell, no nation can achieve the highest results in a total war, if it operates on the premises that you can exclusively substitute "guns for butter." Even Germany learned that lesson early in the war.

It is important, in view of British experience, to extend and expand the Social Security Act now, both to take care of immediate problems which will arise in connection with the war, and in order to make the most effective provision for meeting problems which will inevitably confront us after the war.

## A FOURTH CATEGORY—"GENERAL PUBLIC ASSISTANCE"

As a means of increasing the general feeling of unity and of the national importance of all occupations, it is essential that the protection of the Social Security Act be extended to millions of men and women now not protected at all.

Two of the essential freedoms for which this country are fighting are freedom from want and freedom from fear. Despite the great amount which this country has spent, and is spending for social security, there are certain groups which, because of very grave omissions in the present social-security system, are not enabled to live at a standard compatible with decency, health, and well-being.

The grants-in-aid principle as embodied in the public-assistance titles of the Social Security Act, has been a stimulant to States to provide improved standards of care for the aged, for the blind, and for dependent children. However, there is a substantial group of needy individuals who do not come within any of these classifications, and unfortunately in some cases the increased standards of care for those in Federally aided categories have been in some degree at the expense of the groups for whom no Federal aid is available. There is required, therefore, a fourth category of "general public assistance."

As stated, the morale of our people is important, more important than ever before, and any steps which the Congress can take at this time to eliminate inequalities resulting from present provisions of the Social Security Act will be a material aid in strengthening the internal defense of this country.

Less dramatic than bombs, but even more terrible and destructive, is the situation in which a substantial group of citizens of this country find themselves, where year after year they must subsist on income grossly inadequate.

The damage and hardships caused by inadequate standards of general relief throughout the country are manifold greater and more serious than the destruction and suffering which is now occurring as a result of the terrible air raids and bombings which are now going on in Hawaii and Manila.

In Rhode Island, as in other parts of the country, the lowest standards of subsistence are provided to persons who are not eligible under any Federal Public Assistance category, and who are not generally employable. For example, the average grant for old-age assistance recipients in Rhode Island is \$21.04 per month, whereas the average grant for individuals on chronic relief is only \$14.77 per month. Chronic relief standards compare even more unfavorably when you consider that the average family on chronic relief receives only \$21.45, whereas the average family on "aid to dependent children" receives \$45.67.

Herein lies the importance of creating this fourth category of general public assistance. If time permitted, one could develop how such a program would be integrated with many emergency problems that will arise out of a nation at war.

Let us consider the groups of persons for whom present Federal legislation makes no provision:

(a) The person who is marginally unemployable because of middle age, lack of skill, permanent defects, or mental or physical handicaps other than blindness;

(b) The employable person in a community where sponsors' contributions or suitable projects are not available (W. P. A. rolls have been reduced from over 3 million to 1½ million and further reduction has been proposed);

(c) The person who is in need in a State or locality in which he has not established settlement (residence requirements for the acquisition of settlement vary from 6 months in two States to 5 years in six States);

(d) The person living in a locality in which there is no provision for general public assistance (in December 1940, according to Social Security Board reports, 5 counties in South Dakota, 2 in Nebraska, 1 in Idaho, 8 in Florida, 19 in Georgia, 7 in North Carolina, 3 in South Carolina, 52 in Mississippi, 45 in Texas, and 1 in Nevada, made no payments for general relief);

(e) The person living in a State or locality where appropriations for general assistance are inadequate to meet the existing needs;

(f) The child deprived of parental support for reasons other than those specified under present Federal legislation;

(g) The family with no employable person. (In January 1940, according to the Social Security Board, 673,000 of these families received general relief.)



It is needless to emphasize the impact of a war economy which will strike with severity upon the above under-privileged and dependent groups of American citizens.

It is especially important to provide Federal grants to give protection to those not covered by any present provisions in order that the inevitable and often essential migration of workers in response to defense needs shall not create serious problems in many communities which are not equipped to care for needs which may arise. The situation already existing in some areas is sufficient indication of what is likely to develop in the future. This has been stressed in the First Interim Report of the Select Committee Investigating National Defense Migration, House of Representatives, the so-called Tolson committee.

It is important also to relate any special provisions for men in the armed forces and for their dependents to an adequate program for the protection of citizens generally. In order to develop a satisfactory program of allowances for wives and children and dependents, or survivors of men in the armed forces—or for these men themselves in case of injury—it is almost essential that we first overhaul our program for the population as a whole and build upon this to the extent it seems necessary or desirable to provide special protection for men in the armed forces.

I will not take the time here to go into a number of other amendments to the Social Security Act which, on the basis of practical experience in the administration of welfare programs, we find desirable. However, I would like to call attention to the Minority Report made by Senator Theodore Francis Green, as a member of the Senate Committee Investigating the Old-Age Pension System. To my mind Senator Green's statement constitutes one of the best expressions which I have yet seen made by any member of Congress of some of the greatest needs insofar as public assistance amendments to the Social Security Act are concerned. I concur most heartily with the recommendations which he has made in this report, and hope they may receive favorable action by Congress. I am filing a copy of Senator Green's Statement.

I am also filing a Brief in Support of Recommendation for a category of public assistance to be added to the Social Security Act, prepared by the Family Security Committee in cooperation with the office of the Director of Defense Health and Welfare Services, Hon. Paul V. McNutt, director. This brief of the Family Security Committee of the Office of Defense Health and Welfare Services, in my opinion, clearly demonstrates the need of an additional category of general public assistance, as an essential factor in our war efforts.

It is a significant fact that the following Federal agencies and national organizations support a fourth category for general public assistance:

Private organizations: The American Public Welfare Association, the Council of State Governments, the Interstate Conference on Migratory Labor, National Council of State Public Assistance and Welfare Administrators, National Conference of Local Public Welfare Administrators, the American Association of Social Workers, Family Welfare Association of America.

Federal committees or agencies: The Social Security Board; the National Resources and Planning Board; Select Committee to Investigate Interstate Migration of Destitute Citizens (Tolan committee, House of Representatives); the Family Security Committee of the Office of Defense, Health and Welfare Services. Paul V. McNutt, Director; Interdepartmental Committee to Coordinate Health and Welfare Services, appointed by the President July 1940.

(The minority report of Senator Green and the "Brief in support of recommendation" will be found on file with the committee.)

The CHAIRMAN. Mr. Lyons.

### STATEMENT OF LEO LYONS, COMMISSIONER OF RELIEF OF THE CITY OF CHICAGO, CHICAGO, ILL.

Mr. LYONS. I am Leo Lyons, commissioner of relief of the city of Chicago. I will endeavor to confine my comments to the direct relief situation in that area.

You perhaps know that in the State of Illinois we have the benefits of present A. D. C. legislation, old-age assistance legislation, but have not yet taken advantage of Federal legislation for aid to the blind.

Direct relief is administered in the State of Illinois by 1,455 local governmental units—namely, townships and the city of Chicago. In Chicago we are experiencing a very encouraging downward trend in direct relief. The relief load has dropped from approximately 115,000 cases in June of 1939 to a present all-time low level of approximately 50,000.

We are encouraged because in that adjustment of the direct relief load we are finding that the employable group—that is, those acceptable for employment—have moved off into jobs, others are going into the A. D. C. programs and will possibly make a further definite reduction in direct relief.

We in Illinois are concerned that the residual load—namely, those remaining on direct relief and who do not now qualify for Federal benefits and who are not employable—be given an opportunity for at least a reasonable subsistence standard. It is indicated that unless the Federal Government establishes this fourth category of direct relief and provides for a uniform administrative procedure and uniform assistance grants that there will remain a group of persons on direct relief who will not be adequately cared for.

I am of the opinion that there are two very important principles involved. First, certainly everyone in this country is entitled to live at a reasonable subsistence level. Therefore, a program should be developed so that persons in need can be adequately cared for in the event that the problem becomes even more difficult. Second, this cannot be done, in my opinion, if there are too many agencies in any given locality administering the program. Therefore, it would seem that uniform and reasonable standards of grants and a uniform basis of administration for all categories, including direct relief, should be developed.

Any program so considered should include all persons in need. Communities are immediately confronted with the problem of caring for migrants. Under existing legislation in the State of Illinois a person has to live in the State 3 years before he qualifies for direct relief. Relief is administered under a so-called pauper law. Certainly no one likes the word "pauper" and persons in need should not be so classified. But that is the law in the State of Illinois.

It seems, therefore, that consideration must be given to a uniform residence or settlement law which will provide throughout the country a decent standard of subsistence, and good, sound administrative procedures for everyone who qualifies for public aid.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Lyons.

MR. LEET. May I ask that Mrs. Bost speak next, as she has to meet with the chairman of the Ways and Means Committee shortly?

The CHAIRMAN. Yes. Mrs. Bost.

Mrs. Bost, you are the commissioner of the State Board of Charities and Public Welfare of North Carolina?

Mrs. BOST. Yes, sir; I am.

**STATEMENT OF MRS. W. T. BOST, COMMISSIONER, STATE BOARD OF CHARITIES AND PUBLIC WELFARE, RALEIGH, N. C.**

Mrs. Bost. We know that in finding the billions that are necessary for defense of our country, you gentlemen of this committee have a gigantic task before you. We know that it can be done, and we know that it must be done. But we wouldn't be here today if we did not believe sincerely and earnestly that the preservation of the social gains of the past decade, and the filling up of those gaps in meeting the needs of people, is a very definite and integral part of an all-out defense program, and just as urgent.

As administrators we feel that we have a responsibility in laying before you these facts as we see them, in the operation of the program in our respective States, and we deeply appreciate your giving us this opportunity to present those facts.

I was particularly impressed by a statement that was made by Mr. Bidde, who has been referred to, and who was in England about 6 months, that the success of Great Britain would not have been possible, that is, up to the present time, had it not been for the quarter of a century of social services of that country, which have become just as much a part of the warp and woof of Great Britain as its armaments and its planes.

And so I think it will be with our country. The needs of our civilian population have got to be met.

When we think of the thousands of men who have been rejected by the Army because of health needs, we know that somewhere along the line we failed those men. And so the men, women, and children must be assured of a steady flow of clothing, of food, security of homes, and therefore we must see to our human defenses as well as our military defenses.

The fighting of brave men to preserve our democracy, to preserve our way of life, will be heartened, we feel, and strengthened a hundredfold if they have some assurance that their people back home are going to be cared for by their Government, and that the United States will give its citizens an equal chance.

We know that many of the nondefense expenditures may be curtailed. That is to be expected. But we are wondering at the same time by what measuring rod that curtailment of expenses will be effective; how they will be sifted out, those nondefense needs.

So, could we not accept as a sort of simple formula that the human asset only counts, and use that as a guide. Thus we could say that total defense, which embraces the defense of our human and social resources as well, is a democracy's answer to total war.

An equal chance, or at least a reasonably equal chance, is what North Carolina and a number of the other low-income States would like to be able to give to its needy aged and its blind, its dependent children's families, and those people who are on general relief. We believe that the only way to give them that equal chance, and I think that variable grants is just another name for equal chance, is for the Federal Government to step in and to help those low-income States.

North Carolina's average per capita economic income, I think, on the basis of the 1939 Census Bureau figures, was \$312, as compared

with the national average per capita economic income of \$541. We are forty-first in the scale, which means that there are seven other States below us.

Now, when we pay approximately 39,000 needy old people an average of about \$10.16 a month, as we did during October, we strained every effort financially to pay even \$10. That was in view of our program of education, our program of roads for which the States is largely responsible in North Carolina. We are perfectly well aware of the fact that the 10,000 families that we allowed an average per month of \$16.78 not nearly enough to meet their needs on a basis compatible with decency and health. But that was all we had to give those families. When you think of \$16.78 per family in this day of rising living costs, then you realize that they can't live on that. The same thing can be said, of course, of general relief. We are not very proud of the fact that we paid \$7.13 per family for about 4,000 families, that is, the counties did—when the national average is I believe around \$25.

North Carolina is one of the 11 or 12 remaining States that does not make any State appropriation for general relief. We are entirely dependent upon what the counties put up through their poor friends, as we used to call it—the inadequate relief funds. I think it is well to keep in mind in this connection that we have proportionately more of the children of the United States in the southeastern section of the country, but less of the country's wealth in providing for them.

In these low-income States we might say that our children have less than half a chance at an education, at home security, for food and clothing, and the other needed things.

And I think we were right startled a year or two ago when figures came out that there were 40,060,000 Americans living in homes in which the average cash income was less than \$9 a week; and yet they are the type of families, they are the clients and the recipients down in these low-income States that we are dealing with from time to time, a great many of those people are in those low-income States. A great many of those people are in those low-income States.

I think it is a serious thought, \$9 a week for 40,000,000 Americans, and when you break that down it brings it to an average of 5 cents a meal. It is a pretty serious thought when we consider the thousands of youngsters that we are "pumping into our society," as someone has expressed it, on 5 cents a meal.

The impact of the war and defense programs will intensify problems of transiency, family dislocations, social protection, maybe homeless children through evacuation, and should we not be fortified against that day?

I have here a statement showing statistics as to 10 of the Southern States, and I notice here particularly that in this matter of general relief, one of the States is paying \$3.11 per family per month. There are about 900 families in that particular State, and I am thinking of how they would divide \$3.11 a month among a family.

Thank you very much.

(At this point the chairman left the room, and Senator La Follette assumed the Chair.)

Senator LA FOLLETTE. Thank you.

Mr. LEET. Might I ask that Mr. Biddle speak next, as he has to take a plane.

Senator LA FOLLETTE. Certainly.

For the record, will you please give your full name, address, and present position?

**STATEMENT OF ERIC H. BIDDLE, CONSULTANT FOR THE AMERICAN PUBLIC WELFARE ASSOCIATION, WASHINGTON, D. C.**

Mr. BIDDLE. Eric H. Biddle, consultant for the American Public Welfare Association, as a result of observation in Great Britain for that organization, and for several Federal agencies.

Senator LA FOLLETTE. What period were you in Great Britain?

Mr. BIDDLE. In September and October of 1940, and again from early March of this year until September, about 8 months.

Senator LA FOLLETTE. Proceed in your own way, please.

Mr. BIDDLE. Gentlemen, about a year ago one of the members of the British Cabinet stated that in his opinion the successful defense of Britain and the battle of Britain was as much accounted for by the development of the British social services in the previous quarter of a century as in fact the Royal Air Force itself.

(At this point the chairman returned and assumed the chair.)

Mr. BIDDLE. I think that any observer in Britain today would testify to that fact with great conviction.

The 8 months which I spent in Britain during the past year took me to every corner of the country. I was in London during the most severe part of the battle there, and in every part of the country.

I think it can be said as understatement that there has been no period in British history when the social services have been as much extended as they have been during this past 2 years, and I don't think that that is accounted for by any primary urge to extend the social services as such, but the recognition of the part that that has played in British morale will provide the answer for that extension.

The health, unemployment insurance, and old age and survivor's insurance acts, and the last two acts are similar to our own acts, generally speaking, have been extended both in coverage—that is, as to number of people covered—and in benefits. The extension in benefits has been, frankly, to meet rising living costs, but a greater number of people are being covered by those acts.

Now before the war there were two general types of public assistance: One, the local poor relief that was granted to the unemployed, as we might say, in the localities by the local poor-law authorities; and then the very much larger number that was covered by the national unemployment assistance provision, which was granted from national funds and administered by the unemployment assistance board.

Since the beginning of the war there have been various extensions in the assistance field. The unemployment assistance board is now administering several new types of assistance. The most nearly parallel one to the fourth category here is the prevention and relief of distress act, which provides for the granting to any person whose

income is affected for any reason by war, and whose total income falls below a certain level, to receive aid from the assistance board.

Senator VANDENBERG. What is that level, do you have it in mind?

Mr. BIDDLE. The level—I can't give you the exact figure, but it establishes approximately the same level basis of assistance as is provided by the unemployment insurance act. The assistance board has discretion to increase the amount of the grant above the basic level, and this discretionary power applies to Prevention and Relief of Distress Acts, as well as to the unemployment assistance supplementary old-age grants. According to my observation, the operations of that agency indicate that it was meeting maintenance requirements at reasonably good minimum levels.

Senator LA FOLLETTE. You spoke of the fact that there had been an increase in the standards largely due to the increased cost of living?

Mr. BIDDLE. Yes.

Senator LA FOLLETTE. Comparatively, have the standards been maintained, or has there been some regression so far as the actual situation of the recipient is concerned?

Mr. BIDDLE. No; the standards have been maintained; I should say that today in Britain the low-income group was probably in better case than before the war. There has been much more contraction of the range of income due to the high taxes, extremely high taxes in the upper tax brackets. That, Senator, has also been aided by the expansion of a number of other social services, such as the British restaurants, the local restaurants, which provide meals at very low prices for any citizen, and for those who can't pay for meals, they get them free; factory canteens, day nursery care, expansion of the whole range of social services, not merely confined to these assistance and insurance services.

Senator RADCLIFFE. Referring to the situation in America, are you satisfied that sufficient progress has been made to secure work, from those on relief, in part-time or in temporary employment? Let me give you a specific illustration. When I was a boy most of the corn husked in our neighborhood was husked by elderly people, or people who didn't do full-time work, but were able to devote a few hours a day to do that. That corn is not being husked now. Those people, most of that type of people, are on relief, and they are afraid to jeopardize their relief by coming out and helping to husk corn, and the result is that a good deal of the corn is being left in the field unhusked. Those people, many of them, are entirely able to do that kind of work, and they have this feeling, that they dare not attempt it because they jeopardize their status.

Mr. BIDDLE. That, I think, sometimes happens because of an unimaginative administration of the relief. In other words, it sometimes is provided that relief ceases entirely if there is any employment; in other words, some rigid rule of that kind, rather than a supplementation of very low levels of relief to bring it up to that level.

But may I call your attention, sir, to this very great difference of the present war situation and the present situation? You will find today, as I did in Britain, and much more pronouncedly so a year from now under these war problems, that the frightful dislocation and

sudden violent dislocations in industry, resulting from the closing down of nonessential industries and that sort of thing, will give you an entirely new type of need. Thus, for example, due to a Government restriction on priorities because the materials are not available, a certain type of industry shuts down, or a self-employed person gets out of work. He may need training of some kind to fit him for a war industry, and I have seen this in the analysis, I have analyzed the records in the British unemployment-insurance offices and in the unemployment-assistance boards, and found men, who had never in their life had an unemployment experience, because of reasons that were beyond the control of anybody finding themselves out of employment for some space of time.

Now, in that case this prevention and relief of distress act was there promptly to pick them up. I saw cases where physicians were being displaced, professional men, because of some population shift. I actually found in a number of cases professional men that never thought of having a problem of assistance, being picked up by this act.

I have seen in the "blitzed" cities, the assistance board in Plymouth, for example, and at Coventry, sitting at a long table down a room with the people coming in the morning following a blitz, coming down the line of that table. The fact that the assistance board was enabled, out of funds provided entirely by the National Government, to give immediate and adequate relief to victims of industrial dislocations, characteristic of the war, has more than a little to do with the high morale of the people. Repeatedly, I saw striking examples of the morale value of these prompt measures that were not dependent on the vagaries or the financial situation of the local authority, since they were the provision of the central government.

Senator RADCLIFFE. We know that there has been a serious need for farm labor. We knew that there are many people in the cities, trained on the farm, who are on relief. Now there is ample opportunity for them, if they would go back to the country where they were born and raised. Isn't there some way that that could be expedited a bit? I know of hundreds of cases, almost, which will illustrate the point I have in mind. Should a man who is born and raised in the country, entirely familiar with farm work, insist upon staying in the city on relief when he can go back to the work with which he is familiar?

I know it is very hard to adopt any general rule on that, but what can you do to expedite that, and what is being done to expedite something which is a perfectly natural process?

Mr. BIDDLE. Well, Senator, I think you can almost dismiss from your mind the problem of an unemployed pool of any extent perhaps a year from now; however, if the experience of Britain is any indication, there will be a period for the present when that pool will probably be fairly sizable.

Senator RADCLIFFE. I was referring to conditions in this country. I am not referring to the situation in England.

Mr. BIDDLE. The situation will be substantially the same. As you have the nonessential industries gradually being diminished in

volume, and the transfer to war industries, there is a certain amount of lag there.

Just let me give you the figures, for example, in the British situation, and I think you will find the experience will follow that pretty much the same, in this country.

In August of 1939, unemployment was about 1,300,000. It went down gradually, but stayed as high as 900,000 until the spring of 1940. It remained around that figure until last winter; then it decreased to a low of 200,000 in July 1941. Today you have got every labor source in the country being tapped, women being conscripted, and that kind of thing being done. The only thing I would urge is that when you do act on this measure, not to act on the basis of the pre-war situation when you did have the problem that you mentioned, a very real problem. Recognize the fact that the record you need is the underpinning of morale for speedy and swift action in the case of these situations of dislocation in the industrial situation.

The CHAIRMAN. Are there any further questions?

(No response.)

The CHAIRMAN. Thank you very much, Mr. Biddle.

Mr. Hamilton.

#### STATEMENT OF JOHN HAMILTON, DIRECTOR OF PUBLIC WELFARE OF THE CITY OF CRANSTON, R. I.

Mr. HAMILTON. My name is John Hamilton, director of public welfare of the city of Cranston, R. I.

I have been director of public welfare, Senator, for about 33 years, perhaps the longest of any director of public welfare in America.

I am only going to take a few moments, because I am just going to discuss one little problem that has been in my mind for many years, and has given me many, many headaches.

I hope that this wonderful committee will include in their report the introduction of a national assistance law.

Our headaches have been with the settlement, and I hope they won't use that word "settlement"—use anything else but that—because it has been a headache many, many times.

In one State it is 5 years, and in another State it is 3 years, and in another it is 1 year, and in California it is 6 months, and in Rhode Island it is 5 years. Let's begin to meet this problem which is going to be, to my mind, a bigger problem than public welfare organizations have ever met. Let us ask the Federal Government to help us in general assistance, that category between old-age assistance and aid to dependent children, by establishing, if possible, a national welfare law.

I thank you very, very much.

The CHAIRMAN. Thank you, Mr. Hamilton.

Mr. LEET. Mr. Solenberger will speak next, please.

The CHAIRMAN. Mr. Solenberger.

Mr. Solenberger, you are assistant to State secretary of public assistance, of the State of Pennsylvania?

Mr. SOLENBERGER. Yes.



**STATEMENT OF WILLARD E. SOLENBERGER, ADMINISTRATIVE ASSISTANT, PENNSYLVANIA DEPARTMENT OF PUBLIC ASSISTANCE, STATE OF PENNSYLVANIA**

Mr. SOLENBERGER. I am Willard E. Solenberger, administrative assistant, Pennsylvania Department of Public Assistance. I am representing the secretary of public assistance, who is unable to be here today.

Pennsylvania has a consolidated public assistance program, that is, we have a single State agency and single county agencies, which administer all types of aid to people in their own homes. It includes, of course, the three types of assistance now provided under the Federal Social Security Act, and also general relief. The State has an outstanding record, I think, of shouldering responsibility for dependent residents through general relief. There has been an uninterrupted, entirely State-financed general relief program since 1932, which is, I believe, unique in the United States.

This policy has proved its soundness, that is, the policy of having a general relief program which provides a floor under all the other programs so that people who fall between the slats will not be uncared for; but it has brought recurrent threats to State finances and budget planning, as the load has gone up and down. It has meant, of course, State tax problems rather than local, and it has meant the curtailment or sacrifice of some other important State government functions which were considered perhaps less important.

At the same time, while no needy person has ever been turned away from a relief office for lack of funds in Pennsylvania, it has been possible to provide only what amounts to a bare subsistence for dependent families; that is, the four necessities of life, food, clothing, fuel, and shelter, and in the present situation we have not yet found any way of increasing allowances in keeping with rising living costs, though there is general recognition on the part of State officials, and I think of the public generally, that this should be done.

On the basis of Pennsylvania's experience, and the outlook in the State as one of our largest industrial States, there can be no question as to the importance of the possible extension of the Social Security Act to include general relief, with a system of variable grants-in-aid to the States.

We recognize that there is greater need for Federal assistance in some States than in Pennsylvania. The only way some of the lower per capita income States can have a general relief program that will be at all comparable to the rather minimum program that we have been able to have in Pennsylvania is to have a larger grant-in-aid for this type of assistance than we would need, perhaps, in Pennsylvania, or New York, or in some of the other States.

The secretary of the Pennsylvania Department of Public Assistance communicated this view to Members of Congress from Pennsylvania last spring. It is the feeling of the department, and I might say this feeling is based on pretty extensive studies throughout the State, including spot checks in various industrial communities—that the events of the past week have added to the reasons that were cited last spring.

I am going to mention just three of the factors which seem to us to become more important:

First: General relief on a reasonably adequate basis is the only means of guaranteeing a minimum security and morale during the war to the sizeable groups which, even in a State with very much expanded industrial production such as Pennsylvania, are still uncovered or inadequately covered, as far as family security is concerned. It is the underpinning which alone can offset gaps and lags in other programs.

Second: Pennsylvania has tremendous industries directly geared already to the national war effort. It has others which must be, or have already been, curtailed or altered. We have extensive hosiery mills in Berks County around Reading that have had to curtail. We have up in the anthracite fields, where there are no defense contracts, not only unemployed miners but we have textile mills which are soon to be hit by priorities, and there are other industries. This means that able workers are becoming unemployed until they can be shifted to other work. In some instances they have had previous periods of unemployment which have exhausted their unemployment compensation benefits. We believe that a general relief program is the only program flexible enough to make sure that there will be no wastage of the sorely needed human resources represented by workers and their families caught in industrial readjustments.

The third point: On the State relief rolls, even after a tremendous reduction during the past 2 years—and we have had a million people go off relief in Pennsylvania in the last 2 years—we still have men and women who can be employed if they can be rehabilitated, helped and trained, and in recent months the State has inaugurated a systematic rehabilitation program. These people should take their places in useful employment, and if Mr. Biddle's analysis is correct, within the next year it will be important and necessary that they take their places if they can be put in a position to do so.

We feel, however, that such salvage efforts are impossible without the guarantee of the minimum necessities of life and health while the rehabilitation process is going on, or while they are getting retrained or given original training to do any sort of work. Clearly there must be medical care and at least minimum subsistence provisions for these people if there is going to be any chance at salvage, and we feel that nationally, and also in Pennsylvania, a Federal-State general relief provision would be the surest guarantee of this.

Senator LA FOLLETTE. What is your view so far as the requirement, which is shot through all of our efforts, generally speaking—that a person must be virtually a pauper before being eligible—is concerned? Take, for example, the priorities unemployment group. Is it or is it not your view that there would be a terrific wastage so far as much needed manpower is concerned, if they are forced to go through a process of pauperization before they become eligible for direct relief?

Mr. SOLENBERGER. Yes; I think from the moment a man becomes unemployed, there is always possibility of some deterioration of health, and living standards, setting in at once. It is true that a general relief program doesn't begin to catch people until they have exhausted other resources. The point is that it is an underpin-

ning that says that every family can go down only so far, and Government responsibility then is clearly recognized, and there will not be any who simply fall through all the slats.

I think that is the significance of a general relief program. It is an underpinning for everything else. There are better ways of meeting needs. For instance, if the family is drawing sufficient unemployment compensation, that certainly is more desirable in every way, but if they have exhausted their benefit rights, and there is no other provision, a lack of adequate general relief is certainly going to hasten the process of deterioration.

Senator VANDENBERG. I would like to ask one question. I was struck by the fact that you say you have this unified administration in Pennsylvania, which appeals to me very much, and I would like to ask you this: Would there be any sense in a Federal system of State relief which allocated to the State the total amount of Federal funds that could be made available in the Federal economy for all types of relief, leaving it to the State to use that Federal contribution in all categories in any way it might see fit?

Mr. SOLENBERGER. We believe very much, in Pennsylvania, in a single approach to dependency, that is, we don't see much distinction between granting old-age assistance to one member of a family, and then aid to dependent children, and grant some assistance for the children under 16 and you are still ignoring the adults, and in another family you grant general assistance to the whole family. We feel that in all cases where a family is involved, the thing to do is to see what the family needs, because if you grant assistance just to the old person, the money is bound to be divided among the family, if they have no other means.

There is abundant evidence, where you don't have a rounded, unified program, that the so-called special grants are simply spread thin to cover an entire family whenever one is involved. But, if there were Federal participation in any type of assistance, a State could then consider family need in each case as a whole, and use Federal funds equitably for the entire needy group rather than as now happens, where you can go up to \$40 in old age assistance, and yet for the first child in a dependent children family, the Federal participation is limited to one-half of \$18; and with the blind you can go to \$40, while there is nothing for general assistance. What we do in Pennsylvania in a case with two dependent children where you have \$18 allowed for the first child, and \$12 for the second, is to take this specified Federal maximum of \$30 and simply grant enough general assistance to make the total amount of aid the family gets equal to the family budget, which might be \$40 or \$50.

With Federal aid for all programs, instead of the elaborate book-keeping and attempts to keep all these things separate, you could have a single approach to the problem, which I think would be more efficient.

Senator CLARK. You save a good deal of money in administration that way, don't you?

Mr. SOLENBERGER. Yes, we have found that we do, through having a single staff, single office, administer all types of aid. The same investigator who goes out to investigate one family in a particular city block handles all types of cases. I think that kind of unity would be promoted if it existed as far as Federal provisions are concerned, as well as State provisions.

Senator VANDENBERG. Then are you saying, in answer to my question, that there might be some sense in one general aid appropriation from the Federal Treasury to each State, to be used to fit its own local necessities pursuant to its own local judgment?

Mr. SOLENBERGER. I would say I think as far as a Federal grant is concerned, that there should be no distinction between programs, that it should be for the State to use for assistance purposes, but that might not necessarily be possible as a first step. Many States don't have unified programs or unified agencies, but I think there would be a tendency, if you would provide for Federal participation in any type of assistance, to make progress in that direction, and I think it would be sound.

Senator VANDENBERG. Thank you. I have always felt that local authority had the best opportunity to judge as to local need, and that the use of funds, the suballocation of funds, might substantially differ in various States, and that the State authority is the one that ought to make the decision.

Senator CLARK. Coming back to this question of general welfare benefits, due to this war dislocation, the effect of the dislocation through priorities and other war conditions, war activities, is essentially the same in result on many industries as technological inventions, or anything of that sort, which has thrown a vast number of men out of employment.

It is also true, is it not, that while taken by groups it may be said that the classes that are thrown out of employment by a technological advance, or any similar condition, will ultimately be absorbed back into some other business as regards individuals, it is true, is it not, that a man who is 55 or 60, who has been a glassblower all his life and is thrown out of employment, may never be able to adjust himself in any other capacity? And so, as regards individuals, this need as a result of this war effort and these priorities, is going to leave a large number of men who won't be absorbed, and can't be absorbed into any other occupation, and therefore are going to be in need of these benefits?

Mr. SOLENBERGER. I think the need may be temporary. If we have enough labor demand, there is likely to arise a situation where every individual will be needed somewhere, if we can get him there.

Senator CLARK. But there is going to be a very great temporary dislocation?

Mr. SOLENBERGER. Yes; you may have a man give up an unskilled job to take a training course and go to a skilled job. That may mean that some unskilled person, who could never do machine work, gets that job. During that process we feel that general relief is the basic underpinning. There may be other methods of handling the problem, but that is at least an insurance that there will not be any persons entirely unprovided for.

Thank you very much.

The CHAIRMAN. Thank you.

Who is the next witness?

Mr. LEET. May I ask that Mr. Parke M. Banta, State administrator, Social Security Commission of Missouri, speak next?

The CHAIRMAN. Mr. Banta, come around, please, sir?

You are the State administrator of the Social Security Commission of Missouri?

Mr. BANTA. Yes, sir.

The CHAIRMAN. You may proceed.

**STATEMENT OF PARKE M. BANTA, STATE ADMINISTRATOR, SOCIAL SECURITY COMMISSION OF MISSOURI, JEFFERSON CITY, MO.**

Mr. BANTA. The State Social Security Commission of Missouri administers the various public relief programs in Missouri—except aid to the blind—in addition to performing other welfare services not necessary to mention here. Our State has taken advantage of the provisions of the Federal Social Security Act by enacting a State social-security law and submitting and obtaining Federal approval of plans for old-age assistance and aid to dependent children, so that State funds expended for these categories of public assistance are matched by the Federal Government in the form of grants in aid to the State.

No Missouri legislature has yet seen fit to enact a law under which we can obtain approval of a plan for aid to the blind and thus become entitled to Federal grants in aid for this category of public assistance.

In addition to providing for old-age assistance and aid to dependent children, our Missouri law provides for general relief, described in the law as "public relief to individuals in cases of public calamity." The legislature has appropriated for the biennium ending in 1943, \$6,000,000 for general relief. For at least one other biennium, and possibly two others, the appropriation for general relief has been larger than this, but since there is no provision for Federal grants to match general relief payments made by the State, it is extremely difficult to obtain larger appropriations for the purpose, if indeed the State's resources are such as to permit any increase in the appropriation.

The general relief load of which we speak, is made up of the unfortunate, indigent poor, who for one reason or another are in need, but who cannot qualify for assistance under any category for public assistance provided for in the Federal Social Security Act. They are too old to be recipients of aid to dependent children, and being less than 65 years old, they are not eligible for old-age assistance. They may be totally and permanently disabled from injury or disease; they may be of the unfortunate indigent class, once barely capable of earning a livelihood, but who, in this day of keen competition are unable to find anyone to whom they can sell their services, or from whom they can obtain help of any kind. Some of them are only "priorities unemployed." Some may have had small businesses, operated on borrowed money, which businesses have failed because of priorities to defense industries. Some are migrants who have gone out in search of employment and failed to find it. Many things go to make up the great number of general relief clients—and the war may produce many new causes for still additional ones.

In Missouri we are granting aid to between fifteen and sixteen thousand such persons, though we have had a very much larger number on our rolls. And, because of our limited funds for this part of

our program, general relief during the current biennium is being restricted almost wholly to unemployment persons. Since funds are not available to provide general relief to all who are in need, we are obliged to deny aid to employable persons, subject to a few exceptions, and for the same reason we cannot provide properly for the large number of unemployables who are in need and ineligible for the other types of public assistance.

It is for legislation to aid this class of persons, and in behalf of this category of public assistance, that I desire to urge the support of the members of this committee. There are two very sound reasons, it seems to me, for supporting legislation to provide grants in aid to the States for general relief.

First. It would represent a distinct contribution to uniformity of State laws. The legislatures of the several States would be obliged to enact appropriate legislation, so that their respective State plans, all of which should be much the same, would receive Federal approval. Thus needy persons in this category would not so often find themselves denied assistance because of the so-called settlement laws of the State in which they happened to be. Yet, without Federal grants in aid for this category of public assistance, States cannot well repeal their settlement laws or do away with them altogether. If they are going to spend only the money provided by local taxation, naturally they will provide care only for their local needy people, and enact settlement laws to prevent their money from going to persons who may come into the State just to receive it.

Therefore, Federal grants in aid to the States for general relief would tend toward uniformity of State laws, especially settlement laws, and the Congress would require uniformity by fixing a standard to be met before a State plan could receive approval.

Second. The other reason, which I consider a sound one, for the enactment of such legislation by the Congress, is to get away from the discrimination now in effect against the persons who must receive public assistance and who are not eligible for any of the present forms of aid for which the Federal Government provides grants in aid to the States. Few, if any of the States, can pay their general relief clients an amount equal to that paid to their old-age-assistance and aid-to-dependent-children clients. They do not have and cannot provide the money. Yet, these general relief clients are just as much in need. They are citizens of the Nation just as the young and the old are, and they are, it seems to me, discriminated against by the Federal Government, no provision for Federal grants being now made for them by the Federal Social Security Act, or by any other act of Congress.

So, to encourage uniformity of State laws, regarding settlement provisions in particular, and to get away from the present discrimination by our Government against the unfortunate, indigent poor who belong in the general relief category, we hope for the enactment of Federal legislation that will provide for grants in aid to the States which may have an approved plan for the administration of public assistance programs.

We believe it is desirable that Federal funds be allocated to the States for administration, Senator Vandenberg, because we do believe that locally we are better able to determine the needs of the people with whom we work. We are in close contact with them. In Mis-

souri we have an office and staff in every county in the State, and by virtue of our close contact with the people, we believe we can judge need better than a Federal agency could.

Grants by the Federal Government should, I think, match the State funds, in the several categories provided for, whether on a variable basis or not, I cannot say. In our State, the legislature appropriates so much for old-age assistance, so much for aid to dependent children, so much for general relief, then a fixed sum for the biennium for administrative costs. We can only use the money for the specific purposes for which it is appropriated. In other words, only the money appropriated for general relief can be used for that purpose, and the same is true as to each of the other categories.

Senator VANDENBERG. And if your problem temporarily shifts, you can't shift with it?

Mr. BANTA. That is right; we can't shift with it in any respect. I should say, therefore, that if all the States should have the same general type of local law that Missouri has, and money should be appropriated separately for each category of relief, and it seems to me this is the proper method, then a grant of money from the Federal Government to the State without earmarks of any kind as to where it should go, might not be as desirable as grants for matching the funds expended by the State in each category, and including also a grant for administrative costs.

Whatever else I might say, I think would only be cumulative of what has been said and what other witnesses, yet to be heard, will probably say.

I thank you.

The CHAIRMAN. Are there any questions? (No response.)

Thank you, Mr. Banta.

Mr. LEET. Mr. John Dannin, the director of public welfare of Newport, R. I., will speak next.

The CHAIRMAN. All right, Mr. Dannin, you are the director of public welfare of Newport, R. I.?

Mr. DANNIN. Yes, sir.

The CHAIRMAN. Proceed.

**STATEMENT OF JOHN DANNIN, DIRECTOR OF PUBLIC WELFARE,  
NEWPORT, R. I.**

Mr. DANNIN. I think our thinking up at Newport has been quite largely along regular lines up until about last Tuesday, when we had an air-raid warning and scare, and the problems which we started to think about at that time were increased so tremendously that we felt that we should get something in the way of help, either from the State or the Federal Government.

Because in Newport the problems we were thinking about before were mainly housing and water and things like that, but when we started to think of evacuating 15,000 to 20,000 people from a little town, and providing the various facilities that they need, then we felt it was time to start talking about something a little larger than the general relief picture.

We have had people come up there from all over the country, due to the tremendous expansion of naval and military facilities the last 2 years. We have up there, of course, as you know, the torpedo sta-

tion and the various forts, the big airplane base at Quonset Point, and our population has increased from probably twenty-five or twenty-six thousand to somewhere in the neighborhood of 60,000, and it is still growing.

We have started to feel that the long-sought-for plan of a fourth category was highly desirable from a good many standpoints.

From a local viewpoint, of course, the flexibility of being able to work with a much larger sized fund than we have at the present time, is obvious. The speed with which the local departments can move cannot be compared with anything at all that the State or the Federal Government can move at. We are right there, close on the job, and we can see the necessity quickly, and act perhaps with the same speed as Mr. Biddle says they acted in Plymouth and other places in England.

If a person comes in, due to our intimate local contact, we can practically tell right away whether that is a case that has to be helped, or not.

Speaking of settlement laws, we have people there that have come all the way from the Hawaiian Islands and California, and it is all very well to say that you can't give them any relief, but as a practical matter you can't let them starve on the streets or sleep on the streets.

We feel there that the settlement law, if it can be enacted along with this general relief law, will be a very helpful thing, both from the standpoint of Federal and local needs.

I was very much interested in Senator Vandenberg's suggestions, and I think they are very good. The flexibility that it gives us can't be measured in terms of words.

Speaking a little bit ahead of time, we have people up there, 95 percent of whom work for the Federal Government. Those people have no unemployment compensation benefits whatsoever. If the time comes when they are going to get out of work we are going to have a tremendous problem on our hands unless we are bolstered by some such thing as a fourth category under general relief.

The CHAIRMAN. Thank you very much.

Mr. LEET. Mr. Arthur Rotch, State commissioner of public welfare of Massachusetts.

The CHAIRMAN. You may proceed, Mr. Rotch.

#### **STATEMENT OF ARTHUR ROTCH, STATE COMMISSIONER OF PUBLIC WELFARE, BOSTON, MASS.**

Mr. ROTCH. I heartily endorse, Mr. Chairman, everything that has been said here.

We feel the need very much indeed for the fourth category. In Massachusetts we have a locally administered program with 351 local units and the State department supervises and reimburses the local units for the expenditures that they have made.

I want to say that I think that the development of the Social Security Act has done more than anything else in this country to relieve people on a fair and decent basis. But one group has been left out. The employables, if there had been money enough appropriated, might have gotten onto W. P. A., but in our State we have always had a very large number of employables who were not able to get on W. P. A.



I feel that after this war is over, in spite of everything we may do—and we should do everything possible—I am afraid we are going to have a very large number that will have to be taken care of, and I do not see the justice in leaving this one group out and having them receive so much less, and, as I have said, the Federal standards set under the Social Security Act have done so much.

May I give just one or two instances? We have a very liberal A. D. C. program. Our average, up until the last few months, was \$59 per family, the highest in the country. That family may have an incapacitated father; he might have been in the hospital. While he is there his family is eligible for A. D. C. When he comes out, and if he is well and is unable to get a job, then that family has to go on general relief. With large families it may be as much as \$110 a month while they are on A. D. C., and it immediately drops, under general relief, to possibly \$60.

It seems to me that that is discriminatory.

Similarly with the single man on old-age assistance—we have a liberal old-age assistance law in the State—he may get \$40 when he is 65, but at 64 he gets just half of that.

Now I believe, in a general assistance category, I have a good deal of sympathy with the Senator's suggestion that it be all one integrated program, but with the general assistance category we can protect the needs of all of our people.

These people are not covered by the law relating to the confidential nature of records, which is one of the requirements under the Social Security Act, nor the merit system, and I think all of our people are entitled to the same consideration.

I thank you, sir.

The CHAIRMAN. Thank you. We have only time for about one more speaker.

Mr. LEET. Could we ask that each of the other persons speak about a minute or a minute and a half, in which time they will give their name and address and speak very briefly?

The CHAIRMAN. We will be glad to hear from all we can, but we will have to recess at 12 o'clock.

Mr. LEET. Mr. E. A. Willson, executive director, North Dakota Public Welfare Board.

#### STATEMENT OF E. A. WILLSON, EXECUTIVE DIRECTOR, NORTH DAKOTA PUBLIC WELFARE BOARD, BISMARCK, N. DAK.

Mr. WILLSON. Mr. Chairman, in North Dakota all relief and welfare activities are administered by nonsalaried county welfare boards appointed by the county commissioners under the general supervision of a State welfare board which gives general supervision in accordance with the requirements of the Social Security Act, and other statutes.

We have in North Dakota old-age assistance, aid to dependent children, and blind-aid programs which are fairly adequate, but we do not have enough money for direct relief.

The counties are responsible, under our law, for financing direct general relief, but during the past 6 or 7 years they have not been able to do it because of the very high load and high cost, and the State has appropriated sums of money which the State welfare

board grants to the counties on an equalization basis to help the counties carry that load.

In working out the basis for the State grants to the counties this last year, we found that there were only 10 counties in the State that could balance their budgets. The rest of the 43 counties had to have aid. But when we figured up the deficit in all of the counties for this year, there was a deficit of \$952,000, and a State appropriation available for grants to the counties of only \$433,000, leaving over \$500,000 that just couldn't be met, and that didn't take into consideration the fact that we were going to have, as we have now, a very great decrease in the W. P. A. quota which is throwing a big load of needy unemployable people over on the counties for general relief.

On the 1st of December there were, in North Dakota, 800 people taken off of W. P. A., because of the limited quota. Now, those people just cannot be taken care of as they should by the counties, and the county welfare boards are very much concerned. There is going to be actual suffering on the part of a lot of those people because there just isn't enough State money and county money, and in the case of many of the counties they have reached the point where the issuance of emergency poor relief warrants to take care of that need, are not salable. The merchants won't take them because of the probability that it will be years before the counties can take pay warrants.

We are faced with a very serious problem and we feel that it is very essential that there be Federal aid for direct relief so that we can take care of the direct relief cases as we are taking care of the other categories of relief.

In North Dakota our average grant for old-age assistance is \$17.85; for children under the aid to dependent children program, \$11.60; for the blind, \$21.70; while general relief at the present time is only \$7 per person. And with the larger number coming on at the present time, the average is going to have to be much lower than that.

It is a very serious problem. Very few of our unemployable people could be employed in defense industries. A very large proportion of those who are in need of general assistance now are former farmers who, because of the years of drought out there, lost their farms and were forced into town, and they have no other skills. They are farmers getting along to the age where it is impossible to train them, and common labor is about the only thing that is suitable for those people.

They are located in the small towns and in many cases in such small communities that if we did have a sufficient W. P. A. quota they couldn't be provided with employment because the towns and communities aren't large enough to sponsor adequate projects.

The CHAIRMAN. Thank you, sir.

Mr. LEET. With respect to the other people, representing a number of States who want to go on record as in favor of this report of Senator Green, may each of them give his name to the reporter?

The CHAIRMAN. Each one may give his name, also with a statement or recommendation if they wish to file one, with the reporter and they will be made a part of the record. We regret that we haven't the time this morning to hear all of the representatives here who were kind enough to appear to aid and assist the committee.

But anyone who hasn't been called may give his name, with such statement or recommendation as he desires, to the reporter, and it will go into the record.

We wish to thank you for coming over and talking to us this morning and giving us the benefit of the views that you have discussed in your own meeting, and that you seem to have arrived at with some degree of unanimity, at least.

Thank you very much.

The reporter will please incorporate in the record a telegram received in this connection from the New York State Commissioner of Social Welfare.

(The telegram referred to is as follows:

NEW YORK, N. Y.

GLEN LEET,

(Care Senator Carl A. Hatch),

*Carroll Arms Hotel, Washington, D. C.:*

On behalf of the New York State Board of Social Welfare and the Department I desire to be associated with other State welfare administrators in advocating amendment of the Social Security Act to provide Federal financial reimbursement and supervision of administration of a general public assistance category. This needed change has been apparent for years but has become a social necessity if we are to more adequately meet the needs of persons affected by the economic change incident to the national emergency.

DAVID C. ADIE,

*New York State Commissioner of Social Welfare.*

(Whereupon, at 12 noon, the committee recessed, and the following statements were thereafter given to the reporter:

**STATEMENT OF W. S. TERRY, JR., DIRECTOR, LOUISIANA STATE DEPARTMENT OF PUBLIC WELFARE, BATON ROUGE, LA.**

Mr. TERRY. I just want to say that I heartily concur in all of the recommendations that have been made by the witnesses this morning.

**STATEMENT OF J. MILTON PATTERSON, STATE DIRECTOR, MARYLAND DEPARTMENT OF PUBLIC WELFARE**

Mr. PATTERSON. I would like to bring out, in connection with Senator Vandenberg's questions concerning one grant for all assistance, that we would most all agree with that, but that we must have Federal leadership in minimum standards that they have given, and uniform laws that they have given us in the development of the social services in the country.

**STATEMENT OF CAMPBELL LOUGHMILLER, DIRECTOR, CITY-COUNTY WELFARE DEPARTMENT, DALLAS, TEX.**

Mr. LOUGHMILLER. I want to concur in the general presentation this morning and the views represented in the minority report of Senator Green, and to point out that the problem in Texas is slightly different from some of the things that were suggested here this morning.

We have a large influx of workers from outside of the State, many of whom are not finding work and are needing assistance which the State of Texas does not provide. We don't provide any general relief in Texas on a State-wide basis. A few countries provide gen-

eral assistance, but on a State-wide basis we can't make any approach to the problem and we have been unable to get legislation that would permit the State to enter that field.

We think that the leadership that would be offered through the addition of a fourth category for general relief would provide a stimulus that would result in the initiation of an adequate assistance program down there.

In the all-out effort that we are going to make for defense, the human values and the need for human manpower, you might say, is going to be greater than ever, and with a general assistance program we can rehabilitate and make available to the Nation a large quantity of resources that would otherwise be neglected.

**STATEMENT OF DAVID R. HUNTER, ACTING WELFARE DIRECTOR,  
CITY OF DALLAS, TEX.**

Mr. HUNTER. I would simply like to say that the States have been unwilling to provide uniformly and adequately for their citizens in need, and look, in this time of emergency, to the Federal Government for leadership. I concur in the strong recommendation for a fourth category under the Social Security Act, of general relief.

**STATEMENT OF MURRAY HINTZ, REPRESENTING MRS. JENNIE M.  
KIRBY, DIRECTOR, DEPARTMENT OF PUBLIC WELFARE OF NEW  
MEXICO**

Mr. HINTZ. We wish to concur very heartily in the variable grants to States, and also in the fourth category for general assistance.

I would like to add that New Mexico is the fourth largest State in the Union, with a very small population, and we feel that a variable grant would give us more equity when compared with industrial States and larger populations.

**STATEMENT OF THOMAS H. DANIEL, STATE DIRECTOR OF PUBLIC  
WELFARE, COLUMBIA, S. C.**

Mr. DANIEL. I am heartily in favor of a fourth category of public assistance to provide Federal grants-in-aid for needy persons below the age of 65 but above the age of 18, who I believe are as much entitled to Federal aid as are those segments of the needy population now provided for under the public assistance provisions of the Social Security Act.

STATE DEPARTMENT OF PUBLIC WELFARE,  
Columbia, S. C., December 16, 1941.

SENATE FINANCE COMMITTEE,  
*United States Senate, Washington, D. C.*

DEAR SIR: I am enclosing the following documents, to be inserted as a part of the testimony given by State administrators of public assistance at the hearings which you kindly arranged for December 15:

(1) Copy of a letter addressed to each member of the South Carolina delegation in Congress requesting their support of the establishment of amendments to the Social Security Act providing for variable grants-in-aid for public assistance and for the provision of grants-in-aid for general relief.

(2) Excerpts from a report of the Committee of State and Local Taxation and Expenditures of the Chamber of Commerce of the United States.

With cordial appreciation of your courtesies, I am

Yours very sincerely,

THOMAS H. DANIEL, *State Director.*

**COPY OF LETTER ADDRESSED TO EACH MEMBER OF THE SOUTH CAROLINA DELEGATION IN CONGRESS BY THOMAS H. DANIEL, STATE DIRECTOR OF PUBLIC WELFARE, UNDER DATE OF SEPTEMBER 15, 1941**

In a message to the Congress on January 16, 1939, the President transmitted a report of the Social Security Board recommending certain changes in the Social Security Act approved August 14, 1935. (See H. Doc. No. 110, 76th Cong., 1st sess.)

Several of the recommendations made by the Social Security Board and approved by the President were enacted as the 1939 amendments to the Social Security Act, signed by the President on August 10, 1939. However, two important recommendations made at that time were not included in the 1939 amendments. Those two recommendations, to which specific reference is here made, may be stated as follows:

(1) The extension of social-security benefits, in the form of public assistance, to needy and dependent groups not included in the present provision for the needy aged, the needy blind, and dependent children.

(2) Grants-in-aid for public assistance upon the basis of the relative economic capacity of the States to provide for such assistance from their own funds; that is, that where the average per capita income in the State is less than the average per capita income in the United States, the Federal contribution for public assistance should be increased in proportion to such difference.

In support of the first recommendation above set out, the Council of State Governments on January 21, 1941, adopted resolutions favoring the addition of this category in such a way as to include relief for needy migrants and rehabilitation through medical care and treatment. These resolutions grew out of regional conferences between representatives of the council and legislators and public officials.

The Interdepartmental Committee to Coordinate Health and Welfare Activities, reporting to the President on migratory labor last summer, emphasized the importance of Federal responsibility for general relief.

The Tolan congressional committee, established to investigate the plight of destitute migrants, has held numerous hearings in different parts of the country and has accumulated a mass of testimony which clearly indicates the need for a category of general relief which will include aid for migrants. (See hearings on H. Res. Nos. 63, 113, and 491, 76th Cong., 3d sess.) The requirement that recipients of public assistance shall have been residents of the State for a long period before they may receive such assistance is particularly discriminatory against persons who find it necessary to go from State to State in search of employment.

The 1940 Annual Report of the Social Security Board included the recommendation that Federal contribution to general relief be provided through the Social Security Act. The Board's recommendations were emphasized and further explained by Chairman Altmeyer in hearings before the Senate Special Committee on Old Age Security on July 21, 1941.

The Family Security Committee of the office of the Coordinator of Health, Welfare, and Related Defense Activities, in June 1941, recommended Federal financial provision for the creation of a "general public assistance" category under the Social Security Act.

The Committee on Defense of the American Public Welfare Association in March 1941 adopted the following resolution:

"It is the judgment of this committee that the Federal Government must participate in the financing of the entire public assistance program, including the largest and most basic of all, general relief. We believe that Federal conditional grants-in-aid, with differentials in grants among the States, constitute the best method for assuring that distressed people will receive care without artificial restrictions with respect to some groups, as, for instance, the nonsettled."

The National Council of State and Local Public Welfare Administrators in May 1941 adopted the following resolution:

"Federal participation and cooperation with the States provided for by the public assistance titles of the Federal Social Security Act has raised the standards of assistance and administration throughout the country with respect to aid to the needy aged, aid to the blind, and aid to dependent children, and in general contributed to the social security of these groups;

"The lack of such Federal participation and cooperation with respect to general relief has resulted in inequitable standards of care for other persons equally in need: Therefore be it

*Resolved*, That the conference favors Federal grants-in-aid to States for general relief.

*Provided, however*, That such a program is regarded as a necessary supplement to and not a substitute for the Work Projects Administration program

which constitutes a valuable and necessary element in the Nation's program for providing economic security."

The National Resources Planning Board is making an exhaustive study of long-range public relief policies, which, it is understood, will strongly recommend the provision of a federally supported category of general relief.

The reasons for this widespread advocacy of Federal provision for general relief are based upon the fact that there are numerous unfortunate and handicapped citizens not included in the groups of the aged, the blind, and dependent children, but who are in as great need as these groups, and who are denied adequate assistance because the Social Security Act makes no provision for Federal grants in aid for this group. Where such a citizen, for instance, is in desperate need, and is only 63 years old, it is manifestly unfair that his Government should deny him assistance while granting such assistance to a person even less needy who is 65 years old. In 4 years of administration of public assistance in South Carolina the injustice done this group of needy citizens because no Federal contribution is available for them has been clearly shown.

In support of the second recommendation above stated, attention may be called to the fact that the present system of Federal grants in aid to all States upon the same percentage basis, regardless of the varying capacity of the States to bear their portion of the cost, has resulted in widely different average grants of assistance as among the States. For instance, latest available figures show that average grants for old-age assistance range from \$40.68 in one State to \$7.80 in another State. These variations are due almost entirely to the limited economic capacity of the various States for providing State funds for old-age assistance, while the amount available from Federal sources is limited to equal matching of amounts provided by the State. The Social Security Board, and other students of the situation, believe that it is essential to change the present system of uniform percentage grants to a system whereby the percentage of the total cost in each State made through a Federal grant would vary in accordance with the relative economic capacity of the State. Certainly such a plan would provide for more nearly uniform treatment of needy aged and other dependent persons in differing sections of the country. Certainly the difference in need in the various States cannot be so great as the difference between the highest and the lowest average awards above referred to.

It is significant that the Social Security Act of Congress was enacted by a vote of 377 to 32 in the House of Representatives and 77 to 6 in the Senate. This record indicates that the legislation was acceptable to all parties. Each of the States, the District of Columbia, and the Territories of Alaska and Hawaii promptly took steps to conform with the Federal law in order to secure the public assistance benefits of the social-security program to their needy citizens. It is also significant that no serious effort has ever been made in Congress or elsewhere to narrow the terms of the law, while its liberalization has been approved on several occasions by decisive majorities. There is little doubt that the two changes urged in this communication, and advocated by the official and other groups above referred to, would meet with equally strong support if a measure embodying these amendments is presented to Congress.

On January 21, 1941, the General Assembly of South Carolina adopted a resolution requesting Congress "to increase the contribution of the Federal Government for public welfare and relieve to a greater extent the overburdened States." That resolution supports each of the recommendations set out earlier in this communication. A copy is attached for your convenient reference.

The South Carolina Department of Public Welfare earnestly requests that you use your best efforts to have these amendments to the Social Security Act adopted at the present session of Congress.

Yours very sincerely,

THOMAS H. DANIEL, *State Director.*

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EXCERPTS FROM A REPORT OF THE COMMITTEE ON STATE AND LOCAL TAXATION AND EXPENDITURES OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

It is important for businessmen's organizations in all parts of the country to give the closest possible attention to the relief problem, with a view to promoting development of a program of public assistance that can be supported without endangering the financial stability of our governmental and economic system.

\* \* \* Throughout the discussions the committee has been fully conscious of the need for alleviation of want and distress, and has not questioned the worthiness of the great majority of those now receiving public assistance.

Public relief, for the purposes of this discussion, can be broadly defined as governmental activities designed to supply the necessities of life to persons unable to provide such necessities for themselves or obtain them from other sources. \* \* \*

The number of persons on relief rolls frequently is said to be greater than it should be because of the inclusion of various persons who morally or legally are not entitled to relief. Elimination of such persons from the rolls is possible only through good local administration, which depends upon effective use of case workers or other investigators and their skilled supervision.

The use of case workers has been criticized, due to excessive administrative costs of certain types of relief in some places. Partly as a result of such criticism, a number of communities do not employ sufficient trained investigators to make an effective check of relief beneficiaries for elimination of the undeserving.

The number of cases that can be handled by a competent investigator will vary somewhat among different communities, but whatever the number, adequate case supervision should save many times its cost by insuring against excessive and unjustified relief payments.