SOCIAL SECURITY REVISION

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

EIGHTY-FIRST CONGRESS

SECOND SESSION

ON

H. R. 6000

AN ACT TO EXTEND AND IMPROVE THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE SYSTEM, TO AMEND THE PUBLIC ASSISTANCE AND CHILD WELFARE PROVISIONS OF THE SOCIAL SECURITY ACT, AND FOR OTHER PURPOSES

PART 3

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SOCIAL SECURITY REVISION

MONDAY, FEBRUARY 20, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Connally, Hoey, Kerr, Myers, Millikin, and Taft.

Also present: Mrs. Elizabeth B. Springer, Chief Clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Charles E. Sands. Is Mr. Sands present? Then we will come back to him later and see if he has come in. Mr. Daniel J. O'Brien?

STATEMENT OF DANIEL J. O'BRIEN, FIRST VICE PRESIDENT, AMERICAN HOTEL ASSOCIATION

Mr. O'BRIEN. Yes, sir.

The CHAIRMAN. All right, Mr. O'Brien. Come around, if you please, sir. You may have a seat. You represent the American Hotel Association?

Mr. O'BRIEN. That is correct, Senator.

The CHAIRMAN. You are an officer of that association?

Mr. O'BRIEN. Yes; I am vice president.

The CHAIRMAN. We would be very glad to have you identify yourself accurately for the record and proceed. We will be glad to hear you on this bill.

Mr. O'BRIEN. Mr. Chairman and gentlemen of the committee, I am Daniel J. O'Brien, of Toledo, Ohio. I am representing the American Hotel Association, whose member hotels in every State have approximately 75 percent of the hotel rooms of the country.

While most individual hotels are relatively small business establishments, as compared with great manufacturing industries, our total effect upon the Nation's economy is substantial, we frequently are referred to as the seventh largest industry of the United States.

I am humble as I appear before you to testify upon a bill which runs 201 pages, to which the House Ways and Means Committee devoted itself for 6 months in 1949. However, our American Hotel Association has really given a great deal of thought to this entire social-security program, and we are anxious to pass on to you the problems which this program would present to us, if this bill were enacted in its present form.

We hotel men in America do not oppose social security and employee benefits to every employee. It does not follow, therefore, that any criticism of an individual portion of H. R. 6000 is in any sense an indictment of the principal objectives of this legislation. There are, however, an increasing number of employers who are now providing their employees with a greater degree of security, and more numerous health and welfare benefits, than ever before. These include vacation pay, holiday pay, year-end bonus, pension plan, hospitalization and medical plans, old-age and survivors insurance, disability insurance, life insurance, unemployment insurance, workmen's compensation, recreational activities and facilities, free meals, free work clothes, et cetera. These are over and above all cash wages, and constitute a very substantial cash outlay.

The question arises as to whether the increasing assumption of employee security and responsibility by the Federal Government would mean the ultimate abandonment of all private plans. Many of the benefit programs which are today offered to employees of individual hotels, are a part of the contract between the employer and the bargaining labor organization. I am sure considerable time would be required to switch over entirely to a Federal program of social security, if it were ultimately decreed that the Government should underwrite all employee occupational hazards.

I recall the great mental anguish with which I personally had to cope, when as a young man I debated the wisdom of paying a relatively substantial portion of my income for self-protection in the form of insurance. Those insurance premiums might have meant that my family could not make desired or necessary personal expenditures until the insurance had first been paid. I do feel earnestly that if there is any one thing to our system of incentives in America, it is based on the fact that as individuals, we have an obligation to try to provide some degree of security for ourselves and our loved ones. That incentive must be retained or the individual heights of performance to which American workers have always risen, will have been sacrificed in the years that lie ahead.

I am not sure I am ready to admit that the program which is herein contemplated is an insurance program. I am afraid that it is more in the nature of a relief program, which could be modified and distorted, from time to time, in response to pressure and from political spokesmen, or spokesmen from strong employee groups.

May I give an example of what I mean? A few years ago, the House Ways and Means Committee entertained legislation which proposed supplementing State unemployment compensation payments, and extending the period in which such compensation is available. Now, it could be that these proposals might have had soundness, even from an actuarial standpoint. But the facts remain that the Ways and Means Committee itself concluded, after extensive hearings on these measures in past years, that such a proposal as would increase unemployment compensation to $25 a week for 26 weeks, would actually put a premium on idleness. Members of the committee themselves expressed the belief that some unskilled employees would be slow to report for duty on some job if they could draw adequate unemployment compensation springing from their release from an earlier job. In that sense, the proposals did embody a principle of relief, and were not strictly based upon insurance principles.

I feel strongly that whatever is undertaken in the social-security field should follow closely the best accepted principles of insurance and, above all things, should be based upon an actuarial formula.

I am just an ordinary American, who has served both as employee and employer, and I do regret to observe that there are employees who are guilty of absenteesim, and who are quite willing to extend themselves to the maximum of their ability, physically and mentally, if provisions are made for their welfare without working. The Department of Commerce has heretofore published estimates of the total number of employable persons who are seasonal or occasional workers, and who seem to have no desire to be gainfully employed the year-round.

When World War II struck, England was paying a dole of 25 shillings to a married man with one or two children. As an unskilled worker, that man could earn only 30 shillings if he worked a full workweek. So, in spite of the fact that England was fighting for its very life, it took a year or two before those persons who were enjoying a dole could be diverted to the nation's work force. Here in America we must never destroy the personal initiative and the personal responsibility of our own people, no matter where they work.

I note that a proposal was made to the Ways and Means Committee, in connection with its hearings last year, to the effect that the mounting social-security program in the United States should be brought under the jurisdiction of a joint committee, comparable to the Joint Committee on Internal Revenue Taxation. It was urged that this committee be made up entirely of technical people from the Treasury, and from congressional committees. And it was emphasized that this committee would see to it that the program was administered as an insurance program on a sound actuarial basis. Businessmen generally would have more confidence if such an approach were used.

The very fact that Government bureaus develop into such monstrous agencies frightens the layman. I do not know whether it is true or not, but I have read on several occasions that the Veterans' Administration today has 1 employee for every 15 war veterans, living and dead. If any such multiplication of staff people was practiced in the case of the social-security program, something like every fourth family would have to be on the Federal pay roll to administer the program. Adherence to strict insurance procedure might minimize the temptation to make a social agency out of this department of Government. This, we fear, could easily defeat the altruistic purpose toward which we should all address ourselves: namely, a competent insurance program which is workable and practicable.

The Commissioner for Social Security has testified that administrative costs of the program have been held to 3 percent. If we are to launch out into untried fields, a limit on maximum administrative and operating costs should be set forth, to insure the actuarial soundness of the entire program. The Nation's employers and employees dare not risk possible future insolvency of this fund.

Let me now enumerate for you some of the problems which this bill poses for the hotel business. H. R. 6000 provides that an employee's income, arising from tips, shall be made taxable for social-security purposes.

We are opposed to this, for the following reasons:

In all the history of hotel and other service businesses, there has never been devised a way by which the employee would make an accurate statement regarding his or her tip income. We frankly regard the whole practice of tips as a bad one. It is an irritation to many of our guests, and it is a source of friction between management and employees. All attempts, however, to eliminate tips have failed. They have failed in hotels, in restaurants, on railway dining cars, and elsewhere, because the guest who wanted special service of some kind, would not be guided by the request of management that tips be banned. So, we have somehow to live with this practice, whether we like it or not.

Service employees in a hotel, or other service establishment, who receive tips, receive a somewhat lesser cash wage. Even so, many tip employees in hotels decline to accept an executive position, because a generous public does make service jobs highly lucrative. Many waitresses in our dining rooms, for instance, would not trade places with the cashier or the hostess.

But when it comes to an accurate declaration of income from tips that is another thing. The employee continues to regard this as a personal matter in which the employer has no responsibility. It is not uncommon for an employee to give one estimate of his tip income for income-tax purposes, and another estimate of tip income when filing a claim for unemployment or workmen's compensation benefits.

The Bureau of Internal Revenue has worked diligently, always with our cooperation as an industry, in seeking to ascertain a relatively accurate measurement of this income for income-tax purposes. But the Bureau has made little progress collecting income tax or in persuading tip employees to include an accurate statement of tip income in their returns.

H. R. 6000 provides that an employee shall declare his income from tips within 10 days after each quarter. This would seem like a relatively simple procedure; and yet it comes a long way from meeting the realistic problems which an employer in a hotel will experience.

Actually the proposal would put us in a position where we would be required to deduct a 1½-percent tax from money which is never in our hands, and to calculate the tax on an amount which we cannot ascertain. For example, most hotels hire casual waiters for many functions. These individual employees may not return to the hotel for a month or more when another special function is scheduled, or may never return. If the hotel is supposed to make a deduction from the cash wages of each such employee, based on tip income, an awkward situation arises. I can visualize 100 special banquet waiters standing in line before pay windows computing their tips, and giving a statement thereof to the paymaster and then having to wait in line while he figures 1½ percent on each estimate and then subtracting that from the sums due each worker. Such a performance would take all night, because they are paid as soon as the party is over.

Under this bill, the procedure would be even worse; 3 months after the dinner, the casual employe would send a statement to the hotel as to tips received that night. The hotel would have no wages from which to make the deduction. We could give other illustrations, but this reveals the impracticability of making deductions from funds which the employer never has. A like problem could easily arise in

seasonal and resort hotels where the employees would never work a full 3 months and 10 days. We contend that the procedure here proposed is unworkable.

If tips are to be taxed at all, the only way we have figured out that they might be treated is to leave them to the option of the employee. If he elected to have an estimated amount of tips included in his wage, for social-security purposes, he should be required to furnish a statement to his employer, showing tip receipts, and at the same time tender to his employer 1½ percent of such amount representing his share of the tax. And this would have to be done before the employee is paid. Otherwise, in view of the turn-over experienced in service industries, many employees would no longer be on the job 10 days after the conclusion of the quarter.

One of the principal reasons why we oppose this proposal is that we are afraid that employers might be held liable for retroactive tax assessments under the ensuing regulations which the Commissioner might draw if this bill were enacted in its present form. We might somehow got stuck for the tax where the employee made no declaration, and paid no tax, or had no wages coming. Or if it developed later, through investigations by the Bureau of Internal Revenue or other Government agency, that the employee had made too low a declaration at the outset, we are quite sure that management would have a retroactive assessment on its hands. The sum involved is so small that we recommend that tips not be made taxable at all.

It may be argued that this complex subject of tax based on tip income has been successfully met in the working of unemployment compensation taxes in a number of States. We do not agree that this is a comparable situation. In the first place, there is no uniformity in the various States. Many systems for computing this tip income have been tried under State laws, but none of these has worked out satisfactorily. All methods tried to date have failed in some respects. Experience under these other laws has clearly established the impracticability of this provision of the bill.

Now it might be argued by sponsors of this bill that the Treasury would never go behind the declaration of the individual employee regarding his tip income. If so, this should be made clear in the law, together with the assurance that there is no liability on the employer where the employee makes no declaration of tip income.

But while H. R. 6000 purports to be an amendment to the Federal social-security laws, we point out that it also contains an amendment to the laws relating to withholding of income tax. By amending the definition of "wages" in section 1621 (a) of the Internal Revenue Code, it would have the effect of requiring employers to withhold income tax upon the amount of tips received by an employee if such employee files a statement as to the amount of such tips with the employer within 10 days after the close of the calendar quarter. This provision emphasizes the impracticability of including tips in wages, as we pointed out above.

If an employee receives his pay every week for 3 months, and at the end of that time gives his employer a statement to the effect that he received several hundred dollars in tips during that period, is the employer supposed to withhold approximately 20 percent of such amount as income tax? He certainly cannot withhold it from wages

already paid, and the amount to be withheld might be so large that it would exceed several weeks' future pay, assuming the employee is still in his employ. The impracticability of such an amendment is obvious and it should be eliminated from the bill.

Let me next discuss section 210, subdivision (k). H. R. 6000, which defines "employee" to mean, among other things, any individual who under the usual common-law rules applicable in determining employer-employee relationship has the status of an employee. The bill proposes to amend this definition so as to include specifically an individual who performs service under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee notwithstanding any modification of such contract not in writing.

The effect of this change would be to prohibit a true determination of the status of the person performing the services. It would make the language of the contract, however artificial and however misleading as to the true facts, the final and sole criterion. The obvious purpose is to prevent any determination as to the true relationship. This is not an academic point because this situation exists in connection with the employment of musicians who are members of the American Federation of Musicians.

Obviously this amendment is intended to overcome the effect of the Supreme Court decision in *Bartels* v. *Birmingham* (67 Sup. Ct. 1547). That case was based upon a set of facts which is common practice in the music world. An orchestra was built around a leader whose name and distinctive style in the presentation and rendition of dance music was intended to give the orchestra a marked individual character. The leader organized the orchestra, selected and trained the members thereof, and made contracts under which the orchestra would appear usually for a one-night stand in consideration of the payment of a lump sum. The orchestra leader took the lump sum, paid the expenses of transportation, music, et cetera, and paid the individual members of the orchestra fixed salaries, keeping the profit for himself.

In actual practice the ballroom or hotel engaging such an orchestra had none of the powers ordinarily given to an employer. It could not hire or fire the individual members of the orchestra; it frequently does not even know their names; it could not dictate their style, method or performance, musical selections, or instruments, which they played. The Supreme Court found upon the facts that the orchestra leader, rather than the ballroom, was the true employer.

The proposed amendment is obviously designed to place the liability for social-security tax payments upon the hotel or ballroom which engages such an orchestra. The form of contract involved in the Bartels case and which is still in use, in substantially the same form, provides that the ballroom or hotel shall have complete control of the service, and describes the hotel or ballroom as the employer. The Supreme Court found, however, that this fiction could not be maintained merely because it appeared in the contract, and the Court placed the liability where it belonged, namely, upon the orchestra leader.

We also point out that the proposed amendment fails to accomplish its purpose. In placing the obligation upon the person described

in the contract as the employer, which would be the hotel or ballroom, the proposed definition of the term "employee" also fails to relieve the orchestra leader from the same liability. The amendment also places the liability upon the individual who under the usual common-law rules, is the employer and this would include the orchestra leader, because the Supreme Court has clearly found that upon this common state of facts the orchestra leader is such employer.

We object therefore to the qualifying phrase in the amended section for two specific reasons:

(1) It attempts to create an employer-employee relationship where none exists; and

(2) It would make both the orchestra leader and the hotel the employer and make both liable for social-security tax upon the earnings of the same employees.

Omission of the qualifying provision proposed in this amendment, would not deprive any one of social security payments to which he is entitled but merely would leave the burden where it belongs, namely, upon the orchestra leader, who is the true employer, and who makes the profit from the services of the individual employee.

We estimate that each one-half of 1 percent increase in the levy will mean approximately $4,000,000 tax annually for the hotel employers of America, based on cash wage alone. Any additional expense is viewed with alarm in these days of increasing costs and dwindling revenues. This is just one more item to be added to current pay rolls. But if an increased tax, moving up to 2 percent is to be imposed, then we reiterate that the program must be tied to an accurate, honest, actuarial table, and administered strictly as an insurance program if the fund is to continue solvent through the years.

Thank you, gentlemen.

The CHAIRMAN. Do you operate a hotel at this time?

Mr. O'BRIEN. Yes, sir. I operate three hotels, the Commodore Perry, the Secor, and the Willard, in Toledo, Ohio.

The CHAIRMAN. What is your reaction to the compulsory self-employed insurance in H. R. 6000? Would you not be classed as a self-employed person?

Mr. O'BRIEN. No. I am an employee of a corporation.

The CHAIRMAN. That takes you out of that category, then.

Mr. O'BRIEN. Yes.

The CHAIRMAN. But if you were not, and if you were just an individual operating hotels, you would be brought under the Social Security Act.

Mr. O'BRIEN. Yes, if I were operating as an individual.

Some of the small hotels, of course, have individual proprietorship.

The CHAIRMAN. Any questions?

Senator MILLIKIN. Can you give us any statistics on the percentage of the whole wage of a waiter that the tips consist of?

Mr. O'BRIEN. Well, Senator, that is one of those things that the employee does not reveal to us.

Senator MILLIKIN. I understand there would be different places and different circumstances. But give us some examples.

Mr. O'BRIEN. While they don't give us those figures, Senator, we have a pretty good idea of what they amount to in some places.

Senator MILLIKIN. Give us a pretty good idea, then.

Mr. O'BRIEN. For example, in the case of one of my hotels, the waiters report for purposes of workmen's compensation $8 a week. But we know they make more than that in one watch.

The CHAIRMAN. It depends upon the hotel and the location.

Mr. O'BRIEN. Oh, yes. Some of those positions are very lucrative. The answer is that they will not accept executive positions. Just a year ago, I offered a waitress in our coffee shop a position as hostess. She gets about $18 salary. She said she would take it for $70 a week after all deductions. That had to be net take-home pay.

Senator MILLIKIN. Does the waiter view the tip as a part of his salary?

Mr. O'BRIEN. It depends upon what purpose they are viewing it for. Yes, I would say he does, naturally.

Senator MILLIKIN. Do not the tips enter into bargaining as a part of the wages?

Mr. O'BRIEN. Well, we find usually that the unions would like to ignore that feature, when we talk with them. But, of course, we bring it in, naturally.

Senator MILLIKIN. Well, now, assume that you want to bring the waiter under the benefits of the social-security insurance system: What would be the best way to do it?

Mr. O'BRIEN. Well, the onus should be put on them to report and at the same time to tender their part of the tax.

Senator MILLIKIN. To the employer?

Mr. O'BRIEN. To the employer. Obviously, it is impossible for us to know what it is.

Senator MILLIKIN. You object to the burden on the hotelman of trying to estimate what the waiters' tips may be?

Mr. O'BRIEN. Well, it would be impossible, Senator, for us to estimate. But I would refer you again to the statement I made regarding these casual workers. You can visualize a lot of banquet waiters or waitresses lined up. We pay them as soon as the function is over. In some New York hotels, for example, there might be 100 or 150 of those. Each one would have to report his tip at the time, turn in his 1½ percent or we would have to calculate it. Why, we would be serving breakfast in the morning by the time we got through.

Senator MILLIKIN. Could it be handled on a stamp plan system similar to that for migrant labor?

Mr. O'BRIEN. I have not given any thought to that. But we have no objection to it if the onus is put on the employee to report to us and at the same time tender us his share of the tax. But as the bill is written, of course, it isn't workable for us.

The CHAIRMAN. Are there any further questions?

Senator KERR. I would like to ask him about his last paragraph on page 10, Mr. Chairman. He says, in the statement:

> We estimate that each one-half of 1 percent increase in the levy will mean approximately $4,000,000 tax annually for the hotel employers of America, based on cash wage alone.

Mr. O'BRIEN. That is eliminating tips and other benefits.

Senator KERR. What part is that with reference to employees whose compensation is primarily in terms of salary, aside from tips?

Mr. O'BRIEN. Of course, this is taken on an over-all picture, tip and nontip employees. I don't have the break-down as between them.

Senator KERR. Would you make an estimate?

Mr. O'BRIEN. No, sir, I can't do that. I might be able to get the figures.

Senator KERR. You operate three hotels?

Mr. O'BRIEN. Yes, sir.

Senator KERR. Could you give us an estimate as to what part of your salary expense which would be subject to this tax, is with reference to employees who are now unquestionably covered by social security, and who are paid in regular amounts, and in whose compensation tips do not enter as a factor?

Mr. O'BRIEN. I would hate to hazard a guess. I will be glad to get you the figures and submit them to you.

Senator KERR. It is amazing. I never did operate a hotel, but I think I could make a guess.

Senator TAFT. Well, you see, you have certain difficulties. You cannot just take your pay roll of tipped people as against untipped people, because you have to reduce them all to $3,000 apiece, on which they pay. The $4,000,000 is not figured on all your salaries of untipped employees. It is only figured on salaries up to $3,000.

Mr. O'BRIEN. That is right.

Senator TAFT. But can you tell us what proportion of total pay roll is paid to tipped employees as against untipped employees? Have you any idea as to that?

Mr. O'BRIEN. Senator, I don't have the figures in my head. I can get them very quickly. I just hate to give a figure out of my head which may be inaccurate.

Senator MILLIKIN. It would be obviously difficult, because some hotels make a big play for the restaurant business and others do not. But the general overhead of the bookkeepers, the cashiers, the people behind the desk, and the people down in the basement that operate the machinery goes on regardless of how big their restaurant business may be.

Mr. O'BRIEN. That is correct, sir.

Senator MILLIKIN. I am rather an expert on hotels because I lived in one for 21 years.

Senator KERR. Would you not say that on an average less than 16 percent of the employees come within the classification of tipped employees?

Mr. O'BRIEN. Oh, no, sir.

Senator KERR. Well, aside from the waiters in the restaurant and the bellboys?

Mr. O'BRIEN. And the waitresses.

Senator KERR. And the waitresses.

Mr. O'BRIEN. Of course, it depends upon the relationship of your restaurant business to your room business. But I have more than that. I would have, say, 30 percent.

Senator KERR. Thirty percent. Would you say that that was less than the general average? You refer here to the fact that the hotel business is the seventh largest business in the country. Would you say that 30 percent would be more or less than the general average in that business?

Mr. O'BRIEN. I would imagine it would be about the average. But there are some hotels that have very small restaurant facilities, and other hotels that have unusually large restaurant facilities.

Senator KERR. Most of the volume of rooms is in hotels where the restaurant service is a comparatively small part of the over-all business, is it not?

Mr. O'BRIEN. It is hard to give a general answer to that, Senator, because the situation varies so much between hotels.

Senator KERR. Well, then, with reference to this $4,000,000, in your situation 70 percent of it would be unaffected by the recommendations you make here.

Mr. O'BRIEN. That is right.

Senator KERR. In other words, with reference to 70 percent of it, that is going to be present whether the recommendations you have made are accepted or not?

Mr. O'BRIEN. That is correct.

Senator KERR. That is what I was trying to bring out.

Senator MILLIKIN. Would this be true: That where a hotel is not in a position to push its liquor business, the restaurants are usually a losing proposition?

Mr. O'BRIEN. That is very true.

Senator MILLIKIN. And where you find a profitable restaurant, not in all cases, of course, it is usually because of its relationship to the liquor business; is that not true?

Mr. O'BRIEN. Yes. Although unfortunately we are finding a very serious slump in the liquor business.

Senator MILLIKIN. Would you like us to take the cabaret tax off?

Mr. O'BRIEN. I would, very much. As a matter of fact, I am going to close one room in the next 2 weeks as a result of increasing guest resistance to that tax.

The CHAIRMAN. Thank you very much.

Senator TAFT. May I ask one question?

The CHAIRMAN. Senator Taft.

Senator TAFT. Are there any considerable number of hotels that have pension plans for retirement? That is rather rare in the hotel business, is it not?

Mr. O'BRIEN. We have them in our organization.

Senator TAFT. You do?

Mr. O'BRIEN. Yes. It is spreading. The Albert Pick Hotels have, I know. I think the Hilton Hotels have. It is a program that has come about in the last few years and it is growing.

Senator TAFT. The ordinary hotel today, though, does not have a pension plan, does it?

Mr. O'BRIEN. You are right, Senator.

The CHAIRMAN. Thank you very much, Mr. O'Brien.

Mr. O'BRIEN. Thank you, Mr. Chairman.

The CHAIRMAN. Congressman Van Zandt, did you wish to make a statement?

STATEMENT OF HON. JAMES E. VAN ZANDT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Representative VAN ZANDT. Thank you, Mr. Chairman.

I have come here to ask that I be permitted to insert a statement in the record. I must return to a meeting of the House Armed Services Committee, and I will, with your permission, file this statement. It is

in support of H. R. 6000 and follows the lines of my thought that was contained in the statement I made before the House of Representatives when H. R. 6000 was before the body and approved.

The CHAIRMAN. You may file it, Congressman. Thank you very much, sir.

(The statement of Representative Van Zandt follows:)

STATEMENT OF JAMES E. VAN ZANDT, MEMBER OF CONGRESS, TWENTY-SECOND DISTRICT OF PENNSYLVANIA, WITH RESPECT TO AMENDING THE SOCIAL SECURITY ACT

Mr. Chairman, I supported H. R. 6000 when it passed the House of Representatives during the first session of the Eighty-first Congress. I did so, because I felt it was a step in the right direction. Yet at the same time it was my belief that the provisions of H. R. 6000 did not truly meet the general problem of old-age pensions.

As many of you know, I have long been associated with various groups in the old-age pension field including the Townsend organization and the American pension plan. I am sure that you will agree with me that these pension groups are entitled to a lot of credit for they are pioneers in the effort to bring to the attention of the American people the general problem of old-age pensions.

Fifteen years ago the American people were faced with the problem of old-age pensions and from that day until this there has been a constant effort by pension groups and many of us in Congress to bring about a general revision of social security in all of its aspects.

You know as well as I do that when Congress approved the Social Security Act our Government accepted the responsibility of that segment of the population covered by the act. This was the beginning of a program that was designed to provide eventually for the problems of our aged.

Since the Social Security Act became effective statistical information furnished by Government agencies reveals that the number of aged persons is increasing rapidly due to the lengthening of the span of life because of the rapid strides made by the medical profession in treating human ills.

Then, too, we must recognize that the Social Security Act has resulted in many people depending upon the Government for security in their old age. While this attitude may be subject to criticism, yet it actually exists and the condition must be faced.

We cannot escape the fact that the cost of living has aggravated the general problem of old-age pensions and that present benefits under the Social Security Act are wholly inadequate. Then, of course, we have the cost of social security which has developed to be quite a problem to the Federal and State Governments, as well as to the employer and employees.

While I was not in Congress when the Social Security Act was approved, yet I felt at that time that since our Government was committed to provide benefits to the aged the program was not broad enough since it did not cover all citizens. Many of you will remember that at that time I was identified with the Veterans of Foreign Wars as commander in chief and my activities brought me in contact with not only those covered under the law but also with a large number not covered. To be frank, the glaring defects in the Social Security Act were immediately apparent.

Today we are faced with the terrific problem of old-age pensions. It is my opinion that the Congress of the United States through its failure to take positive action in this field over a period of 15 years, is responsible for the situation we are confronted with today. If Congress had kept abreast of developments in the field of old-age pensions and had taken action instead of using delaying tactics, the issue would have been met and we would have today the necessary laws to meet present-day needs.

Without doubt the question of industrial pensions and the many pension plans in effect at the present time have made this general problem of old-age pensions an acute one. As I have already said, it is my opinion that if Congress had taken action, the pension problem would have been solved years ago and we would not have the conglomeration of pension plans now being offered to the American people.

It is the consensus of opinion that the Social Security Act will have to be rewritten or a substitute adopted. It is freely predicted that the cost of social-

security benefits in the near future will be so great to employer and employee that a Federal Government subsidy will be necessary.

Then, let us not forget, that we are talking only about earned benefits under the Social Security Act and that we have not considered the cost of old age or public assistance to persons who are not contributors to the social-security fund. The cost of these old-age pensions, as you know, is shared by the Federal and State Governments.

In mentioning the total cost of the Social Security Act, it is evident that the day is not far off when the cost of taking care of our aged under all phases of the Social Security Act will become an unbearable burden to Federal and State Governments as well as to employer and employee.

In closing, I recognize that your committee has access to Government statistics that concern all phases of the general problem of old-age pensions. For that reason, I have confined my remarks to a general discussion of the subject. It is my considered judgment, however, that the only answer to the old-age-pension problem is a universal pension for the aged of this Nation. It may be the Townsend or American pension plan or some similar pension proposal that will provide the answer to this problem. One thing certain, we are not on the right track at present. It is a known fact that the aged of this country are not being taken care of for many of them are hungry. Therefore, I say to you, Congress had better devise a universal pension plan in keeping with the solvency of our Government and the needs of the American people.

The CHAIRMAN. Mr. Sands? You were called first, Mr. Sands. Will you give your full name and the capacity in which you appear for the benefit of the record?

STATEMENT OF CHARLES E. SANDS, REPRESENTING HOTEL AND RESTAURANT EMPLOYEES AND BARTENDERS INTERNATIONAL UNION, CINCINNATI, OHIO

Mr. SANDS. Mr. Chairman and members of the committee, I represent the Hotel and Restaurant Employees and Bartenders International Union of America. We have approximately 450,000 members, made up from 800 local unions throughout the United States, Canada, Puerto Rico, Hawaii, and Alaska.

We are affiliated with the American Federation of Labor and with the Railway Labor Executives Association, and we subscribe wholeheartedly to the presentation as made by the American Federation of Labor. I will not burden the committee by reiterating anything that may have been said, except that I do want particularly to appear here this morning in support of and to explain, as much as I can, and answer questions that I am able to, respecting the section of the bill, H. R. 6000, which deals with the tipping question or gratuities.

Our international union is wholeheartedly opposed to the tipping question. I was very pleased to hear the representative of the hotel men say that they didn't like it. Because for 50 years we have been trying to get together with them to eliminate the tipping question.

Senator KERR. Let me see if I understood your statement. Did you say you were opposed to the tipping question?

Mr. SANDS. We are opposed to tips; yes. We believe that employees, our members, should be paid an adequate wage and commission so that they would not be forced to take tips. And to that end, our international union is on record, and we have been trying for 50 years to work out some system that would bring it about, but we have never had, in that instance, the cooperation of the hotel men.

Senator KERR. Well, were you under the impression that they had been forced to take tips?

Mr. SANDS. Forced to take tips? Yes, they are forced. In order to make a livelihood, they are forced to take the tips. They are hired in these jobs, and it is an understood fact that tips are theirs, and that they are a part of the money they take home. And the employees who take these tips, in convention 4 years ago in Milwaukee, and again in Chicago last April, went on record in favor of this proposition, that tips should be included under the social-security system. That is the position of our international union.

Senator KERR. Now, if the employees want to eliminate the system——

Mr. SANDS. The employees will eliminate the system.

Senator KERR. Let me ask my question.

If the employees want to eliminate the system and the employers want to eliminate the system, all we will have to do is to get the public to agree to it, and it will be unanimous, will it not?

Mr. SANDS. That would be a good idea. I was interested when social security came into existence, 15 years ago, and I was led to believe, at least, that it was for the purpose of protecting workers when they became aged, permitting them to retire, or providing some payment to their heirs at death. Now we are confronted here, with this situation: that for 15 years the tips that these workers have made, and recognized by the employer, have never resulted in any premium for social-security purposes. The employers have not paid on it, and neither have the employees, with the result that the very purposes of the law is circumvented; because in the case of some of these employees, upon their retirement at 65 or upon their death the build-up of the money to their credit in social security is so meager that it is hardly worth going after. Because the substantial portion of their earnings over the past 15 years has been in the form of gratuities.

Senator HOEY. What proportion of the compensation of these employees is represented by tips, and what proportion by salary?

Mr. SANDS. That would vary, Senator, in the different classes of houses. Of course, in a high-class hotel or restaurant, naturally, the waiter or the waitress will make more than in other places, that are popular, or where the prices are cheaper.

Senator HOEY. What sort of an income do they get?

Mr. SANDS. Well, I will tell you, Senator. I worked out something, about 14 years ago, when we had numerous cases before the workmen's compensation board. Every time a waiter or waitress was injured we would have to go down and fight the cases. And we finally worked out, for Washington at least, where the compensation for an injured employee is two-thirds or was at that time two-thirds, of his earning power. We worked out the scale, then, for waiters at $2 a day, and we worked it out at $3 in tips and a dollar in lieu of the meals that they do not get when they are out injured; and that is $6 a day, which is $36 a week. And the people, then, all of them—that is, the males—were entitled to $24 when injured on work.

Senator HOEY. That was 14 years ago. But about what would it be now?

Mr. SANDS. You can't define the tipping question. Of course, the employer comes in here and tells you what a big job it would be to obtain what the people make in tips. Well, he already has that in

his files. For the purpose of paying premiums on workmen's compensation, he has got to know the approximate tips of the employee, because, when the employee is injured he is not paid on his salary alone, but he is paid on his entire earning power, which is salary and tips plus meals that he does not receive when he is injured. So he has that already. His premium for workmen's compensation is based on that.

Then, again, he has it for the purpose of unemployment insurance. When one of our people is unemployed, he does not just get the two-thirds, or whatever it is, of the salary. He receives it on all of his earnings—tips and salary. So he already has that in two instances.

Then again the Treasury Department comes along to the employer and wants to simplify its work. And they would like to know, for example, what the waiters or waitresses in a certain hotel make in tips. So he obtains it from them. And he has that.

So in three cases he already has now in his files the approximate earnings in tips of the employees. And then, if that doesn't satisfy him, it is a simple matter for any hotel or restaurant man to take the checks for any one day of a waiter or a waitress, or the amount of calls the bellboys had to the rooms, and they can come to a pretty fair idea of what the employee has made in tips.

Senator HOEY. I was just asking you about your opinion about it, Mr. Sands. I understand what you say, and what these others could do, but I was asking you, from your observation, approximately what salary is paid to the average waiter in Washington, for example, in Washington today, and how much he gets in tips.

Mr. SANDS. That varies in the various houses.

Senator HOEY. Could you give us an average?

Mr. SANDS. It would be unfair to average it, Senator, for the reason that here is a waiter who may work in some place on the side street, and he may make 50 cents a day in tips; and then again another waiter in another place may make $5 or $4. It goes with the class of the establishment and the clientele of the establishment. For instance, I had lunch the other day in the Carlton, and I certainly tipped more, and my bill was a great deal higher, than if I had eaten in some small restaurant. It varies with the types of houses.

Senator HOEY. That is all right. You just say you cannot state an average.

Mr. SANDS. Now, in connection with this bill, as I understand it, and, if I understand rightly, several years ago the Senate appointed a committee of laymen to thoroughly discuss this question, and it was thoroughly discussed by the committee, and the committee came in, as I understand it, with a unanimous recommendation on this phase of the question.

The facts are these—and someone asked the question as to the approximate number of tip-receiving people in a hotel, and it was estimated at 30 percent. Well, that is pretty accurate. I would say 25 percent of the employees of a hotel are in the tip-receiving class. And the hotel men in their negotiations show that they now recognize that, because when we negotiate a contract all kitchen employees are excluded as tip receivers, all maids are excluded, and the only ones left in the tip-receiving class—and their wages are based accordingly—are bellmen, lavatory attendants, waiters, and waitresses. Even the bartender in Washington is excluded as a tip-receiving employee.

They concede that. So that would leave you about 30 percent. And here is an international with 450,000 people who discussed this proposition and at their convention by a great majority voted that they wanted their tips paid on them by their employers and paid on them by themselves for the purpose of building up their account in the Social Security System. And if we don't do that for this class of workers, we are not accomplishing what the law intended to do when it was enacted—to provide some security for these people.

Senator KERR. How would you make that effective, Mr. Sands?

Mr. SANDS. Exactly as H. R. 6000 does. H. R. 6000 was recommended to this committee of the Senate, and it went through the Ways and Means Committee of the House, and now the House has passed it, and it provides, as I understand it, that within 10 days after the quarter the employee submits to his or her employer the amount received in gratuities the past quarter, and one and a half percent, which is the tax, is added to the amount. The employer then takes that and adds 1½ percent and files it. And as I understand this law, it is absolutely obligatory on the part of the employee to make that provision and to inform the employer and pay. Otherwise it absolves the employer from any responsibility. He certainly can't report what Jane Smith, the waitress, made, if Jane Smith doesn't go in and tell him what she makes.

Senator MILLIKIN. How do you meet the administrative objection that was made by the gentleman who preceded you?

Supposing a waiter is a banquet waiter and goes to a different hotel every night, sometimes a couple of hotels. How would you handle that?

Mr. SANDS. Well, in most of the cities where they have a number of banquets, the banquets are arranged for, and if the one giving the banquet doesn't put his foot down and say, "Here, I don't want to have anything added on to my bill. If my guests tip the waiter, all right, and if they don't, O. K."—then if the waiter receives any tip at that banquet or not, he has to be satisfied. But they have worked out a system now where there is a percentage that goes on the bill. In some cases it is 10 percent, in some cases 12 percent, and in some cities it is maybe more. So that if you go in and arrange for a banquet for $10, and the actual food is $7.50, 10 percent is added on to the $7.50. Of course, it isn't added on to what you pay for flowers or for what you pay for entertainment.

So when you get your bill, the tip is already on there, and your guests at the banquet are not embarrassed by tipping or by a plate being passed, or anything like that. Then the union paymaster goes to get the check for the extra men, maybe a hundred extra men. And let's say it is $4 for serving the job, plus the tip.

Senator MILLIKIN. I do not think I made myself clear. Supposing the waiter worked for 25 different employers during the month. Does he go to each one of those with a statement of the tip that he received there and make a statement to 25 different people at the end of the quarter?

Mr. SANDS. Well, if he was in a city where banquets were so many that he worked for 25 a month, the chances are that he would be booked through his organization or club, and they would take care of all that paying. He wouldn't even have to go after the money.

We have taken that all over from the hotel men. In fact, we become the paymaster of the hotels, and save them a lot of money by getting one check and paying off the tips and the salary to the worker.

Senator MILLIKIN. Let us take a hotel like the Willard, for example. Let us not talk about the Willard, but a hotel of that type.

Mr. SANDS. The Willard is a good hotel.

Senator MILLIKIN. What percentage of the total earnings of the waiter consists of tips?

Mr. SANDS. Well, they have worked out this system, Senator, for the purposes of unemployment insurance, workmen's compensation, and income tax. The waiters in a hotel like the Willard have a little shop meeting.

Senator KERR. A little what?

Mr. SANDS. A little shop meeting. And they thrash it out. Then they come to a sum which they will report for income-tax purposes to the employer, and it may be $3 a day or $4 a day or $5 a day.

Senator MILLIKIN. What is it, usually, in that kind of a case? I am not talking about the Willard, but any such hotel.

Mr. SANDS. I understand that in the Mayflower Hotel the waiters report $4 a day for the purposes of income tax, and I understand in the Washington Hotel it is $3 a day. And they do that.

Senator KERR. What relationship does that have to the facts?

Mr. SANDS. Well, I will be perfectly truthful. I don't believe that they give the Government any the best of it. I believe they are like all the rest of us. We hire people to help us pay as little as we can. But in this case, this may have a tendency to up that.

Senator KERR. Would you refer to that as lying within the law?

Mr. SANDS. Well, I don't know. You take a waiter in the Mayflower Hotel. After he pays his expenses in connection with the work, I don't think he would have much over $24 left. Some of them might, but I don't think he would have much over that. I mean, he has got to have a clean shirt.

Senator KERR. As I understand it, the members of the committee are trying to get some information, which I would like to have, and that is your opinion as to how much they receive in tips.

Senator MILLIKIN. What is the base pay of a waiter in a hotel the type of the Willard, a hotel in Washington, D. C.?

Mr. SANDS. It is less than $25, but out of that $25, there is deduction for the meals served the waiter. I believe it is 60 cents a day. I think his base pay would be around $21.

Senator TAFT. How can you do that? Is there not a minimum wage here in Washington?

Mr. SANDS. No. Unfortunately the Senate was in such a hurry to get away that we didn't press our amendment to put the District of Columbia under the Fair Labor Standards Act. No; that is the funny part of our business. We are here under the National Labor Relations Act, but we are not under the Fair Labor Standards Act in the District.

Senator MILLIKIN. Now let us go down to the Sinton Hotel, in Cincinnati, which I understand the Senator, here, owns.

Senator TAFT. No; I have no connection with it. I want that understood.

Senator MILLIKIN. The Senator disclaims any interest in that hotel. I miscalled the name of the hotel. But let us take the Sinton. What is the base pay of a waiter in Cincinnati in the Sinton Hotel?

Mr. SANDS. I am not qualified to say. It would be something around $21 or $22.

Senator MILLIKIN. And a 30-percent provision for tips?

Mr. SANDS. I did not get the question.

Senator MILLIKIN. The base pay, you said, is $21 or $22. Now, we are trying to find out what the earnings are. How much do you add to that?

Mr. SANDS. Well, your earnings you cannot figure except from the employee himself. For example, a waiter comes in today, and he doesn't feel well; he perhaps gives some of his work over to the other waiters to do for him.

Senator MILLIKIN. Let us assume now a normal case where a fellow feels reasonably well and does not get anybody to take his place. He comes at the appointed time, leaves at the appointed time, does his duty as a waiter during the day. What is his base pay?

Mr. SANDS. His base pay in a hotel like you mentioned in Cincinnati would be $21 or $22.

Senator MILLIKIN. Now, how much would be a fair addition to make to that because of tips, to get at his total earnings?

Mr. SANDS. Well, you couldn't do that, Senator.

Senator MILLIKIN. Then how can we work this out?

Mr. SANDS. Some waiters are more efficient, and some are less so.

Senator MILLIKIN. Then how can we do it, under this act?

Mr. SANDS. It has already been done.

Senator MILLIKIN. Then there must be some way of doing it. That is what I wanted to find out.

Mr. SANDS. Exactly. It has been done. I have pointed out that it has been done in three instances. When the employer pays premiums for unemployment insurance, he knows what the waiter has told him, and he takes his word for it.

Senator MILLIKIN. Do you not think that the representatives of the waiter have as good an idea as the employer?

Mr. SANDS. The representatives of the employees?

Senator MILLIKIN. Yes.

Mr. SANDS. They do.

Senator MILLIKIN. They are organized, are they not?

Mr. SANDS. Yes.

Senator MILLIKIN. Do not the representatives of the organized waiters know how much they are making for tips?

Mr. SANDS. You mean the outside business agents, or presidents?

Senator HOEY. No. You.

Senator MILLIKIN. As I understand it, in the hotel the men are organized.

Mr. SANDS. That is right.

Senator MILLIKIN. I assume they are organized in your union.

Mr. SANDS. That is right.

Senator MILLIKIN. Is there not somebody there that has a pretty close idea, either among the waiters or representing the waiters, as to how much in tips those boys are making?

Mr. SANDS. Individually, as a whole, or on an average?

Senator MILLIKIN. Individually.

Mr. SANDS. You couldn't determine it.

Senator MILLIKIN. Let us take the average. How much?

Mr. SANDS. They come together, the waiters do. They agree on an average over the year—the approximate tips. That is what they report.

Senator MILLIKIN. How much is that?

Mr. SANDS. In different hotels it is different amounts.

Senator MILLIKIN. Give us a range.

Mr. SANDS. Well, I think they report, in the hotels of Washington, in some hotels $2 a day tips, and in others $3, and in some $4, and maybe in some cases more.

Senator MILLIKIN. Let us move down the street a little from the Willard and get into a restaurant like one of the Childs type. Is that organized?

Mr. SANDS. No; not in Washington.

Senator MILLIKIN. Let us find a restaurant of that type that is organized. What is the base pay of the waitress?

Mr. SANDS. The waitress?

Senator MILLIKIN. Yes.

Mr. SANDS. I think it is $18.

Senator MILLIKIN. What tips will a waitress pick up in that type of a restaurant, average?

Mr. SANDS. Well, I couldn't answer that question, Senator. But the State of New York officially on this has set a percentage, and it is recognized. I don't know if it is by statute, but it is recognized for all these things that it is a percentage of 7½ percent of the check. That is what the State of New York has put in and recognized that the waiter or waitress makes. It is 7½ percent of the check. Now, they may make 10 percent in some cases. I don't know. But as a rule the public figures about 10 percent of the check in tips.

Senator MILLIKIN. I would like to get the answer to the administrative problem proposed by the gentleman who preceded you. In the case of these in-and-out waiters, the fellow who works the banquets, how is he going to report his tips without reporting to 30 or 40 people at the end of the quarter?

Mr. SANDS. The employer already knows it in most cases.

Senator MILLIKIN. Well, but he has to go to 30 different employers.

Mr. SANDS. No; he doesn't. He doesn't have to go to any of them. Because when you give a banquet, Senator, the tip is already added on your check.

Senator MILLIKIN. Yes.

Mr. SANDS. Unless you specifically stated, "I will take care of the tipping question." If you do that, they don't add anything. But if you just leave it to the maitre d'hotel or the head waiter, that is already added on your check.

Senator MILLIKIN. Now it is said that at that end of the quarter, so many days after every quarter, the waiter turns in his tips. Is that right?

Mr. SANDS. That is right, a report of his tips.

Senator MILLIKIN. Well, he works for 30 people. Does he not have to make 30 reports to 30 people? If I am an employer, I am not going to make my contribution on the basis of his working for 25 other people.

Mr. SANDS. Well, Senator, if he is working for 30 people in a month, he must be a very good waiter in the first place. In the second place, he would need an agent, just the same as an actor needs an agent. And the agent in this case is the union. The union does all the collecting of the salary and the tips, and the waiter or waitress doesn't even have to go after it. They serve the black coffee and they get on out. They go on up to their club or the union and collect the money on a certain day every week.

Senator KERR. Does the union then make the payment of the contribution?

Mr. SANDS. Beg pardon?

Senator KERR. Does the union then make the payment of that contribution to the Government?

Mr. SANDS. The union?

Senator KERR. Yes.

Mr. SANDS. Yes; the union deducts——

Senator KERR. Does it make the social-security contribution for the employer and the employee in those instances?

Mr. SANDS. Oh, no. For the simple reason that no one, practically, now, for tip employees, reports any social security. That is our complaint.

Senator KERR. Would you, under H. R. 6000?

Mr. SANDS. Under H. R. 6000?

Senator KERR. Does it put that burden on you?

Mr. SANDS. Would it? Well, it wouldn't make any difference if it did.

Senator KERR. But does it?

Mr. SANDS. No.

Well, it might at that, because the employer would have to add 1½ percent on the tips, and we just deduct the 1½ percent.

Senator KERR. With reference to the thing that you referred to a while ago, which started the questions, which was that under H. R. 6000 the employee within a certain number of days after the quarter submits to the employer the amount made in gratuities for the quarter, adding 1½ percent, and that the employer then puts his contribution in and sends it to the Government, would that be taken care of by the union, which you described as being the agent that receives the money for the employee and that pays it to the employee for the employer?

Mr. SANDS. Could be. We take care of everything now.

Senator KERR. Do you think that ought to be put into the law, then?

Mr. SANDS. If you want to put something into the law that will recognize the Hotel and Restaurant Employees and Bartenders Union as the bargaining agent in all of the hotels and restaurants of the country, we are perfectly satisfied.

Senator KERR. Would you not be willing for the law to put upon you the burden of making those reports in such instances where the employees and the employers have already recognized or do recognize you or any other union for that purpose?

Mr. SANDS. No; we wouldn't. Because as I understand this law now, the obligation on the employer is to report it and pay on it once the employee has reported and paid on the tips to him.

Senator KERR. But you told the Senator, though, that the employee did not do that, under these arrangements: that he did not have more than one person to see; that if he had 10 employers or 20, the union took care of all that.

Mr. SANDS. Senator, we would be perfectly willing to add to the collection the 1½ percent of tips. But the union does not make the employer's report to the Government. So the only thing we could do, then, at the end of the quarter or 10 days after it, would be to send back to the employer a list of the employees, with our check for the amount covering them. That is the only thing that we could do, because under H. R. 6000 the responsibility of reporting the tips, once the employee has reported to the employer and paid on it, is on management. We would be perfectly willing to go along with management and help them out and do their bookkeeping and do their collecting and then remit it back to them so that they can remit it to the Treasury. We are perfectly willing to do anything reasonable that will insure these people, whose living is partially made on tips, building up that fund in social security so that they will have something worth while when they are 65 or when they die, and it won't be a case of their having $10 coming.

I could recite you, if we had the time, where widows of bellboys in Washington didn't have over $12 to their credit in the Social Security fund, and cases where waiters and waitresses had so little to their credit that it wasn't worth going after. In one case it was $36, and the man didn't leave any next to kin. We would have to take out letters of administration in order to collect the money, and that would have cost us more than was in the fund for that individual. The purpose of the act was to insure the worker at death something for the widow; and at 65 something to retire on, so that he could hold his head up and not be a subject of charity. And here is this great amount of tips that is collected with the knowledge of the employer. And they like it. Don't let them kid you. They like it. They are not paying on it. And the employee is not paying on it. So the purpose of the Social Security Act, so far as these people are concerned, has been circumvented.

Now, all we ask is that the employer pay on the tips. They are taken with his knowledge. You never see a hotel man fire the employee for taking the tip. They are hired with that knowledge. The waiter knows, when he goes to work in a house like the Willard or the Netherlands Plaza in Cincinnati, that he is permitted to take tips. In the old days he used to have to split those tips.

The CHAIRMAN. We understand that you favor the House provision.

Mr. SANDS. Yes.

The CHAIRMAN. You want that kept in the bill.

Mr. SANDS. Yes, sir. Thank you very much.

Incidentally, you can repeal that cabaret tax, too. That will help us.

Senator TAFT. Mr. Sands, there is a point on which I would like to get a little more exact picture. Do you have a contract for the Mayflower or the Willard?

Mr. SANDS. Yes.

Senator TAFT. And is it worked on an hourly basis or a weekly basis?

Mr. SANDS. It is worked on a weekly basis. The workweek is 48 hours.

Senator TAFT. Forty-eight hours. And then is it a base rate per hour?

Mr. SANDS. No, per week.

Senator TAFT. Do you work 6 days?

Mr. SANDS. Six days, 48 hours.

Senator TAFT. And is there overtime?

Mr. SANDS. Yes. We get overtime, time-and-a-half, I believe.

Senator TAFT. Over 40 hours?

Mr. SANDS. No; over 48.

Senator TAFT. And that rate is how much per day, say, at the Willard? Or the Mayflower?

Mr. SANDS. I imagine that the scale in the Mayflower would be about $4 a day, based on a day rating. And, of course, there is a deduction.

Senator TAFT. Four dollars a day. And then you said, I think, in your testimony, that they report $4 tips.

Mr. SANDS. That is right.

Senator TAFT. So roughly speaking it is half-and-half. That is the picture I wanted to get.

Mr. SANDS. That is right.

Senator TAFT. It is about half-and-half, salary and tips?

Mr. SANDS. That is right. Of course, you understand, Senator, that the tips in the Mayflower are a little bit larger than they would be in Childs; not to say that Childs' food isn't good.

Senator TAFT. Do hotel workers in that classification receive their meals?

Mr. SANDS. The worker in a hotel who has anything to do with the preparation or the serving of food receives his food.

Senator TAFT. Three meals, or two?

Mr. SANDS. Two meals. And for that, I think it is 60 cents a day or 30 cents a meal, or something like that, that is deducted from their pay.

Senator TAFT. Oh, that is deducted from their pay?

Mr. SANDS. Yes.

Senator TAFT. I see. But roughly speaking, would you say generally in fairly good hotels it is half salary and half tips? The waiter's income?

Mr. SANDS. Yes. We do our best, Senator, believe it or not, to educate our people that they should report honestly and fairly on income tax. We do that.

Senator MILLIKIN. You have got me into a great state of confusion, because I have always favored not taxing the waiter for income-tax purposes on his tips.

Mr. SANDS. Why not?

Senator MILLIKIN. Now I have got to get myself readjusted here.

Mr. SANDS. Why not, Senator? It is income.

Senator MILLIKIN. It is a gratuity.

Mr. SANDS. It is part of his earnings. You would not get a waiter to work in the Mayflower Hotel—not that I am particularly boosting the Mayflower, although Mac is a good fellow—for $3.40 a day and his meals.

Senator MILLIKIN. Oh, I want him to get the tips. I want him to get those, but I thought they were gratuities. And I have always

been against considering them as included in income because they were gratuities.

Mr. SANDS. No; it is his income. As a matter of fact, we are fighting it out with the Treasury Department now. They even charge the waiter withholding tax on the value of the meals that he eats in the hotel.

Senator KERR. I would like to ask you what price they put as the value of the meals.

Mr. SANDS. Well, under the union contract, I think we recognize 30 cents.

Senator KERR. Thirty cents. You think that is about a fair price for the average meal they serve? [Laughter.]

Mr. SANDS. No. No; but, Senator, historically——

Senator KERR. You think the waiter gets a little bit better of that deal?

Mr. SANDS. Yes, I think he does. And I think he is entitled to it. And I don't think he should pay anything for it. Because it is a part of his job. And we have already got a ruling from the Treasury Department.

Senator KERR. I just wanted to ask you that one question.

Mr. SANDS. Where the meals are served for the convenience of the employer, there can't be a withholding tax withheld on it. Wouldn't it be fine if you went into the Mayflower and sat down and wanted Joe to wait on you and they told you Joe had to go out to get something to eat?

Senator TAFT. If a report is made on this bill, would that be presumptive for income-tax purposes, too?

Mr. SANDS. Yes.

Senator TAFT. And would the employer then have to deduct under the withholding part of the income tax on the same basis?

Mr. SANDS. No. He wouldn't.

Senator TAFT. The withholding tax does not apply to tips?

Mr. SANDS. No.

Senator TAFT. Well, if you are going to withhold on this tax, why not also withhold on income tax, while we are about it?

Mr. SANDS. We wouldn't have any objection to that.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. I would like to ask one question. When you serve a $500-a-plate banquet, how much does the waiter get per plate? Or make it $100.

Mr. SANDS. Us Democrats understand $100 a plate more than we do $1 or $500.

Senator MILLIKIN. Oh, the more you add the ciphers, the better you understand it. But let us get to the $100. How much does the waiter get?

Mr. SANDS. My understanding is this. Let's take the Democratic dinner, over here. My understanding is that the hotels for serving that got $7.50 a person. So they would get the tip on $7.50, not on the $100. Even the Government doesn't get that. [Laughter.]

Senator MILLIKIN. It seems to me they were squeezing down on the boys a little, there.

The CHAIRMAN. Thank you very much for your appearance.

Mr. SANDS. Thank you.

(The following letter was later submitted for the record:)

AMERICAN HOTEL ASSOCIATION,
New York, N. Y., February 20, 1950.

Hon. WALTER GEORGE,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: May I tender this brief supplemental statement, correcting some of the statements made by the witness who followed me, Mr. Charles E. Sands, representing the Hotel and Restaurant Employees and Bartenders International Union.

It would be our hope that this brief statement might appear in the record of the hearings, immediately after Mr. Sands' and my testimony, since both our statements had to do with the application of the social-security tax on tip income.

(1) Mr. Sands made a great point of the fact that the tip income of service employees in hotels and restaurants has been well established in many States for purposes of assessing the tax for unemployment compensation and workmen's compensation purposes.

I would like to point out, however, that under these State statutes the unemployment insurance tax and workmen's compensation assessment are paid wholly by the employer; and his liability is based upon the amount of tip income which is declared to him by the employee. In H. R. 6000, however, a different question is involved. First, the liability of the employer is based on the actual tip income, and no method is provided in the bill for ascertaining the true amount of the tip income. Furthermore, the bill requires the employer to remit the employee's 1½ percent tax on tip income and to withhold the Federal income tax based on this tip income; but this tip income never comes into the possession of the employer

I said in my statement that this issue has not been satisfactorily resolved in any single State, to our knowledge. In New York State, for instance, the unemployment compensation tax is assessed against the tip income of a service employee if that employee makes a declaration of tip income to his employer. If he does not do so, the employer may make an estimate of the tip income, and pay the tax upon that sum. However, in this instance, the employer pays the whole tax. There is little reason for the employee to challenge this declaration, since it means no liability to himself for this particular tax.

In Connecticut, as we understand, it is optional with the employee whether he declares tip income, but if he does so declare it, then that sum is subject to assessment for unemployment compensation and workmen's compensation, as part of his wages. But again we emphasize that it is entirely optional with the employee.

In my own State of Ohio, as an example, tips are not included for purposes of unemployment insurance. For workmen's compensation we do report what the employee chooses to declare. Some declare a figure, and others do not. But in every case it is purely a nominal figure. For example, the waiters in one of my company's hotels report about $8 a week, when we know their daily tips exceed that amount. The value of meals is included for both unemployment insurance and workmen's compensation.

(2) Mr. Sands also minimized (to say the least), the average tip income of service employees. He estimated that even in the finest hotels in Washington, D. C., the top tip income in a day was $5. We think this is extremely low, as shown by the example I gave to the committee in my testimony this morning.

(3) Mr. Sands also claimed that the employees' union, as it operates here in Washington, D. C., collected and computed the employee's earnings from tips and remitted for him the social-security tax to the employer. If that is done here in Washington, I think it is a very isolated case, and I know it is not common practice.

Presumably Mr. Sands is arguing that the entire industry could be unionized, and thus simplify the payment of this tax. We question whether the committee is willing to approve that section of the bill for this purpose.

(4) Mr. Sands also left the feeling with the committee that nearly all banquets, luncheons, and other meal functions are computed with a round figure, including gratuities. It still is the occasional function where the tip is handled in that manner, and it is not the regular practice.

I sincerely hope that these statements will prove pertinent to the committee's consideration of this problem. I am deeply grateful for the courtesies shown me this morning when I appeared before your committee.

Respectfully,

DANIEL J. O'BRIEN.

(The following statement was submitted for the record:)

STATEMENT OF GEORGE R. LESAUVAGE, ON BEHALF OF THE NATIONAL RESTAURANT ASSOCIATION

My name is George R. LeSauvage. I am chairman of the Government affairs committee of the National Restaurant Association. Eighty State and local restaurant associations have authorized our association to represent them in national affairs. I, therefore, speak for 180,000 public eating establishments doing about 80 percent of total volume of restaurant business in the country. Primarily our business is small business. Most restaurants are individually owned. We as an industry are an excellent example of the American free-enterprise system. The restaurant industry is interested in a sound social-security program. We are, however, concerned about the many problems with which we would be faced if bill H. R. 6000 is enacted in its present form.

WITHHOLDING TAX ON TIPS

Bill H. R. 6000, at page 169, amends the Internal Revenue Code with reference to withholding tax by employers. Line 24 contains a provision that tips "customarily received by an employee in the course of his employment * * * shall be considered as remuneration paid to him by his employer." Such a definition of "tips" goes way beyond the original intent of the withholding tax law. The term "withholding" means to "hold back." The theory of withholding tax was that an employer would "hold back" wages of an employee approximately equal to such employee's income tax. In view of the fact that tips which an employee receives are not given to the employer, it becomes impossible to "withhold" something which the employer never has.

An exception is provided in H. R. 6000 that only such amount of tips as the employee reports in writing each quarter shall be so considered as wages. However, this exception does not help the problem but, on the contrary, sets up a whole series of possibilities for confusion. For example: Let us assume an employee received $20 a week in tips and reports at the end of the quarter the receipt of tips in the total sum for that period of $260 (13 weeks at $20). Let us assume further that at the same time he gives the report to his employer—he also quits his job. The questions that come up under such a situation are: Does the employer have to pay the amount of the withholding tax on such reported tips? The withholding tax could amount to over $70. Does the employer have to hold back other wages due the employee to cover the amount of withholding tax on tips? What about the employees who quit their job before the quarter and at the quarter period report tips received to their employers? If such tips are considered wages the employer would be obligated to pay the withholding tax to the Government out of his own pocket. Any attempt to make an employer pay withholding tax on tips puts that employer in the position of a policeman. This would cause the poorest of employer-employee relations. We in the restaurant industry are proud of our fine conscientious employees. It is true that many receive tips for giving courteous service to the public. The American public insists upon their right to tip. Attempts to abolish tipping almost invariably have failed. As an industry we must recognize this fact. We believe that the vast majority of our restaurant employees want to pay their just share of income tax. We also believe that the vast majority are reporting the amount of tips on their income-tax returns. It seems most unwise to change the law on withholding just because a small number of tip-receiving employees are attempting to escape payment of a just tax. The complications which would ensue would far outnumber any benefits derived.

TIPS AS WAGES

H. R. 6000 at page 132, line 22, charges the definition of wages to include "tips received by an employee * * * from persons other than the person employing him * * * and shall be considered as remunerations paid to him by his employer." The effect of this change would be to increase the amount of tax paid by both the employer and the employee. Here again an exception is provided that tips will be considered wages only if the amount is reported in writing each quarter to the employer. Again the employer is put into the embarrassing position of prying into the employees' personal affairs. Employees receiving tips are extremely reluctant in divulging tip information to their employers. Employers are of the opinion that they have no right to ask their employees for information on tips.

We, from the restaurant industry, are opposed to the taxation of an employee's income arising from tips for social-security purposes. None of the 2,000,000 employees in this industry are asking for this change. It therefore seems unwise to complicate an already complex law with more complexities.

INSURANCE OR DOLE

Title II of the Social Security Act is entitled "Old Age and Survivors Insurance Benefits Payments." The use of the word "insurance" in this title can be questioned. The word "insurance" means "a contract whereby one party undertakes to indemnify another against loss by the happening of a contingent event." People believe that when they have life insurance a specific sum will be paid in the event of death. Most people believe that the social-security laws will pay a specific sum to their children in the event of death. They believe deductions are made from their wages to accomplish this purpose. In actual practice this is not true. Under the law, benefits are not paid children under 18 years if such child earns in excess of $14.99 in any month. In other words, the ambitious child who wants to work is penalized. A child is rewarded for being lazy. I understand the average benefit for a child under 18 years is about $15 per month. If the child is energetic and wants to pick up extra spending money he must check his ambition when his pay gets up to $14.99 per month. One penny over the amount means he loses the $15 per month from the Government and his work for the month has been for nothing.

CONCLUSION

The restaurant industry has many benefit programs offered employees. We, as an industry, have found great advantages in setting up group-insurance plans, hospitalization programs, health and accident provisions. Pension plans are also coming into greater prominence in our industry. We, as an industry, know the value of giving the employee a feeling of security. In our opinion, planning of this type should fall within the scope of good employee employer relations. Expansion of Federal legislation on this score complicates our Government and departs from the fundamental concept of that government, which governs least, governs best.

In conclusion, we wish to invite your attention to the situation as it exists in the restaurant business today, and that is, for several months there has been a steady decline in the volume of business. The cost of doing business has decreased very little so that any added cost will be of serious import to the restaurant business.

The CHAIRMAN. Dr. Alexander? Doctor, you are appearing for the relief and annuity board of the Southern Baptist Convention?

STATEMENT OF DR. WALTER R. ALEXANDER, EXECUTIVE SECRETARY, RELIEF AND ANNUITY BOARD OF THE SOUTHERN BAPTIST CONVENTION, DALLAS, TEX.

Dr. ALEXANDER. Yes, sir.

The CHAIRMAN. You may have a seat if you wish, Doctor. We will be glad to hear you.

Dr. ALEXANDER. I thought I would conserve your time if I reduced everything to writing. I will not read all of this, but I would be pleased if you would follow it as I proceed to read most of it.

Before proceeding with any formal statement, permit a very sincere word of appreciation for the privilege thus extended me. That word I express for the more than 6½ million members of the denomination I represent in my official capacity. I am Walter R. Alexander, executive secretary of the relief and annuity board of the Southern Baptist Convention. This denominational board has its headquarters in Dallas, Tex., by which State it was chartered as an eleemosynary in-

stitution in 1918. It is the pension board of Southern Baptists, operated by and answerable to that great Christian body. They hold membership in more than 27,000 Baptist churches dotting the land from Maryland to Florida, down the Atlantic seaboard, thence westward to the Pacific coast, including California and Oregon—22 States in all, and the District of Columbia.

The functions of this board are twofold. It extends relief, in the form of direct financial grants, to aged Baptist ministers and their wives, and to the widows and orphans of Baptist ministers. In so doing, it disburses denominational funds designated for the financial relief of these aged individuals who served for the most part on very modest salaries in other days before the retirement plans of the board had been instituted. For the past 10 to 15 years, the board has been operating retirement plans looking toward age annuities, with disability provisions, for all servants of the denomination. Its major plan is designed for the ordained ministers, pastors of churches. Into that plan, the Baptist minister pays 3 percent of his salary as dues, his church or churches contributing a like amount, these totals supplemented by denominational funds. In addition to this, the ministers' retirement plan, through which more than 11,000 Baptist preachers are participating, together with more than 12,000 Baptist churches, our board operates other contributory retirement plans: One for the employees of all south-wide denominational boards, institutions, and agencies; one for the employees of our Baptist orphanages; another for employees of our Baptist hospitals; another for the faculties and staffs of our Baptist schools and colleges; and still another entitled the "Age security plan," designed for lay church workers. Some of these plans are on a voluntary basis, although more and more employers are now making participation mandatory upon all new employees. These plans are meeting with increasing favor and are growing rapidly in the extent of their coverage. In all, over 26,000 certificates of participation have been issued to date. Southern Baptists offer, through the board I represent, the coverage of a contributory retirement plan to every salaried employee of the denomination, without regard to race, sex, age, or type of service rendered, and whether ordained or lay.

Several times in the past years, amendments to the original Social Security Act of 1935 have been considered by the Congress. Each time, Southern Baptists, along with other great denominations of America, have urged that no amendment be passed that would, to the least degree, or in any sense, violate the American principle of the separation of church and state, contrary to the spirit of the first amendment to the Constitution of the United States. In the Southern Baptist Annual for 1940 appear these words as the expression of the Southern Baptist Convention:

> Baptists believe in social security for the American people. They have advocated it for many years. Their several retirement plans are evidence of their belief in the plan of social security and of their desire to secure the application of this principle in behalf of all the workers in all the estates of the denomination, none of which are covered by the Federal Social Security Act. Baptists desire that the Government shall not amend the Social Security Act in any way that would result in an infringement upon our religious liberty. * * * We are informed that Congress does not desire to disturb the churches and church institutions by placing a tax upon them and their employees for social security; yet much pressure is being brought to bear upon the Government

to extend the coverage of the Social Security Act to employees of tax-exempt agencies.

The foregoing, expressed at the time the Walsh amendment was pending in the Senate, is a true expression of Southern Baptist convictions today, and remains applicable, although nearly 10 years have passed.

Up to the present time, employees of nonprofit organizations have been excluded from the coverage of the Social Security Act. To be more specific, the services excluded are those performed by "(1) employees of nonprofit organizations organized and operated exclusively for religious, charitable, scientific, literary, educational, or humane purposes, if the organization does not engage substantially in propaganda or other activities designed to influence legislation" (Social Security Revision, p. 3, hearings before the Committee on Finance, U. S. Senate, 81st Cong., 2d sess., on H. R. 6000, pt. I, Testimony and Recommendations by the Social Security Administration, January 17, 18, 19, and 20, 1950).

Under the bill now being considered, H. R. 6000—and again I quote—

all services excluded under present law are covered except services performed by—(1) ministers and members of religious orders * * *

et cetera.

Baptists have no members of religious orders, but we do have thousands of denominational servants, ordained and unordained—employees of churches, boards, institutions, and agencies. Under the terms of H. R. 6000, and as recommended by the Advisory Council, these would be covered automatically. This would mean (1) that, in the future, the function of providing for the economic security of employees of churches, denominational organizations, and other institutions of religion would be taken away from these groups and be made the function of the State; (2) that the churches and their institutions would be taxed by the State for the support of its social-security program; (3) that the door would be open for the punitive coercion of the churches by the State in the enforcement of its regulations; and (4) it involves the individual workers of the churches in a direct economic dependence upon the State that will tend to dull religious conviction and stifle independent, conscientious action.

Baptists still believe that the church is not in the same category as the economic corporation, that it is the voice of God in the world, and that its spiritual function becomes impossible when its organization and methods are controlled by the State, or when it becomes economically dependent upon any other group whatsoever. The church must remain free from entangling alliances if it is to continue its function as the voice of God in human society.

It should be noted here that H. R. 6000 makes an interesting and appreciated concession. It calls for contributions by employees of nonprofit organizations on a compulsory basis, permitting contributions made by the employer to be on a voluntary basis. To many people, this provision may appear to keep well defined that line of demarcation between church and state. In its practical application, however, it remains our conviction this would not be the case. There would soon be brought to bear upon nonparticipating employers a series of pressures—pressures that would intensify rather than diminish as the years pass. The demands of employees would be one

such pressure; public opinion, another; and sooner or later, the pressure of governmental authority. Participation upon the part of the employer would cease to be voluntary, except in theory, for such pressure would become practically coercive.

If and when such pressure upon the employer becomes coercive, the rights of freemen, guaranteed under the first amendment, are abridged. If not coercive, the employer, in the case of many of our Baptist institutions and agencies, will choose not to pay the employer's share of the tax; thus, the benefits accruing to the employee under the bill would be greatly reduced, for the bill further stipulates that—

if the employer does not elect to pay the employer's contribution, only one-half of the employee's wages will be credited toward benefits.

The Advisory Council has recommended inclusion of the employees of nonprofit organizations—and I quote—

to assist these institutions in fulfilling their purpose.

I submit to you gentlemen that, with benefits accruing to the employee greatly reduced, these institutions would not be fulfilling their purpose nearly so well as they are fulfilling it under existing conditions; for, in every case thus far in the administration of our plans for the lay employees of our denomination, the employer has agreed to, and is, matching the employee's money. Where the employee pays 3 percent of his salary, the employer contributes 3 percent; where the employee pays 4 percent, the employer contributes 4 percent; where the employee pays 5 percent, the employer matches his money.

Senator KERR. May I inquire, at that point: If I understand your statement correctly, you are advising the committee that your plan covers all of the employees of your organization, and that these items you give us, here, represent the minimum which is being received by them.

Dr. ALEXANDER. You mean these percentages I just referred to, Senator Kerr?

Senator KERR. Yes. All of the employees are in one of those three classifications?

Dr. ALEXANDER. I cannot truthfully say they are all in any plan. There are plans for all, and the majority are in, and the others are coming in rapidly. They are not all, as individuals, covered, but all covered are in one of those three classifications.

Senator TAFT. It is optional?

Dr. ALEXANDER. Yes, sir. Some plans are, and some are not. Now, the employers are making it mandatory for new employees but optional with those in the employ when the plan was inaugurated. Do I make myself clear?

The CHAIRMAN. But all the employees are eligible if they wish to come in?

Dr. ALEXANDER. Yes, sir, and we have a plan to cover every individual. There is no one omitted.

Senator KERR. And it is available to every employee: mandatory with reference to new ones, optional with reference to the old ones.

Dr. ALEXANDER. Generally speaking, that is the case. Now, there are a few minor exceptions. I can't say "Yes" or "No" as covering every individual.

Senator KERR. But generally?

Dr. ALEXANDER. Generally; yes, sir.

In view of the foregoing, we respectfully request of your committee the same consideration be given our denominational employees, all of them employees of nonprofit organizations, as is now accorded in the bill to members of religious orders. We ask for them continued exemption from the coverage of the Federal Social Security Act.

Senator KERR. What wording would you suggest, there, Doctor, to achieve that?

Dr. ALEXANDER. Pardon me. I did not understand you, Senator Kerr.

Senator KERR. Well, you quoted the language, back here, of H. R. 6000—

all services excluded under present law are covered except services performed by * * * (1) ministers and members of religious orders * * *

Dr. ALEXANDER. Yes, sir.

Senator KERR. Could not language be added there which would add the change which you seek?

Dr. ALEXANDER. I think it could. Frankly, I didn't know that was within my province, and I haven't attempted to frame it in words.

Senator KERR. Well, I did not ask you to. I asked you if it could be done.

Dr. ALEXANDER. Yes, it could.

If, in the wisdom of this committee, such a blanket exemption cannot be made, we then ask the same consideration for our group now given in the bill to State and local government employees. Such a provision would not make it mandatory upon the employee to participate under Federal social security; if, within a given group, the majority voted to continue participation through their denominational retirement board.

Scores of the heads of our various institutions throughout the Southland have expressed their convictions with regard to this matter, and their desires, in telegrams and letters to their respective Senators, including certain of you gentlemen. So also have the State secretaries, who, in their respective States, are the accepted leaders of our denominational work. The statements of this latter group I shall not read, but they are included here for the record. I bring these remarks to a close by calling your attention to two telegrams only, the first one appended below, received from the president of the Southern Baptist Convention and the other one from the executive secretary of the executive committee of the Southern Baptist Convention.

Then, gentlemen, on several pages that follow are telegrams from the State secretaries representing the various States of the Southern Baptist Convention. I have tried to be brief, and I shall be happy to answer any questions you may wish to ask further.

The CHAIRMAN. Are there any questions?

Senator TAFT. I would like to ask this: I suppose that the fundamental objection which you make to this would apply just as much to any proposal that an employee be given the option to go under either, in which case the employer would be under a compulsory requirement to deduct for the purposes of the Act.

Dr. ALEXANDER. That is true, Senator Taft.

Senator TAFT. You would still object to such an alternative proposal?

Dr. ALEXANDER. We offer the alternative if the first suggestion cannot meet with the approval of the committee and be approved by the Senate. We offer the second as an alternative.

Senator TAFT. It appears to me that while your plan is probably better, it probably is not so advantageous to a man. It depends on just what we do when we pass this law. Also, the question of transferring from your employment to other employment arises. A man may want to feel that he can do that. I am very much opposed, myself, to abolishing any of these funds or making everybody come under the other plan, but it does seem to me there is a problem there.

Dr. ALEXANDER. You mean the problem of an employee who goes back and forth?

Senator TAFT. The problem of an employee who goes back and forth from covered to noncovered occupations and who may want to take the social-security provisions.

Dr. ALEXANDER. I will be perfectly frank with you. As we see it, that is the only advantage Federal Social Security has to offer anybody; that is, anybody already covered in some retirement plan. They can move around at will from one type of service to another.

Senator TAFT. Do you transfer with any other funds at all, or do you work out any plan by which credits can be transferred?

Dr. ALEXANDER. We transfer, of course, only within the denomination, but we give to the individual a certain, shall I say, "paid up as of a given date" standing under certain circumstances, if he is going into secular work. And from that point on they have social-security coverage.

Senator TAFT. And how far is your plan actuarially sound?

Dr. ALEXANDER. That depends on the plan. We operate 12 in all. The major plan, of course, for the ordained minister is something that we are not considering here, anyway. We are thinking mainly here of the plans that cover all of our employees, the Baptist schools, hospitals, orphanages, State boards, and such groups as that, and all of the lay employees, men and women.

Senator TAFT. And do you build up a fund? How far do they provide funds?

Dr. ALEXANDER. These plans that I am referring to in the main are fully funded.

Senator TAFT. You invest the proceeds in securities?

Dr. ALEXANDER. Yes, sir.

Senator KERR. Do you invest in securities, or make contracts with insurance companies?

Dr. ALEXANDER. No. Our funds are all invested in securities, the affairs of the Board are audited, and they are subject to the approval of the denomination.

Senator KERR. And is any of that paid on separation? If he goes out after 10 years, does he get that reimbursed?

Dr. ALEXANDER. It does depend upon the plan. There are one or two of the older plans where he does not receive all he should, and we are hoping to be able to amend them very shortly. In the newer, later plans, he does receive full credit.

Senator TAFT. And then what about credits for past service? Are those paid up in any way? Or are the premiums supposed to be sufficient to make that up?

Dr. ALEXANDER. They are only partially funded.

Senator KERR. They are partially funded?

Dr. ALEXANDER. That is right; for the past service credits.

Senator KERR. By payments from time to time?

Dr. ALEXANDER. They are being more fully funded with the passing years, but they are not fully funded yet, nor will they be for some years to come.

Senator KERR. But you are working toward that?

Dr. ALEXANDER. Yes.

The CHAIRMAN. Are there any survival benefits provided, Doctor, to the worker?

Dr. ALEXANDER. Yes. There are no death benefits as such, as a lump sum. We have widows' benefits and orphans' benefits.

The CHAIRMAN. In other words, if the worker passes away almost immediately on retirement, or after retirement, but before he received a return of the benefits that you guarantee or stipulate, you do provide for survivor insurance or insurance to his wife, to his children?

Dr. ALEXANDER. Yes, sir. They never receive, under any circumstances, less than his personal payments with compound interest through the years, and in most of our plans a portion, a percentage, up to the full employer contribution. It depends upon the type of the plan.

Senator TAFT. One other question, Dr. Alexander. This exemption that now exists in the law is an exemption of all charitable institutions; and, of course, there may be many employers that are not covered at all and whose employees are therefore not covered in any way. Would you consider the possible exemption of so-called existing plans, or something of that kind, rather than the complete exemption, here?

Dr. ALEXANDER. Yes, sir.

Senator TAFT. You think that might be a possible method of handling the situation?

Dr. ALEXANDER. I think so. I am not going into it at all, though, because, as I say, speaking for the great denomination I represent, we have a plan for everybody. That is a problem for the others to work out.

Senator KERR. You have a twofold objection, as I understand it, one, to its application to your denomination, and, two, to its application generally to every church denomination.

Dr. ALEXANDER. That is true.

Senator TAFT. Whether they have a plan or not?

Dr. ALEXANDER. Yes, sir.

The CHAIRMAN. Senator Connally, any questions?

Senator CONNALLY. Do I understand that you mean, by that answer to Senator Kerr, that you oppose including any of these employees under social security?

Senator KERR. Senator, as I understand it, his basic objection is to the imposition of a tax by the Government upon any church organization or denomination.

Dr. ALEXANDER. That is true.

Senator CONNALLY. That is a generality, though. I am talking about getting right down to it. Do you oppose the law requiring payments by people who are employees of a Church organization?

Dr. ALEXANDER. You are asking me for my personal opinion?

Senator CONNALLY. Well, you are testifying, you know.

Dr. ALEXANDER. Yes, sir. My personal opinion is, and also as representing the organization, that I do, that is our position in the matter.

Senator CONNALLY. Then they would be excluded?

Dr. ALEXANDER. Yes, sir.

Senator CONNALLY. And it would be up to them to either get a plan in their denomination or be out and not have any plan; is that right?

Dr. ALEXANDER. Yes, sir; that would be the present situation. It is my own opinion that there is a great advantage in what you are doing right now; whether the plan stands with the social-security provisions as they are in House bill 6000, or whether they are amended. Because the matter is being brought home to the attention of all groups, nonprofit organizations, and you helping to bring to pass a security coverage where it does not exist at the present.

Now, speaking for my own denomination, we do have it in existence, and it has been, for about 15 years.

Did I answer your question, Senator Connally?

Senator CONNALLY. You answered it.

The CHAIRMAN. Thank you very much, Doctor.

Dr. ALEXANDER. Thank you, sir.

(The supplementary material filed by Dr. Alexander follows:)

STATEMENT BY WALTER R. ALEXANDER, EXECUTIVE SECRETARY, RELIEF AND ANNUITY BOARD OF THE SOUTHERN BAPTIST CONVENTION

Honored Senators, before proceeding with any formal statement, permit a very sincere word of appreciation for the privilege thus extended me. That word I express for the more than $6\frac{1}{2}$ million members of the denomination I represent in my official capacity. I am Walter R. Alexander, executive secretary of the relief and annuity board of the Southern Baptist Convention. This denominational board has its headquarters in Dallas, Tex., by which State it was chartered as an eleemosynary institution in 1918. It is the pension board of Southern Baptists, operated by and answerable to that great Christian body. They hold membership in more than 27,000 Baptist churches dotting the land from Maryland to Florida, down the Atlantic seaboard, thence westward to the Pacific coast, including California and Oregon, 22 States in all, and the District of Columbia.

The functions of this board are twofold. It extends relief, in the form of direct financial grants, to aged Baptist ministers and their wives, and to the widows and orphans of Baptist ministers. In so doing, it disburses denominational funds designated for the financial relief of these aged individuals who served for the most part on very modest salaries in other days before the retirement plans of the board had been instituted. For the past 10 to 15 years, the board has been operating retirement plans looking toward age annuities, with disability provisions, for all servants of the denomination. Its major plan is designed for the ordained ministers, pastors of churches. Into that plan, the Baptist minister pays 3 percent of his salary as dues, his church or churches contributing a like amount, these totals supplemented by denominational funds. In addition to this, the ministers' retirement plan, through which more than 11,000 Baptist preachers are participating, together with more than 12,000 Baptist churches, our board operates other contributory retirement plans; one for the employees of all south-wide denominational boards, institutions, and agencies; one for the employees of our Baptist orphanages; another for employees of our Baptist hospitals; another for the faculties and staffs of our Baptist schools and colleges; and still another, entitled the "Age Security Plan," designed for lay church workers. Some of these plans are on a voluntary basis, although more and more employers are now making participation mandatory upon all new employees. These plans are meeting with increasing favor and are growing rapidly in the extent of their coverage. In all, over 26,000 certificates of participation have been issued to date. Southern Baptists offer, through the board I represent, the coverage of a contributory retirement plan to every salaried em-

ployee of the denomination, without regard to race, sex, age, or type of service rendered, and whether ordained or lay.

Several times in the past years, amendments to the original Social Security Act of 1935 have been considered by the Congress. Each time, Southern Baptists, along with other great denominations of America, have urged that no amendment be passed that would, to the least degree, or in any sense, violate the American principle of the separation of church and state, contrary to the spirit of the first amendment to the Constitution of the United States. In the Southern Baptist Annual for 1940 appear these words as the expression of the Southern Baptist Convention: "Baptists believe in social security for the American people. They have advocated it for many years. Their several retirement plans are evidence of their belief in the plan of social security and of their desire to secure the application of this principle in behalf of all the workers in all the estates of the denomination, none of which are covered by the Federal Social Security Act. Baptists desire that the Government shall not amend the Social Security Act in any way that would result in an infringement upon our religious liberty * * *. We are informed that Congress does not desire to disturb the churches and church institutions by placing a tax upon them and their employees for social security; yet much pressure is being brought to bear upon the Government to extend the coverage of the Social Security Act to employees of tax-exempt agencies." The foregoing, expressed at the time the Walsh amendment was pending in the Senate, is a true expression of Southern Baptist convictions today, and remains applicable, although nearly 10 years have passed.

Up to the present time, employees of nonprofit organizations have been excluded from the coverage of the Social Security Act. To be more specific, the services excluded are those performed by "(1) employees of nonprofit organizations organized and operated exclusively for religious, charitable, scientific, literary, educational, or humane purposes, if the organization does not engage substantially in propaganda or other activities designed to influence legislation" (Social Security Revision, p. 3, hearings before the Committee on Finance, United States Senate, 81st Cong. 2d sess., on H. R. 6000—pt. I, Testimony and Recommendations by the Social Security Administration, January 17, 18, 19, and 20, 1950).

Under the bill now being considered, H. R. bill 6000 (and again I quote), "All services excluded under present law are covered except services performed by (1) ministers and members of religious orders," etc.

Baptists have no members of religious orders, but we do have thousands of denominational servants, ordained and unordained—employees of churches, boards, institutions, and agencies. Under the terms of H. R. 6000, and as recommended by the advisory council, these would be covered automatically. This would mean (1) that, in the future, the function of providing for the economic security of employees of church, denominational organizations, and other institutions of religion would be taken away from these groups and be made the function of the State; (2) that the churches and their institutions would be taxed by the State for the support of its social-security program; (3) that the door would be open for the punitive coercion of the churches by the State in the enforcement of its regulations; and (4) it involves the individual workers of the churches in a direct economic dependence upon the State that will tend to dull religious conviction and stifle independent, conscientious action.

Baptists still believe that the church is not in the same category as the economic corporation, that it is the voice of God in the world, and that its spiritual function becomes impossible when its organization and methods are controlled by the state, or when it becomes economically dependent upon any other group whatsoever. The church must remain free from entangling alliances if it is to continue its function as the voice of God in human society.

It should be noted here that H. R. bill 6000 makes an interesting and appreciated concession. It calls for contributions by employees of nonprofit organizations on a compulsory basis, permitting contributions made by the employer to be on a voluntary basis. To many people, this provision may appear to keep well defined that line of demarcation between church and state. In its practical application, however, it remains our conviction this would not be the case. There would soon be brought to bear upon nonparticipating employers a series of pressures—pressures that would intensify rather than diminish as the years pass. The demands of employees would be one such pressure; public opinion, another; and, sooner or later, the pressure of governmental authority. Participation upon the part of the employer would cease to be voluntary, except in theory, for such pressure would become practically coercive.

If and when such pressure upon the employer becomes coercive, the rights of free men, guaranteed under the first amendment, are abridged. If not coercive, the employer, in the case of our Baptist institutions and agencies, will choose not to pay the employer's share of the tax; thus, the benefits accruing to the employee under the bill would be reduced one-half, for the bill further stipulates that, "if the employer does not elect to pay the employer's contribution, only one-half of the employee's wages will be credited towards benefits."

The advisory council has recommended inclusion of the employees of nonprofit organizations (and I quote) "to assist these institutions in fulfilling their purpose." I submit to you gentlemen that, with benefits accruing to the employee reduced one-half, these institutions would not be fulfilling their purpose nearly so well as they are fulfilling it under existing conditions; for, in every case thus far in the administration of our plans for the lay employees of our denomination, the employer has agreed to, and is, matching the employee's money. Where the employee pays 3 percent of his salary, the employer contributes 3 percent; where the employee pays 4 percent, the employer contributes 4 percent; where the employee pays 5 percent, the emloyer matches his money.

In view of the foregoing, we resectfully request of your committee the same consideration be given our denominational employees, all of them employees of nonprofit organizations, as is now accorded in the bill to members of religious orders. We ask for them continued exemption from the coverage of the Federal Social Security Act.

If, in the wisdom of this committee, such a blanket exemption cannot be made, we then ask the same consideration for our group now given in the bill to State and local government employees. Such a provision would not make it mandatory upon the employee to participate under Federal social security, if, within a given group, the majority voted to continue participation through their denominational retirement board.

Scores of the heads of our various institutions throughout the Southland have expressed their convictions with regard to this matter, and their desires, in telegrams and letters to their respective Senators, including certain of you gentlemen. So also have the State secretaries, who, in their respective States, are the accepted leaders of our denominational work.

FEBRUARY 15, 1950.

SENATE FINANCE COMMITTEE,
(Care Dr. Walter R. Alexander, Baptist Building, Dallas):

The inclusion of nearly 600,000 employees of nonprofit institutions other than ministers and members of religious orders in H. R. 6000 is concern to hundreds of thousands of the 6½ million Baptists who compose the Southern Baptist Convention. Hundreds of our laity are participating through the ministers' retirement plan in addition to more than 10,000 pastors of churches. Moreover thousands of individuals are participating through the age security plan for lay church employees and hospitals, schools, colleges, orphanages, and other denominational agencies. The dues-paying members have their dues matched by the employer. Our people urge you to give the same consideration to our lay employees as is accorded in the bill to the members of religious orders, so that our lay workers shall have the same blanket exemption now granted the Roman Catholic Church. In the administration of our affairs as Southern Baptists the employer has agreed to and is maintaining the matching of the employees' money. This seems to be wise for all.

ROBERT G. LEE,
President, Southern Baptist Convention.

FEBRUARY 15, 1950.

SENATE FINANCE COMMITTEE,
(Care Dr. Walter R. Alexander, Baptist Building, Dallas):

While genuinely appreciative of the humanitarian purposes embodied in House of Representatives bill No. 6000, we Southern Baptists whose churches extend through 23 States in an arc from Maryland to the State of Washington, numbering 27,286 churches, are gravely concerned over the mandatory inclusion of the lay employees of our churches and religious agencies. We feel that as a minimum the option to enter or not to enter into the benefits of this bill allowed employees of municipal and State governments should be extended to the lay employees of the Southern Baptist Convention and similar religious bodies. We

frankly feel that the exclusion of members of religious orders which thereby exempts lay workers in the Roman Catholic Church without a similar provision for the lay workers of Evangelical Churches is discrimination sufficient to warrant the most extreme reaction. It is in order to preclude the necessity of violent attacks upon a bill whose purposes are the highest humanitarian sort that we urgently petition the Senate Finance Committee to make exemption of lay workers of Evangelical Churches.

The lay workers of the Southern Baptist Convention, in most cases, are already included in the plans of the relief and annuity board of the Southern Baptist Convention which actually is more generous that the proposed plan under Federal social security. We feel that those who elect to be included in this plan provided by our denomination rather than the plan of the Federal Government should be under no coercion in their choice.

At great expense we have provided these security plans for our employees both lay and ordained because we do not believe it a part of our basic American principles for our religious bodies to become involved with governmental agencies. We plead for the right to continue this relationship.

DUKE K. MCCALL,
Executive Secretary, Southern Baptist Convention Executive Committee.

Respectfully submitted,

WALTER R. ALEXANDER,
Executive Secretary, Relief and Annuity Board of the Southern Baptist Convention.

FEBRUARY 15, 1950.

Dr. WALTER R. ALEXANDER,
Relief and Annuity Board,
Baptist Building, Dallas:

Please express our opinion before Senate Finance Committee as follows: "We do not wish employees nonprofit organizations to be included in coverage Social Security Act. We believe present plan of greater benefit and more nearly in keeping with convictions of separation of church and State."

M. CHANDLER STITH,
Executive Secretary, District of Columbia Baptist Convention.

FEBRUARY 15, 1950.

SENATE FINANCE COMMITTEE.
(Care Dr. Walter R. Alexander, executive secretary of relief and annuity board, Southern Baptist Convention, Dallas):

Illinois Baptists earnestly desire that employees of nonprofit organizations be excluded from coverage in any Social Security Act.

NOEL M. TAYLOR,
Executive Secretary, Illinois Baptist State Association.

FEBRUARY 15, 1950.

SENATE FINANCE COMMITTEE.
(Care Walter R. Alexander, relief and annuity board, Southern Baptist Convention):

Our people much prefer that employees of our nonprofit organizations continue present denominational plans for security and that we therefore be not covered by Federal Social Security Act.

T. W. MEDEARIS,
General Superintendent, Missouri Baptist General Association.

FEBRUARY 15, 1950.

SENATE FINANCE COMMITTEE.
(Care Dr. Walter R. Alexander, relief and annuity board, Dallas:)

Kentucky Baptists number over one-half million. Seriously object to including employees of churches and church-related institutions under Government social

security as proposed in H. R. 6000. Relief and annuity board, Southern Baptist Convention entirely satisfactory in old age and survivors benefits for all our church employees.

W. C. BOONE,
General Secretary, Executive Board,
General Association of Baptists in Kentucky.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE.
(Care W. R. Alexander, Baptist Building, Dallas):

Please request Senate Finance Committee to exclude employees of nonprofit organizations and religious workers from coverage in Social Security Act. We believe this is vital and basic in the life of the Nation as well as religious denominations.

JAMES R. BRYANT,
Executive Secretary, Virginia Baptist Board of Missions and Education,
Baptist General Association of Virginia.

FEBRUARY 16, 1950.

Dr. WALTER R. ALEXANDER,
Executive Secretary, Relief and Annuity Board,
Baptist Building, Dallas:

On behalf South Carolina Baptists respectfully urge through you Senate Finance Committee exclude nonprofit organizations from coverage Social Security Act.

CHARLES F. SIMS,
General Secretary-Treasurer,
South Carolina Baptist General Board.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE,
(Care Dr. Walter R. Alexander, Baptist Bldg., Dallas):

Louisiana Baptist Convention cooperating in retirement plan of Southern Baptist Convention urgently request you to exclude all our employees from necessity of coverage under Social Security Act. We feel our denominations provision is not only ample for our participants but better.

W. H. KNIGHT,
Executive Secretary-Treasurer Executive Board,
Louisiana Baptist Convention.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE,
(Care Dr. Walter R. Alexander, Executive Secretary, Relief and Annuity Board, SBC, Baptist Bldg., Dallas):

To safeguard our long-established principles and forestall any encroachment upon religious liberty and the separation of church and state, I urge that employees nonprofit organizations be excluded from coverage in Social Security Act. Ample provision has been made for this group and our people are strong in their convictions on this matter.

CLIFTON C. THOMAS,
General Secretary, Maryland Baptist Union Association.

FEBRUARY 16, 1950.

Dr. WALTER R. ALEXANDER,
Relief and Annuity Board, Baptist Building, Dallas:

In view of the fact that all Baptist State employees are covered by a security system three times greater than Government social security, we urge Congress not to impose this injustice upon our employees by compelling employees of nonprofit institutions to accept Goverment social security.

CHARLES W. POPE,
Executive Secretary, Tennessee Baptist Convention.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE,
(Care Dr. Walter R. Alexander, Executive Secretary, Baptist Relief and Annuity Board, Baptist Bldg., Dallas):

To include religious workers in social security would soon destroy every semblance of separation of church and state and depart from fundamental American principles.

HARRY P. STAGG,
Executive Secretary, Baptist Convention of New Mexico.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE,
(Care Walter R. Alexander, Baptist Bldg., Dallas):

Through retirement plans operated by the relief and annuity board, a convention agency of Southern Baptists every individual who bears a salaried relationship to any church, institution, board, or agency of our Baptist denomination is offered generous coverage. I therefore respectfully and earnestly request that your committee exclude from coverage under the Social Security Act employees of nonprofit organizations.

JAMES W. MERRITT,
Executive Secretary, Treasurer, Georgia Baptist Convention.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE,
(Care Walter R. Alexander, Relief and Annuity Board, Dallas):

We urgently request that all lay workers in other churches be granted same consideration as that given to religious orders of Catholic Church in Senate bill No. 6000. We believe that this bill as proposed violates the principle of separation of church and state and that we have a plan in our own relief and annuity board which safeguards this principle and provides adequately for our church and denominational lay employees.

R. E. MIAM,
Executive Secretary,
H. C. PRICE,
President, Baptist General Convention of Oregon.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE
(Care Dr. Walter R. Alexander, Baptist Bldg., Dallas):

Baptists anxious there be no infringement on principle separation of church and State. Since Southern Baptist have retirement program for all employees of churches and convention organizations, request you make same exception for them now being allowed the Catholics of America.

J. HOWARD WILLIAMS,
Executive Secretary, Executive Board,
Baptist General Convention of Texas.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE
(Care Walter R. Alexander, Executive Secretary, Relief and Annuity Board, SBC, Baptist Bldg., Dallas):

In behalf of North Carolina Baptists I request that all employees of our church organizations, which are nonprofit organizations, be excluded from the Social Security Act. This request is made on the grounds that we have our own plans for covering full-time employees of our organization and of our Baptist churches.

M. A. HUGGINS,
General Secretary, Baptist State Convention of North Carolina.

FEBRUARY 16, 1950.

SENATE FINANCE COMMITTEE
(Care Walter R. Alexander, Executive Secretary, Relief and Annuity Board, Dallas):

Our employees are protected in disability and old age by our relief and annuity plan. Please exclude employees of nonprofit organizations on your impending Social Security Act.

WILLIS J. RAY,
Executive Secretary-Treasurer, Baptist General Convention of Arizona.

FEBRUARY 17, 1950.

DR. WALTER R. ALEXANDER,
Baptist Building, Dallas:

California Southern Baptists join you in requesting employees of nonprofit organizations be excluded from coverage in Social Security Act.

A. F. CRITTENDON,
Executive Secretary, Southern Baptist General Convention of California.

FEBRUARY 16, 1950.

DR. WALTER ALEXANDER,
Executive Secretary, Relief and Annuity Board,
Southern Baptist Convention, Dallas:

Arkansas Baptists earnestly request that Baptist employees be exempted from provision of Social Security Act, for they are members of a nonprofit organization.

B. L. BRIDGES,
Executive Secretary, Arkansas Baptist State Convention.

The CHAIRMAN. Mr. Thomas Walters?

Mr. RICHARDSON. Mr. Walters won't be here, Senator; and I am scheduled to follow Mr. Walters.

The CHAIRMAN. All right, Mr. Richardson. You may come around, then. Please identify yourself for the record.

STATEMENT OF GEORGE J. RICHARDSON, SECRETARY-TREASURER, INTERNATIONAL FIRE FIGHTERS ASSOCIATION, WASHINGTON, D. C.

Mr. RICHARDSON. I am George J. Richardson, secretary-treasurer of the International Fire Fighters Association, representing 80,000 out of a total of 92,000 fire fighters throughout the United States.

The CHAIRMAN. You represent 80,000 out of a total of 92,000?

Mr. RICHARDSON. Out of a total of 92,000 paid fire fighters, Senator. All of those are members of our association.

The CHAIRMAN. You do not include the volunteer systems?

Mr. RICHARDSON. No, sir. They are covered by social security by virtue of the occupation at which they work; so that they would not be involved in this.

The CHAIRMAN. I see.

Mr. RICHARDSON. We come first to endorse the bill as passed by the House, with one exception. That one exception is the provision which was in the original bill in the House last year, whereby policemen and firemen were exempted from the provisions of the bill. At that time we submitted to the House committee letters from 500 cities indicating that the firemen in those cities wanted to be excluded from the bill. We reiterate again at this time that same request, and we can submit to you probably 600 letters which have been submitted to

the Senators and to us during the last 2 or 3 weeks, indicating that they also are of the same opinion, that they want to be eliminated and excluded.

Senator CONNALLY. Was that originated by a sort of a propaganda public relations poll of all these people that sent these letters in?

Mr. RICHARDSON. No, sir; it was a policy that started in 1940.

Senator CONNALLY. Each fellow just had the urge to write? He did not have any suggestion from your organization?

Mr. RICHARDSON. No. I won't say that.

Senator CONNALLY. What will you say? I am asking you.

Mr. RICHARDSON. I am trying to say it, if you please.

Senator CONNALLY. I ask you if it was not true that all these letters, this wagonload of letters, were not inspired by an organized drive, sort of a propaganda proposition. There is nothing wrong in it, but I just wanted to know if that is true.

Mr. RICHARDSON. They were inspired by the fact that our organization since 1940 has been interested in this, since the original Wagner amendment was presented to the Senate. And our organization and the American Federation of Labor at that time opposed the inclusion of firemen and policemen. In each convention since, we have endorsed that policy. And when the bill was being prepared for the House last year, we assisted in the writing of the exclusion. We advised our members at that time to advise the members of the Ways and Means Committee that the bill was there and that there would be a possibility that there would be opposition to that provision.

When the bill came before your Senate committee, here, I talked with Senator George, and we told him we could get thousands of letters asking that firemen be exempted. We agreed that was not necessary.

The CHAIRMAN. I hope I did not mislead you, Mr. Richardson.

Mr. RICHARDSON. And for that reason we advised our locals to just advise their Senator that they were against the including of firemen in the bill.

Now, no later than this morning we took it up with the social security committee of the American Federation of Labor, who endorsed the bill in the House, with the exclusion of firemen and policemen, and they are going to come before you and endorse the position which we are asking you to endorse, to exclude us from the provisions of the bill, because more than 95 percent of our members have pension systems which they feel are adequate to take care of their wants.

We are fearful that if social security is made possible it will bring about eventually the elimination of the pension systems which we have, which we believe are particularly fitted to our occupation, because of early retirements, hazards that are involved in our occupation, that cannot be provided for in an over-all social-security bill.

So I say to you quite frankly, it is a simple thing we are asking you to do: to exclude us, and to restore, for example, on page 79 after line 13 of H. R. 6000, the simple words that "such agreement shall not provide for the inclusion of any such services performed by an individual in the course of his employment as a policeman or fireman." If that was inserted on page 79, after line 13, we would be happy to see the bill passed, with all of the other features you want to add to it, or as passed by the House.

The CHAIRMAN. I believe most of the witnesses who have appeared before us say that under your retirement system the firemen retire generally at a much younger age than 65.

Mr. RICHARDSON. Yes, sir.

The CHAIRMAN. It is 55 or 60, I believe.

Mr. RICHARDSON. That is right; 55, generally.

The CHAIRMAN. Fifty-five, generally. The policemen also, of course, retire at a younger age.

Mr. RICHARDSON. That is right, sir.

The CHAIRMAN. And that is because of the extreme hazards of your occupation.

Mr. RICHARDSON. That is definitely the reason we believe that our present situation covers us so well.

Now, we are dividing the time allotted to us; we have here our international president, and we have the distinguished president of our Ohio Fire Fighters Association, Bob Lukens; and the president of our New York local, John Crane; the president of our Detroit local; and the president of our Chicago local, James McGuire. They are all here, and we are trying to expedite the matter. I do not want to take up a lot of time.

Senator TAFT. I want to ask one question. Is this coverage universal?

Mr. RICHARDSON. Practically. There may be a few small communities—and it would not exceed 2,000 as a total, Senator Taft—where firemen are not covered by some type of pension. And we believe that in the course of a short time if you eliminate this belief that there is at the moment in some cities that social security is going to be enacted to cover everybody, and if that was out of the way and they knew they would be excluded, we could have legislation, which the present situation is now causing to be postponed, which would be adequate to cover them, very shortly.

Senator TAFT. How much turn-over is there among fire fighters?

Mr. RICHARDSON. Very, very little. I think you understand that the employment age of entry is from 21 to probably 30, as an average; and if in that period they do not make good they leave the department to go into some covered employment. But after they pass age 30, there is very little change of employment.

Senator TAFT. Once a fireman, always a fireman.

Mr. RICHARDSON. That is right. He takes the time to acquire the knowledge and technical skill to become an expert, and once he acquires it he is more valuable to the city.

Senator CONNALLY. Under these retirement plans that you already have, the voluntary plans, do the employers contribute to the fund?

Mr. RICHARDSON. In most of the cases, Senator, yes. They contribute from 5 to as much as 12 and 14 percent. Even in New York City, the employer contributes, and the employee contributes up to 12 percent in New York City. In Cincinnati they contribute up to 8 or 9 percent, or they used to.

Senator CONNALLY. Is that a State law?

Mr. RICHARDSON. A State law; and then there is a municipal act covering it. In 90 percent of our pension plans, there are employee contributions and employer contributions.

Senator KERR. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Kerr.

Senator KERR. What percentage of those covered are protected by legislation making the State the one responsible for the payment of the benefits?

Mr. RICHARDSON. Very few. In fact, I know of none in which the State has the responsibility of paying the benefits. The State enacts the legislation which provides the method by which the taxes, or the tax, shall be collected. In the State of Ohio, there is $1,600,000 contributed by the State to the municipalities to supplement the funds which are collected from the employees and the employer, namely, the city.

Senator KERR. Then what percentage of the employees, firemen I am talking about, are employed by municipalities where you feel that they may know that they are secure in that they will get the benefits which are contemplated?

Mr. RICHARDSON. Well, I believe that practically 99 percent of the pension funds that are in existence may not be actuarially sound, but they are so sound that the municipality itself will see that the pension that is due will be paid when the men become eligible to get it.

Senator KERR. What percentage of your employees are in communities of less than 25,000? Take it over the Nation.

Mr. RICHARDSON. Well, in communities of less than 25,000, you probably have less than 20 percent of the total paid firemen in the country. You see, you get into the volunteers, from 10,000 down.

Senator KERR. Are there not so many more small communities than large ones that a greater percentage of your employees over-all would be in communities of 25,000 or less?

Mr. RICHARDSON. No, Senator. Because between 10,000 and 25,000 population, for each city in that category, there would be from 10 to 25 firemen. There would be 25 firemen in a city of 25,000 population, one per thousand, or slightly less. So that when you take New York, with 11,000, Detroit with 2,500, Chicago with 3,800, you can add them up, and the large cities are largely the area in which you get the great number of firemen.

Senator KERR. What is your estimate of the total number in the country?

Mr. RICHARDSON. Oh, it is 92,000, total. Within 500 I can tell you exactly.

Senator CONNALLY. Those are paid firemen?

Mr. RICHARDSON. That is right.

Senator CONNALLY. You are not talking about the fellow who wears the uniform and goes to the State convention of firemen?

Mr. RICHARDSON. There are nearly 600,000 of those, Senator; 200,000 in Pennsylvania, and quite a few in Texas, a lot of my friends down there.

Senator KERR. Do you think, then, from the standpoint of the security and getting the benefits that are contemplated, they are adequately protected?

Mr. RICHARDSON. Yes, sir. And I am trying to reflect their opinion to you in an honest and sincere way.

The CHAIRMAN. Thank you very much, Mr. Richardson.

Mr. RICHARDSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. John P. Redmond.

Mr. Redmond, you may be seated and identify yourself for the record.

STATEMENT OF JOHN P. REDMOND, PRESIDENT, INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, WASHINGTON, D. C.

Mr. REDMOND. Mr. Chairman and gentlemen of the Finance Committee, my name is John P. Redmond. I am president of the International Association of Fire Fighters, which represents 80,000 active fire fighters in the United States and Canada in over 900 cities.

The International Association of Fire Fighters have, by repeated convention action, gone on record as opposing the extension of coverage under the Social Security Act to the fire fighters of the United States.

The fire fighters of the United States at present have retirement, annuity, and pension systems in the 48 States, which are not only adequate but the benefit provisions are more liberal than the provisions of the Social Security Act as contemplated in H. R. 6000.

The fire fighters of the United States have been provided, through State statutes and city ordinances as long ago as the year of 1875, with pension protection, and this helped to build the efficiency and morale of our fire departments so that they could cope with that ever present menace of fire which before the turn of the century destroyed great segments of many of our cities.

To open the door by allowing the proponents of social security to conduct referendums would instill into the minds of the fire fighters that the construction of their present pension security would be destroyed and eventually social unsecurity would replace that which they have labored for over 75 years to secure. Instead of a young man entering into the fire-fighting service and making a life career of this profession, his job of the future would be a stopping place on the highway of life until he could secure a better and more profitable position. The now prevailing pension systems throughout the United States have reduced the turn-over in personnel to a very minimum. The very few withdrawals from the fire departments have been caused by disablement in the performance of duty and retirement because of age and service.

To do anything which would cause the disruption of this smooth-working arrangement of one of the most essential services in any community, would be disastrous, as every incipient fire is a potential conflagration, and fire out of control destroys everything in its path and cannot be controlled except by natural barriers. Floods will recede, but fire out of control is an all-destroying force.

Therefore, on behalf of the citizens of the communities we serve, we urgently request that H. R. 6000 be amended as follows:

Strike out on page 80, line 19, after the word "system," all of item (C) in subsection (5).

Strike out on page 82 beginning on line 10, section 218 (d) to and including line 17, page 83, and substitute therefor the following paragraph:

> Such agreement shall exclude all public employees in positions covered by a retirement system, as previously defined in subsection (B) (4) of this section.

The fire fighters for generations have been underpaid, and have been compelled to work long hours and cannot afford the cost of additional protection offered by social security.

It would be difficult to persuade the State and municipal governments—the employers—to continue to support their local retirement systems at present levels.

Many States have tax-limitation laws and as pensions are tied in with salaries and the limit has been reached, it would mean that in the event H. R. 6000 passes in its present form, new sources of revenue would have to be provided to meet the additional cost of social security. As the present source of revenue is just enough to provide a very low salary and the cost of the present retirement systems, any additional cost without additional revenue would mean reduction of salaries, reduction of retirement benefits, and longer years of service. This would result in over-aged fire departments, larger fire losses, greater loss of life, and injuries atendant to fires, with eventual additional cost for fire-insurance premiums.

If the present bill is so essential to those who now have retirement systems, I would suggest that an additional appropriation be provided by the Congress of the United States so as not to impoverish the various subdivision of State governments who are slowly being paralyzed by taxation by the National and State governments.

Gentlemen, I submit this because of the fact that, being associated with the fire-fighting service as a member of it for 34 years in the city of Chicago, and being a trustee of the firemen's pension fund for 17 years, I realize how important the role is that a pension plays, what an important factor pensions are, in maintaining the morale and efficiency of the fire departments throughout the country. To impair them in any way, shape, or form would not only reduce the morale and the efficiency of the fire departments but work a hardship generally upon the people of the community. Because each individual fire fighter realizes, when he goes into a building, that every building has its hazards today aside from the attendant hazards that we had years ago, such as carbon monoxide. We have such additional hazards today as volatile oil, nitrocellulose, plastics, and various other things that explode at a low heat point. And the result is that they would stay outside of the buildings, the losses would increase, and naturally the loss of life. If our pension funds are destroyed, that is exactly what will occur. And, of course, they will be destroyed, in some of the States where the tax-limitation laws are now in effect, because they cannot add this additional 3 percent without reducing the present benefits that they are getting from pensions or reducing the salaries of the fire fighters in the present locality.

I have here a list of some of the cities. Here is a survey that we have made in 1948, covering nearly all the cities in the United States. I will leave this with the committee. There are 69 questions propounded in that survey relating to pension funds, so that we can arrive at a safe and sane method of securing additional legislation at the State levels.

For the benefit of the committee and to show you exactly what we have to contend with, taking some of the cities, spot checking, between 30,000 and 10,000, 18 cities, the average fire fighter works 74 hours and at an average hourly rate of 49 cents an hour. If you reduce that again by 1½ cents, you will bring his salary down to about 47½ cents an hour, which is not sufficient at this day and age.

The CHAIRMAN. Do you wish to leave that for the record?

Mr. REDMOND. Yes, I will leave the table including those 18 cities, the hours worked per week, and the salaries, for the record.

(The tabulation follows:)

Cities	Hours worked per week	Salaries per year	Cities	Hours worked per week	Salaries per year
Murphysboro, Ill	25	$1,980	Lafayette, La	72	$1,92
Welch, W. Va	72	1,980	Paris, Tex	84	1,98
McAlester, Okla	72	1,980	Biloxi, Miss	84	1,944
Independence, Kans	72	1,920	Texarkana, Tex	72	1,980
Carthage, Mo	84	1,980	Ardmore, Okla	84	1,92
Okmulgee, Okla	84	1,920	Cambridge, Ohio	72	1,980
Temple, Tex	84	1,980	Biddeford, Maine	78	1,716
Martinsburg, W. Va	72	1,848	Laredo, Tex	72	1,80
New Iberia, La	72	1,920	Joplin, Mo	56	1,916

Average workweek, 74 hours.
Average hourly wage, 49 cents an hour.

Mr. REDMOND. So you can recognize why we are opposing the extension of social security to the fire fighters, especially because of the low wages that are being paid, the long hours we are being compelled to work because of the low wages. And we know that it is not going to benefit the type of service that we are rendering to the communities at the present time.

Now, since the inception of the organization, in 1918, and up until 1928, there was a continual climb, as far as the fire losses were concerned, in the United States and Canada. In the United States the losses increased until they hit the all-time high in 1928 of $550,000,000. In those self-same years there were created in the various States throughout the United States pension acts for fire fighters, with the result that the losses started to recede until they hit the all-time low in 1937 of $225,000,000 annually, or a saving of approximately $325,000,000 annually. Of course, it is true that after the war, they again climbed to $700,000,000, but there was a change-over from wartime activities to peacetime activities, and we anticipated because of this change-over in personnel and various other activities that the losses would increase approximately in comparison to what they were in 1928, which would be three times. We anticipated that the inventories would be three times the value of what they were in 1928. So you can readily understand that we are doing everything we possibly can to reduce this loss, and the only way we can continue to reduce this loss and the attendant loss of life and injury sustained by fire is to have these protective measures at the State level and at the city level.

Now, there is the humane side of the question that I would like to bring to your attention. Being a trustee for 18 years, I can say that it was our sacred, inviolate duty to see that every beneficiary under the act was properly taken care of. During the 18 years that I was a member of the Chicago firemen's pension fund we never had an orphan go wrong. We had to arrange for the shifting of the guardianship of some of those orphans, but the result was that all of those children came through in a fine manner. Some of them are lawyers, and some of them are doctors today.

As far as the disabled men are concerned, some of them had been in hospitals for years, and their family neglected them. We saw that the family went out and visited them and brought clothing and newspapers to them and things which they should have. I am just calling this to your attention for the reason that we consider them by name and not by number, which is what they will be if they are to be under social security. We are very anxious that that be prevented, and that they not be required to come under social security.

That is all I have to say, unless you have some questions to ask.

The CHAIRMAN. Thank you very much for your appearance.

Mr. REDMOND. Thank you.

The CHAIRMAN. Mr. James McGuire?

You may have a seat if you will, sir. You are appearing on behalf of the International Association of Fire Fighters also?

STATEMENT OF JAMES T. McGUIRE, PRESIDENT, CHICAGO FIREMEN'S ASSOCIATION, LOCAL NO. 2, INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

Mr. McGUIRE. I am appearing for the Chicago Fire Fighters Association, in conjunction with the international.

Senator KERR. Mr. Chairman, the gentleman who has just left the stand is the national president of the Fire Fighters Association?

Mr. McGUIRE. Yes, sir.

Senator KERR. I wonder if he would tell us that he has the same confidence in the security of the benefits of the firemen in the average town that the preceding witness had.

Just answer "yes" or "no."

Mr. REDMOND. Yes. I do. But I would like to explain why even under conditions, where the fire fighters have been charged with paying the benefits, in the city of Chicago——

Senator KERR. I am talking about the towns of 25,000 population.

Mr. REDMOND. The answer is the same; yes.

The CHAIRMAN. Thank you very much, Mr. Redmond.

All right, Mr. McGuire.

Mr. McGUIRE. Mr. Chairman and members of the committee, I am James T. McGuire, president of the Chicago Firemen's Association, Local No. 2, International Association of Fire Fighters, affiliated with the American Federation of Labor, and have requested this opportunity to appear before you to represent the rank and file of the Chicago Fire Department, comprising some 3,500 members.

At present, Chicago firemen contribute to and are beneficiaries of our long-established pension fund. We wish to register our objection and opposition to the proposed expansion of the Federal Insurance Contributions Act to apply to or include our membership under House bill 6000.

While our organization approves of and is in favor of making social security available to those municipal or other governmental employees having no retirement coverage or whose pension protection is inadequate, we are definitely opposed to any extension of the scope of the Federal social security program to affect employees having a stable pension fund.

Our members view with keen anxiety the proposal to open the door to our possible inclusion under the proposed House bill 6000. They are concerned, even though House bill 6000 provides optional participation by a two-thirds referendum vote. Many firemen have, by their contributions, built up equities of considerable value and they are fearful that these equities are in jeopardy by any change that may result from this proposed legislation. They fear that the lower rate of contribution under the Federal Social Security Act would prove too great a temptation to short-sighted public officials and to selfishly motivated taxpaying groups who would seize upon this legislation as an opportunity to relieve the local taxpayers of their legally existing established obligations to present pension funds, thereby decreasing the efficiency of fire departments through our Nation. Of even greater reason for retaining our present pension system, and objection to inclusion under Federal old-age pension, it is an important fact that Chicago firemen, regardless of age in the event of incapacity, are eligible and become beneficiaries of our present pension fund.

The only adequate protection to the firemen of the city of Chicago is complete and absolute exclusion from the provisions of House bill 6000, and it should be amended as follows:

First: In section 218, under definition, strike out (C) of paragraph 5, page 80, lines 19 through 22.

Second: In section 218, strike out (D) (1) of line 10, page 82, through line 17, page 83, and substitute:

(7) Such agreement shall exclude all public employees in positions covered by a retirement system, as previously defined in subsection (b) (c) of this section.

We wish to thank you for this opportunity of appearing before you, and we will be glad to answer any questions you want to put.

The CHAIRMAN. Are there any questions?

If not, we thank you for your appearance, Mr. McGuire.

Mr. MCGUIRE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Thom? You may be seated, and please identify yourself for the record.

STATEMENT OF GLENN THOM, PRESIDENT, DETROIT FIRE FIGHTERS ASSOCIATION, OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, DETROIT, MICH.

Mr. THOM. Mr. Chairman, and members of the committee, my name is Glenn Thom. I am president of the Detroit Fire Fighters Association, which is part of the International Association of Fire Fighters, and also a member of the board of trustees of the city of Detroit policemen and firemen retirement system. I will read a brief prepared statement with respect to that system:

This is to certify that the following resolution was adopted by the board of trustees of the policemen and firemen retirement system at its meeting held Monday, February 13, 1950:

"By Mr. Woltemate, supported by Mr. Saigger:

"Whereas the policemen and firemen of the city of Detroit, numbering approximately 7,000 members and beneficiaries, have been covered by retirement plans for more than 60 years; and

"Whereas the said policemen and firemen are now covered by a retirement plan, the provisions of which they consider to be in the best interests of the city of Detroit and themselves; and

"Whereas the said policemen and firemen are concerned with efforts being made in Washington to include them under the provisions of the Social Security Act by direct Federal action or by indirect Federal action, designed to apply public pressures to accomplish their eventual inclusion under the act: Therefore be it

"*Resolved*, That the board of trustees of the policemen and firemen retirement system of the city of Detroit urge the Senate Finance Committee, in their deliberations, to protect the interests of said policemen and firemen in he city of Detroit by positive exclusion from the Senate bill corresponding to H. R. 6000; and be it further

"*Resolved*, That Mr. Glenn E. Thom, of the Detroit Fire Department, as an elected trustee of the policemen and firemen retirement system, and/or a rep-representative of the Police Department, appearing before the Senate Finance Committee, be authorized to speak for the members and beneficiaries of the policemen and firemen retirement system of the city of Detroit."

Yeas: Trustees Woltemate, Markey, Furlong, Saigger, Creedon, and Chairman Reinelt—6.

Nays: None.

J. C. HORGAN, *Executive Secretary.*

I submit that in evidence to the committee.

Gentlemen, we take the same position as the previous spokesmen representing the International Association of Fire Fighters and the various local organizations represented therein. It is our opinions and our conclusion that to be included under social security as proposed would be definitely detrimental: possibly not at the present time but in the long run. So that we have asked the positive exclusion as mentioned in the resolution.

The CHAIRMAN. Is your organization affiliated with any of the national unions?

Mr. THOM. We are affiliated with the International Association of Fire Fighters.

The CHAIRMAN. Thank you very much, Mr. Thom.

Mr. THOM. Thank you, Mr. Chairman.

The CHAIRMAN. We have one other witness scheduled for the morning—Mr. John P. Crane.

Mr. Crane, will you please identify yourself for the record?

STATEMENT OF JOHN P. CRANE, PRESIDENT, LOCAL 94, INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS, NEW YORK CITY

Mr. CRANE. Mr. Chairman and gentlemen, I am John P. Crane, fireman first-class, Fire Department, city of New York, president of Local 94, International Association of Fire Fighters, A. F. of L.

While we do not feel that our pension systems are adequate, we do feel, however, that they are more in line with our needs and the needs of our communities than social security for fire fighters. Therefore, we request the committee to exclude completely paid firemen of the fire departments throughout the United States.

Our reason for this is a survey made at the request of a former mayor of the city of New York, Mayor LaGuardia, which indicated over the years that 1,765 fire fighters had died at an average age of less than 50 years.

Our pension systems give protection, under those terms, and I do not believe that the protection we have is anywhere in line with social security, which is considerably less.

Now, the cost of present protection to the fire department of the ci of New York runs around 8 million dollars, and in 10 years it will l up to 12 millions. Add to this the cost of social security, and yc are merely adding a burden to the city of New York which cann benefit us as fire fighters, because we don't, first of all, live long enoug to get the benefit.

Secondly, it is a temptation to the city officials. And our experien with city officials indicates that you can arrive at decisions when e pediency so determines and force the community to meet your requir ments, but when the time comes to live up to the intention of tho agreements we have the same experience that I find the papers indica we have with the Soviet Government. The intention always deviat from what it was originally. And where in 1940 we agreed to pay percent for our pensions, and the city passed a law, we found we we paying 6 percent but that the new men were paying 14, 15, 19, and 2 percent. Now are you going to ask these fellows to contribute mo than that? It is a physical impossibility, on our salaries, with incon tax and other deductions, to do so.

Our occupation is peculiar. We have one of the lowest life e pectancies, 53 years of age. Our earning expectancy is 23 years le than normal. We have the highest incidence of accidents, disabli accidents. We have the highest incidence, by 100 percent, of hea disease. We have the highest incidence of unemployables among ou retired men, of age groups running from 40 to 65, of any known grou in the country. That is why social security is so inadequate to ou needs and why pension systems are a requirement to efficient service-pension systems based upon the needs of the community.

And in New York City we pay the highest rates in the country. Mayor O'Dwyer is making an effort to reduce those rates—but tl requirements of the fire fighter are also the highest. In our 20-ye retirement, we give consideration to the fact of our occupation th when you are reaching your twentieth year in service, you are n longer employable, and the city examines you and finds you are unf and you are retired; and our experience is that there is nowhere el we can go and get a job.

On that basis, please don't put us in social security and tempt tl administration or any governor of the State of New York to tal our pension systems away from us, because our probationary firem for 6 months are not covered and therefore they would have nothir to say about whether they would go in or would not go in under th legislation.

Our systems are a contractual obligation of the city of New Yor and for those firemen outside of the city it is a contractual obligati on the part of the State of New York. We cannot go broke while tl State of New York is a solvent corporation.

Gentlemen, I submit that is our request, and I thank you for tl privilege of appearing here.

The CHAIRMAN. We thank you very much for your appearanc Mr. Crane.

Mr. CRANE. Thank you.

The CHAIRMAN. Attention has been called to the fact that M Lukens, of Middletown, Ohio, is here and desires to testify.

You may proceed, Mr. Lukens.

STATEMENT OF ROBERT M. LUKENS, PRESIDENT, ASSOCIATION OF OHIO FIRE FIGHTERS, MIDDLETOWN, OHIO

Mr. LUKENS. Mr. Chairman, I am Robert M. Lukens, of the Middletown, Ohio, Fire Department, and president of the Association of Ohio Fire Fighters, with approximately 5,000 members in Ohio, and affiliated with the A. F. of L. and the International Fire Fighters Association. And by the way, Senator, our State has 73 locals, and probably 55 of them are in that range class from 10,000 to approximately 50,000.

Senator KERR. What percentage of your 5,000 members would you say are in those communities?

Mr. LUKENS. I would say 60 percent.

Senator KERR. Are in those communities?

Mr. LUKENS. Yes, sir.

Senator KERR. Now, are they under a State plan?

Mr. LUKENS. Yes, sir. We passed it 4 years ago.

We have had a pension in Ohio since 1880, and we have constantly striven, by action before the State legislature and our city officials, to make that a sound financial pension system.

Senator KERR. Do they not do that, at least in part, by annual or biennial appropriations by the State legislature?

Mr. LUKENS. No, sir. We have a State law that the State shall contribute one-tenth of a mill to each municipality for their pension purposes. That is set up in a fund of $1,600,000, which does have to be appropriated for that purpose at every session of the legislature, every 2 years.

Senator KERR. But they are appropriating out of a fund which is created from the proceeds of this tax?

Mr. LUKENS. That is right.

Senator KERR. Can you tell the committee generally if the average of the States have similar programs, or if they are dependent on just appropriations by the legislature from general funds?

Mr. LUKENS. I couldn't answer that. I think probably Mr. Richardson could answer the question. But I am only familiar with Ohio. Our municipalities there pay three-tenths of a mill, and we as individuals pay 4 percent of our salaries.

Senator MYERS. Four percent?

Mr. LUKENS. Four percent in Ohio. And our cities in this bracket from 10 to 50 thousand—of which I live in one of 40,000—are today fast approaching an actuarially sound pension system on this set-up. It is working out fine, and we are building better fire departments, because of our good pension system. In other words, it is an attractive profession today for a man. He comes into the department, and he knows that his widow, his orphan, is going to be protected if he gives his life in fighting fire and saving people.

Now, if you put us under social security, we are not going to be able to attract the type of men into the department that are needed.

Senator MYERS. Does that State law embrace those employees in municipalities of 10 to 50 thousand?

Mr. LUKENS. Ours is all-embracing. If you have two or more paid firemen in your municipality, you must set up a pension system.

Senator MYERS. Regardless of the population?

Mr. LUKENS. That is right. If you have less than two paid firemen, you don't have to do that. But if you have two firemen, you have to set it up.

We are attracting the highest type of men, and if we go into social security and lose this pension system, which we eventually will, we are going back 50 years to the day when a man came on the fire department because he couldn't get any other job and he was satisfied to come there and sit in the stations. Today fire fighting is a career. And the pensions, more than anything else, have helped to make it that.

I am going to leave this paper with you. And 5,000 firemen in Ohio will ask you to please exclude us from the provisions of H. R. 6000.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Lukens.

You may leave the document with the reporter.

(The prepared statement follows:)

REPORT OF R. M. LUKENS, MIDDLETOWN, OHIO, TO SENATE FINANCE COMMITTEE ON FEBRUARY 20, 1950

I am Robert M. Lukens, of the Middletown, Ohio, Fire Department, and president of the Association of Ohio Fire Fighters, representing 5,000 firemen in Ohio.

In Ohio we have had a pension system since 1880, and through working with the State legislature and city officials we have, in Ohio, a financially sound pension system. The State contributes one-tenth of a mill, the city three-tenths of a mill, and the fireman 4 percent of his salary. In 1945 the Governor of Ohio set up a pension study commission, and one of the recommendations of this committee was that firemen be permitted to retire at 52 years of age and after 25 years of service. Thus recognizing that an old-age fire department was a liability to a city.

Under social security the disability benefits will not protect firemen and their families. Firemen will not enter burning buildings and do dangerous work unless they know their families will be protected in case of injury or death.

Higher type men are being attracted to the fire service today by our pension systems. Inclusion of firemen in social security will definitely lower the type of men we are now getting into the fire service, and the efficiency that has been built up in those cities will be lost.

The State of Ohio and the cities in Ohio are contributing the maximum amount they are able to contribute to our pensions. To add the additional cost of social security would be a further burden, and unless the Federal Government gives them financial aid cuts in salaries probably would be made to pay the cost of social security.

Five thousand firemen in Ohio ask you for total exclusion from H. R. 6000.

The CHAIRMAN. This concludes the hearing today.

We have no witnesses assigned for tomorrow.

The following day is a semiholiday or legal holiday, and so we will not sit again until Thursday morning.

We will meet then at 10 o'clock.

Thank you very much.

(Thereupon, at 12:25 p. m., the committee recessed, to reconvene Thursday, February 23, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

THURSDAY, FEBRUARY 23, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman), presiding.

Present: Senators George, Byrd, Hoey, Kerr, Millikin, Taft, and Butler.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will please come to order.

Is Mr. Donnelly present? Mr. James L. Donnelly, executive vice president of the Illinois Manufacturers' Association? Since he is not present we will insert his statement at this point in the record.

(The statement is as follows:)

STATEMENT SUBMITTED BY THE ILLINOIS MANUFACTURERS' ASSOCIATION, CHICAGO, ILL.

The above measure has passed the House of Representatives of the Federal Congress and is now pending consideration before the Senate Finance Committee. The measure proposes to extend the old-age and survivors' insurance coverage to approximately 11,000,000 persons not now covered, as well as to make substantial extensions in the benefit payments.

The Illinois Manufacturers' Association submits that the changes contemplated by H. R. 6000 will not contribute to the establishment of a sound social security program for the American people. H. R. 6000 aggravates many of the basic flaws in the existing Federal old-age benefits program.

The Illinois Manufacturers' Association also submits that at the outset of any consideration of major changes in the Federal Social Security Act, the experience with the existing act should be carefully reviewed.

The Federal social security program has not diminished the dollar need for other types of public aid. On the contrary, both Federal and State appropriations for such purposes have increased at the same time the social security taxes and benefits have increased.

Public expenditures for various types of relief aids have increased at a time when employment and economic activity have been at high levels.

There has never been a confession of existing liability under the act on the part of the Social Security Administrator. The extent of the actual liabilities already incurred by the Government under the existing program has never been revealed. The wisdom of ascertaining the extent of present and potential financial obligations of the Federal Government under the existing program, as a condition precedent to the assumption of new financial obligations by the Federal Government, is obvious.

Social security taxes are not regarded as the equivalent of insurance premiums. The commitment by the Government to pay benefits to the worker is changed at the will of one party. Premiums, benefits, coverage, and resources are shifting factors over which the taxpayer has little or no control.

The program tends to subsidize the least productive workers at the expense of the more productive workers.

Some persons receive benefits from the old-age and survivor's insurance system even though they have paid no premiums. Others who have paid premiums discover they have no cash surrender value; and for them or their heirs the policy may never mature. Persons paying identical taxes may secure different benefits.

Since the system is based on compulsion and the investments are always in nonproductive enterprises, the normal economic controls for efficient management are lacking.

Political factors tend to encourage the belief that the system is morally and financially sound, and that it will provide greater benefits than could be achieved under noncompulsory coverage.

In view of the inadequacies in many of the basic provisions of the existing social security program, it seems entirely clear that major changes should not be made in the program until Congress has determined whether the program as now constituted is, in fact, calculated to provide a sound public aid and retirement system for the American people, and has made recommendations regarding such changes in said program as the congressional inquiry may indicate to be necessary.

The Illinois Manufacturers' Association accordingly recommends that Congress defer action on H. R. 6000 pending a thorough congressional inquiry into the problem of social security. The association submits that such congressional inquiry should include a study of the following factors:

(1) The extent of the financial obligation which has been incurred by the Federal Government under the existing Federal social security program.

(2) A determination of the dependability of the payment of benefits to the American people promised by the social security program.

(3) The relationship of the social security program to other forms of public assistance—Federal, State, and local.

(4) The use of the funds collected under the social security program by the Federal Government.

(5) The relationship between the benefits received and the taxes paid by the various classes of beneficiaries under the social security program.

(6) The influence, present and potential, of the social security program upon our American economy.

(7) The extent to which political expediency, instead of sound financial considerations and the ultimate welfare of the beneficiaries, has influenced the development of the social security program.

(8) An investigation of the manner in which the social security program is being administered.

In event, notwithstanding the representations of the Illinois Manufacturers Association, Congress elects to proceed with the consideration of H. R. 6000 before making the proposed inquiry, the committee submits the following recommendations in relation to certain specific provisions of said proposal:

(1) The inclusion of the provision for the payment of benefits to individuals who have been permanently and totally disabled should be opposed.

Permanent and total disability is a specialized form of coverage which has no relationship to the problem of benefits for aged persons. The problem of permanent and total disability insurance is not national in scope.

Funds for permanent and total disability benefits provided by this program must come from pay-roll taxes in the States. There is no sound reason for collecting and dispensing this tax on a Federal level.

The proposal to collect pay-roll taxes for old-age and survivors' insurance and then divert those taxes to pay "permanent and total disability" benefits is wrong in principle.

(2) The new definition of "employment," which includes all types of workers irrespective of their status or need for coverage, is too broad and should be eliminated.

The proposal to enlarge the definition of employment to include new groups of individuals, when the soundness of the existing system is open to question, is unwise.

(3) The proposed definition of "employee" is objectionable.

The bill, after enumerating new classes of employees to be covered by the act, establishes "seven combined tests" for determining what additional classes of workers might be defined as employees and brought under the provisions of the act. These tests, which, it is submitted give unnecessary discretion to the Social Security Agency, are: (*a*) Control over the individual, (*b*) permanency of the relationship, (*c*) regularity and frequency of

performance of the service, (*d*) integration of the individual's work in the business to which he renders services, (*e*) lack of skill required of the individual, (*f*) lack of investment by the individual.

(4) The proposed change in the maximum wages to be taxed from the present $3,000 to a new maximum of $3,600, is objectionable. This plan contemplates an increase in the tax burden upon the individuals involved without a corresponding increase in benefits.

A new, higher taxable wage base of $3,600 in place of the present $3,000 base would mean a hidden tax increase on top of another admitted tax-rate increase for old-age and survivors' insurance. The basic level of benefits neither requires nor should it place a greater burden on one wage earner than another, unless comparable benefits are assured. The conflict of this proposed wage base with unemployment compensation and private retirement plans involves serious difficulties which should be avoided.

(5) The tax rates contemplated by the existing law are adequate and should not be increased.

The original tax rate of 1 percent each on employer and employee for old-age and survivors' insurance was increased to $1\frac{1}{2}$ percent on January 1, 1950. The existing law provides that the rate be increased to 2 percent on the employer and employee on January 1, 1952. This 100-percent increase in tax revenue is adequate for the foreseeable future. The proposal in H. R. 6000 to raise the rates on both the employer and employee to 2 percent for 1951–59, $2\frac{1}{2}$ percent for 1960–64, 3 percent for 1965–69, and $3\frac{1}{4}$ percent thereafter is based upon an unrealistic and unsound estimate of the future cost of the old-age and survivors' insurance program.

(6) The act should not be extended to include Puerto Rico and the Virgin Islands.

The system as conceived, financed, and administered is designed for the economy of continental United States and not for nonindustrial economies. Puerto Rico and the Virgin Islands have a low standard of living compared to the 48 States. In many cases, the problem of the individual would be to earn enough in wages to qualify for old-age benefits. The proposed minimum benefits would guarantee a disproportionately large proportion of the normal wage. This would improperly divert funds to those nonindustrial areas

(7) The proposed method of determining the average monthly wage is undesirable.

The present method of determining said wage is more realistic than is the proposed method in relation to the contributions which are made to the national production by each covered worker and should be retained.

The present formula is direct, and easily understood. The new formula is involved and difficult.

(8) The proposed changes in the lump-sum death-benefit provision of the act are unreasonable and inconsistent with the purported purpose of the act

Lump-sum death benefits, equaling six times the worker's primary monthly benefit amount, are now paid only when no survivor of the deceased is immediately eligible for monthly benefits. The proposal in H. R. 6000 to pay lump-sum death benefits equaling three times the primary-benefit amount, irrespective of the payment of monthly benefits to a survivor of the worker, projects the Federal Government into the field of burial insurance and represents an unreasonable extension of the coverage of the act.

(9) Public assistance should be the responsibility of State government. Federal participation, supervision, and direction of such services should be discontinued.

When enacted, the Social Security Act, and particularly the old-age and survivors insurance program, was intended to eventually supplant direct types of State public aid. The act has not accomplished its original purpose in this regard.

Public-aid programs are essentially local in character. They do not constitute a national problem or require handling on a national scale. The Federal Government should withdraw from this field.

Respectfully submitted.

JAMES L. DONNELLY,
Executive Vice President, Illinois Manufacturers' Association.

The CHAIRMAN. I will call the only other witness listed for this morning, Mr. Carl K. Schmidt, Jr., executive secretary of the Illinois Public Aid Commission.

STATEMENT OF CARL K. SCHMIDT, JR., EXECUTIVE SECRETARY, ILLINOIS PUBLIC AID COMMISSION, CHICAGO, ILL.

Mr. SCHMIDT. I am here, Mr. Chairman.

The CHAIRMAN. Will you come around, Mr. Schmidt?

There were two or three other witnesses listed for the morning, from the NAM, and the clerk advises me that the principal witness, who was expected to give us a rather full review of the bill, has canceled his engagement for some reason. So you seem to be the only witness present this morning. Will you identify yourself, please, sir, for the record?

Mr. SCHMIDT. My name is Carl K. Schmidt, Jr. I am executive secretary of the Illinois Public Aid Commission.

Senator MILLIKIN. What is the Illinois Public Aid Commission?

Mr. SCHMIDT. The Illinois Public Aid Commission administers directly the old-age-assistance, aid-to-dependent-children, and blind-assistance programs in Illinois, and supervises the administration of general assistance through some 1,455 local governmental units. Of these it supervises directly the ones which receive State relief funds.

The CHAIRMAN. We will be glad to hear you on this bill.

Mr. SCHMIDT. Mr. Chairman and members of the committee, at the present time there are about 342,000 persons receiving assistance in one form or another in the State of Illinois, and the cost is running somewhere between $11,500,000 and $12,000,000 a month. In the summer of 1945 the number of persons reached a low point and has been increasing steadily since that time, with seasonal changes.

In considering the problem of dependency, I feel very strongly that the primary responsibility for obtaining security against the risks of present-day living rests with the individual, his own energy, his own initiative, and his own resourcefulness. However, in the American economy and society of the present day and the foreseeable future there are large numbers of the population who may, for reasons mostly beyond their control, be deprived of income sufficient for a livelihood consistent with decency and health at American standards.

I consider these major risks as loss of employment in times of business decline or readjustment; loss of employment due to sickness, disability in old age, or other handicap; the possibility of voluntary savings being inadequate to meet the costs of necessary medical care, or the basic maintenance requirements of the individual and his dependents upon his retirement or death; and the inability of some individuals, because of various physical, mental, or personal limitations, to provide an adequate livelihood for themselves and their dependents or to solve in a manner acceptable to society the personal and social problems with which they are confronted.

The general welfare requires that the whole society, through the instrumentality of government, provide for preventing dependency, destitution, and social maladjustment due to these causes, and that it alleviate such destitution, dependency, and social maladjustment whenever and wherever it cannot be prevented.

Responsibility for preventing and alleviating dependency, destitution, and social maladjustment, and promoting the general welfare is of concern to the National Government as well as to State and local governments. The United States is a nation as well as a federation

of diverse States and of localities of citizens with their local governments, local needs, standards, and philosophies.

It is fundamental, therefore, that the Federal, State, and local governments participate jointly in meeting present-day welfare problems and in assisting the average American citizen in safeguarding himself against the economic and social risks that confront him. The distribution of responsibility among the various levels of government, however, should be subject to adjustment in the light of experience and in the light of changing conditions in the economy.

With regard to insurance provisions, a broad principle might be stated as follows: That the economic risk of income losses due to unemployment in old age, should be pooled through a system or systems of contributions by employees and employers; that such system or systems should be self-supporting; that the benefits thus established should be made available to all qualified individuals as matter of right, without personal investigation or subjection to a "means test"; that so far as they can be financed through the contributions received the benefit rates should be established at a level sufficient to meet average needs in the contingency; that such system or systems should be compulsory both for the protection of the individual and the whole society; and that such system or systems should properly constitute the primary provision against dependency.

The present Federal Social Security Act and also H. R. 6000 fall short of carrying out this principle. Large numbers of the population who are most in need of protection against income losses are not covered, in particular: Agricultural workers, all domestics, taxi drivers, and other groups whose incomes generally fall in the lower brackets. Failure to include these groups accounts in large measure for the size of the public assistance load in States which have a large rural population.

Senator MILLIKIN. Mr. Chairman, may I interrupt, please?

The CHAIRMAN. Yes.

Senator MILLIKIN. I think it has been the experience of the members of this committee that we have had remarkably few requests from farm workers and domestic workers to be covered by this system. Our mail is usually a pretty good barometer of what people are thinking. How do you account for that?

Now, of course, some of the farm organizations have come out. There is not any particular smoke or steam coming out of their shoes as they rush here to tell us about it. But as far as the grass-roots expression, the desire to be covered by farm workers or domestics, is concerned, I believe I am safe in saying that the members of the committee have had very, very little correspondence. How do you account for that?

Mr. SCHMIDT. I don't think I can account for that, Senator. I don't know why they haven't come forth and made their wishes known, if they have wishes, in this direction.

Senator KERR. Is it possible that they do not have the knowledge that the opportunity is available to them to make such wishes known?

Mr. SCHMIDT. I have heard that stated. And when you ask, "Is it possible?"—I would say it is possible. It may be probable.

Continuing: Admittedly, inclusion of these groups presents administrative difficulties, but the principle of compulsory social insurance categorically assumes universal coverage, with no exceptions. If it

is valid to compel some groups to contribute toward the contingency of dependency, it is valid to compel all other groups to contribute toward the same contingency.

It is recommended that all groups now excluded should be included, especially agricultural workers, farmers, and domestics not covered by the present bill.

The CHAIRMAN. Do you think all self-employed should be compelled to come into the system? Have you thought of that yet?

Mr. SCHMIDT. Yes; I have thought of it.

The CHAIRMAN. And have you any comments to make on it? I am speaking now of the self-employed.

Mr. SCHMIDT. I admit the administrative difficulties of administering a program covering the self-employed, but I think that they can be worked out, and that if they can they should be covered.

Senator MILLIKIN. What is your philosophical basis for that, keeping in mind that we are setting up a system to take care of the worker; on the theory that the worker, for the reasons you have stated, is not able to protect himself under all of the contingencies of modern industrial life. Bring yourself over, now, to the self-employed, and give us your philosophy as to that.

Mr. SCHMIDT. It is my feeling that the self-employed person falls much into the same category as the worker; that he bears the same risk of going out of business or not making enough to provide himself with savings to take care of himself in his old age. And to the extent that that is true, with these many self-employed people—we have in Illinois 130,000 persons on old-age assistance. When we have a group of persons that large, many of whom have been self-employed persons in the past, who have not saved enough money to take care of themselves, or who felt that they could not and still maintain their standard of living that they thought they should have——

Senator MILLIKIN. You have said something very interesting. What percentage of the persons on public assistance in Illinois were formerly self-employed?

Mr. SCHMIDT. That percentage I don't have before me.

Senator MILLIKIN. Can you get it?

Mr. SCHMIDT. Not readily.

Senator MILLIKIN. I think we should have dependable figures on that, Senator.

Senator KERR. I think it would be most interesting if we could have a tabulation showing the relative comparative percentage of those now on assistance rolls who were formerly self-employed, as related to those on the assistance rolls who were formerly workers.

Senator MILLIKIN. I think it goes to the heart of it, Senator.

Mr. SCHMIDT. I think it would provide a very good bit of information for you, if you had that.

Senator MILLIKIN. Will you try to get it for us?

Mr. SCHMIDT. Yes, sir; I will.

(The information follows at this point:)

We do not have currently available first-hand information concerning persons now receiving old-age assistance in Illinois who were formerly self-employed, but we are now making such a study in cooperation with the Federal Bureau of Public Assistance and the Federal Bureau of Old-Age and Survivors Insurance. On my earlier point on the importance of including agricultural workers, I should like to add that, as of August 1944, about 12 percent of our old-age rolls in Illinois were formerly agricultural workers. At that time there were 15,750 former agricultural workers on our rolls then totaling 125,950.

Mr. SCHMIDT. Assuming that those persons, the self-employed, have the same type of risks, then I think they, too, should be included in the pension program.

With regard to the assistance provisions, a broad principle might be stated as follows: That the Federal Government should assist the States and localities in providing financial assistance and welfare services to individuals and families who are unable to supply themselves with a decent livelihood or who need aid in solving in a manner acceptable to the society, personal and social problems with which they are confronted; that the need for such assistance and services should be prevented or reduced wherever possible by persistent attention to the development of wider economic opportunities and facilities for fostering the improvement of individual and family life; that primary responsibility for administering and establishing standards for these services should rest with the States and localities.

The present Social Security Act and also H. R. 6000 fall short of carrying out this principle.

(*a*) The present act provides only for needy dependent children, the blind and the aged, and for limited appropriations for grants-in-aid to child welfare services, services to crippled children, and maternal and child health. It does not provide at all for other groups of needy persons. H. R. 6000 meets this deficiency by proposing only a very limited and administratively difficult grant-in-aid program for assistance to the permanently and totally disabled. The administrative and medical difficulties in determining whether or not a person is permanently and totally disabled would be almost insurmountable. Differences of opinion would undoubtedly arise among persons attempting to administer such a category, however closely defined by law plus Federal and State administrative regulation. Experience with physically or mentally incapacitated fathers in the present aid to dependent children program demonstrates beyond all doubt that the medical profession itself encounters difficulty in determining incapacity, let alone the greater difficulties that may well be anticipated in determining total and permanent disability.

(*b*) Adequate medical care when one is ill is a basic human need. Furthermore, illness, especially long-term and chronic disease, is one of the primary causes of dependency. The present law makes no special provision for medical care extended by the States to the needy aged, the blind, or dependent children. Furthermore, it prohibits Federal matching of any grants made direct to any source of medical care or to persons receiving care in public institutions. H. R. 6000 stipulates that Federal grants-in-aid may be made to the States to provide for medical assistance to needy persons recognized under the Federal grant-in-aid program, provided that the cost of this assistance can be met within the ceilings contained in the bill. H. R. 6000 will also permit matching of grants paid direct to vendors of medical care and to patients in public institutions. However, these provisions are largely negated by the fact that few States will find it possible to give necessary care within the ceilings stipulated in the bill.

It is recommended that:

(*a*) Instead of the limited and administratively difficult new category for the permanently and totally disabled, the bill should provide for Federal grants-in-aid to the States for general assistance, defined

as all needy persons not qualifying for assistance under other titles of the act. If the Congress feels that it cannot or is unwilling at this time to provide grants-in-aid to this remaining group of needy persons who are now supported entirely by the State and local governments, the following compromise is recommended:

(1) The aid to dependent children program should be extended to cover all needy minor children living in family homes. The Federal contribution formula for aid to dependent children as thus extended should be based on a ceiling of $50 each for the first two individuals in the family and $20 for each additional individual.

This extension of aid to dependent children to include all needy minor children will remove from the general assistance rolls all family cases with children; it will carry out more adequately the declared Federal interest in children expressed in both the aid to dependent children and the child welfare titles of the Federal law; and it should assist in eliminating many of the difficulties now encountered by the State in administering the aid-to-dependent-children program which as now constituted places a premium on the broken home.

Senator MILLIKIN. Mr. Chairman, might I ask the witness to sharpen his testimony a little bit on the totally disabled, as to the catastrophic illness?

What do you think should be done about that?

Mr. SCHMIDT. This is in the public assistance section.

Senator MILLIKIN. Perhaps I should lay a premise for what I am asking you. As I understand it, organizations like the Blue Cross and other organizations that are trying to take care of illness on a voluntary contribution basis have difficulty in financing the catastrophic illness, the totally disabled, cases of that kind. Have you given any thought to how that might be supplemented in any way?

Mr. SCHMIDT. If these cases of the totally and permanently disabled, as are now set up in H. R. 6000, were put into a program such as is considered here, then they would be taken care of under that program. In our general-assistance program in Illinois, the persons who are ill or disabled get full care, under our program. And presumably we would carry over the same basic philosophy with a new category, which is recommended in H. R. 6000, for the permanently and totally disabled. And I am recommending here that if Congress does not extend this to the total general-assistance program, this limited group of totally and permanently disabled be expended to take in those who are ill or disabled, rather than just the permanently and totally disabled, which is a very difficult thing to determine. When is a man permanently disabled, especially with the advances in science that are going on all the time.

Senator MILLIKIN. You have two great holes that breach the wall. You have the phony case, and you have the malingering case, which you have to watch out for.

Mr. SCHMIDT. Right. Very definitely.

Senator MILLIKIN. And they can throw almost any system by the heels unless you do watch out for them.

Mr. SCHMIDT. Right. We have a considerable difficulty in our aid-to-dependent-children program in determining incapacity of the father. And the medical people themselves disagree. It takes, many times, several different consultations of different physicians in order to agree on that.

Senator MILLIKIN. I do not want to take too much time, but I would like to ask again whether you have given any thought to how the efforts of these private organizations, such as Blue Cross, might be supplemented in the field of total disability and long chronic illness. Have you given any thought to that?

Mr. SCHMIDT. You mean supplement the public assistance programs?

Senator MILLIKIN. No, supplement their efforts to take care of their own people in those kinds of cases, which at the present time impose too much of a burden on that system.

Mr. SCHMIDT. No, you evidently mean the disability insurance plan. I don't feel confident to comment in that sphere, Senator. I see what you mean.

Senator HOEY. Could you make any estimate of how much the average cost would be of aid to dependent children under the program that you suggest, this $50 apiece, and so forth?

Mr. SCHMIDT. I don't have it in front of me. I have it in Illinois. I am sorry that I don't have it with me.

Senator HOEY. Could you furnish it for the record?

Mr. SCHMIDT. I could attempt to get it for you; yes, sir.

Senator HOEY. Thank you.

(The information is as follows:)

If aid to dependent children were extended to include all needy children in family homes, and the Federal aid ceilings were raised to $50 each for the first two individuals in the family, and $20 each for each additional individual, and providing medical extra at $6 per adult and $3 per child, it is estimated that annual expenditures in Illinois, under present standards and caseloads, would total 54.6 million dollars, of which 40.9 million dollars, or 74.9 percent, would represent Federal funds and 13.7 million dollars, or 25.1 percent, State funds. Taking aid to dependent children coverage as is—which is the same as proposed by H. R. 6000—but raising the Federal contribution to 50–50–20, with medical extra at $6 per adult and $3 per child, annual expenditures totaling 32.9 million dollars would be distributed 23.9 million dollars Federal, or 74 percent, and 8.4 million dollars, or 26 percent, State. The larger sum of 54.6 million dollars involved in extension of coverage represents mainly cases with minor children now cared for by general assistance agencies in Illinois.

At the present time Federal funds represent only 34 percent of aid to dependent children costs in Illinois, as against this State's outlay of 66 percent.

In computing Federal-State proportions for matching under the proposed 50–50–20 ceilings, we have predicated the Federal share as follows: four-fifths of the first $28; one-half of the next $11; one-third of the next $11. This is the same proportion as the Federal matching of the 27–27–18 ceilings proposed in H. R. 6000.

Senator BUTLER. Mr. Schmidt, in your statement, before you complete it, do you give any statistics as to the number of dependent children in your area, say, this last year?

Mr. SCHMIDT. We have 26,000 cases, Senator, families.

Senator BUTLER. Does your statement show how that has increased, say, over the last 10 years?

Mr. SCHMIDT. I can give it to you over the last year, but not over the last 10 years. You see, our program started in 1941.

Senator BUTLER. Could you supply the figures, over that period?

Mr. SCHMIDT. Certainly.

The CHAIRMAN. From 1941 up to the present time?

Mr. SCHMIDT. Yes.

(The material is as follows:)

Mothers' pension and aid to dependent children in Illinois

Calendar year:	*Average monthly number of cases*
1941	[1] 8,688
1942	[1] 22,894
1943	25,684
1944	21,092
1945	19,794
1946	21,565
1947	22,476
1948	22,029
1949	25,000

[1] Includes the county-State administered mothers' pension program and State-Federal administered aid to dependent children program. The final payments under the mothers' pension program were made in August 1942.

Senator MILLIKIN. Senator Butler, would you mind if I suggested that he also give us an estimate of the increase in population during the same period?

Mr. SCHMIDT. Total population, Senator? Or those under 16?

Senator MILLIKIN. Total population. If you have the other, that would be useful, too.

(The information is as follows:)

Mothers' pension and aid to dependent children in Illinois

Calendar year	Estimated population as of July 1 of each year [1]	Recipients		Recipient rates	
		Average monthly number of persons	Average monthly number of children	Per 1,000 population	Per 1,000 children under 18 years
1941	7,943,608	[2] 28,117	[2] 19,429	4	9
1942	7,904,164	[2] 73,524	[2] 51,782	9	24
1943	7,593,255	84,330	58,646	11	27
1944	7,630,000	70,820	49,728	9	23
1945	7,721,000	67,257	47,463	9	22
1946	8,028,453	73,194	52,614	9	24
1947	8,221,000	77,489	55,794	9	24
1948	8,348,000	77,318	55,884	9	24
1949	8,449,000	88,331	63,547	10	27

[1] Published by Illinois Department of Public Health, Division of Vital Statistics, based on population estimates of the U. S. Bureau of the Census.

[2] Includes the county-State administered mothers' pension program and State-Federal administered aid to dependent children program. The final payments under the mothers' pension program were made in August 1942.

Senator BUTLER. Does the dependent-children program work rather directly under your supervision?

Mr. SCHMIDT. We administer it directly through the 102 county offices.

Senator BUTLER. Do you have any trouble like what was reported from my own home town of Omaha, where you turn over the aid to the parents and it is not used for the purpose for which it was intended?

Mr. SCHMIDT. Well, we have cases, there, where it is alleged that the mother will spend the money for things for which it has not been granted. We do have cases like that.

Senator BUTLER. In such cases, do you continue to deliver the fund in toto per month to the parent or parents?

Mr. SCHMIDT. No. We find out for what they have spent their money, and if it is a reasonable expenditure within the budget, if it happens to be an emergency that would have been considered in the

budget, it would be permitted. If it isn't, then we feel that that is evidence in itself that the funds for the necessities of life which have been provided to them were greater than necessary.

Senator BUTLER. Are they dropped, then, from the rolls?

Mr. SCHMIDT. It depends upon how flagrant the case is. Usually it would be a case of a deduction in grant and not of dropping from the rolls.

Senator BUTLER. In the case of medical care, you make payments direct to the vendor?

Mr. SCHMIDT. We do for hospitalization; and for physicians' care we pay as much as we can in the grant, in order to get the Federal matching.

Senator BUTLER. You do not follow that plan at all in aid to dependent children?

Mr. SCHMIDT. If we can put it into the grant, we do get the matching, but in Illinois we do not follow the $27 and $18 matching. We have what we call no maximum on the grant, but we do have a budget ceiling, the standard budget for the State.

The CHAIRMAN. All right. You may proceed, Mr. Schmidt.

Mr. SCHMIDT. Thank you.

At present, care is offered for the child whose father is dead, deserted, or incapacitated, but not a needy child whose father is at home but, for reasons beyond his control, is unemployed or unable to earn enough to provide his family with a decent livelihood.

The upward adjustment in contribution rates is recommended because we agree with the Advisory Council to the Senate Committee on Finance that one or two person's family cases should have the same level of assistance as do the aged and the blind.

(2) Provision should be made for Federal grants-in-aid to the disabled, defined as an individual who is either temporarily or permanently unable to support himself at a decent level by reason of any medically demonstrable illness, injury, or other impairment and who is without other resources for a decent livelihood. This will remove from the general assistance rolls a second group, leaving for general assistance only able-bodied adults who are unemployed or underemployed.

(*b*) Provision should be made for reasonable Federal contributions toward the costs of medical care for public assistance recipients by providing that up to a maximum of $6 per month per adult recipient averaged for the entire number of adults receiving assistance, and up to a maximum of $3 per month per child averaged for the total number of children receiving assistance, the Federal Government will meet one-half of State expenditures.

That completes my testimony, and I appreciate the opportunity of appearing before you.

The CHAIRMAN. We were very glad to have you, sir.

Are there any questions?

Senator MILLIKIN. I would like to ask the witness:

Do you carry your matching down to the county level? Your matching of Federal funds?

Mr. SCHMIDT. Each case is matched on Federal funds, but the county level does not provide local funds.

Senator MILLIKIN. It is all State?

Mr. SCHMIDT. It is all State and Federal.

Senator MILLIKIN. I see. What percentage of your revenues in Illinois is devoted to welfare?

Mr. SCHMIDT. Approximately 20 percent.

Senator MILLIKIN. I mean your State revenues.

Mr. SCHMIDT. Right. We have a $265,000,000 biennium budget, which is approximately 20 percent of the total.

The CHAIRMAN. Thank you very much, Mr. Schmidt, for your appearance.

The other witnesses who were scheduled for today are not here, and we have no one else, then, to hear this morning.

The committee will recess until tomorrow morning at 10 o'clock.

(At the request of Senator Millikin, the following letter is inserted in the record:)

HOUSE OF REPRESENTATIVES,
Washington, D. C., February 28, 1950.

Hon. EUGENE D. MILLIKIN,
United States Senate, Washington, D. C.

DEAR SENATOR MILLIKIN: In further reply to your letter of February 8, I am glad to provide you with a statement on the so-called gross income tax that has been the principal source of revenue in the Territory of Hawaii for 15 years.

I am indebted to the Legislative Reference Bureau of the Territory of Hawaii for this information, and therefore am certain that it is up to date and authentic.

"Hawaii's general excise (gross income) tax is a comprehensive turn-over tax levied on virtually all sales of goods and services in the Territory. Originally enacted in 1935, the general excise tax is the chief source of Territorial revenue in Hawaii. During the fiscal year ended June 30, 1949, it yielded $26,152,000, approximately 40 percent of all Territorial tax collections. The general excise is buttressed by two auxiliary taxes, designed to minimize avoidance of the general excise: (i) a consumption tax, similar to the use taxes imposed by several mainland States; (ii) a compensating tax levied on purchases made through sales representatives and manufacturers' agents. Personal compensation is not taxed under the genral excise, but rather under separate Territorial taxes—a net income tax and a compensation-dividends tax.

"A. *Tax base and legal incidence.*—The general excise tax is levied on the gross receipts of persons licensed under this tax law to do business in Hawaii. All such receipts, except for those of persons or firms specially exempted, are taxable. In the case of taxpayers engaged in overseas trade, such as sugar or pineapple firms, the value of shipments prior to their entrance into foreign or interstate commerce is taken as the tax base.

"Legally, the general excise is a tax imposed upon the vendor for the privilege of engaging in business in the Territory. No explicit provision for passing the tax on to purchasers is made by law, but vendors are prohibited from holding out to the public that the tax is not included in the price of goods offered for sale.

"B. *Exemptions.*—Persons and firms exempted from the general excise are limited to the following: Banks, public utilities, insurance companies (all subject to special taxes in lieu of the general excise); fraternal benefit societies; associations operated exclusively for religious, charitable, scientific, or educational purposes; business leagues, chambers of commerce, boards of trades, etc., if not operated for profit; hosiptals; nonprofit cemetery associations; agricultural cooperative associations; building and loan associations; and lepers confined to the hospital settlement at Kalawao. In addition, persons with impaired sight are granted special exemptions of $2,000 per annum.

"C. *Rates.*—

	Percent
1. Manufacturing and producing of agricultural commodities (except pineapple and sugar products)	1
2. Wholesaling	1
3. Canning and sugar processing	2½
4. Retailing and all other types of business not otherwise specified	2½
5. Blind vendors	1

"D. *Administration.*—The general excise tax is administered by the Territorial Office of the Tax Commissioner. Persons engaging in business are required

to obtain a license, paying a yearly fee of $1. Reports of taxable sales and remittances of tax due are made monthly, and a reconciliation form filed annually.

"E. *Allocation of revenues.*—Forty percent of all the general excise, compensating, and consumption taxes which are collected at the rate of 2½ percent are allocated among the counties of the Territory in the following proportion: City and county of Honolulu, 55 percent; county of Hawaii, 20 percent; county of Maui, 15 percent; county of Kauai, 10 percent. In the calendar year 1949, the total amount of general excise taxes shared among the counties was $8,420,000.

"F. *Auxiliary taxes.*—(1) Consumption tax: To prevent avoidance of the general excise tax by direct purchase from out-of-Territory sources, a tax of 2½ percent is imposed upon goods brought into the Territory for consumption or other use, unless such property is taxed under the general excise tax or compensating tax law.

"(2) Compensating tax: A compensating tax is imposed upon purchases of commodities through purchasing agents, manufacturers' representatives, or other intermediaries who are not licensed under the general excise tax. If the purchased is licensed to sell at retail and has purchased the commodity for that purpose, the rate of the tax is 1 percent. In all other cases, the tax is 2½ percent of the purchase price."

I appreciate very sincerely your interest in the Territory of Hawaii.

Yours sincerely,

J. R. FARRINGTON. *Delegate from Hawaii.*

(Whereupon, at 10:35 p. m., the committee recessed to reconvene Friday, February 24, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

FRIDAY, FEBRUARY 24, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Kerr, Myers, Millikin, Taft, Butler, Brewster, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will pleace come to order.

Mr. Benson, I believe you are the first witness on the morning's list. You are the president of the National Association of Life Underwriters?

STATEMENT OF JUDD C. BENSON, PRESIDENT, NATIONAL ASSOCIATION OF LIFE UNDERWRITERS, NEW YORK, N. Y.

Mr. BENSON. Correct, sir.

The CHAIRMAN. While the committee has a general idea of what you mean by the National Association of Life Underwriters, will you please indicate to us the nature of the organization, if you do not cover that in your statement?

Mr. BENSON. I believe we do not cover it.

The National Association of Life Underwriters is the agents' or salesmen's group, and our organization is constituted in this manner: There are 565 local associations, distributed throughout the States, Alaska, and Hawaii, and the National Association of Life Underwriters is actually a federation of the local associations. Together they comprise individual memberships that run about 50,000 to 55,000—about 52,000 as of December 31 last year; that is, paid and of good standing.

Senator MILLIKIN. What are the categories of insurance men that one finds in an average community? You have salesmen, and you have agents.

Mr. BENSON. Well, I think in our case the words "salesmen" and "agents" are synonymous, Senator. The usual set-up in ordinary insurance in a city involves a manager or general agent, who has agents or salesmen working for him. Characteristically, in the industrial or weekly premium field, the men who operate those offices are known as district agents and they have agents working for them.

Senator MILLIKIN. I see. Let me ask you another question. Maybe Senator George is groping for this same thing. There is a

definite underwriting function, where you make a contract and somebody underwrites the contract?

Mr. BENSON. That is true, Senator, I mean the home office does the underwriting.

Senator MILLIKIN. Well, does this organization you are concerned with do that type of underwriting?

Mr. BENSON. No, sir. We get the applications, and when you get to the home office the medical department and the so-called underwriting department underwrite them.

Senator MILLIKIN. I see.

The CHAIRMAN. We will be very glad to hear you, Mr. Benson.

Mr. BENSON. If it is agreeable with the chairman and the members of the committee, I do not believe it will be necessary for me to read the prepared statement. If you are willing, I would be glad to comment extemporaneously and make some references to the statement. Is that satisfactory, sir?

The CHAIRMAN. Yes, sir; you may do so.

Mr. BENSON. I would like to refer back, if I may, to some statements that have been made here, and I believe perhaps we can give the committee some information that might be interesting and helpful that I do not believe has been supplied. I have read each statement that has been submitted to the committee on H. R. 6000, and I will try not to repeat, because I notice that there has been quite a lot of repetition.

I would like to indicate this one thing, that I think we are sort of like the hired hand that has been sent out to try out a new combine. Because our members deal each day with social security; that is, we sit down at the dining-room table and explain it to the man who is going to get the benefits.

So the first point I would like to bring to you is how the thing actually works. And if I could leave nothing else with the committee, I would like to impress upon you this point, namely, that the contributory structure of the Social Security Act is, in our opinion, a sound structure basically. We agreed with the basic structure when it was originally established. We agreed with it again in 1939. And I would like to, as I said, emphasize the fact that the basic pay-roll tax structure is all right.

There have been, I have noted, some observations here that perhaps the whole thing should be, as I think someone used the word, "junked," and that we should start out on a new tack. Now, that upsets us quite considerably, and I would like to point out why.

When we go out to talk to a prospect about selling a policy, the No. 1 thing we do is to explain to him in some detail, and map out for him, just how his social security is going to work for him. And what we sell is on top of the basic structure, and we sell the superstructure.

Well, during the last 13 years though, of course, I can't give precise figures, we have had 80,000,000 policyholders. Of course, all of those people don't carry enough insurance to have what we call an insurance program; that is, an amount payable at death to take care of expenses and an amount to take care of the wife while the children are growing up. But I would like to offer you the conservative estimate, as an opinion, that somewhere between 10 and 20 million people have had their insurance programed. The basic thing in this programing is social security. Now, if we were to junk social security, that would

be the equivalent of lapsing what I believe was said to be here, $80,000,000,000 of insurance outstanding in survivors' benefits. So perhaps you can see that when we start talking about junking it, that upsets us a little bit.

Senator MILLIKIN. Well now, when you gentlemen place before your prospective customers these nice pictures of sitting and fishing down in the Senator's State at this time of the year, down at Sea Island or some such place, it is very essential that you have this base of Federal social security in order to build up this amount which you sell, the superstructure, to that fellow, so that he can go down there and fish when he gets to the retirement age. Is that right?

Mr. BENSON. Well, let's put it this way, Senator. There are three very good reasons why the passage of the original Social Security Act helped private insurance as much as it hurt us. In the first place, the fellow whom we visit perhaps didn't want to talk to us about insurance, before we went in and said to him, "Now, do you know how much your social-insurance benefits are going to be?" And, of course, he didn't. And we said, "Wouldn't you like to?" And he would. So, the first thing we knew, we were in an interview with him; and the first thing he knew, he ended up with some insurance. So at least we got to talk with this fellow.

Senator MILLIKIN. You got that superstructure, and I am heartily in favor of it, along with this basic thing which helps the gentleman retire and go down and bask in the sunshine where we all wish we were at this moment. And you do not want that interfered with. You do not want the Government to get up into that superstructure, because if it did, that would put you out of business. Is that not right?

Mr. BENSON. Senator, you have made my speech, as shown in our filed statement opposing raising the wage base and adding disability.

I might say for the record, Mr. Chairman, that I didn't write that to Senator Millikin. I would like to make that perfectly clear.

Senator KERR. Would you further say that he did not write to you what you have already said?

Mr. BENSON. That is right.

But I think it is important that we lay down that fact that a lot of people are depending on what the Government has said they are going to get.

Is that sufficient on that point?

The CHAIRMAN. Yes.

Mr. BENSON. Coming back to this combine that I mentioned, I came from a farm out in Kansas, and I get back to these farming things. I think it is kind of like a combine. We think that the combine shouldn't be thrown away, but perhaps it could be fixed up a little bit. For instance, we would like to have a bigger motor in there to carry a little bit bigger load; which means that the benefits are presently not big enough. And I think it is pretty important to recognize that the Social Security Board says, I believe, that there are about 2,600,0000 people— I believe that is the figure—who are eligible for social-security benefits but are not taking them. Of course, that stems probably from two fundamental reasons. People just don't necessarily like to quit working, you know. And the second reason is that the benefits frequently do not meet a basic minimum level. I will have trouble with that word this morning; I was going to use the

word "subsistence" level, and my people talked me out of it. They said, "That is a bad word." Somebody said, "That sounds like bread and water." So we are talking about a basic minimum level of benefits. And the present act for lower-paid people does not provide that basic minimum. We think it should be brought up so that it would.

We think the coverage should be extended, and that would be like getting a better cylinder to thresh the grain. But most of all, we think this combine needs a good blower to get rid of the chaff and the weed seed, which means, we oppose any attempt to load this act, which is a perfectly good act, down with a lot of extraneous things, like total and permanent disability, and things like funeral benefits. We think that would complicate the machinery considerably.

I will come to that a little bit later.

Senator TAFT. May I ask: Does any straight insurance depend upon whether you are working or not after you reach the age of retirement?

Mr. BENSON. It does not, sir.

Senator TAFT. That is purely a feature of this Government old-age insurance?

Mr. BENSON. That is purely a feature of the Social Security Act a hundred percent; yes, sir.

Now, I have covered the general effects of the Social Security Act, but, Senator Millikin, I would like to make this one additional point. I think it has a big bearing. There were a great many people in the lower-income levels that we used to call on, and we would say, "Wouldn't you like to have $50 or $75 or $100 a month at age 65?" And they would. But we were getting along pretty good until we quoted the premium. Right after that, the deal was over. Because, very candidly, they just couldn't afford it.

Now we are in this situation. We have a base to work on, here, and our prospect, shall we say, is going to get $40 or something like that. Then we have got a pretty decent chance. He is encouraged, shall I say, to try to buy another $25 or $30. I think it is important that that be borne in mind. That is a pretty vital thing.

There isn't any question but that the advertising that has gone on about the Government program, and so on, has put the stamp of Government approval on the life-insurance business. There can be no question. We go back to the days of World War I. And when these boys came home and told dad they were insured for $10,000, and he only had $1,000, it changed the aspect of the thing. And the first thing we knew, he was talking about $10,000. So there isn't any mistake about it. That was really a very helpful thing. It helped a lot.

I thought you might be interested in the progress of the attitude of the public toward OASI. I would say the first 3 or 4 years after the Social Security Act was passed when we went out to talk to people about it they would brush it off and say, "Oh, I think that is just kind of a Government scheme. I don't think we will ever get anything out of that." That was honestly the attitude about it. But during the past 13 years, I think that has substantially changed.

Now, there is one thing that has come into the statements, here, as I have read them, and that is that you gentlemen would be led to the impression that there is a tremendous demand for expanding the Social Security Act; that is, from the grass roots. I will have to say to you

that I, personally, am not cognizant of that demand. Probably it is wiser to expand the act more than the actual demand. Because very few people have said to us, "Well, why don't you try to get us covered under social security, too?"

Whether that is a matter of education, or the fact that we are in pretty high wage level times, and so on, is a question. In other words, if we were in a depression, maybe there would be a big rush up here to say, "Won't you bring us under the act?"

Senator MYERS. Mr. Benson, these remarks are directed particularly toward extended coverage?

Mr. BENSON. That is right.

Senator MYERS. And not increased pensions?

Mr. BENSON. No; toward extended coverage, Senator. I just wanted to make the point, which I thought might be interesting to the committee, that I personally have observed no tremendous grass-roots demand to extend this act. Of course, I am sure you have been impressed by the fact that there have been more witnesses, I think, up here saying "Keep us out" than "Put us in."

Senator TAFT. Yes; I think I have a hundred telegrams to one: "Keep out."

Mr. BENSON. Yes; everybody says "Keep us out."

Senator MILLIKIN. Mr. Chairman, all through this hearing we have been trying to find whether the farmhand wants this social security. So far we have had no durable testimony that he does, except that there may be some intimations to that effect from the testimony of some of the organizations of farmers. And they do not seem to be overly steamed up about it.

Now, what do you people find out when you try to sell policies to farm workers?

Mr. BENSON. We have not discovered any great demand among those people. Does your question come back to the farm hand; the hired man?

Senator MILLIKIN. I am talking about the farm worker. That is right.

Mr. BENSON. I would like to be very fair about that, Senator. I don't know whether he has heard enough about social security to really be up demanding about it. I will go so far as to say this: I personally do not believe that there is what you would call any pertinent demand from farmers as an over-all group.

Senator MILLIKIN. All right. Now, take the farm owner. Is he hot about this subject?

Mr. BENSON. I think he is not hot about it.

Senator MYERS. What is your view, Mr. Benson, on this question: Would it be good for the general economy of the country? I think that would be the test, rather than the demand that might come from various groups. Do you think it would be a good thing? Do you think it would benefit our over-all economy?

Mr. BENSON. Well, yes. My statement, here, quoting it verbatim, says that "we favor the extension of social security to all who are gainfully employed wherever administratively feasible." Now, those sound like weasel words, but we don't mean them that way. However, the only thing that has come in to you so far that has indicated that it would be feasible to cover farmers and domestics and people like that, unfortuntaely, has been from people who weren't going to collect the

tax. And I am impressed by the fact that the Bureau of Internal Revenue hasn't yet been up here saying, "We know how to collect the tax; we know how to administer it." Now, there isn't very much mystery that the Social Security Administration would be faced with, when they get in the benefits, in finding out how to send out the checks.

Senator MYERS. Well, it is your view that the coverage should be extended to domestics and farm hands if feasible?

Mr. BENSON. Yes, sir.

Senator MYERS. And you qualify it with "if feasible."

Mr. BENSON. That is right.

Senator MYERS. But you do believe coverage should be extended if the taxes can be collected?

Mr. BENSON. That is right. But I am tremendously impressed with the fact that there is nobody that is really going to do it coming up here and saying just how they are going to do it. I should think the committee would want to be pretty well persuaded about that. I am sure I wouldn't know.

Senator KERR. Do I understand you to say that you are for it if feasible, but that you don't think it is feasible?

Mr. BENSON. I do not know whether it is feasible or not. I wouldn't have any idea.

Senator KERR. Do you think it might be?

Mr. BENSON. I don't have an opinion, Senator. Because it seems to me that is a matter for the Bureau of Internal Revenue. It would be their problem. There have been all kinds of plans advanced here. I don't know.

Senator KERR. Do you have an opinion as to whether it should be extended to the farm operator himself, the self-employed?

Mr. BENSON. If we are looking at it as a matter of need, probably it is more important to extend it to the farm worker.

Senator KERR. But is the extension of it to the farm operator himself a matter of merit, though probably of less merit than to the farm worker?

Mr. BENSON. Yes; I would say that. Because, well, I have seen that go on all the time, and you know what happens, Senator. My State out there is next to yours. And the farmer that hasn't done too awfully well more or less stays on the farm. Maybe the kids do the work, and what not. And those fellows aren't in such bad shape. And the ones who make a little money move to town, don't they?

Senator KERR. And get in bad shape?

Mr. BENSON. Well, sometimes.

Senator TAFT. I think most of them go to Florida.

Mr. BENSON. Of course, now we are getting into a deep subject, here. Of course, things have been better out there recently.

Senator MYERS. You mean the deep South, do you not, Mr. Benson?

Mr. BENSON. Of course, the farmers out in my part of the country are doing pretty good right now. If we get down to need, I don't think they need much more social security, you see. They are coming along pretty good. They need a good rain once in a while, but not so much social security.

The CHAIRMAN. What is your observation about the self-employed group generally? Do they want to be put under social security?

Mr. BENSON. Personally, I do not believe, Senator, there is any demand for that. But, now, here is what concerns us and what is back

of our statement that we believe that all persons who are gainfully employed should be covered wherever feasible. Because you take the self-employed group: If the statistics were available—you were trying to find that out yesterday morning, Senator Millikin, about the percentage of self-employed who are needy in their old age, and what not.

The CHAIRMAN. Those who are not drawing old-age assistance, whether they came from the employed, the self-employed group, or the wage earners?

Mr. BENSON. I don't know that, either. If we knew that, that would be something else. But I am operating on this kind of a theory: that probably if we would take a hundred thousaid self-employed—and that would take in everybody from the filling station operator on up—they would contribute as many people at age 65 who don't have enough money to live on as any other hundred thousand workers. Because maybe I can add this one thing to the testimony, and that is I have learned in 27 years selling life-insurance: The man who is self-reliant and who takes care of himself—it depends a darn sight more on his character, his sense of responsibility, and his integrity and moral fiber than it does on the amount of money he earns is least likely to need outside help. Now, on that, I will stand.

Senator KERR. I do not get the significance of that statement.

Mr. BENSON. I am saying this, Senator: As you go around to sell life-insurance policies, you see fellows who are making what we would call a pretty nominal sum of money. And if he is a pretty good, thrifty citizen, and has good moral fiber and a good sense of personal responsibility—now, we can't sell him $50,000, but he will get down to cases and he will do something about his own case. And then I have talked to fellows, ten, fifteen, or twenty thousand dollars a year, and it is a cinch that at 65 they are going to be broke.

And the point I want to make is that you can't just take the fact that all the rich will take care of themselves and all the people that don't make a lot of money will have to be taken care of. That isn't the case.

Senator KERR. You are backing up, by these statements, the proposition you laid down to start with, that out of a hundred thousand self-employed during the productive years, there will be as many in need of social-security assistance after 65 as there will be among a hundred thousand who are employed?

Mr. BENSON. I am disposed to believe that. Now, obviously, I can't prove that, can I? But I am honestly disposed to believe it. And then if we don't cover them and this system matures, we will come out where there is a large number of people in the community getting social-security benefits. In other words, the curve is up pretty sharply as to the number of people who were getting benefits each year. Well, if you live in a town with a thousand people, and, shall we say, there are a hundred people past 65, then, if 98 percent of them were getting benefits the other 2 percent would feel pretty badly at being left out and they would probably do something about it.

So the point I want to make is that unless you extend coverage as the system matures I believe you gentlemen and future Congresses will have a big demand on you to bring these people under social security when they become conscious of it. And they will not have made any contribution in the meantime. That is what disturbs us.

Then there is another important point. The fellow who isn't under social security and turns up and has to be taken care of—and it seems we have all agreed we are going to take care of him somehow—will be taken care of out of general taxation at some level, local, State, national, or some place. Then the worker is paying toward his own social security, and then is having to make a contribution to the general fund to help take care of this other fellow. You see, that is the rub in this thing.

Senator MILLIKIN. Is not your argument in the direction of a universal pension?

Mr. BENSON. No. Pardon me, Senator. Did you say "in the line of"?

Senator MILLIKIN. In the direction.

Mr. BENSON. In the direction, yes.

Senator KERR. You mean universal coverage by old age insurance?

Mr. BENSON. We believe in universal coverage.

Senator KERR. I believe the Senator addressed his query to quite another proposition, that of old age pensions; and I would be glad to know which you had in mind.

Mr. BENSON. I prefer the universal coverage under the Social Security System.

Senator MILLIKIN. To put everybody under the insurance system?

Mr. BENSON. That is right. It goes deeper than that. I do not believe there is anyone so wise that he knows exactly what the cost of this thing is going to be. Because maybe the assumptions on which these high and low estimates were based will not come to pass.

You take a good round depression. It would change the whole thing. Or real good times may keep the worker in the labor market. So I don't believe anybody can tell what these costs are going to be. It would be pretty difficult.

Yes, Senator?

Senator MYERS. Referring back to your statement about universal and extended coverage if feasible and your further statement that you would like to hear something from the Internal Revenue Department, the Commissioner, as to whether it was not feasible, were you familiar with the original bill, H. R. 2893?

Mr. BENSON. You mean when Mr. Schoeneman came over?

Senator MYERS. Yes. Did not that bill extend the coverage beyond that contemplated in H. R. 6000?

Mr. BENSON. Yes, it did. Mr. Schoeneman was over and testified to that committee. And, though I hope I may apologize to him, in his absence, I must say that it didn't impress me.

Senator MYERS. Well, whether it impressed you or not, he testified on that bill. He testified before the Ways and Means Committee on April 1, 1949. And, reading from page 1345 of his testimony, he said:

> Before beginning that discussion I would like to emphasize that we in the Bureau of Internal Revenue believe that we can adequately and satisfactorily administer the provisions of H. R. 2893, if enacted into law.

Do you remember that statement?

Mr. BENSON. Yes, I do.

Senator MYERS. Do you remember the further statement which appeared on page 1347 of the House hearings, in which he said:

> On the basis of the above five factors—

and I am not going to read them all—

I feel confident in stating that given the necessary personnel and facilities, the program proposed is administratively feasible.

Do you remember that testimony?

Mr. BENSON. Yes; I do.

Senator MYERS. At least we do have that testimony from the Department.

Mr. BENSON. Yes; I am aware of that.

Senator MYERS. I wondered if you were when you indicated that you would like to hear from somebody from the Department of Internal Revenue on this legislation.

Mr. BENSON. Yes; I am thoroughly aware of that, and it seemed to me that what it was lacking was a spelling out of the thing. Do you have the full text of the testimony there?

Senator MYERS. I do; yes.

Mr. BENSON. As it went on and developed, purely as a matter of opinion it seemed to me that it wasn't spelled out specifically enough. I think at least the Ways and Means Committee were not tremendously impressed with it.

The CHAIRMAN. Did he advocate the stamp plan of protection for the farm worker?

Mr. BENSON. I don't know that I recall that. I believe it was the stamp plan for the domestics, and some other sort of a plan for the farm worker.

The CHAIRMAN. I have seen some of it. All that testimony amounts to is that they regard it as feasible and practicable. But right down to the grass roots it is highly questionable whether it is not.

Senator MYERS. Might I interrupt and say that I understand, from just a cursory review of this testimony, Senator, that on page 1349 in the House hearings he did discuss the stamp system, and apparently, from a hasty reading of it, I would say, recommended the stamp system.

Mr. BENSON. Did it apply to the farm worker, too?

Senator MYERS. Let me read it:

Stamp system: Under this system the social-security tax would be paid through the purchase of stamps by the employer and his affixing them to the employee's stamp book. The stamps accumulated in this book would constitute the employee's working record during the period the book is valid.

Senator TAFT. At any event, this committee has not heard any testimony, and I think we should, from the Commissioner of Internal Revenue.

The CHAIRMAN. We have not heard as yet from the Commissioner of Internal Revenue; no, sir.

Mr. BENSON. Of course, that is a very difficult problem. I am sure I do not know; maybe the stamp plan is a perfect plan, Senator.

Senator MYERS. I mentioned that just because you raised the question that we should hear from the Commissioner. I thoroughly agree that this committee should also hear from the Commissioner, but I wanted to point out that he had testified as being in favor of a coverage even much beyond that contemplated in H. R. 6000.

Mr. BENSON. You are perfectly correct about that, Senator.

Senator TAFT. But after hearing that testimony the House then left farm laborers out.

Mr. BENSON. Yes; maybe that was the reason. I don't know. But in any event they did.

I would like to make this general observation, too. There has been some testimony here to the effect that they believed that there should be some more research done about this social security question. Well, I would like to make this flat statement to the committee. I believe there has been plenty of research done on the thing. I can't see where there is any particular thing that would be added by further studies. The studies are pretty good. We have the Calhoun report, and we have the Senate Advisory Council.

It is rather interesting to read some of the latest studies. They all, now, are beginning to refer back to each other for references. We are kind of researching each other on this question, just at this point.

Senator KERR. Do you think there should now be more action taken which would provide something for further research, rather than further research with reference to action already taken?

Mr. BENSON. I hadn't thought of it, but it is a pretty good idea. I think that would be all right. But everyone now is putting down at the bottom what somebody else says, and then somebody writes another book, and he puts down what two other fellows said, particularly if he agrees with them. So I don't think we are getting much new material on extending coverage and increasing benefits.

I believe you raised the question, did you not, Senator Millikin, some place along the line, about where somebody wanted to research it again?

Senator MILLIKIN. No, I do not remember that. But that is a good way to get an honorary college degree, you know: To refer to some other college professor and what he said.

Mr. BENSON. I did not know that.

The CHAIRMAN. All right, Mr. Benson, you may proceed.

Mr. BENSON. On the Social Security Administration, I would like to make this comment. We in the life-insurance business are of the opinion that administratively the Social Security Administration or Board has done a good job. They have done a good administrative job. We believe it has been done efficiently. We get prompt replies from them when we ask them for information, and so on. It seems to us to be very good.

Senator MILLIKIN. Have you made a study of their work load and the number of people that accomplish that work load? Have you made a study of the distribution of their employees by categories and by skills in relation to the work load and the requirements of the work load?

Mr. BENSON. Naturally I have not, Senator. Let me tell you the basis as to that other conclusion. From a practical point of view, we go on the matter of whether we are courteously treated when we go into their offices and whether the people there can help us with our problem or not. I am looking at it from a purely practical point of view. If we want to find out what a man's wage credits are and write in to Baltimore, we hear from them right away. And then I took a look at the over-all administrative cost, that is, 3 percent of the total contributions and 8 percent of the benefits. And that impresses me as being a good job.

But the thing I would emphasize from the purely practical point of view is that it is a good Board.

Senator MILLIKIN. It is a courteous outfit?

Mr. BENSON. Yes; it is. And they do a good administrative job.

Now, having stated that, I have a criticism. And we are very much concerned over one fact, that the Social Security people, in our opinion, are leaning pretty heavily upon the phrase in the law which says that they shall make recommendations to the Congress. Well, we think that making a recommendation is one thing and selling it is another. And we don't find the word "selling" in the law. And the Social Security people out in the sticks are willing to drop anything, almost any time, on the theory of explaining the act to a group of people, but it only takes about 5 minutes to explain it and the rest of the time is spent on selling the idea as to how it should be amended. Now, whether that is contrary to the intent of Congress I don't know. I would like to leave the observation with the committee here, that in our opinion that is not a good thing for an administrative group to do.

Senator TAFT. Do you think there is any difference between them and the State Department and the Agriculture Department in that respect?

Mr. BENSON. I am just not familiar with the other departments. I have had the impact of this.

Senator MILLIKIN. Well, you fellows sell your system.

Mr. BENSON. But that is what we get paid for.

Senator MILLIKIN. That is what they get paid for.

Senator TAFT. Not at all. The statute prohibits them from doing it.

Senator MILLIKIN. Oh, nobody pays any attention to that.

Mr. BENSON. Well, I am impressed with that statement.

There is another thing I would like to have in the record, if we may, Mr. Chairman. I don't think it has been mentioned, and we felt sort of left out about it. It is the fact that there are 80,000,000 people who are currently insured for life insurance. And I would like to make this observation, if I may. The premiums being paid currently, right now, are $7,000,000,000 and a little plus per year. That is what people are doing for themselves. That is distributed among 80,000,000 people. Social security now covers about 35 to 45 million.

Senator MARTIN. Is that 80,000,000 policies?

Mr. BENSON. No, sir; that is 80,000,000 individual persons who are insured.

Senator MILLIKIN. Are there any duplications?

Mr. BENSON. No, sir. We will stand on that. That is a record that we can really make; because the companies contributed to that research.

Senator MILLIKIN. That is all kinds of research?

Mr. BENSON. That includes what we call ordinary insurance, so-called industrial or weekly premium insurance, and group insurance.

Senator MILLIKIN. Burial insurance?

Mr. BENSON. No, sir; nor fraternal insurance. The proper definition is "legal reserve life insurance."

Senator MARTIN. This is life insurance only. The correct way to state it is insurance involving life contingencies, having nothing to do with hospital care, accident and sickness, or anything like that. That does, though, include group insurance.

Mr. BENSON. Group insurance; yes, sir.

Senator MARTIN. And, if I understand it, that is 80,000,000 individuals?

Mr. BENSON. That is right. Yes, sir. That is 80,000,000 individual people.

Senator MILLIKIN. And they are paying $7,000,000,000 a year?

Mr. BENSON. That is the '48 figure, which will be documented. I am going to leave with each of you gentlemen this so-called life insurance fact book. That is the '48 figure. I imagine when the '49 figure comes out it will be up some, because the total amount of insurance in force at the present time is $213,000,000,000; that is, the total amount outstanding. That is $213,000,000,000 at the end of December 1949.

Now, the benefits paid, death benefits, annuities, everything like that, was 3¼ billion in 1948.

Senator MARTIN. How much was that?

Mr. BENSON. Three and a quarter billion. Now, as that contrasts with OASI, where the taxes collected were some 1.7 billion dollars for the comparable period, and next year's benefits are to be some $800,000,000.

Senator MARTIN. Might I ask a question, there, Mr. Chairman?

The CHAIRMAN. Yes, Senator.

Senator MARTIN. This $213,000,000,000 of outstanding life insurance is also, I presume, actuarially sound?

Mr. BENSON. Yes, sir, the reserves back of that are between 55 and 56 billion dollars—it will be in the fact book, there—as of the end of 1948. You see, the 1949 figures have not been compiled, Senator, but that is as of the end of 1948. And that is going up at the rate of about $4,000,000,000 per year; in other words, the curve of increase in reserves, which is nothing more nor less than the total reflection of the improvement in cash values of all of the policies for all of the times for the year.

Senator TAFT. In other words, there are $4,000,000,000 of net savings in life-insurance premiums?

Mr. BENSON. Correct.

Senator TAFT. Which is then reinvested by the life-insurance companies in mortgages and bonds.

Mr. BENSON. All the various categories.

Senator KERR. I take it that the reserves go up not only by the savings from premiums but also by the earnings from principal?

Mr. BENSON. That is right, sir.

Senator MILLIKIN. What percentage of the insurance that you were discussing represents annuities?

Mr. BENSON. You mean of that premium income?

Senator MILLIKIN. Yes.

Mr. BENSON. Of the $213,000,000,000, none of it now.

Senator MILLIKIN. How many people have policies, first, which are actually paying annuities? And how many people have policies which contemplate the payment of annuities?

Senator KERR. You mean life retirement benefits, Senator?

Senator MILLIKIN. Exactly.

Mr. BENSON. That is spelled out in the fact book, if I can put my finger on it.

Senator KERR. Did I understand you to say that the $213,000,000,000 did not include any of the amount now in force providing for retirement?

Mr. BENSON. Well, thank you, Senator, for that. I should clarify that statement. Because some contracts work this way. A man is insured for a thousand dollars until he is age 65, and at age 65 that policy pays him $10 a month the rest of his life. Thank you for the correction.

That, incidentally, is not a tremendous percentage, however.

Senator MARTIN. That is included, though, there?

Mr. BENSON. That would be listed as $1,000 of the $213,000,000,000.

Senator, here you are. At the end of 1948 there were 660,000 people who have private annuities that are actually in payment, paying $253,000,000. Now, then, there are 2,253,000 that are fully paid for, but the people have not started taking them yet, and the amount of income from those will be $463,000,000. And those that are being currently purchased, where there are no life contingencies—that is what we call a deferred annuity—640,000, which will pay $379,000,000 at their maturity date.

Senator MILLIKIN. Can you average those figures?

Mr. BENSON. Well, the total of those would be $3,553,000, and the total benefits would be $1,095,000,000, when they were all in benefit payment.

Senator TAFT. A year?

Mr. BENSON. Yes, sir.

Senator MILLIKIN. How much per person, average?

Mr. BENSON. I am pretty bad on arithmetic.

Senator KERR. About $280 a year, would it be?

Mr. BENSON. Yes; about $300 a year.

I don't know whether this is a good time to do it, Senator, but I think maybe it is a good time to point out another point I wanted to make, which is this: That I do not agree with the general impression that has been left with the committee that income payments have to be big for people when they retire. I believe, from experience, that that is a mistaken notion. Because actually what happens—and we have had all kinds of experience with this—is that many widows don't end up with enough insurance to have $100 a month, or something like that. They have $40 a month, or $50 a month, or something like that. Well, I had occasion, during the last year—and made a little research on this—in 14 different cities, typical cities, Los Angeles, Chicago, Detroit, 14 of them, in which people in 2 categories, retired industrial workers—I looked to that particularly—put ads in papers and said, "Well, I have $50 a month coming in for life. What do you have to offer me?" Well, if you were to read the replies that came back, a fellow would be tempted to quit working and go and live in some of these places. But the point I want to make is that you don't have to have $100 a month. I think that is important. And that is one thing we have learned in the life-insurance business. And I want to leave that impression with the committee. The replies come back, and in one city an industrial worker got back 33 replies, and 22 of them were perfectly good things.

Senator MARTIN. Excuse me. I am not following you. Maybe the other men are, but I am not quite following you. What do those replies contain?

Mr. BENSON. Well, the ad says, "What do you have to offer?" People will come back and say, "I have a nice home in the country out here, and we have an extra room"—which many people do. And

maybe part of the living comes from the farm. And the odd part of it is that about 90 percent of them come back and offer to do the job for $40 a month, because they figure this fellow has to have $10 for cigarettes and carfare and what not. It is a very compelling thing.

Senator MARTIN. Is that person going to do some work?

Mr. BENSON. No, sir.

Senator MARTIN. They are just going to live?

Mr. BENSON. That is right. You see, when you get right down to cases, people who are retired, by and large, live with somebody else anyway. And this one thing we have learned, in the life-insurance business, that if a widow who is elderly has an income of $50 a month you can be sure of one thing. When she goes to visit, from one child to another, they will all be down at the train to meet her. You can be dead sure of that.

Senator KERR. She has become an asset instead of a liability?

Mr. BENSON. She surely has. And as a matter of fact, instead of calling up Detroit and saying, "When can we send mother up?" the thing is more, "Won't you stay until after the first of the month? We would like to have you stay with the children. We have some things to do."

I would like to really drive that point home. That is important. We have a saying in the life-insurance business, and it is true, that "the only difference between an old woman and an elderly lady is $100 a month." That is for sure. You can depend on that.

Senator MYERS. You prefaced your remarks by speaking of industrial workers and not elderly ladies.

Mr. BENSON. That is right.

Senator MYERS. And you indicated that an industrial worker could get along rather well on $100 a month after retirement.

Mr. BENSON. I am saying this, Senator: I am familiar with the arguments on the other side, but I am saying this: Any person—this is for sure—that has a cash income of $50 a month and will have it the rest of his life at this level of wages will not be in any want. He can be very well taken care of.

Senator TAFT. That is per person, and not per family?

Mr. BENSON. That is per person.

Senator MYERS. Let us pursue that further: Let us take into consideration our cities. In my city of Philadelphia, do you think an industrial worker who is retired and has $100 a month can get along very well?

Mr. BENSON. Well, Senator, I will tell you what I would be glad to do. That thing happened, and I have the replies.

Senator MYERS. It may have happened, but what can they rent a room for?

Mr. BENSON. But that isn't the way it works out, Senator.

Senator MYERS. How does it work out? It may be a man with a family, but many of them do not have families. Many of them may be single men and have no children to live with.

Mr. BENSON. I will quote you the ad, Senator.

Senator MYERS. Of course, I am not basing it on ads. I am wondering how a man who is an industrial worker, we will say a single man, or maybe a man with one child, who has to go out and rent a room, can get by on 50 bucks a month.

Mr. BENSON. He doesn't do it that way, Senator.

Senator MYERS. How does he do it?

Mr. BENSON. I will tell you. And may I be very specific?

Senator MYERS. Surely.

Mr. BENSON. All right. The ad was run in Philadelphia in the Inquirer. The Inquirer? Is that right?

Senator MYERS. You can mention the Bulletin, too, and bring them in.

Mr. BENSON. I believe it was in the Bulletin, too. I believe it read like this:

A retired industrial worker, age 65, with a guaranteed income for life, $50 per month, desires a permanent home, room and board; no other funds available. What do you have to offer?

And I will rest my case on the replies.

Senator MYERS. What are the replies?

Mr. BENSON. I believe there were about 40, and the great majority of them offer to take care of him, in perfectly good places, for $40 to $45 a month. I will get the replies and show them to you.

Senator MYERS. Between $40 and $45 a month? What does he do with the other 5 bucks?

Mr. BENSON. Senator, the sharp point is this. And I am glad you brought that out. You helped me make my point. The sharp point is this, and the argument we are in with the Social Security Board, that the Board is presuming that this man is not going to have saved any money and is not going to have done anything about himself. Now, we take the hard position. We are taking a harder position than anybody has taken here so far in dealing with the man that has been improvident all of his life and has not saved any dollars. I will put it the hard way. So long as he can be reasonably well taken care of, we feel that is enough. He may suffer some privations. I know that. And that is the penalty for the man who didn't save any money.

Senator MYERS. Well, you are not advancing this as an argument against the increase in benefits as proposed in H. R. 6000, are you?

Mr. BENSON. Against the benefits proposed?

Senator MYERS. The increased benefits proposed in H. R. 6000.

Mr. BENSON. I am advancing it as an argument against the benefits.

Senator MYERS. You do not think the benefits should be increased?

Mr. BENSON. Yes, I do; but not to the extent that they would be in H. R. 6000. Our point of difference is very small, but still there is a difference.

Senator MYERS. Of course, you must consider, too, that many of these people are not single.

Mr. BENSON. Then an ad was run, also, which said that an elderly couple wants a home.

Senator MYERS. They cannot do it for the same amount of $50.

Mr. BENSON. The figure was $85. And the replies are equally interesting.

Senator MYERS. Well, I would like to see a few individual cases of people that try to get along on that. I mean, they can. It is possible. But I would like to see it.

Mr. BENSON. Senator, if you are going to say "comfortably and independently" then I am on your side.

Senator MYERS. Well, you cannot live comfortably these days on $100 a month. That is certainly true as to a married couple who

have to pay for rent and utilities, or even rent a room. Nevertheless, you are opposed to the increased benefits suggested in H. R. 6000?

Mr. BENSON. Well, when we come to it, I have a benefit formula that will come out.

The CHAIRMAN. Will you proceed, please, Mr. Benson? We have several other witnesses here this morning.

Mr. BENSON. All right, sir.

Suppose, then, that we do this. I wonder if the gentlemen of the committee would be willing to take page 19 of the statement.

(2) An extension of benefits under H. R. 6000 to include all who are gainfully employed wherever such coverage is administratively feasible.

And I think ke have explored that point. Down below there is one point which is of interest to us, and I would like the committee to just be aware of one thing, if they will. That is at the bottom of page 19, where it says:

The subsection provides as follows:

"(3) Any individual other than an individual who is an employee under paragraph (1) or (2) of this subsection who performs service for remuneration for any person. * * * (B) as a full-time life-insurance salesman: * * *."

May we remind the committee that Mr. M. Albert Linton, testifying on behalf of the Life Insurance Association of America and the American Life Convention before this committee on February 10, 1950, offered a similar endorsement of this subsection.

Enactment of this subsection will enable our members to be included for benefits with proper payment of taxes. Such inclusion we have sought for many years.

I would like to make three observations on that, very briefly. That particular subsection was worked out by the technical staff of the Committee on Ways and Means, and is agreeable to the company organizations and representatives of our organization, and, insofar as I know, everyone was happy about it.

Senator MILLIKIN. You are talking about a full-time insurance salesman?

Mr. BENSON. That is right.

Senator MILLIKIN. What salary does he get?

Mr. BENSON. None.

Senator MILLIKIN. He works entirely on commission?

Mr. BENSON. Well, Senator, then we would get off into categories.

Senator MILLIKIN. Well, is that correct?

Mr. BENSON. Yes.

Senator MILLIKIN. He can work all day, or part of the day, work when he pleases? I mean, let us walk down the main street of Squeedunk, and we have a fellow who is in the real-estate business. And he does a little insurance; he writes a few policies; he sells a little real estate. He engages in various kinds of trading. In one way or another he ekes out a living. Now, do we put him in?

Mr. BENSON. No.

Senator MILLIKIN. How do you distinguish?

Mr. BENSON. Purely on a practical basis, Senator. A full-time agent has a very close relation to his company. He may be able to see who he wants and when he wants. Ordinarily, that would lead one to conclude that he is not an employee at common law. However, the restrictions and obligations assumed in his contract—the territory to which he is assigned and which he is expected to cover—and the careful

rules and forms he must follow distinguished the full-time life-insurance salesman from the ordinary independent salesman.

His actual method of solicitation and his relationship to his company through his general agent or manager are very similar in practice to that of the life-insurance agent whose company has already recognized him as an employee for social-security purposes. In some cases the relationship is not similar; it is identical.

The twilight zone in this particular field has caused a great deal of trouble. The subsection we endorse is a very slight extension of the common-law rule. You will note that it excludes as employees those full-time life-insurance salesmen who are in fact carrying their own overhead or who are acting casually or as brokers.

The subsection has, moreover, been agreed to, as affording a practical solution, in testimony here the life-insurance company associations representing the bulk of those with whom our members have salesmen's contracts.

With your permission, Senator, I should like to add one more point which may come before you in a year or so. H. R. 6000 does not propose to extend this definition of employee for purposes of unemployment compensation. At present, insurance salesmen on commission are specifically excluded from unemployment compensation under the Federal statute. It is definitely not our thought at this time to advocate the extension to unemployment compensation of the subsection we endorse in H. R. 6000.

In this section 210, you will recall, there are some specific inclusions. This is the approach recommended by the joint tax staff and includes a full-time life-insurance salesman under the reasonable limitations I have mentioned.

And then there is a paragraph 4 which covers additional persons on the basis of the combined effect of a series of factors. The joint tax staff opposed the approach of this paragraph. While we understand that this paragraph 4 might, under careful regulations, work no great hardship on the great bulk of the life-insurance industry, nevertheless we refrain from advocating its adoption because of its reportedly unfair possible application to other industries.

Senator MILLIKIN. Now, do you fellows propose to contribute the benefits of this insurance salesman regardless of whether he sells any insurance?

Mr. BENSON. That would be reflected in his commissions, if he didn't sell any insurance.

Senator MILLIKIN. But, if he does not sell any insurance, he has no commissions, and hence you do not contribute?

Mr. BENSON. Hence he would get no benefits.

Senator MILLIKIN. Hence he would get no benefits. Well, how does that cover him, then?

Mr. BENSON. Well, there are a lot of people that are covered that get very negligible benefits.

Well, Senator, he wouldn't go on too long selling no insurance.

Maybe I can help you this way. I know everybody would say, "Well, is there such a thing as a full-time life-insurance agent?" And every once in a while at our convention somebody gets up and says the same thing. But I think maybe this will help. There is probably an area, out here, of—let me estimate it at 5 percent of our people, as to

which I think it will be difficult to make the distinction. But I believe, very honestly and sincerely, and so do the companies, and so do the technical staff that wrote this bill, and we went into it in great detail, that this will probably take care of 95 percent of the situations. The contribution will be all right. And the companies are willing to pay their part. And we are at least narrowing the area of difficulty.

Senator MILLIKIN. All right. Now, you are talking about a full-time-life-insurance salesman. Who makes the contribtuion for him?

Mr. BENSON. The act provides that he pays half and the company pays the other half.

Senator KERR. Does the company pay the other half in addition to the regular commission and renewals that they pay him on the business he writes?

Mr. BENSON. That is right.

That is a very difficult question, Senator Millikin. I am not wanting to say that this is a very simple one-sentence answer to the thing, but what it represents is the best.

I would like to make this one point. You may wonder why life-insurance agents want to be covered. It is a perfectly good question. Well, I think the reason is because day in and day out they are setting down with other people about their social-security benefits, and so on, and talking about it all the time, and they naturally are conversant with it, and they would like to have it, too.

Senator KERR. You think they sell it enough so that they are willing to buy a little?

Mr. BENSON. That is right.

Senator MILLIKIN. But the point is that the insurance company itself is going to pay its employer part of the contribution.

Mr. BENSON. That is in the act; yes, sir.

Senator MILLIKIN. And that is agreeable to you?

Mr. BENSON. That is the reason why I put this statement here. Mr. Linton endorsed these same provisions of the act.

Senator MILLIKIN. And the amount that you contribute will vary according to the amount of the insurance that he sells?

Mr. BENSON. Correct. Exactly.

I don't think the thing is too awfully much different. There are instances where difficulty has arisen. For instance, well, I know a paper company in our town; their salesmen are out selling, and the only difference is what they call a drawing account. And they don't have a formal contract with their company, because they have no vested interest in the renewal account, you see, of that paper business. We have a contract with our agents. And I think that is what has thrown the thing into confusion.

Senator MILLIKIN. Yes, but now let us take the average fellow on the main street that sells a little insurance and sells a little real estate. He trades a horse once in a while, or he sells a farm, and he is a good free-enterpriser. Now let me get at this relationship of employer and employee, if there is one. He has a right to sell policies for your company. Is that right? You tell him, when he goes to work, what time of day he goes to work?

Mr. BENSON. No.

Senator MILLIKIN. Do you tell him when he quit, what days he works?

Mr. BENSON. No; of course not.

Senator MILLIKIN. Do you tell him whom he shall see?

Mr. BENSON. No.

Senator MILLIKIN. But you do not have the control over that full-time salesman that is the customary attribute of the relationship of employer and employee; do you?

Mr. BENSON. Senator, many of our people are not, in the strict sense of the word, common-law employees, for two principal reasons. The main reason is that it is impossible—we would like to, but it is impossible—to direct how a salesman uses his time. Because he has an appointment at 11 in the morning, and the fellow says, "Mary wants to talk about it, too. Will you come out after supper?" Well, now, you can't do anything about that. You have got to go.

Senator MILLIKIN. What you want to do, then, is carve out an exception.

Mr. BENSON. That is true. And the act, for good or bad—I wish there were a better way of doing it, frankly, Senator. I really do. But we worked at it long and hard. And this represents what you would call an exception. I believe in the act there are six in this particular section, here.

Senator TAFT. Where the employer contributes, as distinguished from the wholly self-employed, who contributes only for himself?

Mr. BENSON. That is it exactly. Now, maybe it is a bad thing to set up any particular group like that. But we worked at it very hard and could not figure out another way to do it.

I would like to leave this impression with the committee. We honestly believe the thing will work.

Senator KERR. Well, this group that you are talking about will either be classified as self-employed or as employed by an employer.

Mr. BENSON. Probably neither.

Senator TAFT. You mean under the definition in the act they probably would not fall under either?

Mr. BENSON. That is right. I am refering to some practical cases which still will have to be disposed of by regulations.

Senator KERR. Suppose you discuss that for a minute.

Mr. BENSON. Senator, if you will emphasize the word "practical," a full-time life-insurance salesman is from that standpoint an employee. They go to the office regularly. The bulk of them are in the big cities, these full-time salesmen. They keep pretty regular office hours. And they are required to attend meetings. And you can make out a case for the other side of it, too; all except that you can't tell a man just exactly how he is going to use his time or what he is going to say when he gets there. It isn't like making bolts out of a rod of steel. Because you don't say the same thing to every fellow to whom you sell a policy.

Senator KERR. As I understand it, what you are saying is that this is a better way to cover this group than to define them as self-employed and to cover them under that classification?

Mr. BENSON. That is correct, sir.

May we go back to the top of page 17, please? Now, I will try to be very brief, gentlemen. We are disturbed over the word "insurance" in the Social Security Insurance Act. Now, here is where that causes trouble. We go out to sell a policy to a man. And I will ask you if you will pick up this little chart, please, sir.

Senator KERR. You mean the comparison of primary benefits?

Mr. BENSON. No; this little colored chart. Well, the part colored in blue is what it does for the man's family if he dies and what it does for him and his wife if they retire. Then, if you were to add that up, that would come up to a pretty good-sized amount of total benefits. Well, the contribution has been $30, and now it is $45 on his part, and he isn't too worried about the employer's part. And he says, all of a sudden, "Well, if I get all this much for $45 from the Government, how does it come that it costs so much more to get what you are selling me?" Whereupon, we have to stop and spend a long time explaining to him the difference between the Social Security Act and private insurance.

Now, maybe this will save time. We are suggesting that instead of the Social Security Insurance Act it should be called the Federal Retirement and Dependents Benefit Act of 1950. We say, in the statement:

> The Congress acted very wisely when the Pure Food and Drugs Act was enacted. Among other things, that act provided that all articles of food and drugs should be clearly and correctly labeled in order that the public will in no wise be deceived. We hold that it is equally important that the public should in no wise be deceived in the matter of social security. We suggest that the word "retirement" is more significant than the words "old age" due to the fact that the act, in reality, contemplates that workers will retire before benefits are paid and the mere attainment of so-called old age in no wise assures a worker of benefits. We also believe that the words "dependents' benefits" more accurately describes the class of beneficiaries who will actually receive benefits than does the rather all-inclusive word "survivors," as the term is generally understood.

Senator MILLIKIN. Why do you not just call it the Federal Benefit Act of 1950?

Mr. BENSON. I will buy that.

Senator MILLIKIN. Why all this other monkey business?

Mr. BENSON. It suits me.

Senator MILLIKIN. That is what it is.

Mr. BENSON. That is right.

Senator MILLIKIN. This system we have is not an insurance act, is it?

Mr. BENSON. That is my point. And I would like to leave the idea with the committee, though, that we aren't willing to quibble over words. I do want to leave the impression here that it creates practical difficulties for us. And they are really practical.

I have done this much, just looking into it; and I can't find a definition in any lawbook of insurance that doesn't have three elements in it that I can find, first of all, that it is a contract; and second, that it does have a specific premium, and that the insured is obligated and the insurer is obligated to do something definitely in consideration of that premium, and then what is to happen is spelled out. Well, social security is not a contract. Nobody knows what the premium is going to be, or what the contribution or tax or anything else is going to be, and there is no relationship between the amount of tax paid and what a man may get. A fellow 30 years old, unmarried, pays $45. If he dies, little or nothing is paid. If a man has three small children and dies, it can end up at fifteen or twenty thousand dollars—with which we have no quarrel.

Senator TAFT. You said it has no relation. It has some relation, but not much.

Mr. BENSON. Not much. Thank you, Senator. There is not a direct relation.

Senator TAFT. Yes; I agree with you.

Mr. BENSON. Now, we are not quarreling about the fellow getting the money, but we don't want to call it insurance, because our premiums look a little out of line compared to this tax proposition.

Senator KERR. Do you suppose if we changed the title a little you would change your premiums a little?

Mr. BENSON. Well, Senator, in my particular position I would not have any objections.

Senator MILLIKIN. Let me ask you this, Mr. Benson. And I take no position on it. I am just groping for information. Why do we not cut out all this monkey business and cut out the fiction of reserve fund and start right out and pay the benefits that we decide should be paid to people of a certain age and collect the taxes necessary to do it as we go?

Mr. BENSON. Well, of course, it isn't without merit, is it?

Senator MILLIKIN. I would like to have somebody tear big holes in it.

Mr. BENSON. I don't think I am that smart.

Senator MILLIKIN. Right off the bat, I cannot see any reason why we go through all this hocus-pocus. Why do we not start right in and decide that people of a certain age are going to receive so much benefit and that we are going to tax people currently, people who have to produce the things anyway to pay the benefits, a sufficient amount to do the job? The reserve fund is phony. It is a swindle.

Mr. BENSON. Well, at least it is a phony. But here is what I think is wrong with it, in three points: The first one is that I do believe a system would work better if there is a relationship between total earnings and ultimate benefits. Because I believe if we were to suddenly agree on the fact, just to take a figure out of the air, that the correct amount is $60 a month, for the sake of argument, then, Senator, some people would have their income improved considerably by that $60. And I think you would immediately have a difficult situation. And there would be places were $60 would be too much and other places where it is not enough. So I think there should be some relation, there.

Senator MILLIKIN. Mr. Benson, in the end the very fact that we are sitting here now shows that politically we are going to adjust these benefits to what we consider to be the realities of the day and age in which we, again, sit here.

Mr. BENSON. I think that is right.

Senator MILLIKIN. So it all comes to the same thing.

Senator TAFT. But Mr. Benson, is there not this one thing? I mean, I agree with Senator Millikin, but it seems to me this is a system of taxation and not insurance, as you suggest.

Mr. BENSON. That is right.

Senator TAFT. But should not the benefits bear some relation, again, to the taxes paid? Or, putting it another way, some relation to what the man has earned, the work he has done for the community, during his life? In other words, could you not accept the general theory of universal overage and taxation and still grade the benefits with some relation to what a man has earned and, consequently, what he has probably paid?

Mr. BENSON. We prefer the earning notion. Senator, when we get to it, if we do, here, today, we are suggesting a benefit formula of 60 percent of the first $50 of average wages. Now, frankly, what we are attempting to do is to preserve the integrity of this system and establish thereby a floor, upon the theory that everybody that had credits would earn $50, on the average. And we are honestly attempting to establish a floor of $30. As a matter of fact, we would like to see in there that anybody that is getting benefits would get $30. Because we do not believe there is very much realism in the thing without that.

Senator TAFT. As compared to $25 under this H. R. 6000; the higher benefits in the lower grade? Is that right?

Mr. BENSON. Yes. We think it is a little more realistic. Now, then, on top of that we want to establish, on top of the minimum, and additional benefit definitely related to earnings.

Senator MILLIKIN. The fact remains, though, that we have been jiggling around with this thing since 1934 or 1935. People that went into that system paid 100-cent dollars in those days. Now we are getting an average, those who are getting benefits, of how much, Mr. Cohen? $26 a month? And it is worth $13. Is it not perfectly obvious that we have got to meet here again and again and again to bring this thing into relation to reality?

Mr. BENSON. Senator, that would impress me, except that I would worry about one thing, and that is that the great danger in this, as I see it, is that if we get that benefit too high, somewhere along the line, I am not impressed that when we get back to the 100-cent dollar the Congress will meet and bring the benefits back down.

Senator MILLIKIN. I think you can be dead sure that it will not.

Mr. BENSON. Frankly, I am, too, but I was being cautious.

Senator MILLIKIN. Why not remove the problem that exists in that situation?

Mr. BENSON. Senator, maybe I should not say this, but I will anyway: That we have the whole thing under consideration, and we are meeting in Oklahoma City on the 20th of March—and if we change our mind, we will advise the committee—as to the very problem you bring up here.

I know another gentleman is going to talk about the lump-sim death benefit, and then I am willing to close on the subject of total and permanent disability, which I know is rather a perplexing thing now.

We are flatly opposed to including any total and permanent disability benefits in the act. And the reason we are is that we believe that it introduces a completely new concept of administration, moving from objective decisions over to discretionary decisions.

Senator MYERS. Has that always been your opinion, Mr. Benson?

Mr. BENSON. Yes.

Then I would like to base it on this further premise: That we are of the opinion that adding total and permanent disability benefits to the act would create many administrative problems and solve very few problems of people who are disabled.

Now, may I amplify that in this way: The disabled range all the way from the man who is ill, who has to have a doctor, to the man who has to be hospitalized, with, perhaps, nursing care and expensive

medicines, and a primary insurance benefit has nothing to do with his problem. It won't solve it. He will still be a problem. Then down here is a man who needs to be rehabilitated, maybe to do a job with one hand that he used to have two to do it with.

So since I have prepared this thing, I have come across the most interesting material I have found in a Government bureau. I was put in touch with the office of vocational rehabilitation people. Do each of you have these "brass tacks" books? I don't know if I am bringing to your attention something that you already know all about, but I think it is tremendously interesting. Will you look on page 15? I believe the pages are numbered. You will observe there, and I have checked it with the people down there at this bureau, that for $460, cooperatively with the States, something over 220,000 people have been rehabilitated.

Now, if you will turn to page 24, there is the most interesting statement I have ever seen. And these people insist it is true. Incidentally, this is a Social Security Board publication.

Senator MILLIKIN. Pretty fancy, too, is it not?

Mr. BENSON. It is a beautiful job. It says:

> The record shows that most—

now I am interested in the word "most"—

> most disabled persons can be rehabilitated.

And those people stand on that word.

> When rehabilitated they make safe, steady, productive workers.
> The total cost of rehabilitation is repaid many times over in increased income-tax payments alone.

And this very well bears that out.

So I would like, if I may, based upon this and the interviews which I have had with these people, to make these observations relative to total and permanent disability.

First of all, it seems to me that here is an opportunity for the Congress to save literally billions of dollars. Because the high estimate, the ultimate estimate, is a billion and a quarter for total and permanent disability, and the low estimate is $500,000,000, which only explains one thing, that nobody knows what it will be. I think that is all we can make out of that.

But here is, I believe, about the first Government agency that I have ever found that could honestly make the Government a profit, really.

Senator MARTIN. Mr. Chairman, I wanted to ask Mr. Benson whether or not he has gone into the statements made on page 24 of this statement, as to what it is that that is based on. There must be some figures. They just make statements there. I want to know, Mr. Benson, whether you have gone into the figures that they base those statements on.

Mr. BENSON. Let me put it this way, Senator. We have visited a bit. And, Mr. Chairman, if I may make this suggestion, and I make it most respectfully, it would seem that this committee would be tremendously interested in having a first-hand story from the people who actually do this work. It is the most fascinating story I have ever seen. I am completely impressed by the fact that we are going to spend $1,100,000,000-odd, according to the budget that you are going to consider, for conserving our natural resources.

Senator MILLIKIN. Who is the man who knows more about it than anybody else?

Mr. BENSON. Mr. Michael J. Shortley.

Senator MARTIN. Mr. Chairman, I think Mr. Benson's suggestion is probably a very good one, but, of course, this hearing would be rather long drawn out. I would like to see those figures that those statements are based on.

Now, I believe very much in what is stated on page 24, from my own experience as a governor, because we did an awful lot of work along that line. I can testify, myself, that as it relates to the blind we have done wonders on a pretty small appropriation. But I am very much for getting everybody self-supporting if we possibly can, even if it costs more money than you get back in taxes. I would like to have the figures on that.

Mr. BENSON. Well, Senator, I don't like to beg your question. That isn't a good thing. But it seems somewhat inappropriate for me.

Senator MARTIN. The reason I asked is that I thought you had probably investigated that.

Mr. BENSON. I visited with Mr. Shortley, met Mr. McEldowney, and Mr. Kincannon, who are the three top men down there. And, Senator, I think they would be hard put, if I may express this as an opinion, to completely document the word "most." Because I have tried to pin them down. I said, "What does 'most' mean? Does it mean 51 percent? Does it mean 80 percent? What does it mean?" Well, they talked in round figures, 60 or 70 percent, or something like that. But, gentlemen, I think the thing goes deeper than that, and I will give you this experience, from my own company, on this total and permanent disability thing, when we were in it. And that is that we discovered that most people who become disabled and start getting a little money, even if it is a little money, become very frightened. And unless they are encouraged and shown how they can get back on a proper basis, they become afraid to get off the disability payment. They are more scared than they are disabled, for fear that if they do a little work, they can't get back on the claim. Honestly, much of it is mental, and you need understanding people. It is really a sales job. And we found when we went out to these people and talked to them, we found out a lot of things. We said, "Let's explore what you can do. Instead of getting $50 a month the rest of your life, wouldn't it be better if we would settle with you for $4,000, set you up in business?" And that actually happened. And we discovered a lot of things.

Now, I would like to say this: If the rehabilitation program can accomplish what we believe it can accomplish, it seems to me it goes right to the heart of this whole disability question. I am sure that is the most perplexting thing in this whole matter.

Senator MYERS. Is there not such a thing as the Life Insurance Association of America?

Mr. BENSON. Yes.

Senator MYERS. And the social-security committee of that association?

Mr. BENSON. Yes.

Senator MYERS. And did not that committee, in 1945, recommend total and permanent disability insurance benefits under social security?

Mr. BENSON. Total and permanent disability benefits? Not to my knowledge.

Senator MYERS. You were a member of that social-security committee; were you not? I am referring to the social-security committee of the Life Insurance Association of America.

Mr. BENSON. I don't belong to the Life Insurance Association of America. That is a company organization.

Senator MYERS. There is such an organization, and it has a social-security committee?

Mr. BENSON. That is right.

Senator MYERS. So, of course, I would think its views would be somewhat similar to yours. It has the same objectives as your association. Do you know whether that association, in 1945, recommended total and permanent disability insurance?

Mr. BENSON. As I say, not to the best of my knowledge. I think there was some discussion about its being limited to those between the ages of 55 and 65, in order to take care of the incidence of disability in some occupations where disability or, shall we say, termination of economic effectiveness, came early.

Senator MYERS. Well, not only between 55 and 65. It merely recommended that those benefits would cease, of course, if the individual receiving the benefits should recover before age 65.

Mr. BENSON. That is right.

Senator MYERS. If not, they would continue. So, at least one segment of the insurance industry did recommend, back in 1945, total and permanent disability benefits under social security.

Mr. BENSON. Senator, may I go ahead with my recommendations, here?

Senator MYERS. Surely.

Mr. BENSON. The point I would like to emphasize here, as I said, is that if the committee can develop the fact that these people can do the thing they think they can, then it seems to me it should not be a part of the Social Security Act, because whatever number of disabled people we have, and nobody seems to know how many there are, it seems to me it is as important to rehabilitate those who are not under social security as those who are.

Senator MYERS. But what happens to them before rehabilitation?

Mr. BENSON. It seems to me we have this kind of a problem, Senator: Would you agree with me that that would reduce the area to whatever extent it can be accomplished?

Senator MYERS. Oh, I think the plan is fine. You mean the rehabilitation plan?

Mr. BENSON. Yes.

Senator MYERS. Oh, of course.

Mr. BENSON. Now, then, I feel this way: If social security can be expanded, if the coverage can be expanded, broadly enough, and we can get a basic minimum benefit that will reasonably meet the minimum requirements, then, it seems to me, that should relieve the States of the assistance problem very materially. And by spending less money than they are spending now, they should be able to come in and do the interim job.

Of course, Senator, I think what you are going to point out to me is that they do not have the facilities to rehabilitate all those people: which is true, incidentally.

Senator MYERS. Getting back to the original question, does the National Association of Life Underwriters have a social security committee?

Mr. BENSON. Yes, sir.

Senator MYERS. And you are a member of that committee?

Mr. BENSON. Yes, sir.

Senator MYERS. And was it not that association, jointly with the Life Convention, the National Life Insurance Association of America, that issued a joint statement advocating total and permanent disability under social security?

Mr. BENSON. The only difference, Senator, is that that was not an official statement presented to Members of Congress.

Senator MYERS. Of course not; but I just wondered why your association has changed its mind since 1940. That is all.

Mr. BENSON. I don't know that we have changed our minds. Because when three associations issue a statement which is designed to be helpful to those persons who are considering social security, you see, after all it does not mean that everybody is in complete agreement on everything that is made in the State.

Senator MYERS. Of course, everybody was not. But the Association of Life Underwriters in 1945 issued a statement. And I will quote from it, and then I do not need to pursue it further, because it is getting late. But the three associations, including the National Association of Life Underwriters, of whose social security committee you are a member, issued a statement:

> The onset of premature old age creates a need for benefits to bridge the gap between the time earnings cease and the normal retirement age of 65. Such benefits could be made available by reducing the eligibility age by as much as, say, 10 years, upon submission of proof of total and presumably permanent disability, subject to discontinuance of benefits if recovery before age 65 should take place. Such a program of permanent and total disability benefits after age 55 is recommended.

Now, I am only wondering what happened in the meantime to make your association change its mind.

Mr. BENSON. Well, I can answer that question very forthrightly. I will go back to my text. We believe that introducing total and permanent disability benefits would create broad administrative problems and solve very few. Now, we have done a lot of studying since 1945.

Senator MYERS. But then your association has changed its mind. It has changed its policies.

Mr. BENSON. Yes, I would say so.

Senator MYERS. That is all I wanted to ask.

The CHAIRMAN. All right, Mr. Benson. Have you anything else? We must bring your testimony to a close.

Senator MILLIKIN. Mr. Chairman, I would like to ask Mr. Benson. Who should take up this load? Who should have the responsibility of taking up this load of permanent and total disability?

Mr. BENSON. We believe, Senator, that that is a State problem, because we believe that the nearer you bring the source of money to the benefits to be paid, the more you will get a much better administrative situation.

Senator MILLIKIN. And your theory is that as we increase the insurance benefits the States will have less burdens to meet as far as public assistance is concerned and therefore they will have more money to take care of this?

Mr. BENSON. It would seem to us that way.

I would like to say to Senator Myers that I think this is one of the most difficult problems that we are all coping with, and I do not know that we have the answer. I was delighted when I saw this vocational rehabilitation material. I thought, "maybe here is light on the thing. Maybe here is how we can get somewhere."

Senator MILLIKIN. I would like to ask one more question.

Why should we deduct earnings from persons entitled to insurance benefits?

Mr. BENSON. Why should we do what?

Senator MILLIKIN. Why should we deduct the earnings of a man who continues to work, who has reached the age when he is entitled to benefits under the insurance system?

Mr. BENSON. Well, I don't think we should. Did you notice my development of the different idea about the increment thing, on page 22a?

Senator MILLIKIN. That is what prompted me to say something about it.

Mr. BENSON. Well, I don't want to fall out with the chairman, Senator.

The CHAIRMAN. Well, we will have to conclude, because I do want to cover one other witness. We have been an hour and a half with you, Mr. Benson.

Mr. BENSON. Can I say one thing more, if I can say it in 1 minute?

The CHAIRMAN. Yes.

Mr. BENSON. It has been proposed that the increment should be left in at a half of 1 percent. We believe that that is unwise, because this Congress is proposing additional benefits for which future workers will have to pay. It has been talked about at the rate of eight-tenths of 1 percent of pay roll. It occurs to us that this Congress might act wisely to let future workers determine whether they want to improve the benefits to that extent and assume that tax load. Because there is an implied promise to pay, very definitely.

The CHAIRMAN. That is fully developed in your original statement?

Mr. BENSON. Yes. Now, then, the other thing: We say we would like to encourage people to work past age 65. We think that is healthy. And we think a way to do that is to say to the man, "If you will continue to work, we will improve your benefit a little bit in succeeding years, so that you will get more money." Then he will have an incentive to continue work, which we think is a sound thing.

The CHAIRMAN. We thank you, sir. We have your prepared statement, in which you have developed your ideas fully, and, of course, we will consider it. Thank you very much for your appearance.

(The prepared statement of Mr. Benson follows:)

STATEMENT OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS BY JUDD C. BENSON, PRESIDENT

FOREWORD

The National Association of Life Underwriters is comprised of local associations in all the States of the Union, Alaska and Hawaii. The local associations have as members 51,224[1] licensed agents, general agents, and agency managers. This membership represents the sales staff of the life insurance industry.

[1] Members in good standing December 31, 1949.

There are presently 80,000,000 individual owners of life insurance and annuities in the United States. These policy owners pay premiums in excess of $7,000,000,000 per year to the private life-insurance companies and have thus established and maintain more than $212,000,000,000 of life insurance in force.

Each working day our members discuss with 150,000 to 200,000 individuals the question of their personal economic security and that of their families. In more than 50 percent of such interviews, the subject of social security, as it applies to the individual and his dependents, is the first to be considered. Our membership should, therefore, understand the attitudes and wishes of the American public concerning social security as well as any other organized group.

We are aware of the fact that the present Social Security Act is not fulfilling the needs for which it was designed and it is our desire to assist, if possible, in improving the act. We endorse amendments which will make the act understandable, easily integrated with private insurance plans, as well as practical to the end that it will accomplish the objectives which Congress originally intended. To those objectives we did and we do subscribe.

In our opinion, many of the provisions of H. R. 6000 are not consistent with the original and desirable objectives of the Social Security Act. These amendments we will oppose.

THE ORGANIZATION OF OUR STATEMENT

This statement will proceed as follows:

1. A general definition of our concept of a practical social-security plan.
2. Statement of eight guiding principles for measuring the desirability of proposed amendments.
3. The general concepts in H. R. 6000 which violate the eight guiding principles.
4. The provision of H. R. 6000 which we oppose.
5. The provisions of H. R. 6000 which we favor, together with additional suggestions.
6. A brief statement pertaining to the public assistance provisions of H. R. 6000.
7. Conclusions.

This statement is not presented as "expert testimony." We hope, however, that whatever the statement may lack in brilliant economic theory or "high and low" actuarial estimates, it will make up for by establishing some guideposts which will lead to constructive amendments.

We want a practical system for providing benefits for retired workers and dependent beneficiaries of deceased workers which our children will be glad to pay for when we are the beneficiaries and they are called upon to pay the taxes which will provide our benefits.

SECTION I

GENERAL DEFINITION

The National Association of Life Underwriters favors a system of Federal benefits for retired workers and dependents of deceased workers which will treat all citizens equitably and fairly. We advocate basic minimum benefits which will eliminate the fear of destitution but which at the same time will impose upon those who have been lazy or improvident certain privations as a penalty for their indolence; and which finally reserves for those who, throughout their lifetimes have practiced industry and thrift, the rewards of a very sufficient and, at times, abundant way of life for themselves and their families.

SECTION II

GUIDING PRINCIPLES FOR A SOCIAL SECURITY ACT

I. The title of a congressional act which provides benefits for workers and their surviving dependents should accurately describe the system of benefits to be provided, set forth those who are to receive benefits, and should not create impressions or carry implications which are contrary to the true concepts of the act.

II. The government of a republic should strive to treat each of its citizens equitably and fairly. Therefore, it is highly important that any act which

provides Government benefits should be designed so that the benefits are equally available to all persons who are gainfully employed, wherever such benefits are administratively feasible.

III. The benefit formula of the act should be designed to provide a basic minimum level of benefits. Such a level of benefits fulfills the objects of the original Social Security Act. In all probability such benefits will not impose a pay-roll tax which future workers will be unwilling to pay in order to maintain a labor market which is not unduly competitive due to the continued efforts of millions of marginal workers who are unwillingly forced to remain in the labor market due to the inadequacy of retirement benefits.

IV. A sound system of benefits should impose upon specially designated groups, whether established by geographical, economic, or industrial boundaries, the responsibility for supplying such benefits as those groups may desire above the basic minimum level provided by the Federal Government.

V. The system of benefits should be devised in such a way that—

(*a*) There will remain with the individual worker the responsibility for providing such benefits as he may desire for himself and his own family above the basic minimum level.

(*b*) The strong moral fiber which is created and maintained by reason of the characteristics of personal responsibility and thrift will in nowise be impaired.

(*c*) There will remain with the individual ample opportunity and ability for "private savings" which will supply the flow of private capital so vital to a free-enterprise system.

VI. The rules pertaining to eligibility for benefits should be designed in such a manner that the benefit program will not impose enforced retirement on workers at a specified age and should provide some definite incentive for them to work beyond normal retirement age so long as they enjoy good health and their efforts are economically productive.

VII. A system of benefits to be administered by the Federal Government to provide retirement funds and benefits to dependents of deceased workers should avoid the introduction of new types of benefits which are foreign to these benefits. Such benefits should be particularly avoided when they will involve a new and entirely different administrative technique.

VIII. In view of the fact that payment of future benefits will represent a charge, through the medium of a pay-roll tax, upon the economy of the country at the time the benefits mature, any possible errors in establishing a wage base, a formula for providing benefits and provisions for taxing future workers should be on the conservative rather than the liberal side. Future Congresses can easily correct errors of conservatism but will find it next to impossible to correct errors providing benefits which are too liberal because of the "implied promise to pay" inherent in the act.

SECTION III

CERTAIN CONCEPTS IN H. R. 6000 VIOLATE THE EIGHT GUIDING PRINCIPLES

The greatest hazards which are created by a system of Federal benefits payable to citizens of a republic or certain classes of them lie in—

1. The unavoidable and persistent demands of beneficiaries of the system for more and greater benefits; and,
2. The perfectly normal human desire of the top administrators of a Federal bureau to increase its size, scope of activity, and responsibility and thus its prestige.

Beneficiaries find it easy to "let the Government take care of all our needs." That temptation is resisted only by those of exceptionally strong moral fiber and an understanding of the economic and political consequences of too expansive and too expensive a system.

The concepts in H. R. 6000 violate the eight guiding principles, in our opinion, in the following particulars:

(*a*) Rather than adhering to the concept of a formula which will provide basic minimum benefits, there is a strong tendency toward an attempt to provide "adequate" benefits.

(*b*) Rather than attempting to keep the tax at the lowest possible rate which will provide necessary funds to pay benefits, the base for taxes and the rate are increased so as to produce a very substantial surplus in the trust fund.

(c) In addition to increasing benefits at this time, an increment factor i insisted upon, which will continuously impose a higher tax burden on futur generations of workers.

(d) Entirely new types of benefits are introduced by seeking benefits fo those who are totally and permanently disabled and lump-sum death benefit in all instances whether dependent beneficiaries survive or not.

It is significant to note that H. R. 6000 offers more and larger benefits to eac worker and great care has obviously been used in making sure that the improve system of benefits, rather than the increase in the tax rate, has been strongl emphasized in all publicity which has eminated from Washington.

It is doubtless true that the very small pay-roll tax which employees hav paid has caused most of them to have a distorted or at least an uninformed poin of view relative to the cost which will be imposed upon their children to pa their parents benefits if the system is expanded in a manner suggested by th Social Security Board.

May we respectfully suggest that perhaps the greatest service this Congres can possibly render will be to "reaffirm their belief in the validity of the origina concepts of the Social Security Act" and take the necessary steps to have th act as universally understood as possible by all workers who are or may becom a part of the system.

SECTION IV

PROVISIONS OF H. R. 6000 WHICH WE OPPOSE

1. Any increase in the wage base above $3,000

Raising of the wage base above $3,000 is in violation of guiding principle III, IV, V, and VIII.

A wage base above $3,000 serves only to increase benefits for better paid workers and is entirely unnecessary to establish a basic minimum level o benefits.

The primary weakness to be corrected in our social security system at the pres ent time is the inadequacy of benefits for those workers who earn average wages o less than $3,000 per year. A change in the wage base as has been proposed by the Social Security Board ($4,800) would benefit essentially a group of semi skilled and highly skilled workers. This, in our opinion, is one of the specia groups clearly identified by "industrial boundaries" who are individually, o together with their employer, amply able to provide whatever benefits they may desire above the basic minimum level. There is no necessity for transferring this particular responsibility to the Federal Government.

Such a change might accommodate 15.5 percent of presently included workers whose earnings average $3,000 to $3,600 per year, 13 percent of included workers whose incomes average $3,600 to $4,800 per year, and 8.4 percent whose incomes exceed $4,800.[2] The change would be of negligible consequence benefit wise to the group who earn $3,000 to $3,600 and certainly is in nowise necessary for the 13 percent who earn more than $300 per month or those who earn $4,800 per year.

May we emphasize, out of our experience, that there is a very important psychological factor to be considered in connection with changing the wage base The present law clearly implies that those workers who earn more than $3,000 per year shall be responsible for any desired benefits above those provided by the Federal Government. In the event this Congress reaffirms this principle we believe such action will go far in impressing upon the average worker that he does have this responsibility and he will proceed to do something about it On the contrary a change in the wage base by this Congress will create in his mind the general impression that future Congresses will likewise change the wage base to accommodate his situation and he will be encouraged to neglect his personal responsibility in this matter.

It may be argued that it is desirable to increase the wage base due to the fact that taxes levied on the increase over $3,000 will more than offset the benefits which will be paid by reason of such increase. If this is true, we suggest that the argument is lacking in validity and only opens up an invitation for those persons who are in that particular wage category to insist that some

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[2] Social Security Board charts submitted to Senate Finance Committee, hearings H. R 6000.

future Congress improve their particular benefits, arising from wages earned above $3,000, in order to correct the "inequity" in the relationship between benefits and taxes paid. This would be the next excuse for substantially increasing the benefits.

2. *The inclusion of any lump-sum death benefit*

This is in violation of guiding principles III and VII.

Our association is greatly concerned over the fact that H. R. 6000 contemplates paying lump-sum death benefits equal to three times a worker's primary benefit, whether there are dependent beneficiaries to receive income or not. The present law pays such benefits only in the event there are no dependents entitled to receive such income.

We insist that the inclusion of any death benefit whatever, under a system of Federal benefits, is contrary to the concepts of the act and wholly unnecessary. We again direct your attention to the fact that 80,000,000 citizens of the United States are covered by private insurance for a total amount of more than $212,000,000,000. You will doubtless agree that this 80,000,000 will include a great majority of the 60,000,000 persons who comprise the working population and more particularly the 45 to 50 million persons now covered, or who are likely to be covered, under the proposed amendments in H. R. 6000. The payment of such a death benefit is a direct departure from the purposes of the social security program, which is to provide retirement funds and to alleviate the distress of those persons who, by reason of the death of the worker, do not have a basic minimum level of income. We feel sure that it was not the original purpose, and should not be, of such a program to provide what amounts to a system of "funeral benefits."

Perhaps the first results of such a program would be to increase the cost of funerals of deceased workers in lower income groups. This would impose a hardship particularly on lower income groups who are not eligible for benefits under the act.

This, we feel, represents a direct invasion by the Federal Government into a field which is already well covered by private enterprise and we, therefore, respectfully suggest that all provisions providing for lump sum death benefits should be stricken from the act.

Once the principle providing for the universal payment of lump sum death benefits has been established, future Congresses will be called upon to consider the "inadequacy" of such benefits and it will readily be pointed out that it is quite as important to provide all workers with a fund, payable to their estate, which will be sufficient to pay not only funeral benefits but "any and all expenses connected with their last illness," thus transferring that particular responsibility to the Federal Government also.

3. *Any inclusion for total and permanent disability benefits*

This provision violates guiding principles III and VII.

This amendment introduces a completely new concept into the act which we believe is fundamentally unsound for the following reasons:

(*a*) It will create expensive and extensive administrative problems and procedures and will solve very few of the problems of disabled workers.

(*b*) This law will not be more than 1 or 2 years old until its advocates will be back asking the very pertinent question "So long as Congress has agreed to take care of those persons who are disabled for 6 months or longer, what good reason prevails to indicate that the Federal Government should not take care of those persons who are disabled for 1 week, 1 month, or 3 months?"

The Social Security Administration made such a request to the House Ways and Means Committee in 1949, and we presume it is only temporarily dropped from the list of "asks" because it was conspicuously unpopular in 1949.

(*c*) A system of primary benefits as provided in H. R. 6000 would be neither adequate nor appropriate to care for workers who are actually totally and permanently disabled.

Disabled workers would fall into categories ranging from those who require hospitalization, constant medical care and nursing, to those who are in need of a rehabilitation program in order to equip them to properly reenter the labor market. The system of primary benefits would be entirely inadequate to cover the first situation and would be an inappropriate type of benefit to fit the second.

Proper treatment for totally and permanently disabled persons involves the following procedures:

(1) A correct diagnosis of the illness or impairment involved.

(2) A prescribed procedure for correct treatment to reinstate the worker in the labor market at the earliest possible date.

(3) Supervision to make certain that the prescribed treatment is followed meticulously.

(4) Proper administrative procedures for rehabilitation, including very close and realistic supervision of such cases to prevent malingering.

These procedures, we believe, cannot be most satisfactorily accomplished by the Federal Government. In the event such services are provided at the Federal level, they will be subject to many abuses.

Such a system of benefits disturbs the original concepts of the Social Security Act and will create a greatly expanded bureaucracy which would become, at best a "political tool of whatever administration happened to be in power". We suggest:

1. That such assistance as may be required for those who are totally and permanently disabled and such rehabilitation programs as may be necessary to reestablish the disabled worker in the labor market should be a responsibility of State and local Governments. If Congress is willing to extend the scope of coverage of the Social Security Act and improve the benefits, the State and local Governments should be substantially relieved in the public-assistance field. It is doubtless true that many of the cases of total and permanent disability which are presently in existence are already being cared for on some basis through the public-assistance program.

Therefore, it cannot be said that it will unduly increase the load on the State and local governments, but as their load is decreased by improving the Social Security Act the State and local governments should be able to very adequately care for their disabled citizens who are not covered by private plans.

The necessary requirements for each such disabled person, varying as they do, can be appraised and provided for much more realistically at the local rather than the Federal level. There would be little or no alertness on the part of the local public to attempt to prevent abuses of the system and also to prevent malingering if the general attitude of "why worry—the Government is paying for it anyway" should prevail. We believe, on the other hand, the local public will be very alert to abuses and malingering if it is "their specific tax money which is being spent." This would be equally true whether benefits are provided by general taxation or some form of tax applicable to the specific class of workers who may receive benefits.

4. The inclusion of any increment factor whatever in determining the benefit for retired workers or surviving dependents

This violates guiding principles III, IV, V, and VIII.

The effect of any increment factor in a benefit formula under a Federal system of benefits is to provide increased benefits for those with longer wage credits. Such a program would seem to be based on the theory that each worker should receive benefits directly related to his total contributions. The benefit formula proposed in H. R. 6000, and more specifically in our recommendations, make it obvious that such is not the case. If this were the case, 1 percentage would be applied to the total wage base in determining the primary benefit instead of applying a large percentage to the first bracket of average monthly income and a smaller percentage to the remainder of the average monthly income. Such an approach is contrary to the true concept of the social-security program.

Under a Federal system of benefits which forthrightly recognizes that benefits arise from a tax upon the wages of the workers who are included in order to provide benefits for workers who have retired or beneficiaries of deceased workers, it is entirely unnecessary and inappropriate to project the equity theory into such a system. To do so, only confuses the basic theory and fails to take into account the most important point of all: namely, that workers who have presently attained age 65 and desire to retire have as great a need for a basic minimum benefit as those who will retire 10, 20, or 40 years hence. So long as it is commonly agreed that the financing of the social-security system need not be and should not be on an actuarially sound basis, any attempt to impose the equity theory only adds confusion.

The second most important point is that, by introducing the increment into the formula, the present Congress is presuming to impose an increased benefit load, through increased pay-roll taxes, upon future generations of workers who may be entirely unwilling to assume such responsibility. Frankly, if younger workers were thoroughly conscious of the increased tax burden which will be imposed, we doubt seriously if they would favor such a system.

SECTION V

THE PROVISIONS OF H. R. 6000 WHICH WE FAVOR, TOGETHER WITH ADDITIONAL SUGGESTIONS

Based upon the fundamental guiding principles which we have offered for your consideration, the National Association of Life Underwriters favors the following amendments to the Social Security Act:

(1) A change in the title of H. R. 6000 as follows: "The Federal Retirement and Dependents Benefit Act of 1950."

This suggestion is consistent with our first fundamental guiding principle.

The Congress acted very wisely when the Pure Food and Drugs Act was enacted. Among other things, that act provided that all articles of food and drugs should be clearly and correctly labeled in order that the public will in no wise be deceived. We hold that it is equally important that the public should in no wise be deceived in the matter of social security. We suggest that the word "retirement" is more significant than the words "old age" due to the fact that the act, in reality, contemplates that workers will retire before benefits are paid and the mere attainment of so-called old age in no wise assures a worker of benefits. We also believe that the words "dependents' benefits" more accurately describes the class of beneficiaries who will actually receive benefits than does the rather all-inclusive word "survivors," as the term is generally understood.

The general characteristics of the social-security system are not such as to indicate that the word "insurance" should be included in the title. The benefits provided are not insurance in the true concept of the word, nor as the term "insurance" has come to be understood by the American public. We offer the following arguments in favor of this statement:

(1) There is no contractual agreement under social security which guarantees that benefits in a stipulated amount will be paid in consideration of specific premiums. Quite the contrary is true. Congress will doubtless change the schedule of benefits from time to time. During the past 10 years Congress has acted to change the schedule of pay-roll taxes which was provided in the original act. In view of the fact that the person who is covered does not have a guaranteed benefit, nor is he protected by a contractual arrangement whereby his taxes are fixed beyond the power of Congress to change the rate, it is unreasonable to attach the term "insurance" to such a system. It is well agreed that there cannot be and will not be a fixed relationship between the taxes paid by each worker and his benefits at retirement or for his dependent beneficiaries.

In its true sense, insurance contemplates a correct relationship between premiums paid, the age of the insured, and the maturity of the value of the contract at death or some predetermined age. This is not true in H. R. 6000 and should not be true in any scheme of Federal benefits.

In a great majority of life-insurance contracts the policyholder builds certain equities in the contract which are available to him to do with as he pleases. Such is not the case in the Federal system of benefits, the taxpayer being limited to the strict provisions of the law.

It is our contention that a system of benefits which will most adequately serve the needs of the greatest number of workers and their dependent beneficiaries will eliminate entirely the theory of "equities" and will forthrightly recognize and state to the public that each year's benefits represent a charge upon the general economy of the same period in which the benefits are paid, with a nominal accumulation of reserves for contingency purposes only.

It will, of course, be contended by the strong proponents of H. R. 6000 that it is appropriate to label the social-security system as "insurance" due to the fact that it "distributes the risk among surviving workers in the system for losses which fall on dependents of deceased workers by reason of the loss of the income of the deceased worker." We readily grant that this is one characteristic which is somewhat similar to insurance, but we in no wise agree that it is correct to label the whole system "insurance" when all of the other characteristics common to the system are in no wise the same nor even similar to the characteristics of the American life-insurance system.

(2) An extension of benefits under H. R. 6000 to include all who are gainfully employed, wherever such coverage is administratively feasible.

This recommendation is consistent with our general definition and is designed to implement fundamental guiding principle II.

Our association wishes to endorse and respectfully ask favorable consideration from this committee in retaining unaltered section 210 (k) (3) (B), H. R. 6000, pages 48–49.

The subsection provides as follows: "(3) Any individual (other than an individual who is an employee under paragraph (1) or (2) of this subsection) who performs service for remuneration for any person * * *

"(*b*) As a full-time life-insurance salesman * * *."

May we remind the committee that Mr. M. Albert Linton, testifying on behalf of the Life Insurance Association of America and the American Life Convention before this committee on February 10, 1950, offered a similar endorsement of this subsection.

Enactment of this subsection will enable our members to be included for benefits with proper payment of taxes. Such inclusion we have sought for many years.

It has been argued that it is unwise to impose a social-security system involving pay-roll taxes on groups of persons a majority of whom do not wish to be included. It is contended that they receive benefits they do not seek and have imposed upon them taxes which they do not wish to pay. We believe this reasoning is not valid, due to the fact that the same group of citizens will ultimately contribute a certain percentage of their number to the relief rolls for some form of public assistance. Funds to meet their assistance requirements must be raised by general taxation and, therefore, the worker who is included in a system of Federal benefits must contribute through a general tax levy to provide the funds for public assistance and, at the same time, assume a pay-roll tax which is designed to be adequate to provide the benefits for those who are in his benefit group. This, we believe, is the strongest argument for extended coverage.

There seems to be general agreement among actuaries that the ratio of workers age 20 to 64, inclusive, to persons past age 65 is constantly diminishing. This indicates the probability of a heavier tax burden on workers in the future to provide benefits for persons in retirement. As the system of Federal benefits matures, with a higher percentage of retired persons receiving benefits, we believe that the demands "to be included" from groups who are not included presently will increase very sharply. Should a future Congress conclude to provide such benefits, many citizens would receive substantial benefits, without having paid an appropriate pay-roll tax to assume their share of the burden in caring for retired workers during the time they were earning wages.

Some have suggested that there is a top limit beyond which pay-roll taxes should not go; and, after that limit is reached, additional funds to provide benefits will have to be contributed by an appropriation from general revenues. At that point it will be extremely difficult to deny benefits to any group whether they have paid taxes or not.

To summarize, if social security is good, then each citizen should benefit from it; and, if it is bad, we feel that each citizen should be in on the big mistake.

(3) Any benefit formula which will provide a primary benefit equal to 60 percent of the first $50 of average monthly wages, and 15 percent of the next $200 of average monthly wages: This suggestion implements guiding principles II, III, IV, and V.

It will be noted that this formula provides benefits which are somewhat less but similar to those recommended in H. R. 6000. It has the advantage, however, of providing larger minimum benefits for workers in the very low-income groups, and we believe it is important to establish a formula which favors this group.

A formula which provides benefits equal to 15 percent of average wages above the first bracket as opposed to 10 percent of such wages will create a system of benefits which is much more realistic for better-paid workers and will tend to relieve future Congresses from coping with the problem created by the complaints of better-paid workers who will insist that there is a very poor relationship and one adversed to them when the 10-percent factor is used in calculating benefits. This problem will be greatly accentuated as the pay-roll taxes increase, and this would be a good way and a good time to avoid that difficulty.

(4) We favor liberal conditions of eligibility for benefits.

We recommend that conditions of eligibility for retirement and dependents' benefits must be sufficiently liberal to include as beneficiaries as large a percentage of workers who pay taxes and their dependent beneficiaries as is possible.

(5) We recommend a work clause which will enable a worker qualified for benefits at age 65 to earn an amount equal to $50 per month without any reduction in his social-security retirement benefits, as is currently provided in H. R.

6000. We also favor removal of the work clause at age 70 rather than age 75.

These suggestions are made to implement our fundamental guiding principles II, III, IV, VI, and VIII.

We believe that no particular good is to be accomplished by insisting upon a work clause continuing to age 75. Whatever merit there may be in the act being designed to eliminate "marginal workers" from the labor market would be nullified unless the work clause is entirely removed at age 70.

Our association would also like to suggest that a work clause be included which would enable a widow, who is othewise eligible for dependents' benefits, to earn $50 per month without impairing her widow's benefits. Whatever amounts she might earn above $50 per month in average wages should act as a reduction against her social-security benefits in the same amount by which such wages exceed $50 per month.

(6) NOTE.—As this statement is being prepared, the Board of Trustees of the National Association of Life Underwriters has under consideration the following recommendation. If included in the statement, it will carry our endorsement.

We favor a revision in the benefit formula which will provide an improvement in benefits for workers who defer benefits past age 65, equal to 3 to 5 percent of the primary benefit at age 65 for each year of deferment; the deferment not to extend past age 70. (Wife's benefit not to be improved.)

While the benefit formula in the present Social Security Act has been inadequate to allow workers to retire, even on a basic minimum level of benefits, it is extremely doubtful whether more than 50 percent of our workers desire to retire at age 65, particularly if they are in good health. The present system has the general effect of "enforced retirement" if a worker is to receive benefits. While we appreciate the fact that it is difficult to devise an entirely satisfactory plan which will allow workers to "ease up" rather than retire, we suggest that the act should encourage workers to continue past age 65. Hence, our suggestion of the change in the formula.

The actuaries of the Social Security Department are the only ones who have the basic data upon which to determine the cost of such a change in the formula. We presume, however, that it would not impose as great a cost as the 1 percent increment factor which has been proposed by the Social Security Board and would serve a much better and more practical purpose for workers who are covered.

If all workers were to retire at age 65 there would be, hypothetically, little extra charge on the trust fund if all workers deferred retirement to age 70 and by so doing, improved their benefits by 20 percent (4 percent improvement per year). The question to be determined is the average age at which workers will retire with the improved benefit formula, and the number who would probably defer retirement if their benefits were substantially improved. It is our opinion that a 3 percent annual improvement in the benefits would not place an undue burden on the trust fund and that 5 percent is probably too great an improvement. Actuarial study should determine the answer to the problem—we suggest the fundamental principle.

In this same connection, the position of the worker past 65 would be substantially improved if all pay-roll taxes for him and his employer could be eliminated. It would add to his incentive to continue working and to the incentive of his employer to keep him on the job. This poses another actuarial question, the answer to which might prove interesting to the committee.

SECTION VI

PUBLIC ASSISTANCE

Our committee on social security has not undertaken to make an exhaustive study of the very involved public-assistance question. The committee has, however, considered the statements which were presented to the Committee on Ways and Means in 1949, the statements which have been presented to this committee, and the comments of well-informed persons who have studied the question at length.

As a result of this admittedly limited investigation we are led to make the following observations pertaining to the so-called public-assistance sections of H. R. 6000.

I. Whereas improvements in the Federal system for providing benefits at retirement and benefits for dependents of deceased workers are presumed to progressively eliminate the necessity for the Federal Government to participate in

public-assistance programs, we are at a complete loss to understand where th suggested amendments move in any direction other than directly opposite fron this principle. There certainly is no merit whatever in improving the retiremen and dependents' benefits under the Federal system and, at the same time, impos ing a greater load on the Federal Government for public assistance, which shoul fall within the province of the State and local governments.

II. As the public-assistance section of the act is designed, it represents an ope invitation, in fact an urge, for the welfare departments of the various States t use all their ingenuity to get the greatest number of people on their relief rolls a quickly as possible. As a matter of fact, it would appear to be a law which woul almost impose upon the wealthier States the obligation to violate the true con cepts of public assistance in order to protect the financial position of their own State against the tremendous demands for public assistance by States whos economic situation is not so fortunate. There surely can be no merit in a law which encourages this type of procedure.

III. The features of the public-assistance sections which are most dangerou and violate forthrightly our concept of "States' rights" are those which provid very substantial Federal funds for assistance in the various States but only pro vided the State welfare agencies comply with rules and regulations which ar set down by some administrative head at the Federal level. This at once put every State government on their knees before a Federal Bureau because any failure to comply with the wishes of the Federal Administrator would brin down on the head of the State welfare director the wrath of all groups wh were clamoring for public assistance and wanting to get their hands on "th Federal funds."

Business interests of States which are less fortunate, economically, would als be insisting that the State welfare director comply immediately because Federa funds flowing into the State for public assistance will substantially improve th general purchasing power and thus the business conditions in States which ar heavy benefactors under the Federal assistance program. The committee surely has ample evidence before it, which is indicative of the vast difference in tech niques which prevails in determining those persons who may be "needy" in on State as opposed to another, and thus eligible for public assistance.

IV. We are going to be so bold as to suggest that unless a public-assistance sec tion of the act can be drafted which will correct the obvious objections to H. R 6000, the Congress would do much better to omit that section of the act entirely until a better approach to the problem can be devised. This is based upon the fundamental theory that no improvements in the law will be much better than adding objectionable features and magnify the existing ones.

SECTION VII

CONCLUSION

In conclusion, we would like to reiterate three suggestions which are embodied in this statement.

1. Congress should adhere to the original concept of the Social Securtiy Act and devote its attention primarily to improving the scope and benefits of the act so that the original objectives can be attained.

2. Some set of guiding principles should be agreed upon which will act as guideposts for lawmakers, administrators, as well as workers and their dependent beneficiaries.

3. In view of the fact that no man or group of men are able to predict, with any degree of certainty, the full implications of a greatly expanded system of Federal benefits, we again suggest that any percentage of error should be on the conservative rather than the liberal side. We repeat, future Congresses will have little difficulty in correcting errors of conservatism and will find it almost impossible to correct errors which promise benefits beyond the willingness or ability of our children to pay them.

It is always better to promise little and perform more than it is to promise much and fail to meet the promise.

The CHAIRMAN. Mr. Guernsey? The next witness is Mr. S. Kendrick Guernsey, executive vice president of the Gulf Life Insurance Co.

Mr. Guernsey, you have with you Mr. Turpin. Mr. Turpin is from Macon, Ga., and he is here in connection with your statement on this matter?

STATEMENTS OF S. KENDRICK GUERNSEY, EXECUTIVE VICE PRESIDENT, GULF LIFE INSURANCE CO., JACKSONVILLE, FLA., SPEAKING ON BEHALF OF LIFE INSURERS CONFERENCE, AND WILLIAM TURPIN, GENERAL COUNSEL, BANKERS LIFE AND HEALTH, MACON, GA.

Mr. GUERNSEY. That is correct.

The CHAIRMAN. I am sorry that due to a serious accident to his mother, Senator Byrd is not able to be present this morning.

Mr. Guernsey, will you identify yourself for the record?

Mr. GUERNSEY. My name, gentlemen, is S. Kendrick Guernsey. I am vice president of the Gulf Life Insurance Co., Jacksonville, Fla., and I very deeply appreciate this opportunity to appear before you this morning.

Realizing that you are quite far behind in your schedule, I shall try to be brief, and perhaps will speak a little more rapidly than I should like.

The CHAIRMAN. You may take your time, Mr. Guernsey. Try, if you will, to finish your testimony before lunch time, however.

Mr. GUERNSEY. Thank you.

This statement is respectfully submitted on behalf of the Life Insurers Conference, an organization of which my company is a member, together with 80 other companies. These companies, principally located in the south and southeast portion of the United States, are generally referred to as the weekly premium life insurance companies. Including companies outside of this area, our total membership is domiciled in 22 States, providing employment to over 55,000 home office and field personnel. As you no doubt know, companies of this type write life insurance in small amounts, averaging about $250 per policy—although many of these policies are in even smaller amounts. The premiums are paid usually on a weekly basis and are collected by agents who call at the home of the policyowner. Most of these companies had their beginning during the first half of this century and are the small and medium-sized companies in the life-insurance industry. For convenience, they might be called the small businessmen in the life-insurance field. The policies which these companies write are attractive to the large masses of our lower-income employees and workers who by nature or habit do not set aside sufficient moneys to pay their life-insurance premiums on a semiannual or annual basis. This means of distribution has rendered a great service to that segment of the American people who otherwise would not have found such protection available.

We feel it essential that you consider this background in conjunction with the way in which H. R. 6000 would deal with these companies and their policyowners, for it is not exaggeration to say that the continuance—the very life—of many of these smaller companies may be dependent upon your complete understanding of all effects of this proposed legislation.

We find it much more desirable to appear before you favoring and endorsing a program rather than opposing one. Therefore, let me say at the outset that since social security as we know it today has been accepted in principle by the people of the United States it seems reasonable to endorse a moderate increase in benefits to make the sys-

tem more realistic, provided, always, that the people can and will pa for it. We naturally assume that such proposed revisions would co template that the plan be maintained on a self-supporting basis. I planning such changes it would seem vital to the committee's deliber tions that you have available the services of an independent actuar who is in a position to raise issues as well as answer technical question

In our opinion, the proposed new types of benefits are directly co trary to the established purposes of the Social Security Act. Hov ever, believing that other segments of the life-insurance business a better qualified to deal with most of those proposals, we are electi to confine our testimony to one of these features of the proposed bi which, if enacted, would immediately and drastically affect our bus ness existence for reasons which I will state. I refer to the funer or so-called lump-sum death benefit.

At present the act provides for a lump-sum death benefit to be pa in the event an insured worker dies without leaving a survivor imm diately eligible for benefits. We understand that this provision w adopted, not because of an existing social problem but as a carry-ov of an original money-back principle. H. R. 6000, however, provides lump-sum death benefit for all insured workers, whether or not oth benefits have been paid. The amount of this lump-sum payme would be equal to three times the insured worker's primary month benefit. Here again there appears to be no justification in a socia insurance program for the continuation of a guaranteed payment n intended to meet a social need.

Latest figures indicate that approximately 80,000,000 persons in t United States own life-insurance policies. As has been previous stated in testimony, a large segment of those in covered employme today have made provision for their funeral expenses through owne ship of some kind of life insurance. Of this number of persons, tw out of every three, or over 55,000,000, pay life-insurance premiums the weekly basis and on policies in smaller amounts. Let me emph size that the life-insurance business has done one of its most outstan ing jobs in the distribution of voluntary protection to meet the nee of the lower-income workers and employees—the same lump-sum pa ments on death which this section of the bill proposes to duplicate take over on the assumption that a need exists. The amount of su weekly premium life insurance in force in the United States is ov $32,000,000,000.

Senator KERR. Is that a part of the $207,000,000,000 referred earlier in the day?

Mr. GUERNSEY. Yes, Senator.

Now it may be possible that a frugal employee, for example, ow ing a $5,000 life-insurance policy would not allow a funeral bene in the neighborhood of $150 to affect his individually purchased in- ance. On the other hand, there is little doubt that the low-income e ployee, owning insurance in small amounts, and, through force circumstance, watching every penny, would discontinue the private purchased small insurance policy, especially when he realizes that is being taxed for similar Government lump-sum death payment And inevitably the removal of incentive to private thrift would me that oncoming generations would increasingly rely on the Governme rather than their own efforts to take care of the inevitable expense death.

In most instances, the small life insurance policy has taught the lower income employee and his family their first, and probably only, continuing example of thrift. If you remove it, you will weaken and perhaps destroy his one financial demonstration that he believes in private initiative and dependence on himself.

Rather than deal entirely with national figures and averages, it would seem of equal importance and interest to introduce an example and to show just how such a proposal would affect our business and policy owners in a specific State. We have chosen for this illustration the State of Virginia because of its stable economy—being neither preponderantly industrial, agricultural, nor to any large degree affected by tourist trade, though my own State of Florida and others we have considered, would show comparable figures. The population of the State of Virginia is approximately 3,000,000 persons. There are in force in that State 3,372,000 weekly premium life insurance policies, representing over $814,000,000 of life insurance. Simply stated, there is already in force in Virginia more than one policy for each inhabitant of that State.

Senator KERR. Could you tell us how many inhabitants of that State do not have such a policy?

Mr. GUERNSEY. It would have to be a guess.

Senator KERR. Would you make a guess?

Mr. GUERNSEY. Senator, I fear a guess would not be of great value to you. I would have no idea.

Senator KERR. You do know that there are quite a number who do not have any such policy?

Mr. GUERNSEY. Admittedly.

Senator KERR. Would you say that you could safely estimate that half of them do not have?

Mr. GUERNSEY. I would not consider any figure I might give you a safe one, because it would be a guess.

The conspicuous absence of a social problem to be solved in this instance points to the unnecessary inclusion of the proposed lump-sum death benefit in this bill.

If this effort of free enterprise is not recognized and the lump-sum death benefit is retained in H. R. 6000, then the $814,000,000 of voluntarily purchased life insurance in this one State alone would be put in jeopardy and, if not immediately, would, in our opinion, through Government competition, begin to disappear.

Following this same example further, it is of equal important to show how these small privately purchased policies pay benefits. Last year in the State of Virginia there was paid out on 24,369 weekly premium life policies death benefits amounting to $4,334,000. In addition to this insurance in force and benefits paid, there are millions of dollars of life insurance in force in larger amounts under ordinary and group life insurance contracts. In fact, the total amount of life insurance in force in that State is in excess of $3,000,000,000.

Senator MILLIKIN. Are we talking here about insurance to take care of funeral expenses? Is that what we are really talking about?

Mr. GUERNSEY. Exactly.

This is the story of only one State. A similar outstanding job is being done elsewhere in the Nation. A pauper's burial, known frequently a decade or two ago, is now almost unheard of.

Senator MILLIKIN. Do we have any statistics on that?

Mr. GUERNSEY. No, sir; nothing except our observation.

We do not presume to speak for all weekly premium life insuran nor the larger companies writing such life insurance which do n belong to this association. Nonetheless, it must be apparent that the business would be affected in proportion to ours. There is also reas to believe that were this proposal enacted, it would not be long befo appeals would be made to further increase these benefits to compe sate for increased costs of funerals, thereby putting in jeopardy li insurance in even higher amounts.

We are sincerely convinced that this public need is not only bei met, but that every year a better job is being done. We feel that t public has demonstrated its wishes on this point by its large sca voluntary purchase of life insurance. We therefore see no realist purpose for the inclusion of a lump-sum death benefit in H. R. 60 and strongly urge that the provision be stricken from the bill.

It is contrary to the basic principles upon which the economy of th great country is founded for the Government to enter into a fie where private enterprise has made such a contribution and for whi it has so ably demonstrated its ability to adequately provide.

Gentlemen of the committee, I find it difficult to speak without em tion on this subject for in this plan I see so clearly a perfect examp of the type of proposal which has brought so many nations of t world today to that position where they are dependent upon the Unit States of America, a free enterprise nation, for the essentials of li which their socialistic systems cannot provide.

Two years ago it was my privilege to visit 20 nations, where I soug and found the opportunity to talk to men and women of all statio in life—porters in hotels, waiters, drivers of busses, small merchant business and professional men in the larger fields, American consu and ambassadors, and governing officials of the countries in which was a visitor, including mayors, governors, prime ministers, and pres dents. I sought to learn without fear or favor what they thought the governing policies of their country. Particularly did I seek th information in those countries where the so-called welfare state ha made the greatest inroads, and I am thinking primarily of Austral and New Zealand, whose peoples in most respects are more like o own than those of other nations. With the exception of those who we forming or administering the socialistic policies of those nations, found dissatisfaction, disillusionment, and in many places, discourag ment. Many said to me, "A few years ago we said it can't happen her but it did. The symptoms, the trends are identical in your countr today. If you would keep your country what it is, you will go bac to America and use your utmost effort to preserve and protect tho things which have made your country great." That is why I am he today.

You are aware that in recent weeks the citizens of both Austral and New Zealand have rebelled against the impractical theories dreamers and the wastefulness of bureaucratic administrations a replaced them with a government wherein there is a hope of equali and opportunity for all. To be sure, I am here to try to protect t interests of my own company and a large segment of our policy owne I am here to fight for the life-insurance business as a whole, but abo all, I am here in a conscientious and hopeful effort to try to do n

part to preserve those things which have made by country the admiration of all others, except those who have envy or malice in their hearts.

We sincerely believe that the decision which is made in connection with H. R. 6000 will determine in large measure the extent to which individual responsibility and private initiative are subordinated in this country to Government control—or—call it what you will. We do know that the prosperity of this country under its present system should dictate a far wiser plan for its future than that conceived in this section of the bill. The proper action is to strike the lump-sum death benefit from this act.

The CHAIRMAN. Mr. Guernsey, we appreciate your appearance, sir.

Are there questions?

Senator MYERS. I just wondered whether this gentleman appeared when the original social security bill was under consideration, 10 or more years ago.

Mr. GUERNSEY. No, Senator, I did not.

Senator MILLIKIN. I would like to ask Mr. Cohen, Mr. Chairman, whether he has any statistics on pauper burial.

Mr. COHEN (Wilbur J. Cohen, technical adviser to the Commissioner for Social Security). We have some statistics, Senator Millikin, from the public-assistance figures, as to those burials of people on the public-assistance rolls, with which we can supply you.

The CHAIRMAN. Anything that bears on this question, Mr. Cohen.

USE OF PUBLIC FUNDS FOR BURIAL OF NEEDY PERSONS

Public assistance agencies in the United States generally have policies that make it possible to provide for burial of needy persons. Some assistance agencies make payments directly to the undertaker or others for burial of an assistance recipient. It is common practice also to permit recipients of assistance to maintain cash or liquid asset reserves to meet the cost of such contingencies as last illness and burial. In many States, moreover, budgetary standards provide for including a sum for insurance premiums in determining the amount of the money payment to the recipient. Even if the cost of insurance premiums is not specifically taken into account in determining how much assistance a needy person is to receive, the recipient is free to use his money for this purpose if he wishes.

On the basis of reports received from 37 States, it is estimated that in the Nation in the fiscal year 1949, payments for burial from assistance funds, including funds appropriated for old-age assistance, aid to dependent children, aid to the blind, general assistance, and burial assistance, were about $5,500,000.

Although there is some provision for meeting burial costs under each type of assistance, the problem is most acute in the program of old-age assistance. The table attached summarizes the provisions for burial in the State plans for old-age assistance.

As of January 1950, 28 of the 51 jurisdictions making payments to the needy aged had some plan for making payments for burial either to the undertaker directly or to others. Such payments are not subject to Federal participation. In some States amounts spent for burial of recipients are recovered from their estates wherever possible. In other States the recovery provision is not enforceable during the lifetime of a spouse or other dependent. All of the 28 States making payments for funeral expenses also permit recipients to maintain cash or liquid assets reserves which may, in some instances, include the cash surrender or loan value of insurance policies and which can be used to meet burial expenses or other contingencies such as the expense of last illness. In 23 States the maximum amount of the reserve that may be held is specified in the State plan; in the other States the amount is not indicated.

All of the 23 States that do not make vendor payments for burial permit the recipient to maintain a reserve which may sometimes include the cash-surrender or loan value of insurance policies, and may in all probability be used for burial.

Thirty-three of the fifty-one State jurisdictions have provisions in their old-age assistance plans for including an amount for insurance premiums in de-

termining the size of the recipient's cash assistance payment. Seven Sta specify the amount to be allowed for this purpose and nine States, the maxim amount. In other States the amount included is probably the amount actu paid by the recipient, within specified limits.

Although the plans of 18 States do not specifically include an amount insurance in determining the recipient's needs, the item may be covered by otl budgeted items such as "Miscellaneous expense." Among the 18 States with specific provision for budgeting the cost of insurance payments are seven w average assistance payments above the national average. It cannot be conclu that in the absence of a specific provision for budgeting this item recipients unable to pay insurance premiums out of their current income.

Old-age assistance: Provisions for burial in State plans

State	Payments made for burial of recipients	Recipients permitted to maintain cash or liquid assets reserves			Budget standards provide inclusion of amount for surance premium in mo payment		
		Covering burial and other contingencies		Covering contingencies	Amount specified	Maximum amount specified	No amou specifi usual "as paid"
		Amount specified	Amount not specified				
Alabama				X		X	
Alaska	X	X					
Arizona	X		X			X	
Arkansas				X			
California				X			
Colorado	X	X			X		
Connecticut	X	X			X		
Delaware	X	X					X
District of Columbia	X		X				X
Florida				X		X	
Georgia				X			
Hawaii	X		X				X
Idaho				X			
Illinois	X	X					
Indiana	X	X					X
Iowa	X	X					X
Kansas				X			X
Kentucky				X			X
Louisiana				X		X	
Maine	X	X					
Maryland	X	X					
Massachusetts	X	X			X		
Michigan	X	X					X
Minnesota	X	X					
Mississippi				X	X		
Missouri				X	X		
Montana				X			X
Nebraska				X			
Nevada				X			X
New Hampshire	X	X			X		
New Jersey	X	X					X
New Mexico	X	X					
New York	X		X				X
North Carolina				X			
North Dakota	X	X				X	
Ohio	X	X					X
Oklahoma				X		X	
Oregon	X	X					
Pennsylvania	X	X					
Rhode Island				X	X		
South Carolina				X		X	
South Dakota				X			X
Tennessee				X			
Texas				X		X	
Utah	X	X					
Vermont	X	X					X
Virginia				X			X
Washington	X		X			X	
West Virginia				X			
Wisconsin	X	X					X
Wyoming	X	X					

[1] Within specified limits.

The CHAIRMAN. In connection with that question also, Mr. Cohen, let me make the request that you supply us, if you have it, any data which would indicate how many people have been retired under the Assistance Act at 65 that were originally in the self-employed class or were wage earners, salary earners.

Mr. COHEN. Yes.

In reply to the question that you raise now and Senator Millikin raised yesterday, we are making a study which will indicate what the different types of employment were of people who are on the assistance rolls now; so that we will have the information as to whether they were farmers or self-employed or whether they were covered under the insurance system.

The CHAIRMAN. We will appreciate that information.

Are there any further questions?

Senator KERR. I would like to ask just one question, Mr. Chairman.

The CHAIRMAN. Yes, Senator.

Senator KERR. On page 5 of your statement, Mr. Guernsey, you say that—

> Last year in the State of Virginia there was paid out on 24,369 weekly premium life policies death benefits amounting to $4,334,000.

If you could give us the total number of deaths in the State of Virginia that year, then we would know the percentage of those dying who had these policies, would we not?

Mr. GUERNSEY. You are correct. I do not have that figure.

The CHAIRMAN. Could you supply that, Mr. Guernsey?

Mr. GUERNSEY. I would be happy to do that.

The CHAIRMAN. I suppose from some of the insurance companies, their records, you might get it.

Senator MYERS. I might add, Mr. Chairman, that we could then view the statement in the proper perspective; namely, that "the conspicuous absence of a social problem to be solved in this instance points to the unnecessary inclusion of the proposed lump-sum death benefit in this bill." There may not be a social problem, but merely because there were policies in effect for every one person in Virginia does not indicate that every person had a policy. They may have had a number of policies. And Senator Kerr's question was as to what percentage of the population was covered by insurance.

Mr. GUERNSEY. I think your point is very well taken.

Senator MYERS. Then, of course, we can much better determine whether a social problem exists.

Senator MILLIKIN. I suggest, Mr. Chairman, in addition to the policy, there are many people who do not have policies who are financially able to provide for funerals. So there is still an open gap there as to whether there is a social problem.

The CHAIRMAN. Mr. Turpin, you are experienced in this field, as I happen to know. Could you give us any idea about how many policies of this character are held by the citizens of Georgia, which has a population almost equal to the Virginia population?

Mr. TURPIN. I can give you figures from my own company, which is a Georgia company, and which has been in the industrial insurance business in Georgia for 40 years, and with which operations I intimately am personally familiar.

The CHAIRMAN. Yes, sir.

Mr. TURPIN. We have over 200,000 policies in force in the State of Georgia, on over 200,000 different persons, of the industrial type, which, under Georgia law, is a policy with a death benefit not exceeding $500, and in which the premiums are paid either weekly or monthly. And coming to the specific question which the Senator asked with respect to deaths and funerals, let me mention the case of Bibb County, from which I come, and which Senator George knows intimately. It contains Macon, a—for us—large industrial city, with 40 percent Negro population. When I was a boy, which was longer ago than I like to think, the city of Macon maintained a potter's field. Macon has no potter's field today, and so far as I have been able to learn has not had a single pauper burial, white or colored, in the last 15 years. And the industrial insurance companies, of which mine is one of the largest in that field, though one of the very small companies, has buried those people. We are taking care of that need, sir, certainly in the South. I am not prepared to testify about the industrial cities of the North. But we are taking care of the funeral expenses of the working and poorer classes of people.

Senator BREWSTER. This would be true, would it not, that practically all of these would be for people in the lower-income brackets?

Mr. GUERNSEY. That is correct.

Senator BREWSTER. So that if we had the figure as to the number of people with moderate incomes, in the one-, two-, and three-thousand-dollar class, that would be the fairest comparison to determine how adequately they were covered. The social problem would not arise with people with incomes above those amounts, would it, to any degree?

Mr. GUERNSEY. I think you are correct, sir, but there is one interesting fact that I think would surprise you gentlemen. It has been very pleasing to us and interesting to find that men who have become successful in after life, who received their first taste of life insurance on the little 25-cent or 50-cent policy, and now may perhaps have a million dollars in life insurance, are still retaining those initial policies, perhaps for a sentimental purpose. It would not be significant, but it is interesting to those in the life-insurance business.

Senator MARTIN. I would like to suggest this, Mr. Chairman: Using the Commonwealth of Virginia as an example, there are so many policies there. Does that include fraternal policies? There are a great number of fraternal insurance policies in the Northern States which provide a funeral benefit.

Mr. GUERNSEY. If they come under this classification it would include them.

The CHAIRMAN. It is the weekly benefit plan.

Mr. GUERNSEY. The weekly benefit plan; yes.

Senator MARTIN. There are quite a number of fraternities that also have an insurance benefit, and particularly the funeral benefit, and I wondered whether that included those.

Mr. GUERNSEY. It would if the payments are made weekly.

The CHAIRMAN. Thank you very much, Mr. Guernsey.

Mr. GUERNSEY. Thank you, Mr. Chairman.

(At the request of Senator Butler, the following tables are inserted in the record:)

EXHIBIT D.—*Social-security versus railroad-retirement monthly survivor benefits—a comparison*

	Social security, 1950	H. R. 6000, social security proposed	Railroad retirement, 1950
Maximum survivor benefits possible:			
Aged widows	$34.20	$48.30	$40.61
Widows with children	34.20	48.30	40.61
Children	22.80	[1] 48.30	27.08
Widow and 1 child	57.00	96.60	67.69
Widow	34.20	48.30	40.61
And 2 children	22.80	[1] 48.30	27.08
	22.80	32.20	27.08
Total	79.80	128.80	94.77
Widow and 3 or more children or 4 or more children	21.25	37.50	27.08
	21.25	37.50	27.08
	21.25	37.50	27.08
	21.25	37.50	27.08
Total (prorated equally)	85.00	150.00	108.32
Maximum	85.00	150.00	108.32
Parents	22.80	[1] 48.30	27.08

[1] 75 percent of the primary insurance amount for first child and parents.

Source: Rail Pension News, published by the National Railroad Pension Forum, Inc., 1104 West 104th Pl., Chicago, Ill.

The above exhibit D has been submitted by Mr. Thomas G. Stack, president of the National Railroad Pension Forum, Inc. (a voluntary organization of union and nonunion rail workers), February 1950.

EXHIBIT E—FOUR TIMES 1½ PERCENT EQUALS 6 PERCENT

One rail worker pays 6-percent railroad-retirement tax. One industrial worker pays 1½-percent social-security tax. Therefore, one rail worker pays as much tax as the combined tax of four industrial workers.

Social security provides four industrial workers and their families with retirement and survivor benefits as compared to railroad-retirement benefits received by one rail worker, for whom there are no family benefits until after his death.

Social security versus railroad retirement tax rates and monthly benefits—a comparison

	Social security, 1950	H. R. 6000, social security proposed	Railroad retirement, 1950
Tax rate (percent)	[1] 1½	[2] 1½	[2] 6
Cost per month	$3.75	$4.50	$18.00
Cost per year	45.00	54.00	216.00
Maximum retirement benefits possible to 1 worker and his family:			
Old age	45.60	64.40	
Wife	22.80	32.20	
Husband and wife	68.40	96.60	
Dependent children	[3] 16.60	[3] 53.40	
Total	85.00	150.00	144.00
Maximum retirement benefits possible to 4 workers and their familes	85.00 85.00 85.00 85.00	150.00 150.00 150.00 150.00	
Total	340.00	600.00	
Maximum survivor benefits possible: Widow and 3 or more children or 4 or more children, of 1 deceased worker	85.00	150.00	
Maximum survivor benefits possible to 4 familes of 4 deceased workers [4]	85.00 85.00 85.00 85.00	150.00 150.00 15.000 150.00	108.32
Total	340.00	600.00	

[1] On $250 maximum earnings per month.
[2] On $300 maximum earnings per month.
[3] Pro rated equally.
[4] 4 widows and 12 or more children, or 16 or more children.

Source: Rail Pension News, published by the National Railroad Pension Forum, Inc., Chicago, Ill.

The CHAIRMAN. The next witness is Dr. Ernest H. Hahne, president of Miami University, of Oxford, Ohio, and member of the board of directors of the Cincinnati Federal Reserve Bank Branch.

Will you have a seat, please, sir? What particular phase of the proposed bill do you propose to cover?

STATEMENT OF DR. ERNEST H. HAHNE, PRESIDENT, MIAMI UNIVERSITY, OXFORD, OHIO, AND MEMBER, BOARD OF DIRECTORS, CINCINNATI BRANCH, FEDERAL RESERVE BANK

Dr. HAHNE. Mr. Chairman, it is my intention to speak briefly about the self-employment tax and the relationship of the extended coverage to the general costs of government. I am interested in those two phases primarily because I have taught public finance at Northwestern University for 26 years, and I speak primarily as a person interested in the tax aspects of the bill.

The CHAIRMAN. We will be glad to hear you. I was simply inquiring on behalf of some of the Senators who may be required to go to the floor.

Dr. HAHNE. I realize the time limitations, Mr. Chairman.

The CHAIRMAN. We will be pleased to hear you.

Dr. HAHNE. I will be as brief and succinct as I can under the circumstances.

The CHAIRMAN. You are dealing with what to my mind is an important issue in this legislation, and that is the self-employment problem, including the self-employment tax.

Dr. HAHNE. I am attempting, sir, to not duplicate what you have already heard, but to pick out the self-employment problem and focus my attention upon it.

The CHAIRMAN. Yes, sir.

Dr. HAHNE. My first proposition is that we are trying to levy a self-employment tax, and in doing it, we are introducing into our tax system a new type of tax. The Ways and Means Committee report in August last year specified that unless the net earnings from self-employment amount to more than $400, and are less than $3,600 a self-employed person does not pay a self-employment tax on the income, and he receives no credit for old-age and survivors insurance benefits.

So it is that specific thing, Mr. Chairman, that I am interested in.

The CHAIRMAN. Yes.

Dr. HAHNE. Now, the reason that I call it a specific tax and speak from the point of view of one who is interested in public finance is that it has a base, that is to say, from $400 income to $3,600. In the second place, it has a method of computation, which is specified definitely in section 211. And in the third place, it has a rate which is specified in section 1640. I will not enumerate those rates, Mr. Chairman; you are so familiar with them. In the fourth place, it has exclusions from gross income. And in the fifth place, it allows deductions from gross income, and therefore has all the characteristics of an individual tax.

Now, my third proposition is that it is not a payroll tax. It more closely resembles, in my opinion, a personal income tax with a $400 exemption and a $3,600 maximum. And therefore, being at the present time, according to H. R. 6000, levied upon urban self-employed, it must be regarded as essentially a tax that classifies the urban self-employed businessmen as an employee. Psychologically, sir, it reduces him from an ordinary entrepreneur with the standing of a businessman to a wage earner.

My fourth proposition is that this tax is not a contribution, in the sense that the present taxes levied under the Social Security Act are; because it possesses an element of legal compulsion, as distinguished from economic compulsion. And if the self-employed persons wanted the benefits that were proclaimed by the sponsors of the bill, they would, as Mr. Benson pointed out, seek inclusion in this act voluntarily. And therefore the element of compulsion is present.

I will not go any further into this statement. I am assuming, Mr. Chairman, that the printed statement may be included in the record.

The CHAIRMAN. Yes; we would be pleased to have your entire statement included in the record.

Dr. HAHNE. In that way we can be brief at this juncture.

My next proposition is that this self-employment tax differs from the pay-roll tax in that it cannot be shifted. Here is a small-business man; and this tax is levied upon his net earnings. And it so defined in the Act. Consequently, unlike a payroll tax, which enters into the costs, as computed by lawyers and accountants, it is not shifted, and therefore the small-business men fall in a little different position than

the ordinary concern that pays both the pay-roll tax of the employers and the employees.

My sixth proposition is that the burden of the self-employment tax falls most heavily on marginal enterprise. Very frequently these businessmen are operating very small stores of various sorts, they are highly competitive, and they would prefer to work for themselves rather than become employees in larger concerns. They have very smal capital invested. And in many instances it seems to me that by forcing them to pay a self-employment tax we nullify the very objective of this law by perhaps forcing them to become employees. Because they are marginal-business men.

The CHAIRMAN. We are at least forcing them to invest to what we think is wise for them to buy.

Dr. HAHNE. That is right, sir.

My seventh proposition is that under the guise of social security, the self-employment tax capacity actually promotes insecurity. In times of full employment, the small urban businessman retains hold of his business because he feels that there is more long-run security than he would obtain if he were to go into other enterprises where he would become an employee and perhaps be tied up with strike-infested industries or industries that are more subject to the whims of the business cycle.

In other words, in my judgment, this is the straw that breaks the camel's back because it is a tax upon the small-business man. And it is not inconceivable, moreover, Mr. Chairman, that the self-employment tax will cause many a small-business man to abandon his own enterprise and enter the labor market in the areas that are already congested, thereby increasing the in-and-out movement between the insured and the uninsured urban employment, ultimately changing the actuarial basis for the computation of the average monthly wage, or the years of coverage for the benefit payments. And for those reasons, the social-security amendments that are proposed under H. R. 6000 actually may promote, in the long run, insecurity, while designed to aim at security.

My eighth proposition, Mr. Chairman, is that the self-employment tax lacks the primary essential of certainty. Adam Smith long ago laid down four essentials of the tax system—equality, certainty, convenience of payment, and productivity. And he placed first and foremost certainty. The reason he did this is that the individual taxayer should know that he was paying a specific tax, but that all other taxpayers similarly situated, too, were paying that tax. And under this bill the rates imposed upon the employee and the self-employed are different and therefore it makes a difference as to how the taxpayer is classified, as to whether he is self-employed or an employee. Therefore, he may be in and out, sometimes, of the labor market, and both the continuation factor and the increment factor that the bill considers actually take into consideration this uncertainty, and your committee has already heard of the uncertainties that will be involved, Mr. Chairman, by turning over to the Treasury the questions of discretion as to when a man is or is not self-employed. I am not going into that at this juncture because of the pressure of time.

My next proposition is that this introduces a dangerous special-income-tax principle. Now, a special income tax has not been of

any particular danger in America, but it has in other countries. And in effect, this is a proportional income tax levied upon the low-income groups, in addition to the progressive rates of the income tax, personal income tax. Therefore, what we are doing is making it possible to add special income taxes from now on for special benefits, because this introduces the benefit principle along with the ability-to-pay principle of the personal income tax. And thereby this bill consolidates the benefit principle with the ability principle, and introduces substantial confusion into the tax system; and as the pressure becomes more and more acute, later on for more and more revenues, we are likely to say, "Let us add particular or special taxes to meet particular costs of Government." That danger, as I say, has not been so important in this country, but it has been important elsewhere.

Senator MILLIKIN. Could you say that another phrasing of your point would be that it is bad fiscal policy to tie up your tax system with collections for special purposes?

Dr. HAHNE. That is right.

Senator MILLIKIN. Just as it is bad governmental policy to tie up a given amount of your revenues for definite purposes, with the result that ultimately all of your revenues are strait-jacketed and you have no fluidity for your general expenditure purposes.

Dr. HAHNE. That is the entire difficulty with the benefit principle, where we have our gasoline taxes tied up, for example, simply to roads, improvements, and for no other purposes in the States. We are then handicapped, from the standpoint of fluidity, in the administration of the revenues that the States levy. And I think that same principle would apply, Mr. Senator, to the Federal Government.

My next proposition is that we should look at the implications of this self-employment tax. Because, at the very time when we are trying to promote small enterprise and protect and encourage small business, along comes this self-employment tax, and that does not in itself help the small vendor of goods and services.

I would like to recall to your attention that when Bismarck established the social-security system in Germany, covering sickness, accident, old age, and disability, he said that "For reasons of state"—that is a direct quotation, sir—he was interested in the welfare of the working classes. And he spoke of social insurance as a bribe. And he used the word "bribe."

Now, when workers look to the state for social security, they will fight for that state. It was, therefore, a wise policy from the Bismarckian point of view. So, too, when Hitler was seeking power in 1927, under the Weimar Republic, following the leadership of Bismarck, he tried to include the peasants and the small professional groups and the small-business men by telling them that they should resent exclusion from unemployment insurance. And he then won over the small-business men to his support. That became the nucleus for fascism and the totalitarian state that eventuated, and which, I think, is something for which we need now to be on the alert.

Now, these are the significant aspects of public finance from the point of view of those of us who are investigating the theories of Adolph Wagner, as directing the policies of Germany. These theoretical origins do not come before Congress as a rule, but the responsibility for laws based upon them is yours. And you should be cog-

nizant of the precedent that has been set by history. And I think that Xenophon was right, when he said: "Those who do not learn their history must experience it."

My final point is that this tax is inequitable and discriminatory, because it singles out the self-employed in the cities and excludes the self-employed farmers. And when their representatives come before your committee and ask to have the farmers included in the extended coverage it seems to me that we are getting into more and more difficulties in administering the Social Security Act. We all admit that the Social Security Act, as it now stands, is a necessary phase of our public policy. Let us not go headlong into overexpansion of self-employed coverage at the present time.

Now, my reason for saying that, Mr. Chairman, is found in the second part of my statement, namely, on page 7. The history of veterans' pensions shows that they tend constantly to increase. And I have gone here into the history of veterans' pensions, and I will not belabor you with that at the present time, because of the pressure of time.

But my next point, I think, is very important; namely, that the social-security costs cannot be isolated. They must be correlated with other Federal Government costs, because national security and social security go hand in hand. Now, each national- and social-security cost must be added together in order to gain a proper perspective from which to judge the merits of extended coverage and liberalization of benefits. Each possesses what is known in fiscal science as "continuing costs." Thus the Spanish-American War incurred military costs amounting to $582,000,000, but the continuing costs of that war, as of June 30, 1946, had reached $2,400,000,000. Likewise the national expenditures for war, defense, and related activities between July 1, 1940, and August 14, 1945, VJ-day, had reached $316,439,000,000, and as of the midcentury point, December 31, 1949, had soared to $471,106,000,000, according to the latest estimates of the office of the Fiscal Assistant Secretary.

Senator MILLIKIN. It will probably cost a trillion before we are all through.

Dr. HAHNE. I have written an article for the Encyclopedia Britannica predicting it would cost $1,300,000,000,000. Fairly accurate estimates have been made by the National Industrial Conference Board, in their study on America's Resources for World Leadership, in which they predict the war costs in 1972 will reach $700,000,000,000. Now, our estimates that are included in the report of the Ways and Means Committee that you have, show that when it is figured at 2 percent that the social-security trust fund goes up, by 1990, to $91,000,000,000.

Now, that $91,000,000,000 debt is a part of this general picture and must be added to the continuing costs of the war and these related activities. If it is computed at 2¼ percent, then the trust fund may reach $98,600,000,000. In other words, it seems to me that the Senate has a responsibility behind the scenes of the public press and the radio and the commentators, here, to see where this thing is going before expanding coverage too rapidly at the present time.

Now, if self-employed coverage expands in the direction as it is now included in the act, we are face to face with tremendous obligations, because the trust fund must be added to the other obligations that are already a part of the fiscal operations of Government. And, conse-

quently, it seems to me, and I need not stress it much further, that the fact is that these two costs, those of national security and social security, rest in your hands, because you direct the destinies of the Senate, and you must look at both sides of the case for security.

That, sir, is the burden of my presentation.

Senator MILLIKIN. Do you have any statistics on the number of aged who are on public assistance who have been self-employed during their active lives?

Dr. HAHNE. They are not trustworthy. At Miami University we have the Scripps Foundation for population problems, and we have very accurate analyses of the self-employed farm population or what they call the rural-farm population. I can give you those figures. But I cannot give you the urban figures.

Senator MILLIKIN. We have a dearth of dependable statistics on that so far.

Dr. HAHNE. That is right. I think you must call upon the Federal Security Agency, sir. I don't know where else you could get reliable data.

Senator MILLIKIN. They can dig up the best they can for us, you think?

Dr. HAHNE. Yes, I think so.

Senator MILLIKIN. Let me ask you: Do the hills around Oxford roll as attractively as they used to?

Dr. HAHNE. You are welcome to come out, sir; and our students would be delighted to hear you at the assembly any time you come.

Senator MILLIKIN. Does the spring and the fall burgeon as beautifuly as it used to?

Dr. HAHNE. Yes, sir; just as beautifully.

Senator MILLIKIN. Let us sing Auld Lang Syne.

Dr. HAHNE. Thank you, sir.

The CHAIRMAN. Are there any questions?

Thank you very much.

Dr. HAHNE. Thank you, Mr. Chairman. I am sorry to have taken so much time, sir.

(The prepared statement of Dr. Hahne follows:)

STATEMENT BY ERNEST H. HAHNE, PRESIDENT OF MIAMI UNIVERSITY, OXFORD, OHIO, AND MEMBERS OF BOARD OF DIRECTORS OF CINCINNATI BRANCH, FEDERAL RESERVE BANK

THE SELF-EMPLOYMENT TAX

1. *Nature of the self-employment tax.*—The Social Security Act amendments of 1949 extend the coverage of old-age and survivors insurance to add approximately 11,000,000 new persons to the 35,000,000 now covered during the average week. This new coverage will include about 4,500,000 nonfarm self-employed persons, excluding certain specified professions and trades. According to the report of the Ways and Means Committee on H. R. 6000 (p. 10), "Unless his net earnings from self-employment amount to $400 or more in a given year he pays no self-employment tax on such income and receives no credit toward old age, survivors, and disability benefits. If wages are earned in covered employment (upon which employment tax is payable), such wages are deducted from the $3,600 annual maximum in determining the amount of net earnings from self-employment that is taxable and creditable in any year." But income from casual self-employment would not be taxed.

2. *The self-employment tax structure.*—The base of the tax is that portion of net earnings from self-employment in excess of $400 and less than $3,600. Section 211 defines the method of computation and nature of "net earnings from self-employment." Section 1640 sets forth the rate structure: 2¼ percent for

1950; 3 percent from 1951 through 1959; 3¾ percent from 1960 through 1964; and 4½ percent from 1965 through 1969; while thereafter the rate would be 4¾ percent. Exclusions from gross income and deductions, as set forth in section 1641, do not correspond to the personal income tax. In other words, H. R. 6000 introduces an entirely new feature in the Federal tax system.

3. *The self-employment tax is not a pay-roll tax.*—It more closely resembles a personal income tax with a $400 exemption, and $3,600 maximum. The small-business man in urban communities does not put himself on the pay roll. He usually does not consider himself a wage earner, but a businessman. This tax has the psychological effect of classifying him as an employee.

4. *The self-employment tax is not a contribution.*—This tax possesses all the elements of legal compulsion found in a tax. If self-employed persons wanted the benefits proclaimed by the sponsors of this bill, they would seek inclusion in coverage voluntarily, and the payment then might resemble more closely a fee or price. Clearly, the House Ways and Means Committee believed a voluntary contribution would not be effective in accomplishing the purposes sought by the Social Security Administration. The report of that committee stated: "Your committee gave thorough consideration to the possibility of coverage on a voluntary basis, but there are fundamental objections to that approach. The history of voluntary social insurance in the United States and in other countries indicates definitely that only a very small proportion of all eligible individuals actually elect to participate." Evidently, the Social Security Administration has decided that it knows what is best for the small self-employed businessman. It is thinking, however, more precisely that social insurance cannot be made to pay out on a self-supporting basis except by making the payment of the self-employed tax compulsory. The grasp for greater control over self-employed small-business man is given greater priority than either the promotion of the individual initiative of the small-business man, or Federal aid to the self-employed persons by exempting them from additional taxes.

5. *The self-employment tax cannot be shifted.*—Like the personal income tax it is levied on the "net earnings from self-employment." Pay rolls of larger firms are more likely to enter into the calculations of cost accountants, but small-business men do not, as a rule, employ the same bookkeeping methods. Moreover, small-business men engage in highly competitive businesses. This is not the time to discourage small-business operators still further.

6. *The burden of the self-employment tax falls heavily on marginal enterprise.*—Very frequently small-business men operating stores, of various sorts, are competing directly with agencies owned and operated by large-scale business organizations. They prefer to work for themselves rather than as employees for someone else. Nevertheless the inevitable effect of the self-employment tax is to increase the number of employees, and perhaps the number dependent upon public assistance in times of depression, thereby nullifying the very objective of H. R. 6000.

7. *Under the guise of social security the self-employment tax promotes insecurity.*—In times of full employment small urban businessmen retain hold of their businesses because they consider the long-run security of their own enterprise to be more trustworthy than strike-endangered plants and industries, over which they exercise little or no control. The self-employment tax contains the inherent danger of proving to be the "straw that breaks the camel's back." It is not inconceivable that the self-employment tax will cause many small-business men to abandon their own enterprise and enter the labor markets in areas already congested where the increased labor supply may extend the period of unemployment, thereby increasing the in-and-out movement between insured and uninsured urban employment, and ultimately changing the actuarial basis in computing the average monthly wage, or years of coverage required for benefit payments.

8. *The self-employment tax lacks the primary tax-essential of certainty.*—Adam Smith long ago laid down the four essentials of a sound tax or tax system—equality, certainty, convenience of payment, and productivity in yield. He placed certainty as the prime prerequisite of a sound tax; an individual should know what he is expected to pay, and that others in similar position pay it. Tax liability is not established by H. R. 6000 with certainty. Under this bill the rates imposed upon the employee and the self-employed are different, and it makes a difference how the taxpayer is classified. No doubt progress has been made in clarifying the legal concept of an employee as contained in the present bill, but there still remains the twilight zone when an employee engages in a "side-line," works elsewhere during a period of strikes, sells his own product

made at home, and so on. In such instances the Treasury must determine whether the tax liability is that of an employee or a self-employed person, and the individual will not know whether he is liable for the lower rate of the employee or the higher rate of the self-employed until a decision has been handed down by the Treasury. As a rule, urban self-employed business men are hesitant to employ legal services and accountants to present their cases to the Treasury and courts; hence there is a greater likelihood of injustice and uncertainty from the self-employment tax than under the income tax.

9. *The self-employment tax introduces the dangerous special income tax principle.*—Relying upon the benefit principle the net-earnings tax appears to be innocuous. It is, in effect, however, a special income tax, with its own proportional rate structure, which at any time could easily be consolidated into the Federal income tax, now based upon the ability-to-pay principle. Since the personal income tax with its progressive rate structure is highly correlated in its yield to the business cycle, it has been supplemented by productive proportional rates levied as commodity taxes. With the present widespread public demand for repeal of these commodity taxes, the Federal tax system becomes still more treacherously allied to the whims of the business cycle, with embarrassingly low yields during a depression. Standing alone, the self-employment tax violates the ability principle by taxing, not at higher rates, but, by additional rates, those in the lower income brackets. Thus as commodity taxes are repealed, the fiscal needs of the Treasury could be met by raising the rates of the self-employed tax, violating still further the ability principle and stressing the benefit principle of taxation. Special taxes on incomes received from such sources as rents, interest, profits, and professional incomes with added rate structures certainly fall within the provision of taxing incomes "from whatever source derived," and seem altogether as logical as singling out the "net earnings of the self-employed." The present Congress must foresee direction taken by the self-employment tax.

10. *Ulterior purposes of the self-employment tax must not be overlooked.*—Extended coverage causes 4,500,000 more persons to look to the Federal Government for so-called social security. Under Bismark, Prussia established a social-insurance system, including sickness, accident, old-age, and disability insurance. He became the unquestioned leader of state socialism in Germany. He once stated that "for reasons of state," he was interested in the welfare of the wording classes, and spoke of social insurance as a "bribe." When workers look to the state for social security they more willingly fight for that state. German experience has already proved the validity of this political doctrine, since militarism before World War I was strengthened by centralization of political power in Germany. Likewise, under the Wiemar Republic in 1927 Hitler made an appeal to peasants, professional groups, and small-business men stating that they should resent exclusion from the benefits of unemployment insurance. Around this nucleus he gained political strength for fascism. It was based upon a centralization of power. The present bill in a somewhat similar manner by extending coverage to the self-employed becomes a step causing more persons to look to the Federal Government for national and social security. But the German people found to their sorrow that social-security laws did not guarantee social security. At present there is no intention whatsoever, in our responsible political circles, of moving in the direction of totalitarian government, whether fascism or communism, but equally there is little room to doubt but that centralization of power is gained by compelling small-business men to join a compulsory social-insurance program. This becomes a stepping stone to power that might advantageously be used by power-seeking minorities. Xenophon once said: "Those who do not learn their history must experience it!"

11. *Unless extended to cover all self-employed, the self-employment tax becomes inequitable and discriminatory.*—H. R. 6000 imposes a tax on nonfarm self-employed persons. According to the report of the House Ways and Means Committee on the Social Security Act amendments of 1949 (p. 9) so difficult were the problems of administration that it was considered undesirable to extend coverage of the self-employed in 1939 "until the administrative agencies had further experience with coverage of employees in industry and commerce," but that now "practicable administrative procedures for coverage of the self-employed have been developed." Despite this progress, the committee has been unwilling to include certain professional classes, farm operators and workers. Apparently the committee considers it "practicable," on administrative grounds, to extend coverage to nonfarm self-employed persons, but impracticable to include other self-employed groups. This policy places expediency before equity. It would

be the course of wisdom to avoid discriminatory taxes on some self-employed until such time as equitable taxes could be applied to all farmers and professional groups which are also self-employed.

The administrative problems would mount rapidly if the present provisions covering 4,500,000 nonfarm self-employed were extended to include 28,105,000 rural-farm population by 1955, including about 2,461,000 over 65 by 1955 and as many as 3,488,000 persons over 65 in the rural-farm population by 1975. Since your committee has already heard statements pointing out existing defects in social-security administration, it is unwise to plunge blindly into extended coverage on the scale that would be required if all self-employed persons, nonfarm, farm, as well as professional groups, were embraced within the provisions of the present bill. Mr. Doughton, on October 4, 1949, wisely pointed out: "Moreover, the inclusion of large groups of people who do not desire social-security coverage would make most difficult the administration of the system" (Congressional Record, October 4, 1949, p. 14021).

EXTENDED COVERAGE, LIBERALIZATION OF BENEFITS AND INCREASED COSTS OF GOVERNMENT

1. *The history of veterans' pensions serves as a guide to the future costs of extended coverage and liberalization of benefits.*—Veterans' pensions rose from $15,000,000 in 1866 to $174,000,000 in 1913; then to $433,000,000 in 1941 and to $2,085,000,000 in 1948. Pensions for veterans were the forerunner of social security. Although humanitarian motives play a very important role in fiscal policy, the student of economic history of the United States finds the history of veterans' pensions a discouraging aspect of financial history. What has heretofore happened in the administration of veterans' pensions could be repeated in the history of civilian security. The record is one of waste.

2. *Social-security costs should not be isolated, but correlated with other costs of Federal Government.*—National, and social, security costs must be added together in order to gain a proper perspective from which to judge the merits of extended coverage and liberalization of benefits. Each possesses what is known in fiscal science as "continuing costs." Thus the Spanish-American War incurred military costs amounting to $582,000,000, but the continuing costs of that war, as of June 30, 1946, had reached $2,400,000,000. Likewise the national expenditures for war, defense, and related activities between July 1, 1940, and August 14, 1945 (VJ-day), had reached $316,439,000,000, and as of the mid-century point, December 31, 1949, had soared to $471,106,000,000, according to the latest estimates of the Office of the Fiscal Assistant Secretary; while the National Industrial Conference Board's study of America's Resources for World Leadership, based upon estimates made by the War Department, fixed war costs plus continuing costs by 1972 at $700,000,000,000.

According to the estimates made by the Social Security Administration the trust fund, figured at 2 percent, by the year 1990 will reach $91,000,000,000; or, if computed at $2^1/_4$ percent then the trust fund may reach $98,600,000,000. (See Report of Ways and Means Committee, August 22, 1949, p. 35.)

Ignoring all other Federal costs except national security and social security, the total future costs being placed by this generation upon our children compels this Congress to hesitate, and carefully decide, whether this is the proper time to extend coverage, and liberalize social-security benefits.

3. *Congress once undertook to guarantee the financial solvency of the social-insurance system.*—In 1943 Congress passed the Murray amendment to safeguard the claimants under the social-security law, because of the fear that failure to increase pay-roll tax rates at that time might impair the ability of the Treasury to meet these obligations. The present attempt to place the system on a self-sustaining basis is traceable again to possible fears that unless the difference between contributions and benefit payments increases in the near future the long-run obligations will not be met except by the levy of additional taxes paid into the general funds. Although H. R. 6000 in effect now repeals the Murray amendment by increasing pay-roll tax rates, the extended coverage and liberalization of benefits to some extent impairs the future trust fund, when compared with the earlier intentions of raising rates to safeguard that fund at a time when no such extended coverage was contemplated.

Judging from the past, therefore, Congress does not intend to impair the payment of benefits, even though it may load additional taxes upon the Federal taxpayers. By extending coverage and liberalizing benefits these contingent moral liabilities increase sharply. At a time when war activities and war-

related activities for the fiscal year 1949 reached $30,684,000,000, and defense costs continue to mount. Congress should not extend coverage that may sometime require heavy subsidies from already overloaded taxpayers. Although one Congress cannot bind its successors, it may establish a widely accepted concept of "rights" to benefit payments that impose future moral obligations that could become impossible to meet, because taxpayers believe other competing claims for their support are more vital to their national security.

The CHAIRMAN. Dr. Eveline Burns? Dr. Burns, we may be able to hear you, but I wanted to make a little inquiry.

Will you be seated? What is the length, approximately, of your statement?

Dr. BURNS. I cover, sir, quite a considerable number of points, in the program. We have made a rather careful analysis of the legislation that is before you.

The CHAIRMAN. I am afraid we will have to suspend at this point, because of the work on the Senate floor. You would have to remain over until Monday, because I do not believe we will be able to have a session tomorrow.

Dr. BURNS. I would like to come down again, of course. I would be very glad to do so.

The CHAIRMAN. We are very sorry to put you to that necessity, but I am sure that all of us must go to the floor of the Senate this afternoon.

So I suggest that you come back on Monday, and we will be able to hear you then.

Dr. BURNS. Thank you. I prefer to do that.

The CHAIRMAN. Mr. Argo, I will have to make the same statement to you.

STATEMENT OF R. K. ARGO, PERSONNEL DIRECTOR, ALABAMA MILLS, INC., BIRMINGHAM, ALA.

Mr. ARGO. Senator, it will be impossible for me to be here Monday, but I would like to submit my statement for the record, if that would suit you.

The CHAIRMAN. Yes. And suppose you tell us what points you cover in your statement. Then you may offer your statement for the record.

Mr. ARGO. Well, I cover several points, including disability coverage and the definition of "employee."

The CHAIRMAN. You are not in the life-insurance field?

Mr. ARGO. No, sir.

The CHAIRMAN. You may have a seat if you will, there, and if you wish to make any oral statement in connection with your brief, we will be very glad to hear from you.

Mr. ARGO. I would be glad for the statement to stand.

The CHAIRMAN. It fully covers your position?

Mr. ARGO. Yes, sir.

The CHAIRMAN. For the purpose of identifying yourself, you are Mr. R. K. Argo of the Alabama Mills, Inc., Birmingham, Ala.?

Mr. ARGO. Yes, sir.

The CHAIRMAN. And what are your mills? Textile mills?

Mr. ARGO. Yes, sir.

The CHAIRMAN. Cotton textile mills?

Mr. ARGO. Yes.

The CHAIRMAN. Very well. We will be glad to have your statement, and we will put it into the record.

We regret that we cannot hear you orally this morning.

(The prepared statement of Mr. Argo follows:)

STATEMENT OF R. K. ARGO TO THE SENATE FINANCE COMMITTEE ON THE SOCIAL SECURITY ACT (H. R. 6000)

I am R. K. Argo, personnel director of Alabama Mills, Inc., Birmingham, Ala., chairman of the social-security committee of the Alabama State Chamber of Commerce, a member of the social-security committee of the Associated Industries of Alabama, and a member of the legislative committee of the Alabama Cotton Manufacturers Association. Today I am presenting the views of the above-mentioned associations.

H. R. 6000—Extension of coverage.—Old-age and survivors' insurance coverage would be extended to add approximately 11,000,000 new persons to the 35,000,000 persons now covered during an average week. The groups add d to the system under the bill are as follows: Nonfarm self-employed with some exceptions; employees of State and local governments; domestic servants in a private home; employees of nonprofit institutions; agricultural processing workers; Federal employees not covered under any retirement system; Americans employed by an American aircraft outside the United States; employees and self-employed in the Virgin Islands (about 5,000) and, if requested by the legislature, in Puerto Rico; and salesmen.

It seems to be the opinion of most business groups that universal coverage extending even beyond the groups proposed to be covered by H. R. 6000 is fundamentally desirable. This position contemplates the establishment of old-age and survivors' insurance as a basic minimum floor of protection for all gainfully employed. It is our feeling that, unless universal coverage was recommended, there would be the danger of another wholesale and costly revision of the program at a later date in order to give other groups a new start. However, the basic reason for recommending universal coverage is that all gainfully employed people must be made to realize, through the taxing device, that social security is not a give-away program, and that everyone who works for a living and who expects to receive benefits from the Government must pay his share of the cost while gainfully employed.

We strongly recommend that steps be taken to diminish or to terminate any Federal participation in State old-age pension programs now jointly financed by the State and Federal Governments in the field of public assistance. With universal coverage of OASI, the Federal Government should retire completely from public assistance. H. R. 6000 is dangerous in that it proposes more rather than less Federal money for public assistance. If this view prevails, the political manipulation by certain States which throws more and more of the burden onto the Federal Treasury and reduces the State's responsibilities for old-age pensions will be accelerated rather than diminished.

H. R. 6000—Increase in Federal share of public assistance costs.—The bill would strengthen financing of public assistance in all States, and, particularly, would enable States with low-average payments to raise the level of payments to needy recipients under the State-Federal program. Federal funds would be made available to the States under the following matching formula:

(*a*) For old-age assistance, aid to the blind, and aid to the totally and permanently disabled, Federal funds will equal four-fifths of the first $25 per recipient plus one-half of the next $10 plus one-third of the next $15 with a maximum of $50 on individual assistance payments.

(*b*) For aid to dependent children, Federal funds will equal four-fifths of the first $15 per recipient (including one adult in each family) plus one-half of the next $6, plus one-third of the remainder, with maximums on individual assistance payments of $27 for the adult plus $27 for the first child plus $18 for each additional child in the family.

We strongly urge opposition to further increases in Federal assistance grants to States as provided in H. R. 6000. The glaring examples of abuse and manipulation by some States of the present matching formula are undesirable. As an example, the average paid to recipients during August 1949 for public assistance in the State of California was $70.70, as compared to the State of Georgia $20.73

This comparison shows the inconsistency of the program. Another illustration: The State of Louisiana recipients were paid during the month of August 1949 an average of $47.08, and for the fiscal year ended June 30, 1949, 810 out of each 1,000 persons 65 years of age and over were on the public-assistance roll. In comparison to this for the same period, in the State of New Jersey, 66 out of each 1,000 persons 65 years or older were on the public-assistance rolls and were paid $48.34.

The present type of unequal matching induces States to increase the number of recipients rather than the average payment. The average payment per recipient can be reduced in the present law with financial advantage to the State. A glaring example of this is the State of Mississippi, which from September 1947 to September 1948 increased their recipients by 13,728 and reduced the average payment to recipients $1.85; but, due to the unequal matching, this State, by this increase in the rolls of recipients, realized many thousand dollars more from the Federal level than they had previously done.

We recommend that we return to the original dollar-for-dollar matching for public assistance as the first step to eliminate the Federal Government's participation in this program. We firmly believe that this is a problem which should be handled at the local level without any Federal participation.

H. R. 6000—Definition of "employee."—The new definition, which is effective with respect to services performed after 1949, has four parts. The first part provides (as does existing law) that an officer of a corporation is an employee of the corporation. The second provides that the usual common-law rules are to be used to determine whether an individual is an employee. Thus all persons who have been determined to be employees under existing law will continue to be considered employees. * * *

The third part of the definition extends coverage to individuals who perform services, under prescribed circumstances, in seven occupational groups.

The fourth test of employee status differentiates between individuals who are employees and those who are not employees on the basis of a factual considerations and not on the basis of technical legal considerations. Under this test, the status of an individual in the performance of service for any person for remuneration is determined from the combined effect of the following enumerated factors: (1) Control over the individual; (2) permanency of the relationship; (3) regularity and frequency of performance of the service; (4) integration of the individual's work in the business to which he renders service; (5) lack of skill required of the individual; (6) lack of investment by the individual in facilities for work; and (7) lack of opportunities of the individual for profit or loss. * * *

We believe that this test is so broad that any bureau or administrator in Washington would have the authority to rule in many cases independent contractors could be classified as employees. As an example, the paper industry in our State of Alabama contracts with small independent contractors for logs used in this particular industry. We believe, under this test, the administrator of this act could hold these small independent contractors and their employees to be employees of the contracting company. You can readily see the tax liability that could be imposed.

We recommend that there be united opposition to the proposed revisions in the definition of "employee." This concurs in the House Ways and Means Committee minority report which said "Paragraph 4 of the definition of 'employee' gives to the Treasury Department virtually unlimited discretion, through authority to extend the definition of 'employee,' to determine where the impact of the social-security taxes will fall. As a result of this authority, large numbers of persons will have no way of knowing their social-security tax liability until the Treasury determines it for them."

We therefore recommend that existing definitions of employee now contained in the law be retained; furthermore, with universal coverage, the need for revising the definition of "employee" is no longer of major importance.

H. R. 6000—Permanent- and total-disability insurance—

Coverage: All persons covered by the old-age and survivors insurance program would have protection against the hazard of enforced retirement and loss of earnings caused by permanent and total disability.

Benefits: Permanently and totally disabled workers would have their benefits and average wage computed on the same basis as for old-age benefits, but no payment would be available for dependents of disabled workers.

Eligibility for benefits: An individual would be insured for disability benefits if he had both (*a*) 6 quarters of coverage out of the 13-quarter

period ending when his disability occurred, and (*b*) 20 quarters of coverage out of the 40-quarter period ending when his disability occurred.

H. R. 6000 will put the Federal Government into the disability-insurance business. The experience of life-insurance companies on disability has been very disastrous. Many life-insurance companies, as is generally known, suffered very serious losses during the depression. Life-insurance companies, as you know, where they furnish disability insurance, make this available only to select groups at a high rate; but, under the proposed bill, all types of risks will be brought in and will constitute a much greater hazard than insurance companies have under their policies. The trouble with disability in a tax-supported system is that people will claim benefits as a matter of right because they have paid their taxes to cover the receipts of disability. In the first place, it would be impossible to police such a large-scale program because it is a known fact that disability is very hard to disprove. Rheumatism, low back pains, and other obscure things such as nervous disorders, feigned heart diseases, which keep people from working, are most difficult to handle. Another danger in this program is that one receiving benefits for disability will certainly want to remain on the rolls if jobs become scarce or the wage scale falls.

You must remember that this is not benefits for 26 weeks or 1 year; it can mean benefits for life. The situation which we would probably face is that in the event of a depression, in a system of this kind, when the claimants have exhausted their unemployment-compensation benefits, they would then try to prove their inability to work and show that they are disabled and be put on the permanent benefit rolls.

We would like to bring out one of the dangers, particularly in the textile industry, where many women are employed. Say we have a woman who has been working in our industry for 10 years. She is married and wants to go home. She does so, and after 6 months she claims that she is not able to work because she is disabled. You probably could not prove that she was not disabled, and she claims benefits, say, for rheumatism, nervous break-down, or some other obscure cause. You could see exactly what would be the outcome in a case of this kind. We believe that policing this would be impossible. Just remember that when you become 65 years of age that is a fact, but total disability would be mighty hard to disprove at any age.

H. R. 6000, taxable wage base.—Under the proposed bill, the total annual earnings on which benefits would be computed and contributions paid is raised from $3,000 to $3,600. We strongly urge the $3,000 taxable wage base be maintained, inasmuch as the entire tax plan already established ih OASI and State unemployment insurance is at $3,000. I quote from the minority report of the House Ways and Means Committee, which we believe is an excellent reason why the present wage base should be retained:

"We definitely are of the opinion that the proposed increase in the wage-base limit from $3,000, as proposed in H. R. 6000, results in higher benefits to those better able to provide their own protection and does nothing to increase the benefits for those with average wages below $3,000 for whom the system should be primarily concerned. It increases the dollar cost of the system substantially, provides a windfall to persons near retirement who earn $3,600 or more, and unnecessarily complicates the keeping of wage records by employers who must continue to report unemployment taxes on a $3,000 wage base."

We believe benefits should be increased by increasing the formula and not the taxable wage base. We feel that benefits as provided in H. R. 6000 go entirely too far.

The CHAIRMAN. The committee will recess until Monday morning at 10 a. m.

(Whereupon, at 12:35 p. m., the committee recessed to reconvene Monday, February 27, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

MONDAY, FEBRUARY 27, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Johnson of Colorado, Kerr, Millikin, Taft, Butler, and Brewster.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Rieve?

STATEMENT OF EMIL RIEVE, CHAIRMAN, CIO SOCIAL SECURITY COMMITTEE, AND GENERAL PRESIDENT, TEXTILE WORKERS UNION OF AMERICA, CIO

Mr. RIEVE. Good morning, Senator.

The CHAIRMAN. You are on first this morning. We hope other members of the committee may come in during your appearance, but it is rather difficult to secure full attendance at any time, especially this session.

You are the chairman of the CIO Social Security Committee?

Mr. RIEVE. That is correct, Senator.

The CHAIRMAN. And the general president of the Textile Workers Union of America?

Mr. RIEVE. That is right, Senator. I am also vice president of the CIO.

The CHAIRMAN. You were on the Senate Advisory Council last year.

Mr. RIEVE. Yes; I was one of the two labor representatives on that committee.

The CHAIRMAN. We will be very glad to hear you, sir, on H. R. 6000.

Mr. RIEVE. I appreciate this opportunity to discuss with your committee the CIO position on improving our Federal social-security program. I am appearing here today as chairman of the CIO committee on social security, which has a number of proposals for strengthening the bill H. R. 6000 that you are now considering.

This Congress is certainly going to pass some kind of social-security legislation. I am optimistic, you see. The need has existed for many years, and the demand has become too widespread to be ignored.

Now that you have undertaken the job, it is our hope that you will do it thoroughly. We urge you to adopt a program which will be adequate for some time to come rather than to settle for the smallest possible degree of progress.

With this in mind, our proposals go somewhat beyond both the terms of H. R. 6000 and the recommendations of the Advisory Council on Social Security, which reported to your committee in the Eightieth Congress.

I had the honor to be one of the two labor representatives on that Council, and I joined in its recommendations for improving old-age and survivors insurance, and for setting up benefits covering permanent and total disability. The Council's program would be far better than the present law: but there have been several new developments which we think should impel you to move further.

First is the fact that pensions have become a primary issue in collective bargaining. The steel strike and the Ford agreement dramatized the question. Today, the country as a whole accepts the principle that one way or another industrial workers have a right to decent retirement incomes.

I do not think any of you will deny that the steel strike, in particular, was a leading factor in the overwhelming approval of H. R. 6000 in the House of Representatives last year. We now have a situation in which higher social-security benefits will reduce the actual or potential burden on employers, as well as providing benefits for workers.

Our CIO unions entered into such agreements deliberately. It is no part of our philosophy to win pensions for our members only, leaving the rest of the population to look out for itself. We want adequate pensions for all; and we are convinced that our efforts are helping to get them.

As President Philip Murray told the House Ways and Means Committee last April, in supporting the administration's social-security bill:

> We do not regard collective-bargaining plans as a substitute for the basic legislation we are asking. Rather they are supplementary, to provide more adequate total benefits and to meet problems not covered by legislation. The poorer the laws, the greater emphasis we will have to put on collective-bargaining supplements * * * We are not afraid that Congress will do too much, but rather we fear it will do too little.

The steel industry fact-finding board developed a similar point in its report on the eve of last year's strike. I assume you are familiar with this report, but I can supply your committee with a copy if you so desire.

The CHAIRMAN. If you will submit it, Mr. Rieve, it will be valuable for our reference.

Mr. RIEVE. We will supply it, sir.

(The report has been placed in the committee files.)

Mr. RIEVE. In short, there may have been a time, many years ago, when certain labor unions resisted social legislation for fear it would weaken their appeal to workers. We in the CIO have no such idea.

The second reason why we ask you to go beyond the Advisory Council's report is not really new. Rather, it is an old reason strengthened by recent experience.

We in the labor movement have argued for a long time that we must have in this country an economy of high production and full em-

ployment. The events since the end of the war—while they have not been uniformly pleasant—have shown that this is not only desirable but possible. Whole new avenues of progress, including the peaceful application of atomic energy, have opened up. The conservative economist, Sumner Slichter; the President's Council of Economic Advisers; and the President himself have all spoken in glowing terms of our prospects.

Barring another war, there is no ceiling on our future if only we conduct our affairs with ordinary good sense. Therefore there is no doubt that we can afford an adequate social-security program, for the cost will be relatively slight in an expanding economy.

The third reason for doing better than the Advisory Council's recommendations may seem indirect to some of you.

In recent months, communism has won great new victories in Asia. I think it is fair to say that the Communists were able to take over China so easily because the former Chinese Government, after many years in power, failed completely to meet the needs of the people.

I am aware that this is not the place to discuss foreign affairs. But I think most of us realize that everything we do, as the major anti-Communist power in the world, has an effect on the thinking of people everywhere.

If we fail to provide a fair measure of security for the average worker, we strengthen the strongest argument for communism. If the rich can retire in luxury while workers are left to charity, we weaken the cause of democracy at home and abroad.

Now I would like to discuss briefly the specific recommendations of the CIO. To begin with, I ask your permission to insert in the record four resolutions adopted by the CIO convention last November, together with a resolution adopted by the CIO executive board on February 15, 1950.

In my oral testimony, I will devote most of my attention to the CIO proposals which go beyond H. R. 6000 and the Advisory Council's recommendations. I do not want to burden your committee by repeating a mass of statistics already in the record.

With your permission I will deal in order with the three basic sections of H. R. 6000—old-age and survivors insurance, permanent and total disability insurance, and public-assistance and child-welfare programs. I shall also discuss our strong conviction that the program of temporary disability insurance, rejected by the House, should be restored to the bill.

Old-age and survivors insurance: First. Coverage—the CIO believes that all Americans, including the self-employed, should be protected by our social-security system. Your committee has already been reminded that the restrictions on coverage enacted in 1935 are responsible for many of today's problems. This Congress should not perpetuate the mistake.

Although H. R. 6000 extends coverage to 11,000,000 more persons, we favor the broader provisions of H. R. 2893.

Specifically, a number of CIO members are included in the group removed from coverage by the Gearhart resolution, after a Supreme Court decision had indicated they were employees and therefore protected. Our agent laundry drivers, who belong to the Amalgamated Clothing Workers of America, are among them. They have proposed

changes in the wording of the law which will meet their problem together with a brief, which I ask permission to introduce in the record as an appendix to our statement.

The CHAIRMAN. You may do so.

Senator MILLIKIN. Mr. Rieve, what is the basis of employment of the laundry drivers? Do they work on commission, or how do they work?

Mr. RIEVE. They work on a commission fixed by the contract. The Supreme Court indicated that they were employees. Then the Gearhart resolution took them out of the provision of the law, on the argument that they were not employees really but that they were independent salesmen, so to speak.

Senator MILLIKIN. Well, there is a lot of debate on that. I did not want to get into that. All I wanted to find out was what is the employment contract, or whatever the contract is, of the laundry worker. Do they work when they please and quite when they please, or do they have a basic wage?

Mr. RIEVE. No, they don't work when they please. They get a commission fixed by the contract. And, Senator, it is described in the appendix as to just what they are doing and what their status is.

The CHAIRMAN. Have you a copy of a contract?

Mr. RIEVE. No, but we can supply that, Senator.

The CHAIRMAN. We would be glad to have it.

Mr. RIEVE. Fine. We will supply it.

(The material referred to appears following statement prepared by Amalgamated Clothing Workers on p. 1268.)

Mr. RIEVE. Second. Insured status: Eligibility provisions should be liberalized in order to protect as many workers as possible. We favor the plan suggested by the Advisory Council in its report. Also we strongly urge a provision to exclude, in determining insured status, any quarters during which a worker was disabled or involuntarily unemployed. H. R. 6000 excludes only the first of these.

The CHAIRMAN. Would it interrupt you, there, to ask you how you would enforce that; particularly, now, with reference to the involuntarily unemployed?

Mr. RIEVE. Well, if the worker is not paying any social security, he is unemployed. That quarter ought to be taken out in computing his status.

The CHAIRMAN. How would you check that? You see, in many States the unemployed worker, if he has been working in a group of less than eight workers, is not under unemployment compensation.

Mr. RIEVE. Well, all right. The unemployment-compensation law may have to be amended to jibe with that.

The CHAIRMAN. I just wondered how you would enforce it. How would you check it? How would you know it?

Mr. RIEVE. The worker has to apply to the unemployment compensation office to see if he is covered by unemployment compensation, and that office would know whether he is unemployed or not.

The CHAIRMAN. You may proceed. I was wondering, though, how we could check the involuntarily unemployed. You would obviously have to do it, if you were going to give them full credit. And you refer to "a provision to exclude, in determining insured status, any quarters during which a worker was disabled or involuntarily unemployed."

Mr. RIEVE. H. R. 6000 already covers the first, the disabled.

The CHAIRMAN. Yes, sir. That is right.

Mr. RIEVE. Now, we propose that it will be extended to the involuntarily unemployed. I think that there is a problem of proper enforcement, but I believe that ways can be found to bring it about; that is, if we would broaden our unemployment-insurance scheme, so that a worker has to report when he is unemployed in order to be entitled to unemployment compensation, so that a record could be kept of whether he continues unemployed for that quarter or not. Now, there might be difficulties in the mechanical set-up. I don't know just how to work it out, but it seems to me it can be worked out, Senator.

There is no reason why an economic disaster which is bad enough at the time should be permitted to strike again after a worker has retired.

You see, the way it is now, the worker is unemployed, not of his own choice, and then that is counted against him; and when he retires it is counted against him again, because he had no earnings during that period of time. So he actually suffers twice.

Third. Benefit categories: We favor reducing the age of permissive retirement for women from 65 to 60, with a similar cut in the age requirement for the wife, widow, or dependent mother of a covered worker. What is happening in this, Senator, is that the average wife is somewhat younger than the husband is. The result of it is that on the average the wives are about 3 or 4 years younger than the husbands are; so that when the husband reaches 65 really he cannot retire, because his wife is not entitled to her share of his retirement, because she is not 65 years of age yet. So he has to almost be 70 years of age before he retires, if he has to depend on the supplementary income that his wife gets from the old-age pension. By reducing that age for women, they could probably retire when the men reach the age of 65.

Fourth. Benefit amounts: Here is a point I should like to discuss at greater length. Not only do we in the CIO propose a generally higher level of benefits than H. R. 6000, but in addition, we would like to make clear the principles we follow in considering this part of the social-security program.

We do not accept the idea that social security should be only a minimum, and a low one at that. We are not impressed by the arguments of the insurance companies that every worker should buy enough private protection to supplement his Federal benefits.

Judged by the standards of workers, private insurance is expensive. Also, the benefits are fixed by the original contract; they cannot be adjusted to the cost of living. When living costs go up, the worker is unable to buy additional protection at the same rate; his age has also increased.

Our union plans also have obvious limitations. They usually demand continued employment by one company, or at best in one industry. If the company fails, or the worker goes elsewhere, the protection is lost. To be sure, the benefits paid under union plans can be raised through collective bargaining; but this does not give the worker freedom of movement.

Private insurance gives a worker flexibility in employment; union-negotiated insurance is flexible in amount. But only Federal social

insurance can provide both at a cost within the average worker's reach.

Furthermore, CIO supports the principle that benefits should have a relation to past earnings. Those who earn higher wages contribute more toward the program; as a general rule they have a higher standard of living; and they should get larger pensions.

At the same time, we recognize that the lowest-paid workers will reach old age with the least personal resources. We accept the idea that their pensions should represent a somewhat greater proportion of their past earnings than do those of the higher-paid group.

H. R. 6000 maintains both these ideas, but it doesn't go far enough in either direction. Before getting into the figure, however, I would like to make one other point.

There are a good many people today who deliver eloquent speeches in favor of equal pensions for everybody, regardless of the social-security system. Now this idea has a certain amount of appeal; we do not want to see anyone suffering hardship because of old age.

The CIO is also in favor of adequate pensions for all. But we are firmly convinced that the only realistic path to this goal is expanding and improving the present social-security system. We recognize that millions of our citizens have reached retirement age without being entitled to Federal pensions. We realize that millions of others will be under the same handicap in the future—either because their occupations were not covered by the act, or because they were not covered for a long enough time to draw full benefits.

These are a part of the growing pains of social security. They are the reason why we are urging more general grants for old-age assistance. But they are not an excuse for abandoning the social-security program itself.

Senator MILLIKIN. When you say, Mr. Rieve, "but they are not an excuse for abandoning the social-security program itself," you are referring to the insurance program?

Mr. RIEVE. Yes: I am referring to abandoning our present social security in favor of a flat amount for everybody.

Senator MILLIKIN. A contributory insurance system is what you are talking about?

Mr. RIEVE. Yes, for everybody.

I have read about testimony before your committee favoring a flat benefit of $25 or $30 a month. That's not a pension; it's a parody. Yet even paying this amount to the 11,000,000 Americans over the age of 65 would cost more than $3,000,000,000 a y ear. A flat benefit of $50 a month would cost more than $6,000,000,000 a year.

The conservatives who have spoken favorably of flat-rate pensions are not among those who are willing to pump additional billions into the Federal system. We suspect their real aim is to break down the whole social security program.

We in CIO, on the other hand, have no objection to expenditures of this size for old-age pensions, provided the money is raised and disbursed in a fair and sound way. We believe these conditions can be met by following the existing social security pattern, with the improvements we suggest.

I would like to remark, in passing, that we deplore the opposition of private insurance companies to higher Federal benefits. In the first

place, we do not believe these companies have an inherent right to make money from the insecurity of our people. In the second place, we are convinced—and the record bears us out—that the Federal plan encourages the purchase of supplementary insurance, because the Federal pension helps bring an adequate retirement income within reach.

Here is what the CIO proposes as a program for liberalizing benefit amounts: The calculation of the average monthly wage should be revised. This calculation is of primary importance in determining what the worker gets in the way of a pension.

As you know, hourly paid workers cannot, as a rule, work full time throughout the year. Seasonal unemployment is typical of many industries. Others close down at intervals because of material shortages, weather conditions, or other factors.

Under the present law, these periods of involuntary unemployment also reduce the workers' pension rights. H. R. 6000 applies a remedy only in the event of permanent and total disability. This is not enough.

We suggest that the average monthly wage should be based on earnings in the highest quarters of five consecutive years—the 5 years which produced the highest total earnings.

The benefit formula I am about to propose is based on the assumption that you will adopt this suggestion. We are primarily interested in a certain level of benefits. If the average monthly wage is brought down by a different method of calculation, we naturally want to increase the percentage of the average monthly wage which is paid as a pension.

Actually our recommendations on the benefit formula are at a minimum level from our point of view. As I have indicated, we believe social insurance payments should be enough to maintain an American standard of living. At the same time, we want to be practical; so we have scaled down our proposals to a substantial degree.

We favor the provision of H. R. 6000 regarding the first part of the benefit formula; that is, a primary benefit of 50 percent of the first $100 of the average monthly wage. But we believe that the percentage for wages in excess of $100 should be doubled, permitting 20 percent to be added to the primary benefit.

The CHAIRMAN. Mr. Rieve, at that point: Mr. Murray did, did he not, advocate the administration bill, that is, the bill first introduced in the House, H. R. 2893? And that bill had this formula: Fifty percent of the first $75 of average wage, plus 15 percent of the next $325. You are suggesting a change there?

Mr. RIEVE. We are. That is right.

The CHAIRMAN. You want 50 percent of the first $100, and then a doubling of the percentage for wages in excess of $100, to permit 20 percent to be added to the primary benefit?

Mr. RIEVE. That is right, yes.

We also favor the present 1 percent annual increment, rather than the one-half of 1 percent allowed in H. R. 6000. And we urge that the wage base be raised to $4,800 instead of $3,600.

We have prepared a table comparing the benefits under this formula with the present figures, and with those contemplated by H. R. 6000.

Comparison of benefits after 20 years of coverage provided by various plans (single person)

Method of calculation	CIO proposal: Best quarters in 5 consecutive years	Present law: Monthly average of total taxable wages (reduced for periods of noncoverage)	H. R. 6000: Entire period of coverage [1]
Amount of average monthly wage:			
$100	$60	$30	$55.00
$150	72	36	60.50
$200	84	42	66.00
$250	96	48	71.50
$300	108	48	77.00
$400	132	48	77.00

[1] After 1955, benefits are reduced by periods in which the worker was not covered.

I will not take the time to read the figures, but you will note that we propose, for a single person after 20 years of coverage, a minimum of $60 and a maximum of $132, compared to a minimum of $55 and a maximum of $77 under H. R. 6000.

The greatest differences occur in wages of more than $200 a month. This is in line with our belief, as I mentioned earlier, that benefits should be related to past earnings. We are willing to modify this relationship for the sake of the lowest paid; but we must accept the unhappy fact that many wage earners are paid too little to build up adequate pension reserves. We cannot correct the inequities in our economy by means of the social security system.

This is why we urge a primary benefit of 20 percent, instead of 10 percent, of wages above $100 a month. A similar approach is involved in our view on the annual increment. While we hope you will extend coverage to all workers, we do not think you should penalize those who have been making contributions for many years.

At the same time, we do not believe there should be too drastic a reduction imposed on those whose periods of covered employment are interrupted. We feel the continuation factor in H. R. 6000 cuts benefits too far.

We advocate a wage base of $4,800 because this figure, in terms of wage and price levels, is equivalent to the $3,000 base of the prewar years. Anything less than $4,800 is a step backward, and puts an adequate program that much further out of reach.

Also, the $25 minimum in H. R. 6000 is entirely too low, even though it is much better than the present $10. We propose a minimum of $50 a month for all covered workers.

After all, the aim of social security is not to provide a little spending money for aged workers who must find other means of support. We want to do better than that; and to do it, $50 a month is as low as we can go.

Along the same line, we vigorously approve the provision in H. R. 6000 permitting outside earnings up to $50 a month. Together with our proposed benefit minimum, this opens the way to a $100 monthly income for a retired worker in the lowest pension bracket who retains some earning power. Certainly this is more realistic than the $14.99 limit for the same worker today.

The maximum for family benefits, in our opinion, should be 80 percent of the average monthly wage, without a dollar ceiling. To chop off benefits at $150, as H. R. 6000 contemplates, would defeat the purposes of social insurance where there are a number of dependents.

Simple justice calls for higher dependents' and survivors' benefits. The surviving dependents are just as important as the surviving workers, though the latter have held the spotlight.

A widow should receive 100 percent of the primary benefits; her living costs are just as high as a retired single worker's. We also favor increasing the allowance for the first child or dependent parent of a deceased worker to 75 percent of the primary benefit, as set forth in H. R. 6000. We are sure you agree that protection for the children of widowed mothers has an importance which transcends any statistical analysis. It is a form of investment in the Nation's future.

In all these cases, limiting the maximum family benefit to 80 percent, of the deceased workers' average monthly wage eliminates the risk of excessive allowances.

Finally, we urge liberal wage credits for veterans covering their period of service, the cost to be met from the general revenues.

You will note that I have not brought out an array of figures on the cost of living, family budgets and so on as part of our case in behalf of these higher pension payments. It seems to me it is unnecessary to do so. Our proposed schedule of benefits is clearly not extravagant.

Therefore I will simply point out that a budget developed jointly by the Social Security Administration and the Bureau of Labor Statistics calls for an income of more than $140 a month for an aged couple in a representative city. These agencies describe the budget as "modest but adequate." I think it can be said that the first adjective is more descriptive than the second. Actually, of course, we believe these figures are not nearly adequate to provide a decent American standard of living.

In any event, the CIO proposals would produce such an income only in a relatively few cases.

I would like to turn now to the second basic section of H. R. 6000.

I would like now to turn to the question of permanent and total disability.

PERMANENT AND TOTAL DISABILITY

H. R. 6000 provides payments for total and permanent disability closely in line with those recommended by the Advisory Council. In the opinion of CIO, no part of the bill is more important than this one.

A worker who becomes permanently and totally disabled loses in three ways. First, his income is cut off, often at the very peak of his family obligations. Second, he often is saddled with medical costs which consume whatever savings he may have. And third, he is very likely to lose his insured status under the social-security laws, and therefore be deprived of pension benefits when he reaches the age of 65.

There is presently no way for the average worker to insure himself against this triple disaster. In my own union, the Textile Workers Union of America, 90 percent of the membership is protected by group insurance covering disability; but the payments terminate after 13 or 26 weeks.

Senator MILLIKIN. Mr. Rieve, is it the insurance of your own union?

Mr. RIEVE. Under contractual collective bargaining relations with the employers, as a part of our bargaining, it is provided in the contract that the employer takes out insurance covering these workers for total disability from 13 to 26 weeks.

No broader insurance coverage is offered by private companies except as part of a retirement-income program. About the only available benefit is the insurance companies' practice of waiving premiums on group life insurance for workers who become permanently and totally disabled before the age of sixty.

It is impossible, of coure, for the average worker to provide his own disability protection through personal savings. Thus the only recourse for the totally and permanently disabled is public relief. Where the family includes growing children, the handicap of a disabling injury or illness is therefor extended to the next generation.

There are an estimated 2,000,000 people who are not working because of total and permanent disability. Less than 5 percent are covered by the workmen's compensation acts of the various States. An even smaller number are covered by railroad retirement legislation, State and local retirement programs and veterans' benefits. All the rest are dependent on public or private charity.

The fact that the statistics in this field are so incomplete is evidence of our neglect. If there was an organized attempt being made to care for these people, we would have more exact information about them.

All the hesitation about moving forward in this field seems to arise from the tales of woe told by the insurance companies about their experience in the early thirties. If we judged any proposal, in any field, according to the sad experience of those years, we would have to be against it. We learn from experience in this country; we don't become paralyzed by it.

It is true that the insurance companies had a bad time with permanent and total disability provisions in the thirties, and it cost them money. Could it not be possible that highly aggressive salesmanship during the optimistic twenties, combined with the basic mistakes of the insurance company actuaries, was responsible?

Twenty-five years ago, when the rates for this type of coverage were set up, the actuaries assumed that those who were totally and permanently disabled had a life expectancy of less than 2 years. But medical science—which did not consult the actuaries—added to his life span considerably.

Then we had a great depression. A good many people had to choose between food and insurance premiums. Obviously those who felt healthy allowed their policies to lapse; those who kept the insurance felt there was a strong possibility they would need it.

I do not deny that there were fake claims—that some people tried to use their insurance for unemployment compensation. But remember, this was at a time when there wasn't any other kind of unemployment compensation.

It seems to me that when the insurance companies assume that no law can be drawn which prevents such abuses, they are taking a dim view of your committee's talents. I have more confidence in you than that.

As a matter of fact, we believe that H. R. 6000 provides the necessary safeguards. We propose benefits in the same amounts we have suggested for the old-age pension, including allowance for dependents. Such a program, applied under the rules laid down in the House bill, will rescue millions of Americans from destitution and dependency which they now suffer through no fault of their own. We see no reason for further neglect of this clearcut need.

Rehabilitation: Rehabilitation of the physically handicapped goes hand in hand with aid for the disabled. We urge immediate expansion of the present program, which the record shows has been highly effective within its restricted limits.

According to the report of the Joint Committee on Low Income Families and Economic Stability, 53,000 persons were rehabilitated under the Federal-State program in fiscal 1948. Three out of four were unemployed when accepted for rehabilitation. But after treatment and training under the program, nearly 90 percent were employed, with an average income of $1,830.

Currently the number of disabled is increasing much faster than our rehabilitation services can handle them. We support the administration proposal in this field. We also are supporting separate legislation for other improvements in rehabilitation services.

Temporary disability: We were deeply disappointed when the House Ways and Means Committee rejected the administration proposal for a national system of temporary disability insurance. We urge your committee to restore the program set forth in H. R. 2893.

As you know, this program follows the pattern of unemployment compensation. Maximum benefits are $30 for a single worker, and $45 for a worker with three or more dependents. Maximum duration is 26 weeks.

A number of States have established programs of this nature, but all except one permit private insurance companies to provide the coverage. Our experience with these plans has not been satisfactory. Costs are higher, protection is uncertain, and there is much duplication and confusion in the administration of the programs.

As I mentioned earlier, I have had a great deal of experience with union-negotiated plans through my own organization. We were among the pioneers in this field. I will not argue that our union plans have not served a good purpose; but they suffer from the same disadvantages as union-negotiated pensions plans.

We in the CIO are particularly anxious to avoid a repetition of the workmen's compensation approach. The record of the insurance companies in this field is notoriously bad. I urge your committee to examine the ratio of premiums to losses, as set forth on page 248 of a volume entitled "Spectator Premiums and Losses by State of Casualty, Surety and Miscellaneous Lines in 1948"; 1949 edition.

These figures show that the benefits paid out represent only about half the premiums written; in workmen's compensation alone, the proportion is even lower. These facts are shocking.

In contrast, the temporary disability program in Rhode Island—the only State excluding private companies from the system—has operated at an administrative cost of only 3 percent of the contributions collected. In this field at least, the efficiency of Government is far more impressive than that of private enterprise.

Public assistance and child welfare: The CIO position in this field was presented in considerable detail before the House Ways and Means Committee. The record is available, and I will not belabor the question.

In general, we endorse more liberal Federal grants-in-aid to the States, covering the field of general assistance. We feel that dependent children suffer undue discrimination because of the low limits on Federal contributions on their behalf—limits which H. R. 600 retains. We believe the Federal Government should insist that the various States improve the standards of their assistance program.

We advocate extending Federal funds for public assistance to Puerto Rico and the Virgin Islands.

Finally, we endorse the recommendations on child welfare services which have been made by the American Parents' Committee.

I have tried to give you our major proposals in the social security field. Now I suppose it is proper to say a few words about financing them.

Frankly, the question of cost is highly technical, and I am not prepared to go into the details. You may recall that even the advisory council found it impossible to make a firm estimate covering its own recommendations.

My experience has been that statistical experts very rarely agree among themselves. However, we in the CIO have our own experts, and I would like to submit for the record an appendix which represents their best thinking on the subject. May I do so?

The CHAIRMAN. You may. Just hand it to the reporter.

Mr. RIEVE. In broad terms, we endorse the view of the advisory council that the social-security contributions of workers and employers should eventually be matched by the Federal Government, from funds raised through general taxation.

The council pointed out that the system starts with an accrued liability, because so many present members of the working force will not have contributed during their full working lifetime. This burden should not be carried entirely by the pay-roll tax. Also, a Government contribution would recognize the interest of the Nation as a whole in the welfare of the aged, the disabled, and their dependents. The council also noted the relief to the general taxpayer which results from substituting old-age pensions for public assistance.

So far as we can determine, our proposals can be financed within the terms recommended by the advisory council—that is, a Government contribution which matches the sum raised through pay-roll taxes.

Surely it cannot be said that such a program is beyond our means. As I mentioned very early in this statement, even the conservative economists agree that we have every chance to create a truly abundant life in the years ahead. We can be defeated only by our own timidity.

A few years back, the President's Council of Economic Advisers said that the surest way to bring about an economic collapse was to adopt policies based on one. The same principle applies to social security.

We hope you will agree with us that the best social-security program is one which expects the future to be better than the past. If you do, we think you can do no less than accept the proposals we have offered.

The CHAIRMAN. Thank you, Mr. Rieve.

You have attached to your statement the brief prepared by the Amalgamated Clothing Workers?

Mr. RIEVE. That is correct. And I would like to introduce another document, which is sort of an outline of the recommendations for improvement of the legislation on old-age and survivors insurance now under consideration before the Senate Finance Committee, H. R. 6000. It is a sort of an addition to what I have presented here.

The CHAIRMAN. Yes, sir. You may do so.

Are there any questions? Senator Millikin?

Senator MILLIKIN. Mr. Rieve, I would like to ask you for your own opinion: Is it practicable in the large mass-production industries to give elderly people who are not capable of working a full day, a part day's work? And I should say in connection with that that I am not thinking of any reduction of the benefits. I would like to maintain their benefits and at the same time make what they can earn as something extra, having it in mind that we are developing a lot more elderly people than we used to have, and if we are going to have this productivity which we are referring to and a better and increasing standard of general welfare, we are going to have to keep people working if they want to work and if they are capable of working. Do you see any reason why the larger industries could not stop this business of junking people at relatively early age, and keep them working longer if they want to work and are able to work, and adjust the work hours and conditions of employment to their ability to work?

Mr. RIEVE. I am categorically opposed to mandatory retirement. I think that medical science has proven that people are not as old at 65 today as they were 25 years ago, as a whole. Now, there are exceptions to that rule, as there are exceptions to all rules.

In a good many mass-production industries, where they operate primarily on a chain or a belt system, the worker has to keep up with that belt, and if you have some one in the middle of that belt that is slower than the rest of the belt, it slows up production all around. There are perhaps possibilities that that worked could be absorbed in other operations, because there are all kinds of other operations in a plant. And I will say that I don't think that industry has done its full share of trying to absorb the older people. I think primarily they feel, I suppose, that the younger man is more productive, and consequently they prefer younger people. I am afraid we are reaching again the stage we did some years before the war—it died down a little—where a man 45 or 50 had difficulties in getting a job, because industry felt that his productivity was limited to a few more years and then they would have a liability on their hands.

Generally speaking, I think a worker could be absorbed. There are exceptions.

Senator MILLIKIN. As distinguished from mass-production industries, that would be particularly true in handicraft businesses.

Mr. RIEVE. Oh, yes. There is no question about it.

Senator MILLIKIN. A man might not be able to work 6 or 7 hours, but he might be able to do a good 3 or 4 hours' work?

Mr. RIEVE. That could be done. There is a little cost atttached to an employer where he has on one job two men instead of one man; and when a shift changes there is always a little cost attached. I

think the other man cannot pick up the machine from the one wl left it without some little difficulty. That is just one thing.

Senator MILLIKIN. Is there not a challenge there to industri statesmanship?

Mr. RIEVE. There is.

Senator MILLIKIN. Industry should bear its own costs. It shou not be shifting its costs to the public. Do you not think that that a rule that should be followed, so far as practicable?

Mr. RIEVE. Yes, I think I agree with you, Senator, on that poi And I suppose we will have to educate industry in that direction. don't think industry is doing it. I am not going to say that indust is not doing it at all, but I am not, either, going to say that they a doing their full share. They could do better than they are in that fiel

Senator MILLIKIN. You rendered a great service on the Adviso Council. You of course are aware of the large numbers of peop we are going to have. We have them now, but they are gettii larger and larger. And if we are going to have this productivi which is the basis of carrying all of our plans of every kind, all of o Government expense and all of our private expense, it seems to r that we have to stop junking people as long as they have some usefu ness in them.

Mr. RIEVE. We found, during the war, that we had no problem wi the aged. Industry was only too glad to get them. And they render a valuable service to their country. Without them we could n have prosecuted the war as successfully as we did.

I see no reason why the same people cannot make an equal contr bution to productivity in peacetime.

The CHAIRMAN. Is industry making progress in that direction

Mr. RIEVE. I would rather say, judging war years as a base, th industry is slipping, definitely slipping, making no progress in th direction. Industry probably is making more progress in that dire tion than existed prior to the war. I don't think it has slipped to bad a situation as existed prior to the war. But if you take war yea as a base, then industry is slipping. It is laying off more people. contract negotiations and as to old age pensions, industry insists most instances that there be a mandatory laying off of workers at years or 68 years of age regardless of any kind of an investigation to whether the person involved is still able to produce or not.

Senator MILLIKIN. There are a lot of statistics to the effect that du ing the last 10 years we have not increased our per man productio per day. Have you any comments on that? It used to be said th we were increasing our per man per day production about 2½ or 3 pe cent per year, but that during the last 10 years we have stopped doi that.

Mr. RIEVE. I think we have a chart over here on that score. Th chart which I have is by the Council of Economic Advisers. It show here, the rise in per man-hour productivity.

The CHAIRMAN. Is that true, Mr. Rieve, or not, in the texti industry?

Mr. RIEVE. Definitely true. It is definitely true in the texti industry.

The CHAIRMAN. You know as to that industry.

Mr. RIEVE. That arises from two reasons, Senator. It arises b cause for 60 years or more the textile industry has been notorious

slow in technological improvements. But they are catching up and catching up very fast. As a result of that, productivity in the textile industry has risen tremendously per man-hour. Because the man has a better tool to operate with, too. It doesn't necessarily follow that he exerts himself more, although that is so, too. But also he has a better tool to operate with.

Senator MILLIKIN. How much unemployment do you have in the textile industry now?

Mr. RIEVE. I suppose we still have around 100,000. We used to have 200,000. I don't have the figures over the last 2 weeks or so. Our unemployment has risen sharply in the last 2 months.

Senator MILLIKIN. Are you speaking generally, or as to the textile business?

Mr. RIEVE. Well, generally; but the textile industry is not immune from it. Let me put it that way. In the textile industry, here, a year or so ago, we were the first to feel the effects of unemployment; a little more than the other industries. I think that we are about in line now.

Senator MILLIKIN. Are imports bothering you much?

Mr. RIEVE. They are beginning to, yes, very much.

The CHAIRMAN. Are there further questions?

We thank you very much, Mr. Rieve.

(The appendixes submitted by Mr. Rieve are as follows:)

STATEMENT PREPARED BY THE AMALGAMATED CLOTHING WORKERS ON SPECIFIC PROTECTION OF AGENT LAUNDRY DRIVERS UNDER H. R. 6000

Many employers, relying upon the ambiguous nature of the Social Security Act, have sought, and unfortunately, invariably succeeded in withdrawing from coverage under the act, their employees engaged as drivers by the simple device of designating them agent drivers. This withdrawal from coverage was accomplished without any change in the nature of the work performed, the economic function of the driver, or previously existing relationship to his employer.

The framers of H. R. 6000, cognizant of the economic realities prevailing among so-called agent drivers and other commission salesmen sought to eliminate the ambiguities and correct the deficiencies contained in the original Social Security Act by specific provision relating thereto (sec. 210 (k) (3) and (4) of H. R. 6000).

As the House Ways and Means majority report accompanying H. R. 6000 explained (p. 81):

"Your committee believes that the usual common law rules for determining the employer-employee relationship fall short of covering certain individuals who should be taxed at the employee rate under the old-age, survivors, and disability insurance program. The statutory provisions set forth in paragraphs (3) and (4) (sec. 210 (k)) are designed to correct this deficiency in existing law by extending the definition to include those individuals, who although not employees under the usual common-law rules, *occupy the same status as those who are employees under such rules*" [italics supplied].

Further, during the debate on the bill on the House floor, Representative Walter A. Lynch, one of the proponents of H. R. 6000 and a member of the Ways and Means Committee made expressly clear that the framers of the bill intended to cover agent drivers. He stated (81st Cong., 1st sess., Congressional Record, pp. 14192–14193, October 5, 1949):

"The bill would redefine (employee) and would thereby restore coverage to from 500,000 to 750,000 salesmen, taxi drivers, industrial home workers, contract loggers, mine lessees, *agent drivers and commission drivers*, and other persons technically not employees at common law who were deprived of employee status by Public Law 642 Eightieth Congress, the so-called Gearhart resolution. These workers who were taken out from under the social-security program by the Eightieth Congress are dependent upon their earnings from work like other groups covered as employees under the bill.

"It is our intention to bring under coverage those who were callously thrown out of social security by the Gearhart Act and *likewise to circumvent unscrupu-*

lous employers who believe that, by entering into contracts with agent driver and commission driver salesmen and similarly situated salesmen stating that they are independent contractors, they can go behind the intention of the Social Security Act." [Italics supplied.]

All familiar with the laundry industry and similar service industries know that Representative Lynch's statement is a wholly accurate summarization of the existing facts. Prior to 1930 there were no agent drivers in the laundry industry. In the early thirties, with the advent of social security, unemployment insurance, and other social legislation laundry owners, seeking to reduce operating expenses, began to convert their regular drivers to agent drivers. The general method whereby this fictitious conversion was accomplished was to compel the driver to purchase a truck on terms providing for little or no down payment and intallment payments extended over a period of many years. Significantly, under the contract of purchase, each agent driver was compelled to bring all laundry bundles collected exclusively to his employer until the purchase price had been fully paid. The employer thus retained full control of the driver to the same extent that he had hitherto exercised when the driver was designated as an employee. The agent driver continued as theretofore to drive a laundry vehicle, pick up and mark bundles, carry them between the customers and the laundry, collect payments for services and account for the money so collected to the laundry. The only difference was that agent drivers received percentages of retail prices fixed to cover the agent driver's expenses instead of fixed salaries. Even this difference, however, is illusory; the agent driver's net earnings or take-home pay remaind identical to what his wage had been.

Unfortunately, however, despite Representative Lynch's clear and concise statement that agent drivers are entitled to the benefits of H. R. 6000 and H. R. 6000 contemplated covering them, that bill would lend itself to the purposes of the litigious employer who seeks to deprive agent drivers from coverage.

That such an ambiguity exists is established by merely looking to the House Ways and Means Committee minority report dealing with the precise question of agent drivers. Contrary to the majority report and Representative Lynch's statement, the minority would interpret the proposed bill as excluding agent drivers (p. 200).

In sum, only by the attached clarifying amendments will the intention of the framers of H. R. 6000 be fully carried out. We therefore respectfully direct the committee's attention to these amendments and urge that H. R. 6000 be clarified as there indicated.

PROPOSED AMENDMENTS TO H. R. 6000

Section 210 (k) (2) should be amended as follows: Page 49, line 4, omit "expressly"; page 49, line 5, omit "complete." As thereby amended, section 210 (k) (2), page 49, lines 2 through 12, would read as follows:

"* * * For purposes of this paragraph, if an individual (either alone or as a member of a group) performs service for any other person under a written contract reciting that such person shall have control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person); or."

More importantly, section 210 (k) (3) should be amended as follows: Add a new subparagraph (G), after subparagraph (F), to read as follows: "(G) As an agent driver or commission driver;".

If the Senate committee accepts the foregoing amendment, subparagraph (G), page 50, line 8, in H. R. 6000 will become "(H)."

Section 203 (k) (4) (F), appearing at lines 14 and 15 of page 51, should be amended by adding the following: "(other than the investment by a salesman or agent driver in facilities for transportation)."

CONTRACT

AGREEMENT made this —— day of ———, 19——, between ———, with its principal place of business located at ———, hereinafter called the Employer and the Independent Laundry Drivers Union, Local 324, Amalgamated Clothing

Workers of America, located at 799 Broadway, New York City, hereinafter called the Union, for and in behalf of the members thereof now employed and/or hereafter to be employed by the Employer and collectively designated as "Agent Drivers."

Whereas it is the intent and purpose of the Employer and the Union that this Agreement shall promote and improve industrial and economic relationships between the Employer and its Agent Drivers covered by this agreement, and

Whereas it is expected that the respective representatives of the parties to the agreement shall represent in the shop and in their dealings the cooperative spirit of the agreement and shall be leaders in promoting that amity and spirit of good will which it is the purpose of this agreement to establish,

Now, Therefore, in consideration of the mutual covenants, promises, and agreements herein contained, the parties hereto agree as follows:

1. *Definition.*—The term "Agent Drivers" when used in this agreement include all of the Agent Drivers of the Employer, who themselves operate laundry routes, whether or not said Agent Drivers own shares or stock in the business of the Employer. An Agent Driver is one who furnishes his own vehicle in connection with the operation of a route.

2. *Recognition.*—The Employer recognizes the Union as the exclusive bargaining representative for all of its Agent Drivers as defined in the preceding clause, and will employ such Agent Drivers only who are members in good standing of the Union, and will furnish an official working card from the Union upon commencement of the employment. In the event the Employer violates any of the provisions of this clause the Union shall be free to take such action as it deems appropriate 1 week after the Union has given notice to the Employer by registered mail of such violation, anything in clause 12 to the contrary notwithstanding.

3. *Status of other workers.*—(*a*) The Employer shall not employ any other employees who are not members in good standing of a local union or joint board affiliated with the Amalgamated Clothing Workers of America. In the event the Employer violates this provision the Union shall be free to take such action as it deems appropriate, anything in clause 12 to the contrary notwithstanding.

(*b*) In the event (1) the Employer fails to transmit to the said local union or joint board affiliated with the Amalgamated Clothing Workers of America all sums required o be checked off and transmitted to it by the Employer in accordance with the provisions of the collective-bargaining agreement between the Employer and the said local union or joint board affiliated with the Amalgamated Clothing Workers of America; or (2) the Employer fails to comply with any arbitration decision or award rendered under the collective agreement between the Employer and said local union or joint board affiliated with the Amalgamated Clothing Workers of America; or (3) of termination or absence of a collective agreement between the Employer and said local union or joint board affiliated with the Amalgamated Clothing Workers of America, the Union shall be free to take such action as it deems appropriate, anything in clause 12 to the contrary notwithstanding.

(*c*) The Union shall not support any stoppage by said local union or joint board affiliated with the Amalgamated Clothing Workers of America, under the provisions of this clause 3, unless said local union or joint board obtain the consent of the Union before effecting such stoppage. Said local union or joint board shall be notified by the Union before the Union effects any stoppage under the provisions of this agreement against the Employer.

4. *Registration.*—(*a*) The Employer shall furnish to the Union, once each month, a written list indicating all Agent Drivers employed by it and their helpers, if any, as well as laundry stores or other wholesale customers for whom the Employer processes work. Changes made in said list shall be communicated to the Union by the Employer by means of a written supplementary list, and the said changes shall be incorporated in the written list furnished to the Union in the following month.

(*b*) The Employer shall process work for only such laundry storekeepers or other wholesale customers as are registered with and agreed upon by the Union, and which employ only members in good standing of the Amalgamated Clothing Workers Union, and which laundry storekeepers, if they drive a vehicle themselves in the operation of a laundry route, are members in good standing of the Union. It is the purpose and intent of the parties, by this provision, to eliminate destructive competition of nonunion labor to prevent undue overtaxing of facilities of the Employer's laundry and to avoid vicious speed-ups. It is the expectation and hope of the parties hereby to minimize undermining of fair labor stand-

ards, depreciation in quality of productive work, and interference with proper service to the public and with the earning of living wages by the Agent Drivers. Consent by the Union to dealing with laundry storekeepers shall not be unreasonably withheld, and the granting or refusal thereof shall be guided by the policy expressed in this clause.

5. *Wages.*—(*a*) Each Agent Driver shall account to the Employer for his collections periodically in accordance with the manner and method heretofore prevailing in the plant.

(*b*) Out of such collections thus accounted for the Agent Driver shall, subject to clause 16 below, retain as his commission 50 percent of said collections on wet wash laundry bundles, and 40 percent of said collections on all other services. The balance of the collections shall be paid over by the Agent Driver to the Employer. The percentage of collections presently retained by the Agent Driver shall in no case be reduced, however, anything herein to the contrary notwithstanding.

(*c*) The commissions herein provided for are adjusted so as to include expenses incurred by the Agent Drivers in the operation of the vehicle and route, such as advertising, tickets, license charge, vehicle registration, vehicle insurance, etc.

(*d*) The Employer shall furnish to the Agent Drivers weekly a statement and route-sheet setting forth the individual retail amount to be collected from each customer and the amount of the gross collections to be made.

(*e*) The Employer shall not perform laundry services directly or indirectly to contractors or storekeepers or otherwise, for the public, at prices less than those charged to the public by him through the Agent Drivers.

6. *Disability relief and benefit fund.*—On the first day of the week following the date of this agreement, and on the first day of each week thereafter during the term of this agreement, the Employer shall pay to the Union's Disability Relief and Benefit Fund 2 percent of the net gross collections received by it from the Agent Drivers during the preceding week. By the net gross collections is meant that amount of collections remaining after deductions of commissions by the Agent Drivers and after deduction of Union dues as herein provided below. Nothing herein contained shall be deemed to be a waiver of any sums presently owing from the Employer to the fund. In the event the Employer violates this provision the Union shall be free to take such action as it deems appropriate one week after the Union has given notice to the Employer by registered mail of such violation, anything in clause 12 to the contrary notwithstanding.

7. *Responsibility for lost laundry.*—(*a*) The Employer shall be responsible for all laundry bundles brought into the plant for processing by the Agent Drivers and not returned to them for delivery to the customers.

(*b*) The Employer shall pay to each Agent Driver each week 2 percent of the net amount of collections (as defined in clause 6) cashed in weekly, as reimbursement for "unknown losses" in laundry brought in for processing and returned incomplete to the Agent Drivers. "Unknown losses" are such losses in bundles returned to the Agent Driver as are not included within definition of "known losses" below.

(*c*) The Employer shall be responsible for all "known losses" in laundry brought in to the plant by the Agent Drivers for processing and returned incomplete to the Agent Drivers. "Known losses" include:

1. Laundry bundles not returned to Agent Drivers for delivery.
2. Mix-ups.
3. Loss of items brought into the plant by the Agent Driver for processing by piecework rather than by weight.

(*d*) Anything in this Agreement to the contrary notwithstanding, in the event the Employer charges for fire or theft insurance, or other so-called surcharges on laundry work, the Employer shall be responsible for all damages, including loss, theft or fire, to the laundry work from the time of pick-up from the customers by the Agent Drivers to the time of delivery to the customers by the Agent Drivers.

8. *Schedule of services.*—(*A*) For the purpose of enabling the Agent Drivers to make specific commitments to customers with respect to delivery of processed work, the Employer shall post a notice in the plant clearly indicating the following:

1. Schedule of days and hours during the week when Agent Drivers customarily bring in work for processing; and
2. A further schedule stating the day and hour when work brought in on each of the occasions enumerated may be picked up completely processed and ready for delivery.

(*B*) The Employer shall not discriminate with respect to service or quality of work as between Agent Drivers and other drivers or stores for which the employer processes work. Work shall be processed on the first-come-first-served basis, unless otherwise agreed upon in writing by the parties.

(*C*) The Employer shall not in any week, or for any reason, prior to the day that has been established by common practice in the plant as the dead line for the payment over of the balance of collections for the preceding week, withhold from any Agent Driver any processed laundry which is ready for delivery to the public.

9. *Hours of work.*—No Agent Driver shall be obliged to work more than 44 hours in any one week.

10. *Changes of employment.*—No change shall be made in the Agent Drivers by the Employer, either by the release of, or addition of Agent Drivers unless by mutual written consent of the parties hereto or unless the Joint Committee below provided for under clause 11 has voted and consented thereto, or failing such consent, the Impartial Chairman and Arbitrator under the agreement has approved such change. No Joint Committee regulation or arbitration decision shall change or vary any of the provisions of this agreement. In the event the Employer violates any of the provisions of this clause the Union shall be free to take such action as it deems appropriate 1 week after the Union has given notice to the Employer by registered mail of such violation, anything in clause 12 to the contrary notwithstanding.

11. *Fair-trade regulations.*—(*a*) There shall be a joint committee, one-half of the membership of which shall consist of three representatives of each Employers' Association having contractual relationship with the Union and the other half of the membership of which shall consist of an equal number of representatives selected by the Union. This Joint Committee shall, following investigation and study of conditions in the industry, establish fair-trade-practice regulations, which, however, shall in no case conflict with any City, State, or Federal Laws. The Employer and the Union agree to abide and be bound by fair-trade regulations thus established to the end that conditions of below-cost competition may be eliminated and labor conditions stabilized.

(*b*) The parties hereto recognize the necessity of avoiding and eliminating intolerable competitive conditions which have existed in the industry, of maintaining decent labor conditions, of enabling the inside employees and Agent Drivers to earn a living wage, of giving proper and efficient service to the public, and of operating the laundry of the Employer in accordance with the rules and regulations of the Health Department for the protection of the inside employees and the public.

(*c*) It is recognized in principle that unreasonable changes in registration of Agent Drivers by the Employer and other Employers may result in overloading of some plants with work and in undersupplying of others, to the detriment of the members of the Union and of the members of any other local union or joint board affiliated with the Amalgamated Clothing Workers of America, who may be employed therein, and of the industry generally. It is agreed therefore that a maximum work-week of 44 hours for inside employees shall be the guide for determining the proper application of the provisions of clause 10 hereof, to the end that work brought in by Agent Drivers shall not overcrowd any one plant, that members of the Union and of any other local union or joint board affiliated with the Amalgamated Clothing Workers of America, shall be afforded more equal opportunity for earning a living wage, that speed-ups and slow-downs by reason of overloading or lack of work may be eliminated, and that the provisions of clause 8 hereof may be effectively administered.

12. *Strikes—lock-outs.*—This Agreement provides for an orderly adjustment of all matters in dispute between the parties. It is agreed that strikes, lock-outs, sympathy strikes, and stoppages of work are prohibited, subject to the provisions of clauses 2, 3, 4, 10, 13, 14, 16, 18 hereof, and in the case of the Union then only upon the authority of the Manager of the Union.

13. *Arbitration.*—(*a*) Any and all matters in dispute between the parties hereto arising out of this Agreement shall be submitted to the Impartial Chairman designated by Hyman Blumberg. All decisions of the Impartial Chairman shall be rendered within ten (10) days after the matter is submitted to him. The decision of said Impartial Chairman shall be final and binding upon all parties with regard to any matter submitted to him under the terms of this Agreement.

(*b*) Decisions of the Impartial Chairman shall be effective the date the decision is rendered. Failure to abide by such decision shall be considered a breach of this

Agreement and the Union or Employer shall be free to enforce such decision by such action as it deems appropriate, anything in clause 12 to the contrary notwithstanding.

14. *Labor Disputes.*—It is agreed that the Employer will not do work, directly or indirectly, for any person, firm, or corporation engaged in the laundry industry and involved in a strike or labor dispute. In the event the employer violates this provision the Union shall be free to take such action as it deems appropriate, anything in clause 12 to the contrary notwithstanding.

15. *Soliciting.*—(*a*) Agent Drivers agree to furnish their own vehicles, and be responsible for same.

(*b*) Agent Drivers agree to furnish customers for the route.

(*c*) The Employer shall not, directly or indirectly, in any manner, divulge the identity of the customers of the routes operated by the Agent Drivers, nor shall it directly or indirectly solicit said customers for itself or for any person or Agent Driver unless it has first paid in cash, as a bonus to the Agent Driver, the amount of $30 per dollar of average weekly business of the route involved. The preceding 4 weeks shall be the basis for calculating the average volume of business per week of the route. For example: If the route averages $100 per week for the preceding 4 weeks the amount of cash bonus to the Agent Driver shall be $3,000.

16. *Check-off.*—The Employer shall, in addition, collect weekly from each Agent Driver a sum representing Union dues, in accordance with a list furnished by the Union and shall transmit the same to the Union semimonthly. The Employer agrees to be responsible for such collection of Union dues as well as for transmittal of same to the Union. Should the Employer fail to effect such collection, it shall nevertheless be liable for the total sum required to be collected as herein provided for. In the event the Employer violates this provision the Union shall be free to take such action as it deems appropriate 1 week after the Union has given notice to the Employer by registered mail of such violation, anything in clause 12 to the contrary notwithstanding.

17. *Examination of books.*—The Union shall have the right at all reasonable times to examine the books, records, and papers of the Employer for the purpose of determining whether the Employer is complying with the provisions of this agreement.

18. *Recognition of Union Representatives.*—The Employer agrees to recognize and deal with such representatives of the Union as the Union may elect or appoint. The Employer further agrees to permit duly accredited represenatives of the Union to visit its plant during working hours. The Union may post notices in the plant of the Employer. In the event the Employer violates this provision the Union shall be free to take such action as it deems appropriate 1 week after the Union has given notice to the Employer by registered mail of such violation, anything in clause 12 to the contrary notwithstanding.

19. *Duration.*—This agreement shall commence on the date first mentioned above, and shall terminate on the day of ——— 19——, on which latter date this Agreement and the provisions thereof shall be automatically renewed from year to year thereafter unless 30 days prior to the expiration date of this Agreement of any renewal thereof notice in writing by registered mail is given by either party to the other of its desire to terminate this Agreement.

----------, *Employer.*

INDEPENDENT LAUNDRY DRIVERS UNION, LOCAL 324,
AMALGAMATED CLOTHING WORKERS OF AMERICA,

----------, *Manager.*

Witness:

Witness:

Witness:

CERTIFICATE OF AUTHORIZATION

The undersigned members of Inter-Borough Laundry Board of Trade, Inc., hereby authorize Louis H. Solomon, Esq., to execute on their behalf and in his sole discretion a collective-bargaining agreement between said association and

Independent Laundry Drivers Union, Local 324, Amalgamated Clothing Workers of America, for the period from May 1, 1946, to May 31, 1948, and with provision for annual renewal of said agrement thereafter, and they each further authorize said Louis H. Solomon, Esq., to execute on their behalf and in his sole discretion any and all supplements to and modifications of said collective-bargaining agreement, and each of the undersigned hereby agrees to be bound by said collective-bargaining agreement and any and all supplements thereto and modifications thereof as shall be executed by Louis H. Solomons, Esq., with the same force and effect as if each of said documents shall have been executed by each of the undersigned individually.

(Signed by members of Inter-Borough Laundry Board of Trade, Inc.)

SUPPLEMENTAL AGREEMENT

Supplement to collective-bargaining agreement made as of May 1, 1946, between Inter-Borough Laundry Board of Trade, Inc., and Independent Laundry Drivers Union, Local 324, Amalgamated Clothing Workers of America.

It is agreed by and between the parties to the foregoing collective-bargaining agreement as follows:

1. Clause 6 of said agreement, entitled "Disability Relief and Benefit Fund," is modified so as to provide that with respect to net-gross collections received by the employer from the agent drivers for the period commencing with the first day of the week following May 1, 1936, and ending with the end of the last full week in May 1947, the employer shall pay 1½ percent to the union's disability relief and benefit fund, and after the said date of the last full week in May 1947, the employer shall pay the full 2 percent to the union's disability relief and benefit fund as provided for in clause 6 of the said agreement.

2. The foregoing modification shall be applicable to the members of the Inter-Borough Laundry Board of Trade, Inc., only as long as they remain members of said association.

In witness whereof the parties hereto have caused this supplemental agreement to be executed by their duly authorized agents this 3d day of May 1946.

INTER-BOROUGH LANDRY BOARD OF TRADE, INC.,
By LOUIS H. SOLOMON, *Owners.*
INDEPENDENT LAUNDRY DRIVERS UNION, LOCAL 324, AMALGAMATED CLOTHING WORKERS OF AMERICA,
By MURRAY M. GASSMA, *Manager.*

Supplemental agreements made as of June 19, 1947, between the Inter-Borough Laundry Board of Trade, Inc., hereinafter called the Employer, and Independent Laundry Drivers Local 324 of the Amalgamated Clothing Workers of America, hereinafter called the Union.

Whereas the Employer and the Union are parties to a collective bargaining agreement dated May 1, 1946, and presently in force (herein called the Agreement), and

Whereas the Employer is presently negotiating with the Laundry Workers Joint Board for an extension of the contract to 1952, and the parties hereto have agreed to an extension of the contract between the parties hereto to terminate on June 19, 1952, in contemplation of the extension of the Laundry Workers Joint Board contract to 1952,

Now, Therefore, in consideration of the premises, the parties agreed that said Agreement shall be modified and amended as follows:

1. Clause 19 of the Agreement is amended so as to provide that the termination date shall be June 19, 1952, or at such earlier date as is finally fixed with the Laundry Workers Joint Board for the termination of the Laundry Workers Joint Board contract presently in negotiations. In the event that the Laundry Workers Joint Board contract presently in negotiation shall terminate at an earlier date, and shall be extended for a further period, then the contract between the parties hereto shall be extended accordingly to the termination date of the Laundry Workers Joint Board contract as renewed and further renewed.

2. Except as herein modified and amended, the Agreement shall continue full force and effect until the 19th day of June 1952, or earlier as her provided.

In witness whereof the parties hereto have caused this Supplemental Agr ment to be executed by their duly authorized agents.

INTER-BOROUGH LAUNDRY BOARD OF TRADE, INC.,
By LOUIS H. SOLOMON, *Employer.*
INDEPENDENT LAUNDRY DRIVERS UNION LOCAL 324 OF THE AMALGAMATED CLOTHING WORKERS OF AMERICA,
By MURRAY M. GASSMA, *Manager.*

CERTIFICATE OF AUTHORIZATION

We, the undersigned employers have authorized the Supplemental Agreem dated June 19, 1947 between the Inter-Borough Laundry Board of Trade, I and the Independent Laundry Drivers Union Local 324 of the Amalgamat Clothing Workers of America and do hereby ratify same with the same force a effect as if the same were entered into between said union and each of t undersigned individually and executed by each of the undersigned individua

(Signed by employers.)

SUPPLEMENTAL AGREEMENT

Supplemental agreement made this 26th day of December 1947 between Int Borough Laundry Board of Trade, Inc., with its principal place of business loca at 101 Park Avenue, New York City (hereinafter called the "Association"), and on behalf of its members signatory hereto (herein collectively called "Employer"), and INDEPENDENT LAUNDRY DRIVERS UNION LOCAL 324 of t AMALGAMATED CLOTHING WORKERS OF AMERICA, located at 799 Broadway, N York, N. Y. (hereinafter called the Union), for and on behalf of the membe thereof now employed or hereafter to be employed by the Employer and coll tively designated as "Agent Drivers."

Whereas, the parties hereto are parties to a collective bargaining agreem dated May 1, 1946, and to agreements supplemental thereto dated May 1, 1946, a June 19, 1947 (said collective bargaining agreement and supplements being he inafter referred to as the Agreement), and which Agreement is in full force a effect and by its terms will not expire until June 19, 1952, and

Whereas, the parties desire to amend the Agreement in the manner hereinaf set forth,

Now, therefore, in consideration of the premises, the parties agree that t Agreement shall be modified and amended as follows:

1. Clause 5–E of the Agreement is changed to read as follows:

"In the event the Employer charges its retail customers, or in the event t Employer's regular drivers or its own or other storekeepers charge the E ployer's or the storekeepers' retail customers, prices for laundry services th are less than the prices which the Employer instructs its Agent Drivers to char to the public, then the prices to be charged by the Agent Drivers to the pub shall be reduced so as to equal said lesser prices charged by the Employer or its regular drivers or by the storekeepers, and the commissions provided for Clause 3–B hereof shall be calculated upon said lesser prices charged by t Agent Drivers. The foregoing provisions shall be fully applicable to 'cash a carry' laundry services performed by the Employer except that a differential 20 percent between the prices charged by the Employer to 'cash and carr customers and the prices charged to other retail customers for laundry servic shall be permitted before the requirement of reducing the prices to be collect by the Agent Drivers becomes effective. If the Employer fails or refuses comply with the provisions of this paragraph after demand by the Union t Union may submit the matter to arbitration and, in the event the Arbitrator fin that the Employer has violated this paragraph he shall award damages for su violation in addition to such other relief as he may find appropriate."

2. Clause 12 of the Agreement is amended by including 5–E in the claus enumerated therein.

3. Except as herein modified or amended the Agreement shall continue in full force and effect.

In witness whereof the parties hereto have caused this Supplemental Agreement to be executed by their duly authorized agents upon the date first above written.

INTER-BOROUGH LAUNDRY BOARD OF TRADE, INC.
By LOUIS H. SOLOMON.
INDEPENDENT LAUNDRY DRIVERS UNION LOCAL 324,
AMALGATED CLOTHING WORKERS OF AMERICA,
By MURRAY M. GASSMA.

SAMUEL MORETZKY, *Witness*
WILLIAM PUCCIAVELL, *Witness*
_____, *Witness*

CERTIFICATE OF AUTHORIZATION

The undersigned members of Inter-Borough Laundry Board of Trade, Inc., hereby reaffirm that they are parties to and are bound by the collective-bargaining agreement between the said Association and Independent Laundry Drivers Union Local 324 of the Amalgamated Clothing Workers of America dated May 1, 1946, and by the supplements thereto dated May 1, 1946, and June 19, 1947 Each of the undersigned has authorized Louis H. Solomon to execute on their behalf a further supplemental agreement dated December 26, 1947, supplemental to the said collective-bargaining agreement dated May 1, 1946, and dealing with the matter of prices to be charged by Agent Drivers. Each of the undersigned hereby agrees to be bound by the terms of said further supplemental agreement dated December 26, 1947, with the same force and effect (whether or not the undersigned remains a member of the Association) as if the same were executed by each of the undersigned individually.

(Signed by members of Inter-Borough Laundry Board of Trade, Inc.)

CERTIFICATION OF AUTHORIZATION

The undersigned members of INTER-BOROUGH LAUNDRY BOARD OF TRADE, INC., hereby reaffirm that they are parties to and are bound by the collective-bargaining agreement between the said Association and INDEPENDENT LAUNDRY DRIVERS UNION LOCAL 324 of the AMALGAMATED CLOTHING WORKERS OF AMERICA dated May 1, 1946, and by the supplements thereto dated May 1, 1946, and June 19, 1947. Each of the undersigned has authorized Louis H. Solomon to execute on their behalf a further supplemental agreement dated December 26, 1947, supplemental to the said collective-bargaining agreement dated May 1, 1946, and dealing with the matter of prices to be charged by Agent Drivers. Each of the undersigned hereby agrees to be bound by the terms of said further supplemental agreement dated December 26, 1947, with the same force and effect (whether or not the undersigned remains a member of the Association) as if the same were executed by each of the undersigned individually.

BON LAUNDRY SERVICE, INC.,
By SAUL MINDISH, *Treasurer.*
JUMEL LAUNDRY SERVICE, INC.,
AARON SCHNEIDER, *Secretary.*
PIONEER LAUNDRY SERVICE CORP.,
DAVID FORMAN, *Treasurer.*
LUNA LAUNDRY CO., INC.,
LEO BERLIN, *Secretary.*

RESOLUTION ON SOCIAL SECURITY

(Adopted by CIO Executive Board, February 15, 1950)

CIO affiliates, through their collective-bargaining efforts, have continued to make notable advances in obtaining social-security protection. This progress not only aids those directly involved but gives a tremendous impetus to the passage of adequate social-security laws. The entire Nation is indebted to

the strikers in steel, auto, and other industries who through their sacrifices h contributed so much to the cause of economic security.

We must not relax our efforts. Very substantial improvements must still made before we achieve our goal of adequate social-insurance protection for Americans.

The CIO Committee on Social Security has been developing detailed legi tive proposals to carry out the resolutions adopted at our recent convent These deal with four main branches of social security: Old age, survivors, a disability insurance; public assistance; unemployment insurance and empl ment offices; and a national health program, including health insurance.

We strongly urge all affiliated unions and industrial union councils to pl social-security improvement No. 1 on their legislative-action program. All our combined strength should be directed toward an informed membership w can express the urgency of the need of across-the-board improvement to th respective Congressmen.

OLD AGE, SURVIVORS, AND DISABILITY INSURANCE

The CIO position will be presented in a few weeks before the Senate Fina Committee, which is now holding hearings on H. R. 6000, the bill passed by House last session.

We support universal coverage, which is indispensable to proper protect for all aged citizens. As a minimum immediate step, we believe that bene should be more than doubled in line with the specific proposals of the CIO Co mittee for Social Security. The permissive retirement age for women sho be reduced to 60. The program for total and permanent disability insurance n in H. R. 6000 must be retained and should be improved. The national syst for temporary disability insurance outlined in the administration bill in House should be enacted.

PUBLIC ASSISTANCE

This phase of social security likewise requires substantial improvement beyo the provisions of H. R. 6000. No matter how much better we make social surance laws, many Americans will have to rely on public aid on the basis need to help them in emergencies. This last resort must be adequate to h all needy persons, not just the aged, the blind, and dependent children, as present. H. R. 6000 should be amended to provide Federal matching gra for general relief also. The grants should be adjusted to the financial requi ments of the States. Dependent children should be aided on as liberal a ba as other groups. Federal standards should be strengthened to reduce reside requirements and secure other improvements.

UNEMPLOYMENT INSURANCE AND EMPLOYMENT OFFICES

We commend the plans of the Committee on Social Security to introduce a l for a national system of unemployment insurance and employment offices w adequate benefits for all wage earners. We urge the House Ways and Me Committee to give immediate consideration to this proposal as well as to otl bills aimed at patchwork improvement in the Federal-State system.

With unemployment now close to 5,000,000, Congress must make plans to place the insufficient protection written into State laws. Benefits must raised substantially and duration extended so that able-bodied men and wom who cannot find jobs are not abandoned to public or private charity.

The program for Federal standards again recommended by President T man would be a valuable interim step. It should be accompanied by reinsura grants to States whose funds are running low and by adequate appropriati for the Federal and State employment-security agencies.

HEALTH INSURANCE AND THE NATIONAL HEALTH PROGRAM

We deeply regret the continued failure of the organized doctors to support legislation to make essential medical services available to all Americans. Hi paid press agents have fanned the doctors' fears of Government action throu misstatement of facts and distortions. The American Medical Associati through its board of trustees, has even reversed its previous support for p manent- and total-disability insurance. Bills that would give Federal funds train more doctors and other medical personnel and to expand local pub

health services and medical research still are tied up in congressional committees.

We urge immediate passage of such measures. We also urge as rapid action as possible toward the establishment of a national system of health insurance to cover the costs of medical care on an efficient, unified basis for all Americans.

RESOLUTION NO. 15

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE AND PUBLIC ASSISTANCE

The drive of affiliated CIO unions for pensions, health and other social-security provisions has roused Congress from 14 years of inaction. Today it seems possible that the provisions of the Social Security Act, which were admittedly inadequate when enacted in 1935 and are now a mockery of social security, may be modernized to meet in some degree the needs of old people, the dependent, the sick, the disabled and the unemployed.

We are proud of the fact that our unions, by making social security the No. 1 item in their 1949 collective-bargaining demands, have forced congressional committees to take social security out of moth balls and put it high on the legislative calendar for the second session of the Eighty-first Congress.

We welcome the support of those who are now campaigning for improvement of the Government social-security programs, even though they err in representing our collective-bargaining demands as an alternative to extension and improvement of the Government programs. They are mistaken in charging that our demands are in any sense competitive with or alternatives for Government programs. They are not. They are and will continue to be a necessary supplement to the Government program. We reaffirm our belief in and support for comprehensive National Government programs of social security that, by coverage for all families and pooling of risk, can give maximum protection at the least expense. Likewise, we reaffirm our belief and support for our collective bargaining for pensions and social security.

We propose to the American people that they join in a great crusade to end the double standard whereby—

> Workers who have invested their lives in building our industrial supremacy receive average pensions of slightly more than $300 a year, while—
>
> Management executives receive pensions from $25,000 to $77,000 a year (usually under noncontributory plans that are said to be morally debilitating when proposed for wage earners), and
>
> Members of Congress may receive pensions of more than $8,000 a year.

This is morally wrong, economically and socially destructive. It is part of the boom-and-bust philosophy of the twenties that has been repudiated in five successive Presidential elections.

The 14 years of inaction and procrastination by Congress are shameful. Old-age and survivors insurance contributions by workers and employers will rise from 1 percent to 1½ percent of wages on January 1, 1950, but Congress has not yet acted to increase OAS benefits above the present average of $25 a month, which is less than half the amounts paid by some States as public assistance to needy persons qualifying under the hateful means test.

H. R. 6000, which the House passed shortly before adjournment, is a step in the right direction. It covers 11,000,000 people under old-age and survivors insurance and increases benefits by close to 100 percent for low-paid workers and by about 50 percent for better-paid workers. H. R. 6000 also launches a new system of permanent- and total-disability insurance and brings various improvements in public assistance.

The Republican members of the House Ways and Means Committee all signed a minority report which was less liberal and which was translated into a bill offered as a substitute. The overwhelming final vote for H. R. 6000 was partly the result of our collective-bargaining efforts which demonstrated the determination of American wage earners to achieve security. The bill's passage was a defeat for the insurance companies which had vigorously fought genuine improvements. Regrettably, the insurance companies' lobby did influence some members of the committee and thus watered down the administration's proposals quite drastically.

The Senate Finance Committee has not considered social security at this session, although its advisory council last year recommended many improvements,

some of which go beyond the House version. Only a few members of the Senate Finance Committee have in the past voted for measures favored by organized labor. The most vigorous kind of public pressure must be organized in order to secure favorable and prompt action by this committee and the Senate.

Although the CIO favored passage of H. R. 6000, despite its inadequacies, we had urged in hearings that the committee support the administration bill, which would have doubled insurance benefits on the average, extended coverage to nearly all Americans, and added a national system of temporary- as well as permanent-disability insurance. We also favored extensive improvements in public assistance, including Federal grants to States for general assistance for all types of persons in need. This proposal was rejected by the House committee. The present social-security law is so out of date that even the substantial advances in H. R. 6000 would leave many gaps and inadequacies.

Our State industrial-union councils have made vigorous efforts to improve State laws on workmen's compensation, unemployment compensation, and public assistance. In a handful of States temporary-disability laws have been passed, most of which are wholly unsatisfactory. Fifty-one separate State systems of social insurance are highly confusing. In many States underrepresentation of industrial areas in their legislatures makes it difficult to secure good laws, especially since insurance companies and other conservative forces constantly marshal their efforts to defeat us. Such separate State systems are wasteful and cannot adequately protect our many members who move from State to State.

CIO workers have a profound interest in social insurance. A sound national system is vitally necessary and long overdue. If well planned and well administered, the social-security system will in itself help avoid economic ups and downs: Now, therefore, be it

Resolved, The Congress of Industrial Organizations reaffirms our desire for a unified comprehensive national social-insurance system, with universal coverage and adequate benefits, giving protection against the hazards of old-age survivorship, permanent and temporary disability, sickness, industrial accidents, and unemployment, geared in with a national employment service and other positive programs to minimize such hazards.

We urge Congress, at its coming session, to revise the social-security system more liberally than is done by H. R. 6000 through adopting the following provisions:

(*a*) Universal coverage.

(*b*) Relating benefits to earnings in the best five consecutive years, liberalizing the formula, restoring the full 1-percent annual increment, and raising the wage base ceiling to $4,800.

(*c*) Providing specifically for contributions from the general revenues so as to avoid undue piling up of pay-roll taxes.

(*d*) Inclusion of temporary- and partial- as well as total- and permanent-disability insurance with dependents' benefits to help provide adequate levels for families.

(*e*) In connection with the public-assistance program, the addition of Federal grants to the States for general assistance to all types of needy persons, with more liberal matching provisions for the poorer States and no ceilings; and Federal standards to see that needs are met and residence requirements and liens on property are removed.

We urge the National Government to continue seeking to develop additional methods for more adequate provisions for older persons who have not reached the retirement age but cannot find good jobs, or who have passed the retirement age but do not have social-insurance protection.

We call upon our affiliates to renew their efforts to achieve adequate social security both through collective bargaining and through legislation on the National and State levels.

In connection with State legislation, we urge action to improve State laws on workmen's compensation, and pending development of a national social-insurance system, public assistance, unemployment compensation, and temporary-disability insurance along the lines recommended by the CIO.

RESOLUTION NO. 17

UNEMPLOYMENT INSURANCE AND THE PUBLIC EMPLOYMENT SERVICE

Unemployment insurance, together with other New Deal measures such as Federal insurance of bank deposits, the Securities and Exchange Commission, and the Home Owners' Loan Corporation, helped to prevent the 1949 recession

from becoming a full-scale depression. The more than 2.5 billion dollars in benefits paid out in the past year contributed to purchasing power at a time when wage payments were shrinking.

But the dangerous weaknesses of the present inadequate and discriminatory Federal-State crazy quilt of unemployment insurance and public employment services have been high lighted during the latest test of the system:

Benefits are too low, averaging only one-third of weekly earnings. This is because of low maximums set by State laws.

Duration of benefits is too limited. One-third of all claimants exhaust their rights under present laws before they find new jobs.

Disqualifications, based on discriminatory laws and rulings, deprive many thousands of workers of benefits to which they should be entitled.

Workers employed in more than one State lose their rights partly or completely. At the same time, inefficient and discriminatory placement work by State employment services harms both workers and State unemployment insurance trust funds.

Reactionary forces have seized upon the 51 State systems as an excuse and means for fighting progress. They have used experience rating to reduce their taxes in good times so that in some States funds may prove inadequate even under poor benefit provisions. The employment service, too, has suffered through the artificial erection of State barriers across labor markets and because of the necessity of supporting 51 separate systems to carry out the same program.

Congressional appropriations have failed to finance adequate functioning of either Federal or State employment security agencies, a situation which has been seized upon as an argument for bills to undermine already weak Federal controls. The Interstate Conference of Employment Security Agencies, composed of State administrators of unemployment insurance, has lobbied at taxpayers' expense for legislation undermining a sound system out of funds provided by Congress. The interstate conference has in other ways taken over functions that should properly be performed by the Federal Bureau of Employment Security.

Recognizing the need for basic improvements in our present unemployment compensation system, President Truman recommended in his midyear economic report that Congress establish minimum benefit standards for all parts of the country, providing "benefits for 26 weeks ranging up to $30 a week for single individuals with additional amounts for dependents." Although a bill to provide such Federal minimum standards was introduced in the House of Representatives by Congressman King, no hearings were held on it, nor on another proposal for providing Federal funds to pay benefits for more than 26 weeks in States suffering severe unemployment.

The transfer of the Bureau of Employment Security to the Labor Department is only a first step which must be reinforced by improved laws and adequate appropriations: Now, therefore, be it

Resolved, That the Congress of Industrial Organizations reaffirms its belief that only a national system of unemployment insurance, geared in with a national employment service and a unified national social insurance system, can properly discharge the responsibility of the National Government to deal adequately with the national problems of unemployment, arising from Nation-wide corporations, competitive areas, and labor markets.

That we support, as a preliminary step in the right direction, President Truman's proposal for national minimum benefit standards, realizing, however, that such standards cannot really give assurance of proper performance, as for example in rulings on suitable work disqualifications, and cannot overcome inherent difficulties in relying on separate State laws, such as uneconomically small areas for pooling risks, confusion, waste, and insufficient protection for people who work in more than one State.

That we favor as an interim measure immediate provision of benefits up to 52 weeks in a calendar year out of Federal funds, provided States meet certain minimum benefits standards.

That we believe the Federal Government has a basic responsibility in times of mass unemployment to provide adequate payments to the unemployed as a matter of right so long as necessary if sufficient jobs cannot be provided, in order that family needs are met and purchasing power is maintained.

That we oppose proposals for making workers bear part of the cost of unemployment insurance through pay-roll taxes as intolerable under the present inefficient Federal-State system and inconsistent with our objective under a unified social

insurance system of holding down pay-roll taxes to a minimum; if any deficit occur these should be met out of general revenues and progressive taxation.

That we again condemn experience rating as unsound in that it prevents accumulation of adequate unemployment insurance reserves in good times, raises taxes in bad times, and provides a constant incentive for employers to fight workers' benefit claims administratively and by amendment of State laws.

That we urge strengthening of the Federal Bureau of Employment Security through redirected use of the present staff and through more adequate appropriations as it can take leadership in improving the program and achieving better cooperation from the States. We call upon Congress to make adequate appropriations for State employment security agencies, including a substantial contingency fund. But we oppose automatic return of administrative funds to States in any form whatsoever as inconsistent with proper Federal responsibility and programing. We urge Congress and the Department of Labor to prevent use of Federal funds for the lobbying activities of the Interstate Conference of Employment Security Agencies.

That the full benefits of this program and the legislation above recommended be applied to Puerto Rico as an integral part of the American economic unit.

RESOLUTION No. 9

SECURITY THROUGH COLLECTIVE BARGAINING

The United Steelworkers of America is now engaged in a strike in pursuance of the basic objective of securing pensions and a health and welfare program on a noncontributory basis from the steel industry. Many other CIO unions are similarly engaged in collective bargaining on these issues. Unions have continually fought for improved living standards, higher wages, better working conditions, and health and security benefits and shall continue to fight for these objectives in coming years.

Through the stalwart efforts of the United Steelworkers, the issue on pensions and health and welfare benefits has been brought to the forefront. The Fact-Finding Board in the steel dispute accepted the Steelworkers' position that workers are entitled to pensions and health and welfare benefits and that the cost of such benefits are to be considered as a cost of operation and to be paid solely by the corporation. The Fact-Finding Board accepted unequivocally the position of the Steelworkers' Union that reserves must be set aside by corporations for pensions and health and welfare benefits just as reserves are set aside by corporations for depreciation of plants, buildings, and equipment.

It is a fundamental obligation for corporations to provide for health and medical needs of the individual worker during the time of his employment and to further provide for the safeguarding of that worker's life and dignity when he becomes too old to work and too young to die: Now, therefore, be it

Resolved, We reiterate our stand that programs of security and protection for working people be recognized as a legitimate and proper cost of doing business and that programs under collective bargaining must be entirely financed by employer contributions.

Because Government social-security programs fail to meet standards of adequacy and are now completely lacking in benefits and services for health and disability, it should be a continuing necessity for unions to bargain collectively to supplement these Government security programs.

Noncontributary security programs won through collective bargaining shall be democratically administered with full regard to the interest of the worker. They shall establish the highest possible standards of benefits with available funds. Arrangements for programs under collective bargaining shall be those which maximize benefits to the workers.

The CIO must vigorously pursue through collective-bargaining programs to bring to its members a coordinated system of security benefits, increased real wages, shortening of the workweek with no cut in take-home pay, the guaranteed minimum annual wage, and improved working conditions.

RESOLUTION No. 26

INDUSTRIAL SAFETY AND HEALTH

Lack of safe and healthful working conditions continues to levy a fearful toll on the life, limb, and health of the worker in American industry. The latest reliable figures indicate that more than 16,000 workers are killed and an addi-

tional number in excess of 2,000,000 are injured each year in these industrial casualties. These appalling totals are a vital concern of the Congress of Industrial Organizations.

The solution of this grave problem has been left for too long in the hands of one or another limited group. A large segment of American management continues to insist that safety is a sole prerogative of the employer. Some spokesmen for the technical experts, such as physicians and safety engineers, likewise endeavor to make safety and industrial health their exclusive jurisdiction. Enlightenment is needed to convince the autocrat in the field of safety and occupational health that elimination of health hazards in industry is the joint concern of all those involved in industry.

The failure to confront this national problem of industrial safety is chargeable in large measure to frequent legislative attempts to remove from the United States Department of Labor and the respective State departments of labor the functions of establishing safe and healthful working standards, and of enforcing these standards. A part of these destructive legislative assaults is an irrational opposition to the establishment of safety codes equipped with the authority of law and susceptible of constant improvement without involved legislative proceedings.

Some of the confusion having to do with enforcement of Federal and State safety laws results from misunderstandings arising between the respective labor departments and the respective public-health agencies throughout the country. The extremists on each side in these jurisdictional disputes must be made to realize that every public agency has its proper place in the field of peculiar competence in bringing about the elimination of accidents and occupational diseases arising within industry. Cooperation, not contention is necessary. It is encouraging to note that this problem appears to be on the way to solution.

President Truman has made a tremendous contribution by calling National Conferences on Industrial Safety, which are bringing together leaders of management, of labor, of the medical profession, and of the engineering services to devise cooperative ways and means of meeting the problem. The first of these conferences called by President Truman was held in Washington, D. C., in March 1949, and a second President's Conference on Industrial Safety is scheduled for June 1950. At the same time the suggestion of the first President's conference that similar conferences be called by the governors of the respective States is meeting with success.

An almost criminal deficiency in the field of industrial safety and occupational diseases is the difficulty of obtaining accurate statistics and detailed reports on the subject matter. The gathering of this information is a proper function of the Bureau of Labor Statistics of the United States Department of Labor supported by the full cooperation of the respective State departments of labor, the United States Public Health Service, the State and local public health agencies, and of management and labor.

The problem of industrial safety and occupational diseases can properly be met only through the full cooperation of all of those concerned in the mounting toll of industrial casualties: Now, therefore, be it

Resolved, (1) We rededicate the CIO to the high objective of making the workplaces of America safe and healthful, with special consideration for the women and young persons who toil in them.

(2) We redouble our insistence that labor be brought into full joint participation at the plant level with management, the technical agencies, and the public authority in instituting and carrying out safety and occupational health programs in industry.

(3) We urge Congress to provide the United States Department of Labor with the necessary authorizations and adequate appropriations required by the Bureau of Labor Standards to formulate national standards of industrial safety and occupational health for the guidance of the respective States in protecting workers from safety and health hazards in industry.

(4) We urge legislation authorizing, directing, and providing adequate funds for the promulgation and enforcement by the United States Department of Labor, in cooperation with State labor departments, of national uniform health and safety codes covering employment in hazardous industries in or affecting interstate commerce as proposed in the Burke-Humphrey bill (H. R. 4997; S. 1992).

(5) We urge our affiliated organizations with members in the various States to make every effort to strengthen the State departments of labor and to have delegated to those departments the enforcement of all State codes, statutes,

and regulations designed to protect workers from unsafe or unhealthy working conditions.

(6) We support S. 1439 which would provide Federal assistance to State agencies administering labor laws to promote, establish, and maintain safe workplaces and practices in industry. This bill has been recommended for passage by the Senate Committee on Labor and Public Welfare.

(7) We urge our affiliated organizations to insist on the drafting in the several States of safety and occupational health codes by qualified experts from management, from labor and from the medical and engineering fields, working in conjunction with the State departments of labor, and to obtain for such codes the status of law.

(8) We commend the Surgeon General of the United States for establishing in the Industrial Hygiene Division of the United States Public Health Service a Public Advisory Committee composed of industrial physicians and nurses, management and labor representatives. Further, we endorse the recommendation of the Public Advisory Committee that the USPHS and the United States Department of Labor cooperate fully in their respective proper fields to protect workers in industry from occupational disease hazards.

(9) We endorse the reports of the President's Conference on Industrial Safety held in Washington, D. C., in March 1949, as an excellent beginning in the national campaign to make industry safe for the workers employed in it.

(10) We hail with satisfaction the assurance that another President's Conference on Industrial Safety will be held in Washington, D. C., in June 1950. Further, we note with satisfaction the excellent work done by the 75 CIO delegates sent by our affiliates to the 1949 conference, and we urge our affiliates to send similar qualified delegates to the 1950 President's conference.

(11) We urge our affiliates and their members to work for the calling of Governor's Conferences on Industrial Safety in the respective States.

(12) We urge Congress to make available to the Bureau of Labor Statistics of the United States Department of Labor the facilities and appropriations that will enable the BLS to compile complete, accurate, and detailed records on accidents and diseases occurring in American industry for the information and guidance of those persons of good will who are striving to reduce and eliminate the frightful toll of death and injury exacted by accidents and occupational diseases every year in American industry.

(13) We urge all of those concerned to cooperate to the fullest extent in bringing safe and healthy working conditions into the smaller plants where 70 percent of the Nation's industrial casualties occur each year.

A Note on Costs of Social Security

(Statement Prepared as Supplement to Testimony by Emil Rieve for the CIO)

A decent social-security program is a good investment in the preservation of the lifetime productivity of American workers. Only as we protect the physical and mental well-being of the Nation's work force will it be able to make its maximum contribution to the Nation's economic progress.

This position was well summed up in the recent economic report of the President's Council of Economic Advisers, which reminded the Nation that:

"* * * social-security programs should be measured primarily against what a strong economy can afford to do. Workers are more productive when they live in the assurance of protection against foreseeable hazards, rather than in dread of their incapacity to cope with them. Social-security programs also serve to cushion the effects of recessionary trends whenever these may appear, because old-age payments constitute a steady flow of income, and because unemployment insurance benefits and assistance payments rise as other forms of income decline." [1]

Much confusion and misunderstanding seems to attend consideration of the problem of cost in connection with proposals to liberalize existing social-security statutes. The very nature of the elements that must be weighed—future population trends including the general birth rates and death rates, forecasting the age at which workers will retire a decade or two hence, productivity and wage

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[1] Economic Report of the President, Together With the Report to the President, the Annual Economic Review by the Council of Economic Advisers, January 1950.

trends in the economy—these and other factors make it almost impossible to estimate the future costs of such programs with any degree of exactitude.

As we enter the atomic age we urge the committee not to sacrifice existing needs and responsibilities on the altar of what are at best dubious cost projections.

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Making sound cost estimates for a pension and survivors insurance program is a rather elusive task. Overconservatism somehow always seems to predominate such calculations. It is pretty well established, for example, that in setting up private pension systems, insurance companies have always tended to overload their premiums. Thus, they seem to overestimate life expectancy, the number of people who will actually retire at age 65, etc.

Similar miscalculations which tend to exaggerate costs were characteristic of the estimates of the Social Security Administration at the time the Federal program was originally laid down. Faulty population estimates, for example, failed to take into account the sharp increase in the birth rate which took place during the past decade. At the same time, experience has shown that although retirement benefits are available thousands and thousands of workers who reach 65 are able to and prefer to continue to work.

In his recent testimony before the House committee, Arthur Altmeyer, Commissioner of the Social Security Administration, admitted that the Government had originally estimated the cost of the present program at a level premium of 7.9 percent of pay rolls. On the basis of actual experience under the program and more current population statistics, this figure has now been revised downward to some 4.5 percent of pay rolls.

We think that this committee should be aware of the history of such estimates and take with a grain of salt any new estimates that are presented here. The fact remains that actuaries and economists seem to go awry in the face of changing birth rates, rising wage levels, and the like. Almost any estimate of eventual cost tends to be too high.

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One of the most common errors made in estimating the costs of liberalizing the present program is that which ignores many of the costs currently being assumed to meet the same needs. It is by no means true that the increased pay-roll taxes which would be imposed under a liberalized Federal program are a net addition to the present burdens. For example, much of the public assistance or private charity which goes to supplement the presently inadequate old-age pensions could be dispensed with, if the existing Federal program was sufficiently liberalized.

The manner in which pay-roll tax costs under a social-security program are often a substitute rather than an additional cost can be clearly seen in the case of temporary disability insurance. Assuming, as is generally agreed, that the cost of this type of program could be met by a 1-percent tax on pay rolls, it should be obvious that this would be no new cost suddenly to be thrust on society. The fact remains that by some catch-as-can method which doubtless imposes severe and unexpected burdens upon millions of people, the families of temporarily disabled wage earners must scrape together resources to get by.

Such unbudgeted costs are in many ways the most severe of all and doubtless involve greater suffering than would a pay-roll tax. Furthermore, a wage earner lacking adequate resources during such periods of enforced disability returns to work before he is fully recovered. Frequently, he is laid up again, and the entire Nation, along with his family, suffers an economic loss.

To repeat, then, the pay-roll tax costs imposed to finance a liberalized social-security program will represent, to a considerable extent, merely the regularization of charges already assumed to aid the aged and the needy.

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Necessarily, the estimated costs of social security are a projection into the future. This is reasonable since any program, once set up, will presumably operate for years ahead. But projecting costs on the basis of future needs and operations of a program is only part of the task. Any realistic evaluation of costs must also take into consideration the factor of economic growth. As the Council of Economic Advisers expressed it in their recent report to the President:

"Social-security expansion now, insofar as it applies to persons who will not retire for many years, should make considerable allowance for an assumption of continuing secular economic growth. Almost all of our national policies in the long run depend on the validity of this assumption."

Further, the Council pointed out that its "* * * main reason for offe this analysis is to promote the application of sound economic principles to so security matters. * * * It seems clear to us that the application of so analysis reveals that our Nation can afford a considerably expanded so security program without impairing our economic stability or weakening growth potential." [2]

As an indication of perspective which is gained when one projects fu economic growth of the Nation, as well as the cost of social security, in ano recent report the Council pointed out that 25 years hence the total costs of presently recommended programs in the field of social insurance and public sistance, including medical care, might range up to $25,000,000,000 a year. Council added, however, that although this is a very large figure it shoul viewed against the "rate of growth which would result from fairly consis maximum production and employment" which "would mean a total national put of 500 to 600 billion dollars 25 years from now, or in the range of $300,0 000,000 above the present levels." The Council went on to add that "the pros tive increase of $20,000,000,000 in social-welfare costs would thus repre less than 7 percent of the total increase in national output. This would be a moderate proportion of its increasing income for a prosperous democ to devote to the aid of those less able to protect themselves against econo risks." [3]

To repeat, it is patently unfair to project costs into the future without mak similarly reasonable projections of what our economy will look like some ye hence.

As an example of the kind of scare propaganda which can be pumped out time when proposals to liberalize the OASI program are under considerat let me call to your attention the much-quoted study recently issued by the Br ings Institution entitled "The Cost and Financing of Social Security." study estimates that the original administration bill, H. R. 2893, by 1980 w have entailed annual charges of from $10,065,000,000 to $14,688,000,000, possible intermediate estimate of $12,377,000,000 annually. This certainly se like an enormous figure and taken by itself might well be inclined to scare l lators into shying away from an effective liberalization of existing pension

We have already called attention, however, to the fact that even if t estimates proved to be true, and that's a doubtful assumption based upon experience in this field, these costs would represent but a very small shar what national income is apt to be 25 or 30 years hence according to the Cou of Economic Advisers.

If one prefers a more conservative source than the Council of Economic visers, Sumner H. Slichter has only recently made estimates of the prob level of national output in 1980. His estimates come to somewhat lower le than do the Council's, but this stems in part from the fact that Professor Sli assumes that by 1980 the average workweek will be around 30 hours inste the current 40-hour level. Even with this somewhat radical assumption, Sli estimates that in 1980, total output will be around $416,000,000,000 per compared to around the level of $250,000,000,000 in 1949.[4]

Viewed against even this more conservative level of national output the ch of $12,377,000,000 which Brookings blows up is obviously well within the li of this country. The issue becomes one of letting the American people decid 1950 whether by 1980 they can afford to apply around 11 or 12 billion dollar a prospective increase of at least $150,000,000,000 in their national produc to provide decent care for the aged, the survivors of stricken wage earners, the permanently disabled. (Moreover, as we indicated above, this wouldn' an entirely new cost, since much of it would otherwise have to be borne in inefficient and unplanned-for fashion.)

Regardless of what program is finally recommended by this committee, w costs are under consideration the probable and potential economic growth of United States is certainly a relevant factor.

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As we have already indicated, any cost estimates are in the nature of sp lative guesses. Recognizing that it is impossible to make full allowance for

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[2] Business and Government, Fourth Annual Report to the President by the Co Economic Advisers, December 1949, p. 23.

[3] Economic Report of the President, together with the report to the President, Annual Economic Review by the Council of Economic Advisers, January 1950, p. 12

[4] The Atlantic, November 1949, p. 39.

many changing elements, the CIO has nevertheless tentatively tried to estimate what costs are involved in substituting its own proposals in place of those in H. R. 6000. We estimate that the cost of this program would involve a long-range level premium somewhere between 7 and 8 percent. Unlike some of the other estimates which were presented to you, we are frank to admit that ours is very tentative and is based, to a considerable extent, on measures which have been used by the Federal Security Administration and others which in the past have proven to be somewhat faulty.

We believe that regardless of what program is set up and what the eventual costs may be, at no point should workers contribute more than 2 percent of pay roll. Furthermore, we believe it quite proper that as the system develops, a substantial part of the total cost might be financed out of the general revenues of the Federal Government.

There are many good and sufficient reasons for this procedure. Clearly these costs are a kind of general social charge which society should properly meet, in part at least, through the general taxing and revenue powers of Government. This also enables the Government to keep a firm hand within the system to prevent abuses, etc.

Keeping the pay-roll tax on wage earners down to no more than 2 percent will also conform to the economic needs of the country. As the Council of Economic Advisers concluded in its recent economic report to the Nation, we shall not "be completely out of the woods" until we are "successful in raising the level of consumption, which is not now sufficiently high for sustained maximum production and employment."

Pay-roll taxes are highly regressive and harm consumption. Consequently, any increases in pay-roll taxes work counter to the development of a high consumption economy and should be avoided wherever possible. Confining the pay-roll tax to 2 percent on workers therefore makes good economic sense.

* * * * * * *

A first-rate economic power cannot afford to accept a second- or third-rate system of social security. The program the CIO is proposing is well within the economic strength of the United States and, indeed, over the long pull it will buttress that strength.

OUTLINE OF RECOMMENDATIONS BY THE CONGRESS OF INDUSTRIAL ORGANIZATIONS FOR IMMEDIATE IMPROVEMENTS IN PROPOSED LEGISLATION ON OLD-AGE AND SURVIVORS INSURANCE

For the convenience of the Senate Finance Committee the following outline follows the order and terminology of the tables in the committee's publication, The Major Differences in the Present Social Security Law, The Recommendations of the Advisory Council and H. R. 6000.

I. COVERAGE

Universal coverage along the general lines of the administration bill in the House (H. R. 2893). Nonprofit employees would be covered on the same basis as other employees with the exception of ministers and members of religious orders. Agent laundry drivers should be covered as indicated in a special brief prepared by the Amalgamated Clothing Workers of America. Employees of State and local governments engaged in proprietary functions should be covered like other employees. Other State and local employees should be eligible by agreement for voluntary coverage with appropriate safeguards for existing retirement plans. For example, present beneficiaries should be excluded from elections held on participation.

II. INSURED STATUS

Liberalize provisions for fully insured status by the new-start provision recommended by the Advisory Council to the Senate Finance Committee. This new-start provision requires 1 quarter of coverage for each 2 calendar quarters elapsing after 1948 (or after attainment of age 21, if later) and before death or attainment of retirement age, but in no case less than 6 quarters nor more than 40 quarters. Quarters of coverage earned any time after 1936 count toward meeting the requirement.

III. BENEFIT CATEGORIES

Reduce the age of permissive retirement for women from 65 to 60, with simi reduction for wives, widows, and dependent mothers.

IV. BENEFIT AMOUNTS

A. *Average monthly wage.*—Should be calculated on taxable wages in highest quarters in each of the five consecutive years with highest total taxa wages.

B. *Worker's primary benefit amount.*—Increase amounts received by pres beneficiaries in line with those for new beneficiaries.

Retain provision in H. R. 6000 for taking 50 percent of the first $100 of average monthly wage but liberalize the rest of the formula by adding 20 perc of the balance of the average monthly wage (up to $400), plus 1 percent of sum thus obtained for each year of coverage.

Avoid severe penalties for periods of noncoverage, eliminating the spec provision for a reduction of benefits by the continuation factor now in H. 6000.

C. *Minimum primary benefit.*—Raise to $50 a month.

D. *Maximum family benefit.*—Eighty percent of the average monthly wa without the flat maximum of $150 proposed in H. R. 6000.

E. *Dependents' and survivors' benefits (as related to primary benefit).*—Ra widows' benefit to 100 percent, and benefits for first child and dependent par of deceased worker to 75 percent.

V. EMPLOYMENT INCOME LIMITATION FOR BENEFICIARY (WORK CLAUSE)

Increase the present limitation on earnings to $50 with no limitation for in viduals aged 75 and over (same as in H. R. 6000).

VI. FINANCING

A. *Maximum taxable amount*—Wages and self-employment income of $4,8

B. *Tax rate.*

C. *Appropriations from general revenues.*—Retain present authorization fo congressional appropriation of sums from general revenues that may be requi to finance the program. As recommended by the Advisory Council, postpone further increase above present 1½-percent rates until the current receipts of trust fund, including interest, no longer equal current benefit payments a administrative costs. Government contribution from general revenues ba upon progressive taxation should in time match employer and employee contri tions along the lines of the Advisory Council report.

(For CIO recommendations on other phases, see Mr. Rieve's general statem to the Senate Finance Committee and CIO testimony before the House Ways a Means Committee, March and April 1949.)

(The following letters and statement were submitted for t record:)

INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION,
Washington, D. C., March 1, 195(

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee, Washington, D. C.

DEAR SENATOR GEORGE: The International Longshoremen's and Wareho men's Union and the National Union of Marine Cooks and Stewards are s mitting the enclosed statement on behalf of the membership of both unions.

Both these unions join in supporting the broad program for enlarged soc security benefits outlined before your committee by the spokesmen for vari trade unions.

We would emphasize two other special problems deserving prompt remedy your committee. These are:

(1) The continued exclusion from coverage of the Social Security Act of thousands of pineapple and sugar workers of Hawaii, all members of the ILW We urge most strenuously that these workers and thousands of other agricultu workers employed on commercial farms throughout the United States, be cove by broadening the present provisions of the law and amending H. R. 6000 along lines indicated.

(2) The need to bring about a substantial increase in old-age pensions. Increasingly, the insecurity of the older members of both unions is becoming a major problem. Only through adequate Federal legislation can this be met. The attempts to meet this need through piecemeal collective-bargaining agreements has obvious disadvantages. Congress must act to institute a real old-age pension program.

I would appreciate it if this letter and the accompanying statement were included in the record of the hearings on H. R. 6000 before your committee.

Very truly yours,

WILLIAM GLAZIER, *Washington Representative.*

STATEMENT ON AMENDMENTS TO THE SOCIAL SECURITY ACT BY THE INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION AND THE NATIONAL UNION OF MARINE COOKS AND STEWARDS

The International Longshoremen's and Warehousemen's Union and the National Union of Marine Cooks and Stewards desire to aline themselves with those who have appeared before this committee in support of measures designed to render existing social security legislation more nearly adequate. H. R. 6000, as passed by the House, represents an important advance over the present law, but it, too, is inadequate both in coverage and benefits.

We support the standards adopted by the CIO committee on social security and incorporated in the CIO statement to this committee. And we particularly wish to endorse and support the statement submitted by Russ Nixon of the United Electrical, Radio and Machine Workers of America.

This committee is fully cognizant of the facts and of the arguments in support of broadened coverage and higher benefits. We do not intend to reargue the case. We do not believe that this committee or the Senate itself will wish to stand before the American people in support of the present niggardly and penurious benefits or in support of the present serious exclusions from coverage.

We wish to emphasize only two points. Among the membership of the ILWU are some 20,000 workers on Hawaiian sugar and pineapple plantations. Most of these workers are excluded from coverage under the Social Security Act because they are engaged in agriculture. Most of them would continue to be excluded if H. R. 6000 were enacted.

The employment of these workers is in no significant respect different from the employment of factory workers. Their insecurity is no different from the insecurity of those engaged in manufacturing or other covered employment. When they become too old to continue working they are just as much in need. There are no administrative difficulties involved in their coverage.

The only basis for their continued exclusion is the differential advantage obtained by employers of such workers who do not have to pay the 1½ percent pay-roll tax. Even this is no real reason for continued exclusion because the employers would pass the tax on to consumers of agricultural products. We do not believe that the American people who consume Hawaiian pineapple and Hawaiian sugar wish to be party to the continued exclusion of these workers from benefits accorded to millions of other workers.

On behalf of these workers and others like them employed in commercial farms throughout the United States, we urge this committee to broaden the present coverage, and to amend H. R. 6000, to include agricultural workers under the act.

The other point we wish to emphasize is the importance, from the standpoint of industrial peace, of a substantial rise in old-age pensions. The movement for industrial pensions through collective bargaining has gained great momentum since the end of the war. First the coal miners, then the steel workers and now the auto workers—to mention only the largest groups of workers—have demanded and secured pension plans through union agreements with their employers.

These plans leave much to be desired. They furnish only very inadequate support to the older worker, and only a very small proportion of older workers are covered. They nevertheless represent an advance. The workers who do benefit receive pensions substantially greater than their Federal pensions under the Social Security Act.

To secure these plans, however, the workers involved have had to go through long and costly strikes. The miners struck in 1946 for their pension plan. The steelworkers and the auto workers had to strike in 1948 for theirs. Chrysler workers are on strike right now for the same objective.

Through its failure to amend the Social Security Act to provide an adequ Federal pension system, Congress has itself been responsible for these ma industrial tie-ups.

On the west coast, the CIO maritime unions, including the ILWU and MC S, have contracts which expire on June 15, 1951. These contracts were obtai only after a long a bitter strike in the fall of 1948. For the first time, th contracts are for a period in excess of a year. They provide all the machin necessary for the maintenance of industrial peace until their expiration June 1951.

All these unions are concerned over their older members. They are concer that these men who have devoted their lives to the maritime industry sl not suffer an indigent old age. They are concerned to find ways and means retiring the older members and thus to help meet the crushing unemploym problem facing the membership of these unions.

A pension plan, financed by the shipping industry is almost certain to demanded by these unions in the 1951 negotiations. We submit that substan liberalizatoin of the old-age benefits of the Social Security Act can play an portant role in preventing interruption of shipping to and from the west co

In the ILWU, there are more than 1,000 longshoremen on the Pacific coast v are 65 years of age or older. This is nearly 10 percent of the men. Th men are doing heavy physical labor and should be eligible to retire if anybo is eligible to retire. But they cannot live on the outrageously low pensions r payable under the Federal act. It is no wonder the union is pushing pensions.

The ILWU and MC and S would rather have adequate pensions provided law than pension plans won by collective bargaining. But we intend to see protection for our older members and some assistance on the unemployment pr lem even if it means a pension plan by union contract and even it a strik necessary to secure such contract.

Dated: February 23, 1950.

INTERNATIONAL LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION,
Washington, D. C., March 22, 195

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee, Washington, D. C.

DEAR SENATOR GEORGE: On February 23, 1950, a statement on behalf of International Longshoremen's and Warehousemen's Union and the Natio Union of Marine Cooks and Stewards was submitted to you, urging that cer amendments to the Social Security Act be enacted by the Senate Fina Committee. Specifically, we are concerned about extending the coverage of act to agricultural workers and bringing about a substantial rise in old pensions.

Since that date I have been in communication with the members of union who are employed on the sugar and pineapple plantations of Haw Speaking through the union, these workers, both in the fields and in the su mills and in the pineapple canning and processing plants, have asked t specific notice be taken of the discrimination against them that exists in present law.

As you are well aware, the agricultural workers as such are outside the co age of the act. These workers, 20,000 of whom are members of the ILWU Hawaii, have been excluded from old-age and survivors' insurance and unemp ment insurance as well.

There is no question that these workers are as much in need of coverag industrial and commercial employees. Originally, they were excluded w the act was enacted in 1935, on the theory that their coverage would put onerous burden on the "small farmer" who employs them.

The fact is that the vast majority of agricultural workers excluded f coverage are employed by vast commercial operations which are a far cry f the "dirt farmer" about whom so much concern was shown in 1935. Th workers should be covered by the act, and it would be no problem to excl if this were felt to be necessary, the farm hand employed by the small farm while protecting the agricultural worker employed on the large commer farms throughout the United States. However, we see no need even for s exemption under the law.

Secondly, we urge most strongly that the amendment to the Social Security Act passed in 1939, which excluded thousands of workers engaged in what are essentially commercial or manufacturing processes on agricultural products, be repealed.

As you well know, the 1939 amendment excluded workers originally covered when the act was passed in 1935, such as workers employed in packing sheds, the processing of dried fruits, cotton gins, etc. Workers employed in essentially industrial processes were excluded wholesale from the protection of the Social Security Act. There is no reason for such discrimination.

We urge most strenuously that your committee amend the Social Security Act to cover all agricultural workers, including both field and mill or shed workers.

Respectfully yours,

WILLIAM GLAZIER,
Washington Representative.

The CHAIRMAN. We have one other witness. Dr. Eveline Burns? Dr. Burns, we again express our regret that we could not hear you Friday, but we are glad to now have the opportunity to hear you. Will you please identify yourself for the record?

STATEMENT OF DR. EVELINE M. BURNS, ECONOMIST AND PROFESSOR AT THE NEW YORK SCHOOL OF SOCIAL WORK, COLUMBIA UNIVERSITY, APPEARING ON BEHALF OF THE NATIONAL CONSUMERS' LEAGUE AND THE CONSUMERS' LEAGUE OF NEW YORK

Dr. BURNS. My name is Eveline M. Burns, and I am an economist and professor at the New York School of Social Work, Columbia University. I have been studying social security problems for over 25 years and am the author of numerous books and articles on the subject. I am making this statement on behalf of the National Consumers' League and the Consumers' League of New York, of which I am president.

The Consumers' League, as I think you gentlemen know, has been in existence for over half a cenutry. It is an organization of nonpolitical groups of citizens who are interested in social welfare. And right from the very first we have been supporters of the Social Security Act.

We desive to urge you gentlemen to extend the Social Security Act to make the principle of contributory social insurance more generally used for meeting the problems of economic security.

We do so because we believe that the social-insurance principle, the contributory social insurance principle, is the best available device for meeting the needs of our people for adequate minimum security, and yet at the same time protecting the taxpayer and permitting a minimum of interference with the running of our economy.

With your permission, sir, I should like, if I may, to put my prepared statement in the record and then just highlight for your consideration certain points to which we attach considerable importance.

The CHAIRMAN. We would be pleased to have you do so.

Dr. BURNS. We believe it is extremely important in considering this difficult problem to bear in mind the basic factors of American life which explain why the institution of contributory social insurance is valued by our people.

As we see it, the facts we have to bear in mind are, first of all, the growing numbers of the aged, which means, on the one hand, a very large demand for adequate security from a vocally effective voting

population. But on the other hand, those growing numbers of the aged involve a very heavy burden on those who are in the productive age groups.

We also believe that one must build on the fact that our increasing money incomes and wages are still inadequate to permit people to provide for their own old age security through savings, particularly when one takes into account the kind of society in which we live, and notably the impact of advertising and display upon the average individual; so that you are up against a losing battle, so to say, if you are going to tell him that he should save adequate sums for his own old age.

We also think we must accept it as a fact that our society is not prepared to allow aged individuals, if they are in need, to starve. We do, in fact, do something about it, either through public assistance, or through social insurance, and the problem we face is merely one of method; not "Shall we do anything at all?"

Finally, we think that one must take it as a fact that the vast majority of our people want a form of security on which they can count, which frees them from dependence upon administrators and from undergoing any kind of a means test.

I stress that rather particularly, because I think it is something that must be borne in mind when you gentlemen come to consider, as you no doubt will, the proposals made by the Brookings Institution and Dr. Meriam. These you will recall from the press accounts, propose that we should, in essence, go back to a system which involves a means test type of program, in which we might provide a minimum sum for individuals, provided they could pass a certain kind of a means or income test.

I believe we should find such a system that is quite repugnant to the average American, and it will not offset the demand which we now see coming up again and again through the drive for pensions in the States, and through the collective-bargaining drive for pensions, namely, a demand for something on which people can count, and which does not require them to undergo humiliating procedures.

I would like to suggest to you that the Brookings study probably relies upon the experience of New Zealand, which has a system of this kind. But I would also remind you that the reason why the New Zealand system is effective and accepted by the New Zealand population is because, first of all, the minimum income that an aged person is entitled to, in this instance, so many pounds a year, is written into the act itself; that this minimum income, as stated, is very high in relation to current earnings. It would mean that a man and wife would receive approximately two-thirds of the prevailing basic wage in New Zealand, which, if we transferred that equivalent to this country, would mean we would probably have to have a flat rate, for an aged couple, of something like $150 or $160 a month. And, secondly, the act also states precisely how much income a person can possess.

Such a statement might be feasible in a very small country like New Zealand, where there are relatively slight differences in economic standards of living. I doubt whether we could envisage such a program in this country. Unless it has those provisions in it, I believe it would not be acceptable.

Senator MILLIKIN. May I suggest that as far as I am aware the means test in all of these fields is repugnant. I think you will find that they have been more or less forced into these systems because of the economics of it; that if you do not have some kind of a means test you have a burden of cost which perhaps so far we have not evolved sufficiently in our economy to carry.

Dr. BURNS. Well, I think, Senator, it is partly a question of where you peg your guaranteed benefit.

Senator MILLIKIN. I am opposed, for example, to taking any deductions out of the pension when it is due. But I am plagued by the problem of: Is it economically feasible not to make any deductions?

Dr. BURNS. As I say, it is largely a matter, I think, of where you peg your minimum. And, of course, if one is talking about "economically feasible," the fact that, whether through this program or another, the aged are continuing to exist means that they are being carried by the productive members of the community in any circumstances, whether the money comes from taxation or through insurance or through public assistance.

Senator MILLIKIN. Which reinforces the thought that you have got to calculate all of the time on what are the burdens of which the productive segment of the economy can carry.

Dr. BURNS. That is right. And that we have had very much in mind.

Senator MILLIKIN. What we do not produce we cannot consume.

Dr. BURNS. Exactly. And we have had that in mind, as I think you will see in various points in my testimony.

May I, then, come to these specific suggestions? We hope very much that you will extend the coverage of the old-age and survivors insurance program, which, as you know, is still inadequate. And its limited coverage has the disadvantage of denying protection of a kind that is valued by our people, to important segments of our population. The limited coverage today is extremely unfair to the agricultural States, which have to carry a disproportionate old-age-assistance program. It is unfair too in that the limited coverage not only denies eligibility to some people but also lowers the benefits that they would otherwise get, if they happened to be working, but, unfortunately for them, working in covered employment. And also unfortunately, it interferes with mobility.

We would therefore urge you to adopt the proposals of the Advisory Council rather than those of H. R. 6000, because the Advisory Council proposals are very much wider and would bring in a much greater segment of our population.

In particular we would like to urge on you the desirability of covering workers in agriculture and in domestic service.

Senator KERR. As you make that recommendation, do you refer both to the self-employed and to the wage earners?

Dr. BURNS. Yes; both the self-employed and the wage earners. But we are much more concerned, of course, with the wage earners. Because it is with the wage earners that the need is more especially evident.

Senator KERR. Do you have any statistics to show that among those now receiving old-age benefits there are a higher number of recipients who were formerly wage earners than those who were formerly self-employed?

Dr. BURNS. I don't have any statistics of that kind. I don't eve know whether that type of information is available.

Senator KERR. Suppose in your examination it was found tha among those receiving there was just as high a percentage of recipient formerly self-employed as formerly wage earners?

Dr. BURNS. You are referring to the old-age-assistance recipients

Senator KERR. Yes.

Dr. BURNS. Well, I would not argue for a moment, sir, that there no need among the self-employed. We are interested in extending to the self-employed. But we are particularly concerned that th wage earners as such should be covered, even if other considerations o other measures might lead to the exclusion of the self-employed. W would prefer to see both covered.

We have noticed in the case of the agricultural and domestic worker that various witnesses have pointed out to you that there has been n overt demand from these groups for coverage. I would like to sugges to you that that is only to be expected. Those two groups of peopl are, after all, among the lowest paid and the least organized in ou community, and it is those people who are least likely to be sending deputations or representations because of their economic position.

If, for a moment, I could speak to you not as an economist but as housewife, I would like to say that my own experience has been tha among domestic servants there is an extremely keen desire for cover age. Furthermore, I, and I know a number of my housewife friend have had the same experience, have great difficulty in getting domesti servants. And one of the reasons that is given to one is the fac that "If I come back to domestic service, I lose my social security. You see, many of these domestic workers did have the opportunity during the war of going into other employment, and they learned, some of them for the first time, that there was such a thing as social security Now they don't want to go back to an employment where that privileg does not exist.

So, just as one among the many housewives of this country who fee the shortage and inability to get domestic workers, I would like t see one of those obstacles to entry to the profession removed, and I think it would be removed by adequate social-security protection.

The only reason, as far as I can see, for excluding agriculture has been the dislike of throwing additional burdens on the farmers. I would like to suggest to you that that is probably an illusion, this fea of throwing a burden on the farmers, because in fact since your agri cultural populations are relatively poor and since, as we know, the agricultural States have as a rule a heavy public-assistance burden since the people have to be cared for anyway, the burden on the farmers in taxes comes to be quite a heavy one. It is a matter of which way you collect the tax, rather than the absolute level of the tax

We would like, on eligibility, to urge you to support the proposals of the Advisory Council for a new start, rather than those in H. R 6000. The effect of adopting the proposals in H. R. 6000 will be t defer for at least 5 years the full impact of extended coverage.

Senator MILLIKIN. May I interrupt you, please?

Dr. BURNS. Yes, sir.

Senator MILLIKIN. Now, I think there is quit a little to your point that the farm worker is unorganized and perhaps does not know very much about this social-security system. But the farm owner is perhaps

in a better position to have better knowledge. And also he is a taxpayer. We do not hear from the farm owner any demand that the farm worker be covered. And, as you point out, he is carrying quite a heavy burden in connection with the public-assistance programs of the agricultural States.

Dr. BURNS. I may be mistaken, sir, but I was under the impression that the Grange and the Farm Bureau had recently testified to you in favor of coverage and that they had in fact, after study, reversed their original position.

The CHAIRMAN. It was a very qualified endorsement, though.

Senator MILLIKIN. It was a qualified endorsement and without any heat.

Dr. BURNS. But I think the mere fact that they have changed their position is significant when they have changed it from one of considerable uncertainty and opposition to one of being in favor of it.

Senator MILLIKIN. You know, there is competition between the farm organizations, just as there is between labor organizations. If one of the farm organizations comes out for some kind of a program, then a competitive element has been introduced, and pretty soon you find the others coming out either for the same thing or for something a little bit different. But I am merely making the point that as the distinguished chairman has pointed out, their endorsements are rather qualified and they do not throw sparks out all over the place.

Dr. BURNS. It is not for me to advise you gentlemen as to what weight you should give to the motivation of the different people who appear before you.

The CHAIRMAN. If you brought the farm owner in, you would have to bring him in as a self-employed person, of course?

Dr. BURNS. Yes.

The CHAIRMAN. Have you looked at the scale of payments to the self-employed, and have you actually taken a fine pencil and figured out what you were going to get for that money?

Dr. BURNS. You mean the total tax in relation to the benefit? Is your point that you think it would not be significant?

The CHAIRMAN. I want to find out if you have calculated how much the unemployed would get out of this program in H. R. 6000, for instance.

Dr. BURNS. I have not worked it out in detail for the various classes, but I gathered from reading the material that even so they would get a better bargain, so to say, than they would secure by putting the same amount of money in a private-insurance company.

The CHAIRMAN. I would think so; and much more than any other retirement system that I know anything about. In fact, I think it would be a very burdensome part of this program if it is carried out as the House has it. That is my own viewpoint. Because in the first place the contribution is only one and one-half times that of the employed worker; which would be a very small contribution. And it is based on not entirely a gross income. It is based on a partial gross-net income formula.

Dr. BURNS. I should think, Senator, it would largely depend upon what the facts would show concerning the actual range of incomes of the self-employed.

The CHAIRMAN. That is true, of course.

Dr. BURNS. Because the unearned element is less in the higher groups.

The CHAIRMAN. That is, of course, true, but I think if you will look at it you will find that the benefits would be very, very out of proportion to the benefits of other beneficiaries under your social-security system.

Dr. BURNS. I think it might be disproportionate. But, as I say, I think it would depend on the actual distribution of earnings.

The CHAIRMAN. Of course, I suppose that would arise because the committee and the agency are loath to impose a tax on the self-employed in the first instance that would be somewhat discouraging, because they have to pay other taxes, of course, quite a number of other taxes.

Dr. BURNS. Your question reminds me of one point I would like to make. I notice there have been questions before you as to the method of administering these programs in, say, domestic service. I originally lived in Great Britain. I have now been in this country 24 years. But when I was in Great Britain I operated under a system which collected taxes in respect of domestic servants. And that was done on the basis of a stamp system.

From my experience there, I can say that it was by no means a difficult thing for the housewife to do, to know that every time you paid the maid so much you had to get a stamp from the post office and stick it on the little card that she had. There were appropriate squares for each particular week. I believe that can be worked out, and it has always seemed to me that when you looked at the ingenuity with which the American housewife handled the rationing-point system, it is not too much to expect her to handle something very much simpler of this kind, namely the stamp system.

May I again come back to my point as to eligibility; namely, that we hope you will adopt the recommendations of the Advisory Council rather than the provisions of H. R. 6000. The Advisory Council proposals would make it possible for the persons newly brought in under coverage to become beneficiaries within 18 months of the passage of the act. The reason we think that is important is because we are gravely concerned about this rising tide of pensions on the one hand, and of, from some points of view, the uneconomically undesirable collective-bargaining agreements on the other, which we interpret as a response to the dissatisfaction with the limited coverage of the Social Security Act.

We are afraid if you postpone for another 5 years or more the full impact of extended coverage, this pension movement may receive such an impetus that it will be extremely difficult to stop.

Senator MILLIKIN. Do you not think, also, that anything we might do would merely become a further platform for further private plans?

Dr. BURNS. I think that depends, sir, on the strength of collective bargaining, actually.

Senator MILLIKIN. There is nothing weak about collective bargaining.

Dr. BURNS. No, there is nothing weak about it, but it may well be that the $100 guaranty is about all that the union can squeeze out of industry at the present time.

Senator MILLIKIN. That is an evolutionary subject.

Dr. BURNS. It is, and I think it would be a bold person who would guess which way it would go.

Senator KERR. If, as you say, you are afraid of an expansion of the coverage under old-age assistance and you want to head it off by more liberal rules of insurance eligibility, would you not be providing in another form exactly what you said you were opposed to?

Dr. BURNS. I don't think so, sir.

Senator KERR. Would an extended or expanded program called old-age insurance be any more attractive to you than one of the same substance but which you had to call old-age assistance?

Dr. BURNS. I think there are two or three elements in it. One is that you do emphasize the contributory principle.

Senator KERR. Do you think you emphasize it by making it effective within 18 months? Would that not be just the opposite of emphasizing it?

Dr. BURNS. Well, you are emphasizing it, even though it is for a limited period, for 18 months——

Senator KERR. Instead of calling attention to the fact that it ought to be, are you not in reality indicating that it does not need to be?

Dr. BURNS. No; I don't think so. I think you are emphasizing the fact, for the people who benefit, that there is some contribution limit, and this element is going to be increasingly effective 2 years, 3 years, 4 years, and so on, in the future. Secondly, I think that it enables you to apply a uniform policy on general principles rather than allowing the kind of thing to develop that has developed in some of the States, of a rather uncontrollable movement for extremely generous treatment of the aged in relation to other sections of the population. It seems to me we have to look at this broad problem as a Nation-wide one in terms of what standard of living those who are in the productive groups feel it proper and appropriate to provide for those in the nonproductive groups. Now, inevitably there is an element of compromise through this whole program.

Senator KERR. Would it be possible that you were confusing compromise with unconditional surrender?

Dr. BURNS. I would like to feel I was not, at any rate.

I recognize, Senator, the point which you are probably getting at, which is this: That there is going to be for the people newly admitted an enormous unearned benefit payable to them.

Senator KERR. It looks to me like it is the distinction without a difference as compared to old-age assistance.

Dr. BURNS. Well, I would say this: When you first do it, you are going to give a considerable benefit to the people that you newly bring in.

Senator KERR. And you are doing it whether they need it or not.

Dr. BURNS. You are doing it whether they need it or not.

Senator KERR. And whether they have done anything to acquire it or not.

Dr. BURNS. You have given them, as I say, a limited contributory requirement. Now, part of their inability to contribute, remember, was not their fault. It was due to the fact that the Congress of 1935 didn't make it possible for many of them to come in. And I would recognize quite frankly that when we start extending coverage in this way, even if we had a 5 years' requirement, we are still giving a bonus,

so to say, to some groups of people. But we are setting a pattern so that additional people coming in thereafter will be subject to these requirements for each additional year that they work. And this unearned benefit is something that was in our program when we did it in 1935. It is in our program, really, all the way through the first generation. Nobody in the system in the first generation can possibly have earned it. And we weight the formula in favor of the low-income group. So that I think largely the over-all interest has to prevail even though one recognizes that one is, as I say, giving a considerable bonus to the people who come in the early years.

Now, that is not revolutionary. It is done in the private pension plans. After all, these collective-bargaining plans, any of the plans in which the worker contributes, involve that same kind of bonus to the person who happens to be old at the time the organization or the society decides to put the program into effect.

Senator MILLIKIN. That is a result of bargaining, but not a result of actuarial principles.

Dr. BURNS. Well, it depends. If, when you say "actuarial principles," you mean whether the individual's contribution actuarially buys his individual benefit——

Senator MILLIKIN. Exactly. What I mean is that I think we get into great confusion, here, talking about an insurance system when we have not got an insurance system. From a social standpoint, if X dollars is required for a retired person age 65, it does not make any difference whether he has earned it or has not earned it if it is required I mean, from a social standpoint. Then we commence to jiggle around with that and mess it up with insurance principles and commence to mitigate it by saying, "Well, now, he needs it, but he is not going to get it, because he has not contributed for a certain length of time" and other considerations of that kind, which are very sound from an insurance standpoint, but which throw us when we commence to think from the social standpoint.

Dr. BURNS. I would quite agree with you, Senator, that one cannot apply the principle of private insurance, flat and unmodified, in this general field. To me, the value of this system we call contributory social insurance lies in the contributory element. In other words, it is an attempt to tie up, to get some close connection between, the benefit which the individual receives and the general level of taxes which has to be paid.

The CHAIRMAN. Do you think it has merit as compared to a free pension system?

Dr. BURNS. I think it has that degree of merit as compared with a free pension system. Because our problem, the one we face in society today, is one of these large numbers of people, the groups of people coming to the Congress with the statement that this group wants this and this group wants that and another group wants he other hing with the feeling that it all comes out of a bottomless pit. Now, we have to think of ways in which we can connect, in the mind and in the pocketbook of the citizen, some idea that "if my group is getting more and more benefits, then somehow or other that is going to be reflected in my taxes." It does not have to be reflected 100 percent, it can not possibly be, for the reasons that are in your mind, Senator. But some indication there should be that, "All right, if we are going to be more

generous, there will be more taxes.' That to me is the valuable element.

Senator MILLIKIN. Many people viewing all these inconsistencies of theory which work into great inconsistencies of practice are suggesting that we start right out and have a pay-as-you-go system, giving X dollars for every person who reaches retirement age; that we have a pay-as-you-go system and stop calling it insurance. Put any accurate semantics on it that you want to, but cut out all this monkey business and all these confusions which result from considering as an insurance system that which is not one. Get right down to the end point of having X dollars for every person who reaches retirement age, and start collecting whatever is necessary to sustain the system, and continue to do that. What do you think about doing that?

Dr. BURNS. Well, from many points of view, at first that is appealing. I think perhaps there are one or two considerations that should be borne in mind. First of all, a straight pay-as-you-go system, in which you only collected precisely what was needed to meet the current payment, would still, I think, mislead the public as to the nature of the burden because of the increasing numbers of the aged. In other words, even if we brought in everybody today, as you would suggest, and if we paid them X dollars a month, still the total burden on the American taxpayers, whoever they were, is, as we know, going to be greater merely because the number of the aged is going to double. Therefore I think, if you said that this year we will merely collect as much money as is needed to pay the benefits we are paying out in this year, you might have people still taking a too optimistic idea of what this commitment would be. Therefore, even in the beginning, I think it would be necessary to collect a little more, not the large sums that are proposed in H. R. 6000, but something more than is currently needed, in order to bring home to people that this is an expensive commitment.

Senator MILLIKIN. But as it is now, are we not failing to bring home to people the ultimate cost? Is there not an element of very gross deception in our present viewpoint of the thing which does not commence to reflect the ultimate costs of the system?

Dr. BURNS. Well, at the present time we are collecting considerably more than is needed for the current expenditures.

Now, it is not an actuarial reserve, but I think nobody has ever suggested that a public program should have a full actuarial reserve. That is unnecessary because of the power to tax, and it is undesirable because of the magnitude that that reserve would amount to.

Senator MILLIKIN. I would not want to enter into an argument, but I suggest it is not a reserve at all.

Dr. BURNS. Well, if you don't want me to enter into it now, I won't. I still think it is a reserve. But I think it does not achieve the purposes that some of the people who thought of it thought it was going to achieve.

Senator MILLIKIN. In other words, I have great reserve about the reserve.

Dr. BURNS. May I then turn to another element of the eligibility, which is the age of retirement?

Senator MILLIKIN. You did not quite give me an answer as to this matter: Let us establish our field of coverage, determine upon our

field of coverage, and say, "O. K. Let us collect the bill and pay a we go." What is the matter with it?

Dr. BURNS. One answer, as I say, is that I think I would not lik to see a pay-as-you-go system with no contingency reserve at all. would like to see some contingency reserve, partly to allow for occa sional changes in the general level of employment and economi activity and partly in order that people should be reminded of th fact that this is a growing commitment. On the other side, I thin that the possible danger, sir, in the proposal you have would be this That if you do it every year and you simply say, "We will guarante this payment and we will collect it out of the taxes that we think w are going to impose each year," it is quite possible that in some period there may be financial stringency of one kind or another, and if th thing is entirely tied up to what happens each year it is possible tha the benefit amount may change very considerably from one year t another.

Senator MILLIKIN. But that will happen anyhow, I suggest. W are now changing the benefits. That is why we are sitting here.

Dr. BURNS. Yes; we are changing the benefits, but we are not goin back from the original guaranty. We are on the whole changing then in something of an upward direction.

Senator BREWSTER. Do you mean that you would never go down?

Dr. BURNS. Well, I would never go down below the 1935 level, cer tainly, because I think the 1935 level was meager to a degree.

Senator BREWSTER. But that was not my question. My questio was: Is it not possible to have whatever tax is used geared to the na tional production and to the national income, so that it will automati cally adjust itself to the appropriate proportion of the national prod uct, which is all you would ask for anyone?

Dr. BURNS. Yes. Well, I think you could very well envisage a pro gram of that kind. Whether one would expect the benefits under suc a program to go down would, of course, depend upon one's expectation as to the general trend of activity in the country.

Senator BREWSTER. Those who have been the most interested an the longest advocates of the program have contended for precisel that: that those beneficiaries simply desired their fair share of what ever was the naitonal product and their fair share of the nationa income. So that it automatically adjusts itself. It relieves this bod of the constant problem of measuring the economic changes.

Dr. BURNS. Well, of course, part of it happens automatically, if yo have a system where your benefit fomula in any sense reflects the pre vious levels of earnings.

Senator BREWSTER. That is right. That is the objective which the have already had.

Dr. BURNS. Yes, which would be one thing that would not happen i the hypotheical question that the Senator put to me, I think.

Senator MILLIKIN. Is there not a basic absurdity in our sitting her now and promising benefits 20 years from now or 30 years from now with any definite dollar sign on them? Is there not a basic absurdity i that? And is that not demonstrated by the fact that we are sittin here now changing the benefits that we set up in 1935, or whenever i was, because of the difference in the value of the dollar? Are we no proving by sitting here the basic absurdity of it?

Dr. BURNS. I do not think I would like to suggest that you gentlemen are wasting your time in sitting here considering it.

Senator KERR. You think there might be a remedy for that, for any of us who really feel that we are wasting our time?

Dr. BURNS. Well, as I say, part of the reason you are sitting here is because when we passed the Social Security Act originally we were extremely timid. We were doing something which was new and untried and about which a great deal of concern was expressed. Therefore, at every point where there was a question, "Should we put benefits at this level, or at this level?" we tended to adopt the lower level rather than the higher level. I mean, if you take for example the original $10 minimum benefit—now, what possible contribution to security could have been provided by a $10 benefit?

Senator BREWSTER. That was not quite it; was it? Was that not on a matching basis?

Dr. BURNS. No; that is old-age insurance I am talking about, Senator.

The CHAIRMAN. That was the minimum benefit.

Dr. BURNS. The minimum benefit in old-age insurance was originally $10.

Senator BREWSTER. I thought you were speaking about old-age assistance.

Dr. BURNS. No; I am confining my testimony to the insurance program.

Senator BREWSTER. But why do you call that insurance?

Dr. BURNS. Well, Senator Millikin was asking me that a little while ago. I call it a contributory social-insurance program. I have never held that you could apply the private insurance theory and practice to this all the way down the line.

May I now, then, proceed? I don't want to take up too much of your time, gentlemen. There are two or three points that I am very anxious to make.

On the age-of-retirement matter, we hope that you will agree to lower the age of retirement to 60 for wives and widows. We do not, however, urge you to lower the age of retirement for the primary beneficiary. We think the primary beneficiary age should remain at 65, as it now is, for both men and women. And we urge that because we are so impressed by the influence of the growing numbers of the aged and the importance of encouraging rather than discouraging, through the Social Security Act, people to keep on working as long as possible.

Indeed, we would like to go further and urge you to consider the possibility of putting into the social-security program some such formula as is adopted in a number of other countries, whereby the average monthly benefits increase by a specific amount for each year or half year that the person continues to work after 65. In other words, if he wants to, he can retire at 65, but if he goes on working, when he does retire his benefit will be increased by a certain amount.

We feel that anything that we can do through our social-security program and other devices to utilize the effective working time of persons over 65 who are capable of working and willing to work should receive the most careful attention.

Now as to the adequacy of the benefits: The Consumers' League believes very strongly that the benefits should be liberalized and more

closely approximate what is required for a basic minimum livin standard. At least we ought to have benefits which would compar favorably with those which are paid on the public-assistance progran

We think the increase in the minimum benefit is all to the good, bu we still feel that the $25 minimum is too low. If, through all thes procedures, you finally allow a person to be a beneficiary on this pr gram, then we think that the benefit should make a substantial co tribution to his standard of living and in particular should make unnecessary for him to have recourse to public assistance. Otherwis you are merely making the covered worker have benefits from tw sources, if he has to go to public assistance for supplementation.

We recognize that the problem of the right amount of benefit probably the most difficult one of all that you gentlemen have t handle. The National Consumers' League, as I say, has gone o record in favor of minimum adequate benefits, but has not given de tailed consideration to the formula. The Consumers' League of Ne York, however, has done so. As we see it, there are before you thre possible theories that you must choose between. One is that the benefi formula should assure an adequate minimum to the persons receivin benefits. The second is the theory that the benefit formula shoul reflect differences in previous earnings. And the third is the theor that the benefit formula should reflect the differences in periods o covered employment. Those theories underlie one or another of th proposals that are before you at the present time.

We suggest to you that not all of those three objectives are mutuall consistent, and we hope that where it comes to making a choice betwee them, as we believe you will have to do, you will allow the major weigh to be attached to the importance of assuring a benefit which provide for a decent, acceptable minimum for those persons who are covere by the program.

Specifically what we mean is this. We would like to see the minimum pushed up toward $50. I believe Mr. Rieve was suggesting the sam think to you today. If you push the mimimum up toward $50, ther it is to us a very real question how far above that you can reflec differentials in wages. We believe there must be some difference re flecting differences in wages, because of the fact that there are ver real differences in the standards of living and incomes of people i different parts of the country. In that respect, our problem is muc more complicated than that of many other countries.

However, we do not feel that it is desirable to be too ambitious, t try to reflect too minutely and too high up the income scale, thes differences in income. Because we believe that to do so it will be matter of using the power of government to tax and force people t put their savings in a particular form, beyond the point at which w feel such compulsion would be justified. In other words, it woul seem to us that if you had a more modest range than some of thos that have been proposed to you, if you push up your minimum, an you have some degree of differential as between the minimum and the maximum, above that maximum level we think it is more in keep ing with the American ideal of individualism to say in effect to peo ple, "If your income has been above that amount and you want mor old-age security than this program provides, then you can buy a littl farm or you can write insurance, or save in any other way."

Senator MILLIKIN. How much increase in the cost of goods consumed by the consumers will result from your program?

Dr. BURNS. That, Senator, I couldn't tell you. I am afraid you must ask the agenices which have all the statistical resources which are not available to university professors.

Senator MILLIKIN. Of course, the consumers will pay. It is the consumers, your constituents, who will pay and pay and pay.

Dr. BURNS. The consumer or the taxpayer, however you collect your taxes.

Senator MILLIKIN. It all comes to the consumer.

Dr. BURNS. If you put it on a pay roll, and it comes through to the consumer, it does not necessarily hit the same people as it would hit if you collected the same sum, say, out of a progressive tax system.

Senator MILLIKIN. In the end, as an economist, would you not say it all averages out, allowing for time lags?

Dr. BURNS. I would put it this way, Senator. Of course, the cost of what is consumed by the recipients of these benefits ultimately comes out of the total national income; that is to say, out of what is produced by those of us who are still producing. However, there is a difference, I think, as to the classes within the community on whom that cost will fall. Some people's incomes will be cut into more and others into less, depending upon the kind of tax that you decide to levy.

Senator MILLIKIN. Yes; but even those disparities have a tendency in broad economics to smooth themselves out, because those who are injured immediately take protective steps to get a bigger cut of the income.

Dr. BURNS. Well, I would like to know sometimes, as a taxpayer, what are some of these protective steps I could take to even it out.

Senator MILLIKIN. You could add a dollar to the cost of that lovely hat you have on, if you were in the hat business.

Dr. BURNS. Yes; but as a fixed-income salaried employee I don't know whether I would get much response from Columbia University.

Senator MILLIKIN. And then you have those 53 taxes in that lovely pair of shoes you are wearing.

Dr. BURNS. Your eyesight is excellent, Senator, if I may so comment.

Senator MILLIKIN. I might say that I did not intend to go any further with my analysis of your wearing apparel.

Dr. BURNS. I was wondering when you were going to stop, Senator.

May I say this then, because I am very ceascious of the passage of time: On the question of the conflict between the adequate minimum benefit, on the one hand, and the number of years a worker has been covered by the program on the other, we would urge you to adopt your own Advisory Council's recommendation, which eliminates the 1 percent increment, rather than H. R. 6000, which has both the half of 1 percent increment and the continuation factor.

One of our reasons for doing that is this: That if you go back to the basic purpose of this program, to provide security for people, to take off society's back this particular headache which has been plaguing us for so long, then, to judge the adequacy of the program, you must either judge the adequacy of the benefits yielded by your formula by reference to the person who is going to get benefits in the next 5 or 10 years, who we suspect is the person that really matters, or you must judge by reference to the benefits that are going to be

yielded at the end of a period of covered employment which includ the increments. In the one case, if they are not really adequate, i cluding all the increments, then you are being inadequate in the ear period. If you make your benefits adequate for the earlier perio excluding the increments, then we think you are possibly paying u necessarily high benefits at the other end of the scale.

We would urge this particularly on you because of the fact that the Social Security Act and proposed amendments we use exactly t same benefit formula for the people who are aged and for the peop who are disabled and, above all, for the people at the present tin who are the survivors. Now, the person who dies and leaves survivo is likely to be a person dying in the middle years of his life, whi means he will not have been able to benefit by the full range of t increment. And we are therefore almost automatically providi inadequate benefits for survivors if we fix a formula which provid adequate benefits only on the assumption that you count in all t increments of a full working life.

We also would hope that in the minimum benefit provisions y would eliminate the provision of the maximum, in the Advisory Cou cil's proposals, which is a multiple of the primary benefit, and whi for survivors has the effect of denying adequate payments if the are more than about two or three children in the family.

Senator MILLIKIN. Would you set a maximum?

Dr. BURNS. I am sorry, sir. I meant the maximum.

Senator MILLIKIN. Would you set a maximum?

Dr. BURNS. I would set a maximum.

Senator MILLIKIN. How much would you make it?

Dr. BURNS. I would not set it in terms of a money amount, for t same reason. We believe that the 80 percent previous earnings is sufficient maximum and makes a good deal of sense, because, after a if the family was getting along on the wage earner's salary before, th if he is dead there is one less person to live on that particular wag

Senator MILLIKIN. What might the maximum be? I mean, y push the minimum up to a neighborhood of $50. What might yo maximum be?

Dr. BURNS. I think it would depend on how much you wish reflect additional variations in earnings in your benefit formula. might go up to $80, $90, or $100 for the primary beneficiary. But the of course, so far as the survivors go—and it is to the survivors th this maximum applies in fact—that would depend on the numbers persons in the family.

May I then, to conserve time, turn to a major point we do wish emphasize to you, and that is our hope that you will enact permane disability insurance. We think it is important not only in order relieve the public assistance rolls of the very large proportion permanently disabled persons who are now on them, but also becau we think it is a thoroughly undesirable way of life for the many hu dreds of thousands of disabled persons at the present time to ha to live on the kind of standards and be subject to the kind of inve gation and treatment that accompanies life on public assistance. Fu thermore, we believe that if you would introduce a permanent disabili insurance program it would somewhat relax the pressure which suspect you will feel to lower the age of retirement to 60 years. Th

comes partly supported by reference to all these disabled persons in the later years of life.

We know that you have been told that it is difficult to administer. We very much doubt whether that is the case. It is admittedly harder to administer than an old-age insurance program. But we cannot but believe that when you have had the railroad retirement system, the workmen's compensation laws in this country all these years, and the Veterans' Administration, administering permanent disability insurance programs, and when other countries have been administering these programs for many, many years, the administrative problem is certainly not insuperable; unless you want to make the assumption, which we frankly would deny, that either Americans are less inventive in developing administrative controls or are more immoral than other people in their determination to get something for nothing.

But we would like to see the permanent disability proposals in H. R. 6000 strengthened by the introduction of the provisions about rehabilitation that are contained in section 209 of H. R. 2893. That provided, you will remember for continuous contact with the Rehabilitation Service, and it also gave power to the Administrator to deny benefits to a disabled person who had refused to undergo rehabilitation treatment.

We are also not impressed by the arguments of the private insurance companies that this proposal was a flop when they tried to administer it. First of all, we think it is invalid to draw inferences from a limited program operated by private companies, which inevitably involve certain adverse risk selections, a condition which is not in the picture if you have a universally compulsory program.

Secondly, we think that their argument that this program will be abused in periods of depression is based on an experience and a time which, as I believe Mr. Rieve pointed out to you today, predated the unemployment insurance programs which we now have. If it is feared that in periods of unemployment the disability insurance program will be misused, the remedy is to improve and extend the coverage of our unemployment insurance programs and not to say that we will not have a disability insurance program.

We would also urge you very strongly to remove from H. R. 6000 the present provision whereby, on a permanent disability benefit, an individual receives no dependents' benefits. That seems to us to be forgetting the major purpose of this program.

Senator KERR. Would you mind repeating that? I got lost, there.

Dr. BURNS. I am not surprised, sir. I was trying to talk so quickly because of the time.

H. R. 6000 provides that a permanently disabled person who is found to be eligible and thereby entitled to a benefit, shall receive only the primary benefit. He shall not be entitled to a benefit for his wife and dependent children. We urge the removal of that provision, that reduction of benefit. Because what is the purpose of the program? The purpose of the program is to provide modest benefit, modest security, for people who are premanently disabled. And certainly the benefit formula is unlikely to yield that kind of a payment on the primary benefit alone; when you remember that, after all, many of these permanently disabled people will be people pretty much in the prime of life. They will have families. If we allowed dependents'

benefits on the aged program, when people are 65, we should su remember that the probability of dependents is very much greater the person who is disabled at some age below 65.

The last point that I would urge upon you concerns the finan proposals. We would hope you would adopt those of the Advi Council rather than those in H. R. 6000. In essence, H. R. 6000 w throw the whole cost of the program on employers and workers an order to prevent the burden from ever increasing above 6½ per on the two parties, it provides, as you recall, for the building up very large reserve. In other words, it goes back to the principle the original 1935 act.

We would urge rather the adoption of the Advisory Council's posals, which would be, as you recall, to require employers and wor together to pay not more than 4 percent. And when the yield of tax plus the interest on any incidental reserve that has accumul fails to equal the annual costs of the program, the difference sh come from the general taxpayer.

We prefer that method firstly, because we see no purpose, an the contrary many disadvantages, in accumulating the enormous serve that would be necessary to put into effect the financial prop of H. R. 6000. And those I will not elaborate on, because they l been brought before you by other witnesses.

Secondly, we believe that you have to face the fact that if are going to provide anything like adequate benefits for the l mass of pretty low income receivers that you are going to bring the program, you cannot assess the whole cost of that against individuals on an individual actuarial basis. Somebody has go put in the difference. And we think it is not desirable to throw whole of that difference as is in fact done in H. R. 6000, on the ployers of the higher paid workers. We feel that since this prog inevitably contains a large amount of unearned benefits, particul in the first generation of the problem, those should properly assessed against the general taxpayer.

And thirdly we believe that in large measure this is not putting a burden on the general taxpayer. He is in fact meeting a hundred cent today the costs of those persons who receive public old age secu outside the insurance system, namely, through public assistance. we think it is a very good bargain for the general taxpayer i will throw something into the social insurance program, and result of doing so, get the beneficiaries to pay at least part of benefits that are guaranteed to them under the program.

The very last thing I would ask you to consider is the desirabi of putting into H. R. 6000 the proposals that were contained in last year's bill, H. R. 2893, for setting up advisory bodies. You remember that there was to be a citizens advisory committee, advi to the administration, and a periodically appointed citizens leg tive committee. We, as a citizens organization, feel very, very stro that the citizen must be kept better informed about this prog about all aspects of it, and of the many complicated issues that involved. And we would like to see, therefore, this machinery, w was provided for in H. R. 2893, introduced into the program at present time. Because, as I say, we would strongly emphasize belief that this is a program which involves the interests of large n bers of people. We all look at it in different ways. There are

ferent points of view. And we think it vital that every step possible be taken to keep the citizen informed as to what is at stake.

We therefore hope that you will report out these amendments to the Social Security Act. And I am very appreciative of the time you have given me.

The CHAIRMAN. We thank you very much for your appearance.

(The prepared statement of Dr. Burns follows:)

STATEMENT ON BEHALF OF THE NATIONAL CONSUMERS' LEAGUE AND THE CONSUMERS' LEAGUE OF NEW YORK BY PROF. EVELINE M. BURNS, PRESIDENT OF THE NEW YORK CONSUMERS' LEAGUE

My name is Eveline M. Burns and I am an economist and professor at the New York School of Social Work, Columbia University. I have been studying social-security problems for over 25 years and am the author of numerous books and articles on the subject. I am making this statement on behalf of the National Consumers' League, and the Consumers' League of New York of which I am president.

The Consumers' League has been in existence for a half-century. We have members in every State of the Union—persons who, regardless of political affiliations, believe that fair-labor standards and social security are a matter of general public concern. The league participated in the early campaigns for social-security legislation both in the States and in the Congress. We desire to be placed on record in support of the extension of social insurance to cover more risks and more persons, and of the adoption of a benefit formula which will yield the average beneficiary an adequate minimum of security. Specifically, the points to which we attach particular importance are (1) the extension of coverage and scope of the old-age and survivors-insurance program; (2) the provision of more adequate benefits; (3) the establishment of permanent disability insurance; (4) a method of financing whereby employer, worker, and the general taxpayer all share in the costs; (5) the creation of advisory bodies representative of the beneficiaries and the citizens.

I. SOCIAL INSURANCE THE OBJECTIVE

We believe that planning for further programs for the security of the aged must take into account the basic facts of American life. These are: (1) that the numbers of persons concerned, the population over 65, form a large and growing proportion of the total population. Whether we like it or not, therefore, this substantial segment of the voters will, in a democracy, make their views felt. But also, because the group is so large, decisions regarding the standard of living which public policy will assure them and the conditions under which this security may be claimed, have direct and serious consequences for the rest of the population which is actively producing and adding to the national income.

(2) That a very substantial proportion of the population can no longer save enough to assure economic independence in old age.

(3) That the older principle of reliance upon the family for the support of the aged has been gravely weakened by the shift from independent production and agriculture to wage earning and industry as the typical method of earning a living, by the high degree of mobility of the American population and by the great emphasis we now place on the responsibilities of parents to children.

(4) That society today is not prepared to allow the incomeless aged to starve. Either by way of social insurance or public assistance we do in fact, through Government, provide a minimum of income for the aged. Thus the choice we face is not whether or not to take any action at all, but merely a choice between alternative methods.

(5) That the people of America have very definite ideas as to what are acceptable and unacceptable methods of attaining old-age security. In particular they reject any solution which requires them to undergo a humiliating needs test. They want a form of security on which they can count, under conditions which are known in advance, and which so far as possible frees them from a sense of dependence upon the discretion of individual administrators, however well-intentioned and well-trained. They are willing to pay something to get this kind of security.

We may or may not regret these facts, but they must be accepted as setting the framework in which social security planning must take place.

The Consumers League has long favored the adoption of social insurance as the best method of meeting the demands of individuals and families for basic economic security, in a manner that gives the maximum of protection to the taxpayer and involves a minimum of interference in the running of our economy. We have, therefore, been greatly disturbed by the fact that 15 years after the passage of the Social Security Act more aged persons and survivors are benefiting under our public assistance programs than under old-age and survivors' insurance. We have also been concerned with the growth of irresponsible demands for old-age pensions in many States which would place extremely heavy burdens on the general taxpayers and provide a standard of living for aged persons out of line with that which is available to other groups suffering interruptions of income. We believe, too, that the increasing pressure to include security clauses in collective bargaining agreements is an inevitable, but in some respects unfortunate, response to the inadequacies of the present law since it is tending to divide the workers of the Nation into two groups. No one can blame the union leaders for using the collective bargaining process to meet the demands of their members for old age security, in view of the refusal of Congress hitherto to amend the Social Security Act. But the result is a situation in which the powerfuly organized secure not only higher wages, but also very extensive security benefits. The larger number of the unorganized lack even minimum security.

We hold that this situation is due in large measure to two features of the present law; its limited coverage and the extremely low level of benefits yielded by the present formula.

II. EXTENDING THE COVERAGE AND SCOPE OF OASI

Limited coverage not only denies the advantages of social insurance to important segments of our population, but it has other undesirable consequences. It is unfair to the agricultural States, because it leaves them with a disproportionately heavy burden of support of the needy aged through old-age assistance, a substantial part of the costs of which are carried by the States and localities. Because workers move in great numbers between covered and uncovered employment, limited coverage causes some workers to lose eligibility, for their earnings in uncovered employment do not count toward establishing eligibility. It also lowers the benefits that eligible workers can claim since their total earnings, which form one element in the benefit formula, fail to include earnings in uncovered employment. Finally, limited coverage tends to restrict the free mobility of labor between employments, and discourages entry into such occupations as domestic service.

(a) *Extension of coverage to all occupations*

We are therefore pleased to note that both your own Advisory Council and H. R. 6000 propose an extension of coverage. We would urge you to adopt the broader coverage proposals of the Advisory Council rather than those in H. R. 6000. We see no justification for the failure to extend coverage of the law to general agricultural labor and to the self-employed, and we urge their inclusion in the interests both of encouraging mobility of the employed population and for the sake of the persons concerned whose needs for assured security are often greater than those of the industrial wage earner, as your own Advisory Council has so clearly shown. We believe that there are no longer any insuperable administrative obstacles to their coverage. The argument that these groups are excluded in order to relieve farmers of additional taxation is largely illusory, since so long as these groups need income in old age they become part of the old age assistance load whose costs must be paid from taxes in which farmers carry their share.

While strongly favoring extension of OASI coverage to such groups as agricultural workers, employees of nonprofit corporations, and the self-employed, we would especially urge on you the importance of including domestic service. Household workers are among the groups most in need of assured old-age security. We recognize that in the past administrative obstacles have been formidable, but we believe that these are no longer insuperable. As the committee is aware, both the Treasury and the Social Security Administration have been giving intensive study to the appropriate methods for some years and both feel convinced that coverage is now feasible. The device of a stamp book, to be held by the worker, and on which the employer pastes a stamp purchased from any post office at the time of paying wages, would free the domestic em-

ployer of much troublesome record keeping. If supplied by the Administration with a table in which was shown the amount of the stamp that was to be affixed for each payment in a specified earnings interval or wage class, it should be easily possible for the most harassed or confused housewife to know what her legal obligations are. A Nation that has successfully coped with the complexities of point rationing can, we believe, readily adapt to the much less complicated problem of knowing what stamps are to be affixed to a worker's card, especially if the number of wage classes be kept relatively small. The worker in turn could be made responsible for turning in the cards at fixed yearly or half-yearly dates, receiving a new one from the Administration. If the experience of other countries be any guide, the worker's self-interest can be relied on to return the completed cards.

(b) Eligibility requirements

The question of covered occupations is, however, not the only aspect of the program affecting the numbers of the aged who can qualify for OASI benefits. Some persons, although in covered employment, will be ineligible because they have not earned a sufficient sum or been engaged in covered employment for a sufficient number of quarters. We urge you to adopt the proposals of the Senate Advisory Council relating to insured status rather than those of H. R. 6000. Under the latter, persons newly covered will be unable to qualify for benefits until 5 years after the amending act is passed, whereas the Council's proposals would permit newly covered persons to qualify after 18 months.

We seriously question the social wisdom of deferring by yet another 5 years the contribution which our old-age insurance system can make to solving the Nation's problem of old-age insecurity. Most of those affected will be persons who for no fault of their own have been denied the opportunity of accumulating qualifying credits. Why should they be penalized for this fact? The only answer can be the assertion that, if anything like adequate minimum benefits are paid, persons newly covered if admitted after 18 months will be given a large windfall or unearned benefit. That they will receive benefits out of all proportion to what they have paid in is undeniable. But this will also be true in only slightly lesser degree if they are admitted after 5 years. And it is also true of all those in employments now covered who were already approaching 65 in 1935, when the Social Security Act was passed. We cannot be too refined about individual equities in a social insurance program affecting almost all the people in the country. We must think of the total national interest and the broad balance of gains and losses. That interest is to provide for the old-age security of as many people as possible through the social insurance system. Another 5 years of limited coverage may well give the pension movement an irresistible impetus.

The blanketing in of workers already old at the time an old-age insurance system is inaugurated is no revolutionary principle. It is customary in private pension plans to provide benefits to workers close to retirement age even though they will have contributed proportionately far less toward the cost than their younger colleagues. Nor does it involve a wholly new cost so far as the general taxpayer is concerned since many of those ineligible for OASI will receive old-age assistance toward the cost of which they do not contribute at all.

We would, however, urge that the minimum earnings in any year required to qualify for benefits be increased above the present $200, and we again refer you to the basic purposes of the program. It was presumably instituted for the purpose of enabling persons who have been self-supporting earners to retire on a modest competence when they reach the age at which earning becomes increasingly uncertain. It cannot seriously be argued that persons earning only $200 a year are in this positoin. We therefore favor the higher, though still modest, requirement of $400 as in H. R. 6000.

(c) The age of retirement

In view of the fact that almost half of the men 65 and over have wives below the age of 65 we urge a reduction of the qualifying age to 60 for wives of retired beneficiaries. Because of the difficulty experienced by older women in securing new employment we further suggest a lowering of the qualifying age to 60 in the case of widows. We are however opposed to suggestions for lowering the age of retirement of primary beneficiaries below 65 because we are impressed by the seriousness of the problem of the increasing numbers of the aged. This country, faced with the prospect of 20,000,000 persons over the age of 65 must ask itself whether it is economically desirable to use its social security

system to encourage early retirement from the productive process. If anything the inducements should be the other way. We would like to see consideration given to devices in use in the old age insurance programs in other countries which face the same problem whereby although a worker is free to retire on the benefit to which he is entitled at age 65, the monthly amount of this benefit is increased by a certain percentage for each year or half year that he continues to work beyond the age of 65.

III. INCREASING THE ADEQUACY OF OASI BENEFITS

The low level of benefits under the present law, even for the worker solely and steadily engaged in covered employment, is evident. We have been shocked by the studies which have been made of the living conditions of beneficiaries. These reveal how small a contribution to the minimum living costs of the aged person is made by the current OASI benefits. So long as such low benefits prevail, we must expect strong demands for generous pensions in States where there are powerful lobbies of the aged. What is perhaps even more important, the whole institution of social insurance is likely to be brought into disrepute when the insurance benefits are little more than half the payments secured under old age assistance.

We therefore welcome the increase in benefits as provided for in both the Advisory Council's proposals and in H. R. 6000. However, the minimum benefit of $25 is undesirably low especially when it is recalled that it will, under the assumption of universal coverage, apply primarily to the worker who has very low earnings and who is therefore unlikely to have any substantial savings with which to eke out his tiny benefit.

The selection of an appropriate benefit formula presents perplexing difficulties unless the central purpose of this legislation is constantly borne in mind. We believe its sole justification lies in the extent to which it assures the majority of our people a minimum of economic security under conditions that do not involve a loss of self respect, in other words, in the extent to which it removes in a manner acceptable to the majority of citizens the increasingly troublesome problem of old age insecurity from the Nation as a whole. It follows that the test of an acceptable benefit formula is the extent to which it makes recourse to other methods of public aid unnecessary. The National Consumers League urges the payment of more adequate benefits but does not have specific suggestions to make as to the precise benefit formula. The Consumer's League of New York has examined the formulas proposed in the various bills now before you and desires to offer the following observations.

The benefit proposals now before you appear to combine three objectives: (a) the one I have mentioned, namely, a desire to assure an adequate benefit to the average worker, (b) a desire to provide a benefit that reflects gradations in earnings, (c) a desire to provide a benefit that reflects period of coverage. We do not believe that all these are mutually consistent, without an extension of governmental compulsion to contribute to a public program beyond the point at which we believe this can be socially justified.

To be specific, we recognize that some reflection of previous earnings in the benefit formula is desirable because of the very great range of real incomes in the different parts of the country. A universal uniform minimum would create very real difficulties in so diversified a country as the United States. A benefit that would be appropriate in the industrialized cities of the North would be beyond the average income of those living in many rural areas in the South. But we do not believe that a public program should be too ambitious in this respect. To assure a realistic minimum to those who are eligible under the law will in any case involve a substantial increase above the present average benefits. To differentiate widely above that higher minimum would require an extension of the compulsive powers of Government to force higher-paid individuals to take their additional security in a specific form, namely, a cash annuity provided through governmental auspices. We believe it to be more in keeping with the spirit of American enterprise and individualism to use a public program to guarantee a minimum cash income which will remove the need for dependence on public assistance and to leave it to individuals to provide whatever additional security they need through private insurance, personal savings, collective-bargaining pension plans, or in any other way. We, therefore, do not favor an increase of the wage base beyond the present $3,000, but urge rather that within this limit the object of the amendments to the benefit formula should be to assure the average beneficiary a realistic minimum. If price changes and real wage

increases in the future make a formula fixed in relation to wage and price standards of 1950 inappropriate, we suggest consideration of methods of automatic adjustments by reference to indexes of costs of living or average per capita income, as is already done in some other countries.

There is nothing novel in the suggestion that in choosing between the conflicting objectives in the benefit formula the major weight should be upon assuring an adequate minimum rather than on reflecting wide differentials in earnings. From the very first this principle has been embodied in the Social Security Act through the heavy weighting of the basic formula in favor of the low-paid worker.

We especially urge you to pay attention to the ultimate objective of the program when dealing with the second group of conflicting benefit objectives now embodied in H. R. 6000. This is the conflict between the desire for an adequate benefit and one that reflects period of time in covered employment. In a public program with universal coverage, we, like your Advisory Council, see no purpose in injecting this element into the benefit formula. More particularly, we see no advantage in the introduction of two items reflecting period of coverage, namely, the 0.5 percent increment and the continuation factor as proposed in H. R. 6000.

If coverage as we propose is universal, then almost all workers will, if tax collecting is efficient, have been in covered employment throughout their working lives. If it is not universal, why penalize the worker whose lack of covered employment is due not to his own fault but to a decision by Congress? The remedy for the possibly disproportionate payments to the exceptional worker who is eligible but has had so little employment of any kind as barely to qualify under the minimum-earnings requirements is to pay more attention to the eligibility formula, not to penalize the 90 to 95 percent of persons who normally do work all the time for the sake of avoiding overgenerous payments to the 5 or 10 percent who do not.

The system of providing for increments to benefits reflecting years of coverage has a further disadvantage. Either the benefits throughout the entire first generation of the life of the program are inadequate because they will fail to reflect a full working life of increments or once the plan has been in operation a generation the average benefit will be unnecessarily high in relation to any adequate minimum. You cannot have it both ways. We believe that the benefit formula should be so framed as to provide benefits that on the average are adequate here and now for the current generation of aged, not for those who will be the aged a generation hence.

It is especially important to recall that the benefit formula under discussion applies not merely to the aged but also to survivors and, if the recommendations in H. R. 6000 are adopted, also to permanently disabled persons. Except for survivors of those already retired, none of these persons will have had the opportunity of securing the full increment due to life-long coverage. The family of the worker who dies in his thirties or forties will therefore be penalized because their benefits will reflect only the limited years of coverage that the breadwinner was able to accumulate prior to his death.

Surviving families are, indeed, at a serious disadvantage because of the operation of the minimum benefit provisions. We welcome the proposal to increase the benefit of the first child to 75 percent of the primary benefit. But much of this gain may be lost to the larger families because of the maximum limits to family benefit. We are pleased to note that H. R. 6000 eliminates the type of maximum contained in both the Social Security Act and the Advisory Council recommendations whereby family benefits cannot exceed a fixed multiple of the primary benefit amount. Such a limit automatically denies payments to some children in the larger surviving families (any children beyond 2½ under the Social Security Act, and any beyond 4 under the Council's proposals). But we regret the inclusion in H. R. 6000 of a limit of a fixed dollar amount to benefit payments. This limit has the consequence of preventing the surviving families of all workers earning a little over the not very high monthly sum of $150 from receiving benefits proportionate to their numbers, if there are more than three children in the family. We see no necessity for this additional limit so long as the maximum of 80 percent of previous earnings is retained. This at least has the justification of not making a family better off on benefit than when dependent on the father's earnings and recognizes that as there is one less mouth to feed than when the father was alive and earning, family income needs are in fact less as a result of his death.

IV. ADOPTION OF DISABILITY INSURANCE

We welcome the inclusion of permanent disability insurance in the Nation's social insurance program. Loss of income on account of ill health is a major threat to the security of American families. Analysis of the case loads of the general assistance or relief systems in our communities reveals that a large proportion of those on the relief rolls are disabled persons, the majority of them permanently so.

It is degrading for self-respecting citizens to be permanently dependent upon the relief system, characterized as it is by constant investigation and dependence on the discretion of even the most well-intentioned of administrators. And it casts a heavy burden upon the relief authorities who typically are dependent in large measure on the support of the localities whose fiscal resources are relatively limited.

There is another important reason for completing our social insurance program by the introduction of disability insurance, namely, that it would serve to protect the old-age insurance system from pressures to lower the general retirement age. The case for such action which usually stresses the heavier incidence of permanent disability among the elderly would be greatly weakened if there were in existence a system providing social insurance benefits to the totally or permanently disabled.

We are aware that it is claimed that this type of social insurance is difficult to administer and asserted that the danger of malingering is great. We believe these dangers to be vastly exaggerated. Three States and the Railroad Retirement Board are already administering temporary disability insurance (the latter also administers permanent disability insurance) and have developed administrative controls and safeguards in the legislation, which have kept malingering and abuse to a minimum. A large number of other countries have operated successful disability insurance programs for decades. Unless it is maintained (which we would deny) that Americans are naturally more prone to dodge work than other peoples or that they are less ingenious in devising legislative and administrative controls, we see no reason why a social insurance program which has successfully operated elsewhere cannot be equally successful in the United States.

Nor are we impressed by the frequent citations of the unfortunate experience of private insurance companies with this type of risk. A compulsory public program avoids many of the dangers of adverse risk selection inherent in private voluntary insurance. Furthermore the assertion made by the private companies that in times of heavy unemployment the unemployed will crowd onto the disability insurance rolls, as it is alleged they did in the last depression, overlooks the fact that at that time there was no alternative public provision for the unemployed as such, thanks to the Social Security Act, we have today.

The arguments that this type of insurance is especially prone to abuse must also be considered in relation to the safeguards proposed by both the Advisory Council and H. R. 6000. The requirement that the totally disabled claimant must undergo what is tantamount to a 6-month waiting period, with no insurance income, when taken in conjunction with the more stringent eligibility conditions is a very rigorous protection against misuse of the system. Indeed it is so harsh a provision that though we recognize it may be necessary initially and while administrative experience is gained, we look forward to the time when this particular requirement can be eliminated.

We would however like to see included in the bill provisions similar to those contained in section 209 of H. R. 2893 introduced at the last session of Congress. This would provide for emphasis upon rehabilitation of all those disabled persons whose employability is likely to be enhanced after appropriate treatment, and for the denial of benefit to persons who refuse to avail themselves of such rehabilitative services. Rehabilitation and the assurance of benefits for permanent disability must go hand in hand.

There is another limitation in H. R. 6000, however, which we hope the Senate will eliminate. This is the provision that dependents' benefits will not be payable in permanent disability cases. We can see no possible justification for this provision. If it is desired to make sure that malingerers do not secure benefits the remedy is to tighten up the eligibility requirements, not to penalize the large majority of the genuinely disable by providing them with a benefit which is manifestly inadequate. Here it seems to us the framers of H. R. 6000 have for-

gotten the essential purpose of a social insurance program, namely, to provide real security to those whom the law declares to be eligible Family benefits are even more necessary for disability than for old age beneficiaries for the probability that there will be dependent wives and children is far greater in the younger age groups.

V. FINANCIAL ARRANGEMENTS

We are opposed to the methods of financing the program proposed in H. R. 6000 and in favor of those suggested by your Advisory Council. The House bill would throw the entire cost on the workers and their employers, whereas the Advisory Council envisages a three-way division of the costs in which the worker as potential beneficiary, the employer, and the general taxpayer would all participate We prefer the Council's proposals for several reasons

(*a*) The House bill in its desire to collect only from the workers and the employers but also to prevent the actual combined rate of tax from ever exceeding $6^1/_2$ percent is forced to adopt the device, found in the original Social Security Act, of accumulating a huge reserve. For many reasons, some of which have already been elaborated upon by other witnesses before this committee, we regard the accumulation of so large a reserve fund as undesirable and unnecessary.

(*b*) The present act, and all proposed amendments including H. R. 6000 recognize the impossibility of at one and the same time providing adequate minimum benefits for the lower paid workers, and expecting these groups to pay the full actuarial costs of their own benefits. Despite our high levels of income, they are not yet high enough for many groups of fully employed, hard-working persons to enable them both to maintain acceptable living standards during their working years and to contribute a sum equal to the full actuarial cost of an adequate old age annuity and of unemployment and disability benefits. All proposals therefore, provide for the payment of unearned benefits to the lower income groups. The costs of these unearned benefits however, are met from the employers' contributions of those in the higher covered income brackets, and, to the extent that employers are able in some cases to shift the taxes onto workers, out of the earnings of some of the higher-paid groups. I some groups of taxpayers thus in any case pay for the unearned benefits of others, we do not see why this principle is not applied beyond the $3,000 a year income limit by drawing for a part of the costs on the yield of the more progressive general revenues. This is a particularly important point when it is recalled that the major unearned benefits will be received by those who were already old when the system was initiated This accrued liability, arising out of the fact that the community did not utilize the social insurance principle earler, should not be thrown upon present and future employers and workers alone, but should be shouldered also by the general body of taxpayers

(*c*) The real question facing the general taxpayer is in large measure one of where he shall make his contribution. The income receiver whose earnings do not permit him to pay for more than a fraction of the cost of his old-age security is likely to become a recipient of old-age assistance, in which case the entire amount of his social security will be paid by the general taxpayer. We believe it is a good bargain for the general taxpayer if, by adding to what employers and workers contribute, he succeeds in getting the beneficiary to carry at least a part of a cost that would otherwise fall entirely upon the general revenues.

VI. PROVISION FOR ADVISORY BODIES

We urge the Senate to consider the advisability of adding to the law a provision for the establishment of a Social Security Advisory Council and a Social Security Legislative Advisory Committee as was proposed in H. R. 2893 on which the House held hearings last year. Your own Advisory Council again and again stressed the desirability of securing greater citizen participation in so important a piece of legislation as the Social Security Act. As citizens' organizations, we of the Consumers' League appreciate the importance of keeping the citizen in touch with the operation of programs which he helps to finance, and informed of the problems and policy issues to which social-security legislation gives rise. The arrangements proposed in H. R. 2893 would go far toward remedying what has hitherto been a real weakness in our social-security structure; namely, the difficulty experienced by the citizen and the legislator in securing periodic impartial and authoritative reports, and expressions of opinion regarding the functioning of our complicated series of social-security programs.

VII. ACTION IS NEEDED NOW

It is not too much to say that the future of social insurance in America is today largely in the hands of this Congress. Failure to strengthen this method of providing security may well throw us back to the chaotic methods in force before 1935 and expose the country to uncoordinated and segmental treatment of all groups strong enough to exert pressure. We must accept the fact that our people demand a form of security that enables them to know exactly what they can count on, how much, and under what objective conditions it can be obtained. They want a system that will free them from dependence on the discretion of administrators and investigators and that is removed from all the taint of the old poor law. The strength of the pension drive is sufficient proof of the intensity of this feeling. At the same time the taxpayer needs to know the extent of his obligations, and the tendency to regard the Federal Treasury as a bottomless purse must be guarded against. Social insurance enables the country to meet in large measure the demand for self-respecting economic security, while emphasizing to the beneficiary, through the contributions he makes, that there is a close connection between what you get and what you pay for.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:05 p. m., the committee recessed to reconvene Tuesday, February 28, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

TUESDAY, FEBRUARY 28, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Johnson of Colorado, Kerr, Myers, Millikin, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

We hope there will be other members of the committee who will come in during the course of the hearing this morning.

Dr. Paullin, you are listed first. Do you desire to go first in the presentation of your views on H. R. 6000, or do you wish to call first one of your associates?

Dr. PAULLIN. Mr. Chairman, I think for the logical presentation of this discussion which we hope to bring to you, it would be well that Dr. Sensenich, from South Bend, Ind., the past president of the American Medical Association, make the first statement, if that would please you, sir.

The CHAIRMAN. That would be quite agreeable.

Dr. Sensenich, we are glad to have you appear this morning on H. R. 6000, and the committee will be very glad to hear you at this time.

You may be seated if you wish to.

STATEMENT OF DR. R. L. SENSENICH, SOUTH BEND, IND., ON BEHALF OF THE AMERICAN MEDICAL ASSOCIATION

Dr. SENSENICH. Thank you very much, Mr. Chairman.

I will, I think, select certain portions of my statement here, from which to speak.

The CHAIRMAN. Doctor, if you wish to, you can put your whole statement in the record, and then you may discuss it as you wish, or you can use your statement entirely if you prefer.

Dr. SENSENICH. If I may, I would wish it made a part of the record as it is, and then, in order to save the time of the committee, Senator George, I would like to discuss various portions of it which I think are particularly helpful in relation to this matter.

The CHAIRMAN. Very well, sir. Provide the reporter with a copy, and it will be entered in the record in its entirety. Then you may discuss it.

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Dr. SENSENICH. Very well, sir.

I am a practicing physician in South Bend, Ind., and have been among those deputized by the board of trustees of the American Medical Association, with a membership of 144,000 physicians, and have come here for the purpose of discussing with the committee and presenting to the committee the various features of H. R. 6000 which we think should be discussed. I would say that, referring to the first pages of my statement:

> The American Medical Association has made it a practice to take a stand on legislation involving medical care and the health of the American people. While H. R. 6000 is primarily a social welfare proposal, it does contain one provision having serious medical implications, namely, that section on compulsory contributory permanent and total disability insurance.

Now, Mr. Chairman, I refer you to page 2. And these are quotes from various statements of the house of delegates and the board.

> The major benefits included in the present social security system—old age and unemployment—are adaptable to mass or objective administration from an office remote from the individual. This is not true of total and permanent disability benefits. Age is a condition over which the individual is unable to exercise any control, and unemployment is an occurrence over which the individual may have little or no control. Qualification for the benefits is categorical and not difficult to determine. In contrast, total and permanent disability is often a condition over which the individual who is disabled and his physician may exercise control.
>
> This subjective control which may be exercised by the individual multiplies the opportunity for malingering and actually takes the program out of the insurance category. We must always oppose any program which places a brake on the incentive of the sick and disabled to desire recovery.
>
> To initiate a Federal disability program would represent another step toward wholesale nationalization of medical care and the socialization of the practice of medicine. The program as now proposed would not accomplish the entire nationalization of medical care but the inevitable expansion and liberalization of the program which would surely follow makes probable its eventual accomplishment. The steps in liberalization are not hard to visualize—such as payment of benefits to dependents of disabled covered persons, removal of the time lag of 6 months and substitution of temporary disability benefits, then eventually full cash sickness and disability provisions. We would then have nothing less than a total national compulsory sickness program.

In the hearings on this bill, persons fully qualified in the field of economics and insurance and students of political science warned against the high additional percentage of national income to be committed to social programs by the enactment of extensions as proposed by H. R. 6000. Of this danger, we are aware.

The American Medical Association recognized the need for assistance to the disabled and the needy and feels that this aid should always be administered on a local level. Financial assistance to the locality should only be advanced from State or Federal sources when a need can be clearly shown.

The foregoing is from actions of the house of delegates and the board of trustees.

Section 107 of H. R. 6000, beginning with line 6, page 88 of the bill, and dealing with disability insurance benefits, was apparently included on the recommendation of the majority report of the Advisory Council on Social Security appointed by the Senate Committee on Finance pursuant to Senate Resolution 141, Eightieth Congress, and submitted to your committee under date of May 8, 1948.

As indicated in the statement of the board of trustees, the American Medical Association is opposed to this particular part of the bill, and

I would like to present to your committee some of the reasons that prompted the board in taking its action.

1. This disability benefits program represents a plan that will inevitably be expanded far beyond its somewhat limited applicability as proposed in the bill. The majority report of the Advisory Council itself suggests that the recommended program is only a beginning when it stated, after discussing the administrative difficulties involved in carrying out the program (p. 2, S. Doc. No. 162, 80th Cong., 2d sess.):

> In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions.

There is implicit in the foregoing statement, it seems to me, the expectation that as administrative experience accumulates—after what we may call a settling process—the program will be expanded.

To minimize the occurrence of malingering, the Council recommended, and the bill provides for, a waiting period of 6 months after the determination of disability before benefits will be available. After the administrative experience mentioned by the Council has accumulated, it is not difficult to anticipate that this waiting period will be shortened or perhaps done away with in its entirety.

There is no specific provision in section 107 to provide medical care to the recipients of disability benefits. I give emphasis to the word "specific" for the bill does provide that the Federal Security Administrator may direct a recipient of benefits to accept rehabilitation services available to him under a State plan approved under the Federal Vocational Rehabilitation Act. That act contemplates that a State plan will make available medical care to those needy individuals undergoing rehabilitation. The accent is on the needy, in that particular place.

Whether or not a recipient of benefits under section 107 of the pending bill who is directed to undergo rehabilitation under a State plan will receive medical care only if he is needy or whether the Administrator, under the broad discretionary powers given him by section 107, may authorize the furnishing of such medical care without regard to need is a question that the bill does not clearly answer. Assuming, however, to stress a point, that there is nothing contained in section 107 of the pending bill that would authorize the supplying of medical care except perhaps to those financially in need, there is little assurance that the program will not be expanded to provide federally controlled medical and surgical care to the disabled. It seems to me that that eventuality is not remote. The providing of benefits to those who suffer disability, either temporary or total, has been suggested to the Congress on previous occasions and almost invariably such suggestions have been coupled with the supplying of medical care on the theory that if medical care will lessen or terminate the period of disability then the need for rendering federally financed aid to the disabled person will cease and Federal funds will thereby be conserved. That is a line of reasoning with which there is no argument, but the manner in which that medical care shall be provided and what shall be its standards and who shall be entitled to that care is quite another matter, which is left to a very broad discretion.

Time and again representatives of the Federal Security Agency have recommended disability benefits plus medical care. I do not believe that that statement will be seriously questioned but I wish to recall to the attention of the committee the viewpoint expressed by Mr. A. J. Altmeyer, then Chairman of the Social Security Board, who is now Commissioner for Social Security, presented on July 18, 1941, to the House Committee Investigating National Defense Migration, at which time he said:

> Our eventual goal should be the establishment of a well-rounded system of social insurance to provide at least a minimum security to individuals and their families due to unemployment, sickness, disability, old age, and death. In addition, we must provide a series of constructive social services to supplement the cash aids provided under social insurance. Medical care should be available to individuals and their families so that we may build a healthier, happier Nation. Such a system of medical care would be instrumental in reducing the costs of cash payments for sickness and disability.

That is the end of the quotation. It is a blueprint of the structure of which the provisions of H. R. 6000 relating to disability benefits must be considered as an important part. The provisions contained in the bill in section 107 should not therefore be appraised solely as an isolated, detached effort to provide some measure of aid to the disabled worker but as a part of a movement toward completing plans for a compulsory, federalized sickness insurance program such as is contemplated by another bill now pending before the Senate Committee on Labor and Public Welfare, S. 1679, which, among other things, proposes a compulsory national program of so-called health insurance which will result in the federalization of the practice of medicine.

Expansion of the pending proposal may be anticipated along other lines, too. With benefits provided for total and permanent disability, it will be only a short step to providing benefits for temporary disability, including sickness, and then benefits for the dependents of the disabled.

I urge the committee, therefore, to explore carefully and fully the potentialities of the pending proposal.

Senator KERR. May I ask a question?

The CHAIRMAN. Yes, Senator Kerr.

Senator KERR. In the paragraph just before that, I take it that your objection is aimed solely at what you think to be the proposed method, and not at the objectives?

Dr. SENSENICH. As to providing that medical care should be available to every individual, regardless of whether he is disabled, whether he is ill, or what constitutes a need for medical service. With that we are in agreement.

Senator KERR. You are in agreement with that objective?

Dr. SENSENICH. But we are not in agreement, sir, upon the Federal Government or any government, for that matter, taking over the responsibility for the medical care of every individual who is ill. And that would seem to be, sir, the eventual development out of this program, of which this proposal as to the disabled is only one feature. Perhaps I didn't understand you, Senator.

Senator KERR. Well, you have answered enough questions, to where I would say you had answered any possible construction of what I asked you. The question I asked was whether or not you were finding

fault with the objectives in the paragraph, or with the methods by which you thought certain ones were trying to achieve the objective.

Dr. SENSENICH. I am sorry I didn't understand you correctly.

2. The majority of the Advisory Council recommended a restrictive definition of a compensable disability in order to reduce the incidence of malingering. They defined "permanent and total disability" to mean any disability which is medically demonstrable by objective tests, which prevents the worker from performing any substantially gainful activity, and which is likely to be of long-continued and indefinite duration. That is quite a clear definition. That is the definition offered by the committee.

Senator KERR. How would you define it?

Dr. SENSENICH. I think that is a very good definition, sir.

The definition contained in section 107 of H. R. 6000 departs from this recommendation by failing to require that the compensable disability be demonstrable by objective tests. By "objective tests" are meant the things that can be observed or proved in the findings of an examination of this man from a physical standpoint, Senator Kerr.

Senator KERR. You think that anything a fellow feels inside of him, then, is determinable objectively by observation from others?

Dr. SENSENICH. No; it is not. And if you were to ask me, Senator Kerr, as to whether I felt that that was all that was necessary in the diagnosis of a medical case or in its care, I should say that is not correct. There are many things that are not objective.

Senator KERR. It is easier to find fault with standards suggested than it is to suggest standards about which there is no fault.

Dr. SENSENICH. That is true, Senator Kerr. But if I may continue, I think you will find why I am presenting what I am at this place.

Senator KERR. I think I knew that before you started.

Dr. SENSENICH. I think I can make it clear, sir.

Senator MILLIKIN. Well, if you do not have standards based on objective tests, you open the whole field to malingering and phoney claims of all kinds.

Dr. SENSENICH. That is the reason I am continuing on. I think you have heard from those who have had to deal with the total disability claims to life insurance companies and the claims of others who allege disability, as a result of injury, and so on, the enormous amount of malingering and of complaint of disabling illness which cannot be proved by objective means and often is subject to great question.

The definition thus broadened in section 107 may bring into importance many simulated symptoms of conditions which cannot be demonstrated by objective tests and will make even more uncertain and indefinite a satisfactory application of the provisions of the bill.

3. Reference has been made to the discretionary powers proposed to be lodged with the Administrator of the Federal Security Agency in connection with the disability-benefits program. The Administrator will, for one thing, decide who will make the initial examination and the contemplated reexaminations to determine the existence of a disability of a kind to confer entitlement of benefits.

We meet up with that problem all the time. He may utilize physicians who are employees of the Government, such as salaried physicians of the Veterans' Administration or of the United States Public

Health Service, or other physicians who are on a salary specifically to function in connection with the disability benefits program. He may utilize private practitioners of medicine on a fee basis but there is no assurance that the family physician of the potential beneficiary will be permitted to have any voice in the determination of disability although he is the one presumably best qualified to make the determination.

Senator MILLIKIN. I think it should be said there, Doctor, that there also would be great pressure on the family physician to find the existence of a disability which might be questionable.

Dr. SENSENICH. That is very true, sir. As a matter of fact, in England, in the administration of their certification for certain benefits, it became so terribly difficult for the physicians that they asked to be released from that responsibility; the end result being that the illness, then, would be determined by a nonmedical individual, and the system was very, very badly imposed upon.

Senator MILLIKIN. We had some testimony earlier, as I recall it, to the effect that under some State plan—I may have this a little twisted, but I think the idea is correct—they have picked panels from another community to make these decisions, just to avoid the pressure that comes on the family physician and local physicians who know the case.

Dr. SENSENICH. That is quite understandable, Senator.

Senator KERR. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Kerr.

Senator KERR. Do I understand that you take the position that those to whom you have just referred should not be permitted to help determine the disability?

Dr. SENSENICH. No, Senator Kerr. What I am developing here, when I will have finished another paragraph or two, is rather to show the difficulties in the administration of this bill.

Senator KERR. You will pardon me if I seem to be unable to anticipate your conclusion, but I have found this out, that oftentimes when I did not know where I was going, when I was on a journey, I was unable to recognize the destination when I got there.

Dr. SENSENICH. I think that would be a fair observation but I am quite sure, Senator Kerr, that I know my destination.

Senator MILLIKIN. It would be advisable to know where you are going before you start.

Senator KERR. I am interested in your remark that he may utilize physicians who are employees of the Government, such as salaried physicians of the Veterans' Administration. Are we proceeding to the conclusion that they are not qualified to make these examinations?

Dr. SENSENICH. No, this is just enumerating the means or what kind of medical proof might be submitted as to the total disability of this individual. We are not complaining of that.

Senator KERR. Now, on the basis of what would be adequate? Or what would not be adequate? I mean, you have some reason for putting that in.

Dr. SENSENICH. Yes, and I conclude that in the next paragraph, Senator Kerr.

Senator KERR. I am looking forward to that next paragraph with great anticipation.

Dr. SENSENICH. All right, sir. We will have then the probability of the disabled worker being forced to rely on a governmental employee

for the establishing of his rights, with no assurance of an opportunity to present evidence on his own behalf. This seems important in view of the fact that the bill grants no right of appeal from any adverse decision reached by the Administrator nor, as a matter of fact, is that official even required to act in accordance with the advice given him by his medical adviser.

Senator KERR. Do you think he should be?

Dr. SENSENICH. If we will drop that detail, I think that the individual should have the same right of appeal as he has in your and my life insurance policies, if we are not satisfied that we are being fairly treated as to disability.

This individual has no appeal. He has no appeal, and even the physician, who is not of his selection, who does not represent him but is appointed by someone else or provided by another agency, may do exactly as he wishes, and without anything from the individual physician, who probably is best acquainted with the facts. I wanted to make that clear in connection with your question, Senator Kerr.

Even though a family or attending physician is designated or permitted to make the required examinations and determinations, that physician will be placed in a most difficult position. This, I think, will answer your other question, Senator Kerr. A dual relationship will obtain; one, a physician-patient relationship, because the physician has been the attending physician, and the other, a physician-Government-examinee relationship, because the physician, compensated by the Government, will be examining the worker, not for the purpose of treatment but for the purpose of determining the eligibility of the worker to receive the specified cash sums. That situation has arisen many times.

If in a border-line case, and certainly many such cases will arise, the physician resolves a doubt in favor of the worker, who is also his patient, he may be accused of conniving to defraud the Government. If he resolves that doubt in favor of the Government, he will most assuredly invite the animosity of his patient and thereby will make it impossible for him to function efficiently thereafter in the treatment of his patient's condition.

It has been actually known, and I am sure, Senator Kerr, that you have heard of instances in connection with disabilities following industrial injuries, where the boards, the State agencies, must determine whether the individual is disabled, first of all, and the extent of that disability, and the probable outlook. Where it is found that the individual goes to a physician other than his regular attending physician, there is no argument about that. But there are cases where some physicians seem to be rather favorably selected by those who feel that their case should be presented to their interests.

Now, that is a bit unfortunate, but nevertheless it is a situation which obtains, and which makes it difficult, in the administration of such an act. We are now in the border-line cases, and we have departed from those in which there is actual objective evidence. Obviously, a case in which a man who has lost a leg or an arm is one which is apparent to anyone.

Senator KERR. You would not even have to have a physician to determine that.

Dr. SENSENICH. No, Senator Kerr, I would be willing to ease up the restrictions on the determining of that disability.

Senator KERR. Well, that is encouraging.

Dr. SENSENICH. The majority report of the Advisory Council perhaps realized that much discretionary power would be conferred on the Administrator if its recommendations were enacted into law, for the report suggested on page 2 as follows:

> We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose.

That is a quote from the recommendation of the committee. And again, the Council recommended a decentralization of administrative procedure in order to prevent too much concentration of administrative action and decision in Washington. Here again, however, the provisions of section 107 depart from the recommendations of the majority report, for there is no reference to the creation of a public advisory board nor is there any indication that the administrative functions will be decentralized.

4. It is a fact well known to physicians that the mental attitude of a patient is a most important factor in his recovery. We may call it the will to get well. Disability benefits may well remove from many disabled workers the incentive to become a contributing member of society, the incentive, in other words, to recover from his disability.

5. As indicated in the statement on H. R. 6000 formulated by our board of trustees, which I read to you earlier, no apt parallel can be drawn between the existing old-age and unemployment programs and the proposed disability benefits program. They are not comparable. A worker either is or is not aged and he has no control over the fact. A worker is either unemployed or he is not and, possibly with a few exceptions, he has little or no control over the fact. There are no border-line cases, generally speaking. Little if any exercise of discretion in awarding benefits, particularly on account of old age, is necessary. These two programs lend themselves somewhat readily to mass treatment. That is not true with respect to disability benefits. Highly personalized equations must be considered in individual cases and that necessity precludes the administration of the program on a mass basis.

Senator Kerr, I am referring there to that question of yours a while ago as to objective proof. We have a wide borderline of those who have no objective proof. As to the insurance companies, I think someone from one of the insurance companies appeared before the committee not very long ago. I know I have had personal experience with the individual who is financially able, is about able to retire or has retired, and has a coronary attack which may be of minor character and may possibly not disqualify him even for the continuance of the business to which he has been accustomed. But he frequently decides that that constitutes a disability, and from that time on he claims to recover disability from the insurance company, even though he is not in financial need, and the program he is following is what he would have followed even had he had no illness.

Too, total and permanent disability is often a condition over which the individual and his physician may exercise some control and that fact would seem to remove the program from the insurance category.

6. These, Mr. Chairman, are some of the reasons that prompted the board of trustees to express opposition to the program outlined by section 107 of H. R. 6000. The board is convinced that that program is the forerunner of a completely federalized system of compulsory sickness insurance, such as has frequently been advocated by the Commissioner of Social Security, Mr. Altmeyer. It believes that any such nationally directed and controlled program will inevitably result in the socialization of the practice of medicine and in a marked deterioration in the quality of the medical care that the American people has been accustomed to receive. While American medicine is interested in the rehabilitation of the disabled, it believes that rehabilitation can best be accomplished on a local level without direction and interference from a Federal administrative agency remote from the problem. Furthermore, the proposed Federal disability program will call for a certification of a medical condition which, as defined in the bill, will invite abuse and fraud and the ultimate cost of the program cannot be predicted with any degree of assurance.

Insurance companies have taken a very, very serious beating on their full disabilities.

Several States have initiated programs in aid of the disabled worker but the period of duration of these programs has been too short to justify a final appraisal at this time. More experience in this field is necessary and should be gained before attempting even the somewhat restricted program contemplated by section 107.

May I add to this that we are all, I think, of one mind, certainly, that we feel that the disabled individual should have the proper kind of care. He should have medical care. He should have every opportunity for rehabilitation.

Senator KERR. That is an interesting observation, and as one member of the committee I would be very grateful to you if you could tell us how you thought that might be obtainable.

Dr. SENSENICH. I shall be very glad to. May I just complete this statement here? The difficulty, however, in the administration of this bill is this—and let us be realistic—most of the people, the larger number of the people, whom you and I know, who are disabled, are the individuals who would not be touched by this bill at all, for the simple reason that this is attached to the pay roll. The crippled child, the individual who has been disabled from childhood, the individual who is not in covered employment, who has an injury, has a disability, would not be eligible for any help under this bill. And that includes a far greater number than the others. As for those who were injured in industry and are in covered employment, provisions are made for them under State laws. They can be sustained for long periods of time. In fact, as long as they live, if they are completely disabled. And they are under the State acts.

So, after all, the number of individuals involved here would not be sufficient to justify the setting up of a program which is so essentially difficult to administer and offers so many opportunities, and I might even say incentives, to irregularity and to claims that constitute in the main fraud, the attempt to gain something to which they are not entitled.

Senator KERR. Then do I understand that you are objecting to it because it covers too few? In other words, do you just make the objection that it covers too few?

Dr. SENSENICH. No; it is too difficult to administer. And it is setting up a means which is very difficult to administer, which is in a bad direction, which is subject to malingering and a great many things, to cover a few individuals, when the rest of the individuals are taken care of through other mechanisms. If there were a meeting of a need which could not otherwise be provided for, then there might be some reason for experimentation with it, which is not true.

Senator KERR. I understood a while ago that you objected to it on the ground that it would lead to too many.

Dr. SENSENICH. Too many frauds.

Senator KERR. No; you said it might come to be applied to everybody.

Dr. SENSENICH. Oh, no; that this would lead to an expansion beyond this bill, an expansion into compulsory sickness plans.

Senator KERR. Now answer the question I first asked you, on your observation, there, where you expressed the belief or the thought that it would be wonderful if this medical care were available to all. You said that you would answer the question I asked you as to how that would be brought about.

Dr. SENSENICH. Oh. I am glad you reminded me of that. I would say this: That, so far as the care of the individual in need of medical care is concerned, regardless of whether he is crippled, whether he has an acute illness, a chronic illness, or what, medical care should be available to him; and it is.

Senator KERR. Then our problem is not in providing it, but just in advising him as to the fact that it is already available to him?

Dr. SENSENICH. And the improvement of the functioning of the agencies which are responsible for him in the event he is unable to provide the care for himself.

Senator KERR. It is amazing how such an important fact is so little known, Doctor.

Dr. SENSENICH. I might observe, Senator, that there are a great many men who make it their business to say contrariwise, if I am understood.

Senator KERR. Well, that would not be particularly persuasive to those who need the care; would it, Doctor? If it were available to them, they would not be particularly impressed by statements of those who said that it were not.

Dr. SENSENICH. I think that is true.

Senator KERR. Well, would it not be equally true that, if they needed it and it were not available to them, they would not be too much impressed by statements of men that it was available to them?

Dr. SENSENICH. Yes, but they do not enact the bills into law, and they do not administer the law, and they are not those who have to do with the public.

Senator KERR. Well, I thought we had left the legislative field and were talking about the matter that you said you thought this medical care should be available to them and is.

Dr. SENSENICH. And is. Now, then, as to the individual who is in need, the agency and the local government who is responsible for the care of the individual in need should function, and I think in the main does. If it does not, then it should; and means should be taken to stimulate that effort.

Senator KERR. Which local agency of government is it that is charged with the responsibility of making medical aid available to this group?

Dr. SENSENICH. It differs in the States. In some States it is the welfare agency.

Senator KERR. Let us take Oklahoma. I know a little more about that.

Dr. SENSENICH. I don't Senator Kerr. I don't know what your situation is.

Senator KERR. I thought you said it was available in all of the States.

Dr. SENSENICH. I cannot go into the detail of it, though. May I ask you a question? Is it true in Oklahoma, Senator Kerr, that you do not have a public agency that is responsible for the care of the individual who needs medical care?

Senator KERR. Amazing as it may be, that is true. And, so far as I know, it is likewise true in every State I know anything about.

Dr. SENSENICH. Oh, I couldn't agree with that, sir. I wouldn't argue with you as to Oklahoma.

Senator KERR. Well, then, let us talk about some State that you do know about.

Dr. SENSENICH. In my own State, Indiana, the responsibility for the individual is in the township trustee. Many of those needing care are already in a situation where, by age or otherwise, they are eligible for care under the welfare department. And those who are not cared for under the welfare program are cared for under the township trustee, who has funds for that purpose and is responsible. He may hospitalize them and give them any medical care they need as long as they need it.

Senator KERR. That is true in the State of Indiana?

Dr. SENSENICH. In the State of Indiana.

Senator KERR. Well, that is wonderful. I am delighted to get that information. Now, what other State do you know about that has it?

Dr. SENSENICH. Well, in the main——

Senator KERR. Did you say "in Maine"?

Dr. SENSENICH. No; I said "in the main."

Senator KERR. Well, let us leave the realm of general discussion and be specific.

Dr. SENSENICH. I am not sufficiently familiar with all the individual States.

Senator KERR. Oh.

Dr. SENSENICH. I have been told about them but I hesitate to make detailed statements simply as the result of information given me by people in those States. I have been interested in this for a long period of time, and I am amazed to hear you say that there are many States who do not have provision for those in need of medical care. My neighboring States—Michigan, Ohio, Illinois, and Wisconsin—I know all have the legal mechanism for doing that. It is almost unbelievable, if you did not say so, Senator, that even Oklahoma does not have that provision.

Senator KERR. Well, I am not amazed greatly that the situation is as I have pictured it in Oklahoma. I am more amazed at what you tell me the ample medical care available to the people of Indiana is

than you are at my telling you that such care is not available in Oklahoma.

Dr. SENSENICH. I see.

Well, may I say just a word in conclusion? We have other men who will appear before the committee.

This program, or this bill, if it were enacted into law would add considerably to the funds required by a department which I am told at the present time is already approximately $7,000,000,000 in arrears of the predictable commitments. That amazed me. I understood they had $11,000,000,000, and I now understand they should have $18,000,000,000. I don't see how the Nation can assume responsibility without the determination of need for so many individuals, even though it should, in the judgment of the Federal Government, be advisable that they take over.

Senator KERR. Especially is that true if no need exists, Doctor.

Dr. SENSENICH. Well, that is true, sir. And may I say just this, in passing, Senator George.

With reference to the matter of complaint if need must be demonstrated in these areas where medical care is provided by a governmental agency, that seems to be a very distressing matter to a certain group, who constantly say all service should be provided as a matter of right, and that the matter of determination of need is a very painful and undesirable thing. I am a bit surprised at that, at the inconsistency of it, because everything that we have had to do with is determined upon need.

If we turn to the social-security system as it is—and I have no complaint, except that I should like to be perfectly factual—the social-security system at the present time rests upon need to this extent: Even though the individual has paid in to old-age pension funds all the years in covered employment, when he arrives at 65 years of age if he actually earns, in my own State I think in excess of 50 cents a day, he doesn't get a pension. Is this determined on right or need?

So I am not so much concerned about this "need" definition. I don't think it should be embarrassing to the individual and in any way harmful; and properly administered, certainly it would be far more realistic.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Dr. Sesenich.

Are there any other questions?

(The prepared statement of Dr. Sensenich follows:)

STATEMENT BY DR. R. L. SENSENICH ON BEHALF OF THE AMERICAN MEDICAL ASSOCIATION

It is customary, I believe, for each witness at the start to identify himself for purposes of the record. I am Dr. R. L. Sensenich. My home is in South Bend, Ind., where I have practiced medicine for many years. I am the immediate past president of the American Medical Association and have been deputized by the board of trustees of the association, an organization of over 144,000 physicians, to bring to your attention the action taken by the board on certain parts of H. R. 6000, a bill now pending before your committee to extend and improve the Federal old-age and survivors insurance system, to amend the public-assistance and child-welfare provisions of the Social Security Act, and for other purposes.

The following statement with respect to the bill was adopted by the board of trustees on December 8, 1949:

"In the past, the American Medical Association has made it a practice to take a stand on legislation involving medical care and the health of the American

people. While H. R. 6000 is primarily a social-welfare proposal, it does contain one provision having serious medical implications; namely, that section on compulsory contributory permanent- and total-disability insurance.

"The major benefits included in the present social-security system—old-age and unemployment—are adaptable to mass or objective administration from an office remote from the individual. This is not true of total- and permanent-disability benefits. Age is a condition over which the individual is unable to exercise any control, and unemployment is an occurrence over which the individual may have little or no control. Qualification for the benefits is categorical and not difficult to determine. In contrast, total and permanent disability is often a condition over which the individual who is disabled and his physician may exercise control.

"This subjective control which may be exercised by the individual multiplies the opportunity for malingering and actually takes the program out of the insurance category. We must always oppose any program which places a brake on the incentive of the sick and disabled to desire recovery.

"To initiate a Federal disability program would represent another step toward wholesale nationalization of medical care and the socialization of the practice of medicine. The program as now proposed would not accomplish the entire nationalization of medical care, but the inevitable expansion and liberalization of the program which would surely follow makes probable its eventual accomplishment. The steps in liberalization are not hard to visualize, such as payment of benefits to dependents of disabled covered persons, removal of the time lag of 6 months, and substitution of temporary-disability benefits, then eventually full cash sickness and disability provisions. We would then have nothing less than a total national compulsory sickness program.

"During the hearings on this bill persons fully qualified in the field of economics and insurance and students of political science warned against the high additional percentage of national income to be committed to social programs by the enactment of extensions as proposed by H. R. 6000. Of this danger, we are aware.

"The American Medical Association recognized the need for assistance to the disabled needy and feels that this aid should always be administered on a local level. Financial assistance to the locality should only be advanced from State or Federal sources when a need can be clearly shown."

Section 107 of H. R. 6000, beginning with line 6, page 88 of the bill and dealing with disability-insurance benefits, was apparently included on the recommendation of the majority report of the Advisory Council on Social Security appointed by the Senate Committee on Finance pursuant to Senate Resolution 141, Eightieth Congress, and submitted to your committee under date of May 8, 1948.

As indicated in the statement of the board of trustees, the American Medical Association is opposed to this particular part of the bill, and I would like to present to your committee some of the reasons that prompted the board in taking its action.

1. This disability-benefits program represents a plan that will inevitably be expanded far beyond its somewhat limited applicability as proposed in the bill. The majority report of the Advisory Council itself suggests that the recommended program is only a beginning when it stated, after discussing the administrative difficulties involved in carrying out the program (p. 2, S. Doc. 162, 80th Cong. 2d sess.):

"In view of the admitted administrative difficulties in undertaking the payment of such benefits, however, the Council recommends a highly circumscribed program. More progress will be made in the long run if the persons responsible for operating the program have an opportunity to develop experience under relatively favorable conditions."

There is implicit in the foregoing statement, it seems to me, the expectation that as administrative experience accumulates—after what we may call a settling process—the program will be expanded.

To minimize the occurrence of malingering, the Council recommended, and the bill provides for, a waiting period of 6 months after the determination of disability before benefits will be available. After the administrative experience mentioned by the Council his accumulated, it is not difficult to anticipate that this waiting period will be shortened or perhaps done away with in its entirety.

There is no specific provision in section 107 to provide medical care to the recipients of disability benefits. I give emphasis to the word "specific" for the bill does provide that the Federal Security Administrator may direct a recipient of benefits to accept rehabilitation services available to him under a State plan

approved under the Federal Vocational Rehabilitation Act. That act contemplates that a State plan will make available medical care to those needy individuls undergoing rehabilitation. Whether or not a recipient of benefits under section 107 of the pending bill who is directed to undergo rehabilitation under a State plan will receive medical care only if he is needy or whether the Administrator, under the broad discretionary powers given him by section 107 may authorize the furnishing of such medical care without regard to need, is a question that the bill does not clearly answer. Assuming, however, to stress a point, that there is nothing contained in section 107 of the pending bill that would authorize the supplying of medical care except perhaps to those financially in need, there is little assurance that the program will not be expanded to provide federally controlled medical and surgical care to the disabled. It seems to me that eventuality is not remote. The providing of benefits to those who suffer disability, either temporary or total, has been suggested to the Congress on previous occasions and almost invariably such suggestions have been coupled with the supplying of medical care on the theory that if medical care will lessen or terminate the period of disability then the need for rendering federally financed aid to the disabled person will cease and Federal funds will thereby be conserved.

Time and again representatives of the Federal Security Agency have recommended disability benefits plus medical care. I do not believe that that statement will be seriously questioned but I wish to recall to the attention of the committee the viewpoint expressed by Mr. A. J. Altmeyer, then Chairman of the Social Security Board, who is now Commissioner for Social Security, presented on July 18, 1941, to the House Committee Investigating National Defense Migration, at which time he said:

"Our eventual goal should be the establishment of a well-rounded system of social insurance to provide at least a minimum security to individuals and their families due to unemployment, sickness, disability, old age, and death. In addition, we must provide a series of constructive social services to supplement the cash aids provided under social insurance. Medical care should be available individuals and their families so that we may build a healthier, happier nation. Such a system of medical care would be instrumental in reducing the costs of cash payments for sickness and disability."

That is the end of the quotation. It is a blueprint of the structure of which the provisions of H. R. 6000 relating to disability benefits must be considered as an important part. The provisions contained in the bill in section 107 should not therefore be appraised solely as an isolated, detached effort to provide some measure of aid to the disabled worker but as a part of a movement toward completing plans for a compulsory, federalized sickness insurance program such as is contemplated by another bill now pending before the Senate Committee on Labor and Public Welfare, S. 1679, which, among other things, proposes a compulsory national program of so-called health insurance which will result in the federalization of the practice of medicine.

Expansion of the pending proposal may be anticipated along other lines, too. With benefits provided for total and permanent disability, it will be only a short step to providing benefits for temporary disability, including sickness, and then benefits for the dependents of the disabled.

I urge the committee, therefore, to explore carefully and fully the potentialities of the pending proposal.

2. The majority of the advisory council recommended a restrictive definition of a compensable disability in order to reduce the incidence of malingering. They defined "permanent and total disability" to mean any disability which is medically demonstrable by objective tests, which prevents the worker from performing any substantially gainful activity, and which is likely to be of long-continued and indefinite duration. The definition contained in section 107 of H. R. 6000 departs from this recommendation by failing to require that the compensable disability be demonstrable by objective tests. The definition thus broadened may bring into importance many simulated symptoms of conditions which cannot be demonstrated by objective tests and will make even more uncertain and indefinite a satisfactory application of the provisions of the bill.

3. Reference has been made to the discretionary powers proposed to be lodged with the Administrator of the Federal Security Agency in connection with the disability benefits program. The Administrator will, for one thing, decide who will make the initial examination and the contemplated reexaminations to determine the existence of a disability of a kind to confer entitlement of benefits. He may utilize physicians who are employees of the Government, such as salaried

physicians of the Veterans' Administration or of the United States Public Health Service, or other physicians who are on a salary specifically to function in connection with the disability benefits program. He may utilize private practitioners of medicine on a fee basis but there is no assurance that the family physician of the potential beneficiary will be permitted to have any voice in the determination of disability although he is the one presumably best qualified to make the determination. We will have then the probability of the disabled worker being forced to rely on a governmental employee for the establishing of his rights, with no assurance of an opportunity to present evidence on his own behalf. This seems important in view of the fact that the bill grants no right of appeal from any adverse decision reached by the Administrator nor, as a matter of fact, is that official even required to act in accordance with the advice given him by his medical adviser.

Even though a family or attending physician is designated or permitted to make the required examinations and determinations, that physician will be placed in a most difficult position. A dual relationship will obtain, one, a physician-patient relationship because the physician has been the attending physician, and the other, a physician-government-examinee relationship because the physician, compensated by the Government, will be examining the worker, not for the purpose of treatment but for the purpose of determining the eligibility of the worker to receive the specified cash sums.

If in a border-line case, and certainly many such cases will arise, the physician resolves a doubt in favor of the worker, who is also his patient, he may be accused of conniving to defraud the Government. If he resolves that doubt in favor of the Government, he will most assuredly invite the animosity of his patient and thereby will make it impossible for him to function efficiently thereafter in the treatment of his patient's condition.

The majority report of the advisory council perhaps realized that much discretionary power would be conferred on the Administrator if its recommendations were enacted into law, for the report suggested on page 2 as follows:

"We believe further that it would be desirable to establish a public advisory board to counsel with the Federal administration particularly during the early years of the operation of this new program. Such an advisory group could assure that a variety of viewpoints are considered in the formulation of policy. The advisory group might appropriately later review and make recommendations on the conduct of operations and the extent to which the program achieves its purpose."

And again, the council recommended a decentralization of administrative procedure in order to prevent too much concentration of administrative action and decision in Washington. Here again, however, the provisions of section 107 depart from the recommendations of the majority report, for there is no reference to the creation of a public advisory board nor is there any indication that the administrative functions will be decentralized.

4. It is a fact well known to physicians that the mental attitude of a patient is a most important factor in his recovery. We may call it the will to get well. Disability benefits may well remove from many disabled workers the incentive to become a contributing member of society, the incentive, in other words, to recover from his disability.

5. As indicated in the statement on H. R. 6000 formulated by our board of trustees, no apt parallel can be drawn between the existing old-age and unemployment programs and the proposed disability-benefits program. A worker either is or is not aged and he has no control over the fact. A worker is either unemployed or he is not and, possibly with a few exceptions, he has little or no control over the fact. There are no border-line cases, generally speaking. Little if any exercise of discretion in awarding benefits, particularly on account of old age, is necessary. These two programs lend themselves somewhat readily to mass treatment. That is not true with respect to disability benefits. Highly personalized equations must be considered in individual cases and that necessity precludes the administration of the program on a mass basis. Too, total and permanent disability is often a condition over which the individual and his physician may exercise some control and that fact would seem to remove the program from the insurance category.

6. These Mr. Chairman, are some of the reasons that prompted the board of trustees to express opposition to the program outlined by section 107 of H. R. 6000. The board is convinced that that program is the forerunner of a completely federalized system of compulsory sickness insurance, such as has frequently been advocated by the Commissioner of Social Security, Mr. Altmeyer.

It believes that any such nationally directed and controlled program will inevitably result in the socialization of the practice of medicine and in a marked deterioration in the quality of the medical care that the American people have been accustomed to receive. While American medicine is interested in the rehabilitation of the disabled, it believes that the rehabilitation can best be accomplished on a local level without direction and interference from a Federal administrative agency remote from the problem. Furthermore, the proposed Federal disability program will call for a certification of a medical condition which, as defined in the bill, will invite abuse and fraud and the ultimate cost of the program cannot be predicted with any degree of assurance.

Several States have initiated programs in aid of the disabled worker but the period of duration of these programs has been too short to justify a final appraisal at this time. More experience in this field is necessary and should be gained before attempting even the somewhat restricted program contemplated by section 107.

I appreciate very much, Mr. Chairman, the opportunity to discuss this matter with your committee.

Senator JOHNSON. Mr. Chairman, I hope Dr. Murphey can be put on next, because I have to leave to go to another committee. I would like to hear Dr. Murphey's testimony, if it would not conflict with the procedure.

Dr. PAULLIN. We had a little different program arranged, but I think that is all right. Dr. Murphey is a representative of the Colorado State Medical Society.

The CHAIRMAN. Doctor, you may be seated, and we will be very glad to hear you at this time.

Senator MILLIKIN. Dr. Murphey, I may say, Mr. Chairman, is an outstanding and highly reputed physician of the Rocky Mountain area.

The CHAIRMAN. Doctor, would you like to put your entire statement in the record and deal with it, as the previous witness, Dr. Sensenich, did? Or would you like to confine yourself to your manuscript?

STATEMENT OF DR. BRADFORD MURPHEY, DENVER, COLO., REPRESENTING OFFICERS AND BOARD OF TRUSTEES OF THE COLORADO STATE MEDICAL SOCIETY

Dr. MURPHEY. Mr. Chairman, I would like to introduce the entire statement into the record, but in the interests of conserving the time and energies of this committee, I would like to single out certain portions of my statement for emphasis.

The CHAIRMAN. Yes, sir. Your statement will be set out in the record in full and you may proceed in your own way, Doctor.

Dr. MURPHEY. Well, let me begin, Senator, by saying that my name is Bradford Murphey, and I am a practicing physician in Denver, Colo.

I am here to speak in behalf of the officers and trustees of the Colorado State Medical Society, who are, as a group, opposed to H. R. 6000.

I am here to offer testimony against the bill as a whole, but more particularly I wish to emphasize the reasons why our group feels that the section dealing with permanent and total disability is an unwise procedure.

In the first place, I think that there is every reason to believe that the disability benefits proposed in H. R. 6000 would be continuously expanded and constantly liberalized, through political pressure.

The provision of benefits to the permanently disabled would surely lead to the extension of such benefits to the dependents of disabled persons; and also to those who are temporarily or partially disabled; and finally, perhaps, to everyone who is incapacitated, in whole or in part, either permanently or temporarily. This would all add up in the end to a compulsory sickness program of national dimensions.

In the second place, I am convinced that the permanent and total disability provisions of H. R. 6000 would lead to at least partial duplication with workmen's compensation programs in all those cases where the disability is occupational in nature.

In the third place, since total and permanent disability is frequently a condition over which both the individual, who is disabled, and his attending physician, may and can exercise some control, either consciously or unconsciously, qualifications for benefits will be very difficult to determine, the issue will be highly controversial in each case or certainly at least in border-line cases, and certainly for this reason it will be very expensive.

In the fourth place, since the definition of permanent and total disability as formulated in section 107 of H. R. 6000 does not require that disability be proven by objective tests, the proposed program, if adopted, would be wide open to abuse by dishonest claimants, through malingering, and to even greater abuse by unscrupulous doctors and lawyers working with such malingerers.

A disability program of this type would also be open to exploitation by another and far larger group of individuals, who are neurotic rather than dishonest, and who are for this reason bent on deceiving themselves rather than on defrauding the Government.

This program would make the flight of the neurotically ill individual away from self-responsibility and health and into illness profitable for himself and for his lawyer, and, by rewarding illness, it would make his return to health and self-responsibility very difficult and, probably in some instances, quite impossible.

In the fifth place, the failure of H. R. 6000 to require proof of disability by objective tests would, if the bill were enacted into law, involve the social-security program in enough controversy and litigation to keep all of the psychiatrists and lawyers in the country busy and for this reason would probably bankrupt our economy.

In the sixth place, H. R. 6000, like most of the legislative proposals favored by the Social Security Administration, gives the Social Security Administrator discretionary powers so great as to make him a threat to our democratic pattern of government, and further to make him a menace to the private practice of medicine.

Under the provisions of this act, the Administrator would be permitted to decide what physician or group of physicians could be used to determine disability and benefit rights. He would have the power to entirely exclude private practitioners from participation in such a program, notwithstanding the fact that the family physician surely would be the one best qualified to make such determinations of disability.

Under the provisions of this bill the Social Security Administrator could employ physicians on a full-time basis, to carry out this function of the disability-benefits program.

He could, as the previous witness has testified, have this work done entirely by full-time employees of Government.

But regardless of whether the work were done by a full-time employee of government, such as a public-health officer, or by the private physician, it would certainly place the physician so employed in a position of serving two masters—his patient on the one hand and the Administrator of Social Security on the other.

Since the physician's salary would not be paid by the patient, it is not too difficult to guess what would happen in such a splitting of loyalties. If the physician resolves such a conflict of loyalties in favor of the patient in a debatable case, he would run the risk of minimizing his chances for promotion and advancement in his department or bureau. If he habitually favored the Social Security Administration, he would soon incur the hostility of his patients and hence create a negative relationship with them which would destroy his effectiveness as their physician.

The treatment of illness and the work of the physician is accomplished in large measure through the relationship of trust and confidence and even of affection which has to exist between a doctor and his patient. When the doctor is placed in a position like this, and finds against the patient, he destroys his relationship with his patient, as we have pointed out.

In the seventh place, all of us in the medical profession who have had any experience with State industrial commissions and workmen's compensation programs realize that the official classification of an individual as a totally and permanently disabled person is sometimes a life sentence to invalidism.

The power of suggestion associated with an official declaration of total disability, plus the cash benefits that would accrue to the disabled person by remaining disabled, would, we think, create a psychological pressure great enough in many cases to rob the disabled person of all incentive to recovery.

The disability provisions of H. R. 6000 would, then, in fact, in the case of tens of thousands of neurotic individuals, tend to establish incentives in the opposite direction toward neurotically determined disability. The ultimate cost and waste of a disability program geared to incentives to illness rather than incentives to recovery would be enormous and would, in our opinion, jeopardize the economic, the psychological, and the moral stability of our social order.

Now, these are just some of the main reasons, Mr. Chairman, why the officers and trustees of the Colorado State Medical Society are opposed to H. R. 6000 in its entirety and especially to section 107 of this proposed legislation.

Like the sponsors and the proponents of H. R. 6000, we are interested in providing security for the aged. We are interested in providing security for disabled persons. We are interested in helping the defenseless and the neglected child. But we are convinced that the means and the methods proposed in H. R. 6000 for providing such security are by their very nature far more of a threat to our free society than the social ills that they seek to cure.

We think, sir, that the responsibility of Government at the local, at the State, and at the National level is to protect property and life and to maintain a climate and an atmosphere of fair play in which people can work out their own destiny and through their own sweat and effort make provision for their own security. When Government

attempts to do what the individual should do for himself, it must resort to compulsory methods that would involve the degredation of the individual, and that would also place too much power in the hands of the people who would have to administer such programs.

Thank you.

The CHAIRMAN. Any questions?

Senator MILLIKIN. Dr. Murphey, in Colorado, let us assume that John Doe, by objective tests, becomes totally disabled.

Let us assume that he is indigent. What are the means available to him to have his case taken care of?

Dr. MURPHEY. In an industrial case, we have our State industrial bureau, and he will be taken care of through that mechanism. In a nonindustrial case, we have private organizations in the field of philanthropy, numerous health and welfare agencies, and in addition to these we have city and county and State programs for assisting those who are destitute and unable to provide for their own care.

Senator MILLIKIN. And their dependents?

Dr. MURPHEY. And their dependents; yes, sir.

Senator JOHNSON. Dr. Murphey, you heard the colloquy between Dr. Sensenich and Senator Kerr a moment ago. It seems to me that Colorado has a better system even than Indiana, if that were possible. We have a very fine general hospital in Colorado, with which you are connected. You are connected with the mental-illness section of it. We have this very splendid general hospital, to which citizens of Colorado may be sent by their communities, and the county commissioner pay the bill. Many of the counties—in fact, almost all of the counties—either have a hospital of their own in the counties, such as Greeley, which has a very large hospital, or they have arrangements with private hospitals in their counties to take care of indigent patients. So that Colorado is in pretty good shape so far as taking care of illnesses and medical cases on the part of citizens who were unable to pay their own way is concerned. Would you not say that?

Dr. MURPHEY. That is true, Senator Johnson. Any person in Colorado, even in the most sparsely settled counties and those most remote from medical-care facilities, can be and usually are, certified by their board of commissioners as elegible for care and treatment in the Colorado General Hospital, one of the finest hospitals of its kind in the Nation. It is a teaching hospital associated with the University of Colorado School of Medicine. It is well staffed and the people who come from the counties for medical care get the best kind of care; not only the physical aspects of such care, but they get the personal attention and the kind of personal relationship they need with doctors who are interested in people.

I have not said anything about our various pension programs for providing aid to needy people in our various industries, like the Colorado Fuel & Iron Co., and other industrial and commercial concerns, but I want to point out that Colorado workers are well protected in matters of this kind.

Senator JOHNSON. Then we have a very fine rehabilitation program for assisting the handicapped, amputees, and others that may be taken care of and trained so that they may become self-supporting. We have care for the blind. We have a very good program. Of course, it could be greatly improved and expanded, no doubt, but it is an excellent program as it is.

Dr. MURPHEY. I am glad to have the opportunity to plug my State, because I think that Senator Johnson is understating it ratther than overstating it. I feel that we have one of the finest State hospitals for the care of mental cases that there is in the Nation. We give the mentally ill, in our State hospital at Pueblo, care comparable to that provided by any State in the Union. And, as Senator Johnson has pointed out, a great many of our more populous counties have hospitals of their own, and in nearly all the counties where there is a hospital at all, the county commissioners have a working arrangement with the private hospital to provide care at the county or local level. Some of the more difficult cases, that require more expensive diagnosis and treatment, are sent on to the Colorado General Hospital at Denver, which is a teaching hospital connected with the University of Colorado School of Medicine.

Senator JOHNSON. And is it not true that the physicians in Denver take turns in serving that hospital and donate their services free?

Dr. MURPHEY. Yes, sir. At the present time the Denver General Hospital serves the city and county of Denver. And most of the physicians in Denver are very proud indeed to accept a place on the staff of that hospital, and they give their services freely without any kind of remuneration, and they give their services very happily.

Senator JOHNSON. Thank you.

Senator MARTIN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Martin.

Senator MARTIN. How is the expense divided between the State and local levels of government?

Dr. MURPHEY. In the city and county of Denver, all cases that require public assistance of a medical nature are taken care of by the Denver General Hospital.

Senator MARTIN. How is the expense divided between the State and the local levels of government?

Dr. MURPHEY. Senator, most of the cost of medical care at that level falls on the city and county of Denver. In the case of a county outside the city of Denver, the cost is split between the State and the county. Colorado General grants to the counties a very low per diem rate, thus assuming part of the financial burden at the State level. The counties, however, are required to pay a certain rate to Colorado General.

Senator MILLIKIN. Dr. Murphey, many of us are interested in the gap that seems to fall, in our voluntary systems, caused by long chronic illness, what you call catastrophic illness, and these total disability cases, which seem to tax the abilities of the voluntary systems to take care of them. What is the medical answer to that problem? How can we reach this goal that we are all interested in, of adequate medical care for all people who need it, to fit the size of their pocketbooks?

Dr. MURPHEY. I think in the case of chronic illness of catastrophic nature, such as tuberculosis or mental disease, we already have the pattern very well established. It is recognized by most doctors everywhere that illness of that kind simply is too burdensome for the average wage earner to meet alone, and the State of Colorado provides assistance to such people, with tuberculosis programs and also with programs for the care of mental illnesses.

We feel even in such cases, however, it is morally necessary to be sure that individuals who can afford to pay for their care be required

to do so and that they should not be permitted to shift their obligation to do so to the State.

Senator MARTIN. Does the State of Colorado assume the full cost of, we will say, tubercular patients, or mental patients, or does the local level of government share in the cost?

Dr. MURPHEY. Again, it is customary to split the cost between the counties and the State, and aid is only, of course, given when the individual can certify his need for such care and his inability to provide it himself.

If I may repeat what the previous speaker has said, we believe very strongly in a needs or means test. We think that that is important in order to prevent people from exploiting the taxpayer. We can see nothing illogical or undignified about a means test, because we all submit ourselves to a means test every time we pay our income taxes.

The CHAIRMAN. It is sometimes painful, too, Doctor.

Dr. MURPHEY. Very.

Senator MARTIN. Does the State of Colorado provide so much per diem for patients at, as we will call them, private hospitals?

Dr. MURPHEY. They do, sir.

Senator MARTIN. How much is that per diem?

Dr. MURPHEY. I am sorry, sir. I can't give you the exact figure.

Senator MARTIN. Has that plan been imposed upon by certain localities?

Dr. MURPHEY. Generally speaking, there has been very little abuse.

The CHAIRMAN. Senator Kerr, any questions?

Senator KERR. I have no questions, Mr. Chairman.

The CHAIRMAN. Thank you very much for your contribution, Doctor.

(The prepared statement of Dr. Murphey follows:)

STATEMENT SUBMITTED BY BRADFORD MURPHEY, M. D., ON BEHALF OF THE COLORADO STATE MEDICAL SOCIETY

Mr. Chairman, for the record, my name is Bradford Murphey. I am engaged in the private practice of medicine in Denver, Colo. I am appearing before your committee as the official representative of the officers and board of trustees of the Colorado State Medical Society. My specialty is psychiatry and the greater part of my professional experience has been in the two related fields of child psychiatry and community psychiatry. I am an associate clinical professor of psychiatry at the University of Colorado School of Medicine. I have been deeply interested in social welfare for many years, and in this connection am a past president of the Colorado Conference of Social Welfare. At the preesnt time I am vice president of the Denver Area Council of Social Agencies and chairman of the Colorado White House Conference for 1950 on Children and Youth. My testimony will reflect the unanimous thinking of the officers and trustees of the Colorado State Medical Society and is offered in opposition to H. R. 6000 in its entirety and especially to that section of the act which makes provision for permanent and total disability insurance benefits on a compulsory basis. The officers and trustees of the Colorado State Medical Society are opposed to H. R. 6000 in its entirety because:

1. It is based on an un-American, paternalistic theory of government which assumes that the moral and social responsibility of the citizen to provide for his own personal security can and should be shifted to the Government.

2. It is dishonest, in that it leads the unwary, the improvident, and the opportunistic members of our society to believe that they can achieve social security for themselves by simply exercising their right to vote instead of exercising their minds and muscles in personal effort and hard work.

3. It would expand and tend to perpetuate the unsound theories and follies of the present social-security system, which already costs us $50,000,000 a year

to administer and which requires an army of 15,000 employees to carry on its work.

4. It would render even more unsound financially a social-security system already notoriously unsound in this respect.

5. It would bring under the yoke of compulsion, millions of working people still free to provide their own security.

6. It would establish a precedent and initiate a trend which would in all probability extend the phony benefits of compulsory security to clergymen, merchants, farmers, physicians, dentists, editors, and many others who are self-employed.

7. It would increase the cost of living for everybody, since the new taxes proposed would inevitably be passed on to the public in higher prices for goods and services.

8. It would greatly jeopardize and perhaps, in the long run, entirely ruin the great insurance companies of this country to which millions of our people now look for their own personal security.

9. It would tend to greatly expand public assistance programs with all of their inflexibilities and red tape, and it would do so at the expense of our private voluntary institutions and agencies.

10. It would increase the cost of our paternalistic social-security system to such an extent as to threaten the solvency of our Government.

11. It would greatly increase the size of the security tax fund held by the Government, and, by the same token, it would increase the temptation for Government to use such funds for other purposes, as, indeed, it is now doing.

12. It would further expand the already enormously expensive wage records system now maintained by the Government, and at the same time it would multiply opportunities for the misuse of workers' records for political reasons, and for purposes of social coercion.

As I have already stated, the officers and trustees of the Colorado State Medical Society are especially opposed to that section of H. R. 6000 which provides for permanent and total disability insurance benefits; i. e., section 107, beginning with line 6, page 88. As their representative and as a private citizen engaged in the practice of medicine, I am opposed to this part of the bill for the following reasons:

1. There is every reason to believe that the disability benefits proposed in H. R. 6000 would be continuously expanded and liberalized through political pressure. The provision of benefits to the permanently disabled would lead inevitably to the extension of such benefits to the dependents of disabled persons, to those who are temporarily or partially disabled and finally to everyone who is incapacitated in whole or in part, either temporarily or permanently. This would all add up, in the end, to a compulsory sickness program of national dimensions.

2. The permanent and total disability provisions of H. R. 6000 would lead to at least partial duplication with workmen's compensation programs in all those cases where the disability is occupational in nature.

3. Since total and permanent disability is frequently a condition over which both the individual who is disabled and his attending physician may exercise control consciously or unconsciously, qualification for benefits will be very difficult to determine, highly controversial, and hence, very expensive.

4. Since the definition of permanent and total disability, as formulated in section 107 of H. R. 6000, does not require that disability be proven by objective tests, the proposed program, if adopted, would be wide open to abuse by dishonest claimants through malingering and to even greater abuse by unscrupulous doctors and lawyers working with such malingerers. A disability program of this type would also be open to exploitation by another and far larger group of individuals, who are neurotic rather than dishonest, and who are, for this reason, bent on deceiving themselves rather than defrauding the Government. This program would make the flight of the neurotically ill individual away from self-responsibility and into illness profitable for himself and for his lawyer and, by rewarding illness, it would make his return to health and self-responsibility very difficult and perhaps in some instances even impossible.

5. The failure of H. R. 6000 to require proof of disability by objective tests would, if the bill were enacted into law, involve the social-security program in enough controversy and litigation to keep all of the psychiatrists and lawyers in the country busy and to bankrupt our economy.

6. H. R. 6000, like most of the legislative proposals favored by the Social Security Administration, gives the Social Security Administration discretionary powers so great as to make the Administrator a threat to our democratic pattern

of government and a menace to the private practice of medicine. Under the provisions of this act, the Administrator would be permitted to decide what physician or group of physicians could be used to determine disability and benefit rights. He would have the power to entirely exclude private practitioners from participation in such a program, notwithstanding the fact that the family physician would presumably be the one best qualified to make such determinations of disability. Under the provisions of this bill, the Social Security Administrator could employ physicians on a full-time basis to carry out this function of the disability benefits program. This would place the physician, so employed, in the position of serving two masters—his patient and the Administrator of Social Security. Since the physician's salary would not be paid by the patient, it is not too difficult to guess what would happen in such a splitting of loyalties. If the physician resolved such a conflict of loyalties in favor of the patient in debatable cases, he would run the risk of minimizing his chances for promotion and advancement in his department or bureau. If he habitually favored the Social Security Administration, he would soon incur the hostility of his patients, and hence create a negative relationship with them which would destroy his effectiveness as their physician.

7. All of us in the medical profession who have had any experience with State industrial commissions and workmen's compensation programs realize that the official classification of an individual as a totally and permanently disabled person is sometimes a life sentence to invalidism. The power of suggestion associated with an official declaration of total disability, plus the cash benefits that would accrue to the disabled person by remaining disabled, would create a psychological pressure great enough, in many cases, to rob the disabled person of all incentive to recovery. The disability provisions of H. R. 6000 would tend, in fact, in tens of thousands of neurotic individuals to establish incentives in the opposite direction toward neurotically determined, permanent disability. The ultimate cost and waste of a disability program geared to incentives to illness rather than incentives to recovery would be enormous and would jeopardize the economic, the psychological, and the moral stability of our social order.

These, sir, are some of the reasons why the officers and trustees of the Colorado State Medical Society are opposed to H. R. 6000 in its entirety and especially to section 107 of this proposed legislation. Like the sponsors and the proponents of H. R. 6000, we are interested in providing security for the aged, for the disabled person, and for the defenseless and neglected child, but we are convinced that the means and methods proposed in H. R. 6000 for providing such security are, by their very nature, far more of a threat to our free society than the social ills they seek to cure.

The CHAIRMAN. Will you introduce your next witness, Dr. Paullin?

Dr. PAULLIN. Mr. Chairman, may I present Dr. Gunnar Gundersen, a member of the board of trustees of the American Medical Association.

The CHAIRMAN. Dr. Gundersen, you may be seated if you wish. Where is your residence, Doctor?

STATEMENT OF DR. GUNNAR GUNDERSEN, LA CROSSE, WIS., SPEAKING AS A MEMBER OF THE BOARD OF TRUSTEES OF THE AMERICAN MEDICAL ASSOCIATION

Dr. GUNDERSEN. Mr. Chairman, my name is Gunnar Gundersen. My address is La Crosse, Wis.

I think I can be rather brief in my statement, Mr. Chairman, because a great deal of this has been covered by Dr. Sensenich, and it would be merely repetitious. I think I had better submit the statement as a whole for the record and then make some comments with respect to some of the phases that I don't think have been emphasized sufficiently.

The CHAIRMAN. Your statement will go in the record as a whole, and you may deal with it as you elect.

Dr. GUNDERSEN. I may say, in explanation of this statement, that the first two pages are practically verbatim copies of the official statements made by the house of delegates of the American Medical Asso-

ciation, as also augmented by the board of trustees from time to time, registering their official opposition to those parts of the bill in question.

Now, as far as the rest of the statement is concerned, beginning on page 2 at the bottom, through various discussions from time to time in the organized profession, we can state that we are opposed to H. R. 6000 for several good reasons.

First, although the physician has always readily accepted the challenge of treating the ailments of the patients, the provisions regarding disability certification in this bill would compromise the physician, because it would establish a new, different, and puzzling physician-patient relationship.

Second, the disability sections of this bill would most definitely establish a bench mark for further expansion of these disability provisions toward a full-fledged system of compulsory sickness insurance.

Then we go on to the matter of certification for disability. And that would impose upon the physicians a heavy burden of continuous checking on patients. The physician would be caught between the pressure of Government officials to cut off certification quickly and promptly, and pressure from this new class of patients to prolong the period of disability. With the insurance all bought and paid for, it must be expected that a large number of persons would convince themselves that they are in a state of very poor health.

The success of the whole program would depend primarily upon the physician, although he would have no guaranty that his judgment would be accepted by all parties. The physician naturally objects to being made responsible for the efficient operation of an administrative monstrosity. The need for certification would work to the great disadvantage of the conscientious physician who steadfastly refused to "sign" at the insistence of his patient. Then the disgruntled patient would simply go from physician to physcian seeking someone who would certify him as being totally and permanently disabled. This procedure, quite apart from the difficulties presented to the physician, would hinder the physician in taking care of all of his patients. The reputation for integrity of the American physician is unchallenged throughout the world. That reputation must be protected and maintained in order that standards of medical care in the United States may continue to improve.

The proposal for federally sponsored long-term disability insurance has been made despite the unfortunate experience of life-insurance companies, who could select at their risks, with this type of insurance. To a considerable extent, disability is a business-cycle risk rather than an insurance risk. "Disability" increases markedly in a period of depression. Under economic pressure, disability insurance becomes unemployment compensation for the young and pensions for the old—even those under 65. Claim rates for insurance companies on their disability contracts increased from 50 to 100 percent between 1929 and 1933—from galley proof, for Journal of the American Medical Association book-review section, of our review of an actuarial article by Grange and Miller.

The Federal Government would face serious difficulties with such a flood of claimants, many of whom would be malingerers, and Federal officials would certainly resort to the tactic of shifting the blame for the break-down of the system to the shoulders of the members of

the medical profession. Physicians do not want to be left "holding the sack." Some insurance-company leaders, in private conversations, blame the physicians for the huge disability losses suffered by the companies in the 1930's, without seeming to understand that the insurance company had forged a new physician-patient relationship. Several of the States have recently enacted temporary cash sickness-insurance plans. In California, for instance, there is a program in progress of development.

Their brief experience is insufficient to demonstrate whether the State is too large and complex an area for the successful operation of this type of insurance. Some industrial physicians, however, have reported successfully operated employer plans, both the insured and self-insured type. In these plans the employer and his committee of employees or union representatives can control malingering. Simply making disability insurance a national governmental program would not solve the problems inherent in this type of insurance.

National uniformity as provided in this bill is not automatically an advantage. Uniformity as such is neither a vice nor a virtue: uniformity is just uniformity. For example, the American people have been extremely fortunate in that the life-insurance laws of some of our States were not made uniform Federal insurance laws. In the case of disability insurance, in which the individual's personal attitude so largely determines his status as a claimant, the local control of both collection and payments is essential to reduce abuse to a minimum.

Senator MILLIKIN. Doctor, may I ask you this, please? Assume, without conceding, that the States, out of their own resources—I say "assume it without conceding"—are unable to meet all of the expenses of these disability claims via the routes which have been described here this morning, via taxation in the city and county of Denver for Denver General Hospital, via State taxation for the State hospital which Dr. Murphey described, via the local hospitals. Assume that the State's resources ar insufficient to do a good job. If there is to be any Federal aid, would you say it should be on the side of assistance rather than insurance?

Dr. GUNDERSEN. Yes; I believe so.

Senator MILLIKIN. Because that keeps the administration local rather than Federal?

Dr. GUNDERSEN. Yes; and I think that is what we would be for.

Senator MILLIKIN. Thank you very much.

Dr. GUNDERSEN. Now, finally, the American Medical Association is deeply concerned that the quality of medical care to be kept at the highest possible level; that nothing in the administration of Federal or other programs should develop along a course which will not keep uppermost the importance of high-quality standards. I fear that H. R. 6000, if enacted, will result in a deterioration of medical service and furthermore result in untold abuses where the question of determination of disability is involved.

The CHAIRMAN. Does that complete your statement, Doctor?

Dr. GUNDERSEN. Yes, Mr. Chairman.

The CHAIRMAN. Are there any questions?

Senator MILLIKIN. Are you familiar with any statistics that would give any support to the thesis that there are uncared-for persons who are totally and permanently disabled in the States, the problem being of such magnitude as to give rise to Federal responsibility?

Dr. GUNDERSEN. I am not familiar with the national picture, but I can say that, from my own State of Wisconsin, I don't think there are any problems in that State that can't be solved on a local level. And in regard to the question raised, I think, by Senator Kerr, sometime ago, of people lacking medical care in the State of Wisconsin, by reason of inability to pay for same, we established a roving committee in 1935 to 1937 which covered the entire State, and which was a very thoroughgoing investigation. And we couldn't uncover a single case that needed medical care and couldn't get it in that State at that time.

Now, that was after a very thoroughgoing covering of the State by a committee of physicains who visited every area in the State and invited people interested in this field of medical care into conferences lasting up to 2 days at a time, in order to ferret out and estimate the magnitude of this problem if the problem existed. That was done, was sponsored and carried out, by our local State medical society at that time.

Senator MILLIKIN. I think your State has been rather advanced in such matters. We have had no testimony here that I recall along the line of the question that I am directing to you. Perhaps there will be some before we finish.

I think the basis of asking the Federal Government to do something is the showing that there is a need and that the duty or obligation cannot be discharged at the local level. I doubt whether we have had any specific testimony along that line so far. Your testimony negatives it so far as Wisconsin is concerned; Dr. Murphey's testimony negatives it so far as Colorado is concerned; Dr. Sensenich's testimony negatives it so far as Indiana is concerned.

I am really tossing out the suggestion to those who believe in this proposal that we ought to have more durable facts in the record than we have at the present time.

Dr. GUNDERSEN. Well, this came about at that time as a result of the general statement that has gone out that one-third of the Nation was ill-housed and ill-clothed and ill-fed and didn't have medical service, and we set out at the time to find out exactly what the facts were in our State so that we could answer it from our level at least.

The CHAIRMAN. Senator Kerr?

Senator KERR. When was it that this committee roved in Wisconsin?

Dr. GUNDERSEN. I think the dates were in 1936 and 1937.

Senator KERR. And they found out that at that time there was nobody in the State needing medical care but what had access to it from the standpoint of its proximity and their ability to pay for it?

Dr. GUNDERSEN. That is right.

Senator KERR. How long since that committee has thus roved in Wisconsin?

Dr. GUNDERSEN. Well, they made their report, and the committee was disbanded in 1938, I think the date was.

Senator KERR. Has there been any examination or bringing it down to date since that time?

Dr. GUNDERSEN. No; because I think the employment figures, and so on, in the State have been entirely satisfactory, and the economic conditions at that time were generally worse than they have been since. So they have not felt any need for keeping the report up to date; but I think it might be a good idea.

Senator KERR. You heard the statement of Dr. Sensenich a while ago. First he said that he thought medical care should be available to all of these people, and could be; and then when I asked him how he would suggest that it be done, you heard his answer to the effect that it was already done.

Dr. GUNDERSEN. Well, I don't think anybody would admit that it is perfect at the present time, but I think there is room for improvement of our present system, Senator, on a private basis.

Senator KERR. Then do you subscribe to his belief that such medical care is already available to all of the people of this Nation?

Dr. GUNDERSEN. I am sure it is correct as far as my own State is concerned.

Senator KERR. You do not have any opinion about it beyond that?

Dr. GUNDERSEN. What the situation is in the so-called backward States I wouldn't know.

Senator KERR. Well, backward or forward, do you know what the condition is in other areas?

Dr. GUNDERSEN. Only by what I have read.

Senator KERR. I see. Not enough about it that you would care to express an opinion?

Dr. GUNDERSEN. That is right.

Senator MILLIKIN. You do not like to make a diagnosis without seeing the patient; do you?

Dr. GUNDERSEN. That is right.

The CHAIRMAN. Senator Myers, any questions?

Senator MYERS. First, Mr. Chairman, I apologize for coming in late. I did not hear all of the Doctor's testimony. In fact, I heard a very small part of it. But I note that in the beginning of his statement he indicates that he is speaking as a member of the executive committee of the board of trustees of the American Medical Association. And in the preface of his statement it says: "Statement by Dr. Gunnar Gundersen on behalf of the American Medical Association." How is a policy on important issues of this kind formulated, Doctor?

Dr. GUNDERSEN. I didn't hear that, Senator.

Senator MYERS. I said, how is AMA policy on such important matters as this bill formulated?

Dr. GUNDERSEN. The policy-forming body of the American Medical Association is its house of delegates, which meets twice a year. And in intervals between meetings of the house the responsibility is in the hands of the board of trustees, a board of nine men.

Senator MYERS. Well, has the board of trustees endorsed the statement which you are now making to the committee today?

Dr. GUNDERSEN. Yes, sir.

Senator MYERS. Has the house of delegates endorsed it?

Dr. GUNDERSEN. Yes.

Senator MYERS. When, Doctor?

Dr. GUNDERSEN. At its meeting here in Washington in December of last year.

Senator MYERS. In 1949, in December?

Dr. GUNDERSEN. In 1949, in December.

Senator MYERS. What action did the house of delegates take at that meeting?

Dr. GUNDERSEN. Now, I don't believe that I have the resolution which was passed at the time, but it is substantially as I have read it into the record.

Senator MYERS. It was my understanding that the house of delegates took no action in its December meeting. I may be misinformed. That is the reason I inquired. And, if there is any resolution, I think it should go into the record, to make absolutely sure and certain that it is not just the board of trustees but the association itself which stands behind the statement that you are making.

Dr. GUNDERSEN. I can furnish that to the committee.

The CHAIRMAN. If you can supply that for the record, you may furnish it to the committee, and it will go into the record.

(For clarification of this discussion, see Dr. Gundersen's further statement on p. 1352.)

Senator MYERS. I just wanted to make sure, Doctor, that it was the association itself, through its house of delegates, that endorsed your statement and not just the board of trustees.

Dr. GUNDERSEN. I may say that in my prepared statement I have stayed very close to it, and, as I stated originally, the first two pages of my statement are practically verbatim copies of the official statements made by the house of delegates of the American Medical Association, as also augmented by the board of trustees from time to time, and I wasn't wandering off the reservation and making any statement for myself.

Senator MYERS. Is that not a reversal of the position which they may have heretofore taken?

Dr. GUNDERSEN. What individual men testifying may have done, I can't answer, Senator.

Senator MYERS. No; I mean the house of delegates. Is that a reversal? You say the house of delegates endorsed the position which you are taking today. I say, is that a reversal of position which the American Medical Association may have heretofore taken on disability insurance, whether total- or permanent-disability insurance, under social security?

Dr. GUNDERSEN. No: I think they have been consistent right along in that regard, sir.

Senator MYERS. It was my understanding that through the years, back in 1938, even in the period to which you referred, up until 1947, the house of delegates on numerous occasions indicated that social-security measures to maintain income such as disability insurance "are likewise vitally important." In fact, I quote to you, Doctor, that the house of delegates, on June 12, 1947, when they were considering the problems of the chronically ill, adopted an official report which included the following:

> Social-security measures to maintain income such as disability insurance, old-age insurance, and public assistance, are likewise of vital importance.

It would seem to me that this is a reversal of the position which you have heretofore taken. Are you familiar with that?

Dr. GUNDERSEN. No, sir. I was not on the board at that time, and I wasn't in the house of delegates in 1947, so I can't speak from personal knowledge on that.

Senator MYERS. It is my understanding that on previous occasions the house of delegates took a rather similar position, that total or

permanent disability is something that should be seriously considered in the social-security law; that such assistance would assist materially the recovery of such patents. I am just wondering if there has been a reversal of opinion. You have no knowledge of that, you say, Doctor, because you were not a member of the board at that time?

Dr. GUNDERSEN. That is right.

Senator MYERS. Thank you very much. That is all.

The CHAIRMAN. Thank you very much, Doctor, for your contribution.

Dr. GUNDERSEN. Thank you.

(The prepared statement of Dr. Gundersen is as follows:)

STATEMENT BY DR. GUNNAR GUNDERSEN ON BEHALF OF THE AMERICAN MEDICAL ASSOCIATION

My name is Gunnar Gundersen. I have been a practicing physician since 1920 in La Crosse, Wis. I am speaking today as a member of the executive committee of the board of trustees of the American Medical Association and on behalf of the 140,000 physicians who are members of the association, and I am here to express opposition to H. R. 6000.

In the past, the American Medical Association has made it a practice to take a stand on legislation involving medical care and the health of the American people. While H. R. 6000 is primarily a social welfare proposal, it does contain one provision having serious medical implications, namely, that section on compulsory permanent and total disability insurance.

The major benefits included in the present social-security system—old age and unemployment—are adaptable to mass or objective administration from an office remote from the individual. This is not true of total and permanent disability benefits. Age is a condition over which the individual is unable to exercise any control, and unemployment is an occurrence over which the individual may have little or no control. Qualification for the benefits is categorical and not difficult to determine. In contrast, total and permanent disability is often a condition over which the individual who is disabled and his physician may exercise control. This subjective control which may be exercised by the individual multiplies the opportunity for malingering and actually takes the program out of the insurance category. We must always oppose any program which places a brake on the incentive of the sick and disabled to desire recovery.

To initiate a Federal disability program would represent another step toward wholesale nationalization of medical care and the socialization of the practice of medicine. The program as now proposed would not accomplish the entire nationalization of medical care but the inevitable expansion and liberalization of the program which would surely follow makes probable its eventual accomplishment. The steps in liberalization are not hard to visualize—such as payment of benefits to dependents of disabled covered persons, removal of the time lag of 6 months and substitution of temporary disability benefits, then eventually full cash sickness and disability provisions. We would then have nothing less than a total national compulsory sickness program.

During the hearings on this bill persons fully qualified in the field of economics and insurance and students of political science warned against the high additional percentage of national income to be committed to social programs by the enactment of extensions as proposed by H. R. 6000—of this danger, we are aware.

The American Medical Association recognizes the need for assistance to the disabled needy and feels that this aid should always be administered on a local level. Financial assistance to the locality should only be advanced from State or Federal sources when a need can be clearly shown.

The American Medical Association must oppose H. R. 6000 for several good reasons. First, although the physician has always readily accepted the challenge of treating the ailments of his patients, the provision regarding disability certification in this bill would compromise the physician because it would establish a new, different, and puzzling physician-patient relationship. Second, the disability sections of this bill would most definitely establish a bench-mark for further expansion of these disability provisions toward a full-fledged system of compulsory sickness insurance.

Cash benefits for permanent and total disability would make the physician, of course, responsible for certifying disability. He would have to assume the very heavy burden of continuous checking on patients. He would be caught between the pressure from Government officials to cut off certification quickly and promptly and pressure from this new class of patients to prolong the period of disability. With the insurance all bought and paid for it must be expected that a large number of persons would convince themselves that they are in very poor health. The success of the whole program would depend primarily upon the physician although he would have no guarantee that his judgment would be accepted by all parties. The physician naturally objects to being made responsible for the efficient operation of an administrative monstrosity. The need for certification would work to the great disadvantage of the conscientious physician who steadfastly refused to "sign" at the insistence of his patient. Then the disgruntled patent would simply go from physician to phyisician seeking someone who would certify him as being totally and permanently disabled. This procedure, quite apart from the difficulties presented to the physician, would hinder the physician in taking care of all of his patients. The reputation for integrity of the American physician is unchallenged throughout the world. That reputation must be protected and maintained in order that standards of medical care in the United States may continue to improve.

The proposal for federally sponsored long-term disability insurance has been made despite the unfortunate experience of life insurance companies, who could select at their risks, with this type of insurance. To a considerable extent disability is a business cycle risk rather than an insurance risk. "Disability" increases markedly in a period of depression. Under economic pressure, disability insurance becomes unemployment compensation for the young and pensions for the old (even those under 65). Claim rates for insurance companies on their disability contracts increased from 50 to 100 percent between 1929 and 1933 (from galley proof—for J. A. M. A. book reviews section—of our review of an actuarial article by Grange and Miller). The Federal Government would face serious difficulties with such a flood of claimants, many of whom would be malingerers, and Federal officials would certainly resort to the tactic of shifting the blame for the break-down of the system to the shoudlers of the members of the medical profession. Physicians do not want to be left "holding the sack." Some insurance company leaders, in private conversations, blame the physician for the huge disability losses suffered by the companies in the 1930's, without seeming to understand that the insurance company had forged a new physician-patient relationship. Several of the States have recently enacted temporary cash sickness insurance plans. Their brief experience is insufficient to demonstrate whether the State is too large and complex an area for the successful operation of this type of insurance. Some industrial physicians, however, have reported successfully operated employer plans, both the insured and self-insured types. In these plans the employer and his committee of employees or union representatives can control malingering. Simply making disability insurance a national governmental program would not solve the problems inherent in this type of insurance.

National uniformity as provided in this bill is not automatically an advantage. Uniformity as such is neither a vice nor a virtue; uniformity is just uniformity. For example, the American people have been extremely fortunate in that the life insurance laws of some of our States were not made uniform Federal insurance laws. In the case of disability insurance, in which the individual's personal attitude so largely determines his status as a claimant, the local control of both collection and payments is essential to reduce abuse to a minimum.

The American Medical Association is deeply concerned that the quality of medical care be kept at the highest possible level, that nothing in the administration of Federal or other programs should develop along a course which will not keep uppermost the importance of high quality standards. I fear that H. R. 6000, if enacted, will result in a deterioration of medical service and furthermore result in untold abuses where the question of determination of disability is involved.

The CHAIRMAN. Dr. Paullin?

Let me say, gentlemen of the committee, that Dr. Paullin is a resident of Atlanta, Ga., and is a physician well known in the South, the Southeast and throughout the country.

I believe, Doctor, you have been with this Medical Association for a number of years. Will you tell us how many?

STATEMENT OF DR. JAMES E. PAULLIN, ATLANTA, GA.

Dr. PAULLIN. Do you want to know my age, Senator? I should say 45 years.

The CHAIRMAN. I think I already know your age, having been with you in college. Doctor, you are engaged, however, in the practice of medicine now in Georgia, and have been?

Dr. PAULLIN. Yes, sir.

The CHAIRMAN. And your practice has been coextensive with the State, in that you have treated patients from all parts of the State practically continuously?

Dr. PAULLIN. Yes, sir.

The CHAIRMAN. Well, sir, we will be very glad to have you make a statement regarding H. R. 6000 or any part of it that you wish to discuss.

Dr. PAULLIN. I would like to offer, Mr. Chairman, my statement, and thank you for the privilege of appearing before your committee.

I am appearing from a little different point of view from that of a great many of the men, here, in that I am offering to the committee my experience with total and permanent disability as a practitioner of medicine, having observed total and permanent disability claims over a period of years, and I want to give the committee the results of my observations and experience in these cases.

Of course, I come from a small town, and perhaps have small ideas. But in reading the amendments which have been offered to the Social Security Act under H. R. 6000, I was amazed at the recommendations for increased appropriations in money which are requested to be given as benefits under the various titles of the bill, as well as to increase the numbers concerned or covered. So far as I could tell, the requests for money to support this program were increased tremendously, none were eliminated, and none were decreased.

Naturally, the question arose in my mind as to how all of these benefits could be undertaken without increasing the tax burden on the productivity of our citizens, to meet the increasing demands for assistance, and why our citizens are willing to allow Uncle Sam to assume the responsibility for their support, education, health, housing, and retirement without the necessity of any effort on their part to produce income from which these taxes are to be paid.

I have not given all provisions of this act careful study, and if I had, I would not be competent to offer valid testimony concerning them. However, I do have experience and observations concerning total and permanent disability, which is section 107 in H. R. 6000, and which will involve, if enacted, the expenditure ultimately of millions upon millions of dollars as a part of the social-security program.

I do not believe that anyone would oppose rendering assistance to those in dire distress or who are in great need and who are not financially able to help themselves, either because of sickness, injury, or disease. However, the actual need must be established, with a primary interest centered on a program which would rehabilitate the person or persons disabled in an effort to make them self-supporting members of society. This must be the chief purpose for which contributions are made for aiding this group of our citizens. To those of us who have been in the active practice of medicine for any considerable number of years, it is clear that there are many psychological

factors demanding consideration in any discussion of the determin tion of the presence or absence of disability.

First, if a tax is levied for the purpose of furnishing total an permanent disability insurance for an individual, and if the individu pays for it for a certain length of time, he automatically develo the feeling that he has a right, under certain circumstances, to d mand the benefits which he has purchased. In other words, the is an honest psychological approach on the part of the person wit disability insurance to demand support even though he is consciou that he is not totally and permanently disabled. If there is writte into the law a clear statement defining disability, either total o permanent, and if the insured does not completely qualify for the benefits, if he sees or hears of some one with no more disability tha he has drawing benefits for disability, he makes an earnest effor naturally, to effect total disability in order to collect his pay check.

The second psychological effect of disability is that the patient wh claims disability benefits makes an effort to satisfy his own conscienc as to the justice of his demands, and he develops subjective sympton of disease which no one can demonstrate as nonexistent. Particularl is this true with certain types of individuals who are, to some exten emotionally unstable. Such a condition occurs in a higher percentag among women than among men. We as physicians know that dis appointments, frustrations, emotional instability, ill-adjusted famil life, and various other situational and environmental difficulties wi cause in some people a reaction of defeatism, with the developmen of more subjective complaints, which the patient cannot adequatel describe, if given an opportunity, in an all-day rehearsal of his ail ments, and which, if they were the result of disease, would prove fata before the narrative could be finished.

Third, if a person is insured by the Federal Government agains disability and can draw a nice pay check each month for his disability in a complaining individual as above described, the stage is set fo the making of a complete, permanent, 18-carat invalid who is totall disabled, and who will resist with vehemence any and all efforts to ward rehabilitation.

Within the past 20 years I think all of us have become conscious that the present trend of society is leading to a steady and gradua weakening, and even disintegration of our moral and spiritual con sciousness, and with it, unfortunately, the deliberate surrendering o individual initiative, ambition, and a desire to succeed in any under taking for a paltry mess of pottage served by a paternalistic gov ernment. The development of this type of philosophy, among an oth erwise healthy citizenship, weakens the very foundation of that type of citizen who has made this Government possible, and will greatly increase the demands for Government benefits which, in times of stress and strain, will be greatly increased and force our people into a moral state of indolence, and our national economy into a state of bankruptcy.

I ask those of you who visit among your constituents to observe the tremendous increase in the members of our population who are looking for a position and not for a job, a position they consider ornamental to a business without the assumption of any tremendous amount of responsibility, and which could be used to enhance the business because of their supposedly striking qualifications and their abil-

ity to draw a nice pay check. Those who seek a job are people who are willing to work, who glory in the accomplishment of a task, and who are happy to be productive. These are few in number. Evidence of this belief can be obtained by spending a few hours in any of the States or localities, and visiting any of the employment agencies.

Fourth, physicians have little sympathy with this point of view since they not only work when willing and able, but also without a contract. They go on call both day and night, irrespective of a national emergency, to render service to the rich, to the poor, and to all of our citizens, regardless of race, creed, or religion. They are conscious of demands which are made upon them, and which will be increasingly made if the provisions of this act are passed, for certification as to presence of total and permanent disability which does not exist. It takes a physician of considerable stamina—just as it takes you Congressmen a good deal of stamina to resist the appeals which are made to you—to be able to resist some of these appeals. And sometimes they will not do so.

Some 20 or 25 years ago many large insurance companies issued policies on a great number of people, covering them for total and permanent disability. During prosperous times the insurance companies made money on this type of contract. When the sailing became a little rough, a great many physicians will recall, considerable numbers of patients so insured demanded to be classed as permanently and totally disabled so they could retire from business and receive a tax-free income which was sufficient for them to enjoy the art of living without any of the responsibilities, restrictions, or obligations connected with the honorable profession of work. I am not referring in this statement to those patients who obviously suffered a disability which prevented them from working. But I am referring to that large group which developed only subjective complaints, such as nervous disorders, headaches, backaches, rheumatism, angina pectoris, and other disorders which could not in the slightest degree be detected by physical or other examinations. These people, many of them, had persuaded themselves—honestly—that they were sick and disabled. Many of them could not do the slightest thing, if such was called work, but much could be done under the name of pleasure, such as fishing, skeet shooting, piloting a boat, bird hunting, a little 10-cent ante——

Senator KERR. What was that, Doctor? I did not catch that.

Dr. PAULLIN. Ten-cent ante.

Senator KERR. Oh, yes.

Dr. PAULLIN. They couldn't afford more than 10 cents because of the permanent disability, I mean—and other pleasures which would perhaps require no physical exercise but which might increase their blood pressure, and be indulged in without damaging their chances of living provided no work was involved.

The depression, which came along in the thirties, also caused many people in a different financial bracket, insured under a group policy, to seek the security of total and permanent disability. All of this illustrates the point that when the field is made fertile for the development of dependency on some agency or carrier other than the patient's own efforts, they naturally seek the course of least resistance and demand help from other sources. The experience of life-insurance companies, if studied, would be most interesting, because I do not

believe that the underwriters have been at all successful in removing from their pay roll any of those who are collecting for total and permanent disability, except by death, and the mortality among those drawing this disability is extremely low for the disease for which they are being paid total disability; extremely low in comparison to population.

Senator MILLIKIN. Do you recommend, Doctor, the widespread adoption of total disabilities so that we may have greater longevity?

Dr. PAULLIN. Well, I don't know. If you did that you couldn't work. So who is going to pay for it?

Senator MARTIN. Oh, do not worry about that. Worry is bad for the health.

Dr. PAULLIN. It is my belief that unemployment, which is liable to increase in this country, from a psychological standpoint will cause the development of a great many subjective symptoms which should be classed as rendering a patient totally and permanently disabled. It is true that with stimuli such as this, unemployment, and others, it is almost next to impossible to determine total disability in a patient who has made up his mind and is determined to prove that he is totally disabled in order to obtain a life income from the Federal Government.

Senator MILLIKIN. Doctor, may I ask you this, seriously: Are there cases of illness which cannot be pegged objectively, but which nevertheless are genuine cases of illness? I mean, are physicians in a position to peg objectively every genuine case of illness?

Dr. PAULLIN. If you have the patient under observation for a sufficient length of time, Senator, even though you can find no objective evidence of illness, there are certain people with mental depression, with manic-depressive psychoses, and various mental illnesses, which you cannot find objectively except by a close study of that patient, who are totally disabled. On the other hand, those patients are few in number compared to a much greater number who develop subjective complaints and who are demanding treatment, who would become totally disabled if they could get a certain amount of security which would encourage them in their total disability.

A great number of women are employed, some 18 million, many of whom probably would qualify for benefits under the proposed program. It is realized by those who are engaged in the practice of medicine that this would be a most difficult group to properly evaluate their claims for disability.

There are other pitfalls which could be brought to your attention, but I believe the idea has been developed from a practical standpoint sufficiently to warn the Congress of what a disastrous step it will be to our national economy to write into the Social Security Act any such program as that recommended in H. R. 6000, section 107, for total and permanent disability. Social Security funds should necessarily be limited in amount; they represent taxes which are drained from the producers of the Nation. Unless there is some limitation on the fantastic demands for funds, our national economic health will be thrown tremendously out of balance and a fatal condition of shock develop from which there is no recovery.

Since it has been very clearly shown that cash disability benefits diminish the incentive toward rehabilitation, self-reliance, and self-maintenance, which is extremely undesirable, it seems to me that the

emphasis, and any consideration which is given to this program, should be focused on rehabilitation.

Senator MILLIKIN. Would you favor Federal aid in that field?

Dr. PAULLIN. I am coming to that right this minute, Senator.

This cannot be done successfully in my opinion under Federal contral. All of the States, insofar as I know have agencies which are capable of handling individuals who claim disability, such as the State welfare agencies. These agencies are on the ground. They know of the individual who applies for assistance. They have an opportunity to investigate their worthiness, and they have facilities for rehabilitation. They receive funds from graints-in-aid. They are also capable of finding work for him or her, and determining whether treatment at home, in an institution, or in other places is the most desirable. Please let them handle it.

I therefore respectfully request that this part of the program, section 107, be eliminated in the social-security amendment to H. R. 6000 since its adoption, in my opinion, will lead to the development of a considerable number of malingering and semiinvalid individuals among many of our worthwhile citizens. It would mean a further encroachment upon States' rights, and the building up of Federal pay rolls which could be used for political influence in the handling of claims. It matters not what safeguards are taken to write into the law those who would be eligible for insurance: all of us know that after a short space of time no attention is paid to this law, just as is happening in other phases of the social-security program and in the treatment of veterans in VA hospitals and general hospitals. It is common knowledge that veterans with non-service-connected disabilities who are perfectly able to pay for hospital care and medical services are being treated at considerable public expense when the law specifies under what conditions they should be beneficiaries of this service. The same could, in my opinion, happen with those drawing compensation for total and permanent disability benefits.

Thank you.

The CHAIRMAN. Any questions?

There are no questions, Dr. Paullin, and we thank you very much for your appearance and for your contribution, here, to this important segment of the bill.

We have one more witness this morning, Rev. Roland E. Darrow.

You may have a seat if you prefer, sir. Will you identify yourself to the reporter?

STATEMENT OF THE REVEREND ROLAND E. DARROW, PASTOR, FIRST METHODIST CHURCH, MONTICELLO, ARK., APPEARING FOR ARKANSAS FREE ENTERPRISE ASSOCIATION AND ARKANSAS PUBLIC EXPENDITURE COUNCIL

Dr. DARROW. If the Senator please, I will read my statement, which does identify me, and then I want to eliminate three sentences from it.

The CHAIRMAN. Yes, sir. You may do so.

Dr. DARROW. Thank you.

My name is Roland E. Darrow. I am at present pastor of the First Methodist Church in Monticello, Ark. I appear before this committee as spokesman for the Arkansas Free Enterprise Association and the

Arkansas Public Expenditure Council. These organizations have membership of nearly 5,000 persons, an excellent cross section of th State of Arkansas.

I am appearing in the public interest in opposition to H. R. 6000 I am an ordained minister in the Methodist Church. My pastorat is a representative one in the State of Arkansas. I have held pas torates in other cities of Arkansas and Missouri. My congregation have been an excellent cross section of contemporary American lif in every phase of human experience. My interest in people and thei problems has always been more than casual. I am a member of th Masonic fraternity, the chamber of commerce, past president of th Drew County Tuberculosis Association, president of the Drew Count Foundation for Infantile Paralysis, chaplain of the VFW, a Stat director of the Arkansas Free Enterprise Association, the distric governor of Lions International, and other organizations, all seekin to promote the general public welfare. I served in World War II a a chaplain and saw service in the European Theater of Operations

While in college I majored in political science and history and i the social sciences, having a double major. My fundamental interest have been in the field of human relationships. I have watched th trend of the philosophy of government for many years and have com to the conclusion that our Government has not only forgotten its basi concepts, but has deliberately turned its back upon the processes o law as established in the Constitution and has sought to seize upo every opportunity to utilize the problems, perplexities, and insecuritie of the people to offer them a paternalism which is, at heart, a socialisti scheme covetous of their very birthright.

We have been trying to believe that in America we have the las stronghold of democracy under the freedoms of constitutional gover ment. It seems to me that we have deluded ourselves into believin that liberty and freedom are inalienable rights and shall stand for ever. They are highly alienable and in the past decade and a half w have been living under crisis legislation, or emergency governmen which is the antithesis of liberty and freedom.

My opposition to this bill, H. R. 6000, stems from my concern abou the trends in our Government and the great influence exerted on ever hand by the foreign ideologies imported by the propagandists fro decadent European systems of government.

The Social Security Act was passed to alleviate temporary condi tions with the hope that it might be the answer to the problem of socia insecurity. In common with many other persons, and against sobe judgment, I believed we might, by legislation, bring to an end th destitution into which so many of our people had fallen. The claim of the backers of the act appealed to the humanitarian impulse w all have and it was easy to sell to the public. But the record of con fusion and inequities speaks for itself. Instead of eliminating th various alphabetical agencies the Social Security Act was to replac in 1936, it merely seemed to increase and give a permanency to a hug program of Federal aid. In the years when employment rose an the national income touched new heights, the Social Security Ac found places to distribute Federal funds far in excess of the million of dollars distributed in the days of the depression. We just con tinued the depression crisis for millions of Americans. And that i a cancer in the body of the American public.

We have heard about social insurance and social assistance. There is a distinction between the two, I know. But both plans are supported, in the end, out of general taxes. One requires a "contribution" and the other requires a show of poverty, indigence, or some other condition or physical handicap.

My protest hinges upon four points out of many other objections. First, I believe that this bill, H. R. 6000, is really class or special-privilege legislation. I have gone through page after page of the bill and am amazed at the favored class as over against the unfavored class. A selected group of employees is entitled to so-called insurance benefits that are maintained by the entire employed taxpaying public. In the bill it is assumed that an aged wife requires only half as much food, clothing, and other necessities as her husband. And it also assumes that a widow will eat only three-fourths as much as a widower, can live in a home three-fourths cheaper, and possibly wear about three-fourths as much clothing.

I would like to eliminate the next three sentences, please, in the prepared statement.

Then there is the matter of forcing the self-employed to enter the system. It is special legislation designed to collect and control a large and significant section of our population under the guise of social insurance and social assistance. To maintain this select group all of us must pay a tax for their special benefit.

The second objection I have is this: It is an unsound financial program. That is, it is unsound from the taxpayer's standpoint. To me, the "trust fund" scandal is a confusing system of embezzlement. According to the testimony given before this committee the Government, through this agency, is collecting 2 percent more now than is necessary to finance the system on a pay-as-you-go basis. The amount of money supposed to be in the trust fund is more than $11,000,000,000. The Federal Government has "borrowed" and used the money. The funds have gone into general expenditures and Treasury, and other bonds have been substituted for these trust funds and interest paid on the money thus extracted. Trust funds are supposed to be an inviolate trust. The tragedy of this matter is that we have no conscience on the matter. That is flagrantly unsound philosophy as well as unsound business. The interest paid in has been used and I believe that we are now paying, out of the general revenues, interest on both the principal and interest we have borrowed. That is a double tax on those who have "contributed" to this fund and upon this large group of people who are not participating in the program as set up. Another thing that causes me to regard this whole matter with repugnance and distrust is the fact that the Secretary of the Treasury has bought more than $2,228,000,000 worth of public issues. What a dangerous opportunity to manipulate the financial markets with such a club. The man who buys may sell as well, at will. Then there is the cost of the whole program in this year. The SSA estimates the cost of the program to range from 1.49 to 12 percent. My question is, Which? On the present basis of benefits and cost of administration the SSA relates it is now collecting 2 percent more than is necessary to maintain the system on a pay-as-you-go basis.

A third point I would make is this: This, to me, is the entering wedge of socialism. H. R. 6000 will nationalize such a large segment

of our employed population that the choice of the type of government will be controlled by those in power. The original purpose of this bill seems to be the tapping of new sources of revenue. It has a precedent set in other countries since the 1880's. It has been a device to secure revenue and to control the workers. Germany, Russia, and Britain have adopted the plan with variations, but with the same result. The idea came to us from Geneva via the ILO. It was given impetus at the Montreal Conference in 1943 and was pushed upon Britain almost immediately thereafter. If this program of socialism is pushed upon us, who is there left in the world to subsidize us as we are now subsidizing Britain?

I believe the Supreme Court found a reason to say, in 1937, that when a governmental agency provides funds for a project or program, it has an inherent right to specify how those funds shall be spent. That principle makes the Government an overseer in all our business, financial, social, and personal transactions. We have grown great and strong as a Nation on the principle of free enterprise. We are becoming decadent as a Nation because of Government interference in business and the Government in business. I would not abrogate the essential laws of human conduct but I would like to see this bill stopped and a new set of ideas set up to care for the aged, blind, orphaned, and those otherwise disenfranchised. We have the brains to do it on the American pattern. We do not need to follow the system that has come from an impotent and frustrated Europe.

My fourth point is based on the necessity to recognize the value of one man. That is the American citizen. Millions of our people have been trained on the false philosophy of something for nothing. That came in the early stages of relief. Now we find the general attitude to be that of one who leans upon a beneficent hand and waits to be fed, clothed, housed, and voted. The creeping force of this bill will eventually make the average American citizen incapable of thinking out his own problems. This kind of legislation will stultify human integrity and individuality. It will provide a false idea of security and tend to put afar off the evil day of reckoning. Our Lord told a story about some men working in a vineyard. Some worked all day and others worked a part of the day; some worked 1 hour. Yet all received the same pay for that day. That is a great social principle that every man is entitled to the security, food, shelter, and other necessities that a day's wage would provide. But the men who labored and bore the heat of that long day were the most blessed, for they earned what they received. The others were to be pitied: that worthy charity was a boon, but they were to be pitied. Their economic and social system had not provided for them except for the gratuity of one man. They were the losers although they gained a day's wage.

There is something more to an individual that demands careful treatment. A man is more than body. He is a free spirit. He should be treated as a free man and given an opportunity to help work out his problems on the American basis.

Finally, I am opposed to this bill because it is cumbersome, has not fulfilled its mission thus far, and has been established on a false basis. It is not social insurance but a clever taxing program. The actuarial study of this bill has shown glaring inadequacies in the structure of

the bill. The benefits to be paid in the future will amount to about five times the benefits paid now. In 50 years the conceivable benefits to be paid will rise to more than 11 billions of dollars. This is in connection with the limited coverage feature of the bill. The total costs will be staggering. The program is new and there is more than a $7,000,000,000 deficit. Actuarial costs are not met in the present rates set up. Less than half of the persons now over age 65 are now receiving benefits. And it is apparently the plan of the bill that millions shall pay but never receive the benefits of their contributions.

We are not yet bound under the heel of socialism. Let us throw this bill aside and labor for an American plan that will take politics and vote getting out of the system.

As a taxpayer, and a most interested member of this Nation, I wish to respectfully request a complete investigation of the entire social-security program before any further extensions or so-called improvements are made in the program as presently constituted. I believe this investigation should be made by an independent group to the end that the inequities, confusions, and contradictions may be rectified and/or an American program be set up consistent with the ideologies of the American people as developed through the hard-won experience of the past 150 years.

That is the end of my statement, Senator.

The CHAIRMAN. Are there any questions?

Senator MYERS. Do I take it, Reverend, that you are advocating the repeal of the Social Security Act?

Dr. Darrow. I am advocating an investigation which will determine a more equitable way of handling the needs. Because we have to care for the aged, the blind, the orphans, and that group, I would not eliminate them by discarding the act as it stands.

Senator MYERS. Would you eliminate the old-age and survivors insurance?

Dr. DARROW. I am not an expert on that, Senator, but I would eliminate those provisions which are actuarially unsound, as I understand it, from the way the bill is set up.

Senator MYERS. Well, I just take it from your statement, of course, that you are opposed to this bill, which provides for extension of coverage, increase in benefits, and total and permanent disability. Is it then your belief that the old-age and survivors benefits set up in this Social Security Act are unsound and should be changed, eliminated, or repealed?

Dr. DARROW. I think it is unsound, because according to the figures which come from the material in this bill, about half of the old-age group is now being served by this bill.

Senator MYERS. Do you think it is our responsibility to insure the other half so that all will be covered?

Dr. DARROW. I would make it possible that all those who can show need can be covered.

Senator MYERS. But based only on need?

Dr. DARROW. Based absolutely on need. A man who does not need it certainly should not have it.

Senator MYERS. Then you are not in accord with this contributory system, whereby a man and his employer will pay a certain percentage of his wages, in order that he may in old age, or at least over the age of 65, have a pension regardless of need?

Dr. DARROW. No, sir; I am not, the way it is constituted, for the reason that there are many who contribute year after year and then, because of a change of job or because they are earning a certain amount past 65, cannot recover from the system any of the amount that they have paid in. It is not equitable on that basis.

Senator MYERS. Then you have a fundamental disagreement with the policy established by the Congress that there shall be some contributory system by which a man when he reaches the age of 65 shall receive, we call it, a pension, regardless of need?

Dr. DARROW. On the basis on which it is now set up, I am in disagreement.

Senator MYERS. Well, I want to get your fundamental philosophy. You think it should be based only on need, and that if there is no need, then no system is necessary to provide for the man or woman after they have reached that age of 65 and have retired from active business?

Dr. DARROW. I think it would be fundamental that if there was no need they would not need to receive it. However, if we were going to give a blanket assurance as to old age, Senator—and this is not offered in any sense as a substitute for this bill—my idea would be that if everyone were to pay, everyone would receive it, and that would be considered as part of their income and they would pay income tax on what they receive.

The CHAIRMAN. Are there any additional questions?

If not, we thank you for your appearance here today.

Dr. DARROW. Thank you, Mr. Chairman.

STATEMENT OF DR. GUNNAR GUNDERSEN—Resumed

Dr. GUNDERSEN. Mr. Chairman, I would like to offer for the sake of the record a statement in regard to Senator Myers' question about my recollection as far as the board of trustees is concerned and the house of delegates' policy, to the effect that my recollection was in error, and that no statement had emanated from the house of delegates. But it was a statement by the board of trustees of the American Medical Association.

Senator MYERS. So you are here representing the board of trustees rather than the American Medical Association itself?

Dr. GUNDERSEN. I am representing the American Medical Association through the board of trustees, but the statement I made emanated from the board of trustees rather than the house of delegates.

Senator MYERS. I see.

The CHAIRMAN. The committee will stand in recess until 10 o'clock tomorrow.

(Whereupon, at 12:20 p. m., the committee recessed, to reconvene Wednesday, March 1, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

WEDNESDAY, MARCH 1, 1950

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

The committee met at 10 a. m., pursuant ot recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Lucas, Hoey, Kerr, Myers, Millikin, and Taft.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

I think we had better proceed now, President Green. There will be other members present later. You are appearing here on H. R. 6000, a bill to amend the social-security legislation. The committee will be very glad to hear you. You may, if you wish, go through your statement without any interruptions, or if you do not object to questions, you may indicate your pleasure about that.

STATEMENT OF WILLIAM GREEN, PRESIDENT, AMERICAN FEDERATION OF LABOR

Mr. GREEN. It will be perfectly all right, Senator, for you to ask questions as you wish. If you want to interrupt at any time, that will be perfectly agreeable.

The CHAIRMAN. You may proceed, Mr. Green.

Mr. GREEN. Mr. Chairman and members of the Committee on Finance, I am grateful to you for the opportunity afforded me to present the views of the American Federation of Labor on the important matter of the economic security of the working people of our country, which you have now been studying for many weeks.

The 8,000,000 workers in unions affiliated with the American Federation of Labor consider this matter of economic security of paramount imporance. They and the members of their families regard the attainment of securtiy as a primary goal and objective. In this respect they are no different from other people. They share the willingness of the members of other groups in our society to assume risks and undertake ventures. They likewise share the desire of business groups, farmers, and others to establish for themselves a basic floor of security.

The challenge of economic insecurity is one of transcendent importance to our whole democratic way of life. Dictatorship breeds in insecurity and want. Communism feeds on it. In these days we are spending billions to help strengthen democracy throughout the world.

This we should do and the American Federation of Labor enthusiastically and vigorously supports the continuance of this economic aid to foreign countries for so long as democratic government is threatened by Communist or other totalitarian menace.

This world-wide struggle is not one that we can win with slogans and fine phrases. We must demonstrate by deeds beyond any misunderstanding that our way of life is capable of meeting the problem of insecurity. As Justice Cordoza said in his famous opinion on a social-security case in 1937 (*Helvering* v. *Davis*):

> The hope behind this statute is to save men and women from the poorhouse as well as from the haunting fear that such a lot awaits them when the journey's end is near.

It will do us no good to preach the advantages of democracy and free enterprise either at home or abroad if the Communists here and in the Kremlin can point to our failure to remove from the working people of America this haunting fear. We therefore view our efforts toward providing economic security for wage earners and other workers as part and parcel of our world-wide fight to beat back the Communist menace.

Working people who have given thought to this problem recognize that it is not a simple one. We recognize that the problem that confronted the members of the Ways and Means Committee of the House a year ago as they undertook to prepare recommended changes in our social-security system and the problem now before this committee is not a simple one. We recognize that the very success of our social objectives in some fields has made more difficult the attainment of objectives in other areas. For example, the remarkable improvements in medical science which have taken place over the last 50 years in America, together with improved working conditions which have been attained through collective bargaining, and the vastly increased safety and protection afforded workers at the work place have greatly lengthened the average span of life. But these very successes have complicated the problem of security in old age, as they have brought it about that working people, like most others in this country, can now look forward to a much longer period after the normal retirement age.

The problems that confront us as we undertake the provision of security in old age are particularly complex and difficult in a democratic society. There are easy and short-cut solutions to the problem of security which are available to totalitarian nations. We are told, for example, that there is no unemployment in Russia. Perhaps this is true, but it is easy to wipe out unemployment where excess workers can be herded into slave labor camps. We are told also that in the totalitarian nations there is no problem in taking care of the aged. The solution of this problem may be simple where long hours of work under poor conditions tend to reduce the number of aged and where an all-encompassing state undertakes to provide every need of the individual. But I am sure all of us would agree that these solutions are worse than the evils they undertake to cure.

Here in America the problem is admittedly more complex, for as we undertake to provide security for all our citizens we mean to accomplish this while at the same time holding to other equally desirable objectives.

First, we mean to maintain a free and dynamic economic and social system. The workers of America are committed to maintaing a system.

which provides freedom of enterprise. They recognize that their standard of living has greatly profited by the incentives to movement and change and the development of new enterprises and new industries and new methods of production. They believe that freedom of enterprise applies not only to the investor and the business men, but should also characterize the wage earner's way of life. Just as the investor is free to invest his capital in new enterprises or new processes that give promise of greater returns, so the worker must be free to invest his skill and labor wherever it appears to him to be of best advantage. This means that the worker under our system should have no restrictions placed on his freedom to move from job to job or from one part of the country to another, or from one industry to another, in response to the opportunities which a free and dynamic economic system offers him.

This very freedom, however, entails certain hazards.

Senator MILLIKIN. Mr. Green, would you mind giving us the benefit of your observation on the relation of these private pension plans to the mobility of labor? It has been said, here, that these plans tend to tie a man to a definite job all of his life, and I wondered if you had done any reflecting on that.

Mr. GREEN. Well, I will be very glad to do that. There isn't any doubt but what the negotiation of private pension plans has created a favorable psychological condition among a large number of workers; a better state of mind, a better feeling. But, after all, it is not a plan that is based upon the policy of security for all; and it is that policy that we feel should be established in the United States of America.

First of all, it obligates the worker to remain at one place in order to be entitled to his pension.

Senator MILLIKIN. Yes; the reason I mention that is that you are discussing here the right of the worker to have freedom of movement; and the complaint has been made here that these private pension plans have a tendency to sort of shackle a man to one job with one employer all of his life.

Mr. GREEN. That is what I have said. It interferes with freedom of movement and freedom of action and, I think I can say, freedom of enterprise. Because it ties the man to one position, if he is to be the beneficiary of the private pension plan.

Now, what we want is to establish a plan, a pension plan, that will provide security for a worker when he retires regardless of where he works or where he is located.

Senator KERR. Well, in that connection, Mr. Green, is not one of the reasons urged by the union to induce the employer to provide a better pension system, and is not one of the considerations upon which the employer looks with favor, the result which he hopes to attain that will cause employees to want to stay with him? Is that not one of the reasons urged and accepted in receiving a better pension program from any given employer?

Mr. GREEN. Well, that may be back of the movement. I am not sure. It does tend to hold men to their positions.

Senator KERR. I mean, it has that advantage, along with whatever disadvantage it might have.

Mr. GREEN. But our free enterprise system is based on this principle: That a man should have the right—and be permitted to exer-

cise that right—to sell his labor under the most favorable condition where he can, to his best advantage, and when he can.

Senator KERR. Yes, I understand that. And if, in the working ou of the pension arrangement with his employer, he creates those mor favorable working conditions, they are calculated to persuade him t give consideration to that in determining whether he will leave a cer tain employment or not.

Mr. GREEN. Yes; all of that is true. Of course we are goin through the experimental stage, and we will find out, as the result o experience, how it does work.

The CHAIRMAN. All right, President Green. You may proceed

Mr. GREEN. This very freedom, however, entails certain hazards We recognize, for example, that under our system, even in a period o full employment, there will be an area of "frictional unemployment. To meet this situation and in the hope that we can prevent such un employment leading to mass unemployment, we have devised a syster of unemployment insurance. Another of the hazards that wage earn ers face in this free society of ours is that of dependent old age. An other is loss of earning power due to physical disability. Our probler is how to devise a means of underwriting these risks without limitin the freedom which is characteristic of our way of life, and which w mean to maintain.

That is the point that I want to emphasize: the exercise of freedom Take, for instance, a plant where a pension system is in effect coverin only that plant. So long as the worker remains there, he is entitled t security pay. But suppose for some reason or other that plant close down for all or a large part of the time, and the man is faced wit unemployment. Then he is faced with this decision: if I leave, I los my pension; but if I go elsewhere, I will get full employment. Tha is a serious problem for him to face.

Another of the complexities which confront us is how to provid security and maintain respect for the dignity of the individual. Thi respect for the worth of the individual human personality is one o the most priceless heritages of our American tradition. It is on that is not easy to preserve in an economic system characterized b the processes of mass production, but it is one which our people priz mostly highly. They demand therefore that whatever solution i devised to the difficult problem of security must be one which doe not destroy the dignity of the worker who has contributed throug the long years of his working life to the prosperity and security o this Nation.

We are also quite aware that in the last analysis our security rest in the maintenance of a sound economy. Such an economy can onl be maintained by full employment and full production, with price wage and monetary policies that contribute to long run stability Without that, there can be no genuine security either for the worker businessmen or farmers. Our plans for social security must be made then, in the full recognition that mere promises of cash benefits i future years cannot guarantee security. They must also be made i recognition of the fact that the method of financing and the type o benefits provided have a direct bearing on the stability of our economi system. Our people will not be satisfied with a package of promises They will demand that the promises for the future be based on system of financing which fits into the over-all structure of our ec

nomic system and which includes a program for maintaining the funds out of which the benefits are to be paid.

There are those who maintain that these objectives which I have outlined are contradictory. Some say that it is impossible to provide security without loss of freedom. Others maintain that it is all right to provide assistance to those who have not succeeded through individual effort in providing their own security. They are willing to sacrifice dignity and self-respect for a minimum of security. They would provide aid to the needy when they can prove their need through the application of the means test. Strangely, these persons seem to forget that such an approach is the surest way to crush initiative and to destroy the very incentive for venture and self-advancement they profess to be most anxious to preserve. These are the men of little faith—little faith in the capacity of America and the ingenuity of American labor and management to meet and solve an admittedly complex problem.

We in the American Federation of Labor have long believed that there is a way to attain all these objectives. This is through the method of social insurance. Nowhere is the confidence in this approach better stated than in the opening section of the report of the Advisory Council to your committee, which was published now nearly 2 years ago. On page one of its report the Council stated:

> The Council favors as the foundation of the social-security system the method of contributory social insurance with benefits related to prior earnings and awarded without a needs test. Differential benefits based on a work record are a reward for productive effort and are consistent with general economic incentives, while the knowledge that benefits will be paid—irrespective of whether the individual is in need—supports and stimulates his drive to add his personal savings to the basic security he has acquired through the insurance system. Under such a social insurance system, the individual earns a right to a benefit that is related to his contribution to production. This earned right is his best guaranty that he will receive the benefits promised and that they will not be conditioned on his accepting either scrutiny of his personal affairs or restrictions from which others are free.

Senator TAFT. What do you say, Mr. Green, as to the rule that seems to be in effect that a man who goes on working can not get this pension?

Mr. GREEN. If he goes on working?

Senator TAFT. Yes; if he earns more than a certain amount. I mean, do you think that ought to be eliminated also?

Mr. GREEN. That, I should think, should be dealt with as a special question; yes.

Senator TAFT. You mean if he is entitled to it, he should get it, even if he is working? Or that he should not? What do you feel about that?

Mr. GREEN. I know there are a great many people, workers, who beg and plead to continue work even when their retirement age is reached, and there are many of them that are retired because the system is rigid and inflexible.

Senator TAFT. Many men sixty-five years of age want to go on working for five years or more doing the same thing they have been doing. Do you think they should have to wait until they quit working to get these benefits, or do you think they should get them anyway?

Mr. GREEN. I think so; because they have earned it.

Senator LUCAS. Do I understand you to say, Mr. Green, that if the man goes on working after the age of retirement he is entitled to both social security and his wages?

Mr. GREEN. Oh, is that what the Senator asked?

Senator TAFT. Yes. Maybe I did not make it clear.

Mr. GREEN. If he continues working and drawing his wages, h should not get these benefits; because there is no proposal for him t draw pay and social-security benefits at the same time. That is no a right principle.

Senator TAFT. There has been some suggestion, however, that man who has retired should be able to do odd jobs to a greater exten than—$15 a month, is it? And that he still should be able to get hi pension. Have you any views on that question?

Mr. GREEN. Well, if he gets some pay like that, some insignifican amount, that ought to be supplemented, I think, by security pay.

Senator MILLIKIN. There have been some suggestions, Mr. Greer that if a man does not take his benefit when he is 65 but waits, say until he is 70, the amount of his benefit should be increased when h reaches the age of 70.

Mr. GREEN. That would seem to be just.

Senator MILLIKIN. There have been some suggestions to that effect

Mr. GREEN. It could be worked out; yes.

Senator MILLIKIN. Let me ask you this. I have asked the sam question of other witnesses. I think you have already touched o the need for continually increasing the productivity of the Nation i order to carry these various burdens that we have. Do you see an reason why at least in some fields we cannot keep people that ar willing to work and able to work, keep them working longer tha they do under present "human junking" rules? Is there any reaso why we should not try to keep people working if they are willing t work and able to work after they become elderly?

Mr. GREEN. I think, and my own personal opinion is, that a man a worker, should be accorded the privilege to work, regardless of age if he is willing, healthy, and strong enough to work.

Senator MILLIKIN. Exactly. I realize that it might not be prac tical in some businesses, but if a man cannot work 6 hours a day or hours a day, but can, we will assume, do a good 4 hours a day work is there any reason why we should not keep him working 4 hours i he wants to and if he is able?

Mr. GREEN. Well, if he wants to and can, I think it is perfectly right. It creates a better state of mind, a better psychology, and better social order, I think. I know I have run across a large num ber of workers that tried their best to be continued in employment, bu they had reached the age of retirement and there was no choice. The had to retire. Well, many of them go out and find work in othe places, in other lines.

Senator MILLIKIN. We are lengthening the period of education a one end of the scale, and if we have earlier retirement ages at th other end of the scale, I respectfully suggest that pretty soon w get to a point where too narrow a segment of our productive life i carrying the whole burdn of things, and that if we can we shoul keep people working assuming that they are able and willing to work for as long a period as their health and energies permit.

Mr. GREEN. Well, I agree with you on that principle.

Senator KERR. Mr. President, you do not expect to retire when yo reach the age of 65, do you?

Mr. GREEN. The trouble with a lot of people is that they are old when they are young, and they are young when they get old.

Senator KERR. Let us not apply that to you or me.

Mr. GREEN. No, sir.

The representative from the American Federation of Labor, who was a member of this Advisory Council, was glad to join the other members, drawn from our leading universities, from business management, and agriculture, in signing this statement I just quoted a moment ago. It represents a principle to which the American Federation of Labor has for many years been committed.

I need not remind the members of this committee that there is today widespread dissatisfaction with the present social-security program. It is not dissatisfaction with the basic approach to the problem nor with the principles of social insurance, to which we have been committed in this country since 1935. On the contrary, it is dissatisfaction with the limited extent to which these principles have been applied to the problem. Today we in America are forced to admit that our social insurance system has, in the protection afforded working people, actually fallen behind some systems in foreign countries. We shall never be satisfied with a system as good as any. With our great resources we can and should have the best in the world.

That is a point I have always felt should be emphasized; that is, that we here in America should set a standard for the world in this respect—because there is a conflict on now between two ideologies. The one is the free-enterprise system, and the other is the totalitarian type of government. Which is the best? We have a great opportunity here in America to demonstrate to the world that the free-enterprise system is the best of all. Now, we cannot do that if we allow nations that are classified as partly totalitarian or totalitarian in full to set a higher standard than we set here, under our free-enterprise system in America. And I am definitely of the opinion—and that opinion was crystallized and fixed in my mind when I attended the International Labor Conference in London a few weeks ago—that we can maintain our free-enterprise system intact in America if we will demonstrate to the world that it is better than any other form of government. And I know that we who are leading the fight to preserve our free-enterprise system, we in the labor movement, are fighting for it in a field where those who advocate the totalitarian system hope to win first, that is, among the masses. If we are strengthened in our position, we can maintain it; and there is nothing that will strengthen us in our position more than to establish here in America a sound, practical social-security system. So there is more involved than the mere payment of benefits to some retired worker. There is involved our proposals in the very preservation of our form of government. And the fight between the two ideologicals, then, will be won by those who advocate the free democratic way of life as we have it here in America. I want to make that observation, here.

Revisions in our system of social insurance were due in 1946. There was little opportunity earlier since soon after the amendments of 1939 went into effect, we entered into the period of wartime economy. In 1945 and 1946 the House Ways and Means Committee completed an exhaustive study of our social-security program which pointed up many of its deficiencies. Throughout the entire 2 years of 1946 to

1948, however, the Congress failed to make the basic changes that were needed. In fact the few changes that were made took us backward rather than forward. The one constructive step that was made was the appointment of the advisory council to this committee, and the changes which this representative group of citizens recommended are now long past due. The failure of Congress to act after the end of the war has created a vacuum in this field which there have been attempts to fill by other methods, some of them unsound and ill-advised.

Today many unions in the American Federation of Labor are waiting to see what Congress does to revise the basic social-security structure. They cannot be restrained indefinitely. Many of them are in a strong position to bargain collectively for plans to meet their own individual problems. They are waiting to see what Congress does this year with the social-security amendments which are now before you. They cannot be expected to wait much longer.

We in the American Federation of Labor believe that provision for old age, survivors, and disability insurance for workers in industry, trade, and agriculture must be through a comprehensive Federal system, with the broadest practical coverage. We do not believe, however, that it is practical, as has been proposed in some quarters, to incorporate into a universal system either the railroad-retirement program or the special retirement programs the Federal Government has developed for its own employees. We do recognize the appropriateness of plans developed through collective bargaining to meet particular situations, but believe that these plans should supplement the basic Federal Social Security System, and not supplant it.

The bill which you have before you which was passed by the House last fall is a constructive measure which we are glad to support. It goes a long way toward meeting the need for revising our Social Security System. We have studied it carefully. It was before our convention which met in St. Paul last October. It has been reviewed in detail by our social-security committee and the report of that committee was studied by our executive council which met in Miami only last month.

While we are pleased with the constructive approach to the problem presented in H. R. 6000, our analysis of this bill indicates that it needs to be strengthened at a number of points. These specific points were outlined by convention action of the American Federation of Labor and by the executive council accepting the recommendations of our social-security committee. In broad outline, they are as follows:

1. The retirement age for women should be lowered to 60 years.

The CHAIRMAN. May I ask, on that point, the advisory council made that recommendation, I believe?

Mr. GREEN. I believe it did; yes.

The CHAIRMAN. Yes, sir. And there seemed to be quite a sentiment for it. But there has been some opposition expressed before this committee. I think maybe the opposition came from the agency itself. I may be wrong on that, but there has been some.

I am reminded that it was the business and professional women's groups that expressed some opposition to it.

I assume that one reason, Mr. Green, why the House did not go to 60 for women was probably the increased cost on the pay rolls. It has been estimated that it would cost, of course, a fraction of 1 percent

more if this recommendation were incorporated in the law. But the American Federation is endorsing the 60-year retirement for women provision.

Mr. GREEN. Yes. We approved it, Senator, after giving it careful thought and consideration, because we felt that human values were involved and that we ought to endeavor to protect those human values by giving that special provision for the protection of women.

Senator TAFT. What is the difference, Mr. Green, between woman and man at 60 and 65? We just drafted a constitutional amendment saying there should not be any difference.

Mr. GREEN. Well, Senator, I think we all agree that there is a physical difference between men and women workers.

Senator TAFT. My general theory is that they grow old more gracefully than men do, on the whole. I do not quite see why a woman of 60 is not able to work just as well as a man at 60. What is the difference? I do not see any.

Mr. GREEN. I think it is based on the same principle that was recognized when we prohibited women from working in the coal mines, and in certain other lines of work, and attempted to protect women employed in factories and mills. And I think that is the basis of it, really.

Senator TAFT. Are you looking in the direction of reducing the 65 to 60 for men? Are you looking in that direction at all? Have you advocated that?

Mr. GREEN. No, we have not.

Senator TAFT. I was wondering if this was a step, so to speak, toward getting the age down to 60 for men.

Mr. GREEN. No, we are not advocating that.

Senator MILLIKIN. Mr. Chairman, may I ask Mr. Cruikshank: Did you folks figure out what the cost of that would be when you were working on the Council?

Mr. CRUIKSHANK. Yes, my recollection, Senator, is that it was about half of 1 percent.

Mr. GREEN. Was that the increase in the cost?

Mr. CRUIKSHANK. Yes. I would want to check back as to the figures.

Senator TAFT. I think it is over-all one half of 1 percent.

The CHAIRMAN. I think it was estimated that the over-all on pay rolls was apt to go up about half of 1 percent.

Senator MILLIKIN. Mr. Chairman, if I may say so at this point, Mr. Cruikshank rendered great service to the Advisory Council to which President Green referred. He was a most useful and valuable member of the Advisory Council.

Mr. GREEN. Well, we count on him doing it when we assign him.

Senator KERR. I would like to ask Mr. Green a question, there. Senator Taft referred to the fact that the Senate had just recently passed, and I think by such an overwhelming vote that it was almost unanimous, a resolution submitting a constitutional amendment to the States really prohibiting any difference with reference to opportunity in the situation of men and women in Government or employment or civil rights.

Mr. GREEN. Yes, sir.

Senator KERR. Now, that was done, I would say, with what seemed to be almost an avalanche of support from the women themselves.

Mr. GREEN. From the women?

Senator KERR. Yes. I mean the initiative in that regard was not taken by any men that I knew of other than those moving in response to the urge from the women. Would that not seem to conflict with this situation?

Mr. GREEN. That might have been the case, yes.

Senator KERR. Do you think consideration has been given to that in contemplating this recommendation?

Mr. GREEN. How large a number of women are concerned about it?

Senator KERR. If you can, I would like for you to tell the committee that.

(The information is as follows:)

ESTIMATE OF NUMBER OF WOMEN AFFECTED BY LOWERING AGE OF ELIGIBILITY TO 60

There are a number of concepts to be considered in estimating the number of women who would be affected by this proposal, but taking into account the present situation we estimate that the number of female beneficiaries would be increased by about 60 percent relatively in the three old-age categories: female primary, wives' and widows' benefits. At present there are about 400,000 eligible wives whose husbands are in receipt of primary benefits; for retirement age 60 for women this figure would be increased to about 650,000. Likewise, there are now about 265,000 widows over age 65 receiving benefits; for retirement age 60 for this group the total would be about 425,000. Finally, there are now about 185,000 women who are primary beneficiaries and if the retirement age were reduced to 60 this figure would probably be about 300,000. These estimates relate only to the specific question of the lower retirement age and do not include effects of increased coverage or different eligibility provisions.

The CHAIRMAN. All right, Mr. Green.

Mr. GREEN. 2. Coverage should be extended to agricultural workers.

3. Eligibility requirements should be liberalized, particularly for new entrants into the system.

4. Provision for temporary disability insurance should be restored.

5. The protection afforded existing retirement systems for employees of State and local governments who prefer the protection of such systems to coverage under social security should be further assured.

Senator HOEY. Might I ask Mr. Green a question at this point?

The CHAIRMAN. Yes, Senator Hoey.

Senator HOEY. We have had so many requests from State and local retirement systems to be exempted from this law. They feel that they would rather go under their own systems, and that there would be very great confusion that would result from a change. That is true of the retirement systems for teachers in my State and for State employees and with reference to other organizations, like firemen and State police and law-enforcement agencies. They do not want to come under this system. Do you think they ought to be brought under it? This present law provides that they can vote on it. But they seem to think that the agitation and discussion of all this would interfere. And their systems are working perfectly, they feel, or, if not perfectly, satisfactorily, and they feel that they are getting better returns than they would get under social security. What would you think? Do you think they ought to be included under this anyway?

Mr. GREEN. Well, we believe that the best interests of the workers of the Nation will be served by being covered by a universal social-security system. However, as a result of experimentation, as in the

case of the firemen to which you refer, they have established a social-security plan and system that is acceptable and that is satisfactory. Then arangements, I think, should be made for those under such satisfactory systems to be exempt, and their wishes to be fully met in that respect.

But now there are some of these other systems that you refer to that are so inadequate. They do not measure up to anything approximating the standard that we try to incorporate in sound social-security plans. A policy of careful thought and discrimination should be followed in that respect, so that the coverage provided for in our bill shall cover those who are entitled to be covered, and who are probably subject to a social-security system in name only. Now, that is the way we feel about it.

Senator KERR. Mr. Green, as I read your No. 5, there, you are asking further assurance of protection for existing retirement systems.

Mr. GREEN. "The protection afforded existing retirement systems for employees of State and local governments who prefer the protection of such systems to coverage under social security should be further assured." Now, that is a general recommendation, but Mr. Cruikshank has prepared some figures and data and material on that, that he will submit to you, and he will give you a clear answer to that question.

Senator KERR. As I understand it, what you are asking is that the protection afforded existing retirement systems be further assured.

Mr. CRUIKSHANK. I wonder if the Senator would be willing to hold that question until we submit our detailed recommendations?

Senator KERR. I would be delighted, if you wish; but I would like to know whether or not my interpretation of the statement which is made in that paragraph is correct.

Mr. CRUIKSHANK. It is correct, sir; but we have a specific implementation of that which we expect to submit.

Mr. GREEN. We have specific information that is assembled.

The CHAIRMAN. All right, Mr. Green.

Mr. GREEN. 6. The benefit formula should be revised in a manner to maintain a more direct relationship between benefits and past earnings.

7. The rehabilitation provisions of the permanent-disability-insurance program should be strengthened.

8. The public-assistance and child-welfare programs of title III should be strengthened and liberalized.

Now, I wish to announce that I am accompanied by our director of social-insurance activities, Mr. Nelson Cruikshank, who is sitting here beside me; and, with your permission, I am asking that he present to this committee the more specific and detailed recommendations with respect to this legislation which have been approved by the American Federation of Labor.

And, in closing, I wish to say to the committee, and to urge with all the emphasis at my command, that this committee do all that is consistent with sound legislative procedure to hasten the enactment of progressive amendments to our Social Security Act. The workers of America have been patient. It has been nearly 11 years since there have been any constructive amendments to the Federal social-security program. The workers have been patient, but their patience is wear-

ing thin. For nearly 4 years now, Congress has been studying the problem. The time for study is coming to a close. The time for action is at hand. Today, when all the world is looking to America for leadership in democratic government, this Congress must prove to the working people of this country and prove to the world that a democratic nation can provide a basis of security for all its citizens.

I am pleased to submit that statement to you. It reflects and represents the considered judgment, the well-considered judgment, of the American Federation of Labor.

The CHAIRMAN. We were pleased to have your statement, Mr. Green.

Senator LUCAS. May I make an observation?

The CHAIRMAN. Yes.

Senator LUCAS. Mr. Chairman, as one member of the committee, I desire to commend President Green upon the very vigorous defense that he has made of the free-enterprise system of America.

It is only a repetition of your previous position, Mr. Green, as well as that of your predecessor, Mr. Gompers. But I think it is well that you have restated it in such forceful language before this committee; because either through ignorance or design the position of the American Federation of Labor, of which you are president, has been frequently misrepresented.

Mr. GREEN. Thank you, Senator. Thank you very much.

Senator MILLIKIN. May I ask Mr. Green one question?

Mr. Green, what are your own statistics, now, on unemployment at the present time?

Mr. GREEN. That is, so far as our workers are concerned?

Senator MILLIKIN. Yes.

Mr. GREEN. Well, there is some local unemployment in spots; but, generally speaking, we are not suffering from unemployment at the present time.

Senator MILLIKIN. But can you give us a figure?

Mr. Cruikshank, do you know what the present estimate is?

Mr. CRUIKSHANK. Between 4½ and 4¾ million.

The CHAIRMAN. At the present time?

Mr. CRUIKSHANK. Yes.

Senator TAFT. I saw that as the figure for January. Does that apply to February, too?

Mr. CRUIKSHANK. We do not have a figure for February. We will have within a few days; and, if the committee would like to have us file that with you, we would be glad to do so.

The CHAIRMAN. We would be very glad to have you supply that to us.

(The material referred to follows:)

UNEMPLOYMENT DATA, FEBRUARY 1950

The number of unemployed workers for the month of February is estimated by the Bureau of the Census, United States Department of Commerce, at 4,684,000 on the basis of sample interviews. This includes 3,426,000 men and 1,258,000 women and represents 7.6 percent of the total civilian labor force. The comparable figure for February 1949 was 5.3 percent.

We believe that this report presents the most reliable picture of employment and unemployment available each month. Since it does not represent a complete count of the unemployed but instead is based upon sampling techniques, it is difficult to determine how accurate the report is. Estimates of sampling variability indicate that the chances are 19 out of 20 that a complete census would vary from the sampling figure by not more than 380,000.

At the same time, it should be noted that we disagree with the Census Bureau with the manner in which it classifies certain groups of workers. In particular we feel that workers in the following two groups should be classed as "unemployed":

(1) Persons who had been temporarily laid off from their jobs with definite instructions to return to work within 30 days of lay-off.

(2) Persons who had a new job or business to which they were scheduled to report within the following 30 days.

At the present time, these workers are classed as "with a job but not at work" along with people who are ill or on vacation. In our opinion, individuals who are not employed, even if they expect to be employed within 30 days, are still unemployed and should be classified as such. In February 1950, a total of 144,000 workers were included in these two categories, which if added to the first figure would give a total of 4,828,000 unemployed.

The CHAIRMAN. And now, Dr. Cruikshank, we will be very glad to have you next, if that is the correct order of appearance.

STATEMENT OF NELSON H. CRUIKSHANK, DIRECTOR OF SOCIAL-INSURANCE ACTIVITIES, AMERICAN FEDERATION OF LABOR

Mr. CRUIKSHANK. Mr. Chairman and members of the committee, my name is Nelson Cruikshank. I am director of social-insurance activities for the American Federation of Labor.

I appreciate the opportunity of appearing as a representative of the American Federation of Labor before your committee. President Green has laid before you certain basic policies of the American Federation of Labor applicable to programs designed to meet the problems of old age, disability, and those arising from the death of the family breadwinner. As he indicated, it shall be my purpose to present the more specific recommendations adopted by the American Federation of Labor with respect to the legislation which you are now considering.

The convention of the American Federation of Labor was in session in St. Paul, Minn., at the time the House of Representatives adopted by a vote of 333 to 14 the bill which is now before your committee—H. R. 6000. The news of its passing the House electrified the convention. President Green from the floor characterized it as the most progressive single step taken by this Congress.

While the delegates to the convention were greatly cheered by the news of the passage of this bill by the House, they proceeded to consider and adopt some specific recommendations for its further improvement. I should like to speak of each of these briefly.

The first recommendation was that the age at which a retired worker's wife or a retired woman worker becomes eligible for benefits be lowered to 60 years. This recommendation is made on two basic considerations. The first is that for single women it is more difficult to obtain employment after age 60.

Senator TAFT. Do you think it is more difficult than for a man? It is always difficult for anybody over 60, as far as that is concerned.

Mr. CRUIKSHANK. Many single women, many women who are single at the age of 60, widows, for example, have been a long time out of the labor market. Suppose a widow, under this program, had children 18 years of age or under that entitled her to benefits. When that youngest child becomes 18, she is no longer entitled to benefit, and at a rather advanced age she finds herself going back into the labor market.

Senator TAFT. Would she not come in under the survivors?

Mr. CRUIKSHANK. Well, she would as long as there were children, but as soon as the last child reaches age 18, then she is without benefit until she reaches the retirement age.

Senator TAFT. Even though she is the widow of a covered employee?

Mr. CRUIKSHANK. Yes, sir. And, even though she might have been a working girl in her younger years, she will find that the processes in the plant, and so on, have changed a lot, and it is very difficult for her to find employment, whereas it is more common for men to remain in steady employment throughout those years of their lives.

The second reason is that because of the average difference of about 2½ years between the ages of husband and wife, in actual practice the retirement age for the husband is in most cases determined by the age at which his wife becomes eligible for a wife's benefit. In order actually to provide for voluntary retirement of the wage-earning husband at 65, it is therefore necessary to lower the eligibility age for women. For these same reasons, the Advisory Council on Social Security included this proposal in their recommendations in 1948.

The second recommendation was that the coverage be extended to agricultural workers.

Senator MYERS. What do you think is the real reason why it was not covered in H. R. 6000? I am informed that it was the cost.

Mr. CRUIKSHANK. I am told that is true.

Senator MYERS. That was the real and fundamental reason for the failure of the House to reduce the age to 60.

Mr. CRUIKSHANK. I believe that is correct; yes, sir. This recommendation that the coverage be extended to agricultural workers is also in line with the recommendations of the Advisory Council. Agricultural workers constitute a group which needs the protection of social security as much as or more than any other group. Their need is sharpened by the fact that they are generally denied the protection afforded by other types of social legislation and the fact that in a great many instances their employment is seasonal and irregular. Wages are low, and the opportunity to provide security through individual savings is less for them than almost any other group.

In order to extend protection of social security to farm wage earners in a practical manner, it would be necessary also to provide such protection for farm operators. This is because many agricultural wage earners become farm operators, and farm operators frequently become wage workers.

Of course, there are many other reasons, which are primarily the concern of the farm people themselves, but that is one which is of particular significance to us.

Senator MILLIKIN. Dr. Cruikshank, it has developed frequently during this hearing that there is not very much grass-roots demand for covering either the farm worker or the farm owner. Have you any explanation of that?

Mr. CRUIKSHANK. I have wondered about it, myself, Senator. I think it is because this is a new program and a pretty new approach to the method of security for farm operators particularly.

Now, for the farm workers, the farm wage earners, it is quite understandable to us that demand is not articulate, because farm wage earners are not an articulate group on any question. They are not organized. In the one organization that does represent them, the Farm

Labor Union, in the American Federation of Labor, it is a very prominent part of their program. I have attended their conventions, and they were interesting conventions. The delegates are there in their overalls. Those delegates right in the fields, believe you me, do express an interest in it. But it is a small organization. The protections of the right to organize that are afforded other workers are not available to them. And, as a general group, they are inarticulate.

Now, I understand that the major farm organizations, the Grange, and the Farm Bureau Federation, have changed their position materially on this, and I think in that respect they speak for their membership.

The CHAIRMAN. Doctor, the chief difficulty at this point is the administrative problem involved: is it not? Theoretically, it sounds simple, but in actual practice it still has difficulties, and very serious difficulties.

Mr. CRUIKSHANK. It would be a different type of administrative problem, Senator. The Senate Advisory Council Committee went into that quite thoroughly, as I believe your committee is going into it, and we found that in the Social Security Administration, working together with the Treasury Department, and even the Post Office Department, they had developed administrative devices that were quite adequate to this particular problem. And the members of the Advisory Council were convinced that the administrative problem was no longer an insurmountable hurdle; that it had been met in other countries, and we could meet it here.

The CHAIRMAN. They are approaching it from a theoretical point of view. Not many of them are actual farmers, Doctor, or are familiar with the administrative difficulties involved at this point. I do not say they are insurmountable, but they are difficulties nevertheless. And, on the other hand, this committee has received objections to the so-called stamp plan by other groups in the economy, who say that you ought not to break down the system of accounting and the system of tax returns that we have adopted in this country, and that the stamp plan will tend to do it.

Mr. CRUIKSHANK. Well, there were men on our Council that were very close to the agricultural scene, men from Purdue University, from the Agricultural School, and from Cornell. And they were in communication with their constituency, if that phrase can be used. And they were convinced that it was a practical method.

More than one method has been proposed; and it does seem that, while what you say is exactly true—it is a different problem, and it is a difficult problem—it is no longer a sufficiently difficult problem to justify the denial of the benefits of this program to those affected.

The CHAIRMAN. It is a difficult problem, and the suggested methods undoubtedly will work very satisfactorily within groups of farm workers. But there are other groups and other types to which it would be applied, as I see it, with a very great deal of difficulty. I hope that it is not insuperable, but that is the primary problem, I think, that will confront this committe when we consider it. If it were suggested that farm operators as well as farm labor would have the option to come into the system, I do not believe there would be any serious objection to it, and it might be the beginning of a system that would cover your farm workers.

I mean, in other words, if you would demonstrate it, under a voluntary system. I understand all the objections to the voluntary approach, but if it were tried—and in this field it does seem to me there is an oportunity to try it—there would certainly seem to be in this particular field some real opportunity to base you act on actual experience.

Mr. CRUIKSHANK. I would suggest this, Senator. And I am glad you mentioned the awareness of the committee of the voluntary approach.

The CHAIRMAN. Yes; there is no question about that.

Mr. CRUIKSHANK. But I would think this would be a very important area for a good strong advisory committee to the administration, with the farmers sitting right on it, the men that can sit with these administrators and say, "Now, this will work; and this won't work." They would then have men of practical experience sitting right at their elbows when they work out the procedures for such an extension as this. And I believe that could be worked out very practically.

The CHAIRMAN. Thank you very much for your observation.

Senator MYERS. Dr. Cruikshank, I understood you to say that both the Grange and the Farm Bureau have changed their previous position as to farm workers' and operators' coverage under this act. It is my understanding that one has recommended full coverage, and that the other organization has recommended coverage of only farm workers. When did they change their position? Do you know, Dr. Cruikshank?

Mr. CRUIKSHANK. Just within recent months. The Grange, for example, testified before the House Ways and Means Committee against the provision, and then later sent a memorandum to Chairman Doughton saying that they wished to reverse their position. And that was a little less than a year ago.

Senator MYERS. Do you know what may have occasioned that change in position?

Mr. CRUIKSHANK. Well, I am told by one or two of the men with whom I work on other councils, that there was a good bit of discussion of it in local areas, and also that here, with their economist, Dr. Halvorson, they have reviewed the administrative difficulties in some detail, and the administrative procedures that were proposed, and that they were convinced that it was practical. Now, of course, I can't speak for those groups.

Senator MYERS. Do you think that they have gone back to their local organizations and to the grass roots to inquire as to the sentiment among their constituent members for coverage under this program?

Mr. CRUIKSHANK. To be very frank, I couldn't speak with any authority on that, with one exception. I have only talked to one man, from a State organization. And he informed me that in his State they did. That does not mean that in other States they did not, but that is the extent of my knowledge.

Senator MYERS. It seemed to me that they went back to their membership, and that that was one of the real reasons for their changing their position.

Mr. CRUIKSHANK. That certainly was true in one State.

The CHAIRMAN. Doctor, the position taken by the Grange and the Farm Bureau Federation, as I recall it, was one favoring this recommendation; but a very cautiously stated recommendation and somewhat conditional. It was not an outright and unqualified and positive declaration on the part of the organizations themselves. It was more

the expression of a hope that it might be workable and that if it could be made workable they would favor it.

Mr. CRUIKSHANK. Senator, maybe their statement is about like the statement of the A. F. of L. in 1931, which was a careful and cautious statement, but since we have been under the system we are strong for it. I think that is one of the most significant things that the people who are under the system the longest and most fully under it are the people who like it best. I think that would be true of the farmers after they have been under it a while.

The CHAIRMAN. There is no quarrel with your expression on that point. That is the reason why I suggested it might be possible to have a voluntary system so far as farm workers were concerned as a matter of trial and error so that we might have some experience to go on, actual experience at the grass roots.

So far as the farm owner is concerned, of course, there is no more difficulty involved there than in any other self-employed person coming under the system, but for reasons which I think you would appreciate, the committee might hesitate to say that the farm owner and operator could come under without making any provision for the farm workers. It certainly would not look very equitable, would it?

Mr. CRUIKSHANK. No, indeed; that is right. I would not minimize for a minute, Senator George, the difficulties. However, I would suggest that the increased complexities of a voluntary experiment might be more serious than the complexities of universal coverage. In other words, your suggested experiment might find that it was experimenting in an unfavorable situation.

The CHAIRMAN. Doctor, the House bill does exactly that in the case of members in State and municipal retirement systems. It leaves it entirely optional to them to come under or not to come under. Therefore, it is not a wholly consistent position to say that you might not apply the voluntary system to the farm workers themselves.

Mr. CRUIKSHANK. You are aware, I am sure, that you would have to have safeguards to take in large enough groups to prevent adverse selection and so forth.

The CHAIRMAN. I realize all that, and I am not committing myself to the voluntary system even for farm workers, but it does seem to me that it is worthy of some thought, and your suggestion undoubtedly is a very helpful one, that a committee of real farmers be set up to aid the Social Security Administrator in the administration of this provision if it were put into the act.

Senator TAFT. Mr. Cruikshank, I have talked to farmers about coming under social security, I think more farm owners than operators, and it seems to me one of the most frequently stated position that appeared in the statements here was that they felt they were paying for this system and were not getting anything out of it. To a large extent pay-roll taxes are passed on into the price of goods that they have to pay. Therefore, they are paying part of these taxes, and having figured that out now, they have about concluded that they think they ought not to be paying taxes and getting no benefit from it. They would rather pay some more direct taxes perhaps and get the benefits than pay some of the taxes and get no benefits.

Mr. CRUIKSHANK. Senator, we have been trying to tell them that for 10 years.

Senator TAFT. It seems to me that is the thing that has tended to change their attitude as I talked to them and as I read their statements here.

Senator MILLIKIN. I think there is an even more direct farmer philosophy to the extent it has been expressed, and that is that the farm worker when he gets into difficulty goes on public assistance, and the farmers pays that directly.

Mr. CRUIKSHANK. That is quite true.

Senator MILLIKIN. He does not have the offset of benefits under the insurance system.

Mr. CRUIKSHANK. Plus the surprising number of them who have been in and out of the system. The charts that Commissioner Altmeyer showed I know even surprised me to the extent of those that have earned some limited rights under the system because of the tremendous in-and-out movement.

The CHAIRMAN. They have some wage credits.

Mr. CRUIKSHANK. Yes, sir.

The CHAIRMAN. The percentage that do have some wage credits is rather high, surprisingly high.

Mr. CRUIKSHANK. Yes, sir.

Senator MILLIKIN. There may be a little exaggeration but, generally speaking, I do not believe I have ever got even a letter from either a farmer or a farm owner asking to come under the system. I say there might be a few exceptions, but I can recall certainly no extensive mail on the subject, and our mail is a pretty good barometer on these things. It has mystified me.

Senator LUCAS. Mr. Chairman, I am in the same position as the Senator from Colorado. I come right from the heart of the agricultural section of Illinois, and I do not think my mail shows a single letter either from a farmer or an operator. May I ask this question, Mr. Cruikshank. You are the director of social insurance activities of the American Federation of Labor. Why do you, as director of this activity in the Federation of Labor, go into the agricultural field and make your second recommendation here with respect to coverage of farmers and farm workers?

Mr. CRUIKSHANK. For two reasons, Senator Lucas. One reason, and the major reason, is that we do not try to devise our policies just with respect to our own membership. That is, we would not come in suggesting a system for just the people in the industries that we have organized.

Senator LUCAS. In other words, you cover the whole field?

Mr. CRUIKSHANK. That is right; yes, sir. We try to make recommendations related to what we think is sound social policy. The second is that we have about 30,000 of these farm workers, which I know is a small proportion, but we have them in an organization that has a charter from the American Federation of Labor.

Senator MILLIKIN. What organization is that, Doctor?

Mr. CRUIKSHANK. The National Farm Labor Union. I believe that Mr. H. L. Mitchell is to appear here briefly later on. He is the president of the organization.

The CHAIRMAN. Yes. He is listed as a witness.

Senator TAFT. Dr. Cruikshank, I have talked to farmers at farm meetings, I suppose about 50 of them in the last 4 months, and they

express interest and I would say the general view was in favor of going in. But I would think the lack of letters reflects what I see, that they have not exactly made up their minds. They are discussing the thing. There is no very strong feeling. There is some difference of opinion. It seems to me that accounts for the fact that you do not have a determined movement, but certainly they are interested in Ohio. The other point is that in Ohio, at least, there is hardly a county where there are not two or three industrial plants at the county seat and where the people do not fluctuate in their work between the farm work and industrial work. Some of them it is hard to tell whether they are farm labor or the other, which shows why there is this tremendous in and out business which you are talking about.

Mr. CRUIKSHANK. I know what you are talking about. I was raised in one of those towns in Ohio.

Senator TAFT. At least half the counties in Ohio are in that situation, with industrial plants drawing their labor from the farm area throughout the country.

Mr. CRUIKSHANK. That is exactly right, sir.

Senator MYERS. I think you might realize, too, that folks usually write us more frequently when they are against something than when they advocate something. That has been my general experience.

Mr. CRUIKSHANK. I had in mind to suggest, though I doubted it was in order, that if this covered the farmers and then you proposed to take it away from them, I think you would hear plenty. I do not know whether that is relevant or not. I know it does not answer your question.

Should I go ahead, sir?

The CHAIRMAN. Yes.

Mr. CRUIKSHANK. The inclusion of protection against permanent and total disability in H. R. 6000 constituted one of its most important contributions to economic security. It is in a large measure an answer to the pressures for reducing the retirement age.

One of you gentlemen asked about that earlier. There have been such pressures within the American Federation of Labor but it has been pointed out to those groups which have called for the lowering of the retirement age that the real need which they are attempting to meet is that which arises largely out of the workers being physically unable to engage in gainful employment.

While we agree that the qualifying requirements for insured status in disability program should be carefully drawn, in our opinion the somewhat more liberal concept of what is "permanent" disability set forth in the recommendations of the Senate Advisory Council should be applied.

The executive council of the American Federation of Labor in its meeting last month also accepted a further recommendation with respect to the disability insurance provision of this bill offered by the social security committee. This was to the effect that the provision for the financing of rehabilitation services which was contained in H. R. 2893 and was recommended by the Advisory Council but which is not included in H. R. 6000 should be restored. Our unions have had long experience with the administration of disability insurance in connection with workmen's compensation and on the basis of that experience we are convinced that the rehabilitation features of the program are essential to the sound administration of the disability

insurance. Under the workmen's compensation laws, the desirability of financing rehabilitation services out of the workmen's compensation revenues has long been recognized.

In the days ahead this committee is going to hear a great deal of discussion about this proposed extension of social insurance to cover the risk of total and permanent disability.

Mr. Chairman, may I pause for just a moment here and ask about the question of procedure. I understand the committee likes to complete by 12 o'clock if it is possible. I appreciate that the questions asked have all been in response to your interest, and that is what we are here for. There are two other gentlemen with me this morning, and I am a little doubtful, if I continue to read all this, as to whether we will get through by 12. Can we anticipate that you may be able to sit a little later than 12?

The CHAIRMAN. I think the committee could sit today until 1 o'clock, Doctor, if it is necessary.

Mr. CRUIKSHANK. I would appreciate it greatly. That would not crowd us, but I do not want these gentlemen to come here and then let me push them off the end of the program.

The CHAIRMAN. Senator Lucas and Senator Myers will have to go to the floor. Maybe some other Senators may find it necessary, but Senator Lucas will get permission and we will get permission and we will sit until 1, if necessary.

Mr. CRUIKSHANK. I appreciate that greatly, Mr. Chairman.

Representatives of the organized medical profession may even charge here, as they have elsewhere, that such an extension is a step which will lead to what they call "socialized medicine." Representatives of private interests will assure this committee that such a program is impossible to administer. There may even be those who will solemnly bring forth the arguments that 40 years ago such a program was presented to the State legislatures when workmen's compensation laws were first under consideration. They will claim that workers will inflict self-injury and that with disability benefits established as a right, they will use them to retire on by conjuring up imaginary ailments. The charge of malingering will, I am sure, be brought forward not once, but many times. In your consideration of the advisability of retaining the disability provisions of H. R. 6000, we respectfully urge that the decision be made on the basis of practical experience and not on the basis of fears of what might happen. The fact is that disability programs have been successfully administered for years by governmental agencies, including the Veterans' Administration, the Railroad Retirement Board, Federal and State retirement systems, and the State workmen's compensation agencies.

In this connection, because many workers in the American Federation of Labor are under the provisions of the Railroad Retirement Act which provides disability insurance similar to that contemplated in H. R. 6000, I asked the chairman of the Railroad Retirement Board, Mr. William J. Kennedy, to tell me of his experience in the operation of this program. I have here a letter from Mr. Kennedy dated January 27, 1950. I should like to ask, Mr. Chairman, that this entire letter be included in the record of this hearing, as it has an important bearing on the feasibility of a program of this kind.

The CHAIRMAN. We would be very glad to have you include it at this point or at the end of your remarks, just as you wish. I have it here and the clerk can use it.

(The letter referred to follows:)

RAILROAD RETIREMENT BOARD,
Chicago, Ill., January 27, 1950.

Mr NELSON H. CRUIKSHANK,
Director, Social Insurance Activities,
American Federation of Labor, Washington 1, D. C.

DEAR MR. CRUIKSHANK: I have your inquiry concerning the operation of the railroad retirement disability insurance program and your comments on the arguments against Federal disability retirement programs in general.

I have never been able to understand the often-heard charge that a disability program is impossible to administer, in the light of the obviously successful existence of the railroad retirement system, an essential part of which is the provision for disability retirement benefits. These disability benefits are of two types: those payable in the case of permanent disability for all regular employment for hire, and those payable in the case of permanent disability for one's regular occupation. Benefits of the former type have been paid since July 1937, and of the latter since January 1947. Only the former are included in the current discussions on the Social Security Act amendments.

While the administration of the disability part of our program has presented problems not involved in the payment of old-age retirement benefits, we have not found these problems insuperable or even particularly difficult. The value of the disability program to the railroad workers and the industry has fully justified the decision to include it in the law and the additional effort required for its administration.

When the law first became effective we established carefully worked out standards, both medical and legal, for determining eligibility for total disability benefits. The same thing was done for occupational disability benefits after the enactment of the 1946 amendments. In each case, the Board had the cooperation of the railroads and railroad labor organizations (the second time such cooperation was a statutory requirement). In each case, also, the standards were incorporated into Board regulations and, in our opinion, were in strict conformity with the statutory requirements and with the intent of Congress as reflected in the well-documented legislative history of the act. While experience with the program has in the course of years enabled us to simplify the process of adjudication, the standards originally established have worked out fully satisfactorily. No administrative problems have developed that would require the relaxation of these standards.

If further evidence is needed that Government units are fully capable of administering permanent disability programs, one need only point to the disability benefits of the Federal Civil Service Retirement Act and most of the State retirement laws, and especially to the workmen's compensation laws in existence in every State in the Union.

A final comment that is in order is that there is no evidence of large-scale malingering traceable to the existence of the disability benefits. We have no doubt that a few irresponsible persons here and there occasionally succeed in simulating disability in order to take advantage of the disability retirement provisions. To condemn the program for that reason would be like condemning a barrel of apples because it contained one or two rotten ones. The observation of all who are concerned with the administration and study of the program is that malingering and abuse are so rare that they can in no sense be said to weaken it or detract from its value.

I am sending you a number of issues of our Monthly Review, each one of which contains at least one article on some aspect of our disability program. I hope they will prove useful in helping you to understand and evaluate it. If I can be of further assistance, please do not hesitate to call on me.

Sincerely yours,

WILLIAM J. KENNEDY, *Chairman.*

Senator MILLIKIN. May I ask what is the contribution of the railroad worker and the railroad company?

Mr. CRUIKSHANK. The contribution of employees is, I think, 6 percent of pay roll up to $300 per month as of this time. It is more for the employer because under the railroad retirement system the employer pays the cost of unemployment insurance which is currently

one-half of 1 percent. The employer now pays a combined rate of 6¼ percent for the two programs.

In this letter Mr. Kennedy says:

> I have never been able to understand the often-heard charge that a disability program is impossible to administer, in the light of the obviously successful existence of the railroad retirement system, an essential part of which is the provision for disability retirement benefits.

While agreeing that the administration of the disability part of the railroad retirement system has presented certain difficulties not involved in the payment of old-age retirement benefits, Mr. Kennedy goes on to state:

> We have not found these problems insuperable or even particularly difficult.

In commenting on the charge of malingering, Mr. Kennedy says:

> We have no doubt that a few irresponsible persons here and there occasionally succeed in simulating disability in order to take advantage of the disability provisions. To condemn the program for that reason would be like condemning a barrel of apples because it contained one or two rotten ones.

I respectfully commend the careful reading of this entire letter based on actual experience in administering a disability insurance program to each member of this committee.

Mr. Chairman, I am glad to have with me, too, this morning, Dr. Leo Price. Dr. Price has for a number of years been the director of the Union Health Center of the International Ladies Garment Workers Union in New York. They administer medical service and care to nearly 250,000 workers in New York. He directs and administers a very large, if not the largest, health center of that kind in the country.

Also, he is a member in good standing of the Medical Society of New York and of the American Medical Association. He is in charge of the medical aspects of a going disability insurance program. If there are questions that you want to ask him about the problems that a doctor faces or the technical problems of administering a disability insurance program, he is here to answer those questions or to make other comments that you gentlemen think might shed light on the problems that have been raised in this field.

I think it might be well for me to finish and then permit Dr. Price to make a brief statement, which would be very brief, I assure you, in view of the time.

The CHAIRMAN. I think that would expedite the hearing.

Mr. CRUIKSHANK. And then ask him those questions that relate to the administration of this program because, as I say, he does not deal with theory; he is really running one and running it successfully.

The fourth major recommendation adopted by the St. Paul convention was that the provision for temporary disability contained in H. R. 2893 be restored. The need for protection in this area has long been recognized. It would be possible, of course, to provide this much-needed type of protection through the extension of the State unemployment compensation laws. However, in four of the five States where such laws have been enacted they include provisions for such protection through private insurance carriers. In our opinion this represents a distortion of the purposes of the program by introducing an element of private gain which threatens the entire system. Moreover, with the inclusion of provision for permanent and total disability under title II of the Social Security Act, the machinery for

administering temporary disability through the Federal Government would be available for making the determinations necessary in connection with the temporary disability program.

Senator TAFT. What is the relation not between State unemployment compensation laws, but the State workmen's compensation law, which we have in Ohio, for instance, which is a compulsory system? Does that not overlap directly the temporary disability field?

Mr. CRUIKSHANK. It overlaps in one limited area. Of course a man is frequently temporarily disabled because of some accident at the work place, naturally. I think that such disabilities account for about 10 percent of the cases of temporary disability.

Senator TAFT. The others are all sickness?

Mr. CRUIKSHANK. Sickness or accident away from the work place, a disability that is not work-connected. That is, about 90 percent of the disabilites are not work-connected.

Senator TAFT. What do they relate to, then? How does the 90 percent divide itself up? How much is sickness?

Mr. CRUIKSHANK. That I could not say offhand. I do not know how much of it is illness like a cold or flu or something, and how much of it is automobile accidents or some other accident in the home or somewhere else. I could find that figure for you.

Senator TAFT. I would like to know. It may be available somewhere.

(The information is as follows:)

BREAK-DOWN OF TYPES OF DISABILITY

Analyses indicate that 90 percent of all cases of disability result from illness. Of the remaining 10 percent of cases of disability, 7 percent result from accident and other causes not compensable under the State workmen's compensation laws. Three percent of the cases of disability are work-connected, and are compensable under the State workmen's compensation laws. This indicates that there would be very little potential overlapping between coverage presently afforded by State workmen's compensation acts and that contemplated under a temporary-disability-insurance provision. Furthermore, the temporary-disability-insurance provisions of the House bill 2893 provided that no person should be eligible for the temporary-disability benefits who was eligible for benefits under a State workmen's compensation act.

Senator KERR. A good deal of it is with reference to those people who for a little while are protected and then the protection runs out before the disability terminates.

Mr. CRUIKSHANK. In workmen's compensation? I would not think that many of them would, because the duration of protection and disability in workmen's compensation is relatively high. Some might, yes, sir.

Senator MILLIKIN. What is our system in Colorado, Jim?

Mr. JAMES A. BROWNLOW (secretary-treasurer, metal trades department, American Federation of Labor). It is elective. Do you mean as to whether it is compulsory?

Senator MILLIKIN. In our workmen's compensation system how do we take care of total and permanent disability?

Mr. BROWNLOW. They are paid as long as they are alive by an appropriation that is not an appropriation, but a setting aside a portion of the amount of funds to guarantee what would be considered actuarily sound, that the person might live under the age class he is in.

Senator MILLIKIN. We used to have a choice under the State system of coming under a private system. Do we still have that?

Mr. BROWNLOW. That is correct. It is elective, Senator. There are three ways out there.

Senator TAFT. Do you agree on the question of temporary disability, that only 10 percent is covered by workmen's compensation?

Mr. BROWNLOW. I have seen the figures to that effect, Senator.

Mr. CRUIKSHANK. Dr. Price has just informed me it is about 95 to 5 percent, rather than 90 to 10.

Mr. BROWNLOW. I was going to say to Senator Taft the statistics I was reading only last night pertaining to workmen's compensation, said that 10 percent of the disability was covered. Dr. Price's figures are probably better.

Mr. CRUIKSHANK. In addition to these recommendations for improvement in H. R. 6000 which were adopted by the convention, further proposals were accepted by the executive council of the American Federation of Labor last month on the recommendation of our social security committee.

The first of these deals with the conditions under which coverage of old-age and survivors and disability insurance would be extended to employees of State and local governments. After a full review of the problems involved the executive council came to the conclusion that the provisions of section 106 of H. R. 6000 needed to be strengthened in one respect. That is the point that President Green spoke of, Senator Kerr. It has long been the position of the American Federation of Labor that the employees of State and local governments who are under a retirement or pension plan that has been designed to meet the special conditions of their employment, and where this plan is preferred to the Federal Government plan by the employees covered, its continuance should not be jeopardized and the plan should not only be permitted to continue in operation, but such continuance should be encouraged. The executive council was of the opinion that the intention of the provision for a referendum vote in such cases, as contained in H. R. 6000, was clear. This opinion was based on the statement of the purpose of this subsection as contained in the report of the House Ways and Means Committee. It was their feeling, however, that this intention should be incorporated within the act itself and we therefore recommend that this section be amended in this manner.

With such amendment, the entire section would insure the continuance of the retirement and pension plans where they are preferred by the workers who are employed under those plans, and at the same time the way would be left open for those employees of State and local governments who are either without protection or whose protection is in their opinion inadequate to elect coverage under the Social Security Act. It was the opinion of the Executive Council that both these objectives should be provided for in the law.

I should like at this point to file with your committee for inclusion in the record a copy of a portion of the report of the A. F. of L. social security committee which was adopted after a full hearing by the executive council on February 7. In submitting this report I am also authorized to advise your committee, Mr. Chairman, that the American Federation of Labor would not object to a provision, similar to that contained in H. R. 2893, prohibiting the inclusion of policemen and firemen in any agreement between the Federal Government and a State to extend the coverage of the program to State or local government agencies.

(The report referred to follows:)

PROPOSED AMENDMENTS TO PENDING OLD AGE, SURVIVORS AND DISABILITY LEGISLATION

The committee gave thorough consideration to the question of how and under what circumstances coverage could be extended to employees of State and local governments who are covered by existing retirement plans. While the committee accepted the terms of the reference of the 1949 convention as superseding the actions of previous conventions, full consideration was given to the intent and purpose of the earlier enactments and the full record was reviewed.

On the basis of this study, your committee is of the opinion that the provisions of section 106 of H. R. 6000, and especially subsections 218 (d) (1), (2), and (3), contained on pages 82 and 83 of the bill, especially when viewed in the light of the clear intent and purpose of these subsections as set forth in the majority report of the House Ways and Means Committee provide adequate safeguards to protect existing retirement or pension plans for these employees who wish to maintain such plans providing at the same time a method of extending the protection of social security to those now without protection or with inadequate protection. The statement of purpose referred to reads as follows:

"Members of an existing retirement system would be treated as a separate coverage group, and coverage could not be extended to them unless the employees and beneficiaries so elect by a two-thirds majority vote in a written referendum, and it is intended that this be accomplished by secret ballot. The provision for a referendum is included so as to assure those covered by adequate existing systems (such as firemen, policemen, and teachers) that adequate safeguards are present so that their present pension plans will not be destroyed" (p. 11, report of Ways and Means Committee to accompany H. R. 6000).

In order, however, to give full implementation to the policy of the American Federation of Labor with respect to the desirability of preserving intact existing retirement plans which are preferred by the employees of State and local governments who are under these plans to coverage under the social security program, your committee recommends that the section of H. R. 6000 above referred to be amended in such manner as to incorporate within the language of the act itself the purpose and intent stated in the Ways and Means Committee report.

With this amendment your committee recommends full support of this section of H. R. 6000.

Senator MILLIKIN. How about the school teachers?

Mr. CRUIKSHANK. We would not want the blanket exclusion to be applied to school teachers because there is a wider variation in their plans. Some of them are good and some are bad.

Senator MILLIKIN. Where they have a plan that is acceptable to them, would you include them?

Mr. CRUIKSHANK. Oh, yes, sir; but we believe that the referendum provision protects that.

Senator MILLIKIN. I do not believe I quite got your answer. Would you include them or would you exclude them where they are satisfied with their own system?

Mr. CRUIKSHANK. Where they are satisfied with their own system, we would exclude them.

Senator TAFT. That does not seem to satisfy the teachers or the firemen in Ohio. They do not want to be subject to change by a majority vote of their own people. They think they have certain rights as minorities and individual rights. They do not think the majority of them ought to be able to vote them away even if the majority should happen to want to change.

Mr. CRUIKSHANK. With respect to the teachers, Senator, we have talked to quite a number of them and their representatives when the hearing was held before the A. F. of L. social security committee on this subject. We understand that there is a good bit of misinformation about the degree of protection that they have under the refer-

endum provision here. When I have talked to teachers groups an explained to them what is actually in H. R. 6000, I haven't been u successful in any instance in convincing them that they have th protection that is necessary, at the same time keeping the door ope for extension where it is desirable. The firemen represent a differe situation. So far as we know there isn't any poor firemen's plan.

Senator TAFT. Except in the question of transfer between covere and uncovered occupation, why should we not say to a sovereign Stat as to their own employees that they take care of them and the Federa Government should be out of it? Here is a State, an absolutely sov ereign State. These are their employees. Is it not a reasonable pos tion to exclude them altogether and say, "This is your job"?

Mr. CRUIKSHANK. That might be applicable to career employee with some exceptions, but you take even the university professor. H moves around a great deal from State to State.

Senator TAFT. University professors are not ordinarily State em ployees. Some of them are of course, in the State universities. would not necessarily apply the same rule there. But teachers a direct employees of the State and their local subdivisions. They a pretty well put. The firemen and policemen seem to feel that afte the first 4 or 5 years they are set for life. There is not much inte change. I just wonder whether it would not be more satisfactory t say to the State, "You look after your own employees." After al we have an entirely separate Federal system for Federal employee We have a separate system for railroad employees by law here. Wh should they not have the responsibility of providing a system for the employees?

Mr. CRUIKSHANK. If they would look after them it would be a right, but in many areas they are not doing it.

Senator TAFT. It is a job for the sovereign States to do. They a perfectly able to do it. There isn't a State that cannot do it. The are not poor. In each and every case they have money for this kin of thing. They collect taxes to pay for it.

Mr. CRUIKSHANK. There is also a great in-and-out movement wher we do not have——

Senator TAFT. That is the only argument. I agree that is an argu ment where it applies.

Mr. CRUIKSHANK. That, to us, is the main argument, and there a many of these custodial employees who do not think of themselves a career employees at all. There are a great many of them.

The CHAIRMAN. All right, Doctor, you may proceed.

Senator TAFT. Dr. Cruikshank, you mentioned a little while earli the mail that had or had not been received, particularly that no ma had been received to include farmers. I assure you we have all r ceived tons of mail to exclude these groups from the Social Securit Act.

Mr. CRUIKSHANK. They are a very able group, and they have some thing that is of value. They fought for it and won it, and we don wonder that they want to hold it.

Senator MYERS. When people are against something they do writ it. They may not write you otherwise if they are advocating some thing.

Mr. CRUIKSHANK. That is right.

We have also reviewed the benefit provisions of the bill which is before you. While it is recognized that the bill represents substantial liberalization of benefits, in our opinion it falls short of providing an adequate base of security. The American Federation of Labor has always maintained that benefits should be related to past earnings. This is an essential element of social insurance. We have always recognized, also, that benefits should be weighted in favor of the worker whose income has been low. This desirable weighting gets out of proportion, however, when there is too low a limit on the wage which is included in the computation of benefits. Our first recommendation with respect to the benefit formula is, therefore, that all wages be included up to $5,400 a year, permitting a maximum average monthly wage of $450. This will provide a more direct relationship between benefits and past earnings.

When the Social Security Act was passed in 1935 the limit of $3,000 annual wage included 97 percent of all wages earned in covered employment. The $5,400 limit which we propose covers just about the same proportion of wages as the $3,000 limit covered in 1935. If $3,000 was the right figure for 1935, then $5,400 is the right figure for 1950.

Secondly, we urge a liberalization of the formula for establishing the primary benefit amount. We propose that the amount be 50 percent of the first $100 average monthly wage computed on the basis of the highest 5 years, plus 20 percent of the next $350 of average monthly wage. We believe the 1 percent per year increment should be retained.

Mr. Chairman, I have here a chart which translates this in terms of percentage, which we think is the significant figure. [Indicating chart:]

These are the percentages represented by the benefits now in relation to the past wages. In other words, under the present law a man who has averaged $200 a month for 20 years and retires after 20 years of covered employment, under the present law, benefits are just a little above 20 percent of his past earnings. You see they go down to where in the higher-wage brackets they are just a little above 10 percent of past earnings under the present law.

Senator TAFT. Is that 10 percent of past average earnings?

Mr. CRUIKSHANK. Yes, sir.

Senator TAFT. Average for how long?

Mr. CRUIKSHANK. There is no differentiation made for the high period. This is the whole period.

Senator TAFT. All the way back?

Mr. CRUIKSHANK. Yes, sir: it goes all the way back. You will see that the present law weights it in favor of the low-wage man. You will notice the break here where it starts to go down more sharply, which is the break-off point of your $3,000 limitation under the present law. In H. R. 6000 your formula weights it even more for the low-wage man, and you are doing better percentagewise by the low-wage man than you are under the present law—not less absolutely, but a steeper curve down. Again the break-off point indicated by the sharply decreasing line at the $300-a-month figure, $3,600 per year, proposed in H. R. 6000. We are proposing a formula which practically maintains the curve of the present law. It is considerably above the present law and above H. R. 6000. But it gives a better break

in terms of the proportion of the wage that is recoverable for the high-wage man.

Senator MILLIKIN. What would be the cost of this program, Dr. Cruikshank?

Mr. CRUIKSHANK. With all of the provisions that we are recommending, we thing that it will, on a long-term basis, run between 8 and 10 percent of pay roll.

Senator TAFT. How do you get up to 60 percent? You say here 50 percent of the first $100.

Mr. CRUIKSHANK. That is because of the increment.

Senator TAFT. I see.

Mr. CRUIKSHANK (indicating chart). In terms of a typical survivor's benefit case you have the same situation, a little more accentuated. This is percentage of wage recoverable in the case of a widow and two children, where the worker dies after 10 years of covered employment. You see the curve of the present law, and more sharply to break off at the $250 figure, the breaking point here at $300 per month. This curve follows roughly the curve of the present law, but at a higher level. We think very frankly that H. R. 6000 warps the program too much in favor of the lower wage man at the cost of the higher wage man, that a social insurance system should enable him to recover a substantial portion of his wages up to 30 percent for the higher wage man.

Senator TAFT. Dr. Cruikshank, last year before the House did you not testify for a lower benefit? Did you not testify for 50 percent of the first $75 and 15 percent of the next $325?

Mr. CRUIKSHANK. Yes, Senator, we did. Our proposal that we supported in the House was lower than this. Since that time, in view of many things that have taken place, our social-security committee met and worked out this as the——

Senator TAFT. What is the changed condition since a year ago? This has no relation to prices going up and down. Why the change of position?

Mr. CRUIKSHANK. In the main, the change in position is the pressure of the private plans, negotiated plans.

Senator TAFT. You mean they have raised your sights, so to speak?

Mr. CRUIKSHANK. That is right, yes.

Senator MILLIKIN. Dr. Cruikshank, do you not believe that whatever we do here in the way of increasing these benefits—and I am in favor of increasing them—will just become a basis for a new series of private agreements whereupon we will be called upon to raise this again and we get into just a continual process of successive readjustments?

Mr. CRUIKSHANK. No, sir; I don't think so. I think there are brakes that operate to control a contributory plan, and that if we can make this plan the basis of a really decent retirement system and relate it to wages, particularly carrying it on up into the higher brackets of wages, and men know that as they gain increased wages they will also increase their old-age security, and if enough wages are covered all the way up, you will actually remove a lot of that pressure. If you break off the wage that is included in the computation at a point lower than many workers are getting, then I think what you say would be true. If the revised program disproportionately favors the

low-wage people at the cost of those having higher wages, what you actually do with increased coverage is to shift the burden of public assistance to a system supported by pay-roll taxes. In our opinion, in the long run it will be very difficult to maintain the policy of a contributory plan if a larger part of the higher wages are not permitted to be recoverable on retirement. The pressures for negotiating plans in collective bargaining will be increased if the wage base is not raised, and this will be a continually disturbing factor in labor relations.

Senator MILLIKIN. Pensions are a very attractive subject to bargain for, are they not?

Mr. CRUIKSHANK. Yes, sir, they are.

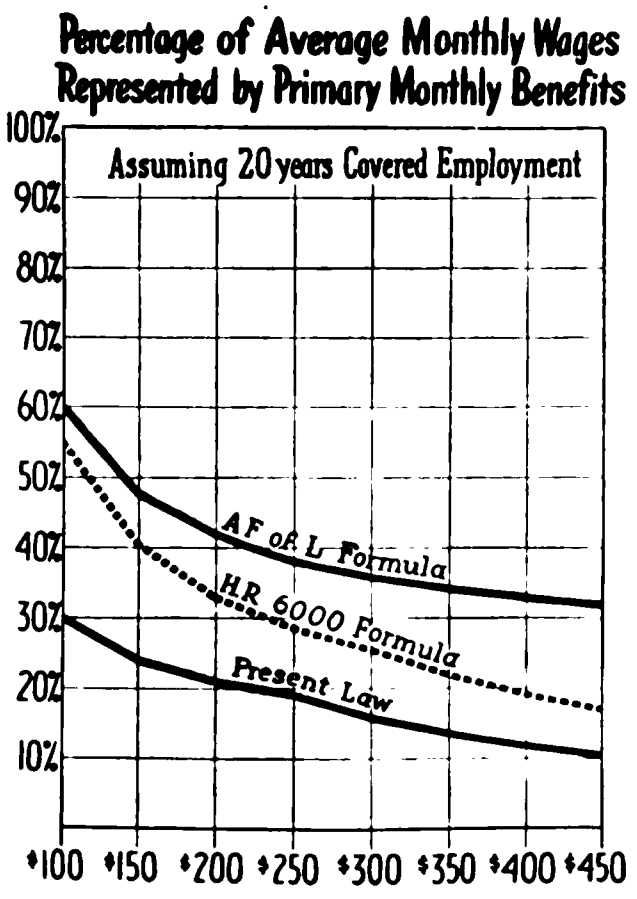
Senator MILLIKIN. No matter what we do here, would it cause that subject to lose its attractiveness?

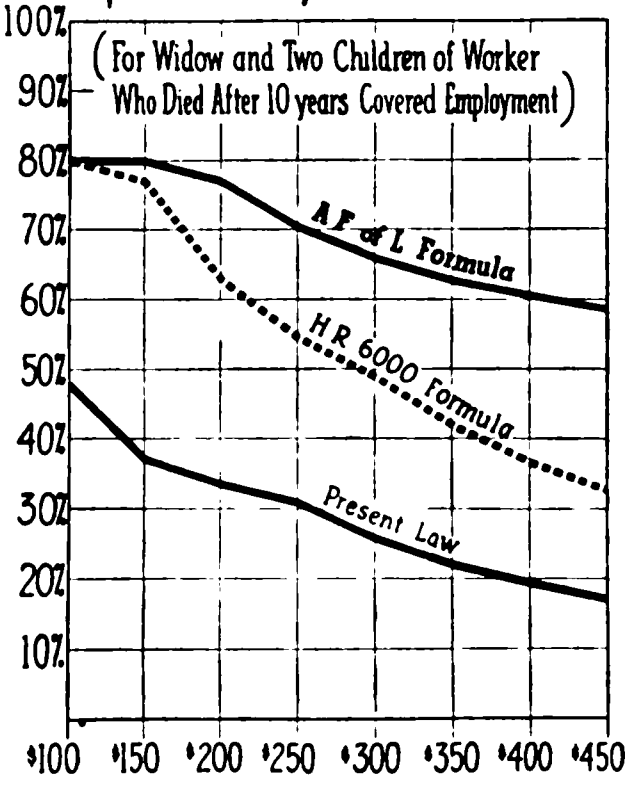
Mr. CRUIKSHANK. I think it would.

I have copies of these charts that are reduced in size for inclusion in the record, if you would like to have them.

The CHAIRMAN. We will be pleased to have you file them with the reporter.

(The charts referred to follow:)





Mr. CRUIKSHANK. If the primary benefit was adjusted in the manner we have proposed, we believe that the benefits for dependents as provided in H. R. 6000 will be adequate.

Our social-security committee further recommended that the eligibility requirements of H. R. 6000 be liberalized along the lines recommended by the Advisory Council.

One of the major reasons for the failure of the old-age and survivors insurance program to replace public assistance as the chief method of meeting income loss in old age is the difficulty which older people face in meeting the present eligibility requirements. The program has now been in effect nearly 15 years, but still only a little over

20 percent of the population aged 65 and over is either insured under the program or receiving benefits. While H. R. 6000 somewhat liberalizes the too-strict eligibility requirements of the present law, it does not in our opinion go far enough. The "new start" provisions set forth in the Advisory Council's Report more nearly meet the need.

Especially when the coverage of the program is extended it will be necessary to relax the eligibility requirements in order to prevent the possibility of large numbers of workers paying contributions for a number of years but never being able to acquire an insured status before death or retirement.

When a private pension plan is put into effect, it is customary to give credit for past service. Since it is not possible to give credit in a contributory social insurance system for past service in exactly the same way, because wage records are not available, it is necessary to presume past service both in the benefit formula and the eligibility requirements. I emphasize this point because the charge is frequently made that the liberalization of eligibility requirements represents a windfall to the newly insured workers. While the device is different from that employed in private pension plans, the principle is precisely the same. Under the formula proposed by the Advisory Council no one would be eligible for benefits who had not demonstrated a bona fide connection with the labor force. This is the safeguard that needs to be preserved.

While social-security legislation was being considered by the House Ways and Means Committee last summer, the executive council of the American Federation of Labor, in addition to its recommendations with respect to old-age and survivors insurance, made a number of specific recommendations with respect to public assistance. These relate to title III of the bill which is before you.

In its report to the St. Paul convention the executive council said:

> Our emphasis on the prior necessity for improving the contributory insurance system should not be taken as an indication that we do not appreciate the need for a well-developed public assistance program. No matter how well designed the insurance system, there will always be those who for one reason or another are not eligible for its benefits. Public assistance as we conceive it should be the last line of defense against the ravages of hunger, want, and disease.

The executive council then adopted six objectives and standards applicable to a sound program of public assistance. These were: (1) that Federal grants-in-aid should be made for general assistance payments; (2) grants made by the Federal Government should encourage the States to include aid to dependent children; (3) the Federal grants to the States should leave to the States the determination as to how payments for medical care should be made; (4) Federal grants should be made available to the States for general welfare services for adults, families, and children; (5) the States with lower per capita income should be given proportionately larger grants from Federal funds, and (6) residence requirements should be removed except for short-term requirements in case of old-age assistance.

We have reviewed the provisions of title III of H. R. 6000 in relation to these standards. We found that in a number of respects H. R. 6000 would need to be amended in order to bring it in line with them. Because these recommendations are somewhat detailed in form, I should like to submit for inclusion in the record the analysis that we

have made along with the recommendations, rather than to take the time of the committee to go into detail now.

(The information referred to follows:)

ANALYSIS OF TITLE III OF H. R. 6000 IN RELATION TO STANDARDS FOR PUBLIC ASSISTANCE ADOPTED BY THE SIXTY-EIGHTH CONVENTION OF THE AMERICAN FEDERATION OF LABOR AT ST. PAUL, MINN., OCTOBER 10, 1949

(The numbered quotations are from the Official Proceedings of the Sixty-eighth Convention, p. 170)

1. "Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing program."

Title III, part 5 of H. R. 6000 adds a fourteenth title to the Social Security Act, making Federal financial participation available to States for a new category of assistance which is called aid to the permanently and totally disabled. This category by definition applies to only a relatively small part of the persons included in the recommendation of this first objective. For H. R. 6000 to carry out this recommendation in full, the additional category would need to be amended so as to make Federal financial participation available to States in the cost of making assistance available to the entire group of needy persons including employables not now eligible for assistance under titles I, IV, and X. This recommendation does not mean that general assistance should be used as a method of dealing with mass unemployment. An extension of unemployment insurance and Federal works would be necessary to meet such a situation.

2. "The grants made by the Federal Government should encourage the States to improve the aid to dependent children."

Present provisions of H. R. 6000 provide for significant improvements in the aid-to-dependent-children program. The inclusion of an adult in the application of Federal maximums is a significant improvement and the effect of the change in the formula governing Federal participation is to increase significantly the rate of Federal participation in this program. Also, in the aid-to-dependent-children program as in relation to all the other programs, the extension to Puerto Rico and the Virgin Islands should be noted as a very desirable improvement. H. R. 6000, however, leaves unchanged the maximums governing Federal participation as they apply to children—$27 for the first child and $18 for each child thereafter. We do not believe that the inclusion of one adult at $27 makes the maximum in the aid-to-dependent-children program equivalent to the maximums prevailing in the other programs. The Federal maximum in aid to dependent children for a mother and child under H. R. 6000 is still only $54. The Federal maximum for two recipients of old-age assistance is $100. The Senate Advisory Council on Social Security recommended that Federal participation be governed by a maximum of $50 for the first person in the family, $50 for the second person in the family, and $20 for succeeding persons. This recommendation would more nearly constitute equivalent financing for aid to dependent children as related to the other categories than do the present provisions of H. R. 6000. It would also seem desirable for the aid-to-dependent-children category to include both parents within the maximums when they are in the home rather than limiting Federal participation to one adult as the provisions of H. R. 6000 do.

3. "The grants-in-aid should permit the States to determine whether payments for medical care should be made directly to the presons and agencies providing medical care and service or whether they should be paid by the needy person out of an assistance grant."

H. R. 6000 does authorize Federal participation in payments for medical care made directly to the doctor, hospital, or other vendor of medical services or supplies by the assistance agency on behalf of the needy person. Expenditures under this authorization are, however, limited to the individual matching maximums ($50 for old-age assistance and aid to the blind and $27, $18 for aid to dependent children) which must also be applied in determining Federal participation in grants to individuals for maintenance purposes so that the effectiveness of this authorization is very limited. The Senate Advisory Council on Social Security recommended that maximums governing payments to persons or agencies providing medical care and service should be on an average basis and should be over and above the regular maximums governing Federal participation in money payments for maintenance. The Council's recommendation was that this average maximum should be $6 per adult and $3 per child.

4. "Federal financial aid should be made available to the States for genera welfare services for adults, families, and children."

H. R. 6000, as it stands, contains no specific authorization for the financing o Welfare services for families and adults. Such a provision was originally con tained in H. R. 2892 but this provision was deleted.

We feel that the need for welfare services is not always indicated by th presence of economic need and is certainly not limited to those who are i economic need. To achieve the recommendation of our objective for No. 4, H. R 6000 would need to be amended to include specific authorization for the pro vision of welfare services for families and adults. Authorization of specia funds for this purpose would stimulate the States to further activity in thi area.

5. "The States with lower per capita income should be given proportionatel larger grants from Federal funds."

The formula governing Federal financial participation now written in H. R 6000 would, in general, result in a higher proportion of Federal participatio in expenditures of most low-income States. It does so, however, only becaus the payments in most of the low per capita income States are low payments Although under the formula written into H. R. 6000, the low-income State would generally experience a higher ratio of Federal financial participatior we do not feel that this carries out the recommendation of our objective No. 5 since a high ratio of Federal participation prevails only because and as lon as payments are low and not because fiscal capacity as measured by per capit income is low. To carry out this recommendation, a variable grant formul based on a comparison of the State's per capita income and the national averag would need to be substituted for the formula now in the bill.

6. "Except for a short-term requirement in the case of old-age assistance n State should be eligible to receive Federal funds if its public-assistance progra imposes a residence requirement as a condition of eligibility."

H. R. 6000 makes a reduction of maximum residence requirements permitte in aid to the blind to 1 year and places the same limitation in the new categor in title XIV. Although this constitutes a liberalization in the residence pro visions in title X and results in a 1-year residence requirement in the new title, it leaves the residence provision in old-age assistance unchanged. H. R 6000 therefore does not carry out the recommendation in this very importan aspect of public-assistance administration, and to do so it would have to b changed to prohibit any residence requirement in aid to the blind, aid to de pendent children, and the fourth category, and to reduce the residence require ment in old-age assistance to, perhaps, 1 year. This was the amendment to th Social Security Act recommended by the Senate Advisory Council on Socia Security.

Senator MILLIKIN. Mr. Chairman, may I interrupt the witness fo a question?

The CHAIRMAN. Yes.

Senator MILLIKIN. I forget what your position was on the proposi tion of ultimate Federal contribution to the system. Were you fo that?

Mr. CRUIKSHANK. The American Federation of Labor has sup ported the three-way program of contribution for the insurance system.

Senator MILLIKIN. Let me ask you this: Why should not we deter mine what the retirement benefits should be and the benefits fo dependents and start right out on a full pay-as-you-go system, withou all this other monkey business?

Mr. CRUIKSHANK. There are some appealing features to that, bu I think there are a number of important things against it. One, th workers want to have a sense of participation in it, a direct sense that comes from a direct contribution.

Senator MILLIKIN. They would have that under pay-as-you-go They would have a larger tax than they have now. It would accent uate their sense of participation.

Mr. CRUIKSHANK. If you make it just strictly pay-as-you-go, it would be a cheap system now and very expensive system later on.

Senator MILLIKIN. It has to be paid for, no matter what your system is. You may defer your payments, but ultimately they will catch up with you.

Mr. CRUIKSHANK. That is right. Of course, in a sense you do pay as you go because the people who are retired only consume generally what is produced now anyhow.

Senator MILLIKIN. At the present time we are really paying more as we go.

Mr. CRUIKSHANK. That is right.

Senator MILLIKIN. But we mask that whole thing with a reserve system which I respectfully suggest is entirely phony. So that leads me to the thought, which I present from time to time, why not start right out with a full pay-as-you-go system and if that involves Federal contribution, meet it honestly and openly and cut out all of this inconsistent mixture of an insurance system with a benefit system.

Mr. CRUIKSHANK. It is a social-insurance system, and a pay-as-you-go program of that kind would penalize certain workers as they come into certain categories. That is, workers who are young now would be called upon to pay for a larger proportion of benefits later on. The most equitable system, we feel, is to set up a modified reserve system of this kind. We do not agree with you at all that it is phoney, and I think the weight of our leading economists in this country is that it is a very valid approach to the problem, Senator.

Senator MILLIKIN. I would say that a sound reserve system is a valid approach. My argument—and I do not want to go into it because we haven't the time now—goes to the point that what we have now is not a sound reserve system.

Mr. CRUIKSHANK. It is not a fully funded system, if that is what you mean, but we do not think it needs to be.

Senator MILLIKIN. The system does not spend the proceeds which come in for enhancing the value of the insurance system. That is the sense of it.

The CHAIRMAN. Doctor, you do not comment on the fact that H. R. 6000 repeals the authorization for appropriations out of the general funds to finance the system. What is your position on that or have you taken any position on that?

Mr. CRUIKSHANK. Not directly related to this bill, and that is why I did not put it in. I was confining my statement to what has been directly related to this bill by our social-security committee and the executive council and the convention. However, in our convention actions of years past, there are statements in support of that provision for a contribution out of general revenues toward the system. It was not an action taken with specific reference to this bill, but they have never reversed that action, so I could say the position of the federation would be really to restore that provision in the act.

Senator TAFT. Broadly speaking, though, are these pensions not all paid out of the earnings of the people who are working at that time? Broadly speaking, are not we simply saying, instead of calling on the children to support their parents, we are going to call on the people who are working today to support the people over 65. Is that not the substance of the whole system? Is not that inevitable?

Mr. CRUIKSHANK. All the food they eat and most of the clothe they wear and all of course are produced this year——

Senator TAFT. If the money that is paid by them is put in bonds then you have to tax the people to pay the interest on the bonds Substantially, when you are going to support 11,000,000 of 17,000,00 people over 65, is not the only way to do it out of the current earning of the people who are working? Is there any other substantial wa to support any such tremendous cost, and are we not really saying i effect, "Now, instead of calling on the children to support their parent which has been the theory in the past, we are going to call on all th people who are working to support the people who are not workin over 65."

Mr. CRUIKSHANK. In the long run that is true, but it is also true o every private annuity plan or anything else.

Senator TAFT. I do not think it is, because you have a small grou that is perfectly able to fund their obligations, who acquire propert which is theirs to call upon when you get through. There is no suc fund and there never will be such fund. It is impossible on suc scale of payments.

Mr. CRUIKSHANK. The criticism you make of the funds being i Government bonds and all is also true of every life insurance compan

Senator TAFT. No, because the life insurance company is not th Government. As far as the life insurance companies, they call o somebody else to do it. Here we are calling on ourselves to do it.

Mr. CRUIKSHANK. It is the same people.

Senator MILLIKIN. We collect the contributions for insurance; w spend the collections for general purposes, and then we have to declar an Irish dividend and call upon the people to pay for it again.

Mr. CRUIKSHANK. Senator, I am going to skip that for a momen because Mr. Brownlow has something to say about that.

Senator MYERS. Instead of Irish dividend, you are now getting int an Irish debate.

Senator TAFT. Assuming this bill or some bill goes into effect, I d not know what the President's budget is based on, it will increase th current payments in the next fiscal year from $800,000,000 to $2. 300,000,000. How much more would the payments be increased unde the recommendations you make to increase the benefits and to exten it, and so forth? Do you have any idea how much more that would be

Mr. CRUIKSHANK. I haven't projected those figures, but we coul give them to you, if you wish.

Senator TAFT. Would it require an immediate increase in the rate

Mr. CRUIKSHANK. An immediate increase in the contribution rate

Senator TAFT. After all, we are not going to have so much surplus and if we have to pay $2,300,000,000 next year out of this old-ag insurance fund we are not going to have a tremendous surplus.

Mr. CRUIKSHANK. I do not think it would require an immediat increase. However, I could give you a statement on that.

Senator TAFT. We plan to collect about $4,000,000,000 or something like that, something in the neighborhood of $4,000,000,000 and to pa out $2,300,000,000. If this bill is passed, how much bigger would tha $2,300,000,000 be? Perhaps you could figure that for us.

Mr. CRUIKSHANK. I would be glad to; yes, sir.

(The information is as follows:)

COST STATISTICS UNDER AFL PROPOSALS WITH RESPECT TO INCREASING BENEFITS

The $2,300,000,000 of benefit disbursements in the fiscal year 1951, as shown by the President's budget, are based on the proposals of H. R. 2893 except as to effective dates, and likewise with the $4,000,000,000 figure for the tax receipts. The $2,300,000,000 includes $400,000,000 for temporary disability benefits, which, however, would be effective for only 6 months of the fiscal year and then only for the present limited coverage. (On a full-year basis after coverage had been extended and the insured population was aware of the benefits available, the outgo for this category would be somewhat in excess of $1,000,000,000 per year.) Likewise, for both benefit and tax figures, coverage is assumed to be extended at the beginning of 1951, although the other benefit provisions would be effective in July 1950. Also, the tax rate is assumed to be increased to 4 percent at the beginning of 1951.

Our proposal differs in only two important respects from H. R. 2893: Namely, a wage base of $5,400 instead of $4,800, and in the benefit formula factors: Namely, 50 percent of the first $100, plus 20 percent, instead of 50 percent of the first $75 plus 15 percent. The former change is relatively minor from a cost standpoint. Contribution income would be increased by about 1 percent relatively, and benefit disbursements by perhaps half this amount. On the other hand, the change in the benefit formula would increase costs by about 20 percent, relatively (as far as OASDI is concerned). Accordingly, the figure comparable to the $2,300,000,000 one for fiscal year 1951 would be about $2,700,000,000.

As I have indicated, the first-year cost is rather misleading, since it does not take full acount of expanded coverage or of temporary disability benefits on a full-year basis. Due to these elements, as well as to the natural increase to the program, we estimate the cost of our proposal for the fiscal year 1952 would be roughly in the neighborhood of $3,500,000,000, but at the same time since the 4 percent tax rate would be applicable for the full year to the expanded coverage and to the higher wage base, the contribution income would amount to about $5,500,000,000, so that in neither year would outgo come anywhere near to exceeding income.

Mr. CRUIKSHANK. When our convention in October adopted the standards which I have referred to, an additional principle was set forth which relates to the administration of public assistance. This principle was stated as follows:

It is especially important that in keeping with American tradition we should continue to use and augment the services and aid of voluntary organizations, and we should supplement these with Government funds and services to maintain and improve health and welfare, particularly of our children, through means which always recognize and uphold the dignity of the individual.

We have no evidence that the adoption of this statement of policy by the convention indicates any feeling on the part of our membership that the principle is not now in operations. Experience has universally shown that sound and progressive development of welfare services under private auspices has supported and fostered a sound and progressive development of programs under public auspices. The reverse is likewise true. The public programs of social insurance and public assistance in assuming the major responsibility of protection against economic need—even though this job is not yet complete—has relieved private agencies of a burden which they were financially unable to carry. Release from this burden has freed them for the more effective use of the skills of their staff, especially in the area of prevention of social break-down and distress and for a more effective development of specialized help in services to particular individuals and groups. I believe that the testimony from the schools of social work and from the fields of private family and child care will support this view.

The CHAIRMAN. Are there further questions?

Senator MYERS. I want to say I appreciated Mr. Cruikshank's testimony particularly because of its specific character and its excellent explanation and interpretation of H. R. 6000, rather than the generalizations that we have heard so frequently. I do believe he has contributed immeasurably to the deliberations of this committee.

The CHAIRMAN. We thank you, Doctor, for your contribution.

Mr. CRUIKSHANK. I cannot let this pass, Mr. Chairman, without thanking all of you gentlemen for the honorary degree you have given me this morning [laughter].

The CHAIRMAN. It does not carry any very heavy emoluments, Doctor.

Senator MYERS. Doctor, anyone who appears before this committee and testifies as you do is entitled to an honorary degree.

Mr. CRUIKSHANK. Thank you.

We now have Dr. Price, who has a brief statement, and will answer questions on this disability phase, Senator.

The CHAIRMAN. Will you identify yourself for the record?

STATEMENT OF DR. LEO PRICE, DIRECTOR, UNION HEALTH CENTER OF THE INTERNATIONAL LADIES' GARMENT WORKERS UNION, NEW YORK CITY

Dr. PRICE. I am the director of the Union Health Center of the International Ladies' Garment Workers Union in New York City. I am a member of organized medicine, being a fellow of the American Medical Association, and a member of its correlating committee on medical care for workers in industry. I am also a member of the Advisory Committee to the United States Public Health Service on Industrial Hygiene, and I don't think I need to burden you with all the other societies and committees on which I serve.

I am particularly appreciative of the opportunity to tell you something about just one phase of H. R. 6000. That is the part that concerns total and permanent disability which we have just been thrust into within the last 6 months. This retirement fund was established under collective bargaining agreement between the employers and the International Ladies' Garment Workers Union's New York joint board of the cloak and suit industry. It involves 40,000 workers in this section of the ladies' garment industry, which was approximately 200,000 workers in the New York area.

The fund began to function in July 1946 as a retirement program, and up to the present time has retired 2,214 workers on a voluntary basis after they reached 65 years of age and satisfied some eligibility standards.

In the latter part of 1949, as director of the health center, I was called in to develop and administer medically a new phase of the retirement funds' activity, namely, retirement for total and permanent disability, for which there was no increase in the contribution by the employers, due to careful handling of reserve funds.

The Union Health Center, I might tell you, is a very large organization. We handle as many as 2,700 services in a day, which involves about 2,200 individuals. We keep an accounting on every service we give. We have 175 physicians on our staff, 35 nurses, 30 techni-

cians, a well-equipped laboratory, an X-ray and electrocardiographic service equal to that of a good-sized hospital. We have five pharmacists and five clerks in a drug store which dispenses as many as 600 or 700 prescriptions a day.

This is just to give you some conception of the magnitude of the operation of this ambulatory medical service. In addition, we administer the partial and temporary sickness insurance for these 200,000 workers, and now this permanent and total disability phase of the retirement program.

Senator MILLIKIN. Do you have a special tax for that?

Dr. PRICE. Yes, that is a part of the health and welfare clause collective bargaining agreement which the employer pays into the union funds. We have been in operation 35 years, and naturally when health and welfare clauses appeared in collective bargaining, we also benefited, having had this organization and being able to expand.

Senator MILLIKIN. What percentage of the contribution is paid by the employer and what percentage by the employee?

Dr. PRICE. During the war stabilization period there was a 3-percent contribution from the employer. Half of that is used for vacation funds. A good proportion is for sickness insurance. A large proportion for hospitalization, for surgical indemnities. In other words, we run an entire social-security program ourselves. Only a million and a quarter is used in the operation of this medical institution.

Senator MILLIKIN. You have a lump sum that comes in and you allocate that yourselves to your social-security program?

Senator TAFT. The employers pay 3 percent and the employee pays something, too?

Dr. PRICE. No, nothing more. We began with the complete employee contribution back in 1913, but after collective-bargaining gains in health and welfare clauses during the war period, the employer pays the full 3 percent.

Senator TAFT. How can you do this job on 3 percent?

Dr. PRICE. There are reserves. We only operate the medical service. Of course it is a limited-scope medical service. We have a budget of only a million and a quarter dollars and that is three-tenths of 1 percent of the pay roll.

Senator TAFT. You have hospital care, and you have a lot of other things. How do you do that with 3 percent?

Dr. PRICE. I would say, of course, that streamlined and mass-production methods are used there. I think one of the important things to know is that our cost for service is so much lower than that for the charity clinics which give service right in New York because we have a population that is concentrated in one area, and we are able to give them most of this service during the hours of 4 to 7 after they are through work.

Senator TAFT. They are all right in that one building?

Dr. PRICE. Right. There are many great advantages in that operation.

From funds now available to the retirement board it was able to set aside $1,000,000 for retirement benefits for the totally and permanently disabled workers who have reached the age of 60, which means, as a trial, that only 100 such persons may be given the privilege of retirement.

The CHAIRMAN. You do not retire for total and permanent disability without an age requirement?

Dr. PRICE. No. They must be 60.

The CHAIRMAN. They must have reached the age of 60.

Dr. PRICE. Yes, and have satisfied certain eligibility requirements concerning the period that they have been employed in the industry.

Medical criteria have been so established that it is possible to determine whether or not total and permanent disability exists. Physical findings must be supported by diagnostic evidence or unquestioned evidence presented by the specialist. For example, the fact that a man has had one, two, or three coronary attacks does not necessarily mean that he is totally and permanently disabled in our industry. Our industry does not require special vigor. Our people, we have found, are able to work after having had a coronary attack.

Senator TAFT. You say they are better after a coronary attack?

The CHAIRMAN. You do not recommend it, do you, Doctor?

Dr. PRICE. They haven't followed our recommendations, Senator, and a surprisingly large number in the older-age group that have not taken more than 2 or 3 weeks' rest go back on the job because of the seasonal period in which this work occurs. They cannot afford to lose a job, in spite of our recommendations for rest. We found they had been right and we had been wrong because they lived to have a second attack at 70, which isn't so bad. We are quite fatalistic about it.

Electrocardiograms must show extensive damage to the heart muscle or clinical examination must establish definitely the presence of decompensation before we certify total and permanent disability. Evidence of near-vision blindness which prevents threading needles or operation machines or definite paralysis are unquestionably totally and permanently disabling.

We have a single classification at the present time and the criteria developed so far are exceedingly stringent. On this criteria 60 percent of the applicants were found totally and permanently disabled and 40 percent were not found to be permanently and totally disabled according to our criteria.

Now we are planning a second classification to cover some individuals whose condition might not be fully disabling on single diagnostic evidence, but who present so many different physical handicaps contributing to total and permanent disability that we would be willing to recommend that they be considered eligible for retirement. We on the medical board function only to report medical findings to the Retirement Fund. It is possible to formulate criteria to cover this classification. Let me just review for a moment and amplify this statement. In the 3½ years, 2,214 workers, or about 5 percent of the industry, sought voluntary retirement at 65 years or over. They received $65 per month.

Senator MILLIKIN. Is it mostly machine operations or machine and hand?

Dr. PRICE. Both. Most of this section of the industry is highly skilled, and we have very large impaired worker, chronic invalid and old-age groups. One hundred and five have now made application at the age of 60 or over for retirement on the basis of a claim for total and permanent disability. To date, 88 applicants have been examined

and certified by the medical review board of 3 physicians. In 53, or 60 percent, permanent and total disability was found to exist.

In 20 or 23 percent, permanent and total disability was found not to exist.

And in 15, or 17 percent, permanently and totally disabled was found not to exist, but reexamination or review was ordered in 3 to 6 months to establish progression or regression of the impairments found.

Seventy-eight percent of these examinations are done within the institution, and the balance is done in the home and in the hospital.

I described to you our facilities. I want to say the method used is a very careful, stringent use of forms to record a very thorough history, a record of the claimant's earning capacity, when he worked, when he ceased to work, what accidents he had throughout his lifetime. In view of our 35 years of service to this group, I would say that over 90 percent of the applicants have been our patients and we have their records for very many years, so that we can see the progressive degenerative conditions as they appear.

Senator MILLIKIN. Does the employer have a voice in these determinations?

Dr. PRICE. Yes. The board is made up of the employers, the union members, and representatives of the public.

Approximately one out of two were subjected to electrocardiographic examinations. One out of two was subjected to X-ray examinations. There was an average of two laboratory tests per applicant, one out of three was also examined by specialists, and in most instances it was an eye specialist.

You may be interested in general to know about this group of people who were examined: 76 percent of them, three out of four, had three or more serious diagnoses. Each individual who was declared totally and permanently disabled averaged well over four diagnoses. The individual declared not totally and permanently disabled averaged slightly less than four diagnoses.

The largest group of totally and permanently disabling conditions was related to the heart and blood-vessel system; namely, the individual who had hypertensive heart disease; repeated attacks of infarction due to coronary thrombosis; paralysis due to cerebral hemorrhage or thrombosis. Many had obliterans arteriosclerosis of the extremities. Our second group is marked impairment of vision, especially near vision caused by marked nearsightedness, cataracts, or senile degeneration of the retina.

Accompanying the cardiovascular system as a major cause of disability were frequent complications of pulmonary degenerative disease, such as bronchitis and bronchiectasis and emphysema.

The CHAIRMAN. What is emphysema?

Dr. PRICE. Emphysema is the overventilation of the lungs which occurs after a long period of bronchitis or bronchiectasis, and a great deal of difficulty in breathing, shortness of breath. Those are the symptoms.

Derangements of other systems of the body were found, but not in a degree which were considered permanently and totally disabling. I will skip them because I don't think it has any particular use here.

It is interesting to note that syphilis in our series was not a cause of total and permanent disability.

I want to give you some facts on the health of these 2,214 retired workers who sought retirement on a voluntary basis. We also had their records and in preparation I though it might interest you to know the physical state of health of these people who retire at 65 years or over. Of these 2,214 workers, 16 percent of the retired were 65 years of age; 13 percent were 66. And the percentage gradually decreased as they grew older until it reached 0.8 percent who were over 80 years of age. One was 88 years old.

Since the inception of the program in 1946, 351 or 16 percent of this group of 2,214 pensioners died; 62 percent of the 351 who died were in the 65- to 69-year-old group.

Of the 2,214 retired, it is estimated on the life expectancy figures used by the retirement fund that it would be necessary to put aside enough money for 23,505 years. After 3½ years' experience with this program we find that the life expectancy has already been reduced by early deaths to an estimate of 20,260 years on the table utilized, or an estimate average reduction of 1½ years per retired individual. Of course, this is not actuarially correct because at this time we do not know how many of these workers will live longer than the expectancy table prepared.

How long after they seek voluntary retirement do they enjoy the $65 a month? (64, or 18 percent, of the 351 dead pensioners received 1 to 3 checks before they died. Forty-five, or 13 percent, of this group received 4 to 6 checks. Fifty-six, or 16 percent, received 7 to 12 checks.)

Senator MILLIKIN. This retirement seems to be a pretty deadly business.

Dr. PRICE. It is a deadly business, but it is a very profitable one in this group for the fund. Seventy-four percent of this group of 351 died within 2 years of their retirement. The greatest proportion of deaths in this group was due to heart and blood-vessel system and cancer.

There has been some talk about H. R. 6000 being likely in the first place to influence the patient's desire for recovery. With long actual experience among this group and an insistence on our part quite often particularly in the heart clinic, asking them to retire, we find great resistance. They must prefer to work. Among workers in the garment industry who have made application for medical certification of total and permanent disability, it is rare to find a person who has no deside for recovery or for an opportunity to become rehabilitated and earn a livelihood. The sad fact is that few of these workers we examined could possibly be rehabilitated. Yet charity is repulsive to them. That is one of the reasons that this center was formed, so they could come somewhere where they could get service at a time and place and cost within their means. The requirement to prove need in order to secure public assistance is highly objectionable to their dignity. Workers cannot accumulate sufficient funds to take care of themselves and their families in the event of total and permanent disability because of the high cost of maintenance, food, housing and education, and the catastrophic effect of sickness and accidents

and the insecurity resulting from the hazards of employment in this industry.

From our experience with the workers we found that industrial workers and persons in the higher economic brackets cannot secure insurance for total and permanent disability even if such policies were freely available because of the high cost of this type of insurance and because of the limitation of physical conditions and age placed on the issuance of this insurance. It is an exceedingly remote possibility that insurance companies could give a population of substandard risks, an opportunity to be insured. Yet workers who are poor risks have often made a substantial contribution to the economy.

In the garment industry the workers have paid a high premium for this small security of retirement on the grounds of total and permanent disability by working in most instances 30 to 40 years in this industry. In the early days they worked under the most unsanitary sweatshop conditions at low wages, long hours and under the strain of seasonal fluctuations of employment. They have paid social security in recent years, but because of permanent disability or chronic disease they have become ineligible to secure the benefits of Federal social security and are unable to secure work because of their age and multiple physical impairments. These workers have well earned an opportunity to secure some assistance inasmuch as it is only in rare instances that their families can chip in to pay their housing and food for the balance of the years that they may live.

I thank you.

Senator MILLIKIN. There used to be a very high tubercular incidence in the business.

Dr. PRICE. That is right. Our institution started after the finding by the United States Public Health Service in 1913 of a very high incidence of tuberculosis. One of our most important phases of work at the present time is a tuberculosis-control program which we have maintained for 35 years.

The CHAIRMAN. Have you reduced the tuberculosis percentage?

Dr. PRICE. We have learned a lot about tuberculosis, and we have been able to return many workers with cured or arrested tuberculosis into the industry, by watching them regularly so they do not become infectious—get into the advanced stages of tuberculosis. We catch it very early now by X-raying practically every one in the industry.

Senator MILLIKIN. You have achieved a much better state of working conditions.

Dr. PRICE. Oh, yes; considerably.

The CHAIRMAN. Thank you very much, Doctor, for your appearance and your contribution.

Dr. PRICE. Thank you.

The CHAIRMAN. Mr. Brownlow?

Senator MILLIKIN. Let me award you a doctorate before we get going here. I want to say, Mr. Chairman, that Mr. Brownlow is one of our most highly respected citizens out in Colorado and a much beloved man.

The CHAIRMAN. I can very well understand that.

STATEMENT OF JAMES A. BROWNLOW, SECRETARY-TREASURER OF THE METAL TRADES DEPARTMENT, AMERICAN FEDERATION OF LABOR, AND MEMBER, AMERICAN FEDERATION OF LABOR SOCIAL SECURITY COMMITTEE

Mr. BROWNLOW. Would you rather I present the statement, Mr. Chairman, or do you want me to go through it? I realize how limited the time is.

The CHAIRMAN. You suit your own convenience. Which do you prefer?

Mr. BROWNLOW. I am at your service.

The CHAIRMAN. We would like to hear you. We regret that the committee has constantly declined in numbers, but your statement will, of course, be in the record, and they will have the opportunity to read your statement.

Mr. BROWNLOW. I appreciate the opportunity of appearing before the committee and of expressing at least one phase of my reasons for favoring the adoption of the bill.

The Metal Trades Department comprises 14 affiliated and 3 cooperating national and international unions of the American Federation of Labor, with a combined membership of over 2,000,000 members, all or some of whom are engaged in metal working industries. The department was chartered by the American Federation of Labor in 1908.

I am wholeheartedly in agreement with, and vigorously in support of H. R. 6000, concerning disability, survivors', and retirement insurance, as well as the expanded coverage, liberalized eligibility requirements, and increased contributions; and with the proposed amendments, which I feel will strengthen this bill and make it more acceptable to the many millions of people in the United States affected by it.

These improvements in the social security law are long, long overdue, and as one who has been especially interested in Federal and State social-security legislation, I believe your most active and determined attention to this bill in committee and to the amendments to it, and, of course, your support of it in the Senate is warranted.

Trade unionists are vitally interested in social security, as are the many millions of others who may be covered at the present time or who hope to be, as a result of this bill which you are now considering.

My testimony today will depart from an analysis of the bill before you. I will attempt to discuss another aspect of its effect.

The trade unions have been directly concerned with one or another aspect of social security from their very origin, over a hundred or more years ago. The local and national or international unions have themselves, provided for sickness, death and other benefits to their members, paid out of their regular dues and assessments, and they will continue to do so.

However, we must recognize that the trade-unions are, first and foremost, economic organizations, and cannot provide adequately by themselves for old age, for payments to dependents on death of members, for disability, or for sickness, with any degree of uniformity or without placing an unreasonable burden upon some employers.

In the past there have been many plans inaugurated by companies, though we have never been, and are not now, reconciled to those

company plans of providing for retirement pensions, for group insurance in case of death, or employee-benefit plans for cash payments in case of sickness. We know only too well that many, if not most of the company plans were instituted with the expectation that they would stop the growth of trade unionism.

We also know only too well that they were started and have been continued to lessen somewhat the insistence on the part of the workers for direct increases in wages and improvements in hours and working conditions. We have never been impressed with the so-called welfare plans of employers, whose main object has been to prevent the growth of free and effective trade-unionism.

We feel that these company-sponsored and company-run plans have been fetters for the workers and their trade union organizations. In fact, most if not all of this type of plan was paternal in its origin and unilaterally administered.

There was, to a great degree, reluctance on the part of the employees, to change employment, to seek new jobs, even though they might be available in periods of unemployment, due to the fear of losing their standing in the parent company plan.

There is no question on our part that what good these company plans possess would be better served if labor participated in their administration, and if they became part of the collective-bargaining process and trade agreement, rather than to continue as a pure gift, subject to revocation by the donor.

After World War I, in the early 1920's, certain unions began to negotiate for, and succeeded in obtaining, various systems of unemployment insurance, which were incorporated in collective trade agreements, mutually arrived at by management and the labor organizations. These plans continued until the passage of the social security law and the introduction of State unemployment-insurance laws.

There is, of course, no question that the advent of unemployment insurance legislation and the continued efforts on the part of the unions and farseeing legislators to retain such provisions as are already on the State legislative books, and further, to improve them, have not completely removed the incentive on the part of the unions to secure special unemployment-insurance plans through collective bargaining.

This development, in the case of unemployment-insurance and collective-bargaining contracts, is very pertinent to the relation of trade-unions to improved social-security legislation, which is being considered today.

In the 1920's, besides unemployment-insurance plans in trade agreements, there were also provisions for sickness, disability, funeral, old-age, and death benefits, as well as medical care, included in collective agreements.

The Amalgamated Association of Street and Electric Railway Employees of America was one of the pioneers in the latter type of benefit plans, while the needle trades unions were preeminent in the incorporation of unemployment insurance benefits in their collective agreements. But, notwithstanding these developments, altogether the number of plans of all kinds were very limited, and the coverage of workers very small.

It has been in the last 9 or 10 years, and particularly during the war years and since, that the movement has spread very rapidly to demand the incorporation into collective trade agreements of what

have become known as health and welfare funds. It is not my inten tion to go into detail concerning these plans. However, they do hav a definite relationship to our consideration of the provisions of H. R 6000.

But there is one aspect of this whole question of the demand fo health and welfare funds which goes to the very heart of this bill The trade-unions are, as you well know, ever-progressive organiza tions, in the sense that they represent the economic interests and th determined will of their members to demand and secure improvement in their working conditions.

We in the trade-unions have no alternative but to organize ever worker possible, and to persuade our employers to pay higher wages shorten our hours of work, and improve our conditions of work. W have no other reason for existence, no other justification, except a stated before, to improve the welfare of the workingman.

Why have the trade-unions, then, begun to put so much emphasi on health and welfare funds in collective bargaining? The answe is quite simple. Because the social-security law has not been amended Because its provisions are so antiquated and unjust. Because th benefits are so meager and unsatisfactory. Because the type of benefi is so limited.

The present social-security benefits do not begin to compare witl old-age pension benefits in the various States. I believe in my own State of Colorado—incidentally, Senator Millikin, I might say I wa in the legislature at the time when you were very active in this at th time the original old-age pension law was passed in Colorado and i has now gone to great extremes, as I understand—old-age benefit pay ments for man and wife reaching 60 years of age can be in excess o $130 per month.

I might say that the 60 years of age carries a long period of living in the State with that 65 years of age. I think 30 years residence i the State entitles them to the old-age pension at the age of 60.

Senator MILLIKIN. They must have been there since 1906, as I recall

Mr. BROWNLOW. Over 65 I think, it is 9 years, as I remember Senator.

There is no deduction from the earnings to achieve this amount The beneficiaries need only to reach the age of 60 and to have reside in the State for a stated period of years.

Senator MILLIKIN. I believe they have to show a need.

Mr. BROWNLOW. That is right. It is on the basis of need. There a means test. Also let me say this on the question of need; that witl the patrimony provision in there, they are permitted, you see, to hav their own rent and so forth, and this of course is in excess of that.

It was the fond hope of many that, as credits under social securit began to accumulate, the direct pension or gift, would gradually dis appear. However, this is not the case. I might say at the time w were considering those bills, we felt that within 12 years one woul displace the other. That is, the old-age pension as such, on the bas of need and so forth, would go down steadily and of course insuranc as a result of earnings would accrue to the beneficiary. I understan that that has not been the case, that rather than that, the old-age pen sion is increasing and the insured worker is not keeping pace with them

The earned benefits under social security are not as large as th

old-age pension payments. One does not have to stretch his imagination very much to see what occurs under a situation of that kind.

Further, there is no use denying the fact that the inadequacy of the present social security law has been a major cause for industrial strife, for unsatisfactory management-labor relations, and for much of the turmoil and unceasing demands for relief on the part of the workers in one industry after another.

The tide cannot be stopped or turned back. The workers are insistent that they receive adequate benefits and additional types of benefits not now included in the social-security law.

The workers are neither greedy nor unreasonable in these demands for adequate social security.

With a rising cost of living, in addition to the ever-expanding standard of living which we consider our American heritage, the existing scale of benefits is simply out of date. It is meaningless. And we cannot expect any American worker to think of himself as a public charge, or pauper, or accommodate himself to a reduced standard of living because of either old age, unemployment, or other reasons beyond his control, for the loss of his earning power.

We Americans have been taught to believe in the American way of life, in the American standard of living, and in American prosperity. Those who labor believe in it. They want our laws to recognize it in terms of the depreciated dollar, and the ever-increasing standard of living.

Unless the social security law is amended to provide greater retirement and survivors' benefits, and to include disability benefits as well, the trade-unions are simply compelled to fight as hard as they can on the economic battlefield, to secure improvements in benefits by and of themselves, with all the attendant strife of economic conflict.

Let me be quite blunt about the matter. You and I know that the trade-union movement includes powerful and less powerful labor organizations, and strategically placed and less strategically situated bodies of industrially organized men and women.

Not all trade-unions have the same powerful or significant economic power over the employers of the community, region, or Nation. And, because of this difference in economic and social power, the trade-unions cannot all secure the most favored, desirable, or needed health and welfare funds for their members.

In the matter of social security, there ought to be a minimum provided for all trade-unionists, and for all workers, regardless of their economic or social power.

And that minimum, incorporated in the existing social security law, ought by every standard of decency and fairness and existing economic fact, to be raised and brought up to date.

Properly financed and administered, retirement benefits are as much a charge against industry as depreciation of machinery or any other contingency that industry may provide for. That the Government has a like responsibility is also true. In the instance of old-age and survivors' insurance, the worker is willing and does make his contribution, thereby sharing the cost with the employer, who might well have to meet it all, and with Government who meets it in another form by taxation, referring of course again to direct aid to the States and so forth under the so-called old-age benefit plans.

It is 15 years since the social security law was put on the books. It is high time indeed, in view of the increased cost of living since then, and in view of our experience with the social security law, to make very much needed improvements.

I have up to now referred exclusively to the trade-unions and to trade-union members. Let me say, with all the emphasis at my command, that since the trade-union movement was first launched in this or any other country, its purpose was not only to secure better working conditions for its own members, but to secure better working conditions for all workers, for all wage earners and salaried employees, for men and women and children, for all types of workers, wherever they were found, in agriculture as well as in industry, in the home or in the factory, in Government or in private employment, in private enterprise establishments as well as in nonprofit organizations. And, note this well, for all who toil, whether organized or unorganized, in trade-unions or not, we will do our best. We believe that as trade-unionists we are the more conscious and articulate and organized, and therefore, the better able to win concessions for ourselves.

If I may digress for a moment, Mr. Chairman, the question has been brought to my attention, not once but many, many times, is it advisable that the American Federation of Labor or the trade-union movement as such pursue with the same degree of insistence that we have been in late years for increases in the social security benefits, or should we just turn directly around to the unorganized employee or for that matter to the organized employee and use it, as a matter of fact, as an inducement to join the union, that is, with those who are not members of the union, and then to those who are members say, "We can do this as a result of collective bargaining with the employer. We are not interested in the Federal limitations governing social security or retirement benefits. We will take it out of the employer." And as a matter of fact economically and particularly since the war and during the war years we have been in a pretty good position to do it, as witness what has occurred in many of the industries throughout the country.

There is now that question developing in the minds of those who have given it much thought within the trade-union movement, whether or not we shouldn't cease our activity before the Senate and the House of Representatives and say to the employer instead, "You shall pay it, and not us, and we won't even contribute," and use that as an organizing medium. Personally, I don't agree with the philosophy or the theory, but nevertheless it is becoming quite predominant in the thinking of many.

But that does not mean that we are exclusively or even primarily concerned with improvements for ourselves. We have proven by our economic and political deeds, not just words or resolutions, that we are always fighting for advanced labor and social legislation for all of the workers, in cities, States, and in the Nation.

And so we come before your committee, to secure your assent to the provisions of H. R. 6000, not to benefit the members of this or that union, but to benefit the members of all unions, and to benefit all those who are not members of any union whatever, and under present conditions, very difficult to organize in any union.

That last thought needs a little elaboration. We believe, by the passage of H. R. 6000, that it will help those who cannot help them-

selves, because of the fact that they face the most difficult obstacles in organizing into unions and thereby improving their own working conditions by and through their own economic strength.

That is the issue in this great need for the enactment of amendments providing for increased benefits to the present social security law. Shall those out of a minimum of social security who cannot provide for themselves individually or collectively?

Therefore, the subsidiary issue is: Shall those be left out of a minimum of social security, in terms of present-day prices and present-day needs, who are not strategically placed in terms of economic and social power, to compel their employers to contribute so that workers may have a decent benefit in their old age, so that their dependents may have a decent survivors' benefit, and so that the workers' families may survive when they are disabled or sick and cannot earn their normal wage?

I noticed Senator Taft asking Mr. Cruikshank and President Green about the difference in the survivors between the women and the men. President Green, of course, turned it very cleverly, I thought. That is, the Senator seemed to think that. Actually this is what happened: I am sure you are fully aware of it. Ordinarily the woman is somewhat younger than the man. As the bread-winning opportunities of the man are taken away from him, of course the same is true of the woman. The thinking, I am sure, of the A. F. of L. is that the woman and the man would be in position to retire together—when I say retire together—to go on a small farm or do something else whereby they would be together rather than just piecemeal and then separated in the sense that the man would be receiving some benefits and the woman of course none whatever, or for that matter, probably being requested to work and which she would have to do.

Let there be no mistake about it, when all of the workers everywhere—and that includes agriculture, the home, the self-employed—when all of the workers and all of the employers contribute to a Nation-wide fund, then all of the workers and self-employed benefit directly and fully.

And last, but not least, of even greater importance, such a national fund provides for everybody at the least cost and to at least a minimum, and what is more, such a national fund remains actuarily sound and solvent at all times. The workers have faith in it. They know that they can count on it all their calculations. Of course, I don't have to repeat here what has been said repeatedly relative to the history of insolvent companies, insolvent insurance companies prior to Federal regulations and other insolvencies which can develop. Of course some of these privately operated plans just leave the employee completely at the mercy of the State or any one else.

Senator MILLIKIN. If I may suggest it, all that you are saying also suggests that we have to keep this Government solvent.

Mr. BROWNLOW. Senator, I am one of those who still believes in out system very definitely. I feel that one of the greatest ways of keeping our Government solvent, not only financially but politically and econimacally generally is by meeting the problems of our people.

Senator MILLIKIN. I would agee with you on that.

Mr. BROWNLOW. I am sure you do.

Senator MILLIKIN. But I am sure you cannot meet the problems of the people on a sound basis unless you meet them with a sound dollar.

Mr. BROWNLOW. That is right. I think perhaps Lincoln stressed it, one of the early ones to stress it, when he said that Government must meet the need of its people. At the time he was talking about a strike up in Bridgeport, Conn. The question was raised as to whether or not our constitutional law was such that it prohibited certain actions up there on the part of the State agencies. Lincoln said if our constitution restricts certain actions or oppresses the people, then our constitution must be changed. I am very much afraid that the changing of the constitution sometimes can go just a little bit too far, but I think the restriction upon the changes will come when Government itself recognizes and meets the need of the people without drastic measures.

Senator MILLIKIN. What I am talking about is, if we are to accomplish the thing you are talking about and which you want, and which almost everyone wants, we cannot do it with phony money.

Mr. BROWNLOW. That is right.

Senator MILLIKIN. We have to do it with sound money. I think we have all to show an equal interest in keeping up the value of that money.

Mr. BROWNLOW. That is true, sir. There is no question of it.

Senator MILLIKIN. One of the reasons we are sitting here now is that that dollar that we talked about in 1935 is now from a 40- to 50-cent dollar, and that is one reason we are here to raise those benefits. The same process, Jim, that took it to 40 to 50 can take it the rest of the way.

Mr. BROWNLOW. That is true.

You know what it is to have a dollar put away, to have some life insurance, to have provision for the uncertainties of life, to have some assurance as to the future of your own dependents. The worker, everywhere, is entitled to some degree of feeling which you have. There is no adequate and certain and inclusive way of doing this for the workers of this, the richest land in the world, except by an adequate social security law.

We want peaceful and better management-labor relations. We can never have such relations unless the workers have a minimum of social security provided by law. As trade-unionists we can endeavor to protect ourselves, and some of us will undoubtedly succeed in winning very decent provisions in collective bargaining contracts, but again, think of the industrial chaos which might result.

But not all trade-unions are in a position to do this. Practically all nontrade unionists will get little or nothing.

The adoption of H. R. 6000 with amendments, is one of the strongest assurances for industrial peace. It is one of the finest measures to give the workers a solid sense of security concerning their future, and it is in the best traditions of our American democracy, to let the workers, all the workers, share in our prosperity, in our abundance, in our hopeful, generous, free, and ever-expanding life.

Never in all of the history of our country was it so necessary to have a united Nation, a happy people, to meet the challenge of those who would ensalve the world, and for us to set an example of what a free, democratic government can do.

One further concluding statement—there has been much comment on the practice of investing old-age and survivors' insurance reserve funds in Government bonds, resulting in double taxation. This charge

has been well refuted by the Wall Street Journal and also by the statements of the Advisory Council on Social Security to the Senate Committee on Finance, and others much more familiar than I with the investing of Government funds of this type.

Again I want to thank you for this opportunity of appearing before you.

Mr. Chairman, I have here an excerpt from the comments of the Wall Street Journal which at least in my younger days I was always told was the answer to all financial problems of the Nation, and I would like to submit it to you for inclusion in the record.

The CHAIRMAN. Yes, you may give it to the reporter for inclusion in the record.

(The information referred to follows:)

[From the Wall Street Journal, February 9, 1950]

BONDS IN UNITED STATES PENSION RESERVE—THE STALE FALLACY THAT THE TRUST FUND IS A FICTION STILL CROPS UP DESPITE AUTHORITATIVE REFUTATION

(By F. A. Korsmeyer)

Letters to this newspaper from subscribers, among other things, show that misunderstanding of the reserve fund of the old-age and survivors insurance of the Social Security Act is still widespread. Many persons still believe what some insurance company officials asserted in the middle 1930's, that the accumulation of a pension reserve fund invested in United States bonds was purposeless, that the reserve was a fiction and that it could actually result in the cost of pensions being paid twice over. Those insurance company men have long since realized their error: a sort of vicarious recantation came in 1945 from a committee representing the three principal associations of life companies. The committee said, in part:

"The first step in understanding this problem is to agree that pay roll taxes are collected so that workers may currently make a contribution to the support of the OASI system from which they hope later to benefit. The money might conceivably be held in the form of cash to be used when needed. However, the Government must currently borrow large sums, and will later need large amounts for refinancing at least some of its rapidly maturing obligations. It is reasonable for the OASI system, if it has funds available, to take advantage of this opportunity to earn interest on its money by purchasing Government bonds.

"Furthermore, the apparent double taxation does not involve an avoidable burden if it can be assumed that the excess of income over outgo is used by the Government for some essential purpose, and does not by its existence and availability stimualte unnecessary expenditures. The purchasing of bonds by the OASI system means that, later on, when it needs money in excess of pay-roll tax receipts in order to pay benefits, the interest on the bonds (raised, of course, by general taxation) will be available to meet the additional benefit load. However, if the bonds had not been bought by the system but were in the hands of the public, then not only would the interest on the bonds have to be raised by general taaxtion, but additional general taxes would have to be levied to cover the deficit in OASI operations. Current pay-roll taxation to create a reserve fund, therefore, makes possible the use of interest which the government has to raise by taaxtion anyway for a purpose which would otherwise require further general taxation on its own account."

SAME THING IN CLEARER TERMS

This heavy language is not much easier to understand than the cryptic chatter of an insurance agent trying to write another policy. A report from the Advisory Council on Social Security to the Senate Committee on Finance, rendered in April of 1948, stated its like conclusions in clearer terms. This Council was composed of 17 businessmen, economics professors, labor-union representatives, insurance company executives and scientists. Its report said, in part:

"We do not agree with those who criticize this form of investment of the OASI reserve in Government bonds on the ground that the Government spends for general purposes the money received from the sale of securities to that fund.

Actually such investment is as reasonable and proper as is the investment by life insurance companies of their own reserve funds in Government securities.

"The investment of the Old Age and Survivors Insurance funds in Government securities does not mean that people have been or will be taxed twice for the same benefits, as has been charged. The following example illustrates this point: Suppose some year in the future the outgo under the old-age and survivors insurance system should exceed pay-roll tax receipts by $100,000,000 If there were then $5,000,000,000 of United States 2 percent bonds in the trust fund, they would produce interest amounting to $100,000,000 a year. This interest would, of course, have to be raised by taxation. But suppose there were no bonds in the trust fund. In that event, $100,000,000 to cover the deficit in the old-age and survivors insurance system would have to be raised by taxation; and, in addition, another $100,000,000 would have to be raised by taxation to pay interest on $5,000,000,000 of Government bonds owned by somebody else."

GOVERNMENT'S "USE" OF PENSION REVENUE

Some correspondents of this newspaper stumble over the Government's "use" of its borrowings from the OASI reserve for general purposes, which they fail to distinguish from the alleged but nonexistent "use" for such purposes of the age-pension pay-roll tax revenue. The distinction is supremely important. Without it, the Government would be merely appropriating such revenue without compensation to those for whose present or ultimate benefit the revenue is collected. But the Government makes the distinction, and makes it effectively, by issuing Treasury obligations for the moneys it borrows from the reserve.

Lately, the Brookings Institution of Washington has published a work entitled "The Cost and Financing of Social Security" which, along with a considerable amount of useful information about other sections of the Social Security Act, unfortunately repeats the now stale errors about the alleged illusion of an OASI trust fund. Its several authors—for whose conclusions a foreword disclaims the Institution's responsibility—make on page 155 the following weirdly untrue statement:

"The OASI trust fund is invested in Federal Government securities. Since the money is used by the Government in meeting its regular expenditure requirements, no real reserve is created. The obligations of the Government (liabilities) deposited in a trust account do not represent assets; they merely record future obligations which can be fulfilled only through the levy of future taxes upon the economy in general. The trust fund is thus a fiction—serving only to confuse."

Here the authors make one or both of two assertions. One is that the Government bonds in the OASI fund are different from all other parts of the national debt in having no value as assets. The other is that all the Government's obligations are worthless. If the second reading were correct, the first would of course follow.

DEBT IS ALL GOOD OR ALL BAD

Now it is impossible to divide the national debt into two categories on any such (or any other) basis of distinction. If any segregation of the debt were imaginable, the bonds in the OASI reserve would have to be assigned a superior rating as assets. They are the property of many millions of citizens, most of whom have little or nothing else to protect them from destitiution in the feebleness of their old age. If this portion of the debt has no existence as assets in the ownership of OASI beneficiaries, the remainder of a debt which the daily Treasury statement says is now more than 252 billion dollars, doesn't exist either.

The authors do not support their assertion that the Government bonds in the pension reserve have less value than fresh toilet paper. Their statement that the investment of funds in Government bonds is not "procreative in character" is true but has nothing to do with the asset value of the bonds in the pension reserve. Their value, like that of all Government issues, is assured by the power of the issuer to assess all the trade and industry of the country (including the procreative investments of the life companies and others) for whatever it takes to pay the issuer's obligations. The issuer, of course, will do that, without regard for their ownership in or outside of the reserve fund.

There is much that is open to criticism in OASI and the changes therein proposed by pending bills. But it is impossible to assert rationally that part of the national debt is rubbish and the rest is prime investment.

Mr. BROWNLOW. Thank you ever so much.

The CHAIRMAN. Thank you, Mr. Brownlow.

Let me ask you one question. You have referred in the opening of the statement you just presented and on the concluding page to the adoption of H. R. 6000 with amendments. By that do you mean the amendment which was submitted by President Green and Dr. Cruikshank? I still stick to the honorary recognition, Doctor.

Mr. BROWNLOW. That is right. I think perhaps my reason for not specifiying it——

The CHAIRMAN. You dealt with some of them.

Mr. BROWNLOW. Is that I happen to be a member of the social-security committee of the A. F. of L.

The CHAIRMAN. I thought you were referring to those.

Mr. BROWNLOW. And naturally those are the amendments that I have in mind.

Senator MILLIKIN. The statement in that last paragraph of yours is what I would call a very light once-over. It has been the subject of a lot of debate around here and I would not want to take your time to go through it. I believe the story from the Wall Street Journal is full of holes, but we do not have to settle that today.

Mr. BROWNLOW. No. I am sure, as a matter of fact, I couldn't settle it, Senator.

The CHAIRMAN. Thank you very much for your appearance, sir.

Senator MILLIKIN. If those fellows can tell you what the market is going to do tomorrow, I will agree they are pretty wise fellows.

The CHAIRMAN. That completes the schedule of witnesses for the morning. Is there anything further that you wish to submit?

Mr. CRUIKSHANK. No, thank you, Senator. We all appreciate very much your courtesy.

The CHAIRMAN. We are very glad to hear you and to have your contribution.

The committee is in recess until tomorrow morning at 10 o'clock.

(The following statement was submitted for the record:)

STATEMENT SUBMITTED BY MORRIS HORN, BUSINESS MANAGER, OF THE PROVISION SALESMEN AND DISTRIBUTORS UNION, LOCAL 627, AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN OF NORTH AMERICA, AFFILIATED WITH THE AMERICAN FEDERATION OF LABOR

Mr. Chairman and Senators, I make this statement as business manager of the Provision Salesmen and Distributors Union, Local 627, and as special international representative of its parent organization, the Amalgamated Meat Cutters and Butcher Workmen of North America, A. F. of L., whose total membership is more than 200,000 persons. This is an appeal on behalf of thousands of workingmen throughout the country who are suffering gross inequities at the hands of their employers and the Federal Government. These victimized workers are to be found not only in the provision and meat industries, but in all fields such as processed foods, laundry, milk, bakery, soft and alcoholic beverages—in short, virtually every industry in which delivery is an element.

These men are called agent drivers. The agent driver does not want relief and assistance, but seeks social insurance as a means of eradicating economic insecurity. The granting of social insurance to the agent driver will sustain individual incentive and their mutual responsibilities under our Democratic system. Our agent drivers are employees yet they are denied all benefits of social security.

It was hoped that with the passage of H. R. 6000, the existing evils would be corrected so that an aggrieved agent driver would not be compelled to seek the aid of the courts to secure the benefits of social insurance. It was hoped that H. R. 6000, upon enactment, would provide the over-all and comprehensive base for all gainfully occupied citizens. Such legislation is in the best interest of the public.

However, H. R. 6000, as enacted by the House of Representatives, conta ambiguities which would lend themselves to the purpose of those employ who seek to deprive agent drivers from coverage. This committee undoubte knows that employers relying upon the ambiguous nature of the Social Secu Act invariably seeks to deprive their employees, engaged as drivers, from co age under the act by the subterfuge of designating more or all of their regu route salesmen into agent drivers. This was accomplished simply by tak the driver off the pay roll and putting his income solely on a commission ba Some employers went further, and required the driver to purchase his truck; others did not. In all cases, the new method was to sell merchan directly to the driver letting him keep as a commission the difference betw that price and the price at which he solds the goods.

In actual practice both the regular-route salesman and the agent driver exactly the same type of work. The agent drivers earning capacity is no grea and often a good deal less than that of salaried salesmen who perform same duties. The competition of regular drivers has made it impossible him to earn more than—at the very best—a commission of roughly 6 perce In the provision industry if he is lucky he clears $65 at the end of a wee work. The regular driver salesman meanwhile has delivered his merchand at a flat 3-percent commission to which is added a basic salary of some $ His take-home pay averages $75 a week or better and conditions in other ind tries follow the same pattern.

Both men, remember, do exactly the same type of work. Yet, if the regu driver loses his job he draws unemployment compensation. The agent dri in similar straits is out of luck, and when the regular driver reaches the of 65 he collects social-security payments. The agent driver, ineligible, is of luck again. Very often he becomes a public charge dependent upon char for his very survival. Every day more and more salesmen on fixed salar are being reclassified into this unfair category. How can they then be cal independent business men? Does this reclassification make their livelih any less dependent upon the company whose products they sell? They are ployees in every practical sense of the word.

They are indeed victimized by employers who have used them as tools for evasion and by a Government that has apparently closed it eyes to their plig

The framers of H. R. 6000, fully aware of the ambiguities contained in t existing Social Security Act and also to correct its deficiencies by broaden the definition of "employee" by specific provision (see section 210 (K) (3) a (4) of H. R. 6000). On page 81 of the House Ways and Means majority rep we find the following:

"Your committee believes that the usual common law rules for determining employer-employee relationship fall short of covering certain individuals w should be taxed at the employee rate under the old-age, survivors, and disabil insurance program. The statutory provisions set forth in paragraphs (3) a (4), (section 210 (K)) are designed to correct this deficiency in existing law extending the definition to include those individuals, who, although not employ under the usual common law rules, occupy the same status as those who a employees under such rules."

The report goes on to state that for an employee to come within the applicati of paragraph 3 he must identify himself "as one who performs services in designated occupational group. If the services are not performed in one the designated occupational groups, paragraph 3 is inapplicable with respect such services."

In addition to the necessity of identifying himself with one of the designat occupational groups, it must further be shown that "the contract of service templates that substantially all of the services (other than services by mini lessees) are to be performed personnally by such individual, there is no su stantial investment (other than the investment by a salesman in facilities transportation) in the facilities of the trade or business with respect to whi the service is performed, and the service is not in the nature of a sing transaction)."

The agent driver meets the additional requirements of paragraph 3 but bec he is not identified with one of the designated occupational groups, the pro sions of paragraph 3 of H. R. 6000 is inapplicable to him.

Representative Walter A. Lynch, one of the proponents of H. R. 6000, and member of the Ways and Means Committee, also, aware of the plight of age drivers in the course of his statement on the floor of the House, just prior to t enactment of H. R. 6000, stated the following (81st Cong., 1st sess., Co gressional Record, pp. 14192–14193, October 5, 1949):

"The bill would redefine 'employee' and would thereby restore coverage to from 500,000 to 750,000 salesmen, taxi drivers, industrial homeworkers, contract loggers, mine lessees, agent drivers and commission drivers, and other persons technically not employees at common law who were deprived of employee status by Public Law 642, Eightieth Congress, the so-called Gearhart resolution. These workers who were taken out from under the social-security program by the Eightieth Congress are dependent upon their earnings from work like other groups covered as employees under the bill."

"It is our intention to bring under coverage those who were callously thrown out of social security by the Gearhart Act and likewise to circumvent unscrupulous employers who believe that, by entering into contracts with agent drivers and commission driver salesmen and similarly situated salesmen stating that they are independent contractors, they can go behind the intent of the Social Security Act. Contract or no contract we look at the nature of the whole deal without subterfuge. * * * Many employers would like to have their salesmen designated "self-employed" and thus save their share of the tax. It is the intention of the bill to bring under coverage as many as can fairly be done so without straining the point of the employment on the one hand, and without permitting subterfuge on the other for the purpose of evading the tax."

From Congressman Lynch's statement it can be safely implied that the framers of H. R. 6000 intended to cover agent drivers. However, desptie Representative Lynch's clear and concise statement that agent drivers are entitled to the benefits of H. R. 6000, there is still a question as to whether agent drivers come within the definition of employees as contained in H. R. 6000. This is established by referring to appendix A of the analysis of definition of employee in committee print, prepared by the Committee of Ways and Means by the staff of the Joint Committee on Internal Revenue Taxation, July 22, 1949, on page 200 of Report 1300 of the House of Representatives, Eighty-first Congress, first session, where it is stated that "from testimony by representatives of groups of agent drivers before the Ways and Means Committee it would appear that many of these drivers should be treated as employees under the usual common law control test realistically applied. It is doubtful that application of the six factors listed in paragraph (3), (par. 4 of H. R. 6000) of the proposed definition would greatly improve the opportunities of these drivers to be covered as 'employees.'"

To avoid future litigation, and so that the intent of the framers of H. R. 6000 may not be left to speculation, I believe the clarifying amendments which I am submitting with this statement should be enacted. I, therefore, respectfully direct the committee's attention to these amendments and strongly urge that H. R. 6000 be clarified as therein indicated.

PROPOSED AMENDMENTS TO H. R. 6000 TO BE SUBMITTED TO SENATE FINANCE COMMITTEE

Section 210 (k) (2) should be amended as follows:

Page 49, line 4, omit "expressly."

Page 49, line 5, omit "complete."

As thereby amended, section 210 (k) (2), page 49, lines 2 through 12, would read as follows:

"* * * For purposes of this paragraph, if an individual (either alone or as a member of a group) performs service for any other person under a written contract reciting that such person shall have control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person): or".

More importantly, section 210 (k) (3) should be amended as follows:

Add a new subparagraph (G), after subparagraph (F), to read as follows:

"(G) As an agent driver or as a commission driver; or".

If the Senate committee accepts the foregoing amendment, subparagraph (G), page 50, line 8, in H. R. 6000 will become "(H)".

Section 203 (k) (4) (F), appearing at lines 14 and 15 of page 51, should be amended by adding the following: "(other than the investment by a salesman or agent driver in facilities for transportation)".

(Whereupon, at 1 p. m., the hearing recessed until 10 a. m., Thursday, March 2, 1950.)

SOCIAL SECURITY REVISION

THURSDAY, MARCH 2, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present Senators George, Kerr, and Millikin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Strachan? You may come around, Mr. Strachan.

STATEMENT OF PAUL A. STRACHAN, PRESIDENT, AMERICAN FEDERATION OF THE PHYSICALLY HANDICAPPED, WASHINGTON 4, D. C., ACCOMPANIED BY WILLIAM R. LICHTENBERG, COUNSEL TO THE FEDERATION, WASHINGTON, D. C.

Mr. STRACHAN. Mr. Chairman, because of my disabilities, my being totally deaf, I ask to submit my statement; and if the committee wishes to cross-examine, our counsel, Mr. Lichtenberg, is here.

The CHAIRMAN. You may submit your statement for the record, if that is your wish. It is my understanding that you wish to present an oral statement. You may proceed.

Mr. STRACHAN. Mr. Chairman, my name is Paul A. Strachan. I am national president of the American Federation of the Physically Handicapped, an organization dedicated to advancing the welfare of our 28,000,000 handicapped citizens, and which organization is known to Members of Congress in connection with legislation for the handicapped.

In discussing H. R. 6000, I desire to concentrate upon that section of the bill—part 5, "Aid to the permanently and totally disabled"—beginning on page 186 and extending on to page 196. However, in passing, I wish to emphasize that I am not opposed to the general program proposed in H. R. 6000, except that I do not believe the benefits cited therein go far enough to meet our present economic needs.

Mr. Chairman, this is my formal statement, and I would like to submit this and discuss the matter informally from here on.

The CHAIRMAN. Yes, sir. You may do so.

(The prepared statement of Mr. Strachan follows:)

STATEMENT OF PAUL A. STRACHAN, PRESIDENT, AMERICAN FEDERATION OF TH PHYSICALLY HANDICAPPED, WASHINGTON, D. C.

My name is Paul A. Strachan. I am national president of the American Fe eration of the Physically Handicapped, an organization dedicated to advanci the welfare of our 28,000,000 handicapped citizens, and which organization known to Members of Congress in connection with legislation for handicappe

In discussing H. R. 6000 I desire to concentrate upon that section of the bill- part 5, "aid to the permanently and totally disabled," beginning on page 1 and extending onto page 196. However, in passing, I wish to emphasize that am not opposed to the general program proposed in H. R. 6000, except that do not believe the benefits cited therein go far enough to meet our prese economic needs.

But H. R. 6000 is not a bill bearing upon the processes of restoration and r generation, physically, of human beings, and which processes are commonl termed "rehabilitation."

For long years I have noted the gradual encroachment of various forms public assistance agencies into the field of rehabilitation. Today, for exampl public assistance not only handles payments to blind, but, in addition, handl the examinations of blind. Obviously, the blind are a part of the huge famil of the physically handicapped, and I believe the blind belong, as do all othe handicapped, under the original jurisdiction of the rehabilitation services, a not public assistance, and that the latter agency's sole function should be t pay off when authorized and directed to do so by the rehabilitation service which should certainly have the primary responsibility for determining th physical condition of handicapped people, not public assistance agencies.

Why do I take this position against public assistance? Simply because, pul lic assistance, in itself, produces nothing; looks forward to nothing save a co tinuance of its own feeble efforts to plug the hole in the economic dike and at best; only a stopgap, rather than a cure of a condition. Public assistanc it is true, has an important place in our scheme of government, and it is greatl needed, but not as a policy-making or operating agency, directing or controllin work outside its own natural domain.

I vigorously assert that, today, many of the officials of public and privat assistance agencies, as well as organizations representing their interests, ar busily spending their time and effort promoting programs that further involv the charity approach, by using their services. I am only concerned with thes if and when public-assistance agencies deal with various phases of rehabilita tion of the individual outside their regular orbit.

Unquestionably, the first concern of Federal, State, county, or municipa governments should and must be, in the case of the physically handicappe individual, how to get that individual onto his or her feet, if possible, and abl to earn a living, wholly, or in part. A straight-out pension proposition ha nothing to do with that, and neither this federation nor myself have ever pro posed a pension plan of that sort.

I firmly believe that the ultimate goal of all rehabilitation must be: T put the individual to work. I emphasize this because, in all the years when was physically too incapacitated to carry the ball for the handicapped, th rehabilitation agencies took the stand—and even now, in their latest monthl magazine reiterate it that, so long as medical treatment and possibly som form of vocational training was provided, that rehabilitation agencies wer under no further responsibilities to the handicapped.

I repudiate that program, horse, foot, and dragoons. I summon the hand capped, whose needs, primarily, were responsible for these rehabilitation agen cies having been established in the first place, and I ask them to tell your com mittee, Mr. Chairman, that they do not want charity, but, do want to be place in condition to earn and pay their own way, if possible, and that, emphaticall work—not idleness—is their hope and salvation.

I summon the taxpayers, whose money pays for the extravaganzas carrie on in the sweet name of "rehabilitation" by these States agencies, and I as these citizens, "Is it your intent and desire to spend your money to promot a condition of idleness on the part of individuals, which would be the logica end of the program announced by the Sanhedrin of the rehabilitation caste— the State director of rehabilitation?"

I respectfully inquire of the Members of Congress, some of whom are still with us from the days when, back in 1920, we worked to place the first Vocational Training Act, from which all subsequent rehabilitation legislation has stemmed, on the books, and I ask: Did Congress intend to promote idleness, or employment, when it established the rehabilitation program? Has it ever met with the approval of the Congress that these agencies dawdle along, as they did for some 24 years, until the iron pressures of war necessity aided by some few of us who understood the situation and demanded a change—action, instead of inaction; results, instead of alibies—from these same agencies, took steps to force installation of up-to-date methods and a program in line with the needs of the times?

I can assure you, Mr. Chairman, that those of us who worked to put the first law onto the statutes, 30 years ago, intended that law to be a powerful means of promoting employment of handicapped people. We certainly did not intend, and I am sure no one at interest at that time intended, that we merely—to use an illustration—pour the Arbuckles' coffee beans into the grinder and after a few turns, remove the grains before they were reduced to usable form. No, we intended to go through with all of the program, from medical treatment; education and training; vocational guidance and counseling, and certainly, placement of the handicapped in suitable employment. This ideal has been, and should be, the real genesis of the program, and, as fast as amendments to the original law could be obtained, the program, piecemeal, has been brought into function.

If we accept the theory, then, that rehabilitation has primary jurisdiction in the field of the handicapped, and that the ultimate end of rehabilitation should be, employment of handicapped people, we must, at the same time, consider the imperative needs of those who are condemned to misery and want, by physical defects or congenital deformities, and from disabilities arising from injury or disease, who are rendered wholly incapacitated and are termed by rehabilitation agencies "totally and permanently disabled, and unfeasible for rehabilitation, and unemployable."

In a sense, the pension provisions of H. R. 6000, part 5, deal with this problem. But, as stated, if rehabilitation is the desired end, and if new treatments, and advances in medical science, hitherto unknown, might be the means of getting the individual onto his feet, as has been the case with thousands and thousands of people, including myself, who have generally been termed "unfeasible for rehabilitation," then, we respectfully urge that the committee substitute the plan outlined below. We are certain, in the long run, that our plan will prove much more efficacious and economical than the one outlined in H. R. 6000 under part 5, as we know from our own experience and observation that many of those termed "unfeasible for rehabilitation," with proper treatment and training, can be rehabilitated, and if the committee wishes, I can furnish proof.

In our own plan we provide a means of check-up; something entirely lacking in H. R. 6000. The individual case under our plan would be handled as follows:

1. The State rehabilitation agency would make a thorough physical examination at least once each year, to determine whether the individual is still "unfeasible" or, whether or not some treatment or medicine may be the means of curing or at least improving the condition causing the total disability.

2. Upon certification by the State rehabilitation service that the individual is "totally and permanently disabled and unfeasible for rehabilitation," the public assistance agency, or whatever agency of the State is the disbursing agent, shall place the individual on the rolls to receive a Federal grant of $60 per month.

No sensible person would seriously contend that $60 per month is sufficient to care for a person who is totally and permanently disabled, and, very likely, in nearly every instance, requiring an attendant to look after them. But, we firmly believe this to be an absolute minimum which should be provided by the Federal Government. Our plan does not debar the States from adding to this sum. We do not believe the set-up, as written in H. R. 6000, is either adequate, or is as practicable a method as that we have outlined and we hope that the committee will approve our suggestion and, with whatever changes the drafting service may make, necessitated to make the language harmonize with the bill, otherwise, we respectfully urge that the following be substituted for the present part 5, "Aid to the totally and permanently disabled," page 186, H. R. 6000:

"GRANTS TO STATES FOR AID TO THE TOTALLY DISABLED, UNFEASIBLE FOR REHABILITATION

"SEC. 351. The Social Security Act is further amended by adding, after title XIII thereof the following new title:

"'TITLE XIV—GRANTS TO STATES FOR AID TO THE TOTALLY DISABLED, UNFEASIBLE FOR REHABILITATION

"'APPROPRIATION

"'SEC. 1401. For the purpose of enabling each State to furnish financial assistance to needy individuals who are physically or mentally incapacitated and certified pursuant to section 1402 to be unfeasible for rehabilitation, there is hereby authorized to be appropriated for the fiscal year ending June 30, 1951, the sum of $————, and there is hereby authorized to be appropriated for each fiscal year thereafter a sum sufficient to carry out the provisions of sections 1401–1405.

"'Sec. 1402. STATE PLANS FOR AID TO THE TOTALLY DISABLED.—(a) A State plan for aid to the totally disabled must (1) provide that it shall be in effect in all political subdivisions of the State, and, if administered by them, to be mandatory upon them; (2) either provide for the designation or establishment of a single State agency to administer the plan, utilizing present State agencies for vocational rehabilitation, as provided for in other enactments, or provide for the designation of a single State agency to supervise administration of the plan; (3) provide for payment of $60 per month to each individual certified by the State as totally and permanently disabled, unfeasible for rehabilitation, and without means of livelihood and support, provided such individual qualifies under the provisions that the benefits of this Act shall be extended only to persons who are in financial need of such assistance, and the Federal Agency responsible for rehabilitation is authorized and directed to establish by regulation qualifying standards for persons seeking such benefits: *Provided*, That nothing contained in this section shall be construed to debar any person from seeking or receiving any benefit specified herein; (4) provide for the periodic medical examination, at intervals not to exceed one year apart, of each individual certified as unfeasible for rehabilitation and receiving monthly payments of $60; (5) provide for the discontinuance of payments to, and the necessary treatment and training for rehabilitation, pursuant to the Act of June 2, 1920 (41 Stat. 735) as amended, of each individual found, after examination, to be capable of rehabilitation: *Provided*, That any individual found, after treatment or training to be incapable of self-support, shall be immediately eligible to receive the monthly payment of $60; (6) provide for granting to any individual whose claim for aid is denied, an opportunity for a fair hearing before such State agency; (7) provide such methods of administration (including methods relating to the establishment and maintenance of personnel standards on a merit basis, except that the head of the Federal agency having jurisdiction in Rehabilitation affairs 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 head of the Federal agency having jurisdiction in rehabilitation affairs to be necessary for the proper and efficient operation of the plan; (8) provide that the State agency will make such reports in such form and containing such information as the head of the Federal agency having jurisdiction in rehabilitation affairs may, from time to time, require and comply with such provisions as the head of the Federal agency having jurisdiction in rehabilitation affairs may, from time to time, find necessary to assure the correctness and verification of such reports; (9) provide safeguards which restrict the use or disclosure of information concerning applicants, and recipients, to purposes directly connected with the administration of aid to the totally disabled.

"'(b) The head of the Federal agency having jurisdiction in handicapped affairs shall approve any plan which fulfills the conditions specified in subsection (a), except that he shall not approve any plan which imposes, as a condition of eligibility for aid to the totally disabled under the plan—

"'(1) any residence requirement which excludes any resident of the State, who has resided there for one year immediately preceding the application, or

"'(2) any citizenship requirement which excludes any citizen of the United States.

"SEC. 1403. PAYMENTS TO STATES.—(a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for aid to the totally disabled, for each quarter, beginning with the quarter commencing , (1) an amount which shall be used exclusively as aid to the totally disabled, equal to the product of $60 multiplied by the number of monthly payments made during such quarter to individuals certified by the State agency representing the Secretary, (or the head of the Federal agency having jurisdiction in handicapped affairs), pursuant to 1402, (not including any individual who had been reported by the State as capable of rehabilitation unless such individual has been subsequently found to be incapable of rehabilitation), and (2) an amount equal to the total of sums expended by the State during such quarter for medical examination of applicants and other services which are found necessary by the Secretary (or the head of the Federal agency having jurisdiction in affairs of the handicapped) for the proper and efficient administration of the State plan, which shall be used for paying the costs of administering the State plan or for aid to the totally disabled, or both, and for no other purpose.

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

"'(1) The Secretary (or head of the Federal agency having jurisdiction in affairs of the handicapped) 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 totally handicapped individuals in the States, and (C) such other investigation as the Secretary (or head of the Federal agency having jurisdiction in affairs of the handicapped) may find necessary.

"'(2) The Secretary (or head of the Federal agency having jurisdiction in affairs of the handicapped) shall then certify to the Secretary of the Treasury, the amount so estimated by the Secretary (or head of the Federal agency having jurisdiction in affairs of the handicapped), (A) reduced or increased, as the case may be, by any sum that he finds that his 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, and (B) reduced by the net amount recovered during a prior quarter by the State or any political subdivision thereof with respect to aid to the totally disabled furnished under the State plan; except that such increase or reduction shall not be made to the extent that such sums have been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Secretary (or the head of the Federal agency having jurisdiction in handicapped affairs) for such prior quarter; *Provided*, That any part of the amount recovered from the estate of a deceased recipient which is not in excess of the amount expended by the State or any political subdivision thereof for the funeral expenses of the deceased shall not be considered as a basis for reduction under the clause (B) of this paragraph.

"'(3) The Secretary of the Treasury shall, thereupon, through the Fiscal Service 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 Secretary, the amount so certified.

"'SEC. 1404. CHANGE IN OR FAILURE TO COMPLY WITH PLANS; STOPPING PAYMENTS.—In the case of any State plan for aid to the totally disabled which has been approved by the Secretary (or the head of the Federal agency having jurisdiction in affairs of the handicapped), if the Secretary (etc., etc., etc.), after reasonable notice and opportunity for hearing to the State agency administering or supervising the administration of such plan, finds that in the administration of the plan there is a failure to comply substantially with any provisions required by section 1402 of this Act to be included in the plan, or that the plan has been so changed or administered as to impose any residency or citizenship requirement prohibited by section 1402 (b) the Secretary (or head of etc., etc.) shall notify such State agency that further payments will not be made to the State until the Secretary is satisfied that such prohibited requirement is no longer so imposed, and there is no longer any such failure to comply. Until he is so satisfied, the Secretary (or the head of, etc., etc.) shall make no further certification to the Secretary of the Treasury with respect to such State.

"'SEC. 1405. The Secretary (or head of the Federal agency having jurisdiction in affairs of the handicapped) upon compilation of reports received from State agencies administering this program, shall report to the President, and to the

Congress each year, upon the number and type of unfeasible cases, and th disposition made thereof.' "

NOTE.—The reason we have used, in the foregoing, in several places, "Th Secretary (or the head of the Federal agency having jurisdiction over affair of the handicapped)" is, because other bills are pending, enactment of whic will change the base of operations of the present rehabilitation program, from th Federal Security Agency, to the Department of Labor. Until this matter i settled, we cannot definitely state which agency, or individual, will have jurisdic tion. Hence, the reason for using the language referred to.

We firmly believe that the foregoing should be approved by the committee, and we are confident, if so, the action of the committee, thus will have tremendou bearing upon improving the whole rehabilitation and employment of handicappe program.

I thank the committee for its courtesy and consideration.

Mr. STRACHAN. I wish to enlighten the committee with the very latest comparison of statistics in the disabled field. My desire in thi matter is to emphasize to the committee the necessity of establishing what we would term rehabilitation as having priority of jurisdictio over so-called public assistance.

I dwell upon that in my formal statement, so I am not going ove it again. But I point out that H. R. 6000 is not a rehabilitation meas ure but largely a relief measure.

Now, as for the totally disabled, the committee no doubt will recal the National Health Survey of 1935–36, at which time it was found that there were 23,600,000 who were in some degree disabled, of whom 16,000,000 were between the nonbenefit social-security ages of 16 and 6

From testimony of the approximately five-hundred-odd experts who appeared to testify before the House Labor Subcommittee t Investigate Aid to the Physically Handicapped, which sat for mor than 2 years, ending its labors in 1946, it was stated by such witnesse for the various agencies and organizations in this field that, adding all numbers together, there are approximately 38,000,000 handicapped in this country.

Later, when Gen. Graves B. Erskine was Administrator of Re training and Reemployment Administration, further studies devel oped the belief that of the 38,000,000 handicapped above referred to many of them had more than one handicap. For example, a cardia might also be blind, or deaf, or have some other injury or disease and the same applies to all other types of handicapped.

So it was estimated in 1948 that there are conservatively 28,000,00 handicapped citizens, of whom, it was believed, from 5,000,000 t 7,000,000 fall into the category of the severely disabled.

For more than 30 years, Mr. Chairman, I have been trying to ge the facts, from time to time, as to the total number of disabled. There are no accurate figures available from any source. It is guesswork We have a bill, sponsored by the eminent Senator from Colorado, Mr Johnson, which would provide for a survey of handicapped, and which bill has been reported favorably to the Senate from the Com mittee on Post Office and Civil Service the past two sessions, but wa stopped on the floor by Senators Ball and Taft.

I earnestly beseech your support for that bill, on a common-sens basis, because today we are spending and are planning to spend hun dreds of millions of dollars in various phases of a health program and we do not know how many handicapped we have, what is the matter with them, or where they are. To me, that is legislating i the dark, and it is most unbusinesslike and lacking in efficiency.

On December 7, 1945, Mr. Barkev S. Sanders, Chief of the Division of Health and Disability Studies, Bureau of Research and Statistics, of the Social Security Board wrote me:

I would estimate the number of totally disabled in our population is probably as large as 3,000,000 or more.

And that was in 1945.

When representatives of the Townsend program appeared before your committee in the past few weeks, they stated, in appendix B of their statement, that the number of citizens between the ages of 18 and 60 incapacitated for employment from any cause for greater periods than 6 months totals to 2,400,000. They gave as authority for that statement the United States News and World Report of April 15, 1949, the text of an interview with Arthur J. Altmeyer, Commissioner of the Social Security Administration.

Thus, since it would appear that Mr. Sanders' letter would antedate the statement of Mr. Altmeyer, and since these gentlemen are both in the Social Security Board, it would appear to me that they should get together and agree upon some story for public consumption.

This past week, the Veterans' Administration advised me that, on June 30, 1949, there were 109,488 veterans of all wars who have service-connected total disabilities. Further, the Veterans' Administration states: On their rolls now there are 2,343,045 both service-connected and non-service-connected disabilities for all wars.

It is understood, of course, that service-connected total disabilities would be cared for by the Veterans' Administration rather than by H. R. 6000, but I am making this comparison for the committee's information.

Now we come down to the question of the advisability of rehabilitation as compared with relief. As long as there is any hope of recapturing abilities of the individual, restoring individuals to health so that he or she can earn their way fully or in part, I think that is the first consideration of any government if it is to deal with problems in this field. Therefore, our organization has always emphasized that rehabilitation as such, to be successful, must end in a job. No other proposition is really practicable.

Now, the United States Employment Service records on handicapped placements began in 1940, and from 1940 through December 31, 1949, the total was 1,797,734 placements. One interesting statistic is this: In the year 1940, the total of handicapped placements for the entire year was 27,675. Since establishment of National Employ the Physically Handicapped Week, of which I have the honor to have been the author, and for which you, Mr. Chairman, voted, the average placements in October of each year, when the "Week" is observed nationally, are many more for that 1 week than the total placements of handicapped for the year 1940.

Further, of the approximately 150,000 placements made through employment offices and the estimated 100,000 additional placements of handicapped through private sources, more than 600,000,000 has been paid to these handicapped in salaries or wages since 1945, when the "Week" first became a law, and these handicapped have paid the Federal, State, and other governments more than $150,000,000 in taxes to help support their country, and to stand upright and look every man

squarely in the eye with the grand and glorious feeling that comes from being able to earn your own way.

Mr. Chairman, that is the kind of program that our federation has been sponsoring.

In an address before the Tenth Annual Congress on Industrial Health, sponsored by the Council on Industrial Health of the American Medical Association, Mr. Ewan Clague, Commissioner of Labor Statistics, on February 21 last, stated:

> Since 1900, alone, the average life expectation at birth for white men has increased by 17 years, from about 48 years in 1900 to 65 years in 1947. Under 1900 conditions of mortality in the United States, only about 39 out of every 100 while male infants could expect to survive until age 65. At present, about 62 out of every 100 can expect to attain the conventional age of retirement.

Mr. Chairman, I would like to submit with your approval and that of the committee, Mr. Clague's entire speech for the record, because it is the most scholarly dissertation and the most accurate and up-to-date outline of this important situation that we have, and I believe the whole Congress and the general public should know about it. I tender it for your purposes if you wish to use it.

The CHAIRMAN. Yes, sir. You may put it in the record.

(The speech of Mr. Clague follows:)

SOME INDUSTRIAL ASPECTS OF AGING

Address by Commissioner Ewan Clague before the Tenth Annual Congress on Industrial Health, sponsored by the Council on Industrial Health of the American Medical Association in New York City, February 21, 1950

The problem of retirement, and many related economic and social aspects of aging, are today commanding widespread national interest. I can think of few groups before whom I would rather discuss this problem than before a group of members of the medical profession. For, in a very direct way, the magnitude of the old-age problem today reflects the tremendous gains in life conservation which have been made possible by medical science and its practitioners.

Over the years, our increased knowledge and control over disease, coupled with the great advances in living standards, have enabled a progressively greater proportion of our population to survive into old age. Thus, since 1900 alone, the average life expectation at birth for white men has increased by 17 years, from about 48 years in 1900 to 65 years in 1947. Under 1900 conditions of mortality in the United States, only about 39 out of every 100 white male infants could expect to survive until age 65. At present, about 62 out of every 100 can expect to attain the conventional age of retirement.

These sharp reductions in mortality, in combination with other population trends, have brought about an exceptionally rapid increase in the numbers and proportion of aged in the population. In 1900, only about 3,000,000 persons or one out of 25, was 65 years and over. At present, about 11½ million men and women, or about one out of 13, are found in this age group, and it is continuing to rise rapidly each year. If recent trends continue, the number of aged will more than double before the end of this century, and they will comprise a significantly greater percentage of the population than at present.

If we expand our picture of the aging population to include those persons of mature years who are approaching the period of retirement, the group between 45 and 64 years of age, the growth is also impressive. In 1900, this age group accounted for about one-seventh of the total population; at present, one out of every five persons is found in these ages, and—in all likelihood—this group will continue to grow in importance in the next several decades.

If employment opportunities for the old and near-old had kept pace with their increase in numbers, there would today be no special economic problem of the aged. But that, we know, has not been the case. In fact, the very scientific and technological advances which—in the field of medicine—have meant an extension of biological life, have operated—in the field of industry—to limit the span of working life. The great industrial transformation of the past cen-

tury, from a predominantly agrarian economy of farmers and small handicraftsmen, to a highly urbanized economy of mass-production industry and large-scale business, has effectively tended to limit the scope of employment for our growing aged population.

A few general facts and figures will serve to document this basic trend. In 1900, about two-thirds of all men 65 years and over were still engaged in a gainful occupation. By 1940, this proportion had dropped to slightly over two-fifths. At present, in the relatively more favorable postwar labor market, less than half of the men in this aged group are found in the labor force.

This trend toward earlier retirement, and toward a consequent widening in the period of old-age dependency, is also highlighted by a forthcoming study of the Bureau of Labor Statistics on the length of working life. Under the conditions prevailing at the beginning of the century, the 20-year-old white man had an average future life expectancy of 42.2 years (or to age 62), and could expect to work for an additional 39.4 years (or to age 59). He could, therefore, anticipate a gap of about 3 years between his working life and his total life span. By 1940, he could expect to live for an additional 46.8 years, a gain of about 4½ years over 1900. His remaining working-life expectancy of 41.3 years, was, however, only 2 years greater than in 1900. So, on the average, the gap between working life and total life expectancy had almost doubled in the course of these four decades.

Now this growth in the average retirement period, even when multiplied by the greatly increased numbers of persons in the aged group, would in itself be no cause for alarm. It might, in fact, be viewed with satisfaction if it simply resulted from an increasing preference of the older worker to spend the closing years of his life in retirement, and from an increasing financial ability to do so.

To some extent, this of course has been a factor. Our increased national productivity and the resultant rise in earnings and living standards, combined with the extension of social-security and pension programs, now make it economically possible for some modest proportion of our labor force to live comfortably in retirement if they so desire.

Undoubtedly, there are also present in our industrial labor force many aged workers, in their sixties and above, who have continued to work, but who, for reasons of health or otherwise, would really prefer to retire, if they were given an effective choice between continued work and retirement. Current studies of spending and savings indicate clearly, however, that very few industrial workers are in fact able to set aside any significant amount of savings during their period of working life against old-age or similar contingencies. According to Federal Reserve Board surveys, even during the prosperous year of 1948, more than one out of every three families in the United States was unable to save anything and another fourth of our families saved less than $200. Set against this record the fact that, according to insurance actuaries, a worker would require almost $15,000 in cash to be able to provide himself with a modest annuity of $100 per month, starting at age 65.

The Federal social-security program, at its present scale of benefits, also affords scant relief to the retired worker. Monthly benefits to retired persons under the Federal old-age and survivors insurance program now average $26 per month for the single worker, and about $41 for an aged couple. As a result of the gross inadequacy of these old-age insurance benefits, we have witnessed—on the one hand—a great expansion in the Federal-State programs for welfare old age assistance, and—on the other hand—a powerful drive on the part of organized labor to negotiate directly with industry for pensions. The results of this drive have been in the headlines for many months, and scarcely need elaboration at this time.

Another and, I believe, more fundamental approach to the problem of old-age security is the expansion and improvement of the Federal old-age insurance program. The amendments to the Social Security Act, passed by the House at the last session of Congress and currently pending before the Senate, provide for a very substantial expansion of coverage of this program, for a more realistic level of benefits (almost double the current scale), and for other needed improvements, including benefits for permanent and total disability prior to age 65. When these amendments are passed—and I am confident that they will be—we shall have in effect in this country a broadly expanded and revitalized Federal social-security program, which will come close to providing basic protection for retired workers and their dependents. There will still be a need for continued supplementation by assistance programs for those aged persons without any substantial period of service in covered employment. And

there will still be ample room for union and industry pension programs whic in combination with social security, may more nearly approach the standar of living which most American workers would like to maintain in their old ag

Although an expanded old-age insurance program will thus have the effe of affording many aged workers a real choice between continued work an retirement, I believe that it would be a serious error to believe that we wi have licked the economic problem of the aged. Some workers over 65 will u doubtedly prefer to retire. There is real danger, however, that others may effect be pushed into retirement. Despite the favorable wartime and postwa experience of industry with older workers, many employers, I fear, still ten to regard their elderly workers as a drag on their work force, and may b tempted to regard the expansion of retirement benefits as an occasion for i stituting or expanding compulsory retirement policies.

Yet, whatever evidence we have available on this subject suggests that the is a group of older workers—and I believe, a very large group—who do n look forward to retirement even under a moderately adequate pension, but wh want to continue working as long as they are capable, and as long as suitable jo opportunities are made available to them. For example, the Social Securit Board conducted a special field survey of persons receiving old-age insuran benefits in 1941–42, and found that only about 5 percent of those receiving ol age benefits had retired while in good health and simply because they wished t retire. More than half had been laid off by employers, while most of the othe had quite because of illness or failing health.

Other scattered information in the postwar period also reveals a simil pattern. Thus, of the nearly 24,000 coal miners who were receiving pensions o $100 per month from the Miner's Welfare Fund in mid-1949, less than one-tent had stopped work voluntarily in order to receive the pension. The others we disabled or had previously been laid off.

Even more far-reaching in scope is the situation of many workers of matu age, between their late forties and sixties, who have not yet attained retiremen age, but who are exposed to the risk of involuntary and premature separatio from the working force. In the case of workers in this age group, pensions a clearly not the solution, except for the minority of workers who are disabled f further employment. Yet the increased tempo of modern industry and its mo exacting and rigid job standards often place these workers at a serious com petitive disadvantage.

We observed this particularly during the depression of the thirties, when man older men and women, once forced out of jobs, found it increasingly difficult t secure reemployment, and formed a hard-core of unemployed. And even und relatively prosperous postwar conditions, this same problem exists, though in lesser degree.

For both the mature worker approaching retirement age, and for the old men and women who still want to continue in gainful employment, pensions o not, therefore, offer a full solution. Rather, we must focus on ways and mea to extend their span of productive and satisfying work activity.

At the outset, we must realistically face up to the fact that many older worke in industry do have certain real handicaps. The most obvious source of difficult appears to be simple physiological aging, bringing with it reduced muscul strength, slower reflexes, decreased keenness of sight and hearing, and a variet of chronic disabilities. Recent studies indicate, however, that the extent o physical impairment may be exaggerated in popular thinking. Many of th physical changes associated with age not only tend to occur more slowly than w once supposed, but also interfere less than we would expect with performanc on the job. There is evidence, for example, that experience on a given job ofte tends to maintain the particular kind of vision that the job demands after othe visual functions become impaired. Moreover, we know that psysiological an chronological age may differ greatly, so that many an oldster has keener hearin and better vision than an average man 20 or so years his junior. This emphasize the great importance of appraising the older worker as an individual, who ma be quite unlike the average man of his age.

More subtle, perhaps, than physiological aging (although related to it) are th psychological accompaniments of growing older. There is the well-know although often overestimated, reduction in learning speed, a lessened adap ability to new ways of doing things, and, in some cases, a tendency to becom cantankerous and "hard to get along with" in ordinary working relationships.

The extent to which various mental and physiological effects of aging handica the older worker vary greatly among different types of employment. In the mas

production industries, for example, we might visualize a model worker as one who is alert, fast-moving, and readily adaptable to changing situations. He has no obvious personality problems and can work smoothly in a production team. In comparison with this ideal, many older workers fare badly.

However, even in many production jobs, the picture is not one-sided. A survey made by the Bureau of Labor Statistics during the war showed that the lowest rates of absenteeism occurred in the 55–59 age group. Men over 65 had a slightly higher rate, but even so they lost much less working time than men in their twenties and teens. With respect to work injuries, the record of the older workers also compared well with that of younger employees. Disabling injuries—those involving either a permanent impairment or disability for work for at least one full shift—occurred slightly less frequently among workers over 50 than among those under 50. Nondisabling injuries—those which usually require only first aid—were much less common at age 50 and over than in the younger age groups. Once injured, however, older workers generally took longer to heal.

Moreover, as we turn from the factory production line to other fields, we find many occupations where experience and judgment are what count most. As you know, physicians often stay in practice until advanced ages, gradually reducing their patient load, rather than retiring completely. In many other jobs at the professional and managerial level, maturity is also a positive asset. This is true, too, in many of the skilled crafts and in certain types of service jobs, where reliability is especially important.

Between the relatively extreme cases of the assembly-line worker and the independent professional man, there are vast numbers of intermediate situations where the effects of age on working effectiveness are much less clear cut. It is in this area that prejudice and misinformation appear as serious complications in the older worker's employment problems. This is also the area in which a good deal already has been accomplished in adjusting employment practices to the declining powers of the older worker.

A recent story in the Wall Street Journal gives a number of examples of what individual firms have done to utilize their older people more effectively. Many companies follow the practice of shifting aging employees to lighter work: boilermakers become inspectors, carpenters are shifted to packaging, and laborers become elevator operators. In this way, there can be an unobtrusive adjustment of the job to the worker, setting the stage for full retirement when it comes.

Many labor-management agreements also operate to protect the aging worker on the job. Seniority rules, by linking job security with length of service, offer a substantial measure of protection to older employees in many industries. Some agreements even go further in attempting to promote the employment of the older workers. In the building trades, for example, a union contract may specifically require the employment of one man, age 55 or over, for each 5, 7, or 10 journeymen on the job.

There is a basic defect, however, in the protective devices of both employers and unions. As long as the worker is continuously employed by a single firm, he benefits from the employer's feeling of responsibility toward him and from formal seniority rules. In our dynamic economy, however, this continuity of employment is often broken up: individual firms go out of business, even in good times; technological developments eliminate particular jobs; or, for various reasons, older workers are in fact laid off. Once out of a job, the older man or woman has a particularly hard time getting placed. The seniority system which increased his job security when he was employed works to his disadvantage when he is on the outside. The desires of employers to take care of their own aging workers by reserving lighter jobs for them tends to freeze out the older person who no longer has an employer.

It is clear, therefore, that the employment problem of the older worker goes beyond the individual firm and the individual union. A full solution of the problem requires the development on a large scale of jobs suited to the capabilities of the older people and the working out of systematic means of getting them into these jobs.

Our entire community has an important stake in the successful solution of this problem. If the working life of older persons can be materially extended, a large and growing amount of otherwise unused manpower can contribute to our national income. Moreover, the future burden of pension costs can more easily be held down to manageable size. Finally, there are vast potential rewards in terms of the well-being of the older people themselves. If these people can reach retirement age without going through a long period of frustrating unemployment or job insecurity, they should be happier and healthier citizens.

A great deal has to be done even to approach a solution to the older workers employment problems. We, of the Department of Labor, are especially conscious of the need for much more research into the many facets of these problems. There is a great dearth of current and comprehensive data on a number of key points. We need to know more about the actual practices of employers in hiring and separating older workers, and in reassigning superannuated employees. We require more information on the actual work performance of older people. How does the quantity and quality of their work compare with that of younger people? This kind of information for various industries and occupations could indicate the kinds of work for which older persons are best adapted, and least adapted.

Once the necessary facts were assembled, it would be possible to develop a comprehensive program for dealing with older workers' employment problems. The establishment and operation of such a program requires the coordinated efforts of all major groups in the community. Although it is not easy to carry through such a project, the returns—both human and economic—should make it well worth while.

Mr. STRACHAN. Mr. Robert C. Goodwin, Director of the Bureau of Employment Security, reported to Secretary Tobin, on the Bureau's job placement and unemployment activities, that in 1949 an estimated $1,700,000,000 was paid out by State employment security agencies to approximately 7,500,000 who had lost their jobs. Incidentally, in the calendar year 1949, payments totaled $790,000,000.

Today, Mr. Chairman, the handicapped are finding it harder and harder to get and hold jobs. That is one reason why we must accelerate the rehabilitation processes to develop the full capacity of the individual physically, so as to be able to compete in the labor market against nonhandicapped.

I do not wish to burden the record any further. I have made this oral statement to try to conform with the committee's desires as to time. But if the committee wishes any further information, I will be pleased to have Mr. Lichtenberg supply it.

I wish again to emphasize one thing. A few weeks ago, Mr. Chairman, as you recall, I mentioned the matter of having a chart in preparation which showed the entire activities of the Federal Government in the handicapped field. I regret to state that as of this morning the Government Printing Office had not completed the proof on this. But I believe that every member of the committee should have it, and as quickly as it is completed I shall send it to the committee, for this reason: Not only will you be able to see, and for the first time, the extent of the whole Federal Government functions in this field, but you will see the gradual and, I say, insidious encroachments of public assistance upon other phases of the rehabilitation program.

Now, in my judgment, public assistance, Mr. Chairman, does not produce anything. It is merely a palliative rather than a remedy. And while it has a place, and an important place, in our scheme of government, I insist, Mr. Chairman, that public assistance has no business invading the rehabilitation field, because public assistance obviously is a pay-off agency. It is not one to determine whether or not this is rehabilitation or not rehabilitation. It is obviously the duty of the rehabilitation agencies of the Federal and State Governments to assume this responsibility and carry it out, because surely every member of the committee will agree on one thing: that our first job is to get people onto their feet so that they can earn a living.

Thank you very kindly.

The CHAIRMAN. Thank you. And when you get the chart, will you furnish it to the committee?

Mr. STRACHAN. Yes, Mr. Chairman.

The CHAIRMAN. We would like to have the chart to which Mr. Strachan has made reference, because it might help us to visualize this problem.

Mr. LICHTENBERG. We will be very happy to get it for you, Mr. Chairman, and send it to the committee.

The CHAIRMAN. We thank you very much for your appearance.

Mr. LICHTENBERG. Thank you very much, Mr. Chairman.

Mr. STRACHAN. Thank you.

The CHAIRMAN. Mr. Schelvis?

You may have a seat, Mr. Schelvis. Will you identify yourself for the record? You are Mr. Albert Schelvis. Is that correct?

STATEMENT OF ALBERT SCHELVIS, CHICAGO, ILL.

Mr. SCHELVIS. Mr. Chairman and members of the committee, I am Albert Schelvis, a resident of Chicago, Ill. I appreciate this opportunity of appearing before you. I am here as an individual who is totally disabled for the past 10 years and, naturally, take a great interest in the bill now pending before you.

In 1936, when the Social Security Act was passed, there was great consideration given to the aged. Our lawmakers at that time adopted a rule, taking 1937 as a base line and using quarters as a yardstick, to determine the eligibility for old-age benefits. Under this fair rule, it was made possible that an aged person with six quarters minimum at the age of 65 could draw some benefits, or he could work in easy stages, earning only $50 a quarter, until he had enough quarters according to his age, to draw his benefits at the age of 65, but unintentionally they forgot the most destitute people in this country of ours, the totally disabled.

Bill H. R. 6000 and the report of the Senate Advisory Council, now before you, includes a provision of the totally disabled. I would like to give you my version of this bill and what should be done.

I would like you gentlemen to bear in mind that total disability is worse than old age or death. When a person gets old and has no income, he becomes a burden to his family. If a person dies, it is a shock to the family and a loss of income; but if a person becomes totally disabled, it is a shock to the family, a loss of income, and a very expensive burden to his family and relatives for there are medical and doctor bills to be paid in addition to his upkeep.

To corroborate my statement, I would like to give you the facts of a family with two children that I interviewed just a week ago. In 1940 the man of this family, at the age of 32, became a victim of multiple scoliosis, a lateral curvature of the spine, which disabled him for life. His wife and their relatives carried this heavy burden until January of this year when they became so destitute that they tried to get him into some institution. They finally succeeded in getting him into Cook County Old Peoples Home, but not until his brother signed papers that he would pay $20 a month for his support. He is still a burden to the family.

The recommendation of the Advisory Council and H. R. 6000 reads, in part, as follows:

> An individual disabled before July 1948 and without quarters of coverage after that date, would not meet the insured status requirements and would not be eligible for benefits.

If this section would be written into law, it would destroy the sole purpose of the act to prevent destitution and poverty for many years to come as far as the totally disabled are concerned, especially those of middle age now reaching old age. There are many of these unfortunate people who became disabled since 1937 before they could get their requirement status for old-age pension benefits, thereby foregoing all claims to receive any benefits whatsoever. Since the present law has no provision to refund any money and these people and their employers have paid a lot of money into the fund, I sincerely believe that they should be eligible for some benefits. Otherwise they would have paid for something they will not receive, which, in my opinion, is fraudulent.

The Advisory Council and H. R. 6000 also recommend that a person should have a specified amount of quarters preceding their disability to be eligible for benefits. This would be an injustice because it would exclude some people who have paid into the fund. I assume that it would be only fair that anybody who paid into the fund should be eligible for benefits regardless of how long he or she has paid in. Let us look in on a person who signed a contract with an insurance company today and paid his first installment of the premium. He immediately becomes not only eligible for benefits, but they also assume the payments of premiums to protect the future benefits which the policy calls for.

Under the present law, the Social Security Board is entitled to pay benefits not only to the insured man but also to his dependents who, in a majority of cases, never have paid a cent toward the social security fund. I do not begrudge that they are getting some benefit, but it seems so unfair that a person who never paid anything into the fund gets benefits and the person who has paid should be pushed aside. In fairness to all, I believe our lawmakers should make some adjustment to correct the injustice that now exists and make some provision to take care of all the people who became totally disabled since 1937. This could easily be done by making the clause of disability retroactive to 1937.

This is not asking too much for the small group of totally disabled for there must be enough money in this fund since the Advisory Council and H. R. 6000 have recommended to raise the benefits for the people who already receive them and for those who will be eligible in the future.

I may say that our Government is spending billions of dollars abroad to prevent destitution and poverty but has failed to do so in many respects in our own country.

In closing my testimony, I feel that I have expressed the hope and sentiments of all totally disabled people in this country of ours.

The CHAIRMAN. Any questions?

Thank you very much. We were very glad to have you appear.

Mr. SCHELVIS. Thank you.

The CHAIRMAN. Mr. Herbert J. Weber was scheduled as the next witness. He is unable to appear in person but Senator Taylor wishes to file the following statement in lieu of Mr. Weber's appearance.

(The statement referred to follows:)

TESTIMONY OF SENATOR GLEN H. TAYLOR, OF IDAHO, BEFORE SENATE FINANCE COMMITTEE, MARCH 2, 1950, ON S. 2337, THE FULL SOCIAL SECURITY BILL OF 1949

Mr. Chairman and members of the committee, I am very happy to appear before you today in support of my bill S. 2337 which would set up a comprehensive system of unemployment and disability benefits and I'd like to make a brief explanation of what the program would do, and why it is needed.

Unemployment, with its resultant loss of income, is one of the greatest threats to our economic system. The prospect of disability or loss of jobs is a constant menace to all workers. It is impossible for them now to have a sense of security. They are confronted continually by the realization that in case of unemployment all that can be expected is a temporary pittance insufficient to meet even minimum needs. If a slump comes, those that lose their jobs will receive a few small payments, after which they must attempt to exist with absolutely no money coming in. This is one of the imperfections of our democracy that must be corrected to provide security for all workers.

Equally important is the disastrous effect such unemployment has on the entire economy. This loss of purchasing power, coming at a time when buying is already dropping off, could be responsible for turning a temporary slump into a serious depression. Another depression would be catastrophic not only to ourselves, but to the entire world, and we must take every possible step to avert it. Enactment of this legislation would mean a stable purchasing power, providing a guaranteed market for industrial and farm products. The knowledge that demand will not drop off would result in continued high production and high employment, maintaining a prosperous economy. Unemployment would consequently remain at a low level, so that the costs of this unemployment compensation program would not be large.

The provisions of the bill can be stated quite briefly and simply. Every person willing to work but unable to secure employment because of disability or lack of job openings is paid 85 percent of his previous weekly earnings until he secures employment. If he is partially disabled and can be employed only at a lower rate because of the disability, payment is made for the earnings loss suffered because of his disability. Complete safeguards are provided in the bill to insure against abuse of the program by workers who refuse suitable employment.

Here is the way the program will work. First any person who loses his job can draw compensation amounting to 85 percent of his previous weekly earnings by complying with a few necessary requirements. He must register with the Employment Service and agree to accept any suitable employment offered by the Service or an employer. The term "suitable employment" means a job that he is qualified to hold and which will pay the prevailing wage for that vicinity. He is not forced to accept a job that involves strikebreaking, dangerous working conditions, or similar unreasonable requirements, but must accept any position approved by the Service as suitable for him. If he voluntarily quits such a suitable job without valid reasons, he is ineligible for compensation for a period of 4 months. These provisions are designed to prevent abuse of the system by those who have no desire to work, and at the same time give full protection to the unemployed who are out of work through no fault of their own.

Special provision is made for our elder citizens who have reached the age of 60. They will not be required to continue in the labor market and will receive retirement benefits ranging from 40 percent to 70 percent of previous average earnings, according to the number of their dependents. For example, a man 60 years of age with a dependent wife could receive 60 percent of this previous earnings, allowing them to retire in comfort and live decently for the rest of their days.

Thus, full protection is provided for our working population, regardless of injury, unemployment, sickness, or old age. If a worker loses his job, he will continue to receive 85 percent of his normal income, sufficient to take care of his needs until a job is secured. He must accept any reasonable job offer and cannot refuse to work or quit a job without valid reasons. If he becomes ill, or is injured so that he is physically unable to work, he will receive disability compensation amounting to 85 percent of his previous earnings. All that is needed to establish his disability is a doctor's certificate or examination by the United States Public Health Service. This compensation continues until he is able to work and a job is available for him.

If an employee is partially disabled, and cannot handle his previous work because of the disability, a new job that he is qualified to fill will be given him. Loss in earning power because of his partial disability will be made up by disability payments amounting to 90 percent of the difference in pay resulting from his injury.

Opponents of unemployment insurance have always concentrated on two points—the cost of the program and the possibility of men refusing to work. As I have already pointed out, the bill contains strict requirements that unemployed workers accept suitable jobs, and payments are not made to those who voluntarily quit such jobs or refuse to work. Detailed provisions contain guaranties against such abuses.

If a large portion of the population were unemployed or disabled, it is true that the cost would be high. However, with such a program in operation, there could not be much unemployment since the continuation of high purchasing power in the hands of all the people would guarantee a steady demand for both industrial and farm products. Assurance of ready markets would mean continuous high production and full employment, making for a permanently prosperous economy with minimum unemployment.

The bill is the result of years of work, research and study by a former Washington, D. C. economist, Herbert J. Weber, now in Chicago. It is an important part of a complete economic program that Mr. Weber has developed.

The basic difference between an economy of free enterprise without full social security and an economy of free enterprise with full social security is analogous to the basic difference between atomic energy in a bomb and atomic energy in a commercial power plant. Atomic fission in a bomb cumulates to the point of explosion as neutrons from the fission of each atom bombard each surrounding atom. Atomic fission in a commercial power plant maintains its equilibrium because inert material is present in sufficient quantity that the number of neutrons absorbed by the inert material equals the number of neutrons smashing the responsive material.

Without full social security, declines in the sales of an industry or of various industries breed lay-offs while lay-offs automatically decrease purchasing power and decreased purchasing power breeds more lay-offs. With full social security, there is the same kind of compensatory mechanism preventing cumulative lay-offs as in a commercial atomic power plant. With full social security, lay-offs don't materially decrease purchasing power and with purchasing power maintained substantially unimpaired there is a transference of patronage from the weakened industry or industries to the products of or to investments in other industries.

Without full social security as without the presence of inert material in an atomic pile, the spark tends to cumulate into an explosion; with full social security as with the presence of inert material in an atomic pile, there is a compensatory action that stops cumulation of the initial spark.

With the Nation's purchasing power kept substantially unimpaired by means of full social security, one cannot construct a plausible hypothetical situation, without a decline in the Nation's productive capacity, in which declining sales of some industries would not result in transference of patronage to the products of or to investments in other industries. I ask the committee's permission to insert in the record of this hearing, at the end of this statement, an analysis of all such types of economic conditions in which declining sales occur in an industry or industries, showing that under each such condition there occurs under full social security a transference of patronage to the products of or to investments in other industries.

Full social security stops cumulative unemployment not only by maintaining the purchasing power of workers laid off from jobs in industries suffering from declining sales. Full social security stops cumulative unemployment also by preventing the lack of balance between savings and investments that curtails total available purchasing power by piling up uninvested idle savings.

Without full social security there is always the possibility that the amount of savings available for safe investments will exceed the amount of safe investments then available for savings. With the amount of savings available for investment being the fruit of industries already established and the amount of investments available for savings depending upon industries being newly established or expanded, there may be at times more savings available for safe investment than safe investments then available for savings. If that occurs, the idle savings pile up as a net decrease in total available purchasing power.

Decreases in sales, production, and employment may successively follow upon such a decrease in available purchasing power.

Under full social security, with both investors and entrepreneurs assured of the substantially full continuity of the Nation's purchasing power, it is not easy to envision a lack of safe investments for all available savings. But even if such a deficit of safe investments occurs, there is under full social security still a counterbalance to resultant decreased available purchasing power which is as automatic as clockwork. Whenever decreased available purchasing power causes increased unemployment, the social-security fund immediately has to pay out more money in unemployment compensation without having any more money simultaneously coming in to use for funds. The only way in which the social-security fund can raise the money needed for its additional unemployment-compensation payments is by selling some of the securities which it had bought at the time when money coming in from social-security taxes exceeded money then going out for social-security payments.

The moment the social-security fund sells securities, the deficit of safe investments available for savings ceases to exist. The exact selfsame idle savings the idleness of which had decreased total available purchasing power and produced unemployment are used to buy the securities which the social-security fund sells to raise money for meeting its increased unemployment compensation payments necessitated by the idleness of those very funds.

Under full social security idle savings simply cannot remain idle. The moment their idleness produces increased unemployment, they go into the social-security fund through the purchase of securities sold by the fund and are promptly paid by the fund to the recipients of unemployment compensation.

A note concerning the effects of full social security upon industrial strife: Strikes and lock-outs occur chiefly over division of the money remaining in the company treasury above wages to the workers at current wage rates for the production or distribution of goods or services by means of current methods of production or distribution. Business and labor both have their interest focused upon division of the net yield from the production and distribution of goods and services by means of current methods, business wanting the entire net yield for profits and labor wanting part of the net yield for increased wages.

But suppose that better methods of production and distribution are constantly being developed through cooperation between management and labor in developing, and employing engineers to develop, better methods with the savings from development of such better methods continuously yielding jointly increased profits and increased wages. Such cooperation becomes practicable if full social security substantially guarantees the continued full incomes of any workers whose jobs are eliminated in the development of better methods of production or distribution.

With profits and wages both advancing out of savings from development of better methods, business and labor don't have their interest focused upon division of the net yield from production and distribution by means of current methods. It is easy to bargain amicably when both businesses and workers are finding their incomes advancing continuously out of the savings from development of better methods.

A word to anyone who may state that under full social security nobody would work. In the first place, the details of this program contain elaborate safeguards around eligibility for unemployment compensation. A careful reading of these safeguards, detailed S. 2337, shows that full unemployment compensation is not made available to persons unwilling to accept suitable work and shows further that administration of these eligibility requirements is effectively geared to rules of law and is as free from administrative caprice as any of the elements of our administration of justice.

In the second place, it would be of minor importance if there were only haphazard safeguards surrounding eligibility for unemployment compensation. Under conditions entailing nearly full employment, there would under full social security be no substantial period of time during which a physically sound unemployed person failed to receive an offer of work. No one could keep on dodging offers of work recurring every other day and still make a serious claim of being involuntarily unemployed. The most crafty job dodger under the most haphazard system plausible could hardly succeed in dodging 15 job offers in a month, 45 job offers in a season, 183 job offers in a year.

There is no such thing as the cost of full social security. Full social security is a means of meeting the loss of income resulting from vicissitudes. The cost of the vicissitudes is the loss of income, which may be borne by the victims

as it occurs or may be borne through regular individual savings or regular social-security taxes. The so-called cost of full social security is only the cost of the vicissitudes which have to be paid for whether there is full social security or not but which can be profoundly reduced as well as most easily borne by means of full social security.

We may hope that the Nation's purchasing power will be substantially maintained under the policies of the Full Employment Act, but we can scarcely take such for granted. If the policies of the act are successful in operation the Government will take appropriate steps to maintain purchasing power when an apparently impending drop in the pace of economic activity threatens to bring on a business depression. But the successful operation of the act requires that the congressional majority of the time accept a forecast by economists that a drop in the pace of economic activity is in fact impending, a forecast likely to be the subject of profound disagreement among both economists and legislators, and adhere to the policy of purchasing-power maintenance adopted by the Seventy-ninth Congress, with the general policies of which that congressional majority may be far out of sympathy.

We can take the substantial continuity of purchasing power for granted only under the automatic procedures of full social security.

To summarize—

Full social security eliminates the pall of individual economic insecurity. It spreads among the whole people the cost of individual losses of income from vicissitudes. It takes from everyone the continuous present fear of future economic want.

In addition to its basic effect upon individual want in bad times and individual peace of mind in good times, full social security has basic economic effects. It facilitates continuously increasing production and prevents unemployment due to deficient purchasing power or to fear of it.

Realization of world cooperation for collective security can reasonably be expected if with full social security we make it evident to all nations that unemployment and want will never drive us to militarism for reemployment and recoupment.

Dispossessing nobody, full social security is the means to active basic objectives of labor, farmers, and businessmen alike. A means to active basic objectives of labor, farmers, and businessmen is within the limits of political practicability.

APPENDIX

Since under full social security lay-offs do not substantially diminish the purchasing power of the workers laid off, lay-offs occurring in one industry do nothing under full social security to cause producers in other industries to curtail their production. Plainly, a manufacturer who makes consumers' goods knows that the amount of goods he can sell is wholly unaffected by lay-offs in other industries if lay-offs have no effect upon consumers' purchasing power.

A manufacturer who makes producers' goods is, of course, on the other hand, materially affected by any decline in production in an industry that he sells to. Declining production in any industry is an immediate cause of declining production and employment in industries selling producers' goods to it.

But, with the Nation's total purchasing power substantially unchanged, when the sales of any particular industry decline, the sales of other industries advance. If people whose total purchasing power is substantially unchanged have stopped buying the products of one industry, they have simply economized in that direction and have money left in their pockets for purchasing the products of or making investments in other industries. The latter industries sell an increased amount of goods to the extent that the customers of the former industry transfer their patronage to them or to industries buying their product and also to the extent that these customers make investments which create additional demands for their products.

(*a*) If a consumers' goods industry retrogresses while total purchasing power remains substantially unchanged, it is a certainty that the retrogressing industry's customers will transfer their patronage to other consumers' goods industries. In all conditions normally found in life there is an incalculably large desire for goods that cannot be bought because of the limitations of the family pocketbook. If the income of a family remains unchanged while some commodity heretofore included in the family budget drops out, the normal course of action is to replace it immediately in the budget with a commodity that has been desired but could not heretofore be included in the budget.

(*b*) The retrogressing industries may be producers' goods industries. The only evident reason for the retrogression of a producers' goods industry, not caused by retrogression of an industry that it sells to or by increased cost of production unaccompanied by capacity of its market to pay higher prices for its goods, are that its customer industries no longer want or no longer need its goods or that some or all of its customer industries are letting their inventories decline.

If the customer industries no longer want or no longer need the goods of the retrogressing producers' goods industries, the customer industries have funds left over for buying the goods of other producers' goods industries, for making investments, and/or for increasing the ratio of their dividends to their profits. They also acquire funds available for distribution as dividends resulting from increased profits accompanying decreased depreciation charges consequent upon decreased expenditures for capital equipment. The funds distributed as dividends are available to the shareholders for consumer expenditures and for investments.

Consequently, under full social security a decline in the demand for capital goods is accompanied by a rise in consumer expenditures. This rise in consumer expenditures leads in turn to a demand for producers' goods for producing the newly demanded increment of consumers' goods.

It might seem at first thought that the demand for producers' goods for turning out the newly demanded consumers' goods merely offsets, in whole or in part, a lost demand for producers' goods for turning out the producers' goods no longer demanded. However, any new demand tends to require new capital goods to turn out the goods newly demanded whereas a decline in demand creates a decline in the use of capital goods already existing but creates no decline in requirements for new capital goods beyond the increment that would have been required for replacements.

If the net drop in demand for producers' goods exceeds the rise in demand for consumers' goods, the rate of interest will in the ordinary course of events drop—under full social security with investors knowing that the Nation's substantially full purchasing power will be continuously maintained. A net decrease in aggregate expenditures for consumers' and producers' goods means an increase in uninvested funds available for investment. An increase in uninvested funds available for investment compels a drop in the rate of interest in the absence of the appearance of a counterbalancing inhibition to interfere with the availability of the funds for investment at the best rate of interest obtainable. Under full social security, there is no such inhibition appearing in the ordinary course of events.

The drop in the rate of interest makes the acquisition of producers' goods more profitable to entrepreneurs. In the ordinary course of events, the drop in the rate of interest eliminates any net decrease in aggregate expenditures for consumers' and producers' goods—under full social security with entrepreneurs knowing that the Nation's substantially full purchasing power will be continuously maintained.

If there is a net decrease in aggregate expenditures for consumers' and producers' goods despite the foregoing influences, then the Nation is suffering not an economic depression but an economic decline. Such a decline could scarcely occur under full social security except as the result of abnormal political conditions entailing a flight of capital out of the country or into extreme liquidity. Under such an economic decline, if the cumulative economic and psychological adversity necessary to its existence can ever occur under full social security, substantial maintenance of the Nation's purchasing power holds the effect of the decline to the minimum by keeping it from affecting industry to any greater extent then the immediate net decrease in aggregate demand for consumers' and producers' goods.

If the customer industries are letting their inventories decline they are simultaneously increasing their cash resources and have increased cash available for buying capital equipment or for making investments either directly or through the banks in which the cash is deposited.

Suppose an extreme case of general overexpansion consequent upon a period of rising prices with general eagerness to expand inventories in anticipation of further price advances. Suppose the usual break comes, business executives ceasing to buy for inventory because of fear that they are overexpanded. Suppose the break develops to the point that business executives generally curtail buying for inventory to the extreme minimum because of fast-spreading fear that the period of rising prices is turning into a period of falling prices so that

it has now become as desirable to get rid of inventory in anticipation of price declines as it was formerly to expand inventory in anticipation of price advances.

This is a situation that has brought on business depressions. Business executives stopped buying for inventory and the concerns that they had been buying from had to lay off employees. These lay-offs brought on fear of declining purchasing power and business executives generally curtailed production and laid off more employees. In the result, the concerns that had stopped buying for inventory did not have increased cash resources in lieu of inventory because their sales had declined about as fast as their purchases.

But with full social security lay-offs do not bring on fear of declining purchasing power and business executives generally do not have cause for curtailing production and laying off more employees. The concerns that had stopped buying for inventory do have increased cash resources in lieu of inventory. Many producers' goods concerns will, of course, find their increased cash resources only partly counterbalancing their decreased inventory because of the decline in their sales that accompanied the decline in the inventories of their customer industries. Consumer goods industries, however, have been wholly shielded by the maintenance of consumer purchasing power and their cash resources do increase as much as their inventories decrease.

Whereas without full social security the effort of business executives to get rid of as much inventory as possible brings about a series of curtailed production schedules and lay-offs, with full social security the effort of business executives to get rid of as much inventory as possible brings about a series of business concerns with coffers full of cash. No more nearly perfect paradise for capital equipment salesmen, industrial contractors, and stock salesmen can well be imagined. Under full social security, a general curtailment of inventories leads not to a business depression but to expansion of capital investment.

(*c*) The retrogressing industries may be export industries. Decline in exports leads to a corresponding decline in imports. Decline in imports with the Nation's total purchasing power substantially maintained leaves funds in the pockets of people that would have been used for buying the imported goods, funds that are available for buying the products of or making investments in domestic industries. The entire American economy presumably suffers from the substitution of domestic goods for imported goods which had been considered more desirable, but nevertheless the decline of the export industries has led to a transference of patronage to the products of or investments in other industries.

(*d*) When it is war industry that has retrogressed it is wartime savings and funds that no longer have to be loaned to the Government for war uses, also funds no longer taken by the Government in taxes as wartime taxes are reduced, that become available for transference to the products of or investments in civilian production with the Nation's total purchasing power substantially maintained.

(*e*) Retrogression of an industry may be due to increased cost of production unaccompanied by capacity of its market to pay higher prices for its goods. An increase in the cost of production may be of one or more of four kinds: an increase in the rate of interest, an increase in the price of essential materials or services supplied by monopolistic suppliers seeking increased profits by means of increased prices, an increase in costs because of depletion of natural resources or because of decreased productive efficiency, or a portion of a general increase in prices and incomes. The last of these four connotes capacity of the market to pay increased prices in conjunction with the increased costs and is consequently irrelevant to retrogression from increased costs unaccompanied by increased prices.

When there is an increase in the rate of interest, the investors receiving the increased interest acquire increased funds equal to the decreased funds of the industries paying the increased interest. The decreased ability of the debtor industries to buy producers' goods is equaled by the increased ability of the investors to buy consumers' goods and to make further investments.

Consequently, when a rise in the rate of interest produces a drop in demand for producers' goods it also produces a rise in demand for consumers' goods—under full social security with lay-offs in the adversely affected producers' goods industries kept from cumulating. The rise in demand for consumers' goods leads in turn to demand for producers' goods for producing these consumers' goods.

The increased demand for consumers' goods on the part of the investors enjoying increased interest receipts, together with the demand for producers' goods for turning out these consumers' goods, is likely to but may not fully counterbalance the decreased demand for producers' goods on the part of the

industries having to pay the increased interest payments together with the decreased demand for producers' goods for turning out those producers' goods.

If there is a net decrease in aggregate expenditures for consumers' and producers' goods consequent upon the rise in the rate of interest, the rate of interest will (in the absence of a national economic decline entailing a flight of capital out of the country or into extreme liquidity) decline back to the level at which it had stood previously. The investors have more money to invest than they had before. The conditions that caused the rise in interest rates would not be able to keep interest rates up in the face of an increase in funds available for investment unaccompanied by an equal increase in demand for investment funds at that increased rate of interest—under full social security, with investors knowing that the Nation's purchasing power will be maintained substantially intact.

When there is an increase in the prices of essential materials or services supplied by monopolistic industries seeking increased profits by means of increased prices, the immediate consequences are the same as the immediate consequences of an increase in the rate of interest. There is a drop in the ability of the rest of industry to buy producers' goods and an identical rise in the aggregate ability of the monopolistic industries and their owners to buy producers' and consumers' goods. The actual decrease in purchases by the rest of industry is unlikely to exceed but may exceed the actual increase in purchases and investments on the part of the monopolistic industries and their owners together with the increased purchases of producers' goods on the part of the industries supplying the goods newly demanded.

If the decrease does exceed the increase, a drop in interest rates presumably ensues because of the same effects as described above. The monopolistic industries and their owners have in the aggregate more money than they had before while the demand for capital has dropped. In the absence of a flight of capital under abnormal political conditions, the combination of increased supply of investment funds and decreased demand for investment funds lowers the rate of interest.

It is quite likely that the monopolistic industries would before long rescind part of their arbitrary price increase in the event that they found the price increase apparently permanently associated with a decrease in the sales of their products.

Under full social security, such an arbitrary price increase is relatively unlikely to occur. With cumulation of the injury prevented, if such a price increase occurs the customer industries remain relatively prosperous and in the market for the monopolized material or service and for substitutes therefor. The combination of an arbitrary price increase in an essential material or service and the existence of comparatively prosperous customers for it or for substitutes for it affords a powerful stimulus to research and capital investment for the purpose of reducing the cost and improving the quality of potential substitutes. The likely end result of the price increase is expansion of the use of substitutes.

When there is an increase in the cost of production consequent upon depletion of natural resources or decreased productive efficiency, a serious decline in the national economy has occurred. People are putting in as much labor as before and getting less product to show for it or else people are putting in more labor than before without having any additional product to show for it. Full social security minimizes the likelihood of such disastrous developments by facilitating concentration of effort upon continuously increasing productive efficiency. If such developments do occur, however, neither full social security nor any other political institution can maintain the total of purchases and investments. If the Nation's economy becomes physically or technologically incapable of producing as much goods and service as previously, nothing can maintain the same total purchases of and investments in goods and services as previously.

Full social security prevents cumulation of such injury if it occurs, however. With the Nation's total purchasing power substantially maintained, sales of the affected products tend to continue substantially unchanged in value though diminished in quantity. The consequent increased prices of the affected products strongly stimulate research and capital investment in substitute products for sale to customers ready and able to buy. Under full social security, such basic increases in the cost of production would be likely to result in transference of patronage to inferior substitute products. Insofar as such transference did not occur, such basic increases in the cost of production would produce equivalent increases in the cost of living. In the result, under full social security

the injury to the national economy would be held to the immediate increase in the cost of production of the affected products.

It goes without saying that transference of patronage may not be instantaneous. Obviously, too, industries benefiting from the transference of patronage may not expand immediately. Producers' goods industries may feel effects of declining orders from retrogressing customer industries before they feel effects of increasing orders from the industries that benefit from the transference of patronage. Whatever time interval there may be, maintenance of the Nation's substantially full continuous purchasing power holds the effects of the time interval to the minimum, keeping the effects from injuring consumers' goods industries altogether and giving assurance that a transference of patronage is in process which can be expected to replace the lost orders for producers' goods from the adversely affected industries with increased orders from other industries.

Some industries benefiting from transference of patronage might increase their prices and then refuse to expand for fear of having to revert to the old prices in order to sell the increased production. It is alway possible that monopoly conditions might enable these industries to maintain such a policy. There would, however, still be the same transference of patronage to industries that did expand in response to it. The monopolistic industries by means of their increased prices would obtain part of the purchasing power owned by the former patrons of the declining industries but this purchasing power would have moved only for the former patrons of the declining industries to the owners of the monopolistic industries. The purchasing power would be substantially undiminished and would be transferred on to industries that did expand in response to it. The owners of the monopolistic industries would have obtained a monopoly profit—which they might well find themselves forced to share with their workers—but this would have been due to the existence of monopolistic conditions, not to full social security.

The CHAIRMAN. Mr. O'Connor?

You may be seated, sir. The committee will be very glad to hear from you on H. R. 6000. Will you identify yourself for the record please?

STATEMENT OF EDWARD H. O'CONNOR, CHICAGO, ILL., MANAGING DIRECTOR, INSURANCE ECONOMICS SOCIETY OF AMERICA

Mr. O'CONNOR. Mr. Chairman and members of the committee, my name is Edward H. O'Connor and I am appearing today on behalf of the Insurance Economics Society of America, an organization devoted to the study of all forms of social insurance. My home is in Chicago Ill.

I shall confine my statement to two provisions contained in this bill lump-sum death benefit for all insured workers and permanent and total disability.

You will agree with me that the elements of personal security and family protection are very close to the heart of the individual and especially the head of the family, not to forget the housewife. Naturally, everything the Government is doing in a compulsory way to foster and promote that security and protection cannot fail to have profound repercussions within the American family life. That is the reason the most careful attention should be given to the possibility of undermining the moral fiber which is nowhere more precious than in the American family, and which may well be the effect of further compulsory extension such as you are considering in this bill. I respectfully urge you to exercise due care and reasoning in your deliberations on the establishment of a new level of social-security benefits, lest we create a commonwealth which no longer derives its strength and in

centive from the responsibility which it owes to itself and to its families, but which is dependent upon the state.

Payment of lump-sum death benefit: The existing law provides that a lump-sum benefit equal to six times the primary insurance benefit will be paid upon the death of an insured worker if there are no survivors immediately eligible for survivors' benefits. This provision was added to the Social Security Act by the 1939 amendments on the theory that the insured worker had an equity in the system, which system prior to 1939 was funded and on a reserved basis and therefore the benefit was equivalent to what is known in insurance parlance as a "surrender value." The new provision in this bill, however, provides that a lump-sum benefit equal to three times the primary amount will be paid whenever an insured worker dies, even though there are benefits payable to his survivors which are worth many times the amount of taxes he would pay into the system. This change is completely inconsistent with and contrary to the original purposes of the limited lump-sum death benefit.

In examining this specific proposal it is necessary to refer back to the original Social Security Act of 1935. That act contemplated that in effect the employee would be building a savings account which would be used at the time of retirement to pay the workers' retirement benefit. It was quite logical, therefore, under such a theory, that there be a provision for the return to the estate of the covered worker taxes which he had paid, if they were not used for their original purpose of providing a retirement income. We have, however, departed almost entirely from the philosophy of accumulation of taxes under the present Social Security Act. The philosophy of the present act is largely taxation of present workers to provide funds to pay pensions to those retired. Under this philosophy there is no accumulation of individual savings out of which a death or funeral benefit can be paid. Any present death or funeral benefit must be paid out of the contributions of surviving workers. There is now very little matching between contributions and benefits. Current contributions from nonclaimants provide funds to pay claimants. It is illogical, therefore, to even retain the concept that the employee should get his taxes back if he has no surviving dependents. The present benefit which was included as a matter of equity, is no longer justified, and it would be entirely proper and logical to eliminate it altogether from the act.

Senator KERR. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Senator Kerr.

Senator KERR. Do you think that that should be eliminated from the act, or that the act should be reformed to be consistent with the original concept?

Mr. O'CONNOR. Well, I think it would have to be examined and rearranged in some way to be in line with the original concept, if we are going to retain it at all. But now that that concept no longer exists as it did in 1939, some adjustment should be made in the theory. Otherwise, I can see nothing but illogical reasoning there to follow through on it. Because we have changed the theory, changed the situation.

The introduction of death or funeral benefits to all, as provided by H. R. 6000, regardless of the payment of survivors benefits, becomes

simply an additional benefit for which a substantial charge must be included and affords relief to a worker in an area which cannot be considered within the insurance system. Any death or funeral benefit should be paid subject to a means test under the State assistance program. This would eliminate a tax on low incomes for benefits to individuals of all income brackets.

Senator MILLIKIN. Would you mind stating that again?

Mr. O'CONNOR. Any death or funeral benefit should be paid subject to a means test under the State assistance program. This would eliminate a tax on low incomes for benefits to individuals of all income brackets.

Today over 80,000,000 persons—more than the entire number that would be covered even under this bill—now have life insurance policies with total protection exceeding $213,000,000,000. Four out of five families are protected by one or more policies. One billion five hundred million dollars paid out in death benefits in 1949. This proposal appears to me to be an attempt by the Federal Government to directly invade a field now being adequately served by a form of private enterprise, a field that by no stretch of the imagination can be termed "neglected" and necessitating the benevolent and financial assistance of Government.

The argument for this proposal in H. R. 6000 is based presumably on cases where no lump-sum benefit is due because survivorship benefits were called for and paid for 1 or 2 months, with the result that the so-called insured's family received less money than would have been paid had there been no survivors. There is no merit to that argument. The liability so-called has been discharged. Why be solicitous of a certain class of beneficiaries when the act contains so many inequities of greater importance. May I mention, for example, the inequity which deprives a young girl who has been working and paying old age and survivors insurance taxes for 5 years and then gets married and loses all rights. Another example is that of depriving a man over 65 of any incentive to work by increasing his monthly benefits.

No purpose would be served by the Government entering into this field in which private enterprise has demonstrated its ability to fulfill the needs of our people. I urge this committee to reject that provision of H. R. 6000 which provides for the payment of a lump-sum death benefit for all insured workers.

Permanent and total disability insurance benefits: This is the most dangerous proposal contained in H. R. 6000 considering the aspects of administration, costs, and the future of the system insofar as the covered workers are concerned. In my humble opinion it is in this bill cloaked with the hidden motive and desire to pave the way at an early date for compulsory medical care for all, a slow inoculation and softening up of the American people for the imposition of socialized medicine.

In a recent statement on H. R. 6000 the board of trustees of the American Medical Association made this significant observation:

> To initiate a Federal disability program would represent another step toward wholesale nationalization of medical care and the socialization of the practice of medicine. The program as now proposed would not accomplish the entire nationalization of medical care but the inevitable expansion and liberalization of the program which would surely follow makes probable its eventual accomplishment.

At this point, Mr. Chairman, I would like to say that the Ways and Means Committee is to be congratulated upon the position they took as to this original bill, when they were thinking about temporary disability. I think there were many arguments brought up, there, which amply justified their throwing out that provision of temporary disability.

This provision as written in the bill contains restrictions for benefits that could not be continued by any stretch of the imagination. Hardship cases, not within the restrictions, would crop up in ever-increasing numbers eventually forcing a literal interpretation of the restrictions. It would be subject to later liberalizations like those now being considered for OASI.

You have been told by some of the witnesses appearing before you that the administration of this provision would not add a great deal of expense or increase in personnel. Unfortunately these witnesses lack the experience in this field and they fail to recognize that disability insurance cannot be administered as simply as the OASI program. And this point is rather well elaborated upon in the latest study by the Brookings Institution.

Senator MILLIKIN. Is it your contention that there is no pressing need for the Federal Government to enter the field?

Mr. O'CONNOR. Not on a cash benefits program. I have another solution to present later on, sir.

Senator MILLIKIN. All right.

Mr. O'CONNOR. In 1948 two members of the Senate Advisory Council on Social Security, the only two members of this council having had experience with this type of insurance, submitted a report opposing permanent and total disability insurance and their report indicated that permanent disability insurance cannot be provided safely by the Government on a compulsory basis, either from a political, an economic, or social point of view.

In considering "permanent and total" disability benefits let us cease wishful thinking and be practical. Most of the life insurance companies some years back included "permanent and total" disability clauses in their policies and the clauses were written in tight and restrictive language. Yet with their efficient operation, and I state that knowingly, the claim situation could not be controlled and they suffered the loss of hundreds of millions of dollars; in fact the total is between one half and a full billion dollars.

The unfavorable experience of the insurance companies with permanent and total disability was greater under group insurance where the rates of disability during the depression rose to greater proportions than did the rates under ordinary insurance. This is significant when considering total disability on a contributory basis in a social security program because group insurance was directly tied to wage earners, issued on a wholesale basis without underwriting selection, and it was free from the hazard of overinsurance.

Senator MILLIKIN. Assuming it to be correct, it would answer the proposition that the insurance companies overweighted their risks by taking in too many big rich people for big fancy policies; is that not correct?

Mr. O'CONNOR. Well, that may be, to a certain extent, but the spread was pretty well set, Senator Millikin. There were some in

there that would probably have as much as $500 or $1,000 monthly total disability if they were disabled. But then there were thousands and thousands covered under group policies, which would offset that.

Senator MILLIKIN. I am not talking about that. To me what you say about the group policies is significant, because if correct it tends to offset the argument that the reason insurance companies fell on their faces was because they put out too many policies calling for large fancy payments to persons who could afford big expensive policies.

Mr. O'CONNOR. That may have had an effect on it. I will go along with you on that thought also.

Disability is an intangible, subjective concept, it differs materially from the definite fact of death or old age. The attitude of the individual when suffering a particular condition invariably governs to some extent the degree of disability. For example, it was the depression of the 1930's that created the heavy losses that forced the insurance companies to withdraw from this field. It is also recognized that the payment of disability benefits for any length of time, even in modest amounts, undermines human personalities, destroys incentive and the will to seek work fitted to one's capabilities.

Senator KERR. Did you say that later you do have a suggestion to make?

Mr. O'CONNOR. Yes; I will come to that in a moment, sir.

At this point I would like to present a few concrete practical illustrations of what H. R. 6000 actually proposes in the field of disability. And I do this having in mind that you gentlemen probably will receive many requests from your constituents as to why this fellow isn't being paid, and so on. Because in the bill it all looks very simple as to how it might be administered.

Now, the definition of disability set forth in the bill reads:

> inability to engage in any substantially gainful activity by reason of any medically demonstrable physical or mental impairment which is permanent.

Let us consider mental disability. Mental impairment brings up squarely into the psychiatric field. Some idea as to the importance of this field is indicated by the statistics for 1947 that in State hospitals for mental illness alone there were over 450,000 inmates. I think the latest figures are about 470,000. In 1946 there were over 120,000 psychiatric first admissions to hospitals on account of general paresis, alcoholic, cerebral, arteriosclerosis, senile, manic-depressive, dementia praecox, and other causes. Commitment to a mental institution has economic consequences to the individual, the individual's family, if any, and the taxpayers supporting the institution, which differ in degree only dependent upon whether the mentally ill person is insane a few months, a few years, or the remainder of his life. H. R. 6000 apparently would provide or deny benefits, however, dependent upon whether the prognosis as to his eventual recovery is favorable or unfavorable.

A very interesting situation is presented by persons who are committed to institutions for the criminally insane. Apparently these persons would be entitled to benefits if the prognosis for their recovery is unfavorable. Thus, where an individual is charged with a crime, if the jury verdict is that the individual is sane, neither the criminal nor his family would receive benefits, though the economic consequences

of his imprisonment are the same whether or not the individual is found to be sane or insane. Presumably, if found to be insane and the prognosis of his insanity is unfavorable, monthly benefits would be paid. Truthfully, I am rather confused as to the intended purpose of these payments.

What is meant by "substantially gainful activity" as it is set forth in the bill? There is no definition of "any substantially gainful activity," nor are we enlightened as to congressional intent by any statement in the Ways and Means Committee report accompanying H. R. 6000. However, apparently, persons can qualify for benefits as "permanently and totally disabled" and still be able to engage in a considerable amount of work for pay. The effect of work on disability benefits is set out in section 220 (a) of the bill. This section states that when an individual earns more than $50 in a month as an employee, he shall forfeit a month's benefit.

One would normally think that when a person actually earned a hundred or so dollars in a month he would thereby have demonstrated that his disability did not render him "incapable of engaging in any substantially gainful activity." But apparently this is not the case, in view of the specific provision that earning in excess of $50 a month means loss of a month's benefits. It is not certain just how remunerative activities must be to be "substantially gainful."

There are also provisions as to disability benefit forfeiture for earnings in self-employment. A month's benefit is lost by the disabled person when "net earnings" of more than $50 are "charged" to him.

Net earnings in his taxable year in excess of $50 per month are "charged" only after his net earnings exceed $600. The first month is charged with the first $50 over $600, and so on. Whether or not a "permanently and totally disabled" person draws benefits during a year is thus dependent on his net profits from his activities—a kind of profit underwriting arrangement.

There is, however, one escape clause, permitting him to draw benefits regardless of his substantial net business income. No amount is charged for any month in which "such individual did not engage in self-employment." Apparently he will at least receive benefits during any vacation from his business.

Even the phrase "did not engage in self-employment" is made flexible. The individual does not so engage when "it is shown to the satisfaction of the Administrator that such individual rendered no substantial services." Here again we find the flexible and undefined term "substantial." The section directs the Administrator to "prescribe the methods and criteria for determining whether or not an individual has rendered substantial services."

Engaging in noncovered work presents an unexplained difference in forfeiture of benefits because of earnings in disability cases and benefit forfeiture in other benefit cases. In retirement and survivor cases, forfeiture because of earnings is dependent on whether these earnings were in employment subject to the OASI taxes. If not so subject, the individual's earnings are ignored, regardless of the amount. But in the case of disability, the fact that the work is in exempt work makes no difference.

I assume that the work test for the other benefits is limited to covered work because of the administrative impossibility of checking

on exempt work. I do not know how it is contemplated that in disability cases earnings in exempt work will be checked on.

H. R. 6000 in dealing with disability does so on the theory that the individual must be both disabled and retired. It awards disability benefits to individuals and then provides that work beyond $50 per month means loss of benefits. Obviously this means a very strong incentive for the disabled to stay disabled and retired. The bill, apparently in recognition of this, authorizes the administrative people to throw a person off the rolls who refuses rehabilitation. I don't like that kind of authority being vested in administrators. We have been telling people for 13 years that social-security protection is theirs as a matter of right. This tells them that it is a matter of administrative discretion if they are disabled.

The point I want to make is that H. R. 6000 itself recognizes that social insurance disability benefits are inherently inappropriate to principles of the social insurance concepts we have established over the past 13 years. Without a work test we lose justification of paying disability benefits under the program. With a work test we are defeating an important policy of persons working despite a disability. By giving administrative discretion in forcing people off the rolls we destroy the concept of "earned right" which is featured by proponents of the system.

Marginal workers can qualify for benefits larger than their annual earnings—and continue to work. For example, a woman who picks up $200 for Christmas work and $200 for summer sales in some retail store, can qualify for $300 per year in disability benefits. She can thereafter earn up to $50 in any month without affecting her benefit. If she earned her regular $200 in December and $200 in August sales she could still collect $250 disability for the remaining 10 months.

A physically handicapped odd-job man who averaged $40 per month could qualify in 5 years and continue at his insubstantial work.

Marginal workers who collect both workmen's compensation and disability present a particularly unfortunate situation. For example, John Jones, who has been averaging $100 per month, under most State laws would receive two-thirds of wages for disability under workmen's compensation. Under H. R. 6000 he would also receive $25 or more—half his $50 plus increment benefit—an aggregate of $91 per month. In addition, he has freedom to live where he wishes, do small odd jobs for extra money if he chooses, and a certain income of $91 in good times and bad. He is not subject to withholding taxes for income tax and social security, union dues, or other deducts. He escapes carfare and other work costs. What is his incentive to engage to productive work?

Gentlemen, in giving you these practical illustrations I am attempting to show what we get into when we try to provide and handle disability coverage. We have perhaps two important effects to consider: (1) the effect on the individual concerned and his family and those whose taxes must support OASI, and (2) the effect on the entire OASI system.

Using the statistics of the varous health surveys as the basis for estimation, the number of those in the labor force permanently disabled, plus those who would be in the labor force but for disability, total around 1,500,000 persons. The existence of such a class of unfortunates calls for an integrated system of dealing with the situation.

chief of which should be rehabilitation of the disabled and not cash benefits, which would result in a pension roll of huge proportions made up of individuals who would be compelled to surrender the dignity of self-support to the so-called peace of mind that comes to one who is the recipient of a monthly Government check. Have we in this country come so far that we no longer place any value on the intangibles of personal pride and individual self-determination, and the surrender of these and other rights to the physical comfort of a monthly stipend?

Experience demonstrates that cash sickness benefits operate as a deterrent to rehabilitation, diminish the incentives toward rehabilitation, and self-support and is therefore socially undesirable. As the London Economist stated some time ago, the ultimate cost and waste of a disability program not geared to incentives to recovery is "locked in the subconscious minds of millions of hypochondriacs."

I have studied the very remarkable provisions that have been made in the Scandinavian countries for 70 and 80 years for the care of the aged and permanently disabled. Their system has the triple advantage of first, providing ideal care; second, reducing the cost to a minimum by changing it from a cash to a service basis; and third, by maintaining the pride and dignity of the individual. May I, at this point, make the suggestion that the experience in such countries as Denmark, Sweden, as well as Switzerland, and Holland, would provide many worth-while ways in which the problem of caring for the aged and permanently disabled can be solved without resorting to such radical techniques as a Federal compulsory system of cash benefits, which would blanket the country with a most expensive plan.

Senator KERR. What do you mean by "changing it from a cash to a service basis"?

Mr. O'CONNOR. At one time they had mostly all cash, and then they turned around to a service basis. They set up a home, where there will probably be six of them to take care of them, and they included medical care, and so forth.

The question of caring for and rehabilitating the disabled should be left to the States.

Senator MILLIKIN. Let me back-track. What was the net result of your observation of the Scandinavian systems?

Mr. O'CONNOR. It was less costly, maintained very well, and they all maintained their dignity and were very happy in their situation.

Distribution of the disabled varies among the States, and flexibility of State systems will allow better adjustments to actual conditions. The States are administratively closer to the conditions and cases of the disabled.

Senator MILLIKIN. Let me back-track again. What Scandinavian systems did you study?

Mr. O'CONNOR. Those in Sweden and Denmark. Those were not studies conducted over there: they were studies made in this country. I was only in Europe once, and that was during the First World War. I have never been lucky enough to get back there since.

The State public assistance systems are closer to the disabled in their homes, have medical facilities or arrangements for the same, possess case-work services for treating individual cases, can engineer the retraining and rehabilitation of the disabled as well as find work for them, and can render such financial assistance as befits each case. Where institutionalization is required, State and local institutions

already care for many of the disabled and this service can be expanded to meet additional needs.

The administration of permanent and total disability benefits is more akin to the administration of old-age assistance than to old-age and survivors insurance. Under OASI you are not confronted with the various degrees of eligibility; you do not have to follow through continually checking the progress of the disability. This surveillance is similar to what is required in administering public assistance, always on the alert for false claims, misrepresentation, and malingering. In these respects, old-age assistance and disability benefits follow the same patterns, and the administration should be at the local level where the costs of such a program can be controlled.

Wisconsin since 1945 has provided a special program of public assistance for permanently and totally physically disabled persons. This is the first specific law making aid available to the totally incapacitated as a separate group. A maximum cash aid of $80 per month is provided and the local administration is in the hands of the county agencies which carry on under the supervision of the State department of public welfare.

The State, and not the Federal Government with a cash-benefits program, is the answer to the problem of permanent and total disability. The State could balance the incentives to cash benefits and to rehabilitation since these two incentives may conflict. When benefit payments are readily available as a matter of right, there may be a reluctance to enter a process of rehabilitation and also a temptation to drop it after once started. The disabled person should be encouraged to again stand on his own feet. We should not make his bed too soft. Rehabilitation is to the ultimate benefit of both the individual and society.

The Federal Government should be kept out of administering such a program because it would lead to outright political control and tremendous abuse while political interests in the States would be held to a minimum, with better care organized on a State or even on a community basis.

In the light of the fact that no one can predict just what a permanent and total disability program as called for in H. R. 6000 would cost, and in view of the many facts and arguments submitted opposing such a development in social insurance, it would seem that the most practical approach is a public assistance program for the needy disabled—a program which is provided for in other sections of H. R. 6000 through the sounder and less costly Federal grants-in-aid to the States.

I urge you therefore to remove the permanent and total disability insurance provision from the bill since it will not result in the denial of benefits to the needy permanently disabled. At the same time it will continue the responsibility in the public-assistance program where it rightfully belongs. I can visualize only confusion and grief by the adoption of the proposed permanent and total disability provision in H. R. 6000.

The CHAIRMAN. Thank you very much for your appearance.

Mr. O'CONNOR. Thank you, sir.

The CHAIRMAN. Mr. John H. Miller?

You may identify yourself for the record, Mr. Miller, and we will be glad to hear your statement.

STATEMENT OF JOHN H. MILLER, VICE PRESIDENT AND ACTUARY, MONARCH LIFE INSURANCE CO., SPRINGFIELD, MASS.

Mr. MILLER. Mr. Chairman and members of the committee, my name is John Miller. I am a vice president and actuary of the Monarch Life Insurance Co. of Springfield, Mass.

I have a written statement, which I will summarize, if I may, omitting some sections.

The CHAIRMAN. You may put your entire statement in the record if you desire to do so, and then you may refer to it, as you wish.

Mr. MILLER. I will do so, briefly, if I may.

Two years ago I served as a special consultant on disability insurance to the staff of the Advisory Council of this committee. Subsequently, I have followed the legislative developments in social security with keen interest.

My study of H. R. 6000 has been devoted primarily to the provisions for disability benefits. The advocates of these provisions contend that the qualifying requirements and the definition of disability are sufficiently strict to keep the cost at a moderate level. These requirements and definitions may possibly operate as intended in the case of a steady worker responsible for his family support, or at least for his own, but when we consider that our labor force includes millions of single men and women, many living with relatives and not wholly dependent on their own earnings, numerous examples show that even the minimum benefit proposed would often be a strong temptation to make improper claims. This is particularly true because of the possibility of supplemental earnings under the work clause.

Examples of situations which invite abuses of the benefit system fail, however, to illustrate fully the really serious issues involved. A more fundamental consideration of the disability benefits proposed requires a careful analysis of the condition of disability. How an individual reacts to an injury or disease depends upon his character and upon his circumstances. The area between good health and absolute incapacity to do any physical or mental work is so broad that the term "disability" can not be precisely defined. Thus, a man who has a high sense of responsibility will return to work as soon as possible, while the irresponsible individual will claim disability for a much longer period.

It is sometimes asserted that proper adjudication and administration of claims will avoid the abuses I have mentioned. Competent claim administration will prevent a great number of potential abuses, but it will not overcome the fact that human behavior is largely determined by incentives. If the incentive to remain disabled is strong enough, the duration of the disability will be substantially increased despite the best of claim administration.

This fact is demonstrated by the recent disability experience of the Prudential Insurance Co., which I have summarized on this chart A. This experience covers the period of 1946–48 and therefore is free from depression or wartime influences.

It shows the differing experience under three types of policies. The first bar is based upon policies providing monthly disability incomes, which in this case averaged about $39 per month. The second bar shows the experience for a similar group——

Senator MILLIKIN. That says, "policies providing disability insurance and waiver benefits." What are waiver benefits?

Mr. MILLER. The premium was waived, as well as the payment of an income provided.

Senator MILLIKIN. I see.

Mr. MILLER. In the second bar we had a similar group of policies providing the waiver benefit only, with no cash benefits; and the third bar shows experience under small intermediate policies which provided waiver of benefits for a year, followed by disability installments at the rate of about $5 a month, installments of the face amount.

The second set of bars shows the corresponding comparison after 10 years of disability.

Senator KERR. What does that mean?

Mr. MILLER. The people here [indicating] had been disabled for 10 years and 6 months. There was a 6 months' qualification period involved. These are the number of people, shown in the first set, of bars qualifying for benefits after 6 months of disability, and this second set shows how many were still disabled and drawing benefits 10 years later.

The CHAIRMAN. After a lapse of 10 years?

Mr. MILLER. Yes, sir. All comparisons are based on 100,000 policyholders of the same age distribution.

It will be noted with the cash-income benefit of $39 per month, on the average, which incidentally is less than the $50 average estimated for the H. R. 6000 benefits, more than twice as many are disabled as under policies providing little or no cash benefits.

Senator KERR. But under policies which, aside from the cash benefit, were identical, I take it?

Mr. MILLER. As to the first two, that is true. They are ordinary policies. The third bar is based on intermediate policies having an average face value of only about $500, so that this shows the effect of the difference in the amount of benefit. Here it was $5 a month, which reduced the amount of insurance payable on death. The average payment of $39 a month in the first case did not affect the death benefit.

Senator MILLIKIN. Would you mind summarizing your conclusions from that chart?

Mr. MILLER. The conclusion that I draw from this is that where there is a substantial cash benefit, in this case an average of $39 a month, there is much more disability claimed than where there is either no cash benefit but simply a waiver of premium, or where there is a very small cash benefit.

Senator KERR. And that is as between groups of people who otherwise are similar?

Mr. MILLER. Yes; the same age distribution, covering the same period of years.

The CHAIRMAN. And the same given number of people?

Mr. MILLER. Yes; all three bars, or all six actually, are based on 100,000 policyholders. That is, these are rates per hundred thousand.

Senator MILLIKIN. But are they all suffering from the same degree of disability?

Mr. MILLER. That is the point that I would like to develop now.

The definitions are substantially the same, if not precisely the same, but the incentives are different.

Senator MILLIKIN. Let us assume the same degree of disability for the occupants of all three bars there. Let us assume that. How would you know? I mean, if a fellow does not apply, how would you know? The difference between the top of your second bar and the top of your black bar reflects the people who are not getting benefits, does it not?

Mr. MILLER. That is true.

Senator MILLIKIN. And if they are not getting benefits, how are you in a position to examine them and to determine their degree of disability?

Mr. MILLER. That is a very good point. But this difference has been found in all sorts of comparisons. Now, in my own company I have on a number of occasions analyzed our experience according to the size of the benefit, and I find that where the benefit is, say, as much as $50 a week for disability, the rates are much higher than at $20 or some smaller amount. So there is a very close correlation between the size of the benefit and the amount of disability claimed.

Senator MILLIKIN. I think common sense would lead you to that conclusion. But I am just wondering about the validity of your statistical approach, there, unless you can show that everybody in all of those bars suffered from precisely the same degree of disability.

Mr. MILLER. That is the point that I am trying to bring out, or will bring out later, I trust, that the degree of disability is a very difficult thing to measure or ascertain.

Senator MILLIKIN. All right. Go ahead.

Mr. MILLER. Now, this difference in experience among the three types of benefit cannot be the result of differences in selection of the risks, for all groups represent insured policyholders in the same company selected on the basis of health, habits, occupation, and character. Indeed, it is probable that those insured for income benefits were the more carefully selected.

It also seems implausible that the higher costs under the income benefits can be accounted for by lax claim administration. All three groups were handled by the same company, and it is not reasonable to believe that more care was taken in the payment of very small claims than in those involving substantial amounts of cash.

My interpretation of these data is that the payments under the waiver and installment benefits, the second and third columns, there, represent actual disability, if you can define such a term, while under the income benefit payments were made to many individuals who, but for the incentive of a disability income, might have become reestablished as productive members of society.

I do not mean to state or imply that the difference is due to malingerers who have deliberately deluded the insurance company. Rather, I would say they have deluded themselves. Many have deluded their doctors as well, no doubt. There is little argument today over the proposition that the mental attitude and the emotions of an individual have a profound effect on his physical well-being. These apparent malingerers are, for the most part, really disabled according to any practical criterion of disability, but would not have been if there had been no disability income to rely upon. I do not believe that a Government administrator or a Government rating board would be any quicker to terminate disability benefits in such cases than the insurance claim adjuster.

Chart B shows the experience during the depression under two types of benefits. This broken line, here, shows the loss ratios on noncancellable life income disability policies. These were the fancy benefits to which Senator Millikin alluded earlier.

Senator KERR. The what?

Mr. MILLER. The fancy benefits, large amounts in many cases.

Now, the advocates of Federal disability benefits have stated that this experience, and similar experience under life-insurance disability benefits, is irrelevant, because of the nature of the selection and because of the large benefits frequently involved. But here in the solid line we have the experience under group-life-insurance benefits, showing that with small policies issued to workingmen under a plan that eliminated the effects of individual selection, we had an even worse trend and experience during the depression. In fact, as a result of that experience, most companies discontinued not only the noncancellable forms of disability benefits but also this particular form of group benefit.

Senator MILLIKIN. What system of graph paper did you use in doing your base work?

Mr. MILLER. This is a chart called a ratio chart of semilogarithmic chart. The vertical scale is a logarithmic scale, and it is used where we are comparing unlike things.

Senator MILLIKIN. It has a tendency to exaggerate your rise, does it not?

Mr. MILLER. No; it actually flattens it out.

Senator MILLIKIN. I do not mean that it is wrong mathematically, but I mean visually does it not give a larger distortion than the logic of mathematics might call for?

Mr. MILLER. On the contrary, sir, it reduces the steepness. For example, here, from 100 to 150 is this distance [indicating], whereas, going up the same distance as from the 100 line to the 150 line brings us almost to the 250 line.

Senator MILLIKIN. And how about your time element?

Mr. MILLER. The time is the same.

Senator MILLIKIN. Evenly spaced?

Mr. MILLER. Yes. That is why we call it semilogarithmic. It is arithmetic on the horizontal scale and logarithmic on the vertical scale.

Senator KERR. Apparently in 1933 there was a very sharp downturn in the line?

Mr. MILLER. That is true.

Senator KERR. What does the information show as to how long that trend continued? And to what extent did it go?

Mr. MILLER. It is impossible to give that information on these particular trends, because as to two of the five or six companies whose noncancellable lifetime benefit experience is involved here, one went out of business and the other was drastically reorganized, because they were "broke" by these benefits.

Senator KERR. Well, now, what about those who survived?

Mr. MILLER. Their experience improved right through to about 1945. The wartime experience was very favorable. Then, since the war, there has been a slight upward tendency.

Senator KERR. Can you tell us whether or not it has developed to the point where the loss ratio now is below the 100, or above it?

Mr. MILLER. On the surviving companies, involved here, I am not sure. I think the ratio is still at an unprofitable level. I would say 100 percent—near 100 percent—but I shouldn't give a figure because I haven't checked that.

Senator KERR. I would think that when the experience is along the horizontal line marked "100," it is a break-even line. Is that correct?

Mr. MILLER. That is correct for the group line, which shows the difference between actual and expected losses.

Senator KERR. I do not see any difference between actual and expected. I only see one line. Would that be the actual, or the expected?

Mr. MILLER. In the case of the group experience, the 100-percent line indicates that the actual experience was just the same as the expected; but on the noncancellable, the 100 percent indicates that the loss ratio is a hundred percent, which would mean that the company paid out just as much in claims as they took in in premiums, leaving nothing for expenses and taxes.

Senator KERR. Well, of course, they stopped writing new policies of that kind, did they not?

Mr. MILLER. That is true.

Senator KERR. Is it the case that they are still paying under their old policies to any considerable extent?

Mr. MILLER. Yes; they are, very heavily. I would be very glad to supply such information as is available on that point later, if that is desired.

The CHAIRMAN. If you will do so, we will be glad to have it.

(The information to be supplied follows:)

MONARCH LIFE INSURANCE CO.,
Springfield, Mass., March 16, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D. C.

DEAR SIR: In the course of my testimony concerning H. R. 6000 on March 2, 1950, you inquired as to the subsequent course of the ratios shown in chart B. This chart indicated the disability experience of certain companies under group life and noncancellable disability indemnity insurance from 1925 to 1934. I stated that comparable data could not be shown for the later years, but that I would file with the committee such information as was available. This information follows:

The group disability experience presented in chart B was based upon the business of seven companies, which, during this period, provided approximately 90 percent of all group insurance in the United States. Until 1932, group life insurance policies contained total and permanent disability clauses providing for the payment of the face amount either in one sum or in installments. Because of the very adverse experience that developed under this form of benefit, particularly during the depression, the principal group insurance companies in 1932 discontinued writing this form of benefit in new policies. Also this form of disability clause was removed from many other policies on their subsequent renewal. (Transactions of the Actuarial Society of America, vol. XLII, p. 94). Therefore, by 1935 so much of the group life insurance business had been issued with, or changed to, a more restricted form of disability provision that the subsequent experience is not comparable with that shown for the years 1925 to 1934.

The difficulty in extending the line showing the loss ratios under noncancellable disability policies providing life indemnity was occasioned by the fact that one of the companies whose experience is included was forced into reorganization and another one was liquidated and its business reinsured. In the first case, the disability policies were continued by the reorganized company after the benefits were reduced to percentages of their original amounts ranging from 20 to 90 percent, the ratio depending upon the form of policy and other

factors. In the second case, the reinsuring company agreed to pay amount varying from 25 to 100 percent of the original indemnities. In both instance the reduced indemnities were subject to restoration from future earnings. A thir company included in this group has been very successful, but changed to the sal of a different type of policy not providing life indemnity. Since separate figure are not published to show the subsequent experienec under its life indemnit policies, it was necessary to exclude the business of this company as well a that of the other two in order to show comparable figures from 1925 to date o this type of business. After excluding these three companies, there remaine six companies, none of which have written any of this noncancellable dis ability business since 1931 but all of which have continued to pay benefits unde the renewing policies in accordance with their original terms. There are show in the table below the noncancellable disability loss ratios portrayed in chart B together with the corresponding ratios for these six companies, the secon series being extended through 1949. It will be noted that while the cours of this experience has been very erratic, the losses have substantially exceede the premiums earned by the companies in every year since 1930.

Loss ratios on noncancellable life indemnity policies

Year	9 companies (PCAS XXI, p. 246)	6 companies (with no change in benefits or type of business)	Year	9 companies (PCAS XXI, p. 246)	6 companies (with no change in benefits or type of business)
	Percent	*Percent*		*Percent*	*Percent*
1925	116	85	1938		3
1926	103	125	1939		1
1927	91	84	1940		2
1928	88	89	1941		58
1929	87	91	1942		24
1930	95	97	1943		26
1931	112	125	1944		14
1932	126	149	1945		14
1933	186	185	1946		19
1934	155	178	1947		16
1935		206	1948		11
1936		365	1949		19
1937		226			

Senator Kerr also inquired whether an estimate had been made that 80 percent of the disabled persons could be rehabilitated. I replied that I had seen such an estimate in an official report and would furnish the citation later. The statement which I had in mind appears on page 5 of a report on Aid to Physically Handicapped by the Committee on Labor, Subcommittee on Aid to Physically Handicapped (pursuant to H. Res. 45, House of Representatives, 79th Cong. 2d sess.), a copy of which is attached. The statement referred to begins as follows:

"The Director of the persent Office of Vocational Rehabilitation has informed the subcommittee that nearly 80 percent of disabled persons can be rehabilitated without the use of special types of facilities."

It is further stated in this report that a large number of the remaining 20 percent can be rehabilitated either fully or partially if special additional facilities are available.

If any additional data are desired by the committee, I shall be pleased to furnish them if it is possible for me to do so. May I again express my appreciation of the opportunity of presenting my statement to the Senate Committee on Finance.

Respectfully submitted.

JOHN H. MILLER,
Vice President and Actuary.

Senator MILLIKIN. Where you have a cancellable policy, you have it within your control to keep the expectation and the practice together?

Mr. MILLER. That is right. But this is on noncancellable.

Senator MILLIKIN. In other words, if it gets too bad, you cancel

Mr. MILLER. Yes; on cancellable policies.

Now, there is a third line on this chart which shows the death rates under the Metropolitan Life's industrial policies, which I have put in to show that the general trend in mortality during the depression was not unfavorable. There was some bad experience on policies for large amounts, but on the basic industrial insurance the experience went up a little in 1929 and then improved thereafter and has continued to improve to this date.

Experience under the Government life insurance has been cited here by Mr. Altmeyer, but the record does not contain substantial proof or demonstrations of his assertion that—

> to the extent that one is able to judge, the veterans' experience has been more favorable than the experience of private insurance carriers, * * *.

Moreover, I question the bearing which the veterans' experience has on the problem at hand, since the veterans comprise a select group not representative of our entire labor force.

I have developed this comparison further in the appendix to this statement.

Charts A and B show that an assured disability income exerts a powerful influence on the behavior of the disabled person. In fact, there is reason to believe that, in many cases, a permanent disability benefit, by reducing or destroying the incentive to return to useful activity, has done the disabled individual more harm than good.

Senator MILLIKIN. Mr. Chairman, may I interrupt the witness, please?

What is the pronounced deviation between the experience with veterans and the experience generally with industrial groups?

Mr . MILLER. Comparing them over a period of years chronologically, the experiences seem to parallel each other.

Senator MILLIKIN. That is why I should perhaps put my question in a different way. Why is your experience with veterans different from your experience with a general industrial group?

Mr. MILLER. Briefly, the great bulk of the insurance on which the Government life-insurance statistics were compiled is the installment-type benefit, similar to the third group, of Prudential policies, but for larger amounts. When the veteran received a disability benefit, he was using up part of the protection which he had bought for his family. That acts as a deterrent to the drawing of the benefits, and in the appendix I have shown another example where that is quite pronounced.

Secondly, the average payment under the veterans' insurance was about $25 per month, just about half the benefits proposed for the Government insurance, and considerably less than most of the insurance company experience.

Then, as to drawing conclusions from the veterans' experience with respect to what might be done under social-security benefits, the point I make there is that the veterans were a selected group. All had good-health backgrounds, and primarily they were younger men and men of better character. This group doesn't include many of the marginal individuals, who are apt to cause most of the difficulty under this type of insurance.

Senator MILLIKIN. Now, we had testimony, I think, yesterday, to the effect that the railroad retirement system has been successful as

far as disability insurance is concerned. Have you any comment on that?

Mr. MILLER. I have never seen any data published which could be suitably compared with our insurance company experience. I am unable to give a comment on that.

Senator MILLIKIN. And the gentleman appeared for a union in the garment-making industry, and the burden of his testimony was that they had had favorable experience. Have you by any chance seen that testimony?

Mr. MILLER. No; I have not had an opportunity to as yet.

In fact, there is reason to believe that in many cases a permanent-disability benefit, by reducing or destroying the incentive to return to useful activity, has done the disabled individual more harm than good.

Therefore, I would count the cost of the extra disability shown in chart A not just in claim dollars paid out by the insurance company, but in wasted lives and prolonged disability suffered by people who should have been making a greater effort to return to their jobs or to find a new role of activity.

Permanent-disability insurance is an old institution dating to the earlier days of the British Friendly Societies. Its inclusion in the social-security plans of foreign countries has been cited as a reason for our adoption of these benefits and as proof of the feasibility of doing so. In my opinion, these arguments lose their force when we find that typical prewar benefits of foreign plants were worth only a few dollars a week.

However, in considering the problem of the disabled, it seems to me that the history of past attempts at paying cash benefits is less significant than the great gains which have been made in the past few decades in elimination of disability by treatment on the one hand and by vocational rehabilitation on the other.

Senator MILLIKIN. Mr. Chairman, after we get through with all of the malingering and all of the temptation to prolong benefits which would not be prolonged had there been, perhaps an appropriate rehabilitation, if we have genuine cases of total and permanent disability what we are going to do about them?

The CHAIRMAN. Would you care to comment on that, Mr. Miller?

Mr. MILLER. Yes. I come to that a little later, and my point is that the most adaptable method is through assistance.

The CHAIRMAN. You agree with the previous witness, Mr. O'Connor, on that point?

Mr. MILLER. Yes. I would like to develop that a little further.

Two of the most important steps ever taken by Congress in promoting social welfare were the passage of the Vocational Rehabilitation Acts of 1920 and 1943.

The opportunities in rehabilitation have been well put by Mr. Shortley, Director of the Office of Vocational Rehabilitation, whom I quote, in part:

> Most disabled persons can work efficiently if prepared for jobs compatible with their physical condition, aptitudes, and abilities. A man with a leg amputation can do anything at a bench or desk that an able-bodied man of equal skill can do. A man with an arm amputation may be a competent salesman, draftsman, or lawyer—to mention but a few occupations open to him. The deaf person is handicapped only in communication and not in the skilled use of mind and hands. Tuberculosis ex-patients and persons with heart defects are limited only in per-

forming heavy manual labor and not in the duties of lighter skilled vocations * * * In fact, nearly every disabled person has far more vocational assets than are lost through his impairments, and it is only needed to develop his remaining skills and capacities, through physical restoration and vocational training, to the point of economic usefulness.

Mr. Oscar Ewing has said:

Our disabled civilians generally are capable of becoming self-sustaining and contributing citizens of their communities * * *

Senator MILLIKIN. Mr. Chairman?

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. First of all, I think the testimony we have had here on rehabilitation is very impressive. I wonder if we do not imply too much, let us call it, will power in the average citizen, in some of our arguments, here. I know a lady who is a painter and suffered a stroke when she was 65, on her whole right side. She learned to be a painter with her left hand and was a better painter with her left hand than she had been with her right hand. But there is not one person in a million who has that kind of guts, that kind of spizzerinctum, that kind of will power.

I am wondering if we are not attributing perfectionism to a field where it does not always exist.

Mr. MILLER. I think it is undoubtedly true that that will power varies greatly among individuals. There are not many Helen Kellers or Robert Louis Stevensons——

Senator MILLIKIN. Exactly.

Senator KERR. What percent does the record show to be the effective rehabilitation among the disabled to whom the opportunity for it has been made available?

Mr. MILLER. That I believe was brought out in the annual report of the Office of Vocatioinal Rehabilitation.

Senator KERR. I am sure it is. I think it might be well to mention it at this particular point, if you know.

Mr. MILLER. I do not recall precisely. It seems to me that in the latest report something over 100,000 cases were referred, in the year. And in the fiscal year 1949, there were 58,000 successful rehabilitations, and there were about 11,000 more rehabilitations that had been completed, but the people were more or less on trial. I recall those latter two figures rather definntely. I am not sure of the first figure of total referrals.

Senator KERR. Are there figures available to indicate that they believe that 80 percent of those who have the opportunity can be effectively rehabilitated?

Mr. MILLER. There is such a statement on record. I read it just the other day. It was given before a House committee. I have that in my brief case and would be glad to look at it in a moment and give you the reference.

The proponents of disability benefits "as a matter of right" point out that the proposed law requires termination of benefits upon refusal without good cause to accept rehabilitation services. Unquestionably, the Administrator can, under threat of termination of benefits, force the disability pensioner to register at a rehabilitation center. But forcing a man into a rehabilitation center will not assure his rehabilitation any more than forcing a man to attend church will guarantee his conversion. His heart must be in the project. If his mind is fixed on the security of his disability pension payable so long as rehabilita-

tion is not successful, his doubts as to the outcome of the program and as to his future self-sufficiency will erect a psychological barrier to its success. When you hold out a reward for failure, can you expect success? If the attempt at rehabilitation fails, after the disabled person has passively gone through the motions of compliance with instructions, it will be very difficult for the Administrator to remove him or her from the disability roll. Furthermore, because of the human tendency to follow the line of least resistance, not only the patient but also the administrative official or worker in charge may be less impelled to strive for rehabilitation with a disability pension available as a matter of right.

Mr. Chairman, that would be an extension of my comments on Senator Millikin's point about will power. The will power of the individual varies, but I think we strengthen it if we don't give him this crutch of a disability pension to lean upon. He should have something to rely upon, but not——

Senator MILLIKIN. As a practical matter, let us assume that we turned this over to the field of assistance rather than insurance, where the States would share in the cost. In the end you have got to, if you are going to terminate the thing in cases where there can be rehabilitation, devise pressures to get the man to take the rehabilitation and to pursue it seriously. Now, how are you going to do that? For example, an operation might make a man rehabilitated. When you start pressuring people to take operations and to go into various forms of medical treatment and things of that kind, you are in a somewhat dangerous field. If he was not permanently disabled, you may render him permanently disabled.

Mr. MILLER. I think that is very true. And it seems to me that that could come up more often on the insurance side, or at least as often on the insurance side as the assistance side.

Senator MILLIKIN. Take it on either side. What I am trying to get is the practical picture of how we induce these people in good faith to undertake a rehabilitation program. They know on the insurance side or they know on the public assistance side, that as long as they are permanently disabled they are going to continue to get the benefits. Take it, therefore, on either side. How do you overcome that?

Mr. MILLER. I feel, Senator Millikin, that in dealing with people on any basis you can accomplish more by incentives than compulsion. We certainly find that to be true in the fields of private business, and I think it is true in all of our social endeavors.

Senator MILLIKIN. Now, just how would you apply that in this kind of a situation that we are discussing?

Mr. MILLER. I think one thing that is necessary, and I was going to allude to it briefly later, is a great deal more publicity on this program.

Senator MILLIKIN. Now, here is a fellow who is full of aches and pains. He thinks he has those aches and pains. We have had medical testimony to the effect that they may be entirely imaginary. They may be something that he just thinks he has. In any event, from the standpoint of objective tests the accuracy of those aches and pains cannot be determined. Now, how are we going to work on that fellow so that he will forget his aches and pains?

Mr. MILLER. I think a great deal can be done through publicity of this program and getting people interested in it locally.

Senator MILLIKIN. An ache and a pain that you imagine is just the same as an ache and a pain that you do not have to imagine. I mean, if you are really imagining it, really feeling it, it does not make much difference whether you can demonstrate it objectively or not. I am eliminating, now, the faker type and perhaps getting over into the neurotic field.

Mr. MILLER. Yes. That is the big problem. I feel if the rehabilitation program could be made generally as successful as it appears to be in a few States, people in this country, seeing others restored through rehabilitation, would be inspired to go through the services themselves.

Senator MILLIKIN. Is the answer that as a matter of fact rehabilitation programs are working and that they are fixing people up so that they can resume a place in economic life? Is that the answer?

Mr. MILLER. They are working, as far as I can find. And I want to bring out some figures shortly to show, however, that they are working to a very varying degree in different parts of the country. And it is that that leads me to feel that there is a great deal of promise that has not been achieved in this field.

Senator MILLIKIN. We had a young man here one time in connection with a veterans hearing that had an artificial hand. Why, he could do things with that hand that would almost shame a person who had a good hand. But again, that is probably 1 out of 10,000. I mean, he had put his mind on that. He could turn the page of a book, and he could do all sorts of things with that artificial hand. Well, he certainly had rehabilitated himself.

Mr. MILLER. Yes.

Senator MILLIKIN. Because there were quite a few things that he could not do before. I read not long ago in the paper where some fellow won a dancing prize with one artificial limb. But those things are rare.

Mr. MILLER. My feeling on this, Mr. Chairman, is that a case such as Senator Millikin cites is the type of inspiration that these other people need. If they can see right in their own community scores of cases where people who were absolutely down and out have been rehabilitated, they will get the inspiration and the will and the hope to go through with the program. There is the old saying, "Nothing succeeds like success." I think if we got this ball rolling, the results would be amazing.

Senator KERR. I take it that it is your thesis that as long as a man knows he has an insurance policy that is going to be in effect as long as he is disabled, that is an incentive to continue disability?

Mr. MILLER. That is it exactly.

Senator KERR. And that if he does not have that and his only means of help is through a means test whereby he gets temporary assistance, that is a spur to him to relieve himself of that situation?

Mr. MILLER. Yes. I talked recently with a man who had considerable experience with a rehabilitation program at the Prudential Insurance Co. some 10 years or more ago, when they were suffering very heavy losses from this disability. He proposed to the head of his claim division that they start telling these people that "we will continue your benefits for so long, if you will try to rehabilitate yourself, and if

it fails we will put you back and we will not cut your benefits off." He called these people drawing benefits "vegetables." They had to sit still and be sure they were not doing anything when the adjuster came around. So they very carefully avoided making any effort at returning to work.

Under this program they would go to the disabled policy holder and say, "Now, we will carry your benefits for so long in any event. You try to restore yourself." Or they might give them an advance payment to set them up in business or through one method or another to assist them in becoming rehabilitated. But they had to promise the individual that this was not going to cut off his benefits if it failed, in order to get his interest in the program. Otherwise he was afraid of letting go of this reed that he was hanging on to.

Senator MILLIKIN. How did that work?

Mr. MILLER. Very well, I am told. They were able to restore a good many people to active work.

The proponents of disability benefits in H. R. 6000 also argue that through this plan more people will be referred to the rehabilitation agencies. It seems to me that there are more direct methods of bringing the benefits of rehabilitation to people who can profit by it than through the process of declaring them permanently and totally disabled, a terrible and disheartening judgment to a person who needs hope and encouragement. It would seem better to attempt rehabilitation first, leaving the payment of a disability allowance as a final resort in the hopeless cases. If, today, there are needy disabled people who are not seeking the aid of the rehabilitation services, would they be any more likely to do so if in receipt of a disability income? If they have not sought rehabilitation because of ignorance of the program, the solution would appear to be a strengthening of the publicity and its relations with other agencies.

Chart C, taken from the latest annual report of the Office of Vocational Rehabilitation, shows the rates of rehabilition. This chart shows the rates of rehabilitation in terms of the number of people rehabilitated per 100,000 population. The United States average was about 39. Delaware led the list, with almost 150.

Senator KERR. Out of how many?

Mr. MILLER. Per 100,000. The actual numbers in Delaware were something over 400, out of a population of about 300,000.

Senator MILLIKIN. Do they have any special techniques in Delaware?

Mr. MILLER. I have been unable to find that, but from inquiries it seems that the program depends a good deal on the man in charge or the people in charge locally. It is something that is not self-energizing. You have to have somebody there who really sees the possibilities and is interested in making it work.

Senator KERR. That chart does not give the information as to the number of disabled, but only the number rehabilitated out of 100,000 total population?

Mr. MILLER. That is true. There may be some difference among the number disabled per 100,000 of population by States. There probably are. But I can't believe that it is enough to account for these deviations. The Delaware rate is nearly 4 times the national average, and it is over 10 times the Massachusetts average, which is at the foot

of the list. The States of Georgia, in second place, and South Carolina, in third place, also rate high in this comparison.

Senator MILLIKIN. Do you attach all that disparity to the personalities of those who are running that?

Mr. MILLER. Not all of it, but a very large part of it. I was talking yesterday with a professor at the Springfield College, who has interested himself in this problem. I asked him what the trouble was with Massachusetts, and he said, well, nobody was really getting behind it. And then he told me an instance.

Senator KERR. Now, you say that is the lowest. I have a chart here that I thought was similar to yours, which has a different location of the States.

Mr. MILLER. This is from the 1949 report of the Office of Vocational Rehabilitation.

The CHAIRMAN. That probably accounts for the difference.

Senator KERR. Yes.

The CHAIRMAN. What was it you were saying as to Massachusetts?

Mr. MILLER. This professor at Springfield College gave me an example. He said that Dr. Kesler, who is one of the pioneers in this field, set up a very excellent center in New Jersey, and he was away during the war, and he came back and found that the center was not functioning as he had left it; that it needed revitalization. The plan seems to depend very largely on the administrator at the centers and on the facilities. Now, in the western part of Massachusetts, where we have a considerable population, from the information I was able to gather, there are just three men working on this program, and in Springfield we have no real center where people can come for training. We have men who can help them and advise with them, but no adequate facilities for the purpose.

The CHAIRMAN. Does the fact that you may have a large number of disabled people in a highly industrialized State have anything to do with it?

Mr. MILLER. I tried to figure out some other answers to this, but there are too many contradictions. Now, here is Connecticut, very high on the list, and yet Massachusetts, next door, is down at the bottom. And here is Michigan, highly industrialized, very near the top, and Illinois about halfway down, and Ohio next to the bottom, and New York rather low.

Senator KERR. Michigan and Montana are right together on this chart, and there could not be any two States with a much greater difference.

The CHAIRMAN. In character of population; that is, whether rural or industrial or agricultural or what have you.

Senator KERR. There seems to be a very, very definite improvement of the program each year.

Mr. MILLER. Yes. That is very encouraging and shows up in almost every case. Nearly every State has made advances.

If the national average had been equal to the Delaware rate, the number rehabilitated in 1949 would have approached Mr. Ewing's estimate of 250,00 men and women becoming disabled every year.

At best, the proposed insurance plan can aid in the solution of only a part of the problem of disability, since many disabilities arise in childhood and others occur before the minimum employment qualifications are met.

That statement might be enlarged upon by reference to the cost estimates, which show that for 1955, a minimum of 190,000 or a maximum of 594,000 people are expected to be benefiting from the proposed disability insurance plan, and either figure is a rather small percentage of the 2,000,000 estimate that we have heard.

The rehabilitation services, on the other hand, are available to all citizens, regardless of age, occupation, or wage records. Therefore, inasmuch as the insurance plan cannot meet the entire need, and as there is danger that it may impede or inhibit full use of the rehabilitation services, would it not be better to rely on rehabilitation as the first line of attack, and secondly upon assistance by voluntary private agencies, supplemented where needed by public assistance at the local level?

The objection usually raised to such an approach is the necessity of the means test. However, since it is manifestly impossible to give everyone all that he considers to be his needs, the only apparent alternative to the means test is a system of benefits paid as a matter of right according to an arithmetic formula involving wage histories, employment records, and dependency. Now, in providing a basic floor of protection payable to the worker in his old age or to his widow and orphans, a benefit determined by formula and paid as a matter of right may be satisfactory. However, in dealing with disability with its varying degrees of severity, its varying consequences, and its varying possibilities of termination by recovery or rehabilitation, we have a most intricate problem that can best be handled through individual consideration. No formula can recognize the many elements that enter into a disability case.

Since disability insurance benefits will not help those who have not established adequate earnings or employment records, will deal very inadequately and imperfectly with many other cases, and may act, despite the best intentions to the contrary, to impede or discourage rehabilitation, it does not seem wise to adopt this system with all of its dangers.

Mr. Chairman, with the exception of the written appendix, which elaborates on some of these points, that completes my prepared testimony.

Following the testimony here last Friday, I was asked by Mr. Linton to request your permission to introduce for the record a statement answering Senator Myers' question as to the stand of the life insurance companies in 1945 regarding permanent total disability benefits.

The CHAIRMAN. Have you attached that to your statement?

Mr. MILLER. That follows, on page 12.

The CHAIRMAN. I see. Your whole statement will appear in the record.

Mr. MILLER. Yes. Shall I read this?

The CHAIRMAN. You may if you wish to.

Mr. MILLER. Mr. Linton, chairman of the companies' committee, has authorized the following statement:

In 1945 the Life Insurance Social Security Committee felt that it might be well to include a provision for total and permanent disability for those who became disabled after age 55. The discussion resulting from that recommendation and the statements about disability in the Calhoun report led to a modification of that position a year later.

In testifying before the Ways and Means Committee on April 3, 1946, Mr. Linton mentioned the Calhoun report and stated that in the judgment of the life insurance committee it would be unwise for the Government to enter the difficult administrative field of total and permanent disability. However, if after due consideration it should determine to do so, then the recommendation would be that provision be made for premature aging as represented by total and permanent disability at age 55 and over, with the amounts and condition of benefits on a basis which would discourage abuse and malingering.

Still further consideration of the problem in succeeding years convinced the committee that the issues involved were so fundamental and the hazards so great that no middle position with respect to cash disability benefits under the OASI system is tenable. Our belief that the Federal Government should not include disability in OASI has been greatly strengthened by the results that have been achieved in the field of rehabilitation. As a consequence, we are full convinced that it would be unwise for the Government to enter this field.

(During testimony on Feb. 10, 1950 (part 2, page 951), Mr. Linton was requested to furnish a further memorandum. The information requested is as follows:)

Data Relating to Questions Directed to M. Albert Linton During His Testimony on February 10, 1950

Senator Byrd requested information about the rate of disability on workers. He made the request after the statement had been made that group insurance disability rates had gone up during the depression to the same extent as those under regular policies. In order not to burden the material to be included in the record I believe it will be sufficient to refer to the testimony presented on that subject by John H. Miller on March 2 in which the second chart confirms the statement made.

Senator Kerr asked about the disability experience of the companies, and what it had cost them. Investigation of the reports made to the State insurance departments indicates that the total was about $600,000,000, and that the cost was more than double the premiums.

He also asked about current practices as compared with what had been prevalent before. At present only about 40 of more than 300 United States life insurance companies listed in the Spectator Year Book as writing ordinary insurance issue the disability income benefit in conjunction with life insurance. The coverage provided is severly restricted as compared with that granted during the 1920's and the benefit is issued only to very carefully selected risks. The result is that only a small proportion of the life insurance issued by these 40 companies includes this benefit.

An analysis of the premiums and benefits of some 38 United States companies which have continued to issue the disability income benefit reveals the following:

(1) As a rule only disabilities commencing before age 55 are covered. This is a very important limitation as the rate of commencement of disability rises sharply in the late fifties. Benefit payments generally terminate at the maturity of an endowment policy. Even with these limitations, premiums per dollar of income are from three to four times those charged in 1925.

(2) The benefit is conditioned on continuous total disability lasting 6 months. This is a "presumptive" clause—it is not necessary for the claimant to show that his disability is of a truly permanent nature but only that it has lasted continuously for 6 months. H. R. 6000 requires not only that total disability continue for 6 months, but also that it be of a permanent nature. The use by the companies of the more liberal presumptive clause is due to the tremendous dissatisfaction and litigation which arose from the use (prior to 1932) of the other type of clause which attempted to cover only disability of a truly permanent nature.

(3) The majority of these companies issue a benefit of only $5 a month per thousand dollars of life insurance. This restriction has an important effect both on the absolute size of the disability benefits provided and on their relation to the applicant's income. To illustrate, suppose a man age 35 with an income of $5,000 a year, decides to purchase such a disability benefit. What constitutes a reasonable amount of money to devote to life-insurance premiums would vary, of course, with individual circumstances. The average that is actually used by families with family income of $5,000 (excluding families that pay no life

insurance premiums) is about 3½ percent of the family income.[1] The premium for whole life insurance at age 35, including the $5 disability income benefit, varies from company to company, but averages around $32 per thousand of insurance. A premium of $175 per year would therefore buy only about $5,500 face amount of such insurance, with a disability income benefit of only about $27.50 per month.

(4) Of the 11 companies which issue benefits of $10 per month per thousand dollars of life insurance, all but four either terminate payments or reduce them to $5 per thousand when the disabled individual reaches age 65. This termination or reduction was written into the policies because the companies believed that it would have a powerful psychological effect in reducing both the number and duration of claims. Even on the scale of $10 per thousand of life insurance a substantial life insurance premium is required in connection with any sizeable disability benefit.

An analysis of the current underwriting practices of some 16 companies issuing disability-income benefits indicates that:

A. The benefit is issued only to the highest-class risks in nonhazardous occupations requiring steady attendance at a place of employment other than the home, and characterized by a steady income. Salaried people with regular income and steady employment appear to be the only satisfactory risk. Even business and professional men are viewed with caution because their income fluctuates and is not readily established. Women are usually not considered eligible.

B. Agents are apt to be quite selective in suggesting disability-income coverage to applicants for life insurance since if the company rejects the applicant for disability coverage, such action may prejudice the sale of the life-insurance policy.

C. The result of this double screening is that the companies which write this disability benefit do so on only a small proportion of the life insurance which they issue. The proportion varies in the different companies and is typically in the range from 2 percent to 10 percent.

It is of course too early to say whether in the long run the companies now writing disability-income benefits will have a satisfactory financial experience. Whatever may be the outcome in this respect, it is clear that the attitude of these companies toward disability-income benefits reflects in its own way the same healthy respect for the difficulties and dangers of disability-income insurance that prompted the great majority of companies to withdraw from the field altogether.

The CHAIRMAN. Any further questions.
We thank you for your appearance.
Mr. MILLER. I thank you for the opportunity, Mr. Chairman.
(The prepared statement of Mr. Miller follows:)

STATEMENT ON PERMANENT AND TOTAL DISABILITY INSURANCE BENEFITS IN H. R. 6000

(By John H. Miller, vice president and actuary, Monarch Life Insurance Co.)

Mr. Chairman and members of the Senate Committee on Finance, my name is John H. Miller. I am a vice president and actuary of the Monarch Life Insurance Co. of Springfield, Mass. Two years ago I served as a special consultant on disability insurance to the staff of the advisory council of this committee. Subsequently, I have followed the legislative developments in connection with social security with keen interest.

My study of H. R. 6000 has been devoted primarily to the provisions for permanent and total disability benefits. The advocates of these provisions contend that the qualifying requirements and the definition of disability are sufficiently strict to keep the cost at a moderate level. These requirements and definitions may possibly operate as intended in the case of a steady worker responsible for his family's support, or at least for his own, but when we consider that our labor force includes millions of single men and women, many living with their parents or other relatives and not wholly dependent on their own

[1] See Life Insurance Ownership Among United States Families, 1949, prepared by Survey Research Center, University of Michigan.

earnings, numerous examples can be cited to show that even the minimum benefit proposed would often be a strong temptation to make improper claims. This is particularly true because of the possibility of supplemental earnings under the provisions of the work clause.

The fundamental administrative problem of disability insurance is the impossibility of precise definition and objective determination.

Examples of situations which invite abuses of the benefit system fail, however, to illustrate fully the really serious issues involved. A more fundamental consideration of the disability benefits provided under H. R. 6000 requires a careful analysis of the condition of disability. How an individual reacts to an injury or disease depends upon his character and upon his circumstances. The area between good health and absolute incapacity to do any physical or mental work is so broad that the term "disability" cannot be precisely defined. Thus, a man who has a high sense of responsibility to those dependent upon him and to his work will return to work as soon as possible, while the irresponsible individual will claim disability for a much longer period. The individual's pecuniary situation and whether he receives a disability income or allowance also exert a tremendous influence.

The extent of disability is determined largely by incentives.

It is sometimes asserted that proper adjudication of claims and competent administration of the benefits will avoid the abuses I have mentioned. Competent claim administration will prevent a great number of potential abuses, but it will not overcome the fact that human behavior is largely determined by incentives. If the incentive to remain disabled is strong enough, the duration of disability for which compensation is paid will be substantially increased despite the best of claim administration.

This fact is demonstrated by chart A prepared from a recent analysis of the disability experience of the Prudential Insurance Co. for the years 1946 through 1948 on three types of policies, none of which were issued before July 1, 1930.[1] The first bar shows the number out of every 100,000 policyholders insured for income and waiver of premium benefits in event of total disability who are disabled at least 6 months. The second bar shows the corresponding number disabled where the policy provided waiver of premium benefits only. The third bar shows the corresponding number disabled under small policies providing waiver of premiums for 1 year followed by payment of the face amount in quarterly installments over a 10-year period. Unlike the first type of benefit, the cash payments under this so-called installment form reduce the amount subsequently payable on death. Under the income benefit the average cash payment was about $39 per month, under the waiver only benefit there was no cash income payable, and under the installment benefit the average cash payment was a little over $5 per month, the average payment being about $16 per quarter.

In this connection, it should be observed that the average income benefit under the Prudential policies, $39 per month, is less than the average of about $50 estimated by the actuary to the House Ways and Means Committee for the disability benefits of H. R. 6000,[2] although the former involves larger maximum benefits.

The second set of three bars shows the respective numbers remaining disabled after 10 years. In each case it will be noted that the amount of disability claimed under the income benefit is more than double that under the waiver only benefit or under the installment benefit. Now this difference in experience among the three types of benefit cannot be the result of differences in selection of the risks, for all groups represent insured policyholders selected on the basis of health, habits, occupation, character, and other considerations. Indeed, it is probable that those insured for income benefits were the more carefully selected.

It also seems implausible that the higher incidence of disability under the income benefits can be accounted for by lax claim administration. All three groups were handled by the same company and it is not reasonable to believe that more care was taken in the payment of claims involving the waiver of premiums averaging probably less than $50 a year or payment of installments of about $64 a year than in the payment of claims calling for substantial cash benefits.

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[1] These comparisons were based on data from an advance release of a paper by Zehman I. Mosesson entitled "Prudential 1946–48 Disability Experience," which will appear in the Transactions of the Society of Actuaries for 1950. The comparisons shown are based on averages for ages 30 to 60 weighted according to the age distribution shown by July 1, 1946, estimates of United States population, as given in The Statistical Abstract of the United States, 1948.

[2] Myers, Robert J., Actuarial Cost Estimates for Expanded Coverage and Liberalized Benefits Proposed for the Old-Age and Survivors Insurance System by H. R. 6000. Committee on Ways and Means, table 3, p. 8, Washington, October 3, 1949.

NUMBER DISABLED AT INDICATED DURATION OF DISABILITY
PER 100,000 LIVES EXPOSED FOR ONE YEAR

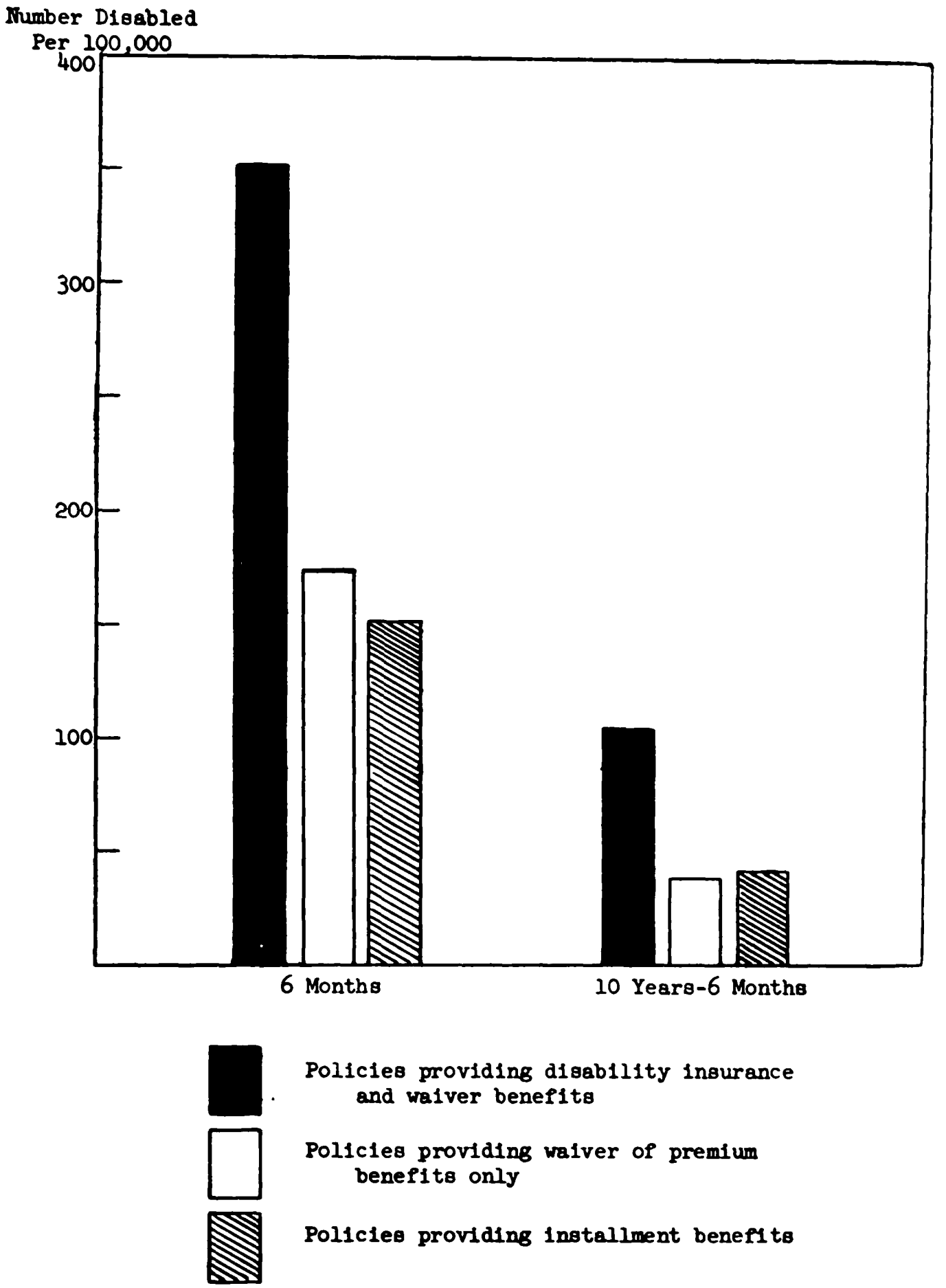

CHART A

My interpretation of these data is that the payments under the waiver and installment benefits represent actual disability while the experience under the income benefit includes payments to those individuals who, but for the incentive of a disability income, might have become reestablished as productive members of society.

I do not mean to state or imply that the difference is accounted for by deliberate malingerers who have deluded the insurance company. Rather, I believe they

have deluded themselves. No doubt many have deluded their physicians as well. There is little argument today over the proposition that the mental attitude and the emotions of an individual have a profound effect on his physical well-being. These apparent malingerers are, for the most part, really disabled according to any practical criterion of disability, but would not have been if there had been no disability income to rely upon. I do not believe that a government administrator or a government rating board would be any quicker to terminate disability benefits in such cases than the insurance claim adjuster.

Other examples can be cited to show how the disability rates are influenced by the attractiveness of the benefits provided. During the depression of the thirties disability losses increased enormously, and during the war years they dropped to levels far below normal, whereas the actual changes in general health conditions were not nearly so marked.

Chart B shows the trend in experience under two forms of disability policies.[3] The broken line indicates the loss ratios under noncancellable life-income disability policies. Some proponents of Federal disability insurance argue that this unfavorable experience is irrelevant to the consideration of social-security disability benefits because of the effects of individual selection and of benefits for very large amounts. However, the solid line, showing the ratio of actual to expected group disability claims during the same period indicates an even more adverse trend under small policies issued to the workingman under a plan that precludes individual selection. The dotted line shows the trend of mortality under industrial insurance, indicating that there was no substantial deterioration in general mortality during the depression.

The record does not contain substantial proof or demonstration of Mr. Altmeyer's assertion that "to the extent that one is able to judge, the veterans' experience has been more favorable than the experience of private-insurance carriers, * * *"[4]

In his testimony before this committee on January 18, 1950, Mr. Altmeyer stated the foregoing opinion after quoting the following from the recent book by Professor McGill. "The disability experience of USGLI has not been unfavorable. The combined experience of the two disability clauses appears to have been more favorable than commercial-insurance experience, although exact comparisons cannot be made because of differences in age limitations, qualification periods, and definitions of disability."[5]

I would like to call your attention to the author's own qualifications in the quotation just made. I have carefully reviewed Professor McGill's analysis and have studied the reports of the Veterans' Administration and have been unable to find any published data which can be properly compared with insurance companies' experience. Moreover, I question the bearing which the experience under benefits payable to veterans has on the question at hand since the veterans comprise a select group not representative of the labor force of the Nation. This rather technical problem is discussed in greater detail in the written appendix to this statement.

Cash benefits for extended disability generally have the effect of prolonging disability and deferring the return to productive activity.

Chart A shows to what extent the amount and value of the benefit affects the disability rate, while chart B shows how greatly the need, as between periods of low and high employment, affects the disability rate. As this variation occurs rather uniformly under very different methods of selection and administration, there can be no doubt but that an assured disability income exerts a powerful influence on the behavior of the disabled person. In fact, there is reason to believe that, in many cases, a permanent disability benefit, by reducing or destroying the incentive to return to useful activity, has done the disabled individual more harm than good.

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[3] The noncancellable disability experience data were taken from History and Present Status of Noncancellable Accident and Health Insurance, by John H. Miller, vol. XXI of the proceedings of the Casualty Actuarial Society, p. 246.

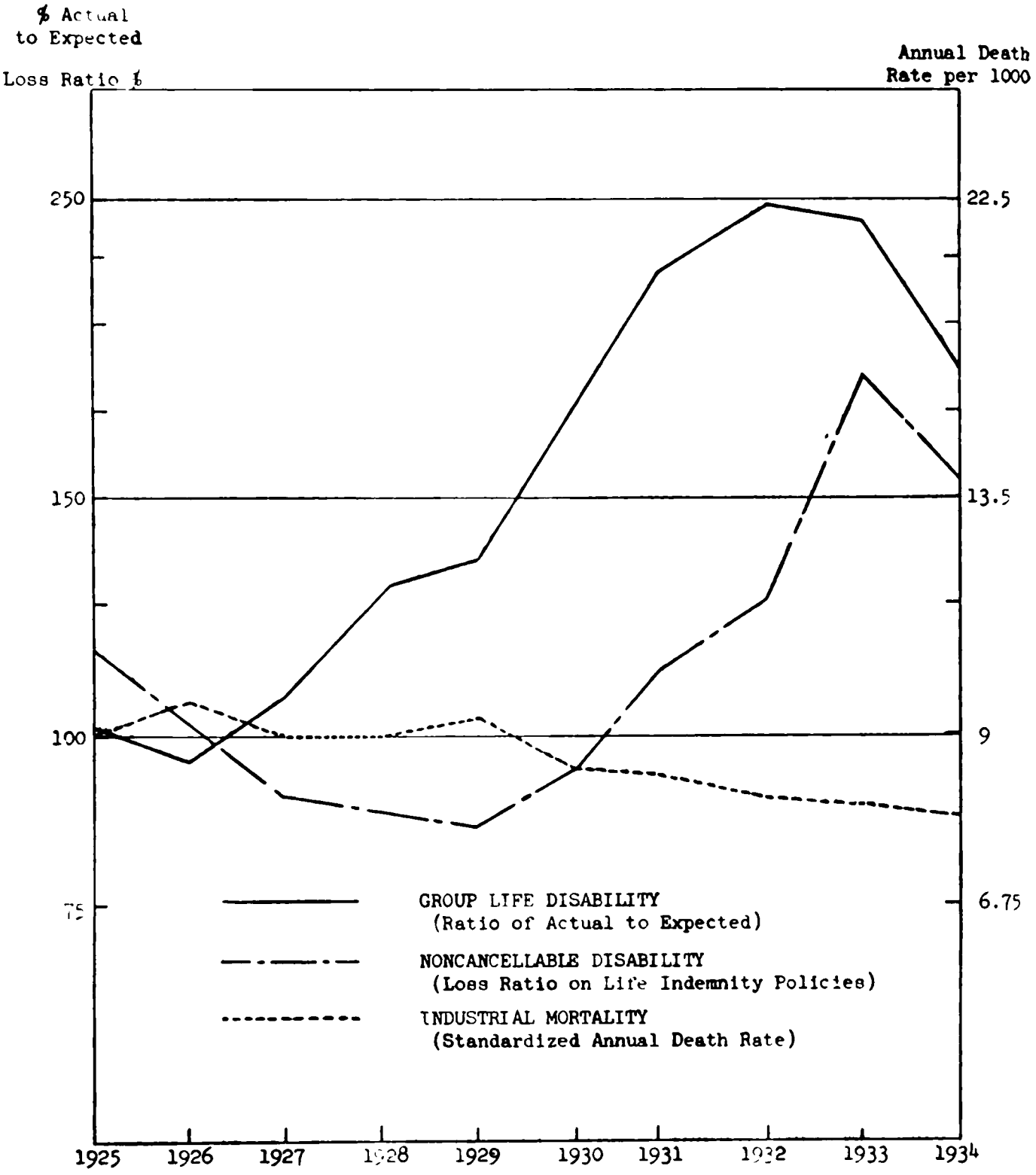
The group life disability experience data were taken from a report entitled "Combined Group Mortality Experience, 1922 34," Committee on Group Mortality Investigations, E. E. Cammack, chairman.

The industrial mortality experience is presented in the form standardized mortality rates for ages 1 to 74 according to the experience of the Metropolitan Life Insurance Co. under its industrial insurance as reported in Twenty-five Years of Health Progress, by Dr. Louis I. Dublin.

[4] Committee on Finance, United States Senate: Hearings on H. R. 6000, pt. I, p. 52. Washington, 1950.

[5] McGill, Dr. Dan Mays, An Analysis of Government Life Insurance, p. 102, Philadelphia, 1949.

Comparison of
DISABILITY EXPERIENCE UNDER GROUP LIFE AND NONCANCELLABLE INDEMNITY INSURANCE
With
MORTALITY EXPERIENCE ON INDUSTRIAL INSURANCE*



* This is a ratio chart drawn on a logarithmic vertical scale, for the purpose of comparing trends in the experience.

CHART B

Therefore, I would count the cost of this extra disability shown in chart A not just in claim dollars paid out by the insurance company, but in wasted lives and prolonged disability suffered by people who should have been making a greater effort to return to their jobs or to find a new role of activity.

Precedents for disability experience from foreign plans should not be followed without an examination of the alternatives and a thorough appreciation of the advances made by medicine and other sciences in dealing with the problems of the disabled.

Permanent-disability insurance is an old institution dating back to the earlier days of the British friendly societies. Its inclusion in the social-security plans of foreign countries has been cited as a reason for our adoption of these benefits and as proof of the feasibility of doing so. In my opinion, these arguments lose whatever force they might have when we find, as is shown in the appendix to this

statement, that typical benefits of foreign plans, in effect before World War II, have been equivalent to only a few dollars a week. Although the British benefits, and perhaps those of other countries, have been increased subsequently, there has not been sufficient time to appraise the results under such liberalized benefits. However, in considering the problem of the disabled, it seems to me that the history of past attempts at paying cash benefits, whether successful or not, is of less significance than the tremendous gains which have been made in the past few decades in elimination of disability or its unfortunate consequences by cure or treatment on the one hand and by vocational rehabilitation on the other hand. Before accepting disability pensions as a desirable objective, it will be well to examine the developments in these fields.

The Vocational Rehabilitation Service established by Congress in 1920 and 1943 have accomplished much and offer great promise for our disabled citizens.

Two of the most important steps ever taken by Congress in promoting social welfare were the passage of the Vocational Rehabilitation Act of 1920 and the 1943 amendments to that act. A part of the Federal Security Agency, the Office of Vocational Rehabilitation has worked with State agencies, with the physicians of the Nation, and in cooperation with industrial medicine, in returning disabled and handicapped people into useful endeavors.

The opportunities in rehabilitation have been well stated by Mr. Michael J. Shortley, Director of the Office of Vocational Rehabilitation, in the following words:

"Most disabled persons can work efficiently if prepared for jobs compatible with their physical condition, aptitudes, and abilities. A man with a leg amputation can do anything at a bench or desk that an able-bodied man of equal skill can do. A man with an arm amputation may be a competent salesman, draftsman, or lawyer—to mention but a few occupations open to him. The deaf person is handicapped only in communication and not in the skilled use of mind and hands. Tuberculosis ex-patients and persons with heart defects are limited only in performing heavy manual labor and not in the duties of lighter-skilled vocations. The blind compensate their loss of vision by quickened perception, power of concentration, and manual dexterity. In fact, nearly every disabled person has far more vocational assets than are lost through his impairments, and it is only needed to develop his remaining skills and capacities, through physical restoration and vocational training, to the point of economic usefulness."[6]

Mr. Oscar Ewing has asserted, "Our disabled civilians generally are capable of becoming self-sustaining and contributing citizens of their communities; * * *"[7]

The proponents of permanent and total disability benefits "as a matter of right" point out that the proposed law (H. R. 6000) requires termination of disability benefits upon refusal without good cause to accept rehabilitation services. Unquestionably, the Administrator can, under threat of termination of benefits, force the disability pensioner to register at a rehabilitation center. But forcing a man into a rehabilitation center will not assure his rehabilitation any more than forcing a man to attend church will guarantee his conversion. His heart must be in the project. If his mind is fixed on the security of disability pension payable so long as rehabilitation is not successful, his doubts as to the outcome of rehabilitation and as to his future self-sufficiency will erect a psychological barrier to the success of the program. When you hold out a reward for failure, can you expect success? If, under these circumstances, the attempt at rehabilitation fails, after the disabled person has passively gone through the motions of compliance with instructions, it will be very difficult for the Administrator to remove him or her from the disability roll. Furthermore, because of the human tendency to follow the line of least resistance, not only the patient but also the administrative official or worker in charge may be less impelled to strive for rehabilitation, if a disability pension is available as a matter of right.

The proponents of permanent and total disability benefits also argue that through the disability insurance plan more people will be referred to the rehabilitation agencies. It seems to me that there are more direct methods of bringing the benefits of rehabilitation to people who can profit by it than through the process of declaring them permanently and totally disabled, a terrible and disheartening judgment to a person who needs hope and encouragement. It would seem better to attempt rehabilitation first, leaving the payment of a disability

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[6] Shortley, Michael J., Independence Day for Disabled Civilians, Office of Vocational Rehabilitation, Federal Security Agency, pp. 7–8, Washington, July 1947.

[7] Office of Vocational Rehabilitation, Federal Security Agency: Brass Tacks—Vocational Rehabilitation for Civilians, Washington, June 15, 1949.

allowance as a final resort in the hopeless cases. If, today, there are needy disabled people who are not seeking the aid of the rehabilitation services, would they be any more likely to do so if in receipt of a disability income? If they have not sought rehabilitation because of ignorance of the program, the solution would appear to be a strengthening of its publicity and its relations with other agencies.

In an address before the Sixth Annual Congress on Industrial Health, Mr. Shortley expressed the opinion that "employment in ordinary industrial or agricultural pursuits would be possible for at least a million men (and as many of the million women in similar circumstances as wished to seek employment) if they obtained appropriate rehabilitation services." [8]

Mr. E. B. Whitten, executive director of the National Rehabilitation Association, in his statement before this committee on January 25, 1950, mentioned the substantial accomplishments and the still greater potentialities of the rehabilitation services. He also stressed the desirability of making the rehabilitation program the principal approach to the disability problem rather than giving it a secondary role.

Chart C,[9] reproduced from the 1949 Annual Report of the Office of Vocational Rehabilitation, suggests that in most States the opportunities for restoring the disabled to self-support have scarcely been scratched. It will be noted that, for 1949, the rate of rehabilitation in Delaware was nearly four times that for the entire Nation, and over 10 times that for Massachusetts. If the national average had been equal to the Delaware rate the number rehabilitated in 1949 would have approached Mr. Ewing's estimate of 250,000 men and women becoming disabled every year.[10]

The proposed disability insurance plan is limited in its scope and can never help certain large segments of the disabled among our population.

At best, the proposed insurance plan can aid in the solution of only a part of the problem of disability, since many disabilities arise in childhood and others occur before the minimum employment qualifications are met. The rehabilitation services, on the other hand, are available to all citizens, regardless of age, occupation, or wage records.

Therefore, inasmuch as the insurance plan cannot meet the entire need, and as there is danger that it may impede or inhibit full use of the rehabilitation services, would it not be better to rely on rehabilitation as the first line of attack and, secondly, upon assistance by private voluntary agencies, supplemented where needed by public assistance at the local level? The objection usually raised to such an approach is the necessity of the means test, which is criticized as being degrading to the individual and out of place in a modern, enlightened state. However, since it is manifestly impossible to give everyone all that he considers to be his needs, the only apparent alternative to the means test is a system of benefits paid as a matter of right according to an arithmetic formula involving factual data such as wage histories, employment records, and dependency. Now, in providing a basic floor of protection payable to the worker in his old age or to the dependents of a worker who has died, a benefit determined by a formula and paid as a matter of right may be satisfactory. However, in dealing with disability with its varying degrees of severity, its varying consequences, and its varying possibilities of terminaton by recovery or rehabilitation, we have a most intricate problem that can best be handled through individual consideration by a case worker or local administrator able to exercise some measure of discretion. No benefit formula can recognize the many elements that enter into a disability case.

Since disability insurance benefits will not help those who have not established adequate earnings or employment records, will deal very inadequately and im-

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[8] Journal of the American Medical Association, May 27, 1944, vol. 125, pp. 263–265.

[9] Annual Report of the Federal Security Agency, 1949, Office of Vocational Rehabilitation, pp. 23 and 24, Washington, 1950.

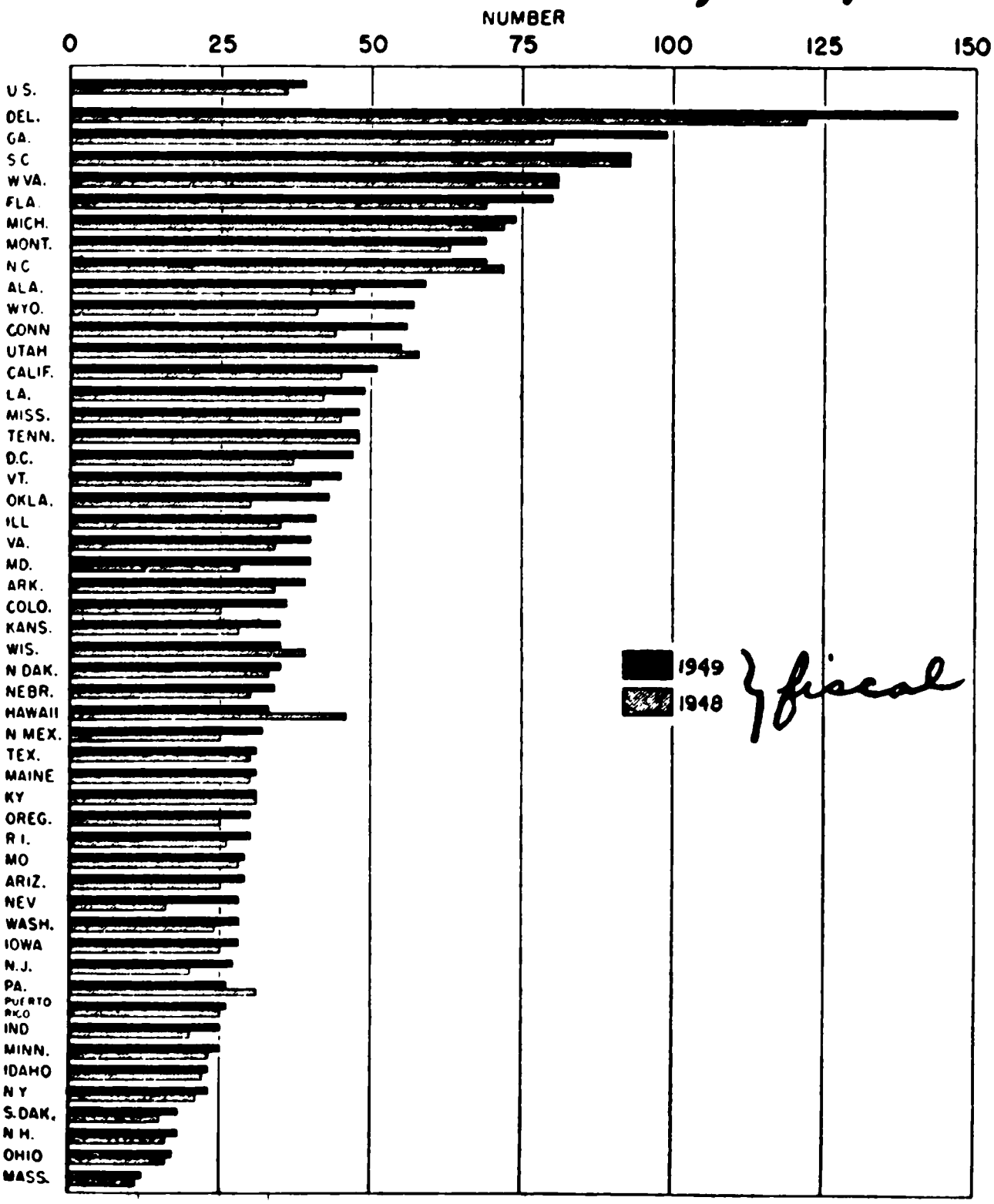
[10] Ewing, Oscar R., The Nation's Health—A Ten-Year Program—A Report to the President, Federal Security Agency, p. 21. Washington, September 1948. The statement referred to follows:

"REHABILITATION

"We have only started to meet our national needs for rehabilitating those who have been disabled by disease or injury.

"The goal: To provide rehabilitation services for the 250,000 men and women who become disabled through illness or injury every year so that they can be restored to the most nearly normal life and work of which they are individually capable."

Chart 1.—NUMBER OF PERSONS REHABILITATED Per 100,000 Population



Population estimated by Bureau of the Census, as of July 1, 1948, for continental United States and as of July 1, 1949, for Hawaii and Puerto Rico

CHART C

perfectly with many other cases and may act, despite the best intentions to the contrary, to impede or discourage rehabilitation, it does not seem wise to adopt this system with all of its dangers and with the great and difficult administrative problems involved.

Mr. Chairman, with the exception of the appendix which gives further details concerning some of the points mentioned, that completes my prepared testimony, representing the opinions and convictions which I have formed after many years of study and practice in the field of disability insurance.

Following the testimony here last Friday, I was asked by Mr. Linton to request your permission to introduce for the record a statement answering Senator Myers' question as to the stand of the life-insurance companies in 1945 regarding permanent total-disability benefits.

Mr. Linton, chairman of the companies' committee, has authorized the following statement:

"In 1945 the life-insurance social-security committee felt that it might be well to include a provision for total and permanent disability for those who became disabled after age 55. The discussion resulting from that recommendation and the statements about disability in the Calhoun report led to a modification of that position a year later.

"In testifying before the Ways and Means Committee on April 3, 1946, Mr. Linton mentioned the Calhoun report and stated that in the judgment of the life-insurance committee it would be unwise for the Government to enter the difficult administrative field of total and permanent disability. However, if after due consideration it should determine to do so, then the recommendation would be that provision be made for premature aging as represented by total and permanent disability at age 55 and over, with the amounts and condition of benefits on a basis which would discourage abuse and malingering.

"Still further consideration of the problem in succeeding years convinced the committee that the issues involved were so fundamental and the hazards so great that no middle position with respect to cash disability benefits under the OASI system in tenable. Our belief that the Federal Government should not include disability in OASI has been greatly strengthened by the results that have been achieved in the field of rehabilitation. As a consequence, we are fully convinced that it would be unwise for the Government to enter this field."

APPENDIX TO STATEMENT ON PERMANENT AND TOTAL DISABILITY BENEFITS

1. Experience under United States Government life insurance disability benefits

It has been asserted by Mr. Altmeyer that "to the extent that one is able to judge, the veterans' experience has been more favorable than the experience of private insurance carriers, not only with respect to insurance, but for compensation cases as well to which almost all veterans who are not barred by the income limits are entitled in the event of total disability."

Mr. Altmeyer's statements with regard to the Government life insurance are based upon Professor McGill's An Analysis of Government Life Insurance. It is brought out in this book that the type of policy on which at least 92 percent of this insurance was issued provided an installment benefit of $5.75 monthly per $1,000 of face amount of insurance. This is equivalent, with interest at 3½ percent, to paying the amount of insurance in installments over 20 years. To the extent of payments made, the ultimate insurance proceeds to the beneficiary are reduced; and if disability payments are made for a period of 20 years the entire insurance is consumed. However, the veteran is entitled to disability benefits as long thereafter as he lives and continues to be disabled. Since the disability income is received at the expense of the protection which he is carrying for his family or other dependents, these benefits do not have as much attraction as a straight income benefit payable without diminishing the amount of death benefits, such as was generally issued by the insurance companies. The experiences of life insurance companies with similar installment disability benefits in ordinary policies issued before the introduction of the income benefit was generally favorable. For example, the following experience of a large company on different types of benefits shows the rates of becoming disabled to be much less under installment benefits than under any form of income benefit.

Total and permanent disability experience [1]*—Benefits issued in connection with ordinary life insurance*

Type of benefit	Average rate of disability per 1,000	
	1929	First 8 months of 1933
Waiver of premium benefits, without income	0.8	0.8
Installment benefits	1.1	2.0
Total and permanent annual income benefit	1.9	4.0
90-day clause monthly income benefit, nonretroactive	5.4	7.8
90-day clause monthly income benefit, retroactive	7.3	9.0

[1] Hunter, Dr. Arthur, Transactions of the Tenth International Congress of Actuaries, vol. I, p. 422.

Furthermore, the experience cited by Mr. Altmeyer relates only to the rate of becoming disabled. No data are shown as to the rate of recovery or death following the occurrence of disability. Obviously, it is necessary to know the average length of claims as well as the rate of becoming disabled in order to compare two experiences.

Another distinguishing factor was that the monthly income under the Government policies mounted to only about $25 on the average and $57.50 at the most. Thus the hazard of overinsurance was minimized.

Considering that the Government life insurance provided the installment benefit in all but about 8 percent of the policies, provided comparatively small benefits, and that no data has been given as to the rate of termination of claims or as to their average duration, the conclusion that "the veterans' experience has been more favorable than the experience of private insurance carriers, * * *" does not appear to be supported by the evidence supplied.

Regardless, however, of the comparability of experience under Government life insurance and private insurance, it does not follow that the disability experience under the former is necessarily indicative of what might be expected under social security.

In contrast to an installment benefit with an average monthly benefit of about $25 and a maximum monthly benefit of $57.50, the proposed benefits under H. R. 6000 would be of an income type with an average monthly benefit of about $50 and a maximum of $72 to $87, depending on the number of years of employment. Judging from the comparisons of insurance experience under installment and income types and under different amounts of benefit, a much worse experience would be expected under social security than was developed under Government life insurance.

Another important factor is that these benefits were payable only to veterans who had the sense of responsibility to maintain their insurance policies in effect. Furthermore, they had all been subject to the selection exercised by the Government in recruiting a military force. The experience, therefore, deals with a select group of predominantly male lives, comparatively young and possessing a background of good physical condition. The veterans, therefore, are not representative of the population as a whole.

2. Disability benefits in foreign social-security systems

In his testimony before the Senate Committee on Finance (p. 53), Mr. Altmeyer stated, "The experience in other countries, all the countries that have old-age retirement systems—and with the exception of two, all these other countries do have permanent and total disability—has not been unfavorable."

Data presented in the Beveridge report [11] indicates that typical disability benefits in European countries amounted to about two or three dollars per week in the period just before World War I. The attached table shows the data presented in the Beveridge report and the estimates of weekly benefits derived therefrom.

Under the Brtish plan the benefit was 5 shillings per week in 1911. This was increased to 7 shillings sixpence in 1920 and to 10 shillings sixpence in 1942. The latter figure was equivalent to approximately $2.10 a week at the rate of exchange prevailing from September 1939 until 1949. Under the British national insurance scheme effective July 5, 1948, these benefits were raised to 26 shillings for a man, 16 shillings for his wife, and 7 shillings sixpence for the first child.[12] Translated into dollars at the current rate of exchange this means that a single man would have a benefit of $3.64 per week, a man with a wife, $5.88, and a man with a wife and one or more children, $6.93 per week. These are flat benefits regardless of the wage level. Despite the substantial increases in the 1948 act, these benefits approximate our minimum benefits under the proposed law. It is too early to judge the results under Britain's increased benefits for disability, but certainly the earlier experience under a benefit of only about $2.10 per week does not offer an assurance that the much more generous plan proposed for this country will prove successful.

As to the German experience, published data indicates that since the institution of sickness insurance in 1885 the average duration of illness of insured workers increased rather steadily until 1932. An improvement was recorded

[11] Beveridge, Sir William, Social Insurance and Allied Services, p. 287, London, November 1942.

[12] National Insurance Act of 1946, p. 80.

between 1932 and 1934, but the average for the latter year was still 74 percent greater than that at the commencement of the plan.[13]

In discussing the developments in German sickness insurance, Dr. Hadrich writing in Deutsches Aerzteblatt for May 1935 stated, "An explanation of the increase from year to year in the morbidity of the insured population can be found in the increased industrialization and urbanization, the entrance of women into industrial employment, *and the psychological effect on the insured members.*" [13] [Emphasis added.]

In some countries such as Italy the depreciation in the value of the currency during the 1930's was such as to render the benefits provided for disability of practically no value.

Considering the very low level of benefits payable under most of these foreign plans, the adverse record of the German plan and the turbulent conditions which have existed in Europe for so many years, the conclusion that the experience in other countries augurs well for the proposed disability benefits in the United States seems ill-founded.

Comparison of social disability insurance benefits based on typical full-time earnings of a moderately skilled male industrial worker in 1938—

BENEFITS FOR NONOCCUPATIONAL DISABILITY RESULTING IN PERMANENT INCAPACITY

Country	Weekly wage plus family allowances, if any	Approximate purchasing power of wages as percent of United Kingdom (based on comparative food prices)	Equivalent wage expressed in United States dollars at $4 to the pound	Percentage of benefits to wages and family allowances	Typical weekly benefit expressed in United States dollars
	(1)	(2)	(3)	(4)	(5)
	Single person				
United Kingdom	70 shillings	100	$14.00		$2 10
Australia	100 shillings	120	16.80	24	4 03
Denmark	70 kroner	100	14.00	19	2 66
Germany	30 deutschemarks	43	6.02	15	.90
New Zealand	100 shillings	[1]		30	
Rumania	560 lei	[1]		24	
Sweden	60 kroner	89	12.46	[2] 3	37
		114	15.96	[3] 14	2 23
	Married man with wife not gainfully occupied and 2 children under 15				
United Kingdom					$2 10
Australia	105 shillings		$17 64	27	4 76
Denmark	70 kroner		14 00	25	3 50
Germany	30 deutschemarks		6.02	29	1 75
New Zealand	108 shillings			55	
Rumania	560 lei			24	
Sweden	60 kroner		12.46	[2] 3	37
			15.96	14	2 23

[1] Figure not given.
[2] Contributory for persons with means.
[3] Contributory component plus noncontributory component for persons with means not exceeding 100 kroner a year.

Sources: Data in column (1), (2), and (4) were taken from the Beveridge report, pp. 288 and 289.

Column (3) was obtained by converting 70 shillings into United States dollars at the exchange rate of $4 to the pound, and then multiplying by the purchasing power indexes given in column (2), adjusting in the case of Australia to include family allowances.

Column (5) was obtained by multiplying column (3) by column (4) and dividing by 100, except for United Kingdom where the benefit was 10 6 from January 1942 until July 4, 1948, or $2.10 on the basis of $4 to the pound, the approximate exchange rate prevailing from September 1939 until 1949.

[13] Bureau of Medical Economics, American Medical Association: Factual Data on Medical Economics, p. 85, Chicago, 1940.

3. Disability benefits in private pension funds

Reference has also been made in the testimony before the Senate Committee on Finance to the experience with disability benefits in private pension systems. Such benefits have very little relationship to the social-security disability benefits proposed, for the reason that they are usually based upon a fairly long tenure of service on a basis of full-time, continuous employment with a single employer. Such requirements eliminate the problem of the marginal worker, the seasonal or migratory worker, the part-time employee and the marginal self-employed. Generally such benefits are administered by the employer or a pension committee which may possess rather wide discretionary powers in granting or withholding the benefits.

4. Additional information concerning the rehabilitation services provided through the Federal and State Governments

In the foregoing statement the benefits of the rehabilitation program were discussed in terms of human values and social gains. However, since Congress is concerned with the cost of the social-security program as well as with the social benefits to be derived, a financial comparison of the cost of rehabilitation with that of paying pension benefits is relevant to this discussion. According to the 1949 annual report of the Office of Vocational Rehabilitation, over 69,000 disabled persons were prepared for and placed in employment through the State rehabilitation agencies in 1949. Fifty-eight thousand of these were considered to be successful while over 11,000 were still on trial. The annual rate of earnings for those rehabilitated in 1949 was increased from $17,000,000 before rehabilitation to $93,000,000 during the first year after rehabilitation. It was estimated by the Federal Security Agency that these people will pay back into the Federal Treasury through increased Federal income taxes during a period of 5 years more than the Federal Government spent in connection with their rehabilitation.

The average cost of maintaining the rehabilitation program during 1949 was $445 per rehabilitant. This is a single cost and is very small in comparison with the cost of an average pension of say $50 per month, which, over a period of 10 years would amount to $6,000. Taking a rather extreme case, the disability benefits to an individual steadily employed from age 20 to 25 at an average wage of $300 per month could aggregate $34,000 by the time he reaches age 65. Aggregate payments to one person of $20,000 or more would not be uncommon.

Under the present law the Federal Government pays each State which has an approved plan for vocational rehabilitation the costs of administration including the administrative costs of providing guidance and placement services; one-half the cost of services neecssary to rehabilitate disabled civilians into suitable employment; and the full cost of such services to war disabled civilians. Services which are provided in all cases without direct cost include medical and psychiatric examinations to determine eligibility for services, vocational guidance, training, and placement. Payment is made for medical treatment, transportation, maintenance, occupational tools and equipment and training supplies when it is established that the disabled person is unable to pay for these.

That greater results are not being realized may be due in part to the lack of public knowledge concerning the rehabilitation services. The need of conducting "a large-scale program of information" is referred to in the above-mentioned annual report. Comment is also made on the need for more sheltered workshops and other opportunities for employment of the rehabilitated. Many employers are making special efforts to place the physically handicapped and doubtless more would do so if a stronger publicity program were in effect. This is a project of the type that can be made to appeal to the employers and community leaders in this country. Given further encouragement by Congress, I believe the rehabilitation services can eliminate the greater part of the problem of extended disability.

The CHAIRMAN. That completes the hearing this morning, and the committee will recess until 10 o'clock tomorrow.

(Whereupon, at 12:10 p. m., the committee recessed to reconvene Friday, March 3, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

FRIDAY, MARCH 3, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Kerr, Millikin, Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order. I hope the members of the committee will get here before we get very far into the hearing, but we will find it necessary to proceed.

The first witness is Mr. A. D. Marshall. Come around, please, Mr. Marshall. You are appearing for the Chamber of Commerce?

STATEMENT OF A. D. MARSHALL, MEMBER, SOCIAL SECURITY COMMITTEE, UNITED STATES CHAMBER OF COMMERCE, WASHINGTON, D. C.

Mr. MARSHALL. For the Chamber of Commerce, Senator.

The CHAIRMAN. On H. R. 6000.

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. We will be very glad to have you begin your statement at this time. I expressed the hope that the other committee members will come in shortly. As a matter of fact, though, the members can read much faster than they can hear, you know.

Mr. MARSHALL. Mr. Chairman, I am A. D. Marshall, member of the social-security committee of the United States Chamber of Commerce, chairman of the social-security committee of the State Association of Commerce, assistant secretary of the General Electric Co., and secretary of the company's pension board. Today I am presenting the views of the United States Chamber of Commerce on H. R. 6000.

As you know, the United States Chamber of Commerce has certain established policies with respect to social security. In order not to burden this statement, we have attached copies of these policies as exhibits to this testimony.

The chamber policies are usually drafted by the appropriate chamber committee concerned, in this case the social-security committee, and these drafts are then submitted to the board of directors through the policy committee. Such policies are formally adopted by the members either by vote at the annual meeting or through referendum.

Therefore, they may reasonably be said to represent the opinions of more than 2,500 local chambers of commerce and 550 trade associations, having an underlying membership of more than 1,300,000 businesses.

The important changes in social security proposed in H. R. 6000 have been carefully reviewed, therefore, by the social-security committee in the light of these policies which have been adopted by the chamber, and my testimony will express the conclusions which have been reached with respect to those proposals.

In general, the chamber's position with respect to changes in social security can be simply expressed.

The chamber favors universal coverage under social insurance and therefore feels that H. R. 6000 does not go far enough in this respect.

The chamber believes that social insurance should provide a basic minimum layer of protection and therefore is generally in favor of increasing the benefits payable to the insured group.

The chamber believes that increasing and ultimate reliance must be placed upon our insurance program as contrasted with the relief or needs approach to the problem of the aged. For this reason, as I have said before, it favors universal coverage under the insurance field, which would make unnecessary further Federal participation in old-age assistance as proposed in H. R. 6000.

The chamber is opposed to the extension of the Federal contributory system to cover permanent and total disability. Human sympathy and pure logic would lead one to favor it in a system of universal coverage. However, the moral hazards and tremendous administrative difficulties, no matter with what guaranties it is surrounded, make such programs inadvisable.

We sincerely believe that your committee and we both have the same general objectives, namely, the establishment of a system of social security which will protect the individual from those hazards of an industrial economy against which he is, at least to a certain extent, unable to protect himself. Such a system should not destroy individual initiative but should be so designed that it will protect and revitalize that private initiative and enterprise which have made the American economy the best the world has known.

Knowing that you share this same objective, we hope that an examination of the reasons for our conclusions will lead you to agree with us that they will go a long way toward accomplishing this end.

Now, first, with respect to the chamber's position on coverage: In its social-security policy originally adopted in 1944, as revised and reaffirmed in 1949, the chamber favors the extension of coverage under old-age and survivors insurance to the greatest degree feasible. Now that it is generally agreed that administrative difficulties involved in extending this coverage to the self-employed and other groups have been solved, we believe there should be no serious obstacle to universal coverage under this program.

Universal coverage is desirable for the following reasons:

1. The nature of a person's occupation should not determine whether or not he is entitled to insurance protection or must submit to a means test to secure assistance in his old age. With limited coverage, protection is spread unevenly throughout the country especially as between industrial and rural areas.

2. The existence of noncovered types of employment means that workers who move from one job to another may at the conclusion of their working lives suffer an unjust penalty in the reduction of their benefits. Such penalties in the long run may make for decreased mobility of the labor force.

3. Since the employer's contributions are in many cases reflected in the price of his product, and hence borne by all sections of the population, inequities in the distribution of the cost of social security result when goods and services are produced in part in covered employment and in part in noncovered employment.

It has been estimated that H. R. 6000 would extend coverage to some 11,000,000 of the 25,000,000 jobs not now covered. Such a limited extension would, we feel, fall considerably short of a "feasible" degree of comprehensiveness. So long as there is limited coverage, an increase in benefits or other desirable liberalizations would increase the discriminations between the covered and noncovered groups. We believe the coverage exclusions of the bill should be most carefully reviewed, and that there should be extension insofar as feasible at this time, in the light of the prime importance of comprehensiveness for establishing the system on a sound basis, which will permit its sound future development.

The CHAIRMAN. Mr. Marshall, I think, speaking for myself, and I think it probably is the view of the majority of the committee, that we would like to extend the coverage and make it as near to universal as possible. But, of course, we are met in the first instance with a large group of employees, who are in the Federal employ, the employ of the Federal Government, and who are not covered under the system.

Mr. MARSHALL. Yes.

The CHAIRMAN. Then we are met with other excluded groups, such as those under the Railroad Retirement Act. And then we still have other groups where practical difficulties simply cannot quite be ignored. Theoretically they are entitled to the coverage as well as any one, and they need it as badly as any one. As between the rural workers and the industrial workers, the former probably need it more in one way, certainly. But there are practical difficulties. And those are the things that bother me in connection with the extension of coverage. Theoretically and logically, of course, the system ought to be practically universal. It ought to extend to everybody.

I know you have given consideration to those matters.

Mr. MARSHALL. We have, sir.

I was going to comment on that later on, when I come to the first group you mentioned, that is, the railroad workers and others in other governmental plans.

The CHAIRMAN. Yes, sir.

Mr. MARSHALL. And there, we believe that those plans, by some adjustments, could be made supplementary to social security as a base, just as industrial pension plans and other pension plans in the industrial field are supplementary to the social-security plan.

Now, with respect to the difficulties involved in covering farm labor and these other groups, there are difficulties, but I gather from the report of your Advisory Council and Mr. Folsom's testimony that the Treasury Department and the Federal Security Agency had generally agreed that feasible methods could be devised to cover most of those groups.

The CHAIRMAN. Well, I think they have. I think they hold that view in all good faith. I do not question that for a moment. But there are difficulties, and they just cannot quite be foreseen in broad, all-inclusive coverage under social security, with respect to certain of the groups.

You may proceed. I just wanted to make that observation.

Mr. MARSHALL. Then, coming to this point I just mentioned, in making coverage universal, we believe that any governmental retirement plan should have social security as its base; that other Federal governmental plans should be supplemental in the same way that private industrial pension plans are.

The CHAIRMAN. That is a quite practical suggestion, when you are thinking of Federal retirement systems, systems under Federal law. When you get into the field of your municipal and State retirement systems, I think you must recognize, of course, that there are further difficulties there. It is very hard to escape the conclusion that if you bring the members of a State retirement system, let us say, under social security, you will not have ultimately a complete loss of interest on the part of the State in perfecting and extending its own system and will not have ultimately an almost complete reliance upon the Federal system. That is particularly true when tax dollars in the States and municipalities get tight. I simply know from practical experience that those are the things that will happen.

Mr. MARSHALL. Surely. Well, I think that basically the answer to that may be in whether we conceive of social security as providing only a basic minimum level of protection, as we advocate, or whether we conceive of it as a system which will ultimately provide all of the pension program necessary for the individual.

The CHAIRMAN. I think that once you could establish that premise firmly in the minds of the people, you will have made some progress toward your universal coverage, and without doing any violent or serious harm or injury to your State or municipal retirement systems, as well. But again you are faced with the difficulty of considering this system as always more or less in politics and as always more or less dispositioned to increase benefits, even under social security.

Mr. MARSHALL. I think the establishment of the Social Security System has tended to increase the interest of industry in perfecting its pension plans, rather than decreasing the interest.

The CHAIRMAN. I think that is true. Generally speaking, however, though you have some organizations in industry that are insisting upon that, there are so many workers who are not organized. They are strictly individual operators in their own fields and their own jobs and their own businesses, and they do not have that coherence and unified purpose that you find in your industries.

Mr. MARSHALL. Of course, I was thinking primarily of our own situation, where our pension plan, you see, has been in effect since 1912, long before we had pressures from organized labor, and so forth, and we perfected that.

The CHAIRMAN. Yes; I understand that; and I appreciate that what you say is correct, that it has encouraged the improvement of the private systems and liberalization of the private systems, and I think it should. But I think that is primarily true among those well-advised and well-informed groups in certain lines of work and industry, and

particularly in the organized industrial groups, where there is always the possibility and always the desire to improve their own system.

Mr. MARSHALL. I think you are right, Senator. The thing that I would hope is that if we can get this basic layer of protection idea firmly established, the universal extension of this system to all employed groups would lead others to improve their supplemental systems, just as happened in many industries since the establishment of social security.

The CHAIRMAN. Well, I have no hesitancy in saying, for myself, that I think that should be the goal. And if we could get safely over the hurdles of the difficulty in the administration, I would have no difficulty in going to a widening of the system into a universal system. Of course, it is obvious that it would be very, very much better if it could be done.

Pardon me for interrupting you.

Mr. MARSHALL. That is all right, sir.

The next point I would like to discuss is the new definition of "employee" in H. R. 6000. This proposed new definition has no relation to any existing concept of the employer-employee relationship. It is to be borne in mind that the attempt to revise the employee regulations along substantially the lines set out in the new employee definition had as the basic reason the coverage of additional persons under the act. However, even with the extension of coverage proposed under H. R. 6000, and certainly with universal coverage, this basic reason no longer exists. With extended coverage, the sole significance of the definition would be in the determination of the tax status of individuals covered; that is, as employees or self-employed. This would seem to be an insufficient reason when measured against the confusions that would undoubtedly occur from the proposal to measure the employer-employee relationship by a completely new and untried formula, which gives virtually unlimited discretion to the Federal agencies involved.

Another point is the provision under which employers in nonprofit institutions are permitted an election in the matter of paying their share of the tax. This results in a costly and discriminatory compromise which leaves the way open for the employer and employee to profit at the expense of the OASI fund, and should be carefully examined. It creates a situation where the employee may receive as much as five-sixth of normal benefits even though his employer elects not to pay his share of the tax.

Senator KERR. Would you think that in that regard the extension of coverage into the ranks of the nonprofit organizations should be definite, and that the cleavage between those covered and those not covered should be clear and concise, and that to the extent that it is extended it should be compulsory, and that beyond the compulsory point there should be no extension?

Mr. MARSHALL. That would seem to be the logical and sound way to do it. Speaking personally, now, as head of a hospital, as president of the board of managers of a local hospital, I can say this: We have been in the throes of trying to devise a pension system for several years now. I have been advocating it. But we have always had in front of us the problem of "what are the amendments going to be to the Social Security Act?" Speaking as head of that hospital, I would very

much like to see our employees definitely included on the same basis as everyone else is.

Senator KERR. Not on a basis that would be optional with you, but on a definite basis, by the law?

Mr. MARSHALL. After examining the provisions of H. R. 6000 and seeing how we could escape half the tax and get our employees five-sixths of the benefits, I think we could take our half of the tax and go out and buy more than one-sixth of the benefits from the private institution. Selfishly, I would almost be inclined to do that, you see, if this bill goes through. And I don't think it is right to put up that kind of a choice to me. I would much rather see us included just the way any industrial establishment in Schenectady is included under this bill.

Senator KERR. And if those should be excluded by reason of the concept of the division of church and state, let them be definitely excluded?

Mr. MARSHALL. That would be my idea.

Senator MILLIKIN. Mr. Chairman, I regret that I was a few minutes late, and the witness has probably covered this point.

But are you for or against covering the self-employed?

Mr. MARSHALL. We are for universal coverage—covering the self-employed, farm labor, and everyone else.

Senator MILLIKIN. Employers of all types?

Mr. MARSHALL. Employers of all types, as well as the self-employed.

Senator MILLIKIN. I mean, are you in favor of covering the president of X corporation?

Mr. MARSHALL. Yes; I think so, Senator. It does not really make much difference whether you cover the president of the X corporation or not. If you have an adequate industrial pension system, the social security becomes a small part of the pension for the higher-paid employees. We have found it very possible to integrate our pension system with the Social Security Act. It is true that our pension plan yields less in percentage of pay for the higher-paid people than it does for the lower-paid people, but the inclusion of the few people in the executive class in the Social Security System, or not, does not add very much to either the cost or the coverage under the plan.

Senator MILLIKIN. Would you cover all professional people?

Mr. MARSHALL. All professional people; yes, sir.

Senator MILLIKIN. Without choice?

Mr. MARSHALL. Without choice.

Senator MILLIKIN. How much would you have them pay?

Mr. MARSHALL. Well, we have not discussed that to any great extent in our committee, and I can't express the chamber's views. But from the people I have talked with, the general conclusion seems to be that, for the self-employed people, the man who is paying the tax himself, the tax ought to be about one and a half times the employee tax.

Senator MILLIKIN. Why not one and a quarter or one and three-quarters or 2 percent? I mean, how do you figure one and a half?

Mr. MARSHALL. I would leave that to your actuaries. I am not an actuary, and I can't figure this out. I think he should pay something more than the employed person pays.

Senator MILLIKIN. You do not believe that this is an insurance system in the true sense of the word, do you? I mean, you speak of actuaries. What have they got to do with it?

Mr. MARSHALL. They are the people whom I go to when I want to multiply the number and get some idea of the ultimate cost. It is an astounding system of arithmetic to me. I yield to them on all of these questions.

Senator MILLIKIN. This system is not an insurance system. I do not say that in a disparaging way, but merely to keep things straight. So that when you talk about doing things on an actuarial basis, you are just dragging, shall I say, a red herring across the trail.

Mr. MARSHALL. Well, we get actuaries into all sorts of industrial problems. I think we even had actuaries in our quantity-control plan in production; so we use those experts in many ways other than pensions and insurance.

Senator MILLIKIN. I am quite sure they have usefulness in an insurance system, but I am making the point that perhaps we do not have an insurance system in the true sense of the word, and that their function is, perhaps, as you suggest, a mathematical one, where they can use a slide rule faster than we can use it.

Mr. MARSHALL. Very much faster, Senator.

May I proceed?

The CHAIRMAN. Yes; you may proceed, Mr. Marshall.

Mr. MARSHALL. H. R. 6000 provides for the coverage of Americans employed by an American employer outside the United States. We believe this is a sound provision, with one exception. We believe that it should be amended to provide that such Americans as are employed outside the United States on such a permanent basis that they are covered under foreign social-security systems should not be covered also under the proposed legislation, because of the complications that arise, both in respect to tax payments and benefits under such double coverage. International air lines particularly would be adversely affected by such double coverage.

In General Electric we have some employees who would be adversely affected by such double coverage; people who are permanently located in Latin America, for example.

We also do not believe that the proposed extension of coverage to employees in Puerto Rico and the Virgin Islands is advisable. In view of the low level of earnings in those islands the minimum-benefit provision of H. R. 6000 would result in a considerably higher scale of benefit payments in relation to earnings than on the mainland. In many cases the high minimums would cause benefits to exceed previous earnings. We would like to call to your attention the fact that the Puerto Rican Legislature in designing an unemployment-compensation system suitable for the island set up drastically lower benefit amounts than those existing in this country. We would agree with your Advisory Council in their recommendations in 1948 that it would be better to seek a type of social security particularly adapted to the circumstances of these islands, rather than to include them under this system.

Now that concludes what I have to say at the moment on coverage, but I would like to comment briefly on the benefits proposed.

Senator MILLIKIN. Mr. Chairman, may I ask Mr. Cohen a question?

The CHAIRMAN. Yes. Is Mr. Cohen present?

Mr. COHEN (Wilber J. Cohen, Special Assistant to Commissioner for Social Security). Yes.

Senator MILLIKIN. What are the statistics as to the longevity of people in Puerto Rico, for example?

Mr. COHEN. I think it is substantially less than for those in the United States. As I remember, it is something like, I think, 12 years less than the United States.

Senator MILLIKIN. So that the percentage of people reaching retirement age, under the way the law is, or as it has been suggested by H. R. 6000, would be much less than on the mainland, would it not?

Mr. COHEN. Yes. On the other hand, it is likely that the proportionate persons receiving survivors' benefits would be somewhat more than on the mainland, because the mortality rates in the younger ages are somewhat greater. And it would probably also be true that for those who receive survivors' benefits, they would get somewhat more, because the size of the family is somewhat larger. So there are pluses and minuses both ways.

Senator MILLIKIN. I see. Thank you.

Senator KERR. Well, would not the figures with reference to the expectancy of those reaching the age of 65 show considerably less difference with reference to the expectancy of similar aged in this country than the over-all expectancy of all of those born?

Mr. COHEN. I think that is true, Senator. It is very likely. I don't remember the exact figures, but I think that is true. However, there probably would be a slightly smaller proportion reaching 65. But when they do reach 65, probably their life expectancy at 65 is not much different than the mainland.

The CHAIRMAN. You might review your data and figures on that, Mr. Cohen, because when we get into executive session I expect we will be questioning you.

Mr. COHEN. All, right, Senator.

Mr. MARSHALL. With respect to benefits: The United States Chamber of Commerce believes that any increase of benefits should be accompanied by the greatest possible extension of coverage, since to increase benefits without increasing coverage would increase the already flagrant discrimination between those who receive benefits under the plan and those who do not.

The chamber believes that, even from the standpoint of providing no more than a basic level of protection, current benefit levels need to be raised in view of the advance in living costs that has taken place since the present formula was adopted.

Assuming wide extension of coverage, we favor the formula recommended by the Senate Advisory Council in its 1948 report to this committee, namely, 50 percent of the first $75 of average monthly wage and 15 percent on the excess with no increment.

With no extension of coverage, or any limited extension, consideration of costs and increased discrimination between covered and noncovered groups may well suggest a lower figure than $75 for the breaking point between the 50-percent and 15-percent factor.

We feel that the formula as presently proposed in H. R. 6000 is unsound in several essential respects.

We see no good reason for increasing the taxable wage base beyond the present $3,000 level. Any desired level of benefits can be achieved on the existing wage base. It is merely a matter of adjusting the percentage in the formula used. Increasing the wage base only results

in higher proportionate benefits to those better able to provide their own benefits.

Senator MILLIKEN. Do they not really pay more for their benefits than those in the lower wage brackets?

Mr. MARSHALL. No; the tax rate, Senator——

Senator MILLIKIN. Per dollar of payment, does not the fellow in the higher bracket get less than those in the lower bracket?

Mr. MARSHALL. Oh, yes. That is right. His tax rate remains constant, but because of the construction of the benefit formula he gets less per dollar paid in than would the fellow in the lower-income bracket.

Senator MILLIKIN. Which is another way of saying that there is an element of discrimination there, because he is paying partially for the benefits which come to those in the lower brackets.

Mr. MARSHALL. I think I remember seeing some estimate that has been made that the employee contribution alone on this extra $600 would be more than sufficient to pay the employee's pension, so that the employer's contribution on that part would wholly go to the payment of the pension of the people in the lower income brackets. So there is that element of discrimination, Senator.

Senator MILLIKIN. What is your reaction to the suggestion which has been made that we start right out, decide whom we want to be covered, start right out with full pension, whatever the amount may be, on a pay-as-you-go basis?

Mr. MARSHALL. I have a supplementary statement to this one. In this one I am expressing the chamber's views. In my supplementary statement I would like to advocate this proposal that you have just outlined.

Senator MILLIKIN. The chamber has no views on that, as such?

Mr. MARSHALL. We were confining our comments on this bill to the established chamber policies. The chamber has not yet had an opportunity to establish a policy with respect to this rather recent proposal for immediate maturity of the program.

Further, as to this change in the $3,000 wage level, it would probably result in changes in other forms, which have the same $3,000 level, such as the Federal Unemployment Tax Act. That would require corresponding revision on State laws and substantial changes in the contribution formulas under State law. These changes should not be forced on the State unless there is some compelling reason. We don't believe there is any such compelling reason, as noted. Moreover, such a change would complicate the problems of the many industrial pension systems which have already been integrated with the present social security formula under Treasury Department regulations.

Senator MILLIKIN. As you go up in the economic scale, the percentage of savings per person are greater, are they not?

Mr. MARSHALL. I think that is true, Senator. And, of course, that is one thing we believe, fundamentally: That this system should provide a basic layer of protection so that there should be every incentive on the individual and his employer to provide such supplemental systems as they wish, so that they will have an incentive to provide for themselves.

There is one other weakness in both the present formula and the proposed formula, and that is the annual increment for each year

of covered employment. We are convinced that such increments are inappropriate in a social insurance benefit formula, which aims at adequacy of protection rather than at nicely adjusted equities as between one individual and another. In this we are in accord with the conclusions and the reasons expressed by the Advisory Council of the Senate Finance Committee in its 1948 report.

The chamber is for a formula which produces a basic minimum level of protection. If benefits are adequate today they will become increasingly overliberal as time goes on by reason of the increment. If the addition of increments is necessary to make them adequate in the future, they are obviously inadequate today. So that we feel that you should establish what is an adequate benefit level today, and that should remain.

Senator MILLIKIN. What elements would you consider in establishing the test of adequacy? Subsistence level? Subsistence plus some comforts?

Mr. MARSHALL. I think that the formula proposed by your Advisory Council, as we recommend, here, is a reasonable one: 50 percent of the first $75 and 15 percent of the balance, which, as I recall, produces for the $3,000 man around $63. No; we don't think that may be adequate for comfortable living, but it nevertheless is in line with our philosophy that that is a basic level of protection for the individual.

I live out in the country, and one of my neighbors is a retired General Electric pensioner. He and his wife get $85 a month combined General Electric pension and social security. He has been retired for some years. Now, when you speak of that, he does very nicely on that. They go to Florida every winter.

Senator MILLIKIN. On $85 a month for the two of them?

Mr. MARSHALL. For the two of them. You couldn't do it in Washington. You couldn't do it in New York City.

Senator MILLIKIN. I suggest that you cannot do it in Florida.

Mr. MARSHALL. I don't know how he does it in Florida. He must have some savings over and beyond this; but he didn't make too much money, and he had no inherited wealth. Neither of them did. They had no family to bring up, and that may have been part of it.

Senator KERR. And he does go to Florida each winter?

Mr. MARSHALL. Yes. They have a car, and they have a trailer, and they go to Florida each year, and they come back and raise their vegetables and can them. It is kind of a nice existence. I sometimes look with envy on them.

Senator MILLIKIN. Well, they must have a sock that they are digging into.

Mr. MARSHALL. That is right. As a matter of fact, that is what we really would like to encourage. A tendency on the part of the individual to provide that sock for himself so that he can take that trip to Florida every year.

Senator MILLIKIN. Then you are really not talking about a subsistence level. You are talking about some kind of a level upon which further protection can be added.

Mr. MARSHALL. That is right, Senator.

Senator MILLIKIN. And that you can expect reasonably will be added.

Mr. MARSHALL. That is right, sir.

Though it is urged that the inclusion of an increment is necessary in order to provide for the more equitable treatment of those who have been under the program for long periods as contrasted with those having shorter covered employment, it is clear that there is little to this argument. It can hardly be said that an increment of one-half of 1 percent is any substantial inducement for continued work. Moreover, and particularly if universal coverage is lacking, it further adds to the discriminations existing between noncovered and covered employment. It would seem that the existing method of computing average wage gives a sufficient differential in benefit levels proportioned on length of time in covered employment.

Senator MILLIKIN. Mr. Chairman, if I may ask: What is the chamber doing toward the encouragement of elderly people who are able to work and willing to work to stay on the job and continue employment at least part of the day? What are you doing to stop the junking of people who are 40 or 45 years old.

Mr. MARSHALL. I can't answer for the chamber on that, Senator. I know they have their programs, as many industries have, to encourage the orderly retirement, and to try to get the man who is maybe forced to retire under a compulsory retirement system located well in some other work or carrying on his hobby or something like that.

Senator MILLIKIN. Just exactly what is that program? That is what I am driving at.

Mr. MARSHALL. I don't know that, Senator.

Mr. LAMBE. (Benjamin Lambe, director of publicity, United States Chamber of Commerce). I can answer your question in a general way. The chamber has a joint committee with the National Association of Manufacturers, which is working toward the employment of the aged and the handicapped, the two jointly and has received a Government award for this work.

Senator MILLIKIN. What are you getting done?

Mr. LAMBE. They are encouraging the employment of the aged and the handicapped by industries throughout the Nation.

Senator MILLIKIN. Could you give us a memo showing exactly what your plan is, who is working on it, what you hope to achieve, what you have achieved, and so forth and so on?

Mr. LAMBE. Yes, sir.

Senator MILLIKIN. All of the testimony of this hearing shows that we are going to have an enormously increased number of aged people to deal with, and obviously if we can keep them productive even for a part of the day, assuming that they are able to work and willing to work, I think we should do that, and I am not talking about making a "deduct" off of their insurance benefits by keeping them working. I would just as soon let them keep their insurance and keep working. The point is that we are increasing the age of education. We are junking people at early ages. And pretty soon we will have such a narrow segment of our productive population that you will not be able to keep this economy going, and we will not be able to make the "deducts" that are required by systems of this kind.

Mr. LAMBE. I shall see that you have that information made available to your committee.

Senator MILLIKIN. I would appreciate that very much.

The CHAIRMAN. All right, Mr. Marshall. You may proceed.

Mr. MARSHALL. With respect to the computation of the average monthly wage and the so-called continuation factor, H. R. 6000 proposes a new method for computing primary insurance benefits. Though the change was proposed to clarify and make more understandable the computation procedure and more properly to proportion benefits to the amount of time spent in covered employment, it appears, on the contrary, that greater confusion may be introduced by the more complex formula proposed, and it is demonstrable that it would work substantial inequities.

As an aside, here, I would like to say that I don't know who was responsible for drafting this, but I would have hoped that he would have had a little experience in drafting industrial contributory pension plans, which have to be simple enough so that every industrial worker to whom you wish to sell participation in the plan can understand them, so that he knows what he puts in and what he gets out of it.

I spent several days trying to understand the implications of this continuation factor. I think I have them clearly in my mind. But I am reasonably sure that if we had any such program in any industrial pension plan that I have ever seen that we had to sell to industrial workers, no industrial worker including the supervisors would ever understand it. And one of the things I would like to see in this thing is such a simple approach that all of us can really understand it, without too complicated a formula.

Senator KERR. Do you, after this study, feel that you understand the general objective?

Mr. MARSHALL. I think I do.

Senator KERR. Would you want to undertake to suggest to the committee simple language which might achieve the same objective?

Mr. MARSHALL. Yes; I think I have that suggestion in here, and I will come to it a little later.

Under existing law an individual's total elapsed time, since 1937 or age 22, is used in relation to his total covered wages in determining his average wage. Thus time not spent in covered employment reduces his so-called average monthly wage.

Under the proposed computation procedure, only the time spent in covered employment is considered in relation to total covered wages in establishing an average monthly wage. In other words, if a man works 10 quarters out of 20 quarters, you take his earnings in the 10 quarters and divide by 10, so that you haven't taken into consideration any of the time that he did not work in covered employment in getting an average. But in order to proportion benefit amounts to the time spent in covered employment, the continuation factor is used. This continuation factor is the ratio of time spent in covered employment in relation to the individual's total elapsed time. But the continuation is applied to the basic primary insurance benefit instead of to the average wage, as in the existing law. We believe that what you should do is to use the formula, to answer your question, sir, that is contained in the existing law.

Now, the inequities produced by the new method of computing average monthly wage and the application of the continuation factor are made clear by the following table:

Average monthly wage	Total elapsed time	Length of covered employment	Total aggregate wages	Primary benefit amount
	Years	*Years*		
$100	40	40	$48,000	$60
$200	40	20	48,000	36

And there I have just taken two cases. You will notice that they both have the same total aggregate wages, $48,000.

One has earned those through a period of 40 years at $100 a month. The other has worked 20 years at $200 a month, perhaps the last 20 years preceding retirement. But note what happens when you apply the continuation factor. The first gets $60 on $48,000 of aggregate wages, and the second man gets $36. We suggest that that results in inequity. It is obvious that the continuation factor completely distorts benefit amounts in relation to the contributions made by the insured. It is for this reason that it is highly probable that the continuation factor, if adopted, would soon be removed from the law when its discriminatory effects started to show up after 1956, its effective date.

Senator KERR. What would the No. 2 man get, here, under the present law?

Mr. MARSHALL. I would have to figure that one out, but it would be a higher percentage. It would be closer to the $60, you see.

As I say, I am not an actuary, and I am not able to figure these cases quickly. But you would not have the great discrepancy between these two cases. And the reason why, Senator, that discrepancy arises is because you take 50 percent of the first increment of the man's wages as the benefit. Now, if you cut that half by the use of the continuation factor, you see, you have reduced his benefit greatly; whereas if you take half his average wage, or half his total wage, because he only worked half time in covered employment, you have merely knocked off the top part of his earnings before you start computing his benefits. So we believe that what you should do is continue the formula contained in the present law for computing average wages.

Now, the present law sets up an over-all limit of $85 to the benefits that a family can draw. In line with our recommendation that benefits should be increased, which implies an increased maximum primary benefit, we feel that this over-all limit should also be increased. However, bearing in mind the chamber's stated policy that the objective of the OASI program should be to provide a minimum layer of basic protection, we feel that the increased limit should not be more than $120, or if the benefit formula recommended above is adopted, a maximum of twice the basic benefit would meet this objective. That would be around $127, on the other formula.

Also we question very much the new alternative eligibility rules set out in H. R. 6000. Contingent upon wide extension of coverage, we urge a simple eligibility formula, such as that recommended by the Advisory Council. This would result in insured status at an earlier

date for older persons not previously covered. And we suggest for your consideration the approach recommended by the Advisory Council.

With respect to lump sum death benefits, we believe that this proposal to make lump sum benefits payable at the death of any insured person, rather than just those who leave no survivors immediately entitled to monthly benefits, represents an attempt to provide benefits in an area where very adequate facilities are already available on a voluntary basis and are readily accessible to those who need and desire them. To quote from the minority report of the Ways and Means Committee:

> Today over 78,000,000 persons—more than the entire number to be covered under the social security system even when extended as this bill provides—now have life insurance policies, and we see no purpose to be served by the Government entering into this field.

It may be argued in behalf of the proposal that cases now arise in which survivorship benefits are payable for so short a period that the family receives less in the aggregate than would be forthcoming if no one were eligible for survivors' benefits and a lump sum were payable. However, this situation could quite well be met by a minimum guarantee, to take effect on the expiration of the survivors' benefits, of the amount, if any, by which the total of such benefits fall short of the lump-sum benefit that would have been available had no survivor benefits been due. This is quite a different matter from the provision of lump-sum death benefits on all insured deaths.

With respect to permanent- and total-disability benefits, the chamber is fully aware of the plight of many of the disabled and anxious that their real needs should be fully met, but we are convinced that a Federal system of cash benefits, whether in conjunction with OASI or otherwise, is not the best way to deal with this problem.

Long-continued disability is a distressing catastrophe involving serious consequences for those whom it overtakes and for their dependents. However, the pitfalls revealed by life insurance companies and other experience indicate that disability benefits could not be included in a Federal contributory social insurance program with any reasonable assurance that claims could be limited to the type of disability envisaged when the program is adopted.

Senator MILLIKIN. Do you object to handling it through the subsistence part of the program?

Mr. MARSHALL. Yes. We would like to remove the Federal Government entirely from the field of old-age assistance.

Senator KERR. You say "from old-age assistance"? Or from disability?

Mr. MARSHALL. We feel that perhaps there may be some Federal assistance necessary in this field of rehabilitation of disabled.

Senator MILLIKIN. Well, why not hit the basic problem of taking care of the disabled? Let me say by way of preface that on the assistance end of the thing you have local contribution and therefore a local vigilance directed against abuse, which is very useful.

Mr. MARSHALL. We believe very strongly that this problem of disability should be handled to the greatest extent possible at the local level, through rehabilitation programs. And the thing that we would like to urge that an attempt be made to do is to encourage incentives for the individual who is disabled to again become productive.

Senator MILLIKIN. Obviously that is meritorious. It still leaves the case where you cannot rehabilitate.

Mr. MARSHALL. Where you cannot rehabilitate.

Senator MILLIKIN. Now, what are you going to do with that case?

Mr. MARSHALL. With universal coverage under this insurance program, we believe that with the taking of the burden of the aged off the States, the States should be able to, where there is a real need, finance themselves as to the total and permanent disability and the needy aged.

Senator MILLIKIN. The pressure in the States to use this merely as a base for further State pensions, as a practical matter, will not be ended by this act.

Mr. MARSHALL. That is probably true, Senator.

Senator MILLIKIN. So we just have the same problem on an expanded scale.

Mr. MARSHALL. On the other hand, we believe that the closer you get to the tax money, to the people who are paying it out, the revenue source, the better control you have over it.

Senator MILLIKIN. That is why I asked whether you objected to handling the permanent and total disability through the assistance part of the program. Because there you have matching, with an opportunity for closer surveillance than you might otherwise have.

Mr. MARSHALL. The chief danger in that, of course, is that if the Federal part of the program becomes too great a part of it, then you have an incentive on the State to continue their payments in order to get the matching Federal funds.

Senator MILLIKIN. Well, assuming sensible limitations, then you have no objection to handling the disability through the assistance side of the program?

Mr. MARSHALL. I don't think I can answer categorically for the chamber that they would have no objection, because generally speaking, we believe that the Federal Government should withdraw from this assistance field, leaving it to the States. We believe that, given universal coverage under the insurance program and a basic level of protection, the States should be able to finance all the assistance that is necessary in their own areas.

The CHAIRMAN. Your conclusion is based upon a universal coverage in the first instance, of course?

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. Otherwise you still have a problem that will have to be dealt with in some way.

Mr. MARSHALL. In some way.

Senator MILLIKIN. Do you not see that as a practical matter to the extent that we relieve the States of the cost of any part of this program that simply adds the pressure to use the same amount or a greater amount as a part of some other program?

Mr. MARSHALL. That is right.

Senator MILLIKIN. Did you ever hear of any public program that put out benefits that was ever lessened?

Mr. MARSHALL. I never have.

Senator MILLIKIN. It was tried in the Federal Government in 1933 and has never been tried since. I am talking about a matter of 25 percent in various benefits, including veterans' benefits. That was tried just once.

Mr. MARSHALL. There are very practical difficulties in the way of this program. It is one that requires most earnest study, we believe. And we would like to submit that that is something which should be studied, rather than to step out now and put permanent and total disability as a matter of right in this type of program.

Senator MILLIKIN. I merely want to suggest that you businessmen, who should be very practical where money is concerned, are kidding yourselves if you believe that by increasing the benefits on the insurance side you are going to decrease the assistance side. Theoretically, you are 100 percent right. And I would venture to say you would find very few people in my business who would disagree with my conclusions.

The CHAIRMAN. I take it you hope the benefits on the assistance side would decrease.

Mr. MARSHALL. Yes, although we are not in favor of decreasing benefits to the needy family. What we would prefer to do is to have those benefits administered on a purely needs basis by the local agency involved and the money raised as close to the local level as possible. Because we believe there is where you get the careful scrutiny. The neighbors know the family. They realize they are paying out of their pocket for the family's support.

The CHAIRMAN. That is your best check and balance.

Mr. MARSHALL. Yes, that is the best check.

Senator MILLIKIN. You have to keep in mind the practical fact that the States are progressively abdicating their own sovereignties. We have here a request for $12,000,000, not for one State but for the whole United States, to take care of crippled children. And when we reach a point in the States where all 48 will allow crippled children to suffer for the lack of $12,000,000, we have almost reached the ultimate in abdication, and the ultimate in a lot of other things that could be described with more pungent words.

Mr. MARSHALL. We are all for the taking care of these problems at the State and local level, just as much as can be accomplished.

Senator MILLIKIN. Our difficulty is that we are all for it, but we do not take care of them at the State levels, and that is why this committee is sitting around here at the present time.

Mr. MARSHALL. I see the difficulty, Senator, in my own community. I sit in meetings where all of us are for taking care of these things at the local level, but a program comes up and then somebody who is interested in that says, "Oh, maybe we can get Federal money for that."

Senator MILLIKIN. Now you are talking sense.

Mr. MARSHALL. But I for one am trying to stop it. I think more of us should do that.

In old-age and survivors insurance the determination of eligibility for benefits is largely objective, requiring but little discretionary decision. Long-term disability, on the other hand, involves a great deal of subjective consideration both on the part of the individuals concerned and of those who administer claims. Disability claims vary greatly as to types and circumstances and require widely different methods of individual treatment. Because of these subjective characteristics, disability cases can be handled far more appropriately by State and local agencies through public assistance than by the Federal Government.

While a plan might be set up originally with strict conditions as to eligibility and with limited benefits, the protection thus furnished would be so restricted that there would almost certainly be continuous pressure to liberalize the eligibility rules and to raise the benefit levels. In lieu therefore of including disability benefits in the Federal system, the wiser course would seem to lie in the encouragement of the efforts of voluntary agencies, supplemented by the State public assistance systems and by the State vocational rehabilitation agencies.

Opposition to the inclusion of total and permanent disability benefits in this program as a matter of right certainly should not be construed as opposition to any well-considered method for preserving the insured status of an individual during the period of incapacity. This might be accomplished by accruing wage credits for him during the period of his permanent and total disability.

As to the tax schedule, it is the accepted policy of the United States Chamber of Commerce that the tax rate supporting OASI should be increased appropriately to take account of any amendments that would increase prospective benefit disbursements. Otherwise there should be no increase in the tax rate until necessary to prevent diminution in the funds of the program.

Under the present law, the tax rate was increased from 1 percent to 1½ percent each on employer and employee on January 1 of this year which is the initial tax rate contemplated by H. R. 6000. Hence, that initial rate is appropriate in recognition of the increased benefits and we believe that the situation should be carefully reviewed before the increase to 2 percent is permitted to take place in either 1952 as provided in the present law or in 1951 as proposed in H. R. 6000.

With respect to public assistance, it is the established policy of the national chamber that the present system of Federal grants to States for public assistance should be recognized as a temporary expedient; that the States, in the face of growing Federal burdens, should assume an increasing proportion of the costs of public assistance as the OASI program is expanded, and that finally the entire costs of such assistance as is needed to supplement OASI should be borne by the States and their local subdivisions. This policy is based on the premise that the primary long-range protection at the Federal level should be provided through the insurance approach.

We believe it necessary at this time, in conjunction with extension of OASI coverage, to provide for an actual start in the systematic withdrawal of the Federal Government from the field of public assistance. Experience with the public assistance program, as administered during the past 14 years, has obscured and distorted the original intent of the law. During this period the public assistance provisions of the Social Security Act have been amended three times. In two of these instances the formula for Federal participation has been changed to yield a greater Federal share. The original formula provided a dollar for dollar matching up to the $30 maximum payment. Presently the formula involves a Federal share of three-fourths of the first $20 of a State's average monthly payment plus one-half of the balance within individual maximums of $50. The proposed bill further changes this ratio to provide for a Federal share equal to four-fifths of the first $25 of a State's average monthly payment plus one-half of the next $10, plus one-third of the remainder within individual maximums of $50.

The omission of specific standards, defining need, in the Social Security Act and leaving wide discretion to the States for establishment of their own standards with respect to the means test, has produced a wide range of variation among the States. The range in the percentage of persons who qualify for old-age assistance extends from less than 10 percent of those aged 65, and over, in one State to over 80 percent in another State.

Senator MILLIKIN. It is not quite all a matter of administration. A lot of it depends on the economy of the State and a lot of other things, beyond the mere question of administration.

Mr. MARSHALL. That is probably true, sir. But the present type of "unequal" matching, however, does offer a strong inducement to the State to increase the number of recipients rather than the average payment, and we believe that the proposed change in H. R. 6000 would add to this inducement.

Now, what we would like to propose is that there be studied at this time, in conjunction with the extension of the insurance coverage an actual start in the systematic withdrawal of the Federal Government from the field of old-age assistance. We believe this could be accomplished by permitting continuation of the present financing arrangement as written in the existing law for a 5-year period.

Senator MILLIKIN. Will you explain that a little more? We are going to get out of it progressively. How are we going to do it?

Mr. MARSHALL. All right. Our proposal for getting out of it is that we say that the provisions in the present act are extended for another 5 years. We won't modify them or change them. We will keep them in force for another 5 years. And, by the way, that is the period necessary for persons newly covered under the insurance program to establish full eligibility for benefits, insurance benefits. Now, at the end of the 5-year period, the Federal Government would cease to participate in the financing of any people newly added to the roll. You wouldn't give aid to the State for any people newly added to the roll at the end of that 5-year period.

Senator MILLIKIN. Supposing that had the effect in X State of reducing the pensions which people are now getting on the public-assistance side. Your answer would be that the State should raise its own additional funds to take care of that problem. It is a State problem and a State responsibility to raise the money necessary to hold up your end in the State.

Mr. MARHALL. Yes, sir. I think at that time the Federal Government could say to the States: "Now, your aged population, your population reaching the age of 65, now consists of two parts. The first part is made up of those now over 65 who are now receiving old-age assistance on a basis of need. Those we will continue to help you with. The second group consists of those who are now becoming 65. They will be now eligible for the insurance benefits and will receive, under these proposed minimums in the bill, about as much as the Federal Government is now contributing to them under the old-age insurance program. Therefore we are not going to add any more of those people to the Federal old-age assistance program. If their needs are such that their benefit payment under OASI should be supplemented, that is your problem, as it is under the old-age-assistance program."

This brings me down to the conclusions which we have, and I would just like to summarize what I have said here about the chamber's position.

We believe, first, in universal coverage, that all occupations not now covered should be included in the insurance program.

Second, that we shouldn't have this new definition of "employee" as defined in H. R. 6000.

Third, that assuming wide extension of coverage we should use the advisory council's formula for benefits of 50 percent on the first $75 of monthly average wage and 15 percent on the excess, with no increment.

Fourth, that we should retain the $3,000 tax base and the present method of determining average wage for benefit purposes.

Fifth, that the present over-all limit of $85 on family benefits be increased, but to not more than approximately $120.

Sixth, that the eligibility formula proposed by your advisory council be adopted. This would result in insured status at an earlier date for older persons not previously covered.

Seventh, that the provision for lump-sum death benefits on all insured deaths be deleted.

Eighth, that the best approach to the problem of the totally and permanently disabled lies in the rehabilitation and assistance programs of voluntary organizations and public-assistance agencies at the State and local levels.

Ninth, that in view of the recent increase in the tax rate supporting OASI, which is sufficient to take account, for the time being, of our recommendations to increase benefits, the situation should be carefully reviewed to determine when any increase in the actual tax should be effective.

And tenth, that Federal grants to States be recognized as temporary expedients; that the States, in the face of growing Federal burdens, assume an increased proportion of the cost of public assistance as the OASI program is expanded; and that, finally, the entire cost of such assistance be borne by the States and their local subdivisions.

Now, I have presented here as completely as time would permit the chamber's position with respect to these changes in the Social Security Act. But before concluding, I just want to reemphasize the hope that you will recognize that our objectives coincide with yours. And we believe that these objectives can best be accomplished by a simple system, based upon contributory principles of social insurance, easy to administer, easy for the participants and the public to understand, and uncomplicated by diversion of funds for other social purposes.

Mr. Chairman, that concludes the statement of the chamber's position on H. R. 6000. But with your permission, I would like to make a supplemental statement with respect to this whole problem.

The CHAIRMAN. Well, sir, you may do so. We have some other witnesses this morning, Mr. Marshall, but I see your statement is not very long.

Mr. MARSHALL. It is rather short.

My remarks heretofore, as I said, have been directed to the consideration of established chamber policies in relation to the specific legislative proposal before you.

However, since the original adoption and subsequent reaffirmation of chamber policy, an increasing number of people are of the opinion

that one of the underlying premises of the present system is perhaps wrong and should be thoroughly reexamined at the present time.

In essence, this thinking would provide for an immediate maturity of our social-security program, as contrasted with the present approach, wherein the full impact of the cost of the obligations which we are now legislating do not mature for at least another working generation.

It seems to us that we should be willing to provide for our present aged the minimum benefits that we now, by legislation, are asking our children to provide for us.

I may say that I thoroughly share this view, and further that many of my fellow committee members are also in accord with it. It seems elementary that in the last analysis the support of an aged population is the responsibility of the generation then at work. No one has yet been able to devise a scheme under which a government can save in advance for all the aged in its population.

With this basic principle in mind, it seems that the most favorable method of attacking this problem before us is to immediately extend benefits under the insurance plan to all persons now 65 and over not working. This in effect is doing what an industrial concern does in extending past service credits to all its workers, and granting any increase in pension credits to its already retired workers.

This would give all eligible persons a minimum amount provided in the insurance law, and those with wage credits would receive the additional amount to which such wage credits would entitle them under the formula. Those benefits, together with the other benefits under the insurance program, should be financed by us now on a contributory basis. However, a primary advantage would attach, in that current tax collections could be proportioned to the total amount of benefit payments to be made in the current year. Thus, we would be on a realistic pay-as-you-go basis.

Now, there are some immediate and obvious advantages to such a program. First, it provides universal coverage. Second, it would take the Federal Government immediately out of the public-assistance programs and would relieve the States of enough of the burden of caring for the aged so that they could make any needed supplements on a needs basis.

Of tremendous significance, in my estimate, is the fact that it would require us and all succeeding generations to face squarely up to the over-all cost of the program. Also, a safety factor or balance is provided against any unreasonable extensions, in that the Congress, which votes for increased benefits, must make provisions for increased revenue at the same time.

I would like to urge upon you gentlemen serious consideration at this opportune time of this new approach to the old-age insurance problem.

I want it also understood that this is not established chamber policy. It represents my views and those of many of the committee who have been studying this problem for many months.

I thank you, sir.

The CHAIRMAN. Thank you very much.

I would like to make this suggestion. You are assuming that we are going to abandon deficit spending when you make this last recommendation?

Mr. MARSHALL. I trust you will, sir.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. Here is a young fellow who enters the labor force, 20 years old today. He has 45 years ahead of him before he becomes 65. How would he feel about paying full cost of that system for 45 years before he would get benefit from it?

Mr. MARSHALL. We have found under our contributory pension plan—we have a contributory pension plan in our company—that the situation is that we are forced to explain the program to that young man before we can get him to contribute; that we have to sell it to him, explain it; and that because he is contributing to the program, he understands it and is much more interested in it and appreciative of it from the age of, say, 20 to 40, than he ever was before. When we had a noncontributory plan, as we did for some 40 years, I for one was under it, and I don't remember knowing that we had a pension plan until I was 30 years old. But today I get questions in our office from people who are 25 or 30 years old. Why? Because they take out their pay checks and see something taken out of it for pension. They want to know about it. When we explain it to them, and explain that it is a fair system and a just one, we think, they are glad they are under it.

Senator KERR. They are glad, are they not, because they feel they are contributing to a pension system that will be for their individual benefit.

Mr. MARSHALL. That is right.

Senator KERR. Now, under the suggestion you have just made, he would become aware of the fact that he was contributing to a pension system for the benefit of others, and that no part of it was being kept for a system that would be for his benefit, and that he must make these contributions himself and gather such happiness as he can from the knowledge that he is paying for it for others and the hope he may have that others will be able to pay for it when his turn comes.

Mr. MARSHALL. Of course, Senator, I recognize that problem. It is largely a matter of presentation.

Senator KERR. Could a rose by some other name be presented so as to smell less sweet, or any more?

Mr. MARSHALL. On the other hand, Senator, the amount that this young man at age 20 who works for 45 years is going to get under the legislation in effect at the time will be determined by whether he does contribute for 45 years to the program or whether, during a 5-year period, he decides not to work, and goes to Florida. The ultimate benefits will be determined by the number of years which he does contribute to the program, assuming, as we all have to assume, that this program will remain in effect for the 40-year period.

Senator MILLIKIN. Well, how will you sell this: He says, "Looky, Mister. I have got to contribute 45 years to get my retirement, if I live that long. But some old Jakes 65 years of age are going into this system tomorrow at 65 years of age without contributing anything. Why should I have to contribute to keep those old fuddy-duddies enjoying Florida?"

Mr. MARSHALL. Of course, you have now that problem on the pension system. Those usually have not been on a contributory basis. The past service credits that have been granted have usually been

granted on a noncontributory basis. So the problem doesn't come up as acutely as you posed it.

But it does seem to me that I am willing to take a little bit of issue with you on whether or not even under this proposed system it cannot be truly called an insurance plan. I will admit that there is one major difference between that and what we normally think of as an insurance plan, namely, that it has no accumulated reserves. But I submit, from conversations with my friends, the actuaries, again, that a system that is based upon the credit and taxing power of the United States Government needs no reserves. That is one point. The second point is that the Federal Government cannot really have real reserves.

So, because you do not need them, and secondly because you cannot have them, I believe that you can truly call this program that we are proposing an insurance program, without a funded reserve.

Senator MILLIKIN. All right. Let us call it an insurance program. Assuming it without conceding it, let us call it that. What do you say to this young fellow that come bustling into your office and says, "Looky, Mister, do you mean to tell me that I am going to have to contribute 5 percent of my wages from now until I am 65 years old to take care of a lot of old fuddy-duddies that have been in this system 4 or 5 years and are now 65 and are commencing to get all this dough?" What do you say to him? How do you inspire him? How do you do this salesmanship job that you are talking about?

Mr. MARSHALL. No. 1, I would say to him, "Of course, that is your father and your mother and your uncle."

Senator MILLIKIN. "No," he says, "I am an orphan."

Mr. MARSHALL. And No. 2, I would say to him, "If you do that for these people, the next generation will do it for you."

Senator MILLIKIN. But he says, "Mister, listen. Where do you get this nice magic globe of yours that can enable you to say what some Congress is going to do 45 years from now for me?" What do you say to that? "Or even next year?"

Mr. MARSHALL. Well, I would present it to this fellow in this way: This is an insurance program with no funded reserve. Now, you have this situation as to pensions, under such a program, even under an industrial pension plan. I think Mr. Lattimer testified before the steel panel that with a corporation of the size and strength of the United States Steel Corp., a funded reserve was not necessary for a pension plan and all you needed to do was to pay in the interest that such a fund would have earned, plus the current contributions of the employees and the employer, and that would be sufficient for all time to come to meet the pension outgo.

Now, I submit that if it is true in the case of the United States Steel Corp. it is much more true as to the United States that you don't need a funded reserve, that no matter what you call it the cost of the pension is the interest on the funded reserve that you would otherwise have, plus the current contributions by the employer and the employee. And those must be equal to your current outgo, to your current pension payments.

So to my young man friend I would say: "Whatever you do, this is what each generation has got to pay to meet the cost of the aged who are not working."

Senator MILLIKIN. Are there not perhaps two answers? One, taking the Railroad Retirement System, the young fellow who goes into that system is paying—how much, Mr. Fauri?

Mr. FAURI. Six percent.

Senator MILLIKIN. Six percent. And he will continue to pay that until he reaches retirement. So it has been sold there.

Mr. MARSHALL. That is true.

Senator MILLIKIN. No. 2, his union representatives, who are very smart salesmen, say, "Listen, brother. You do not need to worry about that. Your boss is going to pay for it." Is that not right?

Mr. MARSHALL. That is right.

Senator MILLIKIN. And that is what will happen, is it not?

Mr. MARSHALL. Of course, that would bother me if it did happen.

Senator MILLIKIN. Of course, it is going to happen.

Mr. MARSHALL. Because I think one of the big safeguards of a program of this kind to prevent its running away into a British plan is the fact that it is contributory on the first increment, and I think it is very important that we keep it so.

Senator MILLIKIN. Of course it is going to happen. It is the business of the union to see that it does happen. That is how all "deducts" are sold: "We have 'deducts' for the taxes. And so you don't have to worry about that. That is one of our bargaining points. We are working to get you a net take-home pay that is satisfactory, and you don't have to worry about the additions. We bargain that out. That is what we are here for." And they do a good job at it.

Mr. MARSHALL. Of course, I frankly am hopeful that in the long run we will develop a generation of labor statesmen in the labor field who will really look to the long term best interests of their constituents, as you gentlemen do for our Nation, so that we will get some real statesmanship in that field, and not the crisis type of thing that we have been seeing during the past few years.

Senator MILLIKIN. I respectfully suggest to you that the job of the labor leader is to try to pass on these costs to the employer. And he does. And that is another way of saying that the public pays the bill.

The CHAIRMAN. Thank you very much, Mr. Marshall, for your contribution.

Mr. MARSHALL. Thank you. I am delighted to have had the opportunity, Senator.

(The exhibit attached to Mr. Marshall's statement follows:)

POLICY DECLARATIONS OF THE CHAMBER OF COMMERCE OF THE UNITED STATES ON SOCIAL SECURITY

Following are the applicable policy declarations of the Chamber of Commerce of the United States on social security as revised and readopted by the membership at the thirty-seventh annual meeting in May 1949. These declarations are in full force and effect and supersede all previous declarations:

Employment a prerequisite. However desirable and necessary social security may be, it is no substitute for productive employment and, therefore, every effort should be made by business and other groups to encourage high levels of production and steady employment.

Hazards to be covered. Protection against periods of job and income losses should be provided either by voluntary or by governmental action. Social security provided by governmental action should be restricted to those major hazards of life concerning which individual effort has been demonstrated to be substantially inadequate or impractical.

Level of protection. A social-security program should provided a minimum layer of basic protection against the major economic hazard with which it deals, and should be so designed and administered as to encourage additional savings and self-protection by the individual through his own efforts.

Role of State and local governments. Every effort should be made to encourage State and local governments to assume primary responsibility for social security in order to keep such activities close to the employers, to the employees, and to other taxpayers.

Coverage extension. The present system of old-age and survivors insurance should be extended to employees of nonprofit organizations, governmental employees, railroad employees, agricultural employees, and other employees not now covered thereunder, including the self-employed, to the extent feasible.

Benefit level. Any adjustment of the old-age and survivors insurance benefit level should be conditioned upon a general extension of coverage (as above) and upon appropriate adjustment in the supporting tax schedule (as below). Conditioned upon these integrally related changes, the benefit level should be adjusted so as to contniue to be in line with the program's objective of providing a minimum layer of basic protection.

Financing. The tax schedule of existing law supporting old-age and survivors insurance should be increased appropriately to take account of any amendments increasing prospective benefit disbursements; otherwise, no increase in the schedule of tax rates should be adopted until necessary to prevent diminution in the funds of the program.

Governmental employees. When governmental employees are covered under old-age and survivors insurance, the civil service retirement system and the many other Federal, State, and local systems for such employees should be revised to provide supplementary protection (if such protection is desired), just as the staff retirement plans of other employers have been revised.

Total and permanent disability benefits. Voluntary agencies and the State public assistance systems, in conjunction with the State vocational rehabilitation agencies, offer the best means of providing for the totally disabled. No Federal system of total and permanent disability benefits should be established either in connection with old-age and survivors insurance or otherwise.

Temporary Federal participation. The present system of Federal grants to States for public assistance should be recognized as a temporary expedient. The States should assume an increasing proportion of the costs of public assistance as the beneficiary rolls of the Federal old-age and survivors insurance program expand. Eventually, the entire costs of such assistance as is needed to supplement old-age and survivors insurance should be borne by the States and their local subdivisions.

The CHAIRMAN. The next witness is Mr. Herschel C. Atkinson. You may be seated if you wish, sir.

STATEMENT OF HERSCHEL C. ATKINSON, EXECUTIVE VICE PRESIDENT, OHIO CHAMBER OF COMMERCE, COLUMBUS, OHIO

Mr. ATKINSON. Thank you, sir.

Mr. Chairman and members of the Senate Finance Committee, my name is Herschel C. Atkinson. I am executive vice president of the Ohio Chamber of Commerce whose principal offices are at Columbus, Ohio. The membership of our organization consists of over 4,000 industrial and commercial firms in Ohio, from the smallest to the largest. They engage in practically every line of business in our State. The views which I am presenting today are those of our Ohio Chamber of Commerce committee on social legislation, which consists of 25 representative business executives who are specifically charged with day-to-day handling of social-security problems for their own firms. After much careful study this committee submitted a series of recommendations on H. R. 6000 which were, in turn, reviewed and voted upon by our board of directors. The board is made up of top executives of

Ohio concerns; all of which are directly affected both by the taxation provisions of the Social Security Act, and also by the benefit features thereof as they apply to their own employees and the many retirement programs set up for the workers.

I also serve as the chairman of the social-security committee of the Council of State Chambers of Commerce, a federation of 32 State Chamber organizations, all vitally interested in the proposals now before your committee. I wish to point out, however, that I do not speak as the representative of all of these organizations today, although I do have authorizations with me from the following: Connecticut Chamber of Commerce, Inc., Indiana State Chamber of Commerce, Maine Chamber of Commerce, West Virginia Chamber of Commerce, New Jersey State Chamber of Commerce, South Carolina State Chamber of Commerce, and South Texas Chamber of Commerce. There are four or five other State chambers—I recall Illinois and some others—who also have had their own witnesses before this committee.

As to the general statement of our position, the Ohio Chamber of Commerce position, our approach to the problem of revising and extending the old-age and survivors provisions of the Social Security Act is predicated on the assumption that this basic program is directed toward the provision of a minimum subsistence income upon retirement for practically every person who works for a living in our Nation. In other words, our views parallel very closely those stated by Mr. Marshall, and as a matter of fact much of this statement is quite similar in character, although there are some variations.

On the one hand, we wish to see basic retirement payments which are reasonably commensurate with the present cost of living. On the other hand, we think it would be unwise for the Nation to contract for an insurance program which would, in effect, make it "insurance poor," just as the term is applied to an individual who over-extends his private insurance obligations to the point where he is unable to meet his needs for day in and day out living. Also, we believe that there is a need to encourage private provisions for old-age retirement. The danger, as we see it, in this situation is that with the Federal OASI program, the commitments which are made in the early years of the program are deceptively low, whereas in the long run the obligations for the years ahead may be ruinous unless we temper our present desires with our known future obligations. And, of course, all you gentlemen are thoroughly familiar with the actuarial estimates, which you have had discussed many times before this committee.

One of our basic premises in developing our recommendations on the legislation now before you is our very deep realization of the demands which are being made upon our Federal budget for national defense needs, for veteran services, and for servicing the enormous public debt of our Government. A prudent and careful look at the present costs of social security must be tempered by the fact that we, as a Nation, should not assume obligations today which are only the forerunner of the fully matured cost of this program in the decades ahead. It is our view, therefore, that the present framework of the social-security system should be retained and that modifications that are made should be within that established framework, and reflect our ability to absorb and adjust to the costs.

Dealing in trends in old-age pensions as compared with OASI benefits: As a fundamental consideration in the study of social security by this committee, we are hopeful that steps will be taken which will restore the old-age and suvivors insurance program as the dominant part of the Social Security Act. The plain fact is, and you have had much testimony on this, that old-age assistance payments in the latter part of 1949 were averaging $44.50 per person per month, while the old-age and survivors insurance program was paying $22.93 per month. Moreover, the number of persons being supported on State and Federal old-age assistance numbered 2,700,000 while the old-age and survivors insurance program had absorbed only 1,683,000.

By several acts of Congress since 1939, the Federal portion of the matching program of old-age assistance has been increased. This trend has resulted in a marked increase in the so-called "free" pensions.

At our annual meeting in Columbus, last fall, Mr. R. A. Hohaus, actuary of the Metropolitan Life Insurance Co., commented upon this trend as follows:

> Because the old-age assistance developments and the proposed revision in H. R. 6000, recently passed by the House, are receiving so little attention in current discussions of that bill, and because I am convinced the great challenge now facing our citizens in social security is to deflate old-age assistance and strengthen and extend the insurance plan—a challenge which I think is as grave a domestic issue as any now before Congress—I propose to stress the weaknesses of the present and proposed old-age assistance arrangements.
>
> Federal matching of State assistance funds as practiced to date has two major defects. First, though the Federal law requires that a State, in determining need, shall take into consideration a claimant's other income and resources, it lays down no standards, not even minimum ones, of what constitutes need. This allows the State very broad discretion in determining how much Federal money is to be spent and what proportion of those in a particular category it will take on the rolls as needy.
>
> Thus the proportion now varies by States from less than 10 percent to more than 80 percent of those 65 and over. Secondly, as a result of this latitude and the nature of the matching formula, it is possible for a State to increase the amount of Federal grants it receives, with no additional expenditure on its part, or even with reduced expenditure, by simultaneously increasing the number of recipients and reducing the average payment.
>
> * * * Ohio made payments to some 190 of every 1,000 of its population aged 65 and over—less than the Federal average of 232 per 1,000. Louisiana, however, took in as many as 819 of each 1,000 of its old folk—a record for the United States if not for the world; while the figure for New Jersey was, in the light of Louisiana's record, a paltry 65 per 1,000. Of the average monthly payments in each of these States the Federal and States shares were approximately [1] as follows:

Monthly old-age assistance per recipient

State	Total	Federal share	State share
Ohio	$46.72	$27.47	$19.25
Louisiana	47.05	28.47	18.58
New Jersey	47.80	27.20	20.60

[1] In making these approximations account was taken of the fact that each of the three States made payments in excess of $50 a month. For Ohio and New Jersey the proportion of such payments was considerable. For Louisiana it was relatively small.

However, weighting those figures by the proportions of the aged receiving assistance in the respective States we arrive at the following outlays per aged inhabitant of the State:

Monthly old-age assistance per inhabitant 65 and over

State	Total	Federal share	State share
Ohio	$8.88	$5.22	$3.66
Louisiana	38.53	23.32	15.21
New Jersey	3.11	1.77	1.34

To illustrate the second defect in the type of matching formula now current, whereby the Federal Government allows more than half of the average State payment up to a stated limit, and one-half thereafter up to a higher limit, consider the following hypothetical situations:

Average monthly payment	Number of recipients	Outlay under existing law		
		Total	State	Federal
$20	20	$400	$100	$300
$30	10	300	100	200
$50	5	250	100	150

It is clear that for the same State outlay of $100 twice as much Federal money can be brought into the State by paying $20 a month to 20 recipients, as by paying $50 a month to 5 recipients, or half as much again as by paying $30 a month to 10 recipients. Accordingly, the current type of unequal matching offers strong financial inducement to a State to increase the number of recipients rather than the average payment. Indeed the average payment can be reduced with financial advantage to the State.

The possibilities here indicated are not mere theory. Mississippi reduced her average monthly old-age assistance payment from $17.50 in September of 1947 to $15.65 in September of 1948 while increasing the number of recipients from 38,431 to 52,159.

After the 1948 liberalization in Federal grants-in-aid, the number of recipients advanced further to 58,051 last June. Yet even though the average payment was increased to $18.80 (from $15.65) during that period, the State dollar total outlay actually fell, while the dollar receipts from Federal funds increased by over 50 percent. The actual figures are instructive.

	Average payment	Number of recipients	Outlay under formula effective in particular month (thousands of dollars)		
			Total	Federal	State
September 1947	$17.50	38,431	672 5	432.3	240.2
September 1948	15.65	52,159	816 5	538.6	277.9
June 1949	18.80	58,051	1,091 1	818.3	272.8

With the proposed very substantial liberalizations in the old-age insurance benefits in H. R. 6000, as passed by the House, one might have expected that there would have been coupled amendments to the old-age-assistance provisions which would reverse the trend of more and more Federal grants. But just the opposite has occurred. H. R. 6000 further liberalizes the formula by providing Federal funds equal to 80 percent of the first $25 of the average payment per recipient plus one-half of the next $10, plus one-third of the next $15.

This means that the provisions promulgated in H. R. 6000 for enlarging the Federal matching contributions is a move which, in our judgment, is in the wrong direction. We believe that it will produce even greater distortions in the comparative position between old-age and survivors insurance and the State public-assistance pro-

grams, that it will encourage the States to place a greater burden upon the Federal Treasury at a time when we are hopeful that Federal budgetary demands can be reduced and should be reduced. If the basic OASI pension amount is increased, there is every reason to believe that the States should be able to take care of the residual old-age pensioners, who are not eligible for OASI, from their own resources and funds rather than to rely upon the Federal Government for ever-increasing amounts of Federal dollars; and very similar views were reflected in the testimony of Mr. Marshall.

In view of the fact that public assistance for the aged and the dependency groups was originally intended to be a residual portion of the program, we sincerely recommend to the committee that the Federal Government take steps to strengthen the insurance program and at the same time gradually retire from public assistance. With this as a basic concept, we recommend the following major changes in the program:

As to extension of coverage: We recommend the extension of coverage of the OASI program, not only to the groups that were included in H. R. 6000 as it passed the House of Representatives but also to bring into the system other wage-earning groups. We believe that if the old-age and survivors insurance program is to provide a basic floor of protection for all gainfully employed, then a closer approach to universal coverage seems to be in order. This very broad extension of coverage is, in our opinion, a fundamental prerequisite to any change in the primary benefit formula.

Senator MILLIKIN. You are departing from the original concept that this should be a system for the benefit of the employee in the correct sense of the term "employee"? I assume that you are also for coverage of the self-employed, the business executive, professional men, and so forth?

Mr. ATKINSON. That is correct.

Senator MILLIKIN. Thank you.

Mr. ATKINSON. We recognize that a new start in OASI is extremely costly, for all of these groups, Senator Millikin, and therefore extended coverage and benefit revision should be considered simultaneously. Careful study should be given to the proposal that business, agricultural, and professional groups, employees covered by the Railroad Retirement System, and those covered by Federal and State civil-service retirement systems should come under the OASI system also. And, of course, where it is desired, and where it is possible, those systems could become supplementary, in addition to the basic Federal system—where they want to add something to that established by the employer and the employee Government contributory plan and also preserve those other systems.

We recognize that objection may come from certain of these groups on the ground that it will require revision and change in their established retirement programs. We point out, however, that if revisions are made in the OASI system, many private industrial pension programs now integrated with social-security benefits under the present law will also have to be revised. And, of course, to me the industrial and business system is the basic economic system of this country, and if they can revise those, I think the systems that depend upon the tax money produced in a private-enterprise economy certainly can also be revised.

Senator MILLIKIN. Mr. Chairman?

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. How are you folks going to tie together and coordinate all of these private pension plans? For example, the testimony indicates that the benefits of a private pension plan are not transferable. You cannot carry whatever your status is from company X to some other company. You have to stay with that particular company for life if you want to get the benefits. There is no cashable value in those plans, and there is no carry-over value which you can carry to some other company. How are you fellows going to get those things all tied together?

Mr. ATKINSON. I simply see no difference in the handling of it, Senator, as compared with the present. The basic thing would be that all of those covered would have this interchangeable eligibility and carry-over only as in the present Federal system. But these supplementary systems, such as the Railroad Retirement System, or some other such system, would be just as independent, and would be in addition to the basic Government system, as we see it.

Senator MILLIKIN. Each of those will have to rest on its own bottom for whatever it may be worth?

Mr. ATKINSON. Yes, sir.

Senator MILLIKIN. You have no private plans for integrating them and making their benefits convertible as between different employers? For example. Steel has a $100 pension, hasn't it?

Mr. ATKINSON. That is right.

Senator MILLIKIN. Sinclair, I read in the paper recently has $100 or $125. The automobile companies have their pension plans. But you have not worked out any system so far whereby a fellow working for Steel could carry his benefits over to Sinclair, or the Sinclair fellow over into the automobile business. You have nothing of that kind in mind?

Mr. ATKINSON. No. I believe that the provisions in some of those contracts, Senator, are for, say, a total amount of protection to the individual worker, and that the company will take care of the difference between the amount provided in the basic Government system and $100 or $150.

Senator MILLIKIN. Some one way, and some the other?

Mr. ATKINSON. Yes; that is correct.

Senator MILLIKIN. And, of course, those companies that have the provision whereby their pension shall be reduced by the amount of the basic Federal pension—those companies, of course, are rooting and tooting for a better level of Government pensions?

Mr. ATKINSON. Yes.

Senator MILLIKIN. Quite naturally and quite understandably.

Mr. ATKINSON. Yes; I think that those feelings are evident.

Senator MILLIKIN. The system has gained some new and strange adherents in the last year or so.

Mr. ATKINSON. I must confess that that is true, sir.

The pressure of the Federal Government has been so strongly exercised on the side of labor in labor-management negotiations affecting our big industries, where there is industry-wide bargaining, that industry has been compelled many times, in my judgment, to accept uneconomic and destructive terms—to accept things which they would

not have agreed to or which they would have resisted much more vigorously had the Government not been using great powers on the side of labor in these recent years.

Such pressures have been exerted by our Government in labor-management negotiations which involve organized labor's demand for such things as $100-a-month pensions. Escape clauses were included which provide in some cases, just as I have testified, that the industry would make up such deficiency as occurs between some fixed figure, like $100 a month, and the basic figure established by the Government old-age and survivors pension amount.

Now it is perfectly natural that managements which felt compelled to accept, under Government pressure, terms which otherwise might not have been agreed to so precipitously, are not to be found in the van of those resisting material liberalization of OASI benefit amounts. What else could be expected in a situation of this sort?

Moreover, arguments which have been put forward for many years regarding those individuals who move from covered to noncovered employment apply with equal force and effect to those who move from Government employment to private employment. Parenthetically, we hope that such a feature would be an additional incentive for reducing the number of Government employees and hasten the trend to reduce governmental employment, which has been so ably emphasized by the Senator from Virginia, Mr. Byrd.

There has been a great complaint, and I am sure the committee has heard it time and again, that people moving from Government to private systems lose their eligibility, and there is the other situation which you mentioned, also, the movement from company to company.

It is our view that the basic framework of the existing act, with respect to the tax base on individual wages and also with respect to the computation of the benefits, should remain on the $3,000 base instead of being increased to $3,600 as proposed in H. R. 6000. And that has been discussed pretty thoroughly here.

We believe that the retention of the $3,000 tax base is sound and proper in any system which seeks to provide a basic minimum layer of protection for all gainfully employed. Those who have additional earnings should be encouraged to supplement their basic social-security protection by other savings devices, whether it be by the purchase of additional insurance, by savings accounts, or by other investments. We believe that the House Ways and Means Committee minority report contained a number of cogent reasons why the tax base should be retained at $3,000. Briefly stated, they are: (1) That workers now near retirement age, earning $3,600 or more, would receive in effect a double windfall through the increased benefit formula, particularly as it applies to the extra $600 of wages. The extra benefits paid would greatly exceed the amount of taxes paid on the newly added wage amount. (2) Persons earning more than $3,000 a year ought to be encouraged to make their own individual arrangements for financial security. (3) A change in the tax base to $3,600 would unnecessarily complicate the employer reporting problems for State unemployment and Federal social-security programs.

The State systems of unemployment compensation, having been integrated at the $3,000 wage base with the $3,000 base for OASI, now

provide a minimum of employer accounting problems. We believe that appropriate tax adjustments in rates, rather than in tax base, could accomplish the same purpose. It must be remembered that the proposed increase in the benefit formula gives the greatest percentage of increase to those in the low-wage brackets—50 percent of the first $100. Thus, there is good reason to hold the tax base at the existing $3,000 level where those who receive the greatest benefits also will be asked to contribute their proportionate share to the increased cost of financing.

Liberalization of benefits: In order to make OASI more realistic in the light of present costs of living, and predicated on our parallel contention that nearly universal employment coverage should be accomplished, we favor an increase in the basic benefit formula. Recommending this increase we are constantly reminded of the fact that the intermediate cost estimates promulgated for H. R. 6000 indicate an initial cost of $1,474,000,000 and an eventual cost in 10 years of over $4,000,000,000, in 20 years of over $6,000,000,000 and by 1990—40 years—a cost of $10,300,000,000. We believe that the major stress should be placed, at this time, on the amount of the primary insurance benefit, with appropriate safeguards, rather than upon further changes in the survivors benefit program, which is a function of the primary benefit amount and will be increased as the primary base amount is raised.

Our recommendation, therefore, is that the minimum primary benefit amount should be set at $25. Because of this substantial increase, we believe that the maximum benefit amount, provided in H. R. 6000, should be modified. The formula which our committee recommends is as follows:

Fifty percent of the first $100 of average monthly wage plus 15 percent of the next $150 up to a maximum wage of $250. We recommend that in order to provide these immediate increases in benefits arising from this changed formula, the one-half percent increment for length of service now contained in H. R. 6000 should be eliminated. We know that tremendous delayed costs are involved in the future cumulative effect of this increment principle. Therefore, if we are to have an immediate increase in the primary benefit formula, the elimination of the yearly increment is the necessary financial offset. We note that the Advisory Council on Social Security to this committee was unanimously in favor of eliminating the increment provision, in view of the ever-increasing cost of future years. We believe that if primary benefits are liberalized now, some offsetting factor must be brought into play which will modify the eventual future cost. Elimination of the increment factor is one of the methods to accomplish this.

With respect to the maximum benefit amount for survivors insurance, it is our belief that the top figure should be set at not more than $125 instead of the $150 as proposed in H. R. 6000.

We believe that the easily understood definition of "average monthly wage" in the present act is much to be preferred over the revisions suggested in H. R. 6000. Undue windfalls in benefits occasioned by the new coverage will need to be controlled, but the proposed continuation factor due to its capricious effects, is not the proper approach in our opinion. Obviously the use of the continuation factor in the prepara-

tion of cost estimates has served greatly to reduce the estimates of future cost. Moreover, it should be apparent to anyone that when the continuation factor becomes effective some 5 or 6 years hence, as provided, and brings about drastic reduction of benefits along entirely inequitable lines, the continuation factor will be under pressure to be eliminated. If this happens, benefit costs will rise tremendously—far beyond the preliminary estimates. The following table, comparing effects of the new proposal and the present method of arriving at benefits will sustain these conclusions. The computations are based on the percentage formula proposed in H. R. 6000, that is, $50 for the first $100 and 10 percent of any remainder up to $300:

Benefit amounts computed on new average monthly basis and the continuation factor in H. R. 6000

$100 average monthly wage for 40 years of employment—total of $48,000 in coveraged wages—benefit amount (including increment)	$60.00
$200 average monthly wage for 20 years of employment out of a possible 40—total of $48,000 in coveraged wages—benefit amount	36.00
$300 average monthly wage for 20 years of employment out of a possible 40—total of $72,000 in covered wages—benefit amount	42.50

Benefit amounts using averaging basis in existing law

$100 average monthly wage for 40 years of employment—total of $48,000 in coveraged wages—benefit amount	$60.00
$200 average monthly wage for 20 years of employment out of a possible 40—total of $48,000 in covered wages—benefit amount	55.00
$300 average monthly wage for 20 years of employment out of a possible 40—total of $72,000 in covered wages—benefit amount	60.50

From this table it can be seen that the use of the continuation factor completely distorts the amount of benefits in relation to the contributions paid in. Hence the $300-a-month man who would have paid taxes on $72,000 gets $42.50 in benefits as contrasted with an individual who paid taxes on $48,000 and receives $60 benefit.

I believe, again, the table is somewhat similar to one that Mr. Marshall produced, although the figures are different.

Wage credits for military service: Our organization continues to recommend wage credits for veterans of World War II for time spent in military service and endorses the principles in H. R. 6000 on this point.

Maximum-earnings limitation: Our committee favors the provision in H. R. 6000 which proposes a $50 limitation upon maximum earnings before benefits are denied, in lieu of the present $15 limit which is now provided in the Social Security Act. We believe that this will encourage beneficiaries to supplement their old-age and survivors benefits by moderate earnings in employment, and by so doing add to production of goods and services of benefit to themselves and others; again, recognizing this increasing proportion of older people that has been so frequently referred to in testimony before this committee.

However, the proposal in H. R. 6000 that there be no limit upon the earnings of insured persons age 75 or over is a feature to which we do not subscribe. The arbitrary 75-year age limit might be subject to pressure for costly successive reductions. As an alternative it is our thought that a formula similar to that now used by most unemployment-compensation systems be followed. This system could provide offsets above the $50 figure so that as additional wages are earned by those over 65, in any one month, the total monthly OASI benefit would

not be canceled completely, but would be proportionately reduced. This would be comparable to "partial unemployment benefits" in State unemployment compensation systems. Under present feaures of H. R. 6000 the entire benefit would be lost by those between 65 and 75 if earnings went above $50 in any month. Under our proposal only a fair proportion would be canceled and the special provisions for those over 75 could be eliminated.

On lump-sum benefits: Our organization is in favor of retaining the present provisions of the Federal Social Security Act with respect to lump-sum payments, rather than to provide universal benefits as suggested in H. R. 6000. As has been pointed out to this committee, a very large number of covered workers already have made provision, through voluntary action, for meeting funeral and other last expenses. To add this cost to the old-age and survivors insurance system, which is primarily a benefit to the living, is a step which we do not believe should be made at this time.

Definition of employee: In view of the fact that our organization favors the extension of coverage as far as is practicable, it is our belief that the proposals contained in H. R. 6000, revising the definition of the word "employee" will be unnecessary. Our objection extends particularly to part 4 of the definition under which administrative agencies would be granted wide discretion in determining liability, particularly as it applies to persons conducting independent operations. If the law is extended to cover the self-employed, or even if it is not, we see no reason for this grant of discretionary power to any agency for reexamining hundreds of independent contractual relationships with a view to establishing liability on one employer or another. We believe that the problem of covering the new wage groups will be sufficiently difficult without further complicating the problem by bringing in a "gray zone" of administrative interpretation such as would inevitably follow such a grant of legislative authority. And it would take years and years in the courts to settle the questions that would be raised by this change of definition.

Senator MILLIKIN. How would you handle administrative problems connected with the Fuller-brush salesmen, for example?

Mr. ATKINSON. Well, I am not sure that I understand the import of that question.

Senator MILLIKIN. I am a Fuller Brush salesman, let us say. I was going to make you one for the purpose of the illustration, but I will take the job myself. Here is a fellow that is in this vast field of door-to-door salesmanship. He goes to work, buys his own stock of samples, picks roughly the territory in which he works. I personally do not believe that under any true definition of the word "employee" as we have understood it, that man is an employee. How are you going to divide the contributions of that man and the contributions of the fellow that supplies him with the goods that he sells? How are you going to work that out?

Mr. ATKINSON. Of course, it seemed to us, as it apparently does to you, that he is not an employee in the true sense of the word.

Senator MILLIKIN. That is right.

Mr. ATKINSON. Now, that comes to the matter, then, of——

Senator MILLIKIN. Therefore, will he have to pay his own insurance exclusively? Or would you say that that should be shared with the fellow that supplies him a sample kit?

Mr. ATKINSON. It seems to me that he is among the self employed. The probability is that he is carrying one or two other lines along with the Fuller Brush and doing many other things done by the independent contractor in the true sense.

Senator MILLIKIN. But you still have not told me who is going to pay. Who is going to make the contribution? Is he going to make it all? Or is he going to share it with the fellow that supplies him the sample case? How are you going to get the money?

Mr. ATKINSON. I think the formula should be the same as for the self-employed farmer or any of the others that are in that same classification. In other words, to my mind he is the employer and would come under that kind of treatment administratively.

The CHAIRMAN. He would carry the whole burden?

Mr. ATKINSON. That is right.

The CHAIRMAN. Whatever it is.

Mr. ATKINSON. Yes. That is correct.

Senator MILLIKIN. Thank you very much.

Mr. ATKINSON. Under permanent and total disability insurance: It is our recommendation that the provisions of H. R. 6000, proposing to establish permanent and total disability coverage as a part of the OASI system, ought not to be adopted. We feel it would be unwise for the Federal Government to embark on a costly permanent and total disability insurance program. It is one which cannot be effectively administered in a broad fashion because of the highly specialized nature of each case which would require great detail and staffing for administration. It is our belief that this problem should be left entirely to State jurisdiction and control. The Indiana State Chamber of Commerce has summarized our reasons as follows:

1. Except in extreme cases, few things are as difficult—or as open to abuses—as the drawing of a line as to where physical ability to work ends and where physical disability begins. Regardless of how large the Federal bureau set up to administer the program, with its branches in every community of the country, might be, the abuses could not be prevented.

2. The availability of disability benefits would cause many people who otherwise might rehabilitate themselves into self-supporting, useful citizens, to remain satisfied at doing nothing on the pension "dole."

3. The disability insurance benefits still would not solve the problems in a large share of the cases of real need among disabled persons—where disability occurred so early in life that the individual would have little or no work history and therefore would not be eligible for the disability benefits.

I think that, too, has been made perfectly clear in the testimony here, as to those reasons.

Under the question of taxes, we come here to a slight variation in position from that of the United States Chamber of Commerce. I would want to confine this strictly to the Ohio Chamber of Commerce. And as I reviewed the proposed testimony, I also reviewed the very interesting exchanges between Senator Millikin and Arthur Altmeyer on the question of the taxes and the use of the trust fund, and I agree with the Senator on the implications of a larger trust fund, that is, a partial funding, being conducive to encouraging spending and the borrowing for other governmental pur-

poses of these increased reserve funds. But there was another viewpoint pretty strongly expressed in our organization on this matter, of whether pensions are something free, or whether they are something that cost money. And so, as I say, we depart in theory from a number of the business organizations. We said: when you increase benefits you ought to increase taxes, so that then the people will realize at once that the matured cost of these great extensions of benefits ought to be paid for, has to be paid for, and is not a free device.

Having discussed a number of revisions in this program, many of which mean additional benefits and costs, I would like briefly to present our views with regard to the all-important question: Who pays the bill? Reduced to its simplest terms, we believe the following: (1) The division of the tax burden between employer and employee on a 50–50 basis should be continued. (2) Without debating the issue of whether or not we can have a true reserve fund, our Ohio employers feel that a modest reserve fund with the program essentially on a pay-as-you-go basis is the most realistic approach to financing OASI and its related benefits for survivors. (3) When new benefits are provided under the revised legislation, careful consideration should be given to a starting rate for the new program at a 2 percent tax on the employer and a 2 percent tax on the employee. While this may in the early years produce some further growth in the trust fund account, and, as I say, encourage the borrowing of that money and over-all Government spending that ought not to be encouraged—we are sorry we have to recognize that that thing has so operated—and yet it seems to us that fundamentally we ought to look at the basic principles in the old-age and survivors insurance system itself. We believe it would be sound public policy if all taxpayers were to know that when the benefits schedule is increased it also entails increased taxation. (4) A projected schedule of future benefit rates, similar to those contained in H. R. 6000, should be written into the act with the effective dates of the inevitable further increases set to go into effect when income and outgo in a particular period reach a balance.

We think it highly important that every group in the Nation, whether they be employers, employees, or beneficiaries understand clearly the inescapable fact that at any given time those individuals who are gainfully employed must not only produce goods and services for themselves and others but must also share them through the formulas of OASI system with retired workers, survivors, and dependents. A trust fund, implying that past production will supply current needs, cannot be counted upon as a major method of finance.

Extension of coverage to Puerto Rico and the Virgin Islands: It is our sincere belief that the extension of the OASI system to Puerto Rico and the Virgin Islands would produce a serious drain upon the social security program of this country. Until such time as these territories have been able to strengthen their basic economy, it would be unrealistic to transplant the United States social security structure to these territories. Their wage levels and economy would not begin to support the benefit payments contemplated. A staff man of ours was recently on the Government Commission to Establish Minimum Wages in the Virgin Islands. I recall quite vividly that some

of those minimum rates were 30 cents an hour and 50 cents an hour and similar figures much below ours. As a matter of fact, that 50 cents an hour caused great consternation in the industry where it was established, because it was so much above what seemed to be the current level of the islands. But with an economy so low that the minimum average rate is perhaps 30 cents an hour, it seems ridiculous to include the islands in this same system. We sincerely hope that the committee will see fit to delete this provision from H. R 6000 and, if special action is necessary, treat this program in the territories on a basis which will not disturb the social security system in the United States.

I wish to conclude by stating that American business knows there is no easy road for financing any retirement program, whether it be governmental or private. We must either face the cost of social security realistically and with full appreciation of the obligations which we undertake, or we will find ourselves confronted with constantly rising prices. This is merely another way of stating that we will be faced by further inflation. And there has been too much of it already. We firmly believe that costs of government involved in $40,000,000,000 annual budgets will have to come down or we will again be required, a few years hence, to make further revisions in this program in order to keep up with the cost of living. And, of course, the real reason we are here saying that the benefit formulas established in '33, '34, and '35 thinking are inadequate, is because the dollar today will only buy about 60 cents worth as related to the dollar of that time, and perhaps it is even down to 50 cents. And unfortunately and tragically, if the present trends of deficit spending go on, the benefit formulas we are trying to think of as realistic today will be wholly inadequate in terms of real living need and costs in 15 years. That is what has happened in the past 15 years, so the bigger job seems to be that of balancing the budget and removing deficit financing, as going a long way toward the maintenance of a steady flow of purchasing power and stabilizing the value of these benefits we are talking about. The greatest contribution to social security which can be made by the Federal Government is a strong financial position. This will insure continual steady purchasing power in the hands of the wage earners, as well as for the beneficiaries of social security, or private insurance, or those with savings. We sincerely hope that this committee will recommend a program which will remain within the financial ability of the American industry and wage earners. We must avoid taxation and expenses which contribute to an ever expanding spiral of higher prices and which ultimately will be paid by all—the consumers, the citizens of the United States.

The CHAIRMAN. Thank you very much, Mr. Atkinson.

Senator MILLIKIN. May I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. In your opinion, do not the costs of this system enter into the costs of goods?

Mr. ATKINSON. There is no other way, in my opinion, Senator. The costs must be included. And when they are not included, that concern will fail to continue to operate.

Senator MILLIKIN. So that we have the basic problem of constantly increasing the productivity of the Nation, and the reduction of unit costs to keep up with the costs of these "deducts." Is that correct?

Mr. ATKINSON. To my mind, and I believe to every businessman I know, that is the only possible way that this system can remain solvent.

Senator MILLIKIN. Are you aware of the statistics which have been offered to the effect that during the last 8 or 9 or 10 years we have not continued the progress we used to make in individual productivity of the worker?

Mr. ATKINSON. Well, I have seen many compilations on that; and, of course, the difficulty is the intrusion of the war years and the changing conditions which were present in war-production times.

Senator MILLIKIN. Well, you have an enormous increase in production, because you have an enormous increase in your working force. There is no question but that we have more production than we had. But there seems to be some opinion that individual productivity has not kept up with the old 2 or 2½ percent per year which used to characterize our economy.

Mr. ATKINSON. I was head of the employment service in Ohio for 5 years at the beginning of the war and at the same time administrator of Ohio's unemployment compensation. When we were beginning to expand the labor force at that time, we had to draw in many classes of people not formerly in the labor market, housewives for example, the aged who had sometimes retired, youngsters whom we attracted out of the schools, many of the handicapped. We sought many classes of people who were among the less efficient types of workers. Now, it is perfectly natural that your productivity would drop, per man. And also they went onto new processes. We upgraded, because of the size of the labor force, and we took people of very moderate training and called them skilled.

So all of those things diluted productivity per man.

Now, the real measure of increased productivity can't well be made except during the last 2 or 3 years, perhaps. We are just beginning the cycle when it should begin to show in our manufacturing and production processes.

Senator MILLIKIN. I think that is a very illuminating comment. You have developed one or two points there that have not been brought out before.

What is your Chamber of Commerce doing about keeping elderly people working, if they want to work and can work?

Mr. ATKINSON. Two and a half years ago we instituted a system of retirement insurance and retirement for every person employed once they have remained with us 3 years. And, of course, that provides for a retirement schedule at 65.

Senator MILLIKIN. I am not talking about retiring people. I am talking about keeping them at work if they want to work and are able to work.

Mr. ATKINSON. Well, there is no provision that is compulsory, that compels a man to retire.

Senator MILLIKIN. Let me put it another way. Is your chamber of commerce doing anything with regard to what I consider this serious problem of junking people, in our mass-production industries particularly, at 40, 45, and 50 years, which leaves an unemployed hiatus of 10 or 15 years before a fellow gets to a pension age?

Mr. ATKINSON. I am sorry. I misunderstood. You mean are we, shall we say, in our relationships with our membership, or with those

employing the working population of the State, trying to encourage the retention of these people?

Senator MILLIKIN. That is right.

Mr. ATKINSON. Yes; we are. And yet I am compelled to say to you that each time you add these things by way of additional social-security program, or extra costs, you do emphasize the, well, I would say——

Senator KERR. Necessity?

Mr. ATKINSON. You make it almost, well, necessary, that your employment be of those who are most productive. Because, as we have said, all these costs go into your total costs. Now, you do try to increase the productivity per man, and that necessarily increases with the additional number of costs you load on to every job.

Senator MILLIKIN. That is right.

Mr. ATKINSON. Each of those things adds to the cost per job.

Senator MILLIKIN. Yes.

Mr. ATKINSON. Therefore, we are, by Government programs, very rapidly retiring people from the labor market because it is too expensive to retain them, and we make it impossible, for private enterprise, or employers of any kind, to retain those people in employment.

Senator MILLIKIN. And thus private enterprise, by the operation of the very thing you are talking about, loads those costs on to the taxpayer.

Mr. ATKINSON. That is right.

Senator MILLIKIN. And at the same time, those who are doing that are talking about reducing taxes and balancing budgets, and so forth and so on.

Mr. ATKINSON. I didn't get who you said was doing that.

Did you say we were?

Senator MILLIKIN. No; I was not talking about your company at all. As I understood you to say, the employment of these elderly may involve a certain question of additional costs, let us say per unit costs. And I think it would.

Mr. ATKINSON. It does.

Senator MILLIKIN. So that, as a businessman, thinking only of the costs of his business—and that is what he is there for, and when he stops thinking about it the stockholders will view him with a very bilious eye—he says, "It is my job to run this business at the very maximum efficiency," which means the very minimum of unit costs. So he says, "It is too bad, but a fellow who is working on my assembly lines reaches the peak of his productivity at 45, and we can get plenty of younger fellows, and the fellow of 45 has got to go." That is a part of the business process. But I thought you, yourself, made the point that when that happens, then you are passing from business to the taxpayer a great social problem, which has to be paid, in the end, out of taxes, via the thing that we are working on right here.

And then I add the perhaps irrelevant remark that, while doing that, the same gentlemen who do it are talking about less taxes and balancing budgets, and so forth and so on. Maybe we had better get our stories coordinated a little better and maybe there is a point of industrial statesmanship there that may go beyond a few of these cost factors that ought to be considered.

Mr. ATKINSON. There is another thing that always has concerned me deeply, and I want to be sure it is fully realized by these committees

of the Congress: the tragedy that I see in these added tax costs loaded on to the employment of a man hit much more seriously, as a general rule, the small business enterprise than the large. It is my observation that the larger, more efficient units are often better able to abosorb these additional costs, and that the net effect of this kind of legislation is to increase the size of the big and reduce the ability of the small to survive, and to prohibit the entry into the private-enterprise system of the little man who has a little money. And the first thing he has to do today is to hire a bookkeeper and auditor and have somebody keep his books, and he adds a cost right there that just flabbergasts him.

Senator MILLIKIN. From my unenlightened viewpoint, it seems to me you are talking sense. And it is the junking process that takes place not so much in what is called little business but in these very big businesses, which are perhaps in position to absorb some of these costs of keeping people longer in the working force, and which businesses are not doing it, which presents us with these social problems which have to be met with taxes.

Mr. ATKINSON. Your big businesses, for instance, with many divisions and lines, can shut off departments that are not paying their way. Therefore they can adjust. But your little business, your enterprise with 10 employees—the boss knows Bill and Jim, and Henry and their wives and children—and he cannot act so quickly if costs indicate that it is no longer a productively efficient thing to employ a man.

Senator MILLIKIN. And in those little businesses you have hand operations where a man can preserve his productivity to a much older age than he can where he is standing on the assembly line twisting a bolt as the car comes by. Is that not right?

Mr. ATKINSON. That is right, sir.

Senator MILLIKIN. So our problem is really not one of the little business. I think if you were to make a study of the longevity of workers in big and little business you would find that the record is pretty good for little business. But I think you would find it very bad in the very biggest businesses, where there ought to be, I suggest, a more enlightened approach toward the problem, unless they want to pay these taxes and have these unbalanced budgets which they are always bellyaching about.

Mr. ATKINSON. Well, probably I shouldn't say it, but I think you will find that the tendency is that the larger the business the more it tends to be sucked into these Federal systems of subsidies and grants and assistances, because of its very size.

Senator MILLIKIN. That is right.

The CHAIRMAN. Thank you very much, Mr. Atkinson.

Mr. ATKINSON. Thank you.

(The following statements were submitted for the record:)

REPORT OF THE SOCIAL SECURITY COMMITTEE OF THE CHAMBER OF COMMERCE OF PHILADELPHIA IN RE SOCIAL SECURITY BILL (H. R. 6000)

Gentleman, the proposed social-security bill (H. R. 6000) has been reviewed and discussed by your Social Security Committee, which presents for your consideration what the committee regards as objectionable features of the bill.

1. GRANT TO STATES UNDER TITLE I (OLD-AGE ASSISTANCE)

Comments

Although the Federal-State assistance portion of the bill is most significant, it has received very litle public consideration. This is undoubtedly due to the

fact that the moneys appropriated come out of the general tax fund and are not as obvious as a specific tax such as the old-age benefits tax. The Federal grants-in-aid were originally included in the Social Security Act as an expedient for the aged and dependent children not covered by old-age benefit insurance and it was intended as workers acquired benefit rights under the insurance program the Federal-State grants would be reduced gradually and become inconsequential.

Actually, the opposite has occurred. The benefit levels and the number of beneficiaries have increased greatly. For example: in 1939 old-age assistance benefits were about $430,000,000 whereas in 1949 they exceeded $1,300,000,000. One of the reasons for this threefold increase is ascribed to the growth of the Federal Government's share of the cost. Initially, the act provided that the Federal Government would match State government aid on a dollar-for-dollar basis, with a maximum Federal grant of $15 per month per individual. The Federal share has since been increased three times. Today Federal grants equal $15 for the first $5 of State aid and dollar for dollar on the next $30 per month or a total of $30. Federal grant out of each $50.

H. R. 6000 proposes a further increase in the Federal share. It provides that the Federal Government furnish $20 for the first $5 of State money, $5 for the next $5, and $5 more for the next $10. While the Federal portion would still total $30 in the case of a monthly benefit of $50 or more, the Federal Government would bear a substantially greater burden of the cost because the average old-age assistance is well below $50 per month.

The proposed formula would further encourage the extension of assistance to those age 65 or over and would endanger the very purpose and existence of the Federal insurance program.

Eligibility for old-age assistance is primarily based on "need" and since the States are required to raise by taxation only a relatively small amount as their share, there has been a tendency to relax the eligibility standards. Under the present and the proposed formula, States can actually reduce their cost while increasing the Federal cost by simply adding more persons to assistance rolls at low-benefit amounts.

Old age assistance costs, under the proposed bill, can reach uncontrollable levels and, therefore, the change is objectionable. Further, it is recommended that action should be taken by Congress toward the eventual elimination of Federal grants-in-aid. This could be accomplished through universal coverage under the Federal insurance program. As the newly covered qualified for insurance benefits, there would be a substantially lessened need for old-age assistance. By taking into account the time necessary for the newly covered to qualify for insurance benefits, it could be provided that by a given date, several years hence, Federal grants would cease and old-age assistance from then on could be carried by the various States.

2. CHANGE IN THE EARNING'S BASE FROM $3,000 TO $3,600

Comments

This increase is not necessary for it extends into an earning bracket where those concerned should be able to provide some degree of old-age security for themselves. If the purpose is to increase benefits and at the same time add to the total tax revenue, these can be accomplished without raising the base.

Since the base of the unemployment compensation laws is $3,000, employers in filing their tax returns with the States are now able to use carbon copies of the lists of employees and their earnings that are filed with the Federal Government for old-age benefit purposes. If the base is changed, this procedure will not be practicable, and it will complicate the administrative detail of every employer.

Once the base of $3,600 becomes effective, the pattern will be established and serve as a cue for agitation to increase the base under the various State unemployment compensation laws.

Furthermore, if the existing base is changed it would seriously affect thousands of pension plans presently operated on an integrated basis with the social security system.

3. PROVISION FOR AUTOMATIC INCREASE IN THE TAX RATE EFFECTIVE IN 1951 AND IN LATER YEARS

Comments

While it is realized that from an actuarial standpoint the social security plan is not considered sound, the advisability of the Government's accumulating large reserve funds is questioned. With substantial amounts available after current

benefits are paid, the public overlooks the potential costs and tends to seek larger benefits. Experience may prove that it is not necessary to increase the tax rate as quickly as provided in the bill, and it is our view that, before the tax rate is raised further, a thorough study of the situation should be made at the time to determine if such an increase is warranted.

4. DISABILITY BENEFITS

Comments

We are not opposed to disability benefits, but do object strenuously to a disability program administered at the Federal level.

The primary purpose of the act is to provide old-age and survivor benefits and it is believed that the program will prove too costly if disability benefits are included.

The administrative costs of the Federal Social Security Bureau would increase substantially. Investigating divisions would have to be set up all over the Nation and to a large extent they would duplicate State agencies already established for similar purposes.

It is doubtful if a Federal system could function effectively and the possibility of malingering would be extremely great.

5. LUMP-SUM BENEFITS

Comments

Under the present act lump-sum benefits are paid upon death providing no survivor is eligible for benefits. The new bill contemplates lump-sum benefits upon death irrespective of whether any survivor is eligible for benefits. Obviously, there would be an overlapping of benefits, to say nothing of the added cost burden. Therefore, it is felt this indiscriminate payment of lump-sum benefits should be opposed.

6. DEFINITION OF "EMPLOYEE"

Comments

At present, by virtue of court rulings and other legal interpretations, there exists a fairly clear understanding as to who is an employee under the social security law. Under the new definition, the status of an employee would be determined by Federal agencies on the basis of a combination of indefinite factors, and this could result in endless and costly litigation.

Proposed changes in the law provide that self-employed persons have a different tax liability than that of "employees." The new definition makes it difficult in numerous cases for the individual to determine if he is an "employee" or "self-employed." This would affect independent contractors and agents. Consequently, millions of persons would not know their tax liability until their status is established by the Federal Social Security Agency or the Treasury Department.

The time-tested common-law meaning of the term "employee" has been understood for generations and it should not be replaced by a vague and unrealistic definition.

The United States Senate Finance Committee is presently holding hearings on H. R. 6000 and, subject to your approval, your committee recommends that the chamber go on record with the Senate committe to the effect that it does not oppose the bill in principle, but does object to the foregoing features for the reasons indicated.

Respectfully submitted.

W. E. VOLLMER,
Chairman, Social Security Committee,
Chamber of Commerce of Philadelphia.

STATEMENT OF THE WISCONSIN STATE CHAMBER OF COMMERCE WITH RESPECT TO OLD AGE AND SURVIVORS' INSURANCE AND PUBLIC ASSISTANCE

The Wisconsin State Chamber of Commerce submits a plan to cope with the problems raised under the old age and survivors' insurance and public assistance program. It recommends:

1. Extend coverage under old age and survivors' insurance now even beyond that provided in bill H. R. 6000. Bring in now farmers, professional people, Federal and State employees, and those under the railroad retirement system. Only in that way can we avoid expensive windfall benefits in the future.

2. Retain the accepted common-law definition of employee. The proposal for defining an employee under H. R. 6000 is a serious delegation of congressional power to Federal departments.

3. Provide an additional eligibility qualification of 20 quarters of coverage within the last 40 quarters, but only concurrent with the general extension of coverage proposed above.

4. Continue the present method of computing average wage. The procedure in H. R. 6000 is difficult for the public to understand and susceptible to easy alteration by a future Congress, resulting in tremendous possible increases in benefit obligations.

5. Increase benefits, but less drastically than the proposal in H. R. 6000 as follows:

(*a*) Retain the $3,000 wage base.

(*b*) Compute primary benefits by taking 50 percent of the first $100 and 15 percent of the next $150 with no yearly increment.

(*c*) Set the minimum benefit at $25 per month.

(*d*) Set the top maximum family benefit at $125 per month, maintaining present law provisions relative to computing family benefits. Also limit the maximum to 80 percent of the average monthly wage or two times the primary benefit.

(*e*) Retain present provisions of the law for payment of lump-sum death benefits.

6. Allow earnings up to $50 without benefit reduction, but provide benefit reductions based on earnings beyond $50. Do not adopt provisions to pay full benefits to those over age 75, regardless of earnings.

7. Do not establish any program of permanent and total disability insurance. There is no accurate way of estimating the future cost of such a program and it could easily degenerate in a racket that would wreck the entire program.

8. Based on an increase in benefits, adopt the tax schedule proposed in H. R. 6000 limited to a $3,000 wage base, but immediately set the rate at 2 percent on employer and 2 percent on employee.

9. Do not increase Federal aids for public assistance but provide instead a program whereby each State will assume an increasing proportion of the cost of public assistance as the beneficiary rolls of old-age and survivors' insurance expand.

10. Provide for the establishment of an independent system for Puerto Rico and the Virgin Island tied to their own economies.

We believe that the incorporation of these suggestions will hold the costs of our social security program at a level that future wage earners will be able to pay.

The CHAIRMAN. We have two other witnesses, and we will see if we can finish before we have to recess at 1 o'clock.

Mr. Hawker?

You may be seated, Mr. Hawker, if you wish to. You are from the Armstrong Cork Co.?

STATEMENT OF CLIFFORD F. HAWKER, VICE PRESIDENT IN CHARGE OF MANUFACTURE, ARMSTRONG CORK CO., LANCASTER, PA.

Mr. HAWKER. That is right, Mr. Chairman.

The CHAIRMAN. Of Pennsylvania and Macon, Ga.?

Mr. HAWKER. Yes, sir.

Senator MARTIN. Of several places in the world.

The CHAIRMAN. Several places: yes.

We will be very glad to hear you, Mr. Hawker, on H. R. 6000.

Mr. HAWKER. Thank you, sir.

My name is Clifford F. Hawker. I am vice president in charge of manufacture of the Armstrong Cork Co., a manufacturing concern with principal offices in Lancaster, Pa., and 18 factories located in 11 States. The company manufactures and sells a variety of products ranging from floor coverings and building materials to glass containers and closures.

I have come here today to discuss private pension plans and their relationship to the legislative proposals this committee has under consideration. It is estimated conservatively that there are some 13,000 such private pension plans in this country, protecting about 8,000,000 employees. Most of these plans serve to supplement social security old-age benefits and their operation will be affected by the changes you are now considering.

Armstrong employees—now numbering 13,000—have been covered by a fully funded, insured pension plan since 1937—for over 13 years. This three-part plan was developed by my company based upon our more than 30 years' experience in pension administration.

The first portion of this three-part pension plan, of course, is the Federal social security old-age benefit. We regard this as basic assurance to the American citizen that he shall have food and shelter when aged. We realize that social-security benefits so far disbursed have little relation to social-security taxes previously paid by recipients. But we regard the benefit as a dividend or bonus to each elder American, paid from our increasing productivity, a protection from destitution that we can afford to give to ourselves. This point of view compels us to urge you to extend social security old-age benefits to all residents of our land wherever or however employed.

Senator MILLIKIN. Does that include housewives?

Mr. HAWKER. That is right, sir.

The second portion of our company's three-part pension plan is a free annuity, paid for entirely by the Armstrong Cork Co. It automatically covers every Armstrong employee after 1 year in our employment. It provides an income at retirement age—65 for men and 60 for women—based upon the length of service and the earnings of each employee. The same annuity formula applies to all employees, whether they be hourly paid workers or officers of the company.

We feel that this portion of our pension plan gives recognition to our men and women for their contribution to our company's growth and success. We also feel that this free annuity, when added to the basic social-security benefit, raises our pensioned employees to a level more nearly approaching the standard of living they enjoyed while actively employed.

Most important, after 5 years of membership all employees have this annuity permanently and automatically vested in them. If they later leave our employment, no matter what the reason, they take along with them a paid-up annuity policy covering their years of service with us. In unpleasant contrast, we see that the pressures and politics of collective bargaining on pension plans recently have produced many so-called retirement programs under which employees can qualify for pensions only if they can cling to their jobs until they reach retirement age. Loss of employment before age 65 under such union-negotiated plans also means loss of retirement rights.

Senator MILLIKIN. Is your plan a company plan? I mean, do you pay all of the costs or is it jointly contributory?

Mr. HAWKER. I will cover that, Senator.

We consider such plans unfair and unsound. It must be admitted, however, that they are about what we had expected from the injection of collective bargaining into this complicated field.

The third portion of our three-part pension plan is voluntary and it is contributory. After 1 year of service each employee may elect

to join the company in purchasing additional annuities for themselves—and virtually all of our employees elect to do this. They purchase a supplementary annuity aided by company payments almost as large as their own contributions and which are in addition to the company's payments of the entire cost of the free annuity I described earlier. Through this third plan employees are able to build for themselves a pension that will assure them a more comfortable and abundant way of life when retired. The company's payments under this contributory pension plan encourage employees to be thrifty and to provide for themselves. In this plan, also, the annuities accumulated by each employee vest in him after 5 years, contingent only upon his leaving his own contributions with the insurance company. He may, of course, withdraw his own contributions at any time. If, however, he elects to leave them with the insurance company when he quits our employment, he takes with him a second fully paid-up annuity—based on his own contributions and those the company has made for him.

Our three-part plan is built around Federal social security. It recognizes an additional obligation of the employer. It encourages personal thrift. We think that it is of fundamentally sound design—and we regret that this soundness is likely to be undermined within the next few years, by the rivalries and opportunistic pressures of the 23-odd unions with which we must bargain.

I believe it worth your notice that the annuities under our two private portions of this three-part pension plan are paid in addition to Federal social security. If Federal social security benefits are increased within reasonable limits—and we feel they should be increased—our annuities will not be reduced. Our employees' total retirement income will be increased. This, too, we think, is sound and equitable.

There is nothing in our two annuity plans which prevents us from employing older people. In fact, we have employed a sizable number of such persons in recent years. This is indicated by the number of employees retiring currently with from 3 to 10 years of service. It is true that these older new employees build up annuities that are proportional to their earnings and years of service—and are thus smaller than those of employees with long service—but we feel that we are fully discharging our responsibility to them. They receive Federal social security benefits and their proportionate company annuity. We have convincing proof that annuity plans such as ours do not curtail employment opportunity for those over age 40. In this country, of the total male population from age 20 to age 65, 46 percent are over 40—in our own company, of male employees age 20 to age 65, almost the same percentage, 45 percent, are over age 40.

Senator MILLIKIN. How many are over age 65?

Mr. HAWKER. In active employment?

Senator MILLIKIN. Yes.

Mr. HAWKER. It would probably be less than 10 in our entire company.

Senator MILLIKIN. You do not compel a man to retire?

Mr. HAWKER. We now have a rule requiring compulsory retirement at age 65. This was not in force during the war.

We have the same proportion of older employees as the country has older citizens. This is true despite our considerable expansion in recent years.

Our formal annuity plans were inaugurated in 1937—the same year Federal social security began. At that time an average factory employee was earning about $110 a month. Assuming about 30 years of coverage, he could then look forward to a Federal social security old-age benefit of about $30 to $35 a month. He could also anticipate a monthly income of about the same amount, $30 to $35, from the company annuity plans. This would give him a total retirement income of around 60 percent of what he had been earning while at work.

However, the retirement benefits under our annuity plans increase when wages increase since the benefits are based on the man's earnings as well as his service. Inflation in price and wage levels in recent years has, therefore, been met in considerable part by automatic increases in annuity benefits under our plans. But, I'm sure we all agree, this has not been the case with Federal social security old-age benefits. Today, our aged employees reaching retirement age receive only around 15 percent of their current earnings in the form of Federal social security benefits rather than the approximate 30 percent which held in 1939 and 1940.

Year by year, as a director of my company, I review the records of each of many employees retiring from active service. I know that for almost all of these aged men and women this percentage loss in social security benefits causes real privation.

The old-age benefit formula adopted by the House of Representatives in H. R. 6000 corrects this "inflation loss" of purchasing power for social-security benefits. At today's wage levels, the formula of H. R. 6000 provides almost the same proportionate old-age benefits as did the old law in, say, 1940, at 1940 earnings levels. If the old law's formula was right in 1940, then the H. R. 6000 formula is equally right now. We recommend its enactment by the Senate. Our employees need to recover the loss in purchasing power of their social-security benefits. We do not need to "increase" social-security benefits—we need to "restore" them.

We make this recommendation with one reservation. We urge that the social-security tax and benefit base be kept at $3,000. If the $3,000 base is changed, it may be necessary for us to revise our two annuity plans—a process that is extremely complicated for us and quite disturbing to employees. Our two annuity plans are integrated with social-security benefits—they have to be in order to comply with Treasury tax regulations. Change of one will likely call for change of the other. Such changes would have to be worked out painfully with insurance companies, stockholders, unions, and so on.

If there were convincing reasons for increasing the tax base from $3,000 to $3,600 I would not raise the issue.

However, from an equity standpoint the employee who pays tax on an extra $600 a year isn't going to get a commensurate increase in his social-security benefits. An employee earning $3,600 a year and paying tax on all of it would get a basic social-security benefit of around 26 percent of his first $3,000 of earnings but only around 10 percent of his earnings from $3,000 to $3,600. This will be hard to explain to employees.

From another viewpoint, if the tax base is raised to $3,600 those employees affected and retiring within the next 10 or 15 years will get an unwarranted and discriminatory windfall. The tax payments each such employee and his employer will pay on his earnings between $3,000 and $3,600 will pay but a fraction of the cost of the increased benefit. Giving such a free ride to individuals earnings over $3,000 a year seems of doubtful merit. The proposed increase in tax base takes us away from the ostensible objective of this whole program—subsistence benefits.

I am not a social-security expert and, consequently, I do not feel competent to discuss whether or not social-security reserves are deceptive and illusory or sound and concrete. I have read a great deal of comment in the last year or two, however, about potential social-security-tax costs. I have read, with interest, debates over whether our economy can sustain social-security costs at some time in the future. This seems to overlook entirely the fact that those companies which have followed a liberal policy in developing employee-benefit programs today are already carrying a staggering burden of cost in sustaining them. In our own company, adding together today's costs of Federal old-age benefits, unemployment compensation, workmen's compensation, our two annuity plans, group life insurance, permanent-disability insurance, temporary-disability insurance, group hospitalization and surgical benefits, we and our employees are today paying about 13 percent of our pay roll for such benefits, $13 for a social security for every hundred dollars paid in wages and salaries. If you take one of our typical hourly-paid factory employees who is married, aged in the forties and who last year earned around $3,390, the Armstrong Cork Co. paid, in addition to his wages, an amount equal to 9.5 percent of his wages for the support of these security benefits, and the employee contributed 5.5 percent of his wages. I would urge, therefore, that further increase in social-security old-age taxes be deferred until benefit payments actually require higher pay-roll taxes.

I have given you considerable detail about our private annuity plans in order to illustrate the careful thought and planning that must be given the problem of provision for aged employees before a sound private retirement plan can be developed.

In our own case, the planning and thought that went into establishment of our annuity plans has proved well warranted—the plans have operated successfully for 13 years—through a war—and the benefits today compare more than favorably with those of plans introduced recently through collective bargaining.

Judged by these years of experience with both annuity plans and social security, we feel that a sound private annuity plan is almost as complicated to set up as a Federal social-security system—even though on a considerably smaller scale—and is almost as complicated to administer.

Thus far I have presented my own views, and those of the management of our company, with respect to H. R. 6000. I have told you that we are in favor of extending social-security coverage to all citizens; that we think it is desirable to restore the purchasing power of social-security benefits to the level of 1939 and 1940; but that we oppose increasing the tax base from $3,000 to $3,600.

I have also described in detail our own private annuity plans as illustrations of the close integration between the 13,000 such programs in operation today and the Federal social-security program, and also as examples of what can be accomplished with sound, private pension plans.

Now, with your permission, I wish to discuss a matter of the utmost importance which—while it does not pertain directly to H. R. 6000—nevertheless falls definitely within the area being studied and investigated by this committee. I am referring to the United States Supreme Court decision which throws private pension programs into the arena of collective bargaining.

The honorable members of this committee have spent many months in recent years studying the Federal old-age and survivors insurance program. You have examined, weighed, and evaluated many proposals for its revision or extension. You have had much experience with the complexities and contradictions of work in this field.

Keeping in mind your own experience, let us now indulge in a bit of fantasy.

Suppose that you are convened in this room without much previous knowledge of, or experience with, social insurance; that you are told to produce final legislation covering the entire field within 10 to 15 days or face civil insurrection. Suppose also that you discover most of the recognized experts in the field are unavailable because of press of other duties; that such technical witnesses as you can obtain are of doubtful competence, disagree violently on every issue of importance, and even disagree on what the issues are. In addition, assume that you are handed assorted inconsistent excerpts from social-security laws allegedly enacted in Bulgaria, San Salvador, Nepal, and New Zealand with the order that they must be integrated into your final legislation for the United States. Furthermore, you are required to guarantee, in your legislation, exactly what social-security benefits will be paid in the future and at what tax cost, though you do not know how many will draw benefits, nor in what amount, nor for how long. You meet around the clock in a last desperate attempt to solve the problem. You are confused, irritated, angry, and exhausted.

Now, may I ask rhetorically, would the social-security legislation you enact under these conditions be sound? Would it be beneficial to the citizens of this Nation?

The conditions I outline are not exaggerations. They are typical of the conditions under which many private pension plans in this country have recently been negotiated and come into existence. How sound can we expect such pension plans to be? And yet they are being drawn up to supplement social security.

I can only repeat our own experience that design of sound private annuity plans requires much of the care that you are giving to the design of a sound Federal social-insurance system.

The United States Supreme Court's Inland Steel decision has brought about this chaotic condition. The collective-bargaining processes have recently produced benefit plans, of a sort, from just such scenes of confused, antagonistic haste as I have depicted. The plans are characterized by fundamental shortcomings; complete lack of protection for the employee discharged prior to retirement; payment of company pension benefits to short-service employees that are actually larger than to long-service employees; and likewise payment of larger

company-pension benefits to unskilled workers than to highly skilled workers; lack of reserves adequate to pay promised pensions, et cetera.

This committee has the great responsibility of assuring a sound, stable Federal social-insurance system. May I urge that you also accept some responsibility to further the cause of sound private pension plans supplementary to Federal social insurance.

Senator MILLIKIN. How do you suggest we ought to do that?

Mr. HAWKER. I cover that later, Senator.

Senator MILLIKIN. All right.

Mr. HAWKER. I submit that the greatest threat to soundness in private pension plans is their premature subjection to collective bargaining. I do not say that pension and similar benefit plans should not be suitable topics for collective bargaining—eventually—but I do state categorically the conviction that collective-bargaining processes are yet too immature in this country—too new and raw—not 10 years old in most industries, to handle effectively such extremely complicated issues as those presented by private pension and welfare plans. I recite, as proof, the pension plans produced this year by collective bargaining.

Thus, in conclusion, we earnestly request that in amending the old-age and survivors insurance program you also suspend the Supreme Court decision subjecting private welfare plans to obligatory collective bargaining. We are of the opinion that private welfare programs will evolve rapidly and soundly during the next few years if they are freed from the threats, pressure, and rivalries of union contract disputes. If they are not, the result is likely to be disastrous for countless thousands of employees and for the business firms with which they are associated.

The CHAIRMAN. Are there any questions?

Senator MARTIN. Mr. Chairman, knowing the sound approach of this company over a long period of years, and knowing the management of the company, I think it might be of value to the committee if the witness would state what effect he thinks the inflationary tendency of our country is having on the social-security program in a general way.

Mr. HAWKER. Senator Martin, I think that I covered that fairly well in my testimony. In other words, the inflationary tendency in this country has reached a point where our social-security benefits represent just about half what they did in 1939 and 1940.

Senator MARTIN. That is true. Then I wish, from your experience as an individual and from the experience of your company, you would tell us what is one of the greatest causes for this inflationary tendency in our country. I am speaking from a governmental standpoint, as to deficit financing and unbalanced budgets, and high taxes.

Mr. HAWKER. I really do not feel that I am able and competent to comment on that, although I will say that I agree they have had an effect.

Senator MARTIN. Mr. Chairman, not only the management but the employees of the Armstrong Cork Co. are a very modest group, and it has been a very successful organization, and that is one reason I think it would be helpful if the witness were to comment. Because that is a problem that has been confronting this committee and the Members of Congress and the people of the United States.

Mr. HAWKER. I might make this statement, Mr. Chairman: The question of increased productivity was discussed by one of the earlier witnesses here this morning. Frankly, in the past 3 or 4 years we have found quite a marked increase in productivity per man-hour in most of our plants. That is not the national situation, and I think we should recognize one thing that was not brought out here earlier. That is the most increases in productivity per man-hour comes about through technological change.

Our company has spent something like $46,000,000 in the last 3 or 4 years to give us additional facilities and better facilities with which to work. We have been rather fortunate in being able to assemble that amount of money for capital purposes. I think that one of the things that is preventing technological improvement to increase productivity is the lack of venture capital in this country.

I think, right along that same line, we feel very definitely that as long as the present tax rates on incomes are maintained where they are, we are going to have this continued lack of venture capital. Furthermore, this question, which I do not feel competent to discuss, of double taxation on dividends and on taxation of personal incomes, brings about a situation where a man would be practically unwarranted in investing his money in an enterprise such as ours.

Senator MILLIKIN. There was some criticism yesterday, I do not know whether it was criticism, but it was comment, on the Senate floor, from which I think the implication might have been drawn that it was a mistake for us to get rid of the excess-profits tax at a time when the Government was in a deficit position. It has always seemed to me that, had we not done that, business would not have had the capital in hand to carry this country through the transition period, for the very reason which you have mentioned, that the venture capital market is dried up. And had the corporations and the employers of the country not had the money available to install these new techniques and increase their plants and better their technologies, we would have been stymied long before this.

I have always thought that although it was a sort of a bold thing to do, Mr. Chairman, it was a very constructive thing to do.

The CHAIRMAN. I agree thoroughly.

I think, Mr. Hawker, you would also agree that in meeting the problem of constantly rising prices there is no way to do it except to increase our productive power and capacity.

Mr. HAWKER. That is right.

The CHAIRMAN. And there was no way to carry on a constantly expanding program of production as long as you had the wartime excess-profits tax piled upon all the other types of taxes that we have on business.

I agree thoroughly that it was a bold thing. I think that the present Chief Justice of the Supreme Court, who was then Secretary of the Treasury, courageously advocated the removal of the excess-profits tax at that time.

I also think for another very important reason had it not been removed at that time we would have had a most difficult time ever removing it.

Mr. Hawker, we are glad to have had you, sir, and very glad to have had your detailed experience with the plan affecting your own enterprise. It has been very helpful to the committee.

Mr. HAWKER. Thank you.

The CHAIRMAN. We have one other witness, Mr. Frank R. Lyon, Jr.

Will you have a seat, Mr. Lyon, and identify yourself for the record, unless you do so in your statement?

STATEMENT OF FRANK R. LYON, JR., ATTORNEY, CHARLESTON W. VA., APPEARING ON BEHALF OF WEST VIRGINIA COAL ASSOCIATION

Mr. LYON. If the committee please, it is in the statement, Mr Chairman.

The CHAIRMAN. All right, then. You may proceed.

Mr. LYON. Mr. Chairman and members of the committee, my name is Frank R. Lyon, Jr. I am an attorney practicing and living in Charleston, W. Va. I am appearing here on behalf of the West Virginia Coal Association. The members of that association are coal producers which normally represent 100,000,000 tons production of coal. Within it are numerous district coal associations operating in southern West Virginia. It represents many individual subscribers scattered widely over the State of West Virginia.

At the outset, I want to make clear that I am not appearing as an expert on social security as such or on all the ramifications of H. R. 6000. Many persons better qualified than I to discuss the broad aspects of the bill have preceded or will follow me. Therefore, other than to observe that in my judgment the Federal Government should recede from financing public assistance and not participate more fully therein as this bill contemplates, and that the inclusion of total and permanent disability benefits in the insurance plan as provided in the bill is dangerous and unsound, I will restrict my remarks principally to the manner in which the bill affects the coal industry.

With the light so keenly focused on this basic industry at present it becomes unnecessary to elaborate on the vital part coal plays in this country's economic structure. Likewise, it is unecessary to remind you of the part this industry has played in this country's development and particularly in the victories achieved in the two world wars.

Senator MARTIN. Might I ask a question, for information? Do any of the concerns that domicile outside of West Virginia belong to your association?

Mr. LYON. Certain concerns like the Truax-Traer Coal Co., Senator Martin.

Senator MARTIN. Take the Pittsburgh Consolidation and the Jamison. Do they belong?

Mr. LYON. No, sir.

Senator MARTIN. Mr. Chairman, take the Pittsburgh Consolidation, for example. They have a very large office of the old Consolidation at Fairmont, W. Va., and then they have their other office at Pittsburgh.

But I wanted to get at the matter of whether you represent them.

Mr. LYON. No, sir; they are not members of this association.

Senator MARTIN. All right.

Mr. LYON. West Virginia has led in the production of bituminous coal since 1931. West Virginia is built on coal. It is West Virginia's greatest natural resource. It employs approximately 120,000 men

It is the State's largest employer of labor, largest wage payer, and largest taxpayer.

That which affects coal affects everyone in the State directly or indirectly. When coal loses a market every business in West Virginia loses. The school system loses and every other governmental service loses through shrunken taxes.

Because of several factors, not the least of which is increased cost to the consumer, coal has continually lost markets to the competitive fuels, oil and gas. In 1925 coal supplied 61 percent of this country's energy. In 1948 it supplied 42 percent. Any continuation in the increase of the cost of coal is but another body blow to the coal industry in its effort to survive.

Approximately 60 percent of coal is for labor. The labor cost of producing oil to the equivalent of a ton of coal is about one half the labor cost of producing coal. The labor cost of producing natural gas to the equivalent of a ton of coal is about one-tenth to one-twelfth the labor cost of producing coal.

H. R. 6000, by the increased tax on wages and by raising the maximum taxable wages from $3,000 to $3,600, is adding additional costs to the production of coal, which must necessarily mean increased costs to the consumer, with its resultant disadvantage in a highly competitive market.

That this increase in the maximum taxable wage will more directly affect the coal industry than other industries is reflected in the report of the West Virginia Compensation Commissioner for the fiscal year ending June 30, 1949, wherein he listed the average annual wage of the coal miner, $3,530; manufacturing, $2,993; construction, $2,740; utilities, $2,759; and transportation, $2,617.

Senator MILLIKIN. I was just going to ask: Are those averages based on the assumption of a full year's work? Or is that the average of actually earned money?

Mr. LYON. That was the average of actually earned money. And I might say this, Senator: that that was for the fiscal year ending June 30, 1949. There were, of course, some shut-downs and stoppages in the first part of 1949 that would be reflected in that statement.

Senator MILLIKIN. The average wage of coal miners during the fiscal year 1949, actual take-home pay was how much?

Mr. LYON. $3,530.

Senator MARTIN. That was the same question I wanted to ask, Mr. Chairman.

Mr. LYON. None of the other wages, if the committee will observe, exceeded $3,000.

The West Virginia Department of Employment Security in its report for the fiscal year ending June 30, 1949, showed coal paying wages taxable by that department in the amount of $398,664,063. This is the latest report of that department. The figures would (*a*) be comparable to the wages on which social-security taxes were paid since both social security and unemployment taxes applied only to wages up to $3,000, but (*b*) be less than wages on which social-security taxes are paid since unemployment compensation coverage is eight or more and social security is one or more.

The 1 percent social-security tax then in effect would have amounted to approximately $4,000,000. Using the figures in that report as a basis, under H. R. 6000 the coal industry would pay approximately

$6,000,000 in taxes in 1950; approximately $8,000,000 annually in 1951 to 1959; approximately $10,000,000 annually in 1960 to 1964; approximately $12,000,000 annually in 1965 to 1969; and approximately $13,000,000 annually after 1969. I might stop here just a moment to say to Senator Martin that those figures which I have quoted from both the workmen's compensation and employment compensation represent coal production throughout the entire State of West Virginia and not just the coal produced in the southern part of the State.

The CHAIRMAN. What part of the coal is produced in the southern part of the State, if you know, roughly?

Mr. LYON. Percentage-wise, Senator?

The CHAIRMAN. Yes.

Mr. LYON. I would say 75 percent.

The CHAIRMAN. So the larger portion of your production is in the southern part of the State?

Mr. LYON. The southern part; yes, sir.

Senator MARTIN. And I guess the better quality coal is in the southern part also, is it not?

Mr. LYON. Yes, sir.

During the period when the aforesaid wages were paid by coal, approximately 163,484,689 tons of coal were mined. Social-security taxes on those wages at the rate of 1 percent amounted to approximately 2½ cents per ton. Again using those figures as a basis, under H. R. 6000 such taxes in 1950 would amount to approximately 3¾ cents per ton; 1951–59 approximately 5 cents per ton; 1960–64 approximately 6¼ cents per ton; 1965–69 approximately 7½ tons per ton; and after 1969, approximately 8⅛ cents per ton.

Senator MARTIN. Mr. Chairman, might I ask: Are these figures both on deep mining and strip mining?

Mr. LYON. Yes, sir; I believe so.

Senator MARTIN. It includes strip mining?

Mr. LYON. Yes, sir.

The foregoing taxes are based on the maximum taxable wage of $3,000, and do not take into account the additional taxes resulting from raising such wage to $3,600.

We feel that this bill commits this generation and future generations to substantial tax burdens. It would seem better in this period of transition in our economic and social structure to avoid such commitments or at least delay them until the future can be predicted with more wisdom and certainty.

Employers in the recent past have been parties to contracts providing for pension benefits. With rare exceptions these plans have supplemented social-security benefits and have been integrated therewith. The pension plan in the coal industry is one of such exceptions, probably the principal one. Benefits thereunder are entirely independent of and unrelated to benefits under the Social Security Act. Thus the coal industry must necessarily appraise the "cost effect" of H. R. 6000 with considerably more scrutiny and caution than must the other social-security subscribers. Where, by integration of their contract and the Government administered pension plans, others may stand to gain by liberalization of benefits and even increased taxation under the latter, the coal industry stands to lose thereby.

When the mines were under Government seizure in 1946, the Government first thrust upon the coal industry the miners' pension fund,

which fund is created solely by coal company contributions and is in no way correlated with the Federal social-security program to which the coal operators also contribute.

Senator MARTIN. How much does that amount to? What is it per ton?

Mr. LYON. It is 20 cents per ton now, with the present demand being for 35 cents.

Senator MARTIN. That is what I thought; yes.

Mr. LYON. In 1947 and again in 1948, under Government pressure, the amount of the coal operators' contribution to that fund was doubled.

The apparent purpose of the Social Security Act, and as amended by H. R. 6000, is to provide benefits reasonably commensurate with the cost of living. The miners' fund, created as aforesaid, has a similar purpose. If the benefits of the Social Security Act are to be liberalized and the taxes thereunder increased, in order to accomplish that purpose, it would seem that any payments thereunder should be integrated with payments under contract pension programs. Unfortunately the coal industry has been caught between two conflicting policies of the Government in that regard.

Some definite policy of the Government thereon is essential to the protection and preservation of the coal industry. The Government has been utterly inconsistent in its policy. In 1946, when the Government through its seizure powers created, and in 1947 and 1948 when through pressure it perpetuated, this fund, the Government made no tie-in with that fund and the social-security fund, leaving the coal operators no alternative but to contribute to two separate funds each created to accomplish primarily the same purpose. Subsequently the Steel Board, created by the Government, recommended that any benefits under a pension plan between the steel companies and the employees be "supplementary to the amount of security furnished by the Government."

Now the Coal Board, also Government created, the chairman thereof having also been a member of the Steel Board, is according to reports, riding the coal operators, with spurs and whip in the form of a threat of another governmental seizure, in an effort to have them increase their contribution to the miners' fund. By H. R. 6000 Congress seeks the same purpose for the social-security fund. Until such time as a definite governmental policy is established, integrating the two funds, employers should not be additionally taxed and compelled to finance or contribute to two separate pension programs.

The CHAIRMAN. All right, sir. We thank you very much, Mr. Lyon, for your appearance.

Are there any additional questions?

Senator MILLIKIN. I am continually curious as to what the role of Congress could be in an integration of these private plans with the Federal security plan.

Mr. LYON. It would be difficult for Congress, certainly through the Social Security Act, I believe, to tie in with the private pension plans, because I think that under the Social Security Act, a man is entitled to the benefits provided thereunder as a matter of right, and that they could not be reduced by reason of any other benefits. But it is our position that it amounts to letting one arm of the Government know

what the other arm is doing. One arm is compelling us to contribute to a plan and maintain a plan solely by employer contributions, which entirely disregards the social-security contribution which we have made; and on the other hand, Congress is requiring us to contribute to the social security program through these taxes, and that is substantially for the same purpose for which the miners' fund is created. These costs, as I endeavored to point out earlier, are a substantial feature of the production of coal, because of the high labor cost in coal production, which is higher I believe than in any other industry.

Senator MILLIKIN. Has the productivity per man increased in the coal-mining business?

Mr. LYON. I say this without any complete knowledge, and it amounts to little more than a guess on my part, but I don't believe it has.

Senator MARTIN. Any statement of that kind would also have to be based on the greatly improved machinery and also the improved safety methods.

Mr. LYON. That is correct. But then, of course, I might say this: that any increase in the productivity of the miner has been offset by contracts for which the operators pay for nonproductive time, such as lunch hours and travel time.

Senator MARTIN. Under portal-to-portal, I am not very familiar, Mr. Chairman, with the operations in southern West Virginia. I am familiar with that in northwest Virginia and southwestern Pennsylvania. Sometimes the man travels underground 2 or 3 miles to his work.

Mr. LYON. That is correct. And I might say that probably the natural reaction of the committee to my comments would be, "Well, that was voluntary on the part of the operators. They entered into that voluntarily." But it wasn't. In the first instance, it was put on us by the Government, and we had the opportunity to agree to it in principle or have the Government keep our mines.

Senator MILLIKIN. What I was really wondering was whether the productivity per man had kept pace with the increased wages and other benefits which are paid to the coal miner.

Mr. LYON. I am really not qualified to answer that, Senator, but it is my guess that it has not. I would be glad, when I return home, if that information is available, as I know it is, to submit a letter.

Senator MILLIKIN. It has no direct bearing on this inquiry but I was just curious about it.

Senator MARTIN. Mr. Chairman, that is pretty important, though, in the consideration of the general economy underlying this. We have got to keep these things economically sound. They must not be permitted to break down of their own weight, or it will not do the job that we hope that it will perform.

What we are trying to do is to give security to the people of our country, but if we burden the thing so that it will break down in the future, we have just destroyed what we are trying to do.

So I think that it really has some bearing.

The CHAIRMAN. We shall appreciate your supplying the answer to the question asked. You may mail it to the committee later.

Mr. LYON. I will be very glad to do so.

(The material requested follows:)

SUPPLEMENTAL STATEMENT OF FRANK R. LYON, JR.

The following table is offered in reply to Senator Millikin's question of whether productivity per man has kept pace with increased wages and other benefits which are paid to miners:

Year [1]	Average weekly wages [2]	Tons mined per day per man [3]	Year [1]	Average weekly wages [2]	Tons mined per pay per man [3]
1948	$72.12	5.79	1941	30.86	5.56
1947	66.86	5.71	1940	24.71	5.75
1946	58.03	5.95	1939	23.88	5.47
1945	52.25	5.42			
1944	51.27	5.30			
1943	41.62	5.25		*Percent*	*Percent*
1942	35.02	5.40	Increase, 1939 to 1948	202.0	5.8

[1] Calendar year.
[2] Average weekly wages for all bituminous-coal production in United States Authority: Bureau of Labor Statistics, U. S. Department of Labor.
[3] Tons mined per day per man—West Virginia deep mines. Authority: West Virginia State Department of Mines.

That table confirms my answer to Senator Millikin's question which I made at the hearing. Furthermore, it would seem obvious that advance in mechanization during the foregoing 10-year period would account for more than the 5.8-percent increase in the tons mined per day per man, and that, therefore, the efficiency of the miner has decreased during this period while his wages have increased.

The CHAIRMAN. Thank you very much for your appearance.

That finishes the schedule of witnesses for the week, I believe.

(Whereupon, at 1:05 p. m., the committee recessed to reconvene Monday, March 6, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

MONDAY, MARCH 6, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Kerr, and Taft.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

I believe that Mr. Osherman wishes to appear first.

You may come around, Mr. Osherman. Mr. Barron, you may come around, too, if you wish, at this time. Is there anyone else to appear on this particular matter?

STATEMENTS OF J. A. OSHERMAN, OF GALLAGHER, OSHERMAN, CONNOR & BUTLER, BOWEN BUILDING, WASHINGTON, D. C.; AND THOMAS B. ROBERTS, DES MOINES, IOWA, REPRESENTING NATIONAL BALLROOM OPERATORS' ASSOCIATION

Mr. OSHERMAN. Mr. Roberts is accompanying me, sir.

Mr. BARRON. And I have with me Mr. Owens and Mr. Halliday and Mr. Scher.

The CHAIRMAN. You gentleman may all be seated. All right, Mr. Osherman, you may proceed.

Mr. OSHERMAN. This is a statement concerning the definition of "employee" in H. R. 6000.

My name is J. A. Osherman. I am a member of the law firm of Gallagher, Osherman, Connor & Butler, Bowen Building, Washington, D. C. We are the Washington counsel for the National Ballroom Operators' Association, with its principal office in Des Moines, Iowa. The National Ballroom Operators' Association is an organization composed of owners of ballrooms operating in 25 States, and the number of ballrooms so represented is approximately 200, comprising 90 percent of the important ballrooms of the entire country. The music for dancing in these ballrooms is provided mainly by "name bands."

I have with me this morning Mr. Thomas B. Roberts of Des Moines, Iowa, who has assisted me in the preparation of this statement. Mr. Roberts is the legal counsel for the association and was the principal attorney representing the plaintiff ballroom operators in the case of *Bartels* v. *Birmingham* ((1947) 332 U. S. 126).

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We are appearing in opposition to section 206 (a) of H. R. 6000, which would amend section 1426 (d) of the Internal Revenue Code so as to change the definition of "employee" to read as follows:

Employee.—The term "employee" means—

(2) Any individual who, under the usual rules applicable in determining the employer-employee relationship, has the status of an employee. For purposes of this paragraph, if an individual (either alone or as a member of a group) performs service for any other person under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person).

The report of the Committee on Ways and Means of the House of Representatives specifically states that the second sentence of paragraph 2, quoted about—

is designed to change the effect of the United States Supreme Court's holding in *Bartels* v. *Birmingham* (1947) 332 U. S. 126 * * *.

The National Ballroom Operators' Association is vigorously opposed to the provision in question and respectfully submits that it should be eliminated from H. R. 6000 for the following reasons:

1. Provision is grossly discriminatory because it relieves one class of employers from all responsibility of paying the taxes and keeping the records required by the Federal Insurance Contributions Act.

The Supreme Court of the United States in *Bartels* v. *Birmingham*, supra, said this concerning leaders of orchestras known in the amusement world as "name bands":

The trial court found that there is no real dispute; that the leader exercises complete control over the orchestra. He fixes the salaries of the musicians; pays them and tells them what and how to play. He provides the sheet music and arrangements, the public-address system, and uniforms. He employs and discharges the musicians, and he pays the agents' commissions, transportation, and other expenses out of the sum received from the dance-hall operators. Any excess is his profit and any deficit his personal loss.

On these facts the Supreme Court held the leader of an orchestra, and not the ballroom operators for whom the orchestra performed dance engagements, was the employer of the members of such orchestra, notwithstanding that the Form B contract of the American Federation of Musicians referred to the establishment owner using the orchestra's services as the "employer" and the orchestra members, including leader, as the "employees" and expressly recited that—

the employer shall at all times have complete control of the services which the employees will render under the specifications of this contract.

Section 206 (a), if enacted into law, would relieve orchestra leaders such as those which the Supreme Court held were employers from all responsibility as employers for the payment of social-security taxes and keeping of the pay-roll records required by the enactment imposing such taxes.

Conclusive proof of the correctness of the foregoing assertion is to be found in a statement of James C. Petrillo, president of the American Federation of Musicians, made in a letter dated October 21, 1949, to V. Dahlstrand, president, local 8, 1714 North Twelfth Street, Milwaukee 5, Wis., as follows:

While the House of Representatives and the Senate have adjourned, it is quite hopeful that the Senate will adopt this measure from the House, possibly

with some minor changes, thus alleviating many of our headaches as to musician leaders being declared employers and subject to all employer's taxes.

The burden of paying social-security tax and of keeping the records occasioned thereby has created "headaches" for many employers, but Congress has never seen fit on that account to relieve them of such burden. The provision in question accomplishes exactly that result. It permits one class of employers to retain the prerogatives of an employer, such as the right to hire and fire employees, fix and determine their compensation, furnish the tools with which the work is performed, and receive a profit from their services, without having to assume and bear any of the taxpaying and record-keeping responsibilities of an employer. Obviously, any provision producing such an unfair result is grossly discriminatory and should be removed from the act.

2. The provision in question creates a wholly new and heretofore unrecognized test for determining the relationship of employer and employee by making such relationship depend solely on what the parties say in their written contract rather than on what they do in fact under it.

The manner in which the provision in question is worded implies that it is merely a codification of the common law test for determining the employment relationship since the preceding sentence recites: "Any individual who, under the usual common law rules applicable in determining the employer-employee relationship has the status of an employee." Any such implication is universally refuted by the holdings of many courts that the status of employer and employee is not to be judged by the single evidentiary factor of the patries' form of contract but by an over-all view of all the facts and circumstances showing their true relationship. Some of these holdings were made in cases wherein members of an orchestra were determined to be the employees of the leader and not the establishment owner for social security and employment tax purposes. See:

Spillson v. *Smith* (174 F. 2d 787 (C. C. A. 7th)).
Williams v. *United States* (126 F. 2d 129 (C. C. A. 7th); certiorari denied 317 U. S. 655, 63 S. Ct. 52, 87 L. Ed. 527).
Palmer v. *Michigan Unemployment Compensation Commission* (310 Mich. 702, 18 N. W. 2d 83).
Nebraska National Hotel Co. v. *O'Malley* (63 F. Supp. 26 (Neb.)).
In re Jermyn Hotel Co. (Pa. Common Pleas, Sept. 3, 1946, C. C. H. Unemployment Ins. Service, Pa., par. 8149).

Other holdings consist of decisions of courts in social security and unemployment tax cases generally as follows:

Matcovich v. *Anglim* (134 F. 2d 834 (C. C. A. 9th); certirorai denied, 320 U. S. 744, 63 S. Ct. 46, 88 L. Ed. 441).
Anglim v. *Empire Star Mines Co.* (129 F. 2d 914 (C. C. A. 9th)).
Wabash R. R. Co. v. *Finnegan* (67 F. Supp. 94 (E. D. Missouri)).
Royal Theatre Corporation v. *United States* (66 F. Supp. 302 (Kans.)).
Millard Sugar v. *Gentsch* (59 F. Supp. 82 (N. D. Ohio)).
Jack and Jill, Inc., v. *Tone* (126 Conn. 114, 9 Atl. 2d 497).
In re Morton (284 N. Y. 167, 30 N. E. 2d 369).
Industrial Commission v. *Northwestern Mutual Life Ins. Co.* (103 Col. 550, 88 P. 2d 560).

In the last case cited, the Supreme Court of Colorado held that the written contracts between the defendant company and its agents would be considered a "slight element" in determining the nature of their relationship.

Still other holdings consist of decisions in workmen's compensat and tort cases as follows:

Gulf Refining Co. v. *Brown* (93 F. 2d 870 (C. C. A. 4th)).
Bertino v. *Marion Steam Shovel* (64 F. 2d 409 (C. C. A. 6th)).
Sanford v. *Goodridge* (234 Iowa 1036, 13 N. W. 2d 49).
Glielmi v. *Netherland Dairy Company* (254 N. Y. 60, 171 N. E. 906).
Nestle's Food Co. v. *Industrial Commission* (205 Wis. 467, 237 N. W. 117).
Brown v. *Industrial Accident Commission* (174 Cal. 457, 1063 Pac. 664)

The rule sustained by the foregoing cases is the one which has b adopted by the American Law Institute in its restatement of the l of agency. See section 220 (2).

Section 206 (a) of H. R. 6000 discards the common law test appro by the American Law Institute and the courts generally and s stitutes in its place the sole criterion of what the parties in th written contract say is the relationship between them. According it makes the relationship of employer and employee depend not what are the true facts with respect to who does the hiring and firi fixes and determines the pay, furnishes the tools for the work, etcete but on which party has the stronger bargaining power to force t other party to sign a contract reciting who is the employer and w has control over the services, notwithstanding the fact that s recital may portray an utterly unrealistic fiction.

The National Ballroom Operators' Association submits that sou legislative policy requires the rejection of any provision which mal the employment relationship and the tax incidents arising therefro dependent solely upon which party has the stronger bargaining po tion in writing a contract. In the case of the Form B contract happens to be labor who occupies that position. In another situati or at another time, it could just as well be management who occup such position.

3. The provision, if enacted into law, would sanction certain ty of contracts which have heretofore been uniformly condemned the courts as "anticipatory arrangements" designed to avoid taxes.

The district court in the Bartels case found that the Form B c tract was devised by the musicians' union with the avowed purp of protecting the leader from taxes as an employer and that "it w required by the leader to be entered into as an anticipatory arran ment to escape taxation."

Judge Donohoe in the case of *Nebraska National Hotel Comp* v. *O'Malley* (65 F. Supp. 26 (Nebr.)) found that "the Form B c tract was obviously entered into in an effort to shift the legal respo sibilities imposed by the statutes." See findings of fact filed N vember 13, 1945.

And in *Spillson* v. *Smith* ((N. D. Ind.) C. C. H. Unemployme Ins. Service, vol. I, par. 9111, affirmed 147 F. 2d 727 (C. C. A. 7th) the court found that a change in the standard form of contract pr vided by the musicians' union was made "in an obvious effort to avo liability on the part of the orchestra leaders for the payment of soci security and employment taxes."

The courts have uniformly condemned contracts devised for t purpose of avoiding liability for social security and employme taxes in cases where such contracts have been not accompanied by

change in the actual relationship of the parties. In addition to the three orchestra cases cited above, see the following:

Griffiths v. *Commissioner* (308 U. S. 355, 60 S. Ct. 277, 84 L. Ed. 319).
McDermott v. *Henrickson* (4 F. Supp. 277 (S. D. Wash)).
Electrolux Corporation v. *Board of Review* (129 N. J. L. 154, 28 A. 2d 207).

In *Griffiths* v. *Commissioner*, supra, the Supreme Court of the United States said:

Taxes cannot be escaped by anticipatory arrangements and contracts however skillfully devised.

Section 206 (a) of H. R. 6000, if enacted into law, will validate an anticipatory arrangement such as the Form B contract and thereby enable the leader of a "name band" to succeed in his effort to avoid liability for payment of social security and employment taxes on the men he hires and whose pay he fixes. Why should leaders, many of whom have a gross income from their orchestra business in excess of several hundred thousand dollars a year, be favored in this manner? Certainly the same considerations which have prompted courts to uniformly condemn contracts permitting an employer to avoid liability for social security and employment taxes should be equally determinative of a legislative policy refusing to sanction the use of such contracts.

4. The provision is not needed in order to give social-security coverage to the members of an orchestra other than the leader.

The provision is not needed in order to give social-security coverage to the side men, members other than leaders, of orchestras. If the side men are the members of so-called pick-up or nonname band, they are now covered as the employees of the establishment; that is, ballroom operator, night club, hotel, et cetera. If the side men are members of a so-called name band—being an orchestra having the characteristics described in the Bartels case—they are now covered as employees of the leader. See Treasury's Department MIM, 6187, September 25, 1947.

5. The provision will result in less, instead of greater coverage under the Social Security Act, so far as musicians are concerned, and therefore is contrary to the avowed purpose of H. R. 6000.

The National Ballroom Operators Association believes that the provision contained in section 206 (a) of the act will result in less social security coverage for musicians for the following reason:

It is a well-known fact, as was shown by the undisputed record in the Bartels case, that "name" orchestras play many one-night engagements for civic, charitable, educational, and similar engagements. If these organizations are the employers of such orchestras, as they most certainly would be under the provision in question, not 1 penny of social security tax will be paid on sums paid the side men in performing such engagements for the reason that the services performed for those organizations would be exempt from payment of social security tax under sections 202 (a) and 210 (a) (11) of the act. On the other hand, if the leader continues as the employer of his side man, as is now the case, the latter will have old-age benefit coverage with respect to all engagements for these exempt organizations.

6. The provision, if enacted into law, will result in decreased social security and employment tax payable with respect to the wages of the orchestra members.

It is impossible for a leader to state in advance how much each o his musicians will receive for a single night's work where the leade pays weekly salaries and usually doesn't know exactly how man nights in any week that his orchestra will play. Since the ballroo operator has nothing to do with fixing the pay of the side men, doe not know and has no way of determining the amount thereof, logically follows that if such operator, as the employer, is require to return the social-security tax thereon, the only amounts it ca report as wages for that purpose are sums listed by the leader or hi booking agent on the contract, which means that any amount paid b the leader in excess thereof will entirely escape taxation.

7. The provision, if enacted into law, would impose an unreasonab and costly record-keeping burden on ballroom operators.

The provision, if enacted into law, would require a ballroom ope ator to keep pay-roll records and make social-security-tax returns o hundreds of musicians. Take, for example, an operator who hold dances four nights a week using orchestras each having an averag membership of 12 musicians. This would mean that the operato would be required to keep pay-roll records and make social-securit tax returns on 2,496 musicians. This "paper work" would require th employment of additional clerical and bookkeeping employees.

Moreover, prior to the Bartels case, many leaders neglected to li their side men and their pay on the reverse side of the Form B co tract. (Only 3 out of the 12 leaders involved in the Bartels case di so.) This being true, how will a ballroom operator be able to repo the wages of the side men? He doesn't fix their pay or pay them, so l doesn't know what compensation they receive. Apparently, unde this bill, a ballroom operator would be required to trace and run dow musicians all over the country to find out the amounts the leader pa them for an evening's engagement at the operator's ballroom. Eve then, he would have to rely on the truthfulness of the side men in r porting their compensation to him. Obviously, this effect of the bi imposes a highly unreasonable burden on the ballroom operator.

8. The provision, if enacted into law, would in many instanc result in the loss of social-security benefits to musicians with respe to services they performed for a ballroom operator and the creatio of such benefits for musicians who never performed such services.

With the Form B contract in effect, the musicians who would recei the social-security benefits arising from the tax due on wages would l the musicians whose names were listed in the contract who might might not be the musicians who actually played the engagement. Th would be true because the names of the orchestra members are fille in on the Form B contract weeks in advance of the engagement co ered by the contract and, in the meantime, the personnel of the o chestra may be changed and the leader fails to notify the operat of that fact. This happened repeatedly when the Form B contra was used in contracting engagements prior to the Bartels case. If th operator is the employer, which he would be under section 206 (a of the act, and he remits the tax on the names of musicians as liste on the contract, they are the ones who get the social-security benefi and not the substituted musicians who actually were present and pe formed the engagement.

9. The provision, if enacted into law, would greatly increase th clerical and record-keeping work of the Social Security Board.

The correctness of the foregoing statement can best be illustrated by the following example: Suppose an orchestra of 10 members plays one-night engagements for 200 different establishment owners and organizations during the year, taking into account the fact that it may play more than one engagement for some of the owners and organizations. If the latter are the employers, as they would be under the provision in question, then each of the 10 musicians has 200 different employers who must report and pay social-security tax on wages paid him. Consequently, the Social Security Board will be required to build up the benefit account of each of the 10 musicians by auditing and tabulating the social-security-tax returns of 200 employers. This one instance will happen hundreds of times in varying degrees if the provision contained in section 206 (a) is permitted to become law, necessitating a tremendous amount of additional clerical work and record-keeping by the Social Security Board.

On the other hand, if the leader remains the employer of the 10 side men in his orchestra, in the example given above, the Board will be required to audit and tabulate only the information reported on the return of one employer.

10. Section 206 (a) of H. R. 6000 is in conflict with the employment concept provided for in the collection and payment of withholding and unemployment taxes.

Under the present income-tax laws and regulations the orchestra leader is charged with the responsibility of withholding income tax on the compensation which he pays the members of his orchestra. This withholding tax is reported on a combined form which provides that the social-security tax should be included on that form. It is certainly anomalous, should section 206 (a) become law, that the orchestra leader in one instance be charged with the responsibility of payment of the withholding income tax on his pay roll and at the same time be absolved of the responsibility of the payment of social-security taxes on that same pay roll. Likewise the orchestra leader under Federal and State unemployment-tax laws is now charged with the responsibility of paying whatever tax is imposed on employers by those enactments. What could be more inconsistent in the administration of our tax laws than to define an employer in one way in one instance and in another way in another instance when it was the original intent of the Congress in enacting welfare legislation that the relationship of employer and employee should be the same for both old-age benefits and unemployment insurance.

In conclusion, therefore, for all of the reasons set forth in this statement, the National Ballroom Operators' Association submits that the provision in question contained in section 206 (a) of H. R. 6000 is unsound, unwise, and unfair legislation and, accordingly, should not be enacted into law.

The CHAIRMAN. Mr. Osherman, the members of this committee, or at least some of us, do not know very much about this business. What do you call this type of a contract, for the "name band"?

Mr. OSHERMAN. The form B contract.

The CHAIRMAN. That is the contract for the name band, is it?

Mr. OSHERMAN. That is right. We have here, in the Supreme Court opinion of Mr. Justice Reed, as good a description of a "name band," I believe, as we can give you.

The CHAIRMAN. I was going to ask you just a few questions.

Mr. OSHERMAN. Surely.

The CHAIRMAN. How would you go about it if you were running a dance hall or theater and you wanted to employ a name band for one night or for 2 weeks or any given number of days?

Mr. OSHERMAN. In some instances, the leader of the name band contacts the ballroom operator directly. In most instances, however, the services of the name bands are handled by booking offices. And you would go about hiring a band for one night by contacting the booking office or contacting the leader of the name band. It might be, however, the reverse: that the leader of the name band has already contacted you.

The practice has been, prior to the Bartels case, that the booking office, or the name band leader, or instructions from the union, would submit a Form B contract; and that was the contract that was in issue in the Bartels case. Under that contract, you would have to agree, as the ballroom operator, that you were the employer and you had the right to control the services of the orchestra.

It was held in the Bartels case that the Form B contract would not control; that the true facts were that the orchestra leader was in actual control of his orchestra. He furnished the arrangements, he hired and fired the members of the orchestra, known commonly in the trade as sidemen, he supplied the stands, he supplied all the instruments that were used except the piano, and he had complete domination; as a result of which they held in that case they would look at the true facts and not the contract.

The CHAIRMAN. Yes. We are familiar with the case. I thought it was always the rule now in American courts that you would look through a contract to get to its substance.

Mr. ROBERTS. That is correct, Senator.

The CHAIRMAN. That is the practical test, the practical application. But I wanted to get the facts. How would you go about it, naming one of these name bands?

Mr. OSHERMAN. I will refer that to Mr. Roberts, who is more familiar with the actual workings of it than I.

The CHAIRMAN. All right, Mr. Roberts.

Mr. ROBERTS. Suppose you wanted to contract an engagement for Griff Williams and his orchestra, who currently happen to be playing an engagement at the Chase Hotel in St. Louis. I know that, because I happened to tune in on a broadcast from the Chase Roof when I was driving into Washington the other day.

The CHAIRMAN. Well, how would the Statler Hotel, for instance, in Washington, get that band?

Mr. ROBERTS. I happen to know that Griff Williams' orchestra has its bookings handled by the Music Corp. of America, which is one of the large booking agencies with offices in the principal cities of the United States; I mean Chicago, New York, Atlanta, and so on. The hotel would write the MCA at, probably, the nearest branch office, and they would probably have heard Griff Williams over the air or read about him in the trade journals, and they would say, depending on their requirements, if it happened to be the Statler Hotel, as the Senator suggested, "We would like to have an orchestra such as Griff Williams' for a 2- or 3-week engagement"—what the Supreme Court

in the Bartels case called a limited engagement. The MCA, the Music Corp. of America, would write back, or probably more often would call back on long-distance telephone. I have been in their offices many times and have heard them talking over the phone to different establishment owners around the country. And they would say, "We have Griff Williams available for the 2 weeks beginning April 1 at a lump-sum price." And if that was satisfactory to the Statler Hotel Corp., that is, the man here, he would say, "O. K. We will take him." And MCA would say, "We will send the contract on."

The contract would be a standard form of contract prescribed by the American Federation of Musicians, and that must be used by all federation orchestras playing engagements in this country, and also, I think, in Canada. And it must also be used by the booking agencies, because the booking agencies all have a license from the American Federation of Musicians.

The CHAIRMAN. Now, by what known authority would MCA make this contract with the Statler Hotel, for instance?

Mr. ROBERTS. I believe that at least it was brought out in the Bartels case——

The CHAIRMAN. I am speaking of how these things are practically done.

Mr. ROBERTS. Yes. They have an agreement from Griff Williams, in which Griff Williams gives an authorization to the Music Corp. of America. That is, I believe, an agency contract, and I believe that was put in the record in the Bartels case. It is a written agreement and authorizes MCA to book engagements for Griff Williams and his orchestras in various types of entertainment establishments which use their music.

The CHAIRMAN. By whom is that contract made on behalf of Griff Williams with the booking agency, or the MCA? Is it made by the leader, or by each individual?

Mr. ROBERTS. Under the Bartels case, that was with the leader. We had one of their contracts. That was back prior to 1944. And he paid the booking agency a commission, the exact amount of which I am not too familiar with. I think it ranged from 10 to 20 percent of the lump-sum price.

The CHAIRMAN. Would it be possible for anyone to obtain a name band without contracting directly through or with the leader of the band? Could you get it by going to the individual members of the band?

Mr. ROBERTS. Senator, I know of no instance where that has been done, and I represent the National Ballroom Operators' Association, and I also represent some of the large ballrooms that are in that. I have never known of an instance where a ballroom has ever gone to the individual members. They have either gone to the leader directly or to the leader's representative; namely, the booking agency.

The CHAIRMAN. That is what I was getting at. Now, is the leader any more than the bargaining agent, so to speak? Has he any financial interest in the contract?

Mr. ROBERTS. Yes. It was brought out in the Bartels case and is still true that some of these engagements he sustains a profit on. In fact, most of them he sustains a profit on, or he wouldn't be in the business. In other words, for example, we will say, an orchestra plays a 1-night engagement in a ballroom in Des Moines, Iowa. The contract price

is a thousand dollars. It may be that after the orchestra leader pays the sidemen their wages, and pays his booking commission and pays his transportation expenses—and I believe there is a union traveling cost of some small amount; I don't remember the exact figure—he would perhaps have left six or seven hundred dollars. That would be profit to him, the same as to any other entrepreneur. Now, these so-called name bands, which are the only types of orchestras with which we are concerned——

The CHAIRMAN. You are not concerned with the regular orchestra that is engaged for a fixed period of time?

Mr. ROBERTS. That is right. These name bands have developed over a period of years. The leader has built up a distinctive style, a way of presenting and rendering his particular music, which makes his music individual in the entertainment world. And that is what he is selling, and that is what, in the Bartels case, the Supreme Court in effect found regarding those name bands: That they were selling a commodity—namely, an individual style of music.

And so he is just the same as an independent entrepreneur. Guy Lombardo advertises "the sweetest music this side of heaven." Lawrence Welk, who plays through the Midwest, offers "champagne music." Someone pulls a thumb out in front of a microphone. I just happened to hear them recently. And it sounds like a cork popping out of a champagne bottle—of course, that is only hearsay as far as I am concerned. And then over the air they say, "Here comes Lawrence Welk and his champaign music." Each orchestra leader is developing that particular individualistic style. That is why he wants to pick out and control the musicians: so that they will render the type of music for which he is known throughout the entertainment world.

The CHAIRMAN. And he has a proprietary interest in their profits, or in their losses if they have losses?

Mr. ROBERTS. Yes. I should even mention this, Senator. Perhaps you might be interested in it. I do not want to take too much of the committee's time, but it was brought out that some of the orchestras own their own busses. They are large affairs, almost as large as one of the Greyhound busses, and they have every modern convenience in them. Those busses are owned by the leader individually. They are registered in his name. He even employs a driver, who does not even play in the orchestra. Many of your big orchestras, such as Guy Lombardo, Sammy Kaye, Tommy Dorsey, Jimmy Dorsey, those types of name bands, names with which you are probably familiar, carry their own manager, and he checks the gate receipts. He is also an employee of the leader. It all points to the fact that the leader is an entrapreneur the same as any other businessman who has something to sell.

The CHAIRMAN. Thank you. I wanted to get the facts.

Senator Kerr also has some questions, I think. He also wants to get the facts. And I do not think the committee would be worried about the contract. I think the committee would want to look through the contract. Because that is continually necessary, and in tax matters the Treasury would have to go out of business if it did not look through contracts and find the responsible party, the person responsible for the tax.

Senator KERR. Does this band leader have a definite commitment to the members of his band?

Mr. ROBERTS. Yes.

Senator KERR. Does he pay them a stated amount of dollars per week or per period, or does he pay them a percent of receipts, or is there a combination of the two?

Mr. ROBERTS. Usually, Senator, he pays them a weekly salary. Now, there may be some bonus arrangement with which I would not be familiar. But with the 12 orchestras involved in the Bartels case, I think we have a fairly typical group. In other words, we purposely included every type of name band, from a small territory band to a large nationally known band, such as Griff Williams, Tiny Hill, and Boyd Raeburn, who are three of the nationally known name bands. Practically all of the leaders, many of whom we put on the stand, readily admitted that they paid their men weekly salaries.

Senator KERR. I believe you said that MCA would sign this contract with the Statler?

Mr. ROBERTS. Well, they would sign as the agent for the orchestra.

Senator KERR. Would they sign as the agent for Griff Williams, or would they sign as the agent for him and the members of his band?

Mr. ROBERTS. The form of the contract recites that they sign as the agent for Griff Williams and his orchestra.

Senator KERR. Does it say how many are in his orchestra?

Mr. ROBETRS. Yes; there is a blank up near the top which says, "Consisting or 12 members, including the leader, hereinafter referred to as employees."

Senator KERR. Does the band leader have the authority, either in the terms of the contract or as a practical matter, of substituting performers in the event of illness or of a change on his part of the personnel of his band?

Mr. ROBERTS. Yes. I believe there is a recital in his contract to that effect. And, of course, he does so in fact. The operator or the establishment owner who contracts for the orchestra's services has nothing to do with that.

Senator KERR. In the event that expenses come along that are not looked for, and the management for 1 night or more turns out to be unprofitable, who sustains the loss?

Mr. ROBERTS. The leader. That was brought out in the Bartels case.

Senator KERR. In other words, the personnel of the band, the members of the band, get paid whether it makes or loses?

Mr. ROBERTS. That is correct, sir.

Senator KERR. And whatever profit or loss there is, the leader takes?

Mr. ROBERTS. That is right, Senator.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. ROBERTS. Would the Senator like to have us leave the record in the Bartels case with the committee?

We have it here.

The CHAIRMAN. You mean the report of the case?

Mr. OSHERMAN. It is the entire record itself. It is voluminous, we warn you.

The CHAIRMAN. Yes; it is too formidable in appearance, I am afraid.

The committee will have access, of course, to the case and will b able to get the facts, undoubtedly.

Thank you, gentlemen.

Mr. OSTERMAN. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Carter Barron?

Mr. Barron, you are with the Motion Picture Association of Amer ica?

STATEMENT OF CARTER T. BARRON, MANAGER, EASTERN DIVISIO OF THEATERS OF LOEW'S, INC., WASHINGTON, D. C.

Mr. BARRON. Yes, Senator George.

The CHAIRMAN. You are appearing on this same matter?

Mr. BARRON. Yes, sir. My name is Carter T. Barron, and I am manager of the eastern division of theaters of Loew's, Inc., and i this capacity have supervision of theaters in Washington, D. C. Richmond and Norfolk, Va.; Baltimore, Md.; Wilmington, Del.; an Harrisburg and Reading, Pa.

I appear in behalf of Loew's, Inc., and of the following companie interested in the operation of theaters throughout the United State National Theaters Corp.; RKO Theaters, Inc.; United Paramoun Theaters, Inc.; and Warner Bros. Theater Cos.

I shall refer to them as "operators." However, my comments ar not applicable only to them. They are also applicable to hundreds o independent theaters, to numerous radio and television broadcastin companies which employ so-called name bands, and hotels, ballroom dance halls, and other public places which from time to time use nam bands.

As accurately described by the Supreme Court of the United State in the Bartels case, which has heretofore been referred to, a nam band is a band hired to play a limited engagement.

The band is built around a leader whose name and distinctive styl in the presentation and rendition of popular music are intended t give each band a marked individuality. The leader contracts wit different operators, whether they be motion-picture exhibitors, hotel or ballrooms, to play at their establishments for a contract price. Th engagements may be for one night or for several successive nights o for a period of weeks. Rarely do the engagements run more than weeks. The leader exercises complete control of the orchestra o band. He fixes the salaries of the musicians, pays them, and tell them what and how to play. He provides the sheet music and arrange ments and usually the uniforms. He employs and discharges th musicians and he pays agents' commissions, transportation, and othe expenses out of the sum received from the operators of the place o amusement. Any excess is his profit and any deficit is his los The operator furnishes the piano but not the other instruments.

As an illustration of this, it should be pointed out that there ar several styles of music which have been made popular by one or mor of these name bands. There are the "rhumba" type bands which em phasize Latin rhythms, typified by Xavier Cugat; there are "sweet bands, typified by Guy Lombardo; and there are "hot" bands, a exemplified by Benny Goodman. There are other classification within these groups such as "Dixieland," and so forth.

Theaters, such as those I am representing, contract for these bands on the strength of the name involved. "Xavier Cugat" or "Tommy Dorsey" on a theater marquee is expected to draw patrons into our theaters, where a nameless house band might not. These bands are ordinarily contracted for as "packages," this meaning that a whole entertainment period is supplied for one inclusive price. Such bands often are paid as much as $15,000 for a week's work, plus a percentage of the theater's gross above an agreed figure.

As an example of the fact that name bands agree that they are name bands and therefore are engaged at rather large prices, I would like to refer to one line in a contract which is typical of lines found in almost every contract, in which "leader and orchestra are to receive top-headline stage billing, and no one else will be billed in equal or larger size type." That is the typical line that is found in most name-band contracts.

A name band should not be confused with musicians hired to play regularly at an establishment. This class of band or orchestra is generally called a house band. An example of this type of band is that which regularly plays at the Capitol Theater in this city. We are not concerned here with this type of band, but only with name bands.

For many years the American Federation of Musicians of which the leaders and the musicians in name bands are members, adopted a standard contract known as Form B which states that the operator of the place of amusement was the employer of the musicians and of the leader and should at all times have complete control of the services which the employees would render. This contract was adopted by the American Federation of Musicians in order to shift to the operators the burden of paying the employer's share of social security taxes with respect to the band and the burden of keeping the voluminous records which are required under the Social Security Act. The Supreme Court in the Bartels case, supra, held that the Form B contract was purely fictitious, that in fact the operators had no control over the band, that the leader was the true employer and that the burden was, therefore, upon the leader to pay the tax and make the reports with respect to the members of his band which were required by the Social Security Act.

I would like to say here that this Bartels case was brought by a ballroom operator who signed a Form B under protest. And he brought the suit against the Government to recover social-security taxes which he had paid under protest.

The bill as passed by the House of Representatives would, contrary to fact, treat the operator as the employer. This is inherent in section 206 (a) of the bill which would amend section 1426 (d) of the Internal Revenue Code to read in part as follows:

> For purposes of this paragraph, if an individual (either a line or as a member of a group) performs service for any other person under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person):

Gentlemen, I would like to cite here that I have read and reread that proposed amendment, and, frankly, each time I have read it I

come up more confused. I submit that it would take 40 Philadelphia lawyers to interpret that, and I think that each one would probably come up with a different answer.

It should be noted at the outset that the foregoing amendment would confer no added benefits or protection to the members of a name band. On the contrary its application may result in the loss of social-security benefits to such band members. The operator of a dance hall or ball room, for instance, may often be a person of less financial responsibility than the leader of the band, who is the actual employer of the musicians.

Many of these name bands are much sought after to play for such functions as college proms and other dances organized by school or college committees, classes, faternities, or sororities. A leading band such as that of Tommy Dorsey may play at as many as 25 colleges in a year. Under the amendment being considered, these college groups would be considered as employers and would be required to pay social security taxes for band members, covering frequently no more than one evening's work. There is a question, beyond that of financial responsibility, as to the business training of some such groups which would enable them to cope with the problems of figuring and paying social-security taxes. At the very least it would prove a nuisance.

The same problem would apply when such name bands, as they sometimes are, are contracted for to play for a social function such as a debut party. One suspects that in many such cases the social-security taxes would just not get paid. The sole effect of the amendment is to relieve the leader of the band—an entrepreneur who receives many thousands of dollars under his contracts for his band—from the customary burdens which are imposed upon employers by the Social Security Act. It would shift these burdens to the operators who do not see their alleged "employee" more than once for a limited period of a few days or a couple of weeks and who have not the slightest say as to whether he shall or shall not be employed.

Now, just to give you an idea of what big-time operators these name band leaders are: We recently paid a leader of a name band, at the local Capitol Theater, $12,500 for a single week, plus a percentage of the box office gross over a stated figure. This name-band leader had 16 musicians in his band, and as far as I can ascertain, he pays them about $125 per week per man, or some $2,000 in all. His gross profit is therefore in excess of $10,000 for a single week. This is the type of employer whom this bill would say is not an employer at all.

I could multiply these examples many times. I could tell of some band leaders who are reputed to take in more than a million dollars a year from their various activities or engagements.

It is perhaps unnecessary to tell this committee of the terrific burden of record keeping which the Social Security Act imposes upon employers. The red tape and paper work is practically endless. It is not too much to ask, therefore, that no employer be permitted to shift the burden to a third party by such formalism as the present bill would adopt as fact.

It has proved difficult in the past to get accurate information from some of these band leaders as to how much they pay each employee. They do not wish the operators to know how much they pay the members of their band and in the past, when an effort was made by

the operators to comply with the formalism of the Form B contract, they found that they could not get sufficiently accurate information to do it. Moreover, these bands travel for the most part all over the United States. They are in one State today and in another tomorrow. The Social Security Act is correlated with the various State acts. The result of the present bill would be that a given member of the band, instead of having his compensation reported and his social-security records kept in a single State which the band leader designates as his headquarters, would have his records kept in a dozen, two dozen, or three dozen States where the respective operators may have their places of business. It creates not only a problem for the operators, but also a serious problem for the musicians and for the administrators of the act. Moreover, the bill as now drawn would enable a responsible employer, by a fictitious recital in the contract, to shift his burden to an irresponsible or exempt third party with resultant complete loss of benefits by the employee. Consider, for example, a contractor who does an occasional job for a farmer. By wording his contract with the farmer so as to take advantage of this obvious loophole in the present bill, he would relieve himself of his social security obligation to his employee and shift it to the farmer who is an exempt employer or who, even if not exempt, might be financially irresponsible.

Suppose the contractor did a job for an exempt employer. There the contributions would not be paid either by the true employer or by the exempt employer. The contractor would contract himself out of the liability, while the exempt employer has unwittingly assumed a liability which obviously he will not pay.

We ask, therefore, that those provisions of the bill be eliminated and that the question as to who is the employer rest, where it has rested in the past on the facts rather than on a fiction. The courts over the years have built up a substantial body of law on these questions and it is usually easy to ascertain on the facts who the employer is. Congress should not permit the Social Security Act to be so amended when it (*a*) imposes unreasonable burdens on one who is not the employer; (*b*) relieves the highly paid band leader of the burdens imposed upon every other employer and (*c*) confuses the administration of the law and makes it more difficult to keep records and collect contributions for the benefit of those whom the act is designed to protect.

Gentlemen, we have prepared a technical brief, but the gentlemen who appeared before me, on behalf of the National Ballroom Operators' Association, did such a complete job from a technical standpoint that we will not burden your records by filing the technical briefs which we have with us.

The CHAIRMAN. Thank you very much, Mr. Barron.

Are there questions? Senator Taft? Senator Kerr?

Thank you very much for your appearance.

Mr. BARRON. Thank you, Senator.

Mr. CHAIRMAN. The next witness is Mr. William E. Jones, representing the Northwestern Mutual Life Insurance Co.

STATEMENT OF WILLIAM E. JONES, ASSISTANT GENERAL COUNSEL, ACCOMPANIED BY CLARENCE C. KLOCKSIN, LEGISLATIVE COUNSEL, THE NORTHWESTERN MUTUAL LIFE INSURANCE CO., MILWAUKEE, WIS.

Mr. JONES. I am William E. Jones, assistant general counsel of the Northwestern Mutual Life Insurance Co., and this is my associate, Mr. Clarence Klocksin, also an attorney of the Northwestern Mutual.

Gentlemen, I have no prepared statement. I wish to talk from notes.

The CHAIRMAN. Yes, sir.

Mr. JONES. I do have prepared, however, a suggested amendment, which is in prepared form, which I will hand to the committee in just a moment.

The CHAIRMAN. What is the point that you wish to cover, Mr. Jones?

Mr. JONES. I wish to discuss the suggested coverage of life-insurance agents under House Resolution 6000.

The CHAIRMAN. The definition of "employee"?

Mr. JONES. Yes. There are two aspects of H. R. 6000 that I wish to discuss, both of them dealing directly with the status of life-insurance agents under that bill and, of course, under the act.

Now, in the first place, I would like to record a very emphatic protest against the proposed definition in the act, or definitions, which are intended to include full-time life-insurance salesmen as employees of the company. In the second place, I wish to urge coverage of full-time life-insurance salesmen under the self-employment sections of the bill.

Senator KERR. Does it mean that you are opposed to the salesmen's getting under the act anyway?

Mr. JONES. No; we want him under the act, but we want him covered under the self-employment provision. We don't want him covered under the employer-employee definition.

Taking up first our objections or our protest to the definitions of the act, or the expansion of the definition of "employee," it seems necessary, here, as a sort of background, to state briefly some of the reasons which make this protest necessary.

In the first place, life-insurance agents generally, certainly Northwestern agents, are not employees in fact, and it would be necessary to make use of a fictitious arrangement or a fictitious definition if an attempt were made to cover them as employees.

Now, back in 1937, nearly 13 years ago, the Treasury Department, the Bureau of Internal Revenue, ruled that the salesmen of the Northwestern Mutual Life Insurance Co. were independent contractors and were not subject to the Social Security Act. That ruling was made after a very exhaustive investigation. There was a hearing here in Washington, witnesses were heard, and ample proof was submitted covering all phases of the matter. As a result, the Bureau of Internal Revenue made their official ruling that these life-insurance salesmen were independent contractors.

Immediately following that Northwestern ruling, which was issued in June 1937, the Bureau of Internal Revenue issued similar rulings for a large number of other companies. I do not remember the exact number of specific rulings that were made, but my recollection is that there were more than a score of them. That was also followed by a

blanket regulation by the Treasury Department, wherein they laid down the rules for coverage affecting life-insurance agents, and under that regulation it was generally held that life-insurance agents were not under the act, except perhaps in one or two instances, or in a few instances, let me say, where the facts, of course, justified it.

Now, so far as the Northwestern is concerned, and most of these other companies, that ruling has never been modified or revoked. It is still in force.

There is another thing I would like to point out to the committee, which is that the machinery of the Social Security Act is built entirely around the employer-employee relationship, or the master-servant relationship. The business of the life-insurance salesman is operated on a different basis. He is the owner of his own business, and he conducts his own business at his own expense, free from all control of the insurance company except as to the final result, of course, of the business. He has certain overhead expenses, such as office rent, telephone, stenographer, and a number of other items that might be mentioned, all of which are deductible items in income-tax returns as business expenses.

He is not on any pay roll, such as is contemplated by the Social Security Act. He doesn't receive any wages. All he receives are the commissions, which are in turn dependent upon his own time and effort. His business, the business of the life-insurance agent, is of a peculiar and special nature and needs specialized treatment. It certainly cannot be geared to the machinery of the Social Security Act.

The imposition of the social-security tax alone, if these men were to be classed as employees, would be most difficult to administer, under the machinery of the act, which is not designed, as I say, to cover independent businesses. In fact, it could not be handled at all except, as I say, by artificial machinery.

The life-insurance agent is not paid by the company. He collects the premium, and he deducts the commission due him, and only the net reaches the insurance company while his contract is in force.

Also, I would just like to point this out, briefly: That if the life-insurance salesman were to be covered as an employee under the Social Security Act, there would be a number of problems arising which could be unfortunate and which could be dealt with only with difficulty. For instance, there would be an attempt made to apply rules pertaining to wages and hours. That would almost necessarily follow, it seems to me. Workmen's compensation, tax withholding, even certain aspects of tort liability for the acts of agents, and many other matters might be suggested if time permitted, but I think that is enough to illustrate what I have in mind.

Also the State unemployment laws can't be ignored entirely here. There isn't a State or a jurisdiction in the United States where Northwestern pays any State-employment-law tax. And we do business in some 43 States. And while probably 50 percent of the States have statutory exclusions applying to life-insurance agents, there are many States where the matter rests on administrative rulings. There are a number of court decisions. But anyhow there would be probably a complete overhauling and reconsideration of those State unemployment laws. And I have never been able to figure out any satisfactory way where the State unemployment laws could be administered satisfactorily in respect to a full-time life-insurance agent.

Of course, also, if life-insurance salesmen were to be treated as employees under the act, there would be nothing to stop bringing in other independent businessmen of a similar status, and pretty soon I think the thing would get completely out of control, and certainly beyond the control of the machinery of the Social Security Act.

In H. R. 6000 there is a category set up of full-time life-insurance salesmen. There is no definition of what the full-time life-insurance salesman is. There is another provision or definition in H. R. 6000 which sets up the so-called economic reality tests along the lines announced by the Supreme Court. In my opinion those paragraphs and those parts of H. R. 6000 are simply unworkable in connection with the status of full-time life-insurance salesmen.

So much for the protest against the present definition.

As the second part of my remarks, I would like to suggest a method of handling the inclusion of full-time life-insurance salesmen under the self-employment sections of H. R. 6000. Now, in my opinion life-insurance salesmen are already under the self-employed provisions of the act. The very first section of those provisions—section 211, I believe it is, subparagraph (a)—defines the net earnings from self-employment. And that section of the present bill says that gross income, speaking now of self-employed individuals—

> shall be computed as under chapter 1 of the Internal Revenue Code, less certain deductions allowed from any trade or business carried on by such individual, less the deductions allowed under such chapter which are attributable to such trade or business.

It is my belief that those sections of section 211 of H. R. 6000 are plenty broad enough to include life-insurance agents at the present time. However, it is still unworkable, because of the peculiar nature of the life-insurance salesman's occupation.

Senator KERR. Do you say that "it is," or "if it is found to be" still unworkable? I am trying to find the basis on which you propose this amendment, whether it is on the basis that the provisions you refer to are unworkable, or whether you are saying that if they are found to be unworkable, then you make this proposal.

Mr. JONES. Well, what I spoke of as unworkable were the sections of the act which purport to deal with the salesman as an employee.

Senator KERR. But you just started another statement, and you said, I thought, "if these are still found to be unworkable."

Mr. JONES. What I meant to say was that in my opinion the provisions of the bill relating to self-employment are workable, and that they do now include full-time life insurance salesmen. What is needed here are certain implementing provisions which I shall discuss in a moment.

And I called attention, here, to the provision in section 211 (a), which is the self-employment provision. It starts out with a definition of net earnings from self-employment. It defines those as—

> the gross income less deductions allowed from any trade or business carried on by such individual, and less the deductions allowed under such chapter which are attributable to such trade or business.

Further on in the act there is a section, a page or two over, in the same section, 211 (a), which excludes certain callings, the physician, the dentist, certain engineers, chiropodists, and that class of individuals; but it does not exclude life-insurance agents. And it is my

belief that those self-employment provisions of H. R. 6000 are broad enough to cover life-insurance salesmen right now. The only thing that is necessary is to add certain implementing provisions or supplemental provisions which are necessary to take into account the peculiar nature of the life-insurance industry.

Now, there are only three main points that I would like to make in that connection, because a copy of the draft which I have prepared will be in the hands of the committee.

The first thing that I would call your attention to is: Who are the full-time life-insurance salesmen? I have tried for months, I might say for years, to get a workable definition for a full-time life-insurance salesman that would be applicable generally to all companies. I have not seen a satisfactory one yet, for the reason that differaent companies have different types of contracts. As to Northwestern Mutual, for example, we have a contract which is called a full-time contract, and we give that to agents who are making the life-insurance business their primary occupation. We also have a part-time contract which applies to the man and is given to the man who writes insurance only as a side line. He may be employed by a bank or a store or in an office or in some other concern. He writes insurance only as a side line. He is the part-time man. He isn't included here under this amendment that I have, for the simple reason that his earnings, subject to the Social Security Act, are taken care of by his regular employer—the bank, or the store, or the office for which he works.

Nevertheless, it is my opinion that even the part-timer would be under the present unemployment provisions of the Social Security Act, but he would rarely include any part of his earnings as a life-insurance agent, because usually his social-security earnings would be taken care of by the bank or the store or the office for which he works in his primary occupation.

In order to get at who shall be considered full-time life-insurance salesmen, I have put this in my amendment:

> An individual shall have the status of a full-time life-insurance salesman for a life-insurance company whether or not it is so provided in his contract if the individual is certified by the insurance company as its full-time insurance salesman in a written instrument filed with the Social Security Administration, which certificate may be revoked at any time by the company filing same.

Now, while Northwestern has what we call a full-time contract and a part-time contract, many other companies do not have any classification in their contract at all on that point. Nevertheless, those companies do have their agents classified for their own purposes. Here is a man that we claimed to be a full-time salesman. This man is not. And those companies are better able than anybody else to determine who are their full-time agents. You cannot determine it from the contracts, except in a few cases.

Senator TAFT. Mr. Jones, what is the objection, if we should take the full-time life-insurance salesman back into the self-employment clause, to just letting the department spell it out? Why is not the definition now broad enough so that the department can make the regulation, instead of our having to pass a special lot of laws about life-insurance salesmen?

Mr. JONES. That would require, Senator, investigations and hearings and the adoption of regulations, and it would always be necessary to contact the insurance company.

Senator TAFT. But why can they not draft the regulations? They have more time than we have.

Mr. JONES. I have tried to draft what I call a regulation defining the full-time salesman. I couldn't do it.

Senator TAFT. I mean if we are going to go into every self-employed category in business and try to draft special regulations as to how you are to apply your principles to them, we will be here for years covering every type of self-employment. Why is not the general definition in the law sufficient? What is the matter with it, as applied to life-insurance salesmen?

Mr. JONES. You mean the self-employed definition?

Mr. JONES. Yes; the self-employed section.

Mr. JONES. Because there are some aspects of the life-insurance business that are not covered by it. They have got to clarify them.

Senator TAFT. What are they?

Mr. JONES. One is the one I have just mentioned, to determine the full-time agents. And I think the insurance company is in a better position to certify as to who those are.

Senator KERR. Do you think the Government should be bound by the mere certification of the companies, subject to change without notice, regardless of what might be the actual fact or what might be found by the Government to be the fact?

Mr. JONES. Well, the Social Security Board has the power of review. Of course, they could also put a provision in here that the Treasury Department could investigate and could modify or question the certificate. In other words, review.

Senator KERR. Then why not, in accordance with the Senator's suggestion, proceed along that line? Would it not be wise, if he were found to be a full-time employee by the agency administering?

Mr. JONES. Well, as I say, that would require hearings, and these hearings are long and troublesome and quite an administrative problem to the departments as well as to the companies. Our plan eliminates all this.

Senator KERR. If there is contest under any provision of law, any provision that we might write, would there not still be the necessity for those hearings?

Mr. JONES. I doubt whether there would be many insurance companies, and in fact I do not believe there is an insurance company in the country, whose certificate you could not accept and rely upon. And if there was any question that arose concerning the fairness or the correctness of that statement, you can depend upon it that the agents would raise it. Only in such cases would an investigation be necessary.

Senator KERR. Did you not say a while ago that at the beginning of the present act hearings were held and findings made that had been unchanged and unchallenged for 13 years?

Mr. JONES. That is right, as to the status of the salesmen, whether or not they are employees or independent contractors.

Senator KERR. Is that not the question you are addressing yourself to?

Mr. JONES. No, I am considering at this moment the question as to whether they are full-time salesmen or part-time salesmen. This bill only purports to cover full-time salesmen, and you have to find those who are full-time salesmen and distinguish them from the part-timers.

Senator KERR. Well, if you find that they are full-time is that not a finding of the status?

Mr. JONES. Well, yes; but how are you going to find that they are full-time?

Senator KERR. You said you had been working for many years and had not been able to word it.

Mr. JONES. A definition of a full-time agent, a full-time salesmen, applicable to all companies.

Senator KERR. And the committee evidently has a question about it, and the suggestion was made as to designating someone who might have the time and the ability, with the able help of both the employer and the insurance company salesman, to determine that.

Mr. JONES. Well, for example, one definition that has had considerable consideration is one like this: That a full-time salesman is "one who devotes substantially all of his time to selling life insurance for one company," or "one who devotes substantially all of his business activities." That leaves it wide open and makes it necessary for the Social Security Administration to go back to the very contracts and practices of the company. And, if they will accept those contracts and practices of the company, why should they not accept the statement of the insurance company in the first instance: that this is the way we classify our agents, the full-timers, and the part-timers. The certificate would prevail until questioned in a proper case.

The CHAIRMAN. Would the company, Mr. Jones, under your definition, pay a part of the full-time self-employed agent's tax?

Mr. JONES. Yes. That is another point. There were, as I said, three points I wished to call attention to. The first point, as I say, is the one where we determine who are these full-time salesmen. A second point that I might take up now, although it was intended as my last point, is the determination of the tax. I have included here a separate tax schedule, which is the same as the tax schedule applicable to employers and employees. In lieu of the 2-percent schedule, let us say, now in House Resolution 6000, the suggested schedule would call for 3 percent, and the company would pay half of that. So, the company contributes. There is a contributory feature here.

So, the life-insurance company and, as I understand it, most life-insurance companies—and I had contact with a great number of them—are perfectly willing and anxious to contribute; but if they contribute on the basis of the self-employment schedule now in the act, they are contributing a smaller amount, and the agent is paying a smaller amount. They are willing to pay the fuller amount, increasing that from, say, 2 to 3 percent.

Senator TAFT. It just occurs to me: What is the status of a stenographer employed by a full-time life-insurance salesman?

Mr. JONES. Well, she is an employee of the full-time salesman.

Senator TAFT. So that, although he is an employee of the company, she is an employee of his. He is to make employer and employee returns, both, under the act, under the way this is now drafted?

Mr. JONES. Yes. He would have to make a return for his office help. And I don't know; maybe there is machinery in the act whereby they would try to make the insurance company responsible for his employees. But the correct way of handling it would be to have this full-time agent take care of his own employees, for whom he alone is responsible. The company has no control over them and has nothing

to do with their selection or their discharge. That is entirely in his hands.

Now, as I say, one of the provisions of these suggestions which I have here provides for a tax, the same tax schedule that applies to the employer-employee sections of the act. That is to be split between the company and the agent, just as if he were an employee. He pays more than the other self-employed individuals, under this plan that I have here.

The third point that I would like to make is that we have got to find out what the income of a full-time life-insurance salesman is. A full-time life-insurance salesman may be a full-time agent or representative for one company, and, yet, he may be placing his surplus business with several companies. Ordinarily, the successful life-insurance agent or any life-insurance agent is receiving compensation from two or more companies, sometimes a dozen of them. I had one agent tell me that he had some 30 commission agreements with other companies to take care of his surplus business. Of course, a full-time agent for one company would have to give that company the first choice of the applications he submitted; but, if that type of contract issued by that company did not suit the needs of his client, or if for some reason his company would not issue insurance on that application, then he has got to submit that to some other company. And so I have excluded everything but the remuneration which he receives from the company with which he is under full-time contract. And I have, therefore, included this:

> remuneration earned and received by him under said contract as a full-time life-insurance salesman: *Provided*, That after termination of said contract the receipt of commissions earned under said contract while the contract was in force shall not be included in a salesman's net earnings from self-employment for purposes of this section.

That provision includes income earned under his full-time contract only. And, if he gets income from another company, such income is not included. Now, the purpose of that is so that the insurance company, with which he is under full-time contract, which would be responsible for the tax, here, will know how much their tax is going to be.

The insurance company will know what gross commissions they have paid this salesman. The salesman, of course, would be entitled to certain deductions for business expenses. There is a provision in here that the company and the agent both can take a flat 15 percent of the self-employment income and use that in lieu of the business deduction which is otherwise available to the self-employed individual.

Now, unless the committee has some questions, that is all I have.

Senator KERR. Any questions, Senator?

Senator TAFT. No. When you get all through, you come out exactly where you started from in the House bill. The company pays 1½ percent and the man pays 1½ percent?

Mr. JONES. Well, there is a difference in the status. We get away from this record keeping that other witnesses have mentioned here this morning. We get away from that and from the wages and hours and all the headaches, as you might call them, that go with the employer-employee relationship, where the individual is in fact not an employee.

Senator TAFT. Your position is that, No. 1, he is not an employee under the rules of common law?

Mr. JONES. That is right.

Senator TAFT. But you are afraid that, if he is made an employee for the purpose of this act, that will be used as a precedent to claim he is an employee somewhere else. That is the whole reason for your objection?

Mr. JONES. That is one of the main reasons: yes.

Senator TAFT. Let me go back to one of the questions that interests me. Assuming he is not an employee, what is the status of his employees?

Mr. JONES. If he is not an employee?

Senator TAFT. Assuming that you are correct on the law; that, as a matter of fact, under the law and under the Supreme Court test he is not an employee, but that he is made an employee by this act: then what is the situation? Are his employees made employees of the company, or not?

Mr. JONES. Well, that is not certain and may be subject to conjecture. I don't know what the effect of that would be, but I would be inclined to think that it might go either way. Ordinarily, the employees of an employee, or rather the employees of a subcontractor, at least under the various State unemployment laws, are sometimes treated as employees of the principal. I don't know whether they would apply that principle or not, but there is danger of it. They should make him responsible for his own employees. As I say, the insurance company has no voice in the selection of that employee, or his continuance in the job; no voice over the compensation paid to that man. The agent, not being an employee in fact, is not subject to the control of the company in any way; and why should the company be in any way held responsible for the things that he does, even as to tort liability or the employment of other people?

Senator TAFT. Your amendment would definitely remove that possibility of the employee of the salesman being so considered?

Mr. JONES. That is right. The amendment would definitely remove that. And it would simplify the entire administration.

Senator TAFT. Why, if you do make the change, do you go back, then, and have the company pay half the tax? Is that just a concession to the insurance salesman?

Mr. JONES. Well, because the company is willing to contribute and the agents want it to contribute.

Senator TAFT. But the logic of your whole argument would be opposed to it. If they are self-employed, the payment ought to be 2¼ percent and not 3, I should think.

Mr. JONES. I think there is justification for the company making a contribution. In conection with the putting of business on the books and keeping it on the books, the company is permitted to pay certain remuneration. It could be justified as additional remuneration.

Senator TAFT. Would you do that as to any independent contractor who was working for only one company?

Mr. JONES. Would I do that for one, you say?

Senator TAFT. I mean, would you do it for any gas-station operator, or anybody else who is only contracting with one company? Is that the test? Why is the life-insurance salesman, then, different from any other self-employed person in this respect?

Mr. JONES. Well, the company is of course under obligation to pay the insurance salesman certain renewal commissions. They are governed as to that, of course, by the State laws. Now, they can pay a compensation to the agent of the company for putting business on the books or for servicing that business after it is on the books. And, if a part of that is used in this way, I certainly do not see where there could be any objection. It is just a part of his compensation.

Senator TAFT. I still do not see why he differs in that respect from any other self-employed contractor.

Mr. JONES. I think there is a difference, Senator, in the nature of the life-insurance agent's business and the methods under which the companies and the agents operate.

Senator KERR. At any rate, insofar as you and your company are concerned, you are willing, and in fact in the position of requesting, to have the law make that provision?

Mr. JONES. Yes.

There is one further comment I would like to make in connection with this tax contribution by the insurance companies. It is my understanding that most all companies expect to make such tax payment. Not only may it be considered a part of the salesman's compensation, as I have said, but in most cases the contribution is in fact integrated with and forms a part of the company's contribution under its own retirement plan for salesmen. Moreover, a statutory obligation is necessary in order to prevent such contributions from being treated as taxable income to the salesmen.

There are some companies that are in a position to operate with their salesmen on an employer-employee basis, which is permitted under our plan, and in that case the tax would be at 3 percent, with half of it contributed by the company. The great majority of the companies would probably elect to have their salesmen under the self-employment provisions of the law by filing the certificate provided for in our plan. The tax schedule should be the same in both cases.

Senator KERR (presiding). All right, Mr. Jones. We thank you.

Mr. JONES. Thank you for your consideration.

(The proposed amendment filed by Mr. Jones follows:)

AMENDMENT TO H. R. 6000—PROPOSED BY NORTHWESTERN MUTUAL LIFE INSURANCE CO., MILWAUKEE, WIS.

I. Amend section 210 (k) of H. R. 6000 by striking out subsections (3) (B) and (4).

II. At the end of section 211 of H. R. 6000, add a new paragraph to be designated section 211 (a) (9), as follows:

"(9) In computing 'net earnings from self-employment' of any individual under contract as a full-time life-insurance salesman with any company authorized to issue life-insurance and annuity contracts, or under contract as a full-time life-insurance salesman with an authorized agent of said company, there shall be deducted—

"a. All remuneration earned by said individual as a life-insurance salesman except remuneration earned and received by him under said contract as a full-time life-insurance salesman; provided, that after termination of said contract, the receipt of commissions earned under said contract while the contract was in force shall not be included in a salesman's net earnings from self-employment for purposes of this section. An individual shall have the status of a full-time life-insurance salesman for a life-insurance company, whether or not it is so provided in his contract, if the individual is certified by the company as its full-time life-insurance salesman in a written instru-

ment filed with the Social Security Administration, which certificate may be revoked at any time by the company filing same.

"b. Fifteen percent of the remuneration subject to this act under subparagraph (a), which deduction shall be in lieu of all deductions allowed for business expenses attributable to the trade or business."

III. Amend section 207 (a) of H. R. 6000 by amending section 1640 of subchapter F to read as follows:

"SEC. 1640. RATE OF TAX: (a) In addition to other taxes, there shall be levied, collected, and paid for each taxable year beginning after December 31, 1949, upon the self-employment income of every individual, except as otherwise provided in subsections (b) and (c) of this section, a tax as follows:

"(1) In the case of any taxable year beginning in 1950, the tax shall be equal to 2¼ per centum of the amount of the self-employment income for such taxable year.

"(2) In the case of any taxable year beginning after December 31, 1950, and before January 1, 1960, the tax shall be equal to 3 per centum of the amount of the self-employment income for such taxable year.

"(3) In the case of any taxable year beginning after December 31, 1959, and before January 1, 1965, the tax shall be equal to 3¾ per centum of the amount of the self-employment income for such taxable year.

"(4). In the case of any taxable year beginning after December 31, 1964, and before January 1, 1970, the tax shall be equal to 4½ per centum of the amount of the self-employment income for such taxable year.

"(5) In the case of any taxable year beginning after December 31, 1969, the tax shall be equal to 4⅞ per centum of the amount of the self-employment income for such taxable year.

"(b) RATE OF TAX ON FULL-TIME LIFE INSURANCE SALESMEN: In addition to other taxes, and in lieu of all taxes imposed by subsection (a) of this section, there shall be levied, collected, and paid each taxable year beginning after December 31, 1949, upon the self-employment income of every full-time life insurance salesman after December 31, 1949, a tax equal to the percentages and at the rates provided in section 1400 of the Internal Revenue Code (as amended by section 201 (a) of H. R. 6000).

"(c) RATE OF TAX TO BE PAID BY LIFE INSURANCE COMPANY: In addition to all other taxes, every life insurance company shall pay an excise tax with respect to having individuals under contract with it or in its behalf as full-time life insurance salesmen after December 31, 1949, which tax shall be in respect to the earnings in self-employment of such full-time life insurance salesmen after December 31, 1949, and which tax shall be equal to the same percentages and at the same rates provided in section 1410 of the Internal Revenue Code (as amended by section 201 (b) of H. R. 6000)."

IV. Amend section 207 (a) of H. R. 6000 by adding at the end of section 1641 (a) of subchapter F a new paragraph to be numbered section 1641 (a) (9), to read as follows:

"(9) In computing 'net earnings from self-employment' of any individual under contract as a full-time life insurance salesman with any company authorized to issue life insurance and annuity contracts, or under contract as a full-time life insurance salesman with an authorized agent of said company, there shall be deducted:

"a. All remuneration earned by said individual as a life insurance salesman except remuneration earned and received by him under said contract as a full-time life insurance salesman; provided, that after termination of said contract, the receipt of commissions earned under said contract while the contract was in force shall not be included in a salesman's net earnings from self-employment for purposes of this section. An individual shall have the status of a full-time life insurance salesman for a life insurance company, whether or not it is so provided in his contract, if the individual is certified by the company as its full-time life insurance salesman in a written instrument filed with the Social Security Administration, which certificate may be revoked at any time by the company filing same.

"b. Fifteen per centum of the remuneration subject to this Act under subparagraph (a) which deduction shall be in lieu of all deductions allowed for business expenses attributable to the trade or business."

(The following supplemental statement was later submitted by Mr. Jones:)

SUPPLEMENTAL STATEMENT OF WILLIAM E. JONES, ASSISTANT GENERAL COUNSEL

THE NORTHWESTERN MUTUAL LIFE INSURANCE CO.,
Milwaukee, Wis., March 24, 1950.

H. R. 6000: Full-time life-insurance salesmen.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: On March 6, 1950, I testified before the Senate Finance Committee in respect to coverage for full-time life insurance salesmen under H. R. 6000. At the same time I filed a proposed plan for coverage under the self-employment provision of the bill. In order to more fully answer questions raised by the Senators at that time, I desire to supplement my testimony with this brief statement.

In the first place, our plan would strike out of H. R. 6000 the entire subparagraph (4) of the proposed definition of "employee." This subparagraph contains the so-called economic reality provisions, and is nothing more than a blank check to the Social Security Administration in the matter of coverage.

Our plan would also strike out of H. R. 6000 subparagraph (3) (B) which extends the definition of "employee" specifically to full-time life insurance salesmen. Life insurance salesmen are not employees. That fact is established by official rulings made approximately 13 years ago, and applied to salesmen of most life insurance companies. The so-called definition proposed in H. R. 6000 is an arbitrary and artificial one. Moreover, the machinery of the Social Security Act is built around the employer-employee relationship and cannot be applied to such self-employed persons as life insurance salesmen.

Full-time life insurance salesmen should be covered under the self-employment provisions of H. R. 6000.—Some companies may be in a position to operate with their salesmen on an employee basis under the present Social Security Act. It is significant, however, that only a handful of companies, out of several hundred have elected to do so. The few companies electing to operate on an employer-employee basis had no difficulty in doing so under the present law and without the aid of such provisions as subparagraphs (3) (B) or (4) of H. R. 6000.

Our plan does not interfere with those few companies that may prefer to operate on an "employee" basis. We would not force the self-employment status upon those companies, nor would we have them force the employer-employee status upon our company or the hundreds of other companies that I believe prefer the self-employment coverage. There is no reason why the two classes of companies should be forced into any one category. Our plan allows any company to elect the coverage desired by it. It does not add any administrative burden.

Self-employment provisions of H. R. 6000 broad enough to include life insurance salesmen.—Section 211 of the bill covers all self-employed individuals except those specifically excluded (physicians, lawyers, dentists, engineers, et al.). Life insurance salesmen are not excluded. The conclusion is unavoidable that those provisions are in fact broad enough to include self-employed life insurance salesmen. It would require no change in agency contracts or practices to qualify salesmen under those provisions.

Nature of underwriting business requires certain special provisions.—The life underwriting business has certain unusual and special characteristics which do not exist in other occupations. These special characteristics require special treatment. In my opinion, therefore, these special paragraphs are unavoidable no matter what form of coverage is made applicable to full-time life insurance salesmen.

Nature of earnings of life-insurance salesman.—For example, the earnings of a life-insurance salesman are complex in their nature. They cannot be covered simply by the word "earnings." When a policy is sold, only a portion of the commission is paid to the salesman in the first year; and the remainder of the commission is received by him in the form of renewal commissions as future premiums are paid. Under Northwestern Agency contracts these renewal commissions continue for 8 years; but different periods apply with different companies.

Often, an insurance company finds it necessary to pay these renewal commissions to the estate of a deceased agent, to bankruptcy courts, and to salesmen whose contracts have become terminated under a variety of circumstances. Frequently an insurance company finds it necessary to pay renewal commissions to former agents who may now be under contract with a competing com-

pany. Moreover, because of various commission agreements relating to surplus business, most insurance salesmen are receiving commissions from several companies in addition to the one company with which they are under full-time contract.

These circumstances are not found in other occupations, and they are peculiar to the underwriting business. The machinery of the Social Security Act dealing with ordinary wages and employer-employee relationships is wholly inadequate. Even under the self-employment provisions of H. R. 6000 it becomes necessary to have some provision to define and clarify what part of this income shall constitute earnings in self-employment.

We have sought to meet this situation with a provision which seeks to limit earnings in self-employment to all earnings of every kind from the one insurance company with which the salesman is under full-time contract. All other life insurance income is excluded; and as soon as the full-time contract terminates, then further income from that source is also excluded. This matter is covered in section II (9) a on the first page of the plan we submitted on March 6. A copy of our plan is attached for convenience.

Definition of full-time life-insurance salesmen.—Another special provision that seems unavoidable in this connection is some method of determining when an individual is a full-time life insurance salesman. There is no provision on the point in H. R. 6000, either under the employer-employee provisions or those relating to self-employment.

So far as I know, no adequate definition on the point has been devised. The nearest approach coming to my attention is one that defines the full-time salesman as one required by his contract to devote substantially all of his time or substantially all of his business activities to the sale of life insurance for one insurance company. Obviously, such definitions are meaningless for all practical purposes.

Moreover, the contracts between companies and salesmen afford no solution. Some companies have contracts which are definitely labeled "full-time contracts," but many companies have no provision whatever on the subject. In spite of the difference in contracts, insurance companies nevertheless have workable classifications of their full-time and part-time salesmen.

It has been suggested that the matter of definition or classification could be left to the Social Security Administration to spell out.

Probably the matter could be left to the Social Security Administration. However, that would merely delegate to administrative authorities the power to determine the scope of coverage; and that has not always worked out satisfactorily. In fact, it was the action of administrative authorities in extending the Social Security Act beyond the intention of Congress which resulted in the adoption of the law commonly known as the Gearhart measure.

Electing self-employment coverage.—In our opinion the insurance company should be permitted to elect self-employment coverage in the first instance, and to fix a prima facie status; and for that purpose we have suggested the filing of a certificate.

In suggesting the provision for a certificate by the insurance company in the first instance—see page 1 of our plan—we assumed that full power of review and revision necessarily rested with the Social Security Administration under the machinery provided for that purpose in the present act. Owing to the great difficulty, almost impossibility, of framing an adequate definition of "full-time status" that would fit the many different forms of agency contracts, it was believed that a certificate filed by the insurance company and fixing a prima facie status would not only expedite administration but would eliminate a tremendous amount of red tape and confusion. I doubt whether administrative officials could frame a definition of universal application any more than the insurance companies.

The scope and effect of our provisions has been questioned upon the ground that it appears to be conclusive. There can be no objection to a modification that will remove any doubt. Therefore, I suggest that the particular provision in our plan be amended to read as follows:

"An individual shall have the prima facie status of a full-time life-insurance salesman for a life insurance company whenever the individual is certified as such by the insurance company in a written instrument filed with the Social Security Administration: *Provided*, That the rights of anyone affected by the filing or failure to file said certificate shall not be concluded thereby, and that said certificate and any modification or revocation thereof shall be subject to

review and revision by the Social Security Administration in the manner provided by law."

Any company wishing to elect self-employment coverage would file a certificate along the lines mentioned. Any company electing employer-employee coverage would refrain from filing the certificate.

Tax contribution by insurance company.—No particular discussion would seem necessary on the question of taxes. Our plan provides for the same tax on both insurance company and salesman as would prevail if coverage were under the employer-employee provision.

As stated earlier in this letter, some companies are in a position to operate with their salesmen on an employer-employee basis, and a few are now doing so. These companies will be required, among other things, to contribute one-half of the tax as under the employer-employee status. Since there is nothing in our plan to require these companies to switch to the self-employment coverage, it becomes necessary to have the same tax schedule applicable in both categories and thereby avoid any possible discrimination.

Summary.—Thus our plan would in fact permit companies to elect which form of coverage they prefer. The method of electing self-employment coverage would by by filing the certificate heretofore discussed; and the method of electing employer-employee coverage would be to refrain from filing that certificate. Our plan would settle the existing controversy by allowing each company to select its own category. There seems to be no sound reason why all companies should be forced into any one category.

The power and authority vested in the Social Security Administration to review and revise any certificate or lack of certificate affords complete protection to all salesmen to exactly the same extent as under employer-employee coverage.

The tax schedule set up in our plan eliminates any possible discrimination from that direction.

In short, our plan gives the salesman all the coverage he could possibly obtain if placed under the employer-employee coverage, and without the headaches and disadvantages which must inevitably follow such coverage (tax withholding; wages and hours; tort liability, etc.).

Our plan would permit both the salesman and insurance company to file social-security tax returns, on an annual basis—which is an important consideration in the underwriting business.

One very important feature of our plan is that it enables the self-employed salesman to preserve his independence. Most insurance salesmen with whom I have discussed the matter are anxious to preserve their independent status.

There are many in the insurance business, besides the Northwestern Mutual Life, who believe that the self-employment approach is sound, and who cannot possibly operate on the employer-employee basis.

Respectfully submitted.

WM. E. JONES,
Assistant General Council, Northwestern Mutual Life Insurance Co., Milwaukee, Wis.

(The following statement was submitted for the record:)

THE EQUITABLE LIFE ASSURANCE
SOCIETY OF THE UNITED STATES,
New York, March 8, 1950.

Re H. R. 6000, Social Security Act amendments.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance, United States Senate,
Washington, D. C.

DEAR SENATOR GEORGE: The Equitable Life Assurance Society of the United States supports the amendment to H. R. 6000 suggested by Mr. William E. Jones, for the Northwestern Mutual Life Insurance Co. This proposed amendment affects sections 210 and 211 of the Social Security Act and sections 1426, 1640, and 1641 of the Internal Revenue Code, all as proposed to be amended by H. R. 6000. It would strike from the bill the language which specifically includes full-time life insurance salesmen within the definition of the term "employee" and

would add provisions defining the application to such agents of the provisions of the bill relating to the self-employed. These proposed additions would also impose a tax on the full-time agent and the company at the same rates as are applicable to employees and employers.

The Equitable is in favor of coverage of its agents under the old-age and survivors insurance program. Moreover, it recognizes that the company should pay part of the tax cost of the agents' benefits under that program. Our conviction in this respect is so strong that, were there no feasible alternative, we would not oppose the proposed inclusion of full-time life insurance agents within the term "employee". We believe, however, that there is a feasible, and preferable, alternative. This alternative is expressed in the amendment proposed by Mr. Jones. It furnishes the means of effectuating the desired coverage while avoiding the serious administrative complexities and the disturbing inferences that would flow from classification of agents as employees.

The ordinary, old-line life insurance agent is not an employee of the company or of its general agent. He is an independent contractor or a self-employed person in the same category as independent contractors. This has been recognized by State courts in tort, workmen's compensation, and unemployment insurance cases. It has also been recognized by the Treasury Department in the administration of the employment tax laws. The machinery for collection of taxes by deduction from wages is not adaptable to the relationship between such agents and the companies for which they write business. These agents do not receive wages or salary, paid at regular intervals, but commissions as policies are placed and premiums paid thereon. The initial payment of commission frequently is not received from the company at all but is retained by the agent out of the initial premium paid to him by the insured. Moreover, such an agent's gross commission receipts cannot fairly be regarded as wages, since he necessarily incurs expenses in the conduct of his solicitation, frequently of substantial amounts, which are not reimbursed to him and which he does not report to the company. He frequently receives commissions from two or more sources at the same time. We have in our organization, for example, agents now attached to eastern agencies who are in receipt of renewal commissions from offices on the west coast, and vice versa. Any attempt to fit the traditional system of compensating ordinary agents into the pattern of pay-roll tax deductions is certain to encounter obstacles which have heretofore been appropriately characterized as almost insurmountable.

We also feel that an arbitrary classification of life-insurance agents as employees, even if initially limited to the old-age and survivors insurance program, will almost necessarily spread to other fields. The current administrative procedure for withholding Federal income tax at the source assumes that the wages subject to such withholding and to Federal old-age benefit taxes are the same. We may expect, therefore, that if agents are to be treated as employees for the latter purpose their commissions will also be subject to income-tax withholding. There are various State and local income-tax withholding requirements, the application of which follows the Federal pattern. If we are required to withhold Federal income taxes from agents' commissions, we shall probably also be required to withhold these State and local taxes. Withholding of income tax from agents' commissions would involve even greater administrative complexities than withholding of old-age benefit taxes. Furthermore, we have noted that a bill introduced in the House of Representatives at this current session (H. R. 6718) would adopt for Federal unemployment tax purposes the definition of "employee" contained in H. R. 6000, including the specific mention of full-time life-insurance salesmen. We do not believe that there is any demand for unemployment insurance coverage on the part of life-insurance agents, or that it would be advisable or practicable to attempt to extend such coverage to them, since it is extremely unlikely that they could actually benefit by such coverage.

We repeat that, if it were necessary to do so in order to secure old-age and survivors insurance coverage for agents, we would be prepared to face the complicated and expensive administrative problems that would be entailed by their treatment as employees. But the pending bill, H. R. 6000, contains provisions for coverage of the self-employed, with the same benefits as are available to employees. It is in this category that the agents belong. The bill's provisions in this respect are well suited to the nature of the agent's business and the manner of his receipt of income. Coverage of agents under these provisions entails no disturbance of their established relationship to the companies and form of compensation. By providing for a tax upon the company, at the same rate

applicable in the case of employees, Mr. Jones' proposal eliminates any possible complaint of inequity in the distribution of the tax burden.

Accordingly, we respectfully urge favorable consideration of the proposed amendment.

Very truly yours,

VINCENT S. WELCH,
Executive Vice President.

Senator KERR. Mr. Graves, of the Continental Can Co., will be the next witness.

All right, Mr. Graves, would you identify yourself?

STATEMENT OF EDWIN H. GRAVES, REPRESENTING CONTINENTAL CAN CO., INC., HOPEWELL, VA.

Mr. GRAVES. Mr. Chairman, I am Edwin H. Graves, of the paper manufacturing division of the Continental Can Co., Inc. The company I represent operates a pulp and paper mill located at Hopewell, Va., and our purpose in appearing before this committee is that we are specifically concerned with the application of those sections of the proposed amendments which pertain to what we believe to be a rather indefinite extension of the meaning of the term "employee," this extension being beyond the definition in the present Social Security Act. Our concern for this particular section is further confined specifically as this application will affect our relationships with our pulpwood suppliers.

We are appreciative of the privilege accorded to us to appear before this committee and we are thankful for the opportunity of expressing a real and sincere apprehension over the writing into law of definitions, the application and interpretation of which are extremely uncertain and which will require extensive litigation to clarify.

The pulpwood operations of the company I represent are relatively small. However, our relations with those from whom we buy pulpwood are quite typical of the pulpwood procurement practices in other sections and it is well to mention here that the pulpwood procurement industry spreads throughout the whole country and directly affects the livelihood and earnings of hundreds of thousands of people. Please understand that we in no way oppose the inclusion of these people in social security coverage. What we do oppose is the establishment of a law which could be loosely construed by the Treasury Department and Federal Security Agency to make these people employees of ours for the purpose of tax collection.

I shall attempt briefly to give you a picture of our relationships with these people who are engaged in the procurement of pulpwood.

A part of our pulpwood is purchased from small independent operators who buy their own stumpage, who employ labor to cut the wood, and employ labor to haul the wood to our plant or a railroad siding. We pay this independent operator so much money per cord for this wood. He will own and will operate from one to three trucks. In most cases he will drive his own truck and employ other labor to do the remainder of the work. He will furnish other tools and equipment as necessary. In some cases the stumpage which this independent operator cuts will be owned by the company; in most cases it will be purchased by the independent operator.

Senator KERR. May I ask a question, there?

Mr. GRAVES. Yes, Senator.

Senator KERR. In cases where you have these operations, is it the usual thing that you as the principal are liable either to the employees or to those from whom the stumpage is purchased, or others, in the event this independent contractor does not meet his obligations?

Mr. GRAVES. In general, Senator, the answer is "No." However, where we buy stumpage, under certain conditions, and agree to cut it in a certain manner, then we are of course liable that it be cut in that manner, regardless of whom it is cut by. But that is the only obligation that we would have.

Senator KERR. His employees do not have the privilege then, in any of the areas where you operate, of filing workmen's liens against any part of his pay or other remuneration from you?

Mr. GRAVES. I would not think so.

Often we provide assistance for cruising timber and developing proper cutting practices for reforestation purposes. We have from time to time rendered financial assistance by means of secured loans to these independent operators to buy stumpage and also to buy trucks. We exert no real control over them and as far as we are concerned they are free to do as they please. We do endeavor to keep their business. They may and do use their trucks for other hauling purposes and they may and do sell part of the timber on a given stumpage tract to sawmills where such timber will bring a higher return. Some independent operators will sell pulpwood to more than one mill.

The actual number of employees such an operator will have will vary from approximately 4 to a maximum of 20. Some of these independent operators are quite successful and from a small beginning are able to extend their operations into quite a profitable independent business. Some are moderately successful, make a good living out of their business, but because of their own limitations or desires never extend beyond a one-truck operation. Others, because of their own limitations, lose money and gradually become absorbed in the business of other operators or go out of the work entirely.

Also, there has gradually grown up in the business, due to the extended area over which any particular mill secures pulpwood, a use of dealers, or traders, in pulpwood procurement. These dealers, or traders, buy pulpwood delivered to railroad sidings from the independent operators and sell this wood to the pulp mills. It is the practice to pay these dealers, or traders, a slightly higher price for the wood than is paid to the independent operator. The relationships of the dealers, or traders, with the independent operators are very much the same as those of the mill with the independent operators where no dealer or trader is involved. Similar to the mill, the dealer, or trader, occasionally renders financial assistance to such independent operators as he does business with. Occasionally, where larger operations are involved, he may call upon the mill for financial assistance by means of secured loans. The above operations will extend over a large area. The operations of this comparatively small mill extend over one-third of the State of Virginia and reach far down into North Carolina. The turn-over of employees in this business is rather rapid. The workers are constantly changing employment and moving among the various and sundry occupations which agricultural communities provide. Many of these independent operators operate very closely on a cash out-of-pocket basis. Keeping records for tax purposes will involve considerable of an educational problem. We think

the appropriate administrative agency would not hesitate to place the burden of this tax collection upon the mills if they were at liberty to do so and we would not have any practical means of collecting such money. Our only answer would be a gradual taking over of all of the business of the independent operators. We believe this would be our only alternative if we were to be responsible for tax collection.

I would hope that it is not the intention of this Congress to extend the definition of "employee" to such an extent as to make the independent operators and their cutters and haulers the employees of the mills, but the language of subparagraph 4, paragraph K, section 210, under the proposed definition of employment, is broad enough to be so construed as to make the mill liable for the social-security taxes of these people. Subparagraph 4 states that a man shall be determined to be an employee by the "combined effect" of seven separate qualifications, and each of these qualifications are of themselves indefinite and subject to the judgment of the administrative agencies concerned. The qualifications are not possible of accurate evaluation, and also the language of the bill reads that these seven qualifications would control, even though other provisions of the bill would determine a person's status otherwise.

As applied to our relations with those from whom we buy pulpwood, the seven qualifications would be confusing in the extreme. With your indulgence, I should like to briefly examine these qualifications in the light of the relationship between ourselves as a buyer and the independent operator as a seller. Now I am not speaking about the man who actually does the cutting and other manual work, but only of the man who operates what we contend is an independent business. Yet, bear in mind that, were he deemed to be an employee of ours, then all of those cutters and haulers who work for him would likewise be deemed our employees.

Senator TAFT. You are familiar, Mr. Graves, with the House report saying he is not an employee; are you?

Mr. GRAVES. Yes, Senator.

Senator TAFT. That is on page 87 of the House report.

There is a discussion of the contract logger there. If that report is followed, would that meet your problem?

Mr. GRAVES. I didn't understand you, Senator.

Senator TAFT. If the courts follow that report, would that meet your problem?

Mr. GRAVES. I would think so.

Senator TAFT. But you are not certain that the interpretation of the House committee is correct; is that right?

Mr. GRAVES. I am not certain at all, Senator. Also, though I do not recall the particular section of the report to which I am referring, there is contained in the House report a statement that the application of the term "contract logger" as interpreted from the bill would be "extremely uncertain." (This reference is to p. 204 of H. R. Rept. 1300 under appendix A, sec. 9 of "Application of the Definition to Specific Situations.")

Senator TAFT. This gives an example, here, and the contract logger is cited, with a good deal of description, as one who is engaged in his own business and not an employee.

Mr. GRAVES. Yes, Senator.

The CHAIRMAN. Mr. Graves, is this not your situation: If the operator with whom you now contract for so many cords of wood or so many tons was held to be your employee, then you would have to become the employer also of every man down in the woods, of every logger, of everybody who touched the business; would you not?

Mr. GRAVES. That is our only concern.

The CHAIRMAN. You would have to get rid of this middleman; would you not?

Mr. GRAVES. Yes, Senator; we would.

The CHAIRMAN. You could not keep him?

Mr. GRAVES. We could not.

The CHAIRMAN. You would have to have a man there who was responsible to you, whom you could hire, if you were to be held responsible for him as your agent, your employee. That is, as to the independent operator, the dealer, you are obliged to do that if you are to protect yourself?

Mr. GRAVES. Yes, Senator.

The CHAIRMAN. I know what Senator Taft called attention to is in this report, but I am somewhat like Uncle Remus's famous character. The rabbits are more or less "in the briar patch" when you come to this furnishing of pulpwood or logs to mills. Because I have been in this line of business, myself, and have helped to finance many of these independent operators for a great number of years past. These operations take place hundreds of miles away from the paper mills or from your establishment; do they not?

Mr. GRAVES. Yes, Senator.

The CHAIRMAN. And you simply buy, at so much per cord, so much per unit. But, if the man with whom you are dealing is held to be your employee, I do not see how you could do otherwise than to make him your employee in fact and eliminate him from the business. He would go out of business. That is exactly what he would do. Or he would become a man who worked for you for salary.

Mr. GRAVES. What we would probably do would be to pick out those of this group whom we considered the best men and put them on your pay roll and buy all their equipment.

The CHAIRMAN. Of course, that is what you would do if he is willing to do it. But he may be a man who has some individual capacities of initiative. This may be just one line of his business. It generally is only one feature of his business operation. He is not dealing exclusively with providing wood for pulpwood purposes or for saw purposes or what not. He is dealing in numbers of lines of business. This is one. He carries this on. But you could not hire him for any ordinary salary that you could afford to pay him. You could get a good man to do it, but you would have to take over the whole operation, in my judgment. And do not think you could long carry on your program.

Now, there are those people who do not seem to think that it makes any difference whether the independent dealer becomes an employee. I think it makes a vast difference. It makes a difference in his character as a citizen in the community. And I do not want to see my small community converted into a number of salaried people who are simply managing for the Gulf Oil, the Standard Oil, or for the Union Bag & Paper Co. or some other paper com-

pany down in Fernandina, Fla., or down in Pensacola, Fla. That is what would happen.

I am just giving you the advantage of saying to you, as I have not said about any other controverted feature of this bill, that so far as I am concerned I am on your team. I would not say that the other members of the committee would agree with me by any means; so you had better not assume that "the court knows the law," and you had better proceed to convert the others.

Senator TAFT. My only question was whether the definition was justified. The House has said that it did not apply to you. I just wondered whether, in view of the House committee's interpretation of their own language, your fears that the language might possibly include you can be justified.

Mr. GRAVES. Well, I am not a lawyer, but I have studied the various interpretations, not only applying to this "contract logging" but to other specific applications, and I cannot follow the reasoning used. It seems that certain of the seven qualifiations are evaluated and that certain of the seven qualifications are not applied at all to the particular case, and after attempting to give the proper weight to the various qualifications, a conclusion is drawn which to me has little relation to the facts.

Senator TAFT. You think we should change the whole definition, reconsider the whole definition with the seven qualifications?

Mr. GRAVES. I have outlined in this prepared statement something of the complications of these definitions as applying to our particular operations. We can omit reading this. I would say, however, that in our opinion the so-called definition under subparagraph 4 as distinguished from the definition under subparagraph 3, to which we are not objecting, that this definition under subparagraph 4 is just a slightly restricted grant to the administrative agencies of authority to determine for themselves who shall collect the taxes rather than being a definition. I cannot read any definition into these seven qualifications. Each one of them is variable and subject to judgment. And when you consider the combined effect of these seven you may reach any conclusion which serves your purpose.

Senator KERR. I take it that you want to be very definite and certain that the language of the act conforms to the report of the House committee?

Mr. GRAVES. I am not quite familiar enough with the report of the House committee to say that.

Senator TAFT. You set forth that the men you speak of would not be employees.

The CHAIRMAN. The illustration they use, Senator, is applied to a logger.

You are not engaged in the logging business. What you are talking about now is not exactly that type of business; is it?

Mr. GRAVES. Well, I think that the term "contract logger" as commonly used applies to the pulpwood business as well.

The CHAIRMAN. It does in a general way, but it is not quite the same operation.

Mr. GRAVES. We are so closely related to the logging business that the same interpretations generally apply to logging as apply to cutting of pulpwood.

The CHAIRMAN. Of course, these workmen who do, as a rule, cut the wood, get the logs out, prepare them, snake them out of the swamps and woods, generally are under social security; are they not?

Mr. GRAVES. They are supposed to be covered, Senator.

The CHAIRMAN. That is what I say. They are covered. It is just a question of whether this middleman becomes your employee under a possible construction of the definition that concerns you?

Mr. GRAVES. Yes. You have stated the case very well. Our only concern is the interpretation among these seven variable qualifications. And they are so broad, each one of them, that it is difficult for us to see but what they may be interpreted almost anyway that happens to be the individual viewpoint.

The CHAIRMAN. I am inclined to think you are right on that point. I think they are so broad, they do include so many factors, that the decision of the Administrator practically becomes conclusive. I think it could, and without any reflection upon the Administrator. Because he could find, in the case of furnishing financial assistance: Here is the independent dealer; he must have some money with which to operate. His local bank maybe does not want to make the loan, or maybe he already has exhausted his full line of credit at his small local bank. He naturally, say, calls on Union Bag or some other company with whom he is dealing, for some financial assistance.

Mr. GRAVES. Now, we could remedy that.

The CHAIRMAN. You might be able to do that, but that is one of the illustrations that comes to my mind. And that fact would perhaps justify the administrator saying, "Here is the relationship of your employer and employee," although the employer might make him the loan just as an arm's-length transaction. But at the same time he would not be getting his financial assistance from the employer.

Mr. GRAVES. I do not know about other companies, but if this bill should become law, even modified to some extent from its present language, I am quite sure we would stop making loans. We would not want that factor to enter into it. We could quite easily cease making loans. And I agree that such practice could imply a certain amount of control; that is, when the "independent operator" had a financial obligation to the consuming mill.

The CHAIRMAN. Yes, certainly. That would be bad, if you stopped making the loan. Because this fellow out in the woods, there, might not have any other way of getting a loan. He has to buy a truck, keep it in repair, and he also has to be able to buy some timber occasionally, so that he can have the wood that he can produce. I would hate to see this broad definition enacted, so far as I am concerned, but I am just giving you my own viewpoint about it.

I think the relationship of employer and employee, while often border line, is a relationship that can be definitely determined in any given case, if you have experienced business administrators on the job to do it. You can, by a lot of fictitious reasoning, create some question of whether one falls in the class of employer or employee, but in this particular type of independent operation here described there is not a single element of employer-employee.

I have known of instances where the middleman did not make any sale of his wood, whether he was cutting it for pulp purposes or for timber purposes, until he got prices from everybody. He was not

bound to sell to any particular person. As a matter of convenience, of course, he usually makes an agreement with some well-established business company, because he simply wants to know with whom he is dealing, and he does not want to go through all that detail of getting bids when he is ready to supply a quantity of wood. And he is not employed by any particular person. He is purely an independent operator, just as independent as a man who makes cotton to sell. We who made cotton all these years and sold it to Anderson-Clayton or to Wiel Brothers or MacFadden or somebody else, just a few people who buy cotton, have often borrowed money from them. But that did not make us agents of Wiel Brothers or MacFadden or anybody else.

So I agree with you thoroughly. Somebody just went off on a detour, here, when they were fixing up a definition that could catch everybody, practically.

Mr. GRAVES. Well, we have analyzed these seven qualifications, briefly, as applied to our particular case. I don't think it is necessary to repeat them here. But I would just like to mention one: permanency of the relationship. We have permanent relations with these operators, as permanent as without customers, or with our employees in some cases. We also have many irregular suppliers. But it would seem to us that this permanency has little to do with it. It is the conditions existing at the time the man does the work, whether he works for you 1 hour or whether he works for you a year. A man can work for 1 hour and still be covered by all the laws and practices which govern employer-employee relationships. And so we think that that is a bad thing to apply.

Regularity and frequency of the service is another qualification. That falls in the same class with permanency.

And then, to go into the "integration of the individual's work in the business to which he renders service," the word "integration" is subject to lots of divisions. It is true in this case. We are absolutely dependent upon these people for a supply of pulpwood. They are absolutely dependent on the mills, and in most cases one particular mill, for a market. If our business drops off, theirs is going to drop off. But I could not say that integration exists.

Here is an independent operator many miles away in North Carolina conducting his own affairs. He has little personal contact with us since our only contact with him is limited to an occasional visit by one of our representatives. Yet all of the seven qualifications would apply to this operator in some degree. There would be argument for and argument against his status as an employee and how the courts would decide I would not know. I could examine his status and say: "Well, this man is an independent businessman, but according to these seven qualifications he is your employee." And I would be perfectly justified in doing so. And I imagine in other businesses as well the same conditions would be found.

The CHAIRMAN. I think you are right about it, Mr. Graves.

I think the committee recognizes it. And I think the committee certainly recognizes this fact: that for taxation purposes and for the purpose of collecting revenue, whereas we might put burdens on people who are not in fact employers I do not think the relationship ought to go further than exclusively for tax purposes, if that should be

done. In some instances, of course, we may find it necessary to do that in order to collect the money that is due the Government. But that is wholly a different question.

Now, under the scheme of the House bill, this independent operator would undoubtedly be under social security anyway.

Mr. GRAVES. Oh, yes. These people would be covered.

The CHAIRMAN. He would be a self-employer. He could not escape. But he would not necessarily be your employee, with your somewhat limited liability all along, from contract to tort, for his acts.

However, the main thing that worries me is that it just destroys his status as an independent businessman in the community. And there is quite a difference between that status, that of an independent businessman doing his own business, and that of a man who must necessarily either get express authority higher up or ratification of what he has done higher up about everything in his business—unless he were a general agent. And, of course, if you had a general agent down there, you would have to have a vice president in the woods, because you could not afford to run the chances otherwise.

Are there any questions?

Thank you very much, Mr. Graves.

Mr. GRAVES. Thank you, Senator George.

(The unread remainder of Mr. Graves statement follows:)

The first qualification—"Control over the individual." We would say that we exerted no control over the independent operator's business, yet we must tell him how much pulpwood we can use at any particular time. We must say what specie of tree we can use, what length and size wood we desire, and we do endeavor to educate and persuade him to cut pulpwood in a manner conducive to good forestry practice. The Federal agencies may or may not say control existed, depending upon how it may suit their purposes for tax collection.

The second qualification—"Permanency of the relationship." Our relations with many of our independent operators continue from year to year very much as our relationships with our customers continue from year to year. We also have many irregular suppliers. It would seem to us, however, that "permanency" has nothing to do with qualifying a person as an employee. A man can work for you for as much as an hour and never work for you again but during that hour he can be your employee covered by all the laws and practices pertaining to employee-employer relationships.

The third qualification—"Regularity and frequency of the service." The same remarks applying to permanency may apply to regularity and frequency. The inference is that the more permanent, the more regular, and the more frequent a service the more likely a man is to be your employee. To us this is unsound reasoning.

The fourth qualification—"Integration of the individual's work in the business to which he renders service." We do not know in what manner "integration" is here used. The individual operator can and does supply pulpwood to other mills but many deal with only one mill and thus as our business fluctuates, so does his business fluctuate. He is dependent upon us for a market; we are equally dependent upon him for a source of supply. In this case the Federal agencies could say that there was or was not integration, depending upon what meaning he wished to give the word.

The fifth qualification—"Lack of skill required of the individual." The implication here is that the more skill a man has the less apt he is to work for someone else. This point could be argued with considerable sound basis from the opposite viewpoint. I cannot see how this criterion could apply to pulpwood operations.

The sixth qualification "Lack of investment by the individual in facilities for the work." This qualification can be determined with some degree of accuracy for indeed the amount of investment a man has in a business can be measured. In the case of the pulpwood business an independent operator would be likely to own or control such trucks, tractors, and tools as are necessary for the work. It is possible, however, to go into this business in a small way with a very small

investment. I think you will agree that many people have been self-employed without any capital investment to speak of in their business. Many a Member of this Congress has no doubt started law practice owning only the shingle on the door and with rented chairs in his office.

The seventh qualification—"Lack of opportunities of the individual for profit or loss." We could have no objection to such a qualification as applying to pulpwood operations except to say that it would be difficult to actually evaluate the opportunity for profit or loss due to the many contingent factors involved.

The above few conditions are only a slight indication of the confusion that would exist in applying these seven qualifications to our relations with our pulpwood suppliers. In actual application we believe it would be extremely uncertain.

As we have indicated, we do not oppose the principle of the Social Security Act. We recognize the desirability of extending the application of the act, though I would question the increased cost to the country in view of our present financial obligations and our potential financial obligations of the future. However, we strongly object to the broad and extremely vague and uncertain language of subparagraph 4, paragraph K, section 210 of the bill which could make us tax collectors simply by administrative interpretation. It seems to us to be a misnomer to call subparagraph 4 a "definition." More accurately, it is only a slightly restricted grant to administrative agencies of authority to determine for themselves who should collect social-security taxes.

If the interpretation should be to make the mills liable for these taxes it would result in the elimination of the independent businessman in pulpwood procurement. It would throw a most confusing interpretation upon the term "employee" which could in turn and probably would become a part of other laws and practices affecting employee-employer relationships. We would urge that it be stricken from the proposed amendments.

The CHAIRMAN. Mr. Bomze? You are representing the National Licensed Beverage Association here?

STATEMENT OF NORMAN BOMZE, REPRESENTING NATIONAL LICENSED BEVERAGE ASSOCIATION, WASHINGTON, D. C.

Mr. BOMZE. I am a member of it; yes, sir.

The CHAIRMAN. You are a member of it and speaking for it?

Mr. BOMZE. Yes, sir.

The CHAIRMAN. And you are located here in Washington?

Mr. BOMZE. That is right, sir.

The CHAIRMAN. You are the last witness for the morning. We shall be happy to hear you.

Mr. BOMZE. I have a prepared statement, Senator, which I would like to submit to the committee. However, some of these things have been covered already this morning, I think, thoroughly. I would just like to go over them briefly and then refer the committee to the statement, which we will submit.

The CHAIRMAN. Yes; you may do so. You may put your statement in the record as a whole, and comment upon any part of it that you wish.

Mr. BOMZE. That is what we would like to do, with your permission.

The CHAIRMAN. The statement will be entered in the record.

Mr. BOMZE. Thank you, sir.

(The prepared statement of Mr. Bomze follows:)

STATEMENT OF THE NATIONAL LICENSED BEVERAGE ASSOCIATION

Mr. Chairman and gentlemen of the committee, my name is Norman Bomze. I am a member of the National Licensed Beverage Association, a national trade association of owners of restaurants and taverns, and speak to you on behalf of its membership. Membership in this association has had through various States and local associations of tavern and restaurant owners, a list of which local groups is appended to my statement.

I will speak, first, concerning our interests in the language used in H. R. 6000 to define the term "employee." Identical language appears in section 104 (a) at page 48–49, and section 206 (a) at page 150, that language being "the term employee means (1) * * * (2). Any individual who under the usual common law rules applicable in determining the employer-employee relationship has the status of any employee. For purposes of this paragraph if an individual (either alone or as a member of a group) performs service for any other person under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person)."

The effect of this language is to take us back prior to 1947 to a highly (artificial) relationship which then existed between persons who furnished employment for musicians and entertainers, and those musicians or entertainers.

From the days when entertainment has furnished by wandering minstrels until recently, the relationship between musicians and those who pay them for their services was governed by the rules of the common law. Even the original Social Security Act did not attempt to change this historical situation. It was not until the Treasury Department began to administer the collection of social-security taxes that another test was substituted. The so-called Form B contract, always demanded in such employment, provides that:

"The employer shall at all times have complete control of the services which the employees will render under the specifications of this contract."

The inclusion or exclusion of this language is not a matter for negotiation and is present in every such contract. In other words, with us it is not a question as to whether our music shall be hired on the basis of this or some other contract. Our only choice is to either do without live music or sign this type of contract. Prior to 1947, the Treasury Department, by regulations, decreed that where such a contract was in force, the purchaser of the music was, in fact, the employer, and therefore, responsible for the record keeping and taxation provided for in the taxing statutes. It is true that in some instances the agents for name and itinerant bands acted as the employer and thus relieved the purchaser from this burden. However, in 1947, the Supreme Court, in *Bartels* v. *Birmingham* cut through the fiction of the Form B contract and required that the relationship between the purchaser and the musicians should be governed by the ordinary rules of the common law. They found, in fact, that the leader of the orchestra was the person actually in control and, therefore, the employer.

The situation before this decision was chaotic. A band woud arrive for a 1-night or for a 1-week engagement on the basis of a Form B contract entered into sometime previously. In some instances, the names of the musicians would be appended to the contract, and sometimes not. Even in cases where the names were furnished with the contract, the identity of the musicians in the band would have changed by the time set for its performance. The list would, therefore, be out of date. In this situation, regardless of the effort expended by the purchaser of the music, it was impossible to obtain all the information required to comply with the tax laws.

The relief of the proprietors using this type of music was manifest at the time of the Bartels case. The relief was not because they were thus allowed to avoid a tax as they continued to pay the tax by an increase in the bulk or package price paid to the leader. Their satisfaction was, instead, by reason of their being relieved of the burden of the administration involved. There was, of course, a monetary saving to them because this chaotic administration was no longer a drain on overhead.

The proposed definition would return us to the difficult situation we experienced prior to the Bartels case. Moreover, this definition would prevent the agents for traveling bands from relieving us from this burden.

From a reading of the amendments proposed by H. R. 6000, it is apparent that the intent of the legislation is to improve the benefits and extend the coverage of the basic law. We wish to invite the committee's attenion to the section here discussed because it is, in fact, contrary to the intent of H. R. 6000. We are dealing here with itinerant musicians—wandering minstrels who receive their hire from as many sources as there are weeks in the year, or in some cases days. It is obvious that if their one constant paymaster, the proprietor of the name band, does not keep the records, it will have to be done by scores of others. It appears to us, therefore, the accounting from the standpoint of the individual

will be far better under the present system than that proposed by this bill.

The members of this association do not seek to avoid their responsibilities as employers in any situation where they are, in fact, employers, and have the control necessary to adequately perform their administrative duties under the law. We do, however, object to being saddled with administrative duties in a situation where we are, in fact, not employers. The forced and artificial status of employers created by this amendment does not give us the control necessary to properly perform the duties required. We ask, therefore, that the language of subsection 2 in both definitions be stricken after the first sentence.

The members of our association are also interested in section 104 of H. R. 6000, wherein it is provided that tips received by an employee shall be considered as remuneration paid by the employer, if reported to him by the employee. We object to the language of this section because it creates the anomalous situation wherein the employe can select a tax base upon which the employer is taxed.

When this provision was first considered by our membership, the first reaction to it was that it was of no consequence because our employees will not report their tips, and our liability as to the employment taxes will not be increased. However, upon reflection, it appears to us to create a dangerous situation.

One of the enforcement problems of the Bureau of Internal Revenue has been the securing of accurate reporting of tips as income. That has not been the responsibility of the employer, although in most instances employers have gone out of their way to urge accurate reporting and, where the amount is known, have reported the same. In spite of these activities on the part of employers, it is common knowledge that this is one of the loopholes in enforcement, if not in the law. Under the present situation, it cannot be said that an employer can benefit by faulty reporting of the employee. However, if this section of H. R. 6000 becomes law, there will be a certain tax advantage to the employer whose employees fail to report their income accurately. We do not believe we should be placed in this defensive position. It is only logical that the next step in enforcement would be to place the employer in a position of responsibility for such reporting. As a matter of fact, the committee's advisory council on social security would have us estimate the tips received by our employees if they do not make an exact reporting. This is a highly unrealistic situation. There is no formula upon which any accurate estimates can be made. Although tips generally may run a certain percentage of sales, the type of customer, the personality of the waiter or waitress and even the hour of the day causes variance in the size of tips. Any such reporting will be tied in with income tax reporting and while we are willing to pay the employer's tax on any amount which we would report to the Bureau of Internal Revenue, such as salary or tips charged on the face of a food check, to embark upon a responsibility which may well force us, as employers, to become enforcement agents for the Bureau is an unreasonable imposition on our business.

The increase in tax by reasons of these two provisions would do a serious disservice not only to business but also to labor. Restaurants and taverns depend upon serving large numbers of customers (some 60,000,000 daily) at a small profit rather than small numbers at a high profit. Surveys show that the average net profit of the Nation's restaurants range between 2 and 2½ percent and also that the present trend is downward. There is at this time a high rate of business mortality in this industry.

To stay in business, restaurateurs must now watch their costs very closely in order to survive, and even minor increases in expense may throw many operations from the black side of the ledger to the red. The average restaurant with a high efficiency rating and an effective cost control system has a 50 to 55 percent food cost and the average salary in such operation is 30 to 35 percent, which leaves only 15 to 20 percent for rent, repairs, replacement, laundry, maintenance, insurance, taxes, advertising, and other operating costs. What is left is the 2 to 2½ percent profit I mentioned before. If these costs are raised by additional taxes on salaries, the only method of reimbursement to the restaurateur is to raise menu prices substantially. This, of course, is not a solution to decreasing revenues because all over the country we are trying to lower menu prices so as to attract new customers and keep the ones we have.

The increase in operating costs would be a disservice to labor: First, in the increased cost of food which they buy in restaurants; and second, in many instances the loss of their means of employment through lay-offs and closures caused by failure. When their employers are operating on such a narrow margin of profit, the security of their jobs depends upon the maintenance of that margin. Such employees are generally classed as unskilled or semiskilled labor and their

opportunities for seeking other employment is extremely limited. Our operating costs now include the social security taxes, unemployment compensation workmen's compensation, and in many operations such as my own, group hospitalization, labor unions welfare funds, and the increased bookkeeping expense incurred by reason of such taxes. For that reason, we ask that we be allowed to administer the tax collection for those whom we actually employ and that our base for unemployment taxes be limited to those amounts which we actually pay as remuneration for services rendered.

AFFILIATES OF THE NATIONAL LICENSED BEVERAGE ASSOCIATION

Arizona Retail Liquor Dealers' Association
Associated Tavern Owners of Brooklyn, Inc.
Buckeye Retail Liquor Dealers' Association
Cass County Liquor Dealers of Fargo, N. Dak.
Chicago Tavern Owners' Association
Hawkeye National Beverage Association
Illinois State Retail Liquor Dealers' Association
Maryland Retail Liquor Dealers' Association
Massachusetts Retail Liquor Dealers' Board of Trade
Michigan Table-Top Licensees' Congress
Montana Retail Liquor Dealers' Association
Nebraska Beer and Liquor Retailers' Association
New York State Restaurant and Liquor Dealers' Association
Northern and Central California Tavern Owners' Association
Philadelphia Retail Liquor Dealers' Association
Philadelphia Tavern Association
Restaurant Beverage Retailers of Washington, D. C.
Rhode Island Retail Liquor Dealers' Board of Trade
South Dakota Retail Liquor Dealers' Association
Tavern League of Wisconsin, Inc.
Utah Retail Beverage Association
West Virginia Tavern Institute
Wisconsin Tavern Keepers' Association

Mr. BOMZE. My name is Norman Bomze. I am a member of the National Licensed Beverage Association, a national trade association of owners of restaurants and taverns, and speak to you on behalf of its membership. The membership in this association is had through various State and local associations in some eighteen-odd States.

We are concerned with two sections of H. R. 6000, the first of which is the definition of the term "employee" in its relation to the "name band" idea which the committee has heard a good bit of testimony on this morning.

The only point that we would like to bring out is that in the Bartels case in 1947, when the Supreme Court saw fit to cut through the fiction of the American Federation of Musicians form B contract and require that the relationship between the purchaser of the music and the musicians should be governed by the ordinary rules of common law, they found in fact that the orchestra leader was the person actually in control of the orchestra and, therefore, was in fact the employer.

The situation before this was rather chaotic, in that bands would arrive for a 1-night or a 2-week, or a 1-week engagement, and in some instances the names of the musicians were not submitted prior to the date of the engagement, and, consequently, the operator would have no way of knowing who were the musicians, what their names actually would be, what their social-security numbers would be. In fact, they would arrive in some given town, some small town, and maybe be shy one or two musicians and would employ one or two musicians locally to fill in, in order to be able to satisfy the engagement.

In that respect it made it almost impossible for our type of member to keep any type of record other than the fact that he knew that he engaged John Smith, orchestra leader, paid him a price, and his re-

sponsibility ended there. And the responsibility for maintaining records and complying with the social-security law was on the leader of the orchestra. That seemed to work out, and seems to work out now, to the satisfaction of most of those concerned.

It is apparent that the intent of this act is to improve the benefits and extend the coverage under the Social Security Act. Now, we would like to invite the committee's attention to the subject discussed, because it is in fact contrary, we believe, to the intent of the act. We are dealing here with an itinerant musician, a wandering minstrel who receives his hire from more than one paymaster. The proprietor of the band, if he does not keep the records, brings about a difficult situation, because keeping the records would be almost impossible for anyone else. No one else would know the exact status of his employees, because they are in fact his employees. We feel that we are far better set up under the present system than we would be under that proposed by the bill.

Our members do not seek to avoid their responsibilities as employers in any situation where they are employers. In fact, we feel that if we are employers we should have complete control over the situation, whereby we can perform our administrative duties in conformance with the law. However, we feel that this is an unfair saddling of administrative duties in a situation where we are in fact not employers.

The other section that I would like to deal with, Mr. Chairman, is section 104 of H. R. 6000, which deals with tips or gratuities received by employees, wherein the new language says that the "tips received by an employee shall be considered as remuneration paid by the employer, if reported to him by the employee." We object to the language of this section, because it creates the anomalous situation wherein the employee can select a tax base upon which the employer is to be taxed.

I should like to invite your attention to the report of the Advisory Council to this committee, on page 29, where the language is:

> In the absence of an exact reporting of tips by persons receiving them, it would be possible to permit employers to report a reasonable estimate of the tips received by their employees, as is now done by some of the State unemployment insurance laws.

The words "reasonable estimate" present a problem to us. Who is to determine what is reasonable? Would it be the employer? And if so, would there be another authority that might say his interpretation would not be reasonable?

We feel that being saddled with the responsibility of determining what these employees make in addition to the wages we pay them is an unfair situation. Our membership is made up of mostly small restaurants and small taverns, where usually they are managed, maybe, by husband and wife, and a few employees. Probably none if any employ full-time bookkeepers or office staffs that can handle this type of administrative function.

As it is at present, we receive, some of us, from 15 to 20 reports a month that we must answer, to certain Government agencies, with the State and Federal Government, reports as to what the social security numbers now are, reports of firing an employee to the local or State unemployment compensation boards. We, of course, comply with all of these things that we possibly can, but it makes it rather

difficult for a man who is operating his own business and must actively engage in the operation of that business. His is not an administrative function; he rolls up his sleeves and goes to work. And it is rather difficult for him to have to sit down several days out of the month and handle these administrative functions.

Actually, determining the tips would be a very difficult factor. Although you may determine that they run a certain percentage of the gross sales to the customers, the factor of the customer and that of the personality of the particular waiter or waitress are most important. And even on the time of the day that they are serving would depend the amount of the gratuity they would receive. Therefore for us to embark upon a responsibility which will force us as employers to actually become enforcement agents for the Bureau of Internal Revenue we believe is an unreasonable imposition on our business and on our particular members.

As it is today, our business has been pushed rather badly. It is a business that always has had a high amount of business mortality. It is an operation that takes a careful operator who knows what he is doing. Even today, the figures now are that under a good efficient operation the cost would be from 50 to 55 percent just on the food cost, the sale of the product, with an average salary cost percentage of 30 to 35 percent, which would leave us 15 to 20 percent of the gross profit to take care of rent and utilities and all the other things. And on the basis of a recent survey, it would leave us about 2 or 2½ percent net.

We therefore feel that these additional costs that would be put upon us by having to place additional administrative people to handle the bookkeeping would be unfair and would be something that the people in our business are unable to handle.

We also feel that the increase in operating costs would be a disservice to labor, because of the increased cost in food, which would naturally have to come about, which they buy in restaurants. And in many instances this would bring about a loss of jobs to labor, and our people are either semiskilled or unskilled employees and would probably find difficulty in finding jobs in other industries.

It is for these reasons, briefly, that we ask that we be allowed to administer the tax collection for those whom we actually employ, and that our base for employment taxes be limited to those amounts which we actually pay as remuneration for services rendered.

Senator KERR. You mean to the individuals who directly receive them as their wages?

Mr. BOMZE. Yes, sir.

Senator KERR. Without the intermediary handling by independent or semi-independent operators?

Mr. BOMZE. That is true, sir.

The CHAIRMAN. Does that conclude your statement, Mr. Bomze?

Mr. BOMZE. That is all I have to submit to the committee, other than our prepared statement.

The CHAIRMAN. Thank you very much.

That completes the hearing for the morning. The committee will recess until 10 a. m. tomorrow.

(Whereupon, at 12:15 p. m., the committee recessed to reconvene Tuesday, March 7, 1950, at 10 a. m.)

[redacted]

SOCIAL SECURITY REVISION

TUESDAY, MARCH 7, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Byrd, Lucas, Kerr, Millikin, Taft, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Calhoun, you may be seated, sir. You are not a stranger here. We are very glad to see yeou. I am sorry that the full committee is not here, but it is impossible to get full attendance in any committee at this session, apparently, because every one is so busy.

STATEMENT OF LEONARD J. CALHOUN, MORGAN & CALHOUN, WASHINGTON, D. C.

Mr. CALHOUN. Thank you, Senator George. My name is Leonard J. Calhoun. To conserve the committee's time, this statement is being submitted as the joint statement of the Hon. John A. Danaher, the Hon. James M. Barnes, and myself, on behalf of clients whose names are appended hereto.

These companies have various products—nursery stock, wearing apparel, cosmetics, household articles, farm supplies, and other items—but all have a common business approach. Their products are not sold through stores, but instead by independent distributors who sell from house to house.

Typically, these distributors, from time to time, select the line or lines of goods they think will prove most profiitable. They freely shift to lines of other companies whenever they feel that they can thereby increase their profits. They lack the security of being on a pay roll, but likewise escape the fear of strikes and shut-downs. In good times or bad they are never involuntarily unemployed. They have no seniority rights, no company pensions, but, instead, have an opportunity limited only by their zeal and skill to work out their own economic destiny. Each is his own boss—he punches no time clock and is subject to no company orders. These distributors do not seek jobs, but instead select the companies whose products they will handle from among the many continually pressed upon them by advertisement and otherwise. Incidentally, any substantial list of distributors is of considerable value to any company engaged in this line of business.

The independent relationship of these distributors to the companies whose products they distribute is reflected in the advantages and disadvantages of the companies themselves. While the company has no pay roll responsibility to its distributors, and escapes the expense incidental to the careful selection which must be made of employees and the overhead of their supervision, it likewise is unable to direct and control its distributors, must face a tremendous turn-over in distributors, and must spend considerable sums in advertising and otherwise attracting new distributors. The company must also face the fact that a high percentage of the distributors will have only temporary and insubstantial dealings with it, and that it must rely only upon the law of averages to achieve a business relationship with distributors whose business proves profitable.

These advantages and disadvantages tend to balance, both for the companies and the distributors, with the advantages and disadvantages of other business relationships and methods of doing business. Otherwise direct selling would either disappear or would become the universal method of distributing goods.

I have touched on this method of doing business, this relationship between the companies we represent and their distributors, by way of background to an appreciation of consequences which would result if the definition of "employee" in H. R. 6000 were adopted and this relationship artificially twisted into an employer-employee relationship. I shall leave to subsequent witnesses the evaluation of the practical results of the adoption of this definition on their businesses, and shall limit my statement to pointing out what I conceive to be matters of principle and broad economic, social, and administrative implications of the proposal.

Your action in adopting a definition of employee will have far-reaching consequences. The field in which our clients are engaged represents only a small segment of enterprise which will be affected, and while you are amending the old-age and survivors insurance provisions of the Social Security Act, you are also setting a precedent for other social laws, and, we believe, even broader purposes. You have only to read court decisions, to see how quickly precedents as to the employer-employee relationship in any particular area are made to apply to the employer-employee relationship under other statutes and for other purposes. You can appreciate the practical results if independent distributors are deemed employees for the purposes of Wages and Hours, Labor Relations Acts, Workmen's Compensation, tort liability, separation pay, doing business in a State, and various and sundry forms of taxation and withholding and other liability under various Federal, State, and municipal ordinances hinging upon the employer-employee relationship.

In social legislation my observation that I have just given is based on what is already happening in unemployment compensation. Last November, following House adoption of H. R. 6000, the Director of the Bureau of Employment Security transmitted to State administrators a series of proposed changes in the Federal unemployment compensation laws, requiring, of course, conforming State law changes.

The official proposal E was, and I quote, 'Redefinition of 'employee' in conformity with H. R. 6000." It contains his thumbnail analysis of the definition, including his statement, "The fourth test would

apply to those who are not technically employees, but from a factual standpoint are economically dependent upon the employer under seven tests." At least three bills containing this proposal—H. R. 6718, H. R. 7331, and H. R. 5591—have already been introduced.

The practical consequences of this proposal as applied to our independent distributors will serve as an example of the effect of a distorted definition of employee not only here but in other programs, and not only on our limited area but across the whole field of independent business relationships.

It is easy to understand why unemployment compensation systems do not cover self-employed and why independent distributors, from the viewpointof administrative reality—to quote the phrase we have often heard with a little twist—must be classified as self-employed. Unemployment compensation presupposes an individual on a pay roll, his employment terminated through no fault of his own, with benefits based upon his "full-time weekly wage" and paid during a period of involuntary unemployment. These distributors have gross and net profits which cannot realistically be treated as wages. As previously mentioned, there is no employment obligation, either on the part of the company or of the individuals, and accordingly on business reason for terminating their arrangements. Instead, in good times and bad the company is anxious to continue the arrangement, so there is ever even a colorable involuntary separation of the distributor through lack of work.

Senator MILLIKIN. Mr. Chairman?

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. If you do not have it, Mr. Calhoun, I would like to ask Mr. Cohen to supply us with this series of proposed changes in the Federal unemployment compensation laws which were sent out following the adoption of H. R. 6000 in the House.

Mr. CALHOUN. I think, sir, that went out from the Labor Department. You know, Unemployment Compensation has been transferred over there.

The CHAIRMAN. You do not have copies of that, do you?

Mr. CALHOUN. I don't have them with me, sir. I can obtain them.

The CHAIRMAN. If you can get them we would be glad to have them; if you cannot, Mr. Fauri may be able to get them from the Labor Department. Those are the proposals that they send out and the suggestions and recommendations for changes in State laws and regulations; is that right?

Mr. CALHOUN. That is my understanding.

The CHAIRMAN. Following the passage by the House of H. R. 6000.

Mr. CALHOUN. Yes; that is my understanding.

(Mr. Fauri obtained the following information from Mr. C. L. Keenan, Deputy Director, Bureau of Employment Security:)

DEPARTMENT OF LABOR,
BUREAU OF EMPLOYMENT SECURITY,
Washington, D. C., November 25, 1949.

General Administration Letter No. 162

To: All State employment security agencies.
Subject: Proposed Federal legislation of the Bureau of Employment Security.

In accordance with its statutory responsibility, the Bureau of Employment Security is now considering Federal legislative amendments designed to strengthen the unemployment insurance system. We are enclosing a summary

of proposals which we have under consideration.

The Secretary, consistent with his policy of consultation with the States on major issues, has asked us to secure your views with respect to these proposals before the Department reaches its final conclusions. Please consider these proposals, both from the standpoint of policy and technical soundness.

It is necessary that we come to final conclusions with respect to legislative recommendations in the very near future. We hope, therefore, that you will be ableto give this matter your early attention so that any comments or suggestions you wish to forward will be in our hands not later than Monday, December 5. Because of the time element, please send your comments directly to this office with a copy to the appropriate regional representative.

Sincerely yours,

ROBERT C. GOODWIN, *Director*

SUMMARY OF PROPOSED FEDERAL LEGISLATIVE AMENDMENTS TO UNEMPLOYMENT INSURANCE [1]

I. MINIMUM BENEFIT STANDARDS TO BE MET IS STATE LAWS

A. Benefit amounts payable to individuals without dependents to be generally equal to 50 percent of weekly wages up to a maximum of $30 a week; for persons with dependents, benefits to be generally 60 percent of weekly wages for one dependent, 65 percent for two dependents, and 70 percent for three dependents up to a maximum of at least $42 a week—Dependents to include dependent wives, disabled husbands, and children

This proposal is designed to bring benefits up to a level that is in line with increases in wage levels and the cost of living. The growing trend to provide dependents' allowances would be made universal in recognition that this is an economical method of providing adequate benefits to an individual with a family without paying too high benefits to single persons or persons whose wives are working.

The proposed standard does not mean that every unemployed person without dependents would receive $30 a week in benefits. It means that persons earning $60 a week or more would receive $30 in benefits. A person earning $40 a week in wages would receive only $20 in benefits; a person earning $30 a week in wages would receive $15 in benefits. A State would be free to pay higher amounts The proposed amounts are minima.

B. Benefit duration of at least 26 weeks in a benefit year, uniformly available to all insured unemployed persons

This proposal is designed to bring all States up to the level of the best practice of the States. It recognizes that the shorter duration provided plus the gearing of the duration of benefits to previous wages in many States has resulted in a high ratio of exhaustion of benefits in even as prosperous a year as 1948, and the necessity of providing a more adequate duration to meet increased unemployment such as occurred in 1949.

Under this proposal, every State would pay at least 26 weeks of benefits to a person unemployed that long and meeting other requirements. The maximum benefit duration would be payable to all insured unemployed instead of varying with previous base-period earnings, as now provided in many States.

C. Qualifying requirements of not more than (1) wages equal to 30 times the benefit amount or not more than $300 as a minimum requirement, whichever is the lesser; (2) wages equal to 1½ times high-quarter earnings; or (3) 20 weeks of employment in the base period

This proposal is considered necessary to prevent unreasonably high eligibility requirements as benefits are increased. The above would be maximum qualifying requirements; lower requirements would be possible. A State would be free to choose any one of the requirements specified.

D. Waiting period of not more than 1 week of unemployment in a benefit year

This proposal is in line with the requirement in most State laws and there are no longer any administrative reasons why a 1-week waiting period is not feasible. The week of unemployment would be defined as a week during which the remuner-

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[1] It should be understood that the proposals listed are not necessarily in legal language, and would be spelled out in more detail in the legislation.

ation payable to an individual is less than the benefits payable to him for a week of total unemployment.

E. Disqualification provisions

1. *In cases of voluntary leaving of suitable work without good personal cause, discharge for misconduct connected with the work, and refusal of suitable work without good cause, disqualification from benefits could not be longer than the week of the disqualifying act and the six following weeks with no reduction in benefits or cancellation of wage credits.*—This proposal is designed to restrict disqualifications so that no worker is disqualified who is involuntarily unemployed and to provide that benefits are to be withheld only in case of disqualification for a period of time in which his unemployment is reasonably related to the disqualifying act.

The above are the maximum disqualifying periods that could be imposed for the causes listed; a State could provide for a shorter disqualifying period or vary the disqualifying period according to the cause of disqualification up to a maximum of 6 weeks. There would be no reduction in the duration of benefits and no cancellation of wage credits earned prior to the disqualifying event. For persons able to work and available for work, these three causes plus strikes and fraud would be the only reasons for which a worker would be disqualified.

2. *Limitation of disqualification in case of labor disputes to any week of unemployment due to a stoppage of work which exists because of a strike.*—Because unemployment due to lock-outs is involuntary, unemployment due to a lock-out would not be subject to disqualification. Duration of disqualification would be for the duration of the stoppage of work. Language regarding the location of the strike and the participation or interest of the individual would be incorporated.

II. ADDITIONAL ADMINISTRATIVE REQUIREMENTS FOR GRANTS UNDER TITLE III OF THE SOCIAL SECURITY ACT

A. The addition to section 303 (a) (1) of such methods for the prevention, detection, and punishment for willful misrepresentation or nondisclosure of material facts as are found by the Secretary to be reasonably calculated to insure the payment of unemployment compensation only to individuals entitled thereto

The intent of this proposal is to give legislative recognition to the importance of preventing improper payments, the effective detection of fraud and misrepresentation, and the proper protection of the individual concerned through adequate development of the facts in connection with the recovery of improper payments and the imposition of penalties for such fraud and misrepresentation.

B. Participation in methods for the combining of wage credits earned under the State law and wage credits earned under the unemployment compensation laws of other States or the Federal Government, and for the payment of interstate claims, as are found by the Secretary of Labor to be reasonably calculated to ensure the prompt payment of benefits in such situations

This proposal is intended to give congressional recognition of the importance of uniform interstate arrangements for the payment of interstate claims, including the combining of wage credits earned in two or more States.

III. FINANCING PROVISIONS

A. Automatic appropriation of proceeds of Federal unemployment tax to Federal unemployment account in the unemployment trust fund, to be used (1) for grants to the States for administration as specified by Congress, including a contingency amount; (2) for the costs of Federal administration; and (3) for reinsurance as described under B. Continued authorization for the appropriation of the past excess of collections over Federal and State administrative expenses and such additional funds as may be necessary

This would provide for the earmarking of the collections under the Federal unemployment tax and their use exclusively for grants to the States for the administration of their unemployment insurance and employment service programs for the Federal expenses in connection with administering the Federal employment security functions and for reinsurance purposes. The money to be used for State and Federal administrative expenses would still be approved by Congress. An annual contingency amount up to the amount approved by Congress would be provided for use in the case of unforeseen conditions. The present

provision authorizing appropriation of the excess of Federal unemployment tax receipts over amounts expended for unemployment insurance expenses, due to expire December 31, 1949, would be indefinitely extended and such additional amounts as are necessary would be authorized to be appropriated by Congress.

B. Substitution of reinsurance grants for the present provision for loans to State funds provided under title XII of the Social Security Act, such as reinsurance grants to be made as follows:

1. If the State fund is smaller than the amount paid out in benefits in the two preceding quarters and the State has established a minimum rate of contributions to its fund of at least 1.2 percent of taxable wages since such time as its fund has dropped below the expenditures for benefits in the two preceding taxable years.

2. The reinsurance grant to be equal to the estimated excess in benefit expenditures under the State law over an amount equivalent to 2 percent of taxable wages.

A reinsurance fund rather than the present loan fund is proposed in recognition of the fact that the Federal Government has an obligation in the national interest to assist any State whose unemployment benefit load (due largely to national causes) is more than it can reasonably be expected to bear out of its own resources. Such a national obligation is increased if the Federal Government requires minimum benefit standards as proposed.

The reinsurance grants proposed would not be repayable. Such reinsurance grants would be paid in advance and adjusted quarterly. The grants would cease when the State fund rose above benefit expenditures in the two preceding quarters.

The requirement that a State must establish a minimum contribution rate of 1.2 percent when its fund drops below 2 years of benefit expenditures is similar to provisions in many State laws. This modest requirement and the provision that the grant be for the excess of benefit cost over 2 percent of taxable wages are designed to enable the State to avoid drastic increases in contribution rates when unemployment rises; at the same time they are designed to safeguard the Federal Government from financing State funds that have been depleted by improvident contribution rates.

IV. EXTENSION OF COVERAGE

A. Coverage under the Unemployment Tax Act of employers who have one or more individuals in employment at any time

This extension of coverage would remove the present limitation on the size of employers taxable under the Federal Unemployment Tax Act. The extension of coverage to one or more could be met automatically by most of the States not having similar coverage through provisions in most of the State laws.

B. Removal of the exemption from the Federal unemployment tax of employment in nonprofit organizations exempt from income tax, except clergymen and members of religious orders and part-time workers earning less than $100 a quarter

The exceptions would be the same as those in the social-security amendments passed by the House of Representatives in H. R. 6000.

C. Coverage of Federal civilian employees and servicemen, to be financed by the Federal Government

A new title would be added to the Social Security Act providing for benefits for Federal employees. The present exemption from the Federal unemployment tax would remain, and the benefit costs would be financed by appropriations out of general funds of the Treasury.

D. Redefinition of agricultural labor to bring it into conformity with H. R. 6000

This would add approximately 200,000 persons to the coverage of the Federal Unemployment Tax Act. The principal groups covered would be those engaged in the production or harvesting of maple sirup or maple sugar, the raising or harvesting of mushrooms, or the hatching of poultry off the farm, or employment connected with irrigation projects, as well as a delineation of excluded and covered employment in packing, processing, and transportation, etc., of agricultural commodities similar to that in effect before the 1939 social-security amendments

E. Redefinition of "employee" in conformity with H. R. 6000 and removal of exemption of insurance salesmen in section 1607 (a) (14) of the Internal Revenue Code

This new definition would bring under coverage salesmen and certain other employees who were deprived of status as employees by Public Law 642, Eightieth Congress, the so-called Gearhart resolution. H. R. 6000 provides four separate and independent tests for determining who are employees, and those tests are spelled out in detail. The first test covers officers of a corporation; the second those covered under the common-law master-servant rule; the third lists the following as covered: outside salesmen in manufacturing or wholesale trade, full-time life-insurance salesmen, driver-lessees of taxicabs, home workers, contract loggers, lessees of space within a mine and house-to-house salesmen under certain conditions. The fourth test would apply to those who are not technically employees, but from a factual standpoint are economically dependent upon the employer under seven tests. For more detail, see H. R. 6000, Report No. 1300.

F. Puerto Rico to be defined as a State under title III and the Federal Unemployment Tax Act

It may be necessary to make some exceptions to the requirements of the Federal Unemployment Tax Act as proposed to make coverage of Puerto Rico practicable. This would include taking into consideration the present unemployment-insurance system for sugar workers in Puerto Rico.

V. DEFINITION OF WAGES

A. The taxable wage limit under the Federal Unemployment Tax Act to be increased to the same amount as may be provided for old-age and survivors insurance

H. R. 6000 as passed by the House of Representatives raises the taxable wage base from $3,000 to $3,600. The taxable wage limit for unemployment insurance should be the same as that for old-age and survivors insurance. The increase would also help finance the higher benefits proposed.

B. Gratuities to be defined as wages under the Federal Unemployment Tax Act

This definition would give statutory recognition to at least what is now covered by regulation by the Bureau of Internal Revenue.

NOTE.—H. R. 6000 provides for amendments to section 1607 (b) of the Internal Revenue Code to bring the definition of wages under the Federal Unemployment Tax Act into conformity with the changes under the Federal Insurance Contributions Act, except for the amendments proposed under A and B above.

VI. EFFECTIVE DATES

The effective date for benefit standards would be July 1, 1952; for extension of coverage, January 1, 1951, for Federal workers, and January 1, 1952, for other workers; for the earmarking of the Federal unemployment tax, January 1, 1951; and for the reinsurance fund, January 1, 1950.

The effective date of July 1, 1952, for benefit standards is designed to give all the States an opportunity to amend their laws to bring them into conformity with the Federal legislation at the regular sessions of their State legislatures in 1950 and 1951. On the other hand, it would be feasible to extend coverage as of January 1, 1952, since employers could be covered retroactively or by voluntary election in the few States whose legislatures do not meet until 1952. The other proposals do not require State legislative action and could be made effective at earlier dates.

Mr. CALHOUN. Unemployment benefits are paid on separation through no fault of the employee and presuppose a separation by an employer who is in a position to report whether there has been a separation, a voluntary "quit," or no separation at all. Thus in the case of the independent distributor and other self-employed, the preliminary requirements of unemployment compensation cannot be met.

Furthermore, the normal unemployent-copensation procedure is to offer a claiant "suitable work," which obviously includes work of the kind he has been doing. But in our clients' business, a multitude of firms are always ready and eager to enter into the identical type of

arrangement that the distributor has abandoned. Accordingly, sel employed do not fit into and cannot qualify for benefits under norm unemployment-compensation techniques and procedures.

Similar limitations apply to cash sickness benefits, as was admitte by Mr. Altmeyer before the Committee on Ways and Means. He state in substance that there were compelling practical reasons for limitin cash sickness coverage to employees. In response to questions, he state that the main practical objections were that the self-employed did n have the same type of establishable wage loss as employees, and, mo important, that the system required an employer interested in t employee's recovery and acquainted with the reason for his not bein at work.

The factual situation of free-lance distributors and other self-em ployed who would become employees under the definition in H. F 6000 makes clear that considerations which exclude self-employed i general are applicable to them. There is no magic in definition whic could change the facts I have above referred to or result in feasibl coverage of these self-employed individuals as employees.

The measure you have before you has a social purpose—affordin protection on retirement or death when earnings cease. The partic ular measure is not necessarily limited to employees but can appl to self-employed and can cover them as such. Would it not be ironica in such a measure to deprive some self-employed of their present op portunity to earn a living by artificially and unnecessarily classifyin them as employees?

For many door-to-door distributors, the artificial employer-em ployee definition would have this effect. Today anyone who desire to try his hand at selling has a wide-open field. Because there is n employer-employee responsibility a company is willing to do busines with these independent distributors without the normal considera tions—and they are quite important—of adding a person to the pay rolls. Consequently the field is wide open, in good times and bad to everyone. Persons with limited time to devote to it may try thei hands at selling since they do not have to keep company rules or hour or undertake other normal incidents of employment. Thus the house wife, the person with a regular job, the individual who cannot obtai employment, and others are all given an opportunity which is limite only by their own ability and which is terminated only by their own volition. Imposing the obligations of the employer-employee rela tionship in this field would impose such expensive obligations o firms as to, in effect, outlaw a vital field of opportunity for many per sons with small means and limited work opportunity, to be gainfully employed. Subsequent witnesses will spell out what these require ments will be and why the necessary effect would be for them to aban don any use of the occasional short-term seller.

Restated in terms of the effect on a broad area of business relations the issue with which you are faced is whether it is the present desire of Congress—notwithstanding the position it has previously taken—that many independent self-employed shall be deemed employees and the methods of doing business of thousands of businesses destroyed. Do you really believe that established business must be made to con form to some new standard which will have the effects of terminating the opportunity of persons to be self-employed? Is the Congress to

reorder the plan of operations of our clients and of thousands of other business enterprises?

We submit that H. R. 6000 gives an opportunity to keep the present interpretation of the employer-employee relationship out of an otherwise ever-deepening twilight zone. Heretofore, because self-employed persons needed coverage, attempts have been made to define "employee" artificially to cover them. This bill makes a great forward step toward fulfilling this need for coverage by providing for the coverage of self-employed as such.

Mr. MILLIKIN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. Do you believe, Mr. Calhoun, that it would be workable to give the self-employed the option of coming under the system; as distinguished from compulsory inclusion?

Mr. CALHOUN. That poses a rather difficult question, Senator; I think that insofar as people's ability to elect is concerned a great mass of them would come in. That, to me, is somewhat conjectural. The principal thing that one has to worry about, it seems to me, is a justification of a system that is compulsory for one group and elective for another group. I worry considerably about it. I have heard actuaries say, of course, that there would be a considerable election against the system. I think that that is a presupposition, that a great many most likely to be a later relief problem would stay out; but, as I have said, the thing that troubles me most would be if we were to have a system which is, to paraphrase Lincoln, half slave and half free, half compulsory and half elective.

We favor the broad purpose of H. R. 6000 in extending coverage to groups not presently protected by old-age and survivors insurance, including self-employed persons such as these free-lance salesmen. The purpose of the system will not be fulfilled completely so long as people needing its protection are excluded. The definition of "employee" in H. R. 6000 may be traced back to what might be termed "an initially benovolent ingenuity" in attempting to broaden the meaning of "employee" to extend coverage—a "purpose of the act" theory. At the outset of the program, the Treasury and the Social Security Board promulgated regulations defining "employee" as it had been defined for the past 200 years. With the desire to have broader coverage and with no other method for doing so, so long as coverage was limited to employees, subsequent attempts were made to classify an ever-increasing number of self-employed as "employees." Had the self-employed been included originally there would have been no colorable legal theory or practical reason for attempting to create an artificial employer-employee relationship. The purpose of the act theory would not have bene even a colorable basis for broadening the normal meaning of "employee," for the purpose of the act would have been to cover self-employed as such and employees as such. We would not have heard of the factor approach, and we would not today be discussing this definition. Nor is there any reason to create an artificial relationship of employer and employee today, for H. R. 6000 provides for the coverage of the self-employed as such.

Coverage, not only of this group but of the other self-employed, is the real question that is before you. We favor coverage. The current issue raised by the definition of "employee" in H. R. 6000 is not

a question of covering people, but solely of how certain self-employed shall be covered.

This purely tax issue of who shall be taxed as self-employed and who as employed has never been before any court or any administrative agency, for only Congress can provide for covering self-employed. A couple of years ago a different issue was raised of extending coverage by the interpretative broadening of the term "employee," under a "purpose of the act" doctrine, to cover an undefined number of self-employed as employees. The long-established regulations and a multitude of tax rulings would have been scrapped. But that issue was at least temporarily resolved by status quo legislation anticipatory of the congressional consideration of extending coverage, which is presently in process. That was in fact an issue of who should write the coverage provisions of the act.

The wisdom of that status quo legislation has since been demonstrated. Besides preserving the common law as reflected in the long-established regulations and rulings, the legislation settled difficult equities of noncontributory retroactive wage credits which had been established by the Federal Security Agency. It also settled the question of financing benefits based on such credits. The legislation so satisfactorily disposed of these questions that H. R. 6000 contains no change in existing law on the subject.

The first sentence of the second paragraph of the definition of "employee" in H. R. 6000 recognizes the wisdom of the existing common-law definition of "employee." It preserves the status of persons who are employees under existing law, thereby repudiating any inference in the Silk and Greyvan cases that their status should be redetermined on the basis of a series of so-called factors referred to by the court.

The second sentence in the second paragraph of the definition, which incidentally, may be used to deprive people of coverage, repudiates the Supreme Court holding in the Bartels case.

The third and fourth paragraphs of the definition represent two diametrically opposite methods of extension of the term "employee" to cover some individuals who are not employees under the present regulations and social-security-tax rulings which are based on common law.

The approach of paragraph (3) is to specify certain categories such as full-time life insurance salesmen, to be treated as employees where stated conditions exist. I shall call this the category approach.

You will note that paragraph (3) describes the principal groups which Treasury and Federal Security testified 2 years ago before you would be employees under the factor approach.

The approach of paragraph (4) of the definition of "employee" authorizes administrative rulings as to the employer-employee relationship on the basis of several so-called factors of the kind the Supreme Court indicated might be pertinent evidentiary considerations in determining whether an individual is an economic dependent under its "purpose of the act" theory. It applies only to persons not employees under paragraph (1), (2), or (3) of the definition. This paragraph (4) basically revives the issue of 2 years ago as to whether Congress shall write the actual tax coverage provisions or delegate this important function. I shall call this paragraph the administrative blank-check approach, in view of considerations I shall mention later

The vast uncharted effect of the new definition of "employee" in H. R. 6000 may be inferred from the new exception, numbered (18), on page 43 of the bill, to the definition of covered employment. "Employment" applies only to service "by an employee for the person employing him," in contrast with self-employment—defined on page 51 of the bill—and the new exception (18) contains a very limited shelter against the blank-check paragraph of the definition of "employee." The new paragraph (18) excludes:

> Service performed by an individual in the sale or distribution of goods for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service directly from the purchasers of such goods or commodities, if such person makes no provision (other than by correspondence) with respect to the training of such individual for the performance of such service and imposes no requirement upon such individual with respect to (A) the fitness of such individual to perform such service, (B) the geographical area in which such service is to be performed, (C) the volume of goods or commodities to be sold or distributed, or (D) the selection or solicitation of customers.

Obviously, if the definition of "employee" is so broad as to include individuals meeting all the above requirements, it may apply to almost everyone having any kind of business relationship with a firm. The individual here described receives no compensation, even by way of a contingent commission, from any firm, but instead his sole remuneration is profits made in dealing with his own customers, and paid by those customers. He is not subject to such control as might be inferred from his working on a firm's premises or from calling on customers designated by the firm, or such remote controls as might be inferred from his having to meet a quota, or even the still more ephemeral control incidental to operating within the limits of some specified town or county. His relationship with the firm must be so casual that such firm does not afford even preliminary instruction as to demonstrating the product, or inquire into the distributor's honesty or prior work history. It is almost inconceivable that any manufacturer would deal with any distributor, individual or corporate, without running afoul of some of these manifold conditions, yet here is an exception to the definition of covered employment that assumes that some individuals are employees even though all these conditions are met. Persons ruled to be employees under the new definition would be treated as self-employed—under the paragraph numbered (2) relating to self-employment on page 159 of the bill—where, and only where, the firm's relations with them do not violate any of these unrealistic conditions.

I have referred to paragraph (4) of the definition of "employee" in H. R. 6000 as the administrative blank check. This paragraph is as follows:

> (4) any individual who is not an employee under paragraph (1), (2), or (3) of this subsection but who, in the performance of service for any person for remuneration, has, with respect to such service, the status of an employee, as determined by the combined effect of (A) control over the individual, (B) permanency of the relationship, (C) regularity and frequency of performance of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss.

After reviewing the regulations proposed 2 years ago by the Treasury, the language of paragraph (4) of H. R. 6000, and the committee

report accompanying H. R. 6000, including the comments of your Joint Tax Committee staff, I have concluded that paragraph (4) gives even more of a blank check, if possible, than did those rejected regulations.

Those regulations would have substituted for the common-law rule for determining the employer-employee relationship a key determination of whether—

> an individual in a service relationship with a business * * * is dependent as a matter of economic reality, upon the business to which he renders service.

If determined so dependent he would have been classed as an employee. Those rejected regulations enumerated a series of evidentiary considerations for arriving at this key determination, and stated that no one was controlling nor was the list complete.

Paragraph (4) of the proposed definition of "employee" in H. R. 6000, broadly speaking, sets out evidentiary considerations specified in the rejected regulations, though with some modifications. "Degree of control over the individual" in the regulations, is changed to "control over the individual." "Investment of the individual in facilities for work" is changed to "lack of investment by the individual in facilities for work," and "opportunities of the individual for profit or loss" is changed to "lack of opportunities of the individual for profit or loss." An additional consideration, permissible under, though not specified in, the rejected regulations, "regularity and frequency of performance of the service," is also specified in paragraph (4) of the definition.

Paragraph (4) does not state whether or not any of the considerations are controlling. This would seem to give blanket authority to evaluate them according to administrative pleasure. The requirement as to combined effect contains no direction as to what evaluation is to be placed on the respective factors. Nor does this paragraph follow the rejected Treasury regulations in providing some frame of reference, some key determination to be reached after reviewing the various considerations. Obviously the key determination is not to be whether there is control or right to control the means, methods, and details of the performance of the work—the common law key determination. For paragraph (2) of the definition covers common law determinations, while paragraph (4) applies to persons excluded as employees under the common law determinations under paragraph (2). Furthermore, the key determination is not necessarily the "economic reality" determination of the rejected regulations of 2 years ago. For that determination is not required although it seems to me to be clearly permissible under paragraph (4).

Then what is the key determination upon which the employer-employee relationship is to be predicated? Since none is prescribed under paragraph (4), my opinion is that any administrative conceptions that may be from time to time evolved can be administratively prescribed as the key determination. The administrative discretion in selecting the key determination would not even be limited to the nebulous conception of "economic dependent." That is why I feel that giving an administrative free rein to determine status according to whatever conception may be evolved of the combined effect" of enumerated evidentiary considerations, is an even broader administrative blank check than was in the proposed regulations you have previously rejected.

My guess—and it is only a guess—is that the considerations enumerated in paragraph (4) will be used as a series of indicators pointing to employee status or independent status. It would be difficult to conceive of a business relationship where a number of these considerations would not be interpreted to point toward an employee status.

It is said of the control consideration that "control of the type pertinent to the first factor may in particular cases be evidenced by one or more of a variety of circumstances." Some of these are enumerated. One is "the right to terminate the service of the individual without cause or on short notice." In an example on page 90 the right to terminate a dealership arrangement on 60 days' notice was stated to be "evidence of some degree of control of the type contemplated by pargaraph (4)." Presumably any typical contractual arrangement terminable at will would be considered as even stronger evidence of control.

One would be inclined to think that an arrangement terminable at will or on short notice would not be considered "permanent." But in this very same example the relationship is also held to be "permanent"—a second factor to the employee relationship.

The factor "regularity and frequency of performance," according to the report, "is intended to be read in conjunction with and in contradistinction to the factor 'permanency of the relationship.'" This is rather confusing information to persons who contradistinguish permanency and temporariness. Apparently anyone who chooses to work regularly thereby has two factors, "regularity" and "permanency," automatically indicating that he is an employee. This was the conclusion reached in the four examples in the report where the individual worked regularly.

The skill factor is uniquely described in the report:

> Lack of skill is ordinarily indicative of the employer-employee relationship, but a requirement of a high degree of skill is not necessarily * * * inconsistent with the * * * relationship.

The integration factor, indicative of the employee relationship, seems to be regularly present. In the seven examples of the report involving various kinds of independent business, it was always concluded to be present, though incidentally six of those held people not to be employees. It is rather indicative of the fact that integration is not a phenomena peculiar to the employer-employee relationship. And yet we find that integration is treated as an indicator of the employee relationship.

The investment factor is described as applicable only to investment in equipment and premises, and the opportunity for profit and loss factor is described in terms of loss "through the use of capital." It seems that an individual doing business on a shoestring is quite likely to end up in an employee status, for the report states that lack of investment and lack of opportunity for profit and loss each indicate an employee status.

You will find by comparison that a great deal of the material in the committee report descriptive of the significance of the several so-called factors is derived from the rejected Treasury regulations of 1948. The principal change in the report seems to be a consistent elimination of recurring phrases such as "dependence as a matter of economic reality." The descriptions in the committee report are also

much shorter, and are even less informative than those in the rejected regulations.

Only the administrative agencies can state with certainty the original source of the several examples in the report of the application of the factors to specific situations. However, in one illustration (No. (7)), you will find that perhaps 90 percent of the verbiage is identical with the example which Mr. DeWind read to your committee at the hearings on the status quo legislation in 1948. You will find this illustration on page 24 of these hearings, and the conclusions on page 27. This identity would seem to indicate that both were from a common source, presumably unpublished material developed in anticipation of the promulgation of the rejected regulations. It also illustrates the fact that paragraph (4) of the proposed definition will delegate to the administrative agencies authority to make the very kind of rulings you restrained them from making in 1948.

Before concluding, I should like to point out that affected business is not alone in its appraisal of the consequences of paragraph (4) of the definition. You will find our appraisal supported by a nonpartisan technical analysis incorporated as appendix B to the report accompanying H. R. 6000.

There can be no question as to the objectivity and experience of the staff of the Joint Committee on Internal Revenue. This staff was the author of this analysis. Nor can there be any question as to the weight which should be accorded staff conclusions regarding paragraph (4) of the definition of "employee." The definition apparently was somewhat changed after the staff analysis was made, for on page 189 of the committee report, at the beginning of the staff's analysis of the definition, it is stated that:

> Paragraph (2) of the definition of "employee" in H. R. 6000 was written in accordance with the suggestions made in this analysis. As finally drafted, paragraph (3) referred to in this analysis, appears as paragraph (4) in H. R. 6000 with the addition of a new factor (regularity and frequency of performance of the service) and drafting perfections.

I mention this because the staff refers in its conclusions to paragraph (3), which is now numbered "paragraph (4)."

The conclusion of the staff will be found at page 195 of the report. I should like to read a part of it at this point:

> It is the opinion of the staff that paragraph (3) of the definition adopts a method of extending the definition of "employee" which is basically undesirable because it is too uncertain in its scope and because it will extend the definition of employee to include groups for whom it would be impractical, if not impossible, to demand an accounting for remuneration or tax withholding from it.

And I think this is extremely important:

> Assurances by present administrators of the voluntary limits which they will place on interpretations of the broad provisions of paragraph (3) will not be binding for the future, and the Federal Security Agency and the Treasury will not be in a position to limit the scope of paragraph (3) if the courts decide to place a wider interpretation on it. The issue could be litigated, in spite of the attitude of the administrative agencies, by individuals suing for benefits or for establishment of wage credits or to avoid a tax on the self-employed.
>
> Even if paragraph (3) is construed as being no broader than the economic-dependency test outlined in the proposed regulations published to interpret the Silk and Greyvan cases, its scope would be virtually unknown.

Following this opinion you will find a comprehensive survey of the probable application of the paragraph to various and sundry businesses.

I shall conclude my remarks by inviting your attention to three exhibits.

Mr. Chairman, these three exhibits are placed on an easel for your convenience. You will also find those same exhibits in mimeographed form at the end of the statement.

Now, in exhibit 1, we have set out the factors of paragraph (4), found on page 152 of H. R. 6000, preceded by the statement:

An individual who is an independent-business man may be made an employee by administrative officials if they think he should be an employee from the combined effect of the following factors:

Senator MILLIKIN. A combined and unweighted effect.

Mr. CALHOUN. Thank you for that observation, sir. "Unweighted" certainly is descriptive.

The first is "control over the individual"; the second, "permanency of the relationship"; the third, "regularity and frequency of the performance of the service"; the fourth, "intergration of the individual's work in the business to which he renders service"; the fifth, "lack of skill required of the individual."

I don't understand the change from "skill" to "lack of skill," but perhaps I am quibbling over words.

The sixth is "lack of investment of the individual in facilities for work" and the seventh factor, "lack of opportunities of the individual for profit or loss."

Now, the second exhibit is a comparison of facts relating to the nursery-stock salesman and the household-products salesman under the examples (4) and (7) in the report of the Committee on Ways and Means.

You will notice that the questions and answers are under two headings. The first heading is "Nursery-stock salesman" and the second heading "Household-products salesman."

Then we come to the questions. "How long does the contract with the salesman run?"

For the nursery-stock salesman we put "Terminable at will." As a matter of fact, in the example it was merely said that they entered into an arrangement thus making it perfectly plain that the example applied to whether the arrangement was or was not terminable at will.

In the case of the household-products salesman, the contract was terminable only on 60 days' notice by the company. As I remember, it was terminable at will by the individual, because there was no 60-day limitation stated as to him.

To the question: "Does salesman receive any training?" the answer in both cases was "Yes."

The question as to whether he was required to accept training was not answered in either example. So we might assume that each example covers cases, where it is solely the salesman's idea to learn something about the products as well as cases where the company requires the training.

Then: "Does salesman have a quota?" The answer in both of those cases was "No."

"Does salesman have a territory?" For the nursery-stock salesman the example did not answer the question. I assume the example applies whether he had a territory or did not have one. The fact about territory would have been stated, had it been of any significance. The

answer as to territory in the household-products-salesman example was "Yes."

"How is salesman compensated?" As to the nursery-stock salesman it was "by commissions." As to the household-products salesman it was "By profits from his mark-up on the goods that he bought from the company."

On the question: "Is the salesman subject to control by the company whose products he sells?" the answer was "No." in both cases. But I must "star" the second "No," because the House committee report states that the right of the household-products company to terminate the relationship on short notice (60 days) is evidence of some degree of control of the type contemplated in paragraph (4) of the definition. No similar statement is made with respect to the right of the nursery-products company to terminate their relationship with their salesman at will.

To the question "Is salesman required to work any specified time?" the answer was "No" in both cases. On the question of "How much time does he actually elect to work?" in the case of the nursery stock salesman it was "Irregularly." In the case of the household products salesman it was "full time." Any company has some distributors working full time and some part time as the companies don't control how much these salesmen work.

Now, the last question is "What is the 'legal conclusion' to be drawn from these facts?" For the nursery stock salesman, the conclusion, and we put it in quotes because of the humor of it, was "Clearly not an employee." For the household products salesman it was "Clearly an employee."

Now let us move over to the third exhibit, which also uses the two examples. This exhibit deals with the application of the "factors."

The control factor as applied to the nursery stock salesman: "No control, but company has right to terminate relationship at any time." The control factor as applied to the household products salesman: "No control, but committee report states that company's right to terminate relationship on 60 days' notice is evidence of some control of the type contemplated by paragraph (4) of definition."

"Permanency of relationship," as applied to the nursery stock salesman: "Relationship can be terminated at any time," and for the household products salesman: "Relationship can be terminated on 60 days' notice."

"Regularity and frequency of service," applied to the nursery stock salesman: "Company makes no requirement as to extent of services. Services in fact performed at irregular intervals." The same thing is true in requirement as to extent of service for the household products salesman, but he elected to work full time.

Under "integration in the business," as I mentioned, you always find here and in all the other examples, that the individual's services were integrated in the business.

Under the factor "lack of skill" there is, in the case of the nursery stock salesman, "little skill, if any," and in the case of the household products salesman, "some skill." While I don't think that goes to the essence, quite possibly it would take a more skillful man to intelligently sell fruit trees than household products or vice versa. There are, of course, some products that require more skill to sell than fruit trees.

"Under "lack of investment," there was no investment in each case. Under "lack of opportunity for profit or loss," in each case there was "opportunity for profit but no risk of loss." That was stated in both of the conclusions.

And again, under "legal result," for the nursery stock salesman it is "clearly not an employee" and for the household products salesman "clearly an employee."

I think, gentlemen, that is about as near the proof of the pudding as we could hope to come. I don't think that anything that we could say by way of observation would add to what these examples themselves demonstrate.

We feel confident that from your own consideration and study of these exhibits you will concur in our opinion and in the opinion of your joint committee staff that provisions such as those in paragraph (4) of the definition of "employee" are inappropriate in tax legislation.

The CHAIRMAN. Any questions? Senator Lucas?

Senator LUCAS. I would like to ask one question, Mr. Chairman.

If I understand your position correctly, you state that if the scope of paragraph (4) is virtually unknown, then, I take it, there would be interminable difficulties in the proper administration, assuming you position is correct?

Mr. CALHOUN. Senator, I don't think there is any question about it. When an administrative agency is pulled and hauled by different interests, you need certainty in the law for the protection of that very agency, you need a firm statute for them to lean back on. Suppose it was a matter of administrative grace and determination by a series of considerations as to whether an individual should be given or denied a benefit. You know and I know that administering a system of benefits where you would give or deny a benefit on the basis of some vague considerations such as are set out in the definition would lead to administrative chaos if not to worse situations.

Senator LUCAS. One other question along that same line: If the scope of paragraph (4) is virtually unknown, as contended by you in this manuscript that has been presented here, then the issues to be litigated in court are also virtually unknown and interminable as far as the future is concerned.

Mr. CALHOUN. I think, sir, that enactment of this definition would be the greatest lawyer-unemployment compensation you could possibly pass.

Senator LUCAS. Some of you lawyers are against it.

Mr. CALHOUN. Yes, sir; we are firmly against it. I think that any lawyer would rather resent his livelihood depending on a deliberate uncertainty of the law. I think we have that much ethics.

Senator LUCAS. That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much, Mr. Calhoun.

Is there anything further from any of those associated with you?

Mr. CALHOUN. No, sir; I believe that is all.

(The remainder of Mr. Calhoun's prepared statement follows:)

An individual who is an independent businessman may be made an employee by administrative officials, if they think he should be an employee from the combined effect of the following factors:

(*a*) Control over the individual.

(*b*) Permanency of the relationship.

(*c*) Regularity and frequency of the performance of the service.

(*d*) Integration of the individual's work in the business to which he renders service.

(*e*) Lack of skill required of the individual.

(*f*) Lack of investment of the individual in facilities for work.

(*g*) Lack of opportunities of the individual for profit or loss.

Comparison of facts relating to the nursery stock salesman and the household products salesman under the two examples given by Committee on Ways and Means

	Nursery stock salesman	Household products salesman
How long does the contract with the salesman run?	Terminable at will	Terminable on 60 days' notice.
Does salesman receive any training?	Yes	Yes.
Does salesman have a quota?	No	No.
Does salesman have a territory?	Not stated	Yes.
How is salesman compensated?	By commissions	By profits from his mark-up on the goods that he bought from the company.
Is the salesman subject to control by the company whose products he sells?	No	No. [1]
Does the company actually exercise any control?	No	No.
Is salesman required to work any specified time?	No	No.
How much time does he actually elect to work?	Irregularly	Full time.
What is the "legal conclusion"?	Clearly not an employee	Clearly an employee.

[1] House committee report (p. 90) states that the right of the household products company to terminate the relationship on short notice (60 days) is evidence of some degree of control of the type contemplated in paragraph (4) of the definition. No similar statement is made with respect to the right of the nursery products company to terminate their relationship with their salesman at will.

Two examples of how new definition of employee is supposed to operate, together with the results that are supposed to be reached [1]

	Factor							Legal result
	Control	Permanency of relationship	Regularity and frequency of services	Integration in the business	Lack of skill	Lack of investment	Lack of opportunity for profit or loss	
Nursery stock salesman.	No control, but company has right to terminate relationship at any time.	Relationship can be terminated at any time	Company makes no requirement as to extent of services. Services in fact performed at irregular intervals	The salesman's work is integrated in the business of the company.	Little skill, if any.	No investment.	Opportunity for profit but no risk of loss.	Clearly not an employee.
Household products salesman.	No control, but committee report states that company's right to terminate relationship on 60 days' notice is evidence of some control of the type contemplated by paragraph (4) of definition.	Relationship can be terminated on 60 days' notice.	Company makes no requirement as to extent of services. Services in fact performed regularly full time.	do	Some skill	do	do	Clearly an employee.

[1] The two examples in this chart are examples Nos. (4) and (7) on pp. 88 and 90 of the report of the Committee on Ways and Means on H. R. 6000.

The CHAIRMAN. Mr. J. M. George is the next witness. Have a seat, Mr. George, please. You may identify yourself for the record, if you will, sir.

STATEMENT OF J. M. GEORGE, WINONA, MINN., APPEARING ON BEHALF OF NATIONAL ASSOCIATION OF DIRECT SELLING COMPANIES

Mr. GEORGE. My name is J. M. George, of Winona, Minn. I am appearing on behalf of the National Association of Direct Selling Companies, a trade association of companies operating in the house-to-house selling field.

The CHAIRMAN. It is an association, you say?

Mr. GEORGE. Yes. It is incorporated under the laws of the State of Minnesota, and the headquarters are at Winona, Minn.

The association has approximately 170 members. Based largely upon estimate there are upward of 3,000 concerns, possibly as high as 4,500, carrying on a distributive business of this kind. While we have in our membership a minority of such concerns in number we do have a high percentage in volume. We have probably 20 percent of the total volume.

The great majority of the concerns that deal with persons engaged in house-to-house selling are small. Probably none can be classified as big business and definitely a great majority of them are in the category of small business.

Merchandise handled through their method of distribution covers a wide range and is limited only by adaptability of the product to this type of selling.

It is the common method of distribution which furnishes the community of interest of all of these concerns.

The distinguishing feature between house-to-house selling and retail sales at a store is that sales are made by the personal contact of an individual with the customer or prospective customer at his home.

From a technical standpoint there is a variety of methods of house-to-house distribution operations. In all cases, however, the end result is the same. There is a manufacturer at the production end and there is an individual contacting the consumer at the other end. In some cases the individual's arrangement is that he takes an order and collects his reward by way of a down payment made him by his customer. In other cases he is a dealer, in fact a small merchant purchasing his requirements from the firm and reselling to his consumers at such profit mark-up as he chooses.

These independent individuals contacting the consumer are variously known as dealers, salespersons, or distributors.

Because of coverage in the bill, H. R. 6000, of self-employed persons as such there is no social question involved in respect to the definition of employee.

The principal issue so far as our group or category is concerned, is whether or not there is a justification for including as employees individuals who are not such in fact and with respect to whom the normal elements or principles of a pay-roll relationship are absent.

Senator MILLIKIN. That all comes down to who pays the bill, does it not?

Mr. GEORGE. Yes. Here there is only a tax question but the principles and implications are profoundly important.

We take the position that no group of individuals should be brought under an employee status unless there is present in their relationship with the operators of the business the elements normally present in a pay-roll relationship.

Because of the nature of the remote relationship between persons operating direct selling companies and the individuals contacting the consumer there is a great turn-over of salespersons coming in and going out of the operation. Frequently in order to maintain a list of, for instance, a thousand of these individuals, the operator must, during a year's time, put on a thousand or more new names.

These individuals are not on any operator's pay roll. The operator maintains simply a card index list of their names and addresses, and this list is changing rapidly and daily.

The average age according to cross-section tests made in the past few years is about 45 and a very considerable percentage are over the ordinary statutory retirement age.

These individuals come from various positions in life: Housewives who because of being such are unemployable and find it necessary and helpful to augment other sources of income: persons beyond the statutory retirement age; young persons while going to school and working during vacations or otherwise, not yet regularly into the commercial or industrial picture; persons unemployable because of some physical disability; those who find it difficult to get employment because of having passed their working prime; employed persons seeking needed additional income; and pensioners who can't live on their pensions.

In this field there is no unemployment and suitable connections and suitable work are always available.

It might be of interest to note here that many of these individuals who have built up retirement benefits under employed activities outside of the direct selling field have, in order to augment the retirement benefits, gone into direct selling. This in the past few years was forcefully called to our attention by reason of the fact that in a number of instances the Security Agency, upon finding that these people in some cases earned $15 or more per month, had their benefits discontinued upon an Agency ruling that they were employees in direct selling and, therefore, had not discontinued their employment status. These rulings did not stand up, as they were not employees.

Historically, legally, and otherwise, these individuals have never been classed as employees. Years of experience have shown that they are, in fact, free-lance operators and not controllable.

In view of this clear-cut history I am not going to take time to point out in detail the supporting facts. However, I will refer to the absence of the pay-roll elements in this relationship, which makes it impossible to do business with them on a pay-roll basis or comply with requirements predicated on a pay-roll relationship.

Now, as to normal pay-roll elements: The maintenance of a pay roll presupposes and must be based upon a number of elements.

(1) The services must be performed under or subject to the observation of the firm for whom performed.

(2) There must be available to the firm a means of first-hand knowledge necessary for the establishment of the amount of compensation and the time it was earned.

(3) The firm must have first-hand information for the making and keeping of records required by law of employers.

(4) The firm must have first-hand information as to whether or not the individual is working and if so, for whom.

(5) The individual must be subject to the supervision and control of the firm in the performance of the service involved.

In our case or any other case, where these elements are absent the artificially created employer-employee relationship leads to harmful results and impossibilities. These difficulties and impossibilities will arise under other laws as well as under the legislation we are considering.

Now let us consider direct-selling operation from the standpoint of normal pay-roll requirements. The distributor operates totally away from the possible observation of the firm, he is totally uncontrolled and uncontrollable as to time put in, as to when he works, and as to whose products he distributes.

The firm has no information and can get no accurate information as to the amount of his gross income. Manifestly it cannot know his net or taxable income, as the individual operates entirely at his own expense and himself controls the amount of net or gross profit that he may make on a large number of small transactions.

As a matter of fact, in the house-to-house selling relationship the firm has none of the necessary pay-roll information, and can have none except from the self-serving declarations of the individual himself.

The firm does not have power under its contract or in fact to even require the individual to furnish pay-roll information.

Such information, if furnished, would be the basis of the firm's tax return and the firm receiving it has no means of knowing or compelling its accuracy.

Putting this sort of obligation on a firm constitutes the very same thing as if all firms were required to let each individual employee furnish his own pay-roll data which the firm would be obliged to use without regard to accuracy.

It must not be lost sight of that if these individuals refuse to make their reports no punishment is involved. Furthermore, even if some of them make reports there is nothing that the firm can do if such reports are willfully inaccurate or fraudulent.

Only the Government has the power to compel the making of accurate reports and to punish for failure or for inaccuracy or for fraud in tax reporting.

This fact alone should be sufficient to indicate that these distributors must be taxed only on a self-employed basis where the Government has the machinery and the power to obtain returns and to compel their accuracy.

Not only would the definition of employee in H. R. 6000 create this impossible condition but if these individuals are distorted into employees under this act they will be similarly brought in under other acts, both Federal and State.

At this point I should like to make some remarks about the destructive byproducts of wrongful coverage of these distributors as employees. By distortedly bringing them under this act as employees.

the destructive byproducts beyond the scope of this act will include:

(*a*) The inducement of the same distortions into all other social legislation by the adoption of a similar definition or by court determination to that effect. This includes Federal unemployment compensation, wage-and-hour legislation, prospective cash sick-benefit legislation, State and Federal, and prospective health and medical legislation.

(*b*) Federal income-tax withholding.

(*c*) State and municipal income-tax withholding; and, by the way, there are many States making this sort of a requirement in their income-tax laws, and many municipalities have income-tax laws in which they make withholding necessary.

(*d*) State unemployment compensation insurance.

(*e*) State workmen's compensation laws, involving among other things a very heavy insurance premium load, and an enormous amount of record-keeping.

(*f*) State minimum-wage acts, creating a certain and positive impossibility of continuance in our present business.

(*g*) Coverage under foreign corporation statutes involving numerous new tax and other burdens and obligations.

(*h*) Eventual broadening of the common law relating to employer's liability for torts.

There are undoubtedly other results and impacts which presently cannot be foreseen.

Our objection to this definition is thus not an objection to the payment of Federal taxes. Our objection is to the impact that comes to us in one way or another as a result of a distorted coverage definition.

We cannot fully estimate the increased costs of operations coming from the getting of reports, handling of reports, keeping of books and records, reporting and returning information to Federal, State, and municipal agencies, and the procurement of insurance which would become necessary under some of these laws.

We, from experience, know that it is impossible to get anything like a satisfactory percentage of these individuals to make reports of any kind.

It would be much worse trying to get them to make a more difficult report of the kind which would be involved here.

We have no power to compel or punish failure or refusal to report.

The average annual turn-over in personnel is close to 100 percent. Much over one-half of these people carry lines of a number of companies, further complicating the situation and increasing the amount of report and bookkeeping burden, and difficulties to these individuals.

Compelling our concerns to abandon their historic methods of business and bringing them under foreign corporation statutes would not only increase their reporting and book work but would bring into application new local taxes and other burdens.

In the absence of a compelling social purpose requiring it, no justification can be made for subjecting our companies to the destructive byproducts resulting from creating an artificial "employment" relationship with distributors.

If these independent distributors are brought in as employees it will be a great disservice to them. Many of them, though being required to report and pay taxes, will never be eligible for the benefits, because of their low incomes.

Inclusion of the individuals as employees stops any chance for them to earn more than a stated maximum monthly from this source without losing old-age benefits.

Individuals who are better-than-average producers, if placed on an employment basis, might very well find themselves confronted with necessity on the part of the firm to fix the amount of income for the services performed and in those cases the amount of income would be less than the amount they would earn on a free-lance self-employed basis.

This kind of disadvantage applies in many fields of activity, and would probably be severe in the case of some of the other groups.

In the event the proposed definition were adopted those operators who try to go ahead under the new status will find it absolutely necessary to deny earnings opportunities to probably one half or more of the casual, part-time, and intermittent individuals seeking to augment their income.

The required reduction in the number of such individuals will be promptly reflected by reduction of employed executive, administrative, office and production personnel.

These reductions will be further reflected in reduced volume of business and less revenue to the Government from incomes.

It is difficult to see how anyone can profit by the definition of employer which we are objecting to.

Our operators under this definition would be required to pay taxes on the basis of guesswork. A separate formula would have to be set up in the case of each firm and a formula allotted to a given firm would not be applicable on a fair basis to many of the distributors involved.

No formula can be set up which can be a substitute for necessary facts. And that certainly should be a ruling consideration in tax legislation. In the case of each individual it is impossible for the operator to know the time when earnings were made—and this is a tax-reporting requirement—or the amount of the gross or net earnings which are to be translated into wages. The operator has no way of getting this information or enforcing the making of reports or of having such reports made accurately.

The operator would be required to report and pay the employee social-security tax even though never received from the distributor. Add to this the difficulties arising from the various tax laws and ordinances which require withholding.

These considerations alone are enough to compel a determination that these self-employed individuals should stay in that category.

Senator MILLIKIN. Mr. Chairman, may I ask this. Assuming that it should be the judgment of the Congress to give coverage to the self-employed, what would be a practical method for getting the contributions from the self-employed and for the Government to know what they are doing?

Mr. GEORGE. Well, I have never given any particular study to that. It would seem to me that, so far as people in the income tax brackets are concerned, that could be covered in income-tax returns.

Senator MILLIKIN. Well, many of these people do not report.

Mr. GEORGE. I think this bill itself sets a $400 limit, does it not? And, if their income is under $400, they are out. Now a lot of these people that will be brought in will be under a total annual of $400.

Senator MILLIKIN. Well, your point is that you have no practical suggestions as to that?

Mr. GEORGE. No; I have not.

Senator MILLIKIN. My question does not imply any burden on you to give the answer to that.

Mr. GEORGE. Now I would like to refer briefly to legal history in this field.

The Congress in its first piece of modern social legislation, the National Labor Standards Act, exempted outside salespersons. Some of the considerations that we are raising here were reasons why Congress decided to make that exemption.

The Congress in 1935, though making no definition of the term "employee," showed clearly then and thereafter its intention to stand by the common law as to which there is the certainty resulting from thousands of court decisions.

Many of the States have had minimum-wage laws over a long period of time, and in no case have they ever brought this type of persons under coverage. The question has occasionally come up, and still the result has remained the same—no coverage.

So for as I know, none of the Statees have yet passed laws patterned after the Federal Wages and Hours Act, yet hundreds of such bills have been introduced, and in practically every instance these bills contained originally or by amendment an exemption for outside salespersons.

During the depression of the early thirties the National Recovery Act was passed and put into operation, and it involved wage and hour controls over "employees." This act was never construed or used to apply to house-to-house distributors.

There are compelling reasons why there is a legal history of this kind over so many years.

How would they be affected by the definition that is proposed in H. R. 6000?

In this definition the first sentence of subsection (2) sets up the only sensible line of demarcation between employed and self-employed persons. This line has been supported by many court decisions not only in the social-law field but in all other fields where the question of master and servant is involved.

The status based upon this rule of demarcation is well understood not only in the courts but by businessmen and the public generally.

Court decisions dealing with factual situations have established a yardstick by which people affected can almost in all cases themselves determine whether or not they are employees or self-employed.

Since the amendment of this act in 1948, the court decisions have been nonconflicting. The chaos and confusion which came up after the Silk case has almost completely disappeared.

Subsection (3) of the definition which sets up categories of employees would be justifiable only in the case of groups whose relations with the operator of the business creates a preponderance of normal pay-roll elements.

Subparagraph (4) of the definitions is, of course, an old story. It is an attempt to validate the proposed regulations of 1947 which were condemned by an almost unanimous vote of both Houses of Congress, and it should be remembered that such vote occurred even at a time when there was no coverage of self-employed persons.

This subsection (4) is based upon a misconception of the meaning of United States Supreme Court decisions and dicta in the Silk and other similar cases. It is often referred to as the economic-reality concept.

Senator MILLIKIN. I notice you say:

> It is an attempt to validate the proposed regulations of 1947 which were condemned by an almost unanimous vote of both Houses of Congress, and it should be remembered that such vote occurred even at a time when there was no coverage of self-employed persons.

But at that time the social-security end of the game was giving erroneous coverage to self-employed persons.

Mr. GEORGE. That is right—noncontributory coverage.

Senator MILLIKIN. They were in violent disagreement with the Treasury over it.

Mr. GEORGE. Yes.

Senator MILLIKIN. And we have a report from Social Security as to the amount of money that was involved in that erroneous coverage, which in brief constituted a raid on the trust fund built up by those who were employees.

Mr. GEORGE. This subsection also lays the basis for deals between groups and categories and the agencies. The power granted is practically unlimited. It makes every other part of the definition mere window dressing.

This subsection constitutes the most unnecessary and the most unwarranted delegation of legislative power to administrative agencies of which I can conceive. The Congress and not the agencies should by legislation determine who is or who is not an employee. The only practical method of doing this which has ever been found is the long-standing usual common-law rule, which is well stated in the first paragraph of subsection (2) of the definition.

We urge this committee not to depart from that rule, but in case of a desire to reach out beyond a true employee relationship the departure should be so clear as to be free from blank-check powers given to an agency, and no departure should be made of that kind where a preponderance of necessary pay-roll elements are absent; that is, absent from the actual relationship involved.

A person who may be subjected to taxation and other burdens and difficulties should be put in position by the law itself to know with reasonable certainty whether he is in or out.

No party platform, no campaign promise, has ever been written or offered at any time which has proposed that the Congress should surrender its normal legislative powers to any agency or agencies, so paragraph (4) is not a political issue.

Never have I elsewhere seen a serious proposal asking for such unconditional surrender of the legislative power to an administrative body as is evidenced by proposed subsection (4).

We urge you to eliminate subsection (4) entirely, thus retaining control of taxation by Congress.

Our objections to the proposed definition of "employee" are not in conflict with the broader coverage purposes of this legislation. By resolving our difficulties, no reduction of coverage will result, since the bill provides for coverage of self-employed, which is where these persons rightfully belong.

How, then, can there be any justification of a definition crucifying any group or category or destroying it or compelling it in a major way to depart from its historical practices or to give up its business necessities.

I shall conclude with a few remarks. I hope I have been able to convey to you the extent of the danger and destruction that adoption of this definition would bring to the persons whom I represent, who typically operate with substantially a complete absence of the nromal pay-roll elements in dealing with individauls in a status even further removed from employment than independent contractors.

We ask you to bear in mind the great added cost, the loss of volume of business, the necessity for making major changes in historical operations which paragraph (4) would require.

We believe you appreciate the difficulties and disasters which would result as the byproducts of distorted inclusion.

The individuals in our field are properly classifiable as self-employed persons, and so classifying them is the only reasonable solution to this particular issue that we are facing.

We therefore respectfully urge you to consider the rewriting of this definition so that the same shall include subsection (1) relating to officers of corporations and the first sentence of subsection (2) setting up a definite rule that everybody is familiar with.

I thank you.

The CHAIRMAN. Thank you very much.

Are there any questions?

We appreciate your appearance, here, sir.

Mr. GEORGE. Thank you.

The CHAIRMAN. Mr. Campbell? You may have a seat here, Mr. Campbell. Will you identify yourself for the record? You are representing the Fuller Brush Co., are you?

STATEMENT OF WALLACE E. CAMPBELL, VICE PRESIDENT, THE FULLER BRUSH CO., HARTFORD, CONN.

Mr. CAMPBELL. Yes, sir.

The CHAIRMAN. You are a man we have heard a lot about, or one of them.

Mr. CAMPBELL. Well, we are frankly very proud of the fact that our name carries with it a certain amount of prestige.

The CHAIRMAN. Indeed it does. That is right.

Mr. CAMPBELL. I might say for the benefit of the Senator from Colorado that I have a few replica samples of typical Fuller brushes here in my pocket.

Senator MILLIKIN. Your samples get smaller every year. I want to say, also, that that hair brush you gave me last year has not done any good.

Mr. CAMPBELL. Well, I don't think it would be advisable for me to enter into a technical discussion with you on the effectiveness of a hair brush.

Mr. Chairman and members of the committee, my name is Wallace E. Campbell, and I am vice president of the Fuller Brush Co., of Hartford, Conn. Actually, the divisions coming under my supervision involve the purchasing of all of our materials, our industrial

relation, and also our public relations. And as to that last assignment, you have the reason I am appearing for our company.

And I do appear in favor of a plan to extend social-security coverage to the self-employed.

As you know, our company manufactures all kinds of brushes—tooth brushes, hair brushes, furniture brushes, brooms, wet and dry mops—in short, more than 50 varieties available for use from cellar to attic and from head to foot. Moreover, our company is also engaged in the sale of cosmetics products. Our household products and cosmetics are sold to the housewives of America.

I was privileged last year to appear before the Committee on Ways and Means in the House of Representatives when H. R. 2893 was under consideration. At that time I demonstrated for the record the course of our dealings with Fuller dealers, the type of contract in use, correspondence with the Treasury Department over a number of years, and otherwise submitted a complete record for the consideration of the committee and its staff. I would respectfully direct your attention to pages 2415 and pages following up to 2429 in part II of the House hearings. In view of the complete detail then offered, it is not now my purpose to extend my remarks beyond the issue raised by the definition of the term "employee" contained in H. R. 6000.

At the time of the House hearings, Mr. Chairman, we had no knowledge of the form of the bill which later was to be reported by the committee and passed upon by the House. I sought to make it clear that our company is definitely in favor of the extension of the benefits of old-age and survivors insurance to those who are self-employed. Those who are in fact independent contractors and not employees under the common-law rule clearly can be covered by this bill if Congress, as a matter of policy, should so decide. I stress the words "as a matter of policy" particularly, since at page 57 of the bill in lines 1 to 7, inclusive, we find the legislation excludes physicians, lawyers, dentists, certain engineers, and a few others. And yet, Mr. Chairman, this very section does include all others receiving self-employment income or net earnings from self-employment. Why, as a matter of policy, certain categories of service are deemed to yield self-employment income when at the same time comparable and almost identical categories are not so included, it seems impossible to tell. Clearly, coverage on the one hand and exclusion on the other turns on congressional policy.

It had been my hope when I appeared before the House committee that our dealers could be covered as self-employed, which they actually are. Had the bill been so written, I most certainly would not have been here today.

But, Mr. Chairman, what has happened? The House bill clearly defines as employees those who are officers of corporations and those who are employees by the application of the usual tests embodied in the common-law rules. Certainly that is clear enough. The House bill also in subparagraph (3) of subsection (k) appearing at pages 49 and 50 of the bill includes certain defined categories. Any "employee," if I may borrow a term, or any employer is able to read subparagraph (3) and glean some understanding of its application.

But then we turn to subparagraph (4) on page 51, and again at page 152. There we read that a person who is not an employee under paragraphs 1, 2, or 3 of subsection (k) may have the status of an

employee "as determined by the combined effect" of the application of certain factors. And right there is where we get into trouble, where our difficulty arises.

Mr. Chairman, who is going to do the determining? Is it this committee? Is it the employer who, at his peril, decides that he does not maintain an employer-employee relationship? Is it the so-called employee?

It must be that the language contemplates that certain officials in the administrative agencies are to do the determining. They apparently will be authorized to withhold coverage from people who are just as much entitled to benefits as those who are decided to be covered. Who is going to draw the line? What is the congressional policy?

Now, Mr. Chairman, I suppose it is possible for this committee to write into a bill a provision that the employer shall not be liable for the withholding of taxes due from our dealers in the event that we never have any of their funds in our hands upon which to effectuate withholding. I suppose it is possible for Congress to say that the employer under no circumstances shall be liable for withholding until—affirmatively—and prospectively—a ruling shall have been made which determines such liability. The bill affords the employers no protection in these respects, any more than it gives the "employee" (so defined) any assurance of coverage. We submit that it is definitely unfair and inequitable that the businessmen of the country whose methods of doing business may bring them within the operation of subparagraph (4) shall be subject to liability solely at the arbitrary exercise of discretion by administrative officers of the Government. Tax liability, we feel, should be definitely ascertainable.

Because of this undefined "factors test," a new problem has arisen, and possibly it may not yet have come to your notice. In the case of one who is an employee at common law, such as a production worker in our factory or one who is employed in our various warehouses, naturally, the unemployment compensation laws provide for coverage. Such laws do not include our dealers who are independent contractors. If an employee by the common-law rules becomes unemployed, we must file a separation notice. Depending upon the laws of the various States, we must file such a separation notice within a period of from 5 to 7 days.

But, Mr. Chairman, the Fuller Brush Co. has over 19,000 dealers, strung all over this great Nation of ours. How can we possibly tell whether one of our dealers is working or not? How can we possibly know when he decides to quit selling Fuller products, or how long he has been unemployed? Whoever is responsible for the definition of "employee" contained in H. R. 6000, now under consideration, already plans the extension of that very definition to unemployment-compensation cases. Perhaps some of you gentlemen on this committee have not yet had an opportunity to examine H. R. 6718, a copy of which I have right here, a bill to extend and improve the unemployment-compensation program, but on pages 25, 26, 27, and 28 of that bill appears a definition of the term "employee." It is identical, word for word, with that proposed in the bill you are now considering. Surely you will recognize that Federal coverage will become the basis for coverage in each of the 48 States. Can you imagine what the problems of keeping records will be—not to mention the factual conflicts in thousands

of cases every day—if this so-called "factors test" should be adopted in H. R. 6000 and thereafter be extended to the unemployment-compensation field? I mention the matter only to emphasize the importance of the definition of "employee" as it appears in the House bill.

Incidentally, I have another bill, House Resolution 7331, introduced by Congressman Young February 16, 1950, and on pages 12 and 15 is the same definition of "employment" as contained in House bill 6000. Therefore, we have two of them already set up for following coverage on State unemployment compensation.

None of these difficulties mentioned by me or by people similarly situated need arise. It is perfectly possible that the social purpose to be sought under this legislation can be achieved if you will but cover these very people as self-employed, which they actually are.

As a matter of fact, Mr. Chairman, there have been many conferences among the officers of our company and between our representatives and those of various Government departments to the end that a complete accord might be reached. What we ought to accomplish is a definite basis upon which our dealers might properly receive the benefits of the proposed legislation. We had hoped that we could work out a solution of our difficulties and gain a clear understanding of our status, and then along came this unemployment-compensation bill. Mr. Chairman, surely you can see the endless hardship, the needless difficulty which might result from that type of legislation.

We even read the House report with great care in an effort to apply the explanations there given to our situation. If you would examine House Report No. 1300 at page 88 you will see example (4) in which the committee applies the "factors test" to a nursery-stock salesman, as demonstrated by Mr. Calhoun. After reciting the basis upon which the nursery-stock salesman does business, the committee advises the House that "the combined effect of all the factors * * * clearly shows that A is not an employee of the X company." Now turn to page 90 of the same report where you find example (7) as applied to a door-to-door salesman. It might have been a Fuller Brush man. The committee there told the House that "* * * the combined effect of the factors clearly shows that the salesman is an employee." I respectfully ask that you read both of those examples and tell me whether or not our dealers, our Fuller Brush men, clearly are covered in the one case or in the other and, how you—or we—can know. And how can you or we tell? Frankly, I can't tell, myself. It can apply either way in either case.

If Congress says that it is turning over to the administrative agencies the decision as to who shall bear the burden or receive the benefits of Federal legislation and who shall not, it's bad enough. It was because of efforts in the proposed regulations of 1947 to exercise such authority that Congress passd House Joint Resolution 296, on which I appeared before this committee. At least, under House Joint Resolution 296—still in full force and effect—we all can tell whether we are covered or not—and, gentlemen, Congress made the rule.

What is really involved in the "factors test" is the creation of an absentee-employer control over a Nation-wide dealership. What really is at stake is an uneconomic and antisocial effort to make employees out of people who never were and never have been considered to be employees. This legislation would make the independent contractor

in Hannibal, Ill., the employee of some concern in Pittsburgh or New York or Hartford. It would take the small independent businessman who is the backbone of economic growth in this great America of ours and say to him: "You may have thought yourself to be independent, living out there in Colorado Springs, or Athens, Ga., or Raleigh, N. C., or wherever, but you're not. You are an employee of the X company. You are subject to all of the laws which govern the employer-employee relationship."

Mr. Chairman, there are thousands of individuals in this broad land who have now become established in their own independent businesses. It is possible to extend to them the benefits of old-age and survivors insurance without producing this chaotic situation. It is possible to treat them as just exactly what they are without widespread confusion, hardship, and injustice. On the other hand, it is entirely likely that if this language in subparagraph (4) should stand, it will take 10 to 12 to 15 years of court rulings to decide what the combined effect of these factors really means.

And on the record, when our company was litigating with Treasury on a redetermination in 1943, it took about 4 years to come to a conclusive agreement on the way the case would go into court. In the fall of 1948 the Government asked us to withdraw our suit for recovery of a token payment made and redetermine it is independent contractors.

I dare say every man on this committee knows a small independent businessman—probably lots of them—who have built up their businesses right in their own home towns. Take the case of Mr. A. C. Fuller, the founder of our business. He is exactly 65 years of age. He has two sons in the business, one the president, and the other the general sales manager. Mr. Fuller started manufacturing brushes in the cellar of his sister's home in Somerville, Mass., about 1906. He did this work at night. During the day he personally went out to sell his brushes. He called upon the housewives of America, he walked from house to house, as he demonstrated his own wares. He believed that it was possible to permit a housewife to examine his wares and to interest her in their purchase with greater success than to try to market the same product from the shelf of some storekeeper who had no interest in pushing the Fuller product. When he found out that he could sell brushes, he enlisted the aid of other individuals who might also become interested in selling his product. From the very outset, the entire Fuller business stemmed from Mr. Fuller's fundamental idea that his dealers should be independent home-town businessmen. Mr. Chairman, it is a matter of personal fact, that I commenced selling Fuller products in 1916 to pay my way through college. When I landed in college I washed dishes and worked for a night watch and burglar alarm company for $150 a month. My first summer netted me $316; and that wasn't hay in 1916. I found out that selling Fuller products a few hours every afternoon eliminated the need for washing dishes or working 6 nights a week for the night watch and burglar alarm outfit. I put myself through school, and when I got out, I decided to stay in the business.

It is only 44 years ago that Mr. Fuller founded this business. Its success has depended entirely on the fact that a dealer in Fuller products has decided to enlarge his own opportunity and to establish

his own place in his own community. Actually, Mr. Chairman, in the development of the American economic system, whether the goods went across the Nation in wagon trains or down the coast in clipper ships, the sale of merchandise on a direct basis was undertaken by people who sought opportunity, to be independent, to work as much or as little as they liked, to gain a reward which fairly measured the amount of reward they expended. The first merchandise sold in this country was sold by the Yankee peddler, the Massachusetts or Rhode Island peddler, who went out with a pack on his back and sold pins and needles and kitchenware and bolts and cloth. They didn't even have brushes in those days. He went from the pack on his back to a wagon, a force and then the wagon trains, and the clipper ships. And so we have our American economic system, built on the Yankee peddler—on which a book has been written, by the way.

The sale of merchandise on a direct basis was undertaken by people who sought opportunity to be independent, to work as much or as little as they like, to gain a reward which fairly measured the amount of which they expended.

What I'm talking about is what we call the American way. Is it to survive? That is what is at stake in this type of definition, which would artificially and unrealistically define as an employee, a person who never was and who never intended to be anything but an independent businessman.

Therefore, Mr. Chairman, we ask that our dealers be classified as self-employed. We think that every individual should be able to learn from the statute itself that he is self-employed. We believe that tax liability should be clearly defined and not be made to depend upon a determination by the agencies of the Government. Of at least equal importance, we feel that our dealers should retain their independent status, to continue as they now are; a substantial factor in the well-being of American enterprise.

I would like to add just one more comment, having spent about 4 years in the legislative halls of my own State, that small but mighty State of Connecticut, which had the first charter granted in America, from which charter and our own State constitution stemmed many of the principles of our American Constitution. We are very jealous of our representatives in the halls of Congress and their prerogatives, and we want them to write the laws, and not have departmental workers decide how the laws should be written or handed down to us.

The CHAIRMAN. We thank you very much, Mr. Campbell. We were very glad to have you.

Mr. CAMPBELL. Mr. Chairman, I thank you very much for the courtesy and the pleasure of coming here.

The CHAIRMAN. Mr. E. J. Sievers? You may have a seat, sir. You represent the J. R. Watkins Co., of Winona, Minn.?

STATEMENT OF E. J. SIEVERS, VICE PRESIDENT, THE J. R. WATKINS CO., WINONA, MINN.

Mr. SIEVERS. That is correct, Mr. Chairman.

The CHAIRMAN. We will be very glad to hear you on H. R. 6000. I presume you are directing your remarks to the definition of "employee" in part at least?

Mr. SIEVERS. That is correct.

I am E. J. Sievers, vice president of the J. R. Watkins Co., Winona, Minn., in whose behalf I am appearing for relief from certain provisions of the proposed Social Security Act amendments contained in H. R. 6000.

The J. R. Watkins Co. was established in 1868 as a manufacturer and wholesaler of household and farm supplies. Included in this line of merchandise are household and farm disinfectants, insecticides, fungicides, mineral and vitamin feeding supplements for livestock and poultry, spices, packaged goods, flavoring extracts, toilet preparations, household and veterinary remedies, cleansers, waxes, and polishes, as part of an extensive line intended principally for the farm family. The Watkins dealer provides a valuable service to the farmer and residents of rural areas through his personalized service in the supply and delivery of these household and farm necessities.

The principal activity of this company over a period of 82 years has been the manufacture of this merchandise for sale to independent dealers ,trading for and on their own account directly to consumers on a house-to-house and farm-to-farm basis. This merchandise is sold f. o. b. our plants or warehouses and becomes the property, unconditionally, of the dealer to deal in or dispose of as he sees fit.

We sell this merchandise to these dealers principally on credit involving deferred payment running over long periods of time. We sell to others on the basis of cash with purchase and to still others on a monthly discounting payment basis. We never have any money or credits belonging to them. The situation is reversed in that the great majority of them always owe us money. Hence the company never has in its possession or under its control any funds belonging to the individual from which social-security or any other taxes could be withheld.

Dealers to whom Watkins sells products are entirely independent in their operations and are free by agreement, and in fact, from control by this company in all respects.

The dealer's net income represents the difference between the wholesale cost of the merchandise purchased either from this company, or from others, and their retail prices which they alone establish, less their cost of operations which, generally speaking, include advertising, travel expense, insurance, taxes, bad debt losses and inventory losses, and possibly other items.

Each dealer carries substantial stocks of merchandise, provides his own storage facilities and his own travel and delivery equipment, entirely at his own expense. Most of these dealers extend substantial credit to their customers with the intent of collecting on a trip-to-trip or crop-to-crop basis. Any resulting bad debt losses are borne entirely by the dealer himself. These dealers advertise at their own expense in their local newspapers, in social programs, school periodicals, and through local radio announcements and otherwise. Many of them also maintain booths for product displays at local county fairs, all at their own expense and their own choice.

Each dealer now reports to his State or municipality for sales taxes, personal property taxes, State excise taxes, license and occupational fees, and to the Federal Government for excise taxes. He is also personally responsible for compliance in any other field that might relate to his business under State, Federal, or local laws or regulations.

The net earnings of these individuals vary substantially due to large variances in transportation costs and population densities between different localities, different travel conditions, and differences in the skill and efficiency of the individual in the management of his business and the collection of his accounts.

Neither the wholesale value of merchandise shipped to a dealer nor the amounts of cash remittances received from a dealer by the company would give any approximation of either the gross or net income of any individual.

Our dealers include highly successful merchandisers who are reputed to earn between $6,000 and $10,000 annually. Many of these dealers have dealt with us continuously for over 40 years. We also deal with many individuals who operate on a limited part-time basis to supplement other income, and with individuals who operate only to the extent of satisfying their day-to-day financial needs. The extremes and variances are too wide and numerous to permit the use of any averages or to permit the determination of any equitable formula.

The use of purchases as a measure of cash income for any period would create a distortion by the amount of merchandise retained in stock, the amount put out by the dealer on credit, the extent merchandise is given away or sold below cost or without profit in sales promotion deals and the value of self-consumed merchandise. Dealer remittances would likewise be unsatisfactory as an income determination basis because of the absence of any relationship to dealer sales and collections. In many instances the repurchase of unsold goods by the company at termination of the relationship results in refund by the company to the dealer.

This occurred in 729 credit accounts settled during 1949 involving refunds by the company up to $2,700 in a single case. The use of either purchase or remittances in these cases as a factor in estimating dealer net income would have resulted in the overpayment of taxes by both the dealer and the company, necessitating the establishment of new tax-refund procedure by the Government.

Further complication would result in cases where we are unable to collect the dealer's account or the collection of the account extends over many years. During 1949 we charged off to bad debts in full or in part a total of 694 accounts. We also collected on 590 accounts where the dealer discontinued his operations prior to 1949 and as far back as the year 1931.

Neither the company nor any administrative agency of the Government could accurately estimate the true income of any individual or determine the amount of any taxes payable by either the company or the individual under the circumstances I have outlined. Any attempts to require reports of net income by the dealer to the company would be unworkable due to the company's inability to compel the filing of any reports or to determine their accuracy if filed. The interests of the dealer would be adverse to that of the company in reporting, putting the company entirely at the mercy of the individual with respect to the amount of tax involved.

The problem of estimating the taxable net income of any individual would be further complicated by the fact that many dealers handle everything from bobby pins to tombstones in addition to Watkins

products. The problem of allocating income and expense to the companies from which he makes purchases would involve an exceedingly difficult bookkeeping problem for him. Under the proposed definition of an employee in H. R. 6000, it is highly probable that a dealer might be retailing merchandise from one source of supply under which he would be classified as a self-employed person, while at the same time he could be classified as an employee with respect to his purchases from other companies.

Despite the compelling circumstances of independence surrounding these dealers in their relations with the company, it is probable that certain of the proposed amendments to the Social Security Act would permit interpretations that would artificially establish an employment relationship with these individuals that would be extremely injurious to this company and would, at the same time, create a situation detrimental to the type of individual which the act intends to benefit.

In addition to the overwhelming clerical burden that would be imposed on the company in an attempt at compliance following an employee classification to dealers for the purpose of this act, the following additional burdens would arise, without any doubt.

We would be required to come under the various State unemployment acts, although any idleness by a dealer would be self-inflicted and in many States disqualify him, for the reason that merchandise is always available either from our company or from any of the many companies engaged in wholesaling to such individuals. Suitable work is always available.

Our major problem in this business is the recruiting and turn-over of dealers, and it is our practice to do everything possible to keep them. Nevertheless, during the year 1949, we would have been required to report earnings, maintain records, and pay taxes for 24,637 dealers, though the actual number of dealers at the end of the year numbered only 10,130.

A similar classification would naturally follow for the purpose of workmen's compensation insurance, minimum wages, and wage-and-hour regulations, although we would never know the number of hours worked or if the individual was ill or on vacation. Frequently many months elapse before we even learn of a dealer's death.

The comany instead of the dealer would become responsible for the collection and payment of State and municipal sales taxes, license taxes, and Federal excise taxes. It might also become responsible for personal-property taxes on the dealer's stock of goods, although it is off the company premises and beyond its control and belongs to the dealer unconditionally. It would very likely follow that the company would be required to become domiciled in all of the 48 States with resulting complications in connection with corporate income taxes and various other reports and burdens required of and imposed upon corporations.

Under an employee classification, the company would become liable for torts involving these individuals. We would be entirely defenseless inasmuch as we could not require the carrying of liability insurance on a dealer's automobile or truck, nor could we supervise or control any of his acts in connection with the conduct of his business.

Our relationship with these dealers is based entirely on the profit incentive to them. Many of the dealers undertake this business with visions of permanency. The amount of a dealer's income is dependent

entirely upon his efficiency as a businessman and upon the amount of time he devotes to his business. Many of these dealers in rural areas to whom we sell merchandise are enjoying profits equal to or in excess of those earned by the average small storekeeper. The only control factor now existent is the profit motive of the dealer, and he furnishes that motive himself.

Our dealer organization now includes many high-school and college students, housewives, the temporarily unemployed, and retired persons attempting to supplement their pensions or savings. The necessity for control and supervision, which the proposed definition would require, would make many of these individuals unacceptable to the company and in many cases would make us unacceptable to the individual, resulting in lost volume to the company and depriving the individuals of their present opportunity for livelihood or supplemental income.

The impact of all the adverse factors referred to would be ruinous to this company. Our present pay-roll recording expense would be multiplied. Substantial increases in correspondence and stenographic costs would result from attempts to secure reports required. The magnitude of these increases is measurable by the fact that our present pay roll would be multiplied, increasing from 1,562 to 26,199 based on 1949 records, if the present definition of "employee" were permitted to remain in the bill. Costs of workmen's compensation insurance and unemployment taxes would likewise be pyramided. The cost of employers' liability and fleet auto liability insurance would be prohibitive if available at all, considering the impossibility of control by the company over these individuals. The cost of attempting to collect and account for State and local sales taxes, Federal excise taxes, and State, local, and Federal withholding taxes and the preparation and filing of additional State and local reports is beyond the powers of the imagination to estimate. We deal in merchandise that is already highly competitive and it is inconceivable that we could continue to compete with manufacturers or wholesalers who will not be required to assume pay-roll tax, and legal responsibilities for their retail outlets.

The CHAIRMAN. Senator Millikin?

Senator MILLIKIN. From the standpoint of the net result, you would have either to go out of business or go into the conventional manufacturing business, using jobbers and wholesalers in the conventional way for the distribution of goods?

Mr. SIEVERS. That is right.

Senator MILLIKIN. And you are not organized to do business that way?

Mr. SIEVERS. We do not have the organization or the know-how.

Senator MILLIKIN. And you have developed your skills in the way in which you now employ them?

Mr. SIEVERS. That is right.

Senator MILLIKIN. Is that not roughly true of all of these other gentlemen who have testified as to their businesses?

Mr. SIEVERS. I would think so; yes.

Either as a result of inability of compliance or because of prohibitive costs this 82-year-old company would have to restrict its activities and lay off employees, causing unemployment in the communities where it maintains branches, warehouses, and manufacturing plants.

The Federal, State, and local governments would lose substantial tax revenues and at the same time take on the added expense of caring for these unemployed.

We have tried to point out the disastrous results and the impractical situations that would naturally follow under the proposed definition of "employee." These adverse results would apply not only to our company but would also operate to the detriment of those individuals for whom it is claimed the proposed definition will provide benefits.

These individuals are definitely self-employed. The bill covers self-employed persons. This is the classification where they belong.

Section 4 of the definition of "employee" should be eliminated entirely and paragraph G of subsection 3 should likewise be dropped.

This will bring these individuals under the act as self-employed individuals and will eliminate the possibility of administrative or judicial legislation creating an artificial employee relationship that would result in the curtailment or elimination of an important industry, increase unemployment, decrease tax revenues, and destroy the opportunity for thousands of self-reliant individuals to earn a livelihood or to augment an otherwise insufficient income.

The CHAIRMAN. Any questions?

Senator KERR. You do not have a suggestion as to how these persons, if under the act as self-employed, could be made to provide the necessary reports, to pay the necessary taxes?

Mr. SIEVERS. That I would not know, except in connection with the filing of their regular income-tax returns. The filing on the quarterly basis, I would say, would be extremely difficult, because he operates on a cost-of-sales basis. It would almost have to be on an annual basis.

Senator KERR. For the great majority of them who might need the benefits most, would not the administrative problem be almost as difficult to handle them as self-employed, as you have described it to be if they are classified as employees?

Mr. SIEVERS. Well, the matter of their reports has been testified to by the Treasury. Those that probably would have income sufficient to entitle them to benefits would be required to file ordinary income-tax returns anyway.

Senator KERR. But for those who do not file an income-tax return, you do not have a suggestion?

Mr. SIEVERS. No, sir.

The CHAIRMAN. Thank you very much for your appearance.

Mr. SIEVERS. You are entirely welcome.

The CHAIRMAN. Mr. L. B. Whitehouse?

Mr. Whitehouse, you are appearing here for Charles F. Myers?

STATEMENT OF L. B. WHITEHOUSE, VICE PRESIDENT, MORTON MANUFACTURING CORP., LYNCHBURG, VA., TRADING AS BLAIR OF VIRGINIA

Mr. WHITEHOUSE. I am substituting for him. I was out of the city at the time the list was originally made up.

The CHAIRMAN. I see. You are representing the Blair Laboratories, are you?

Mr. WHITEHOUSE. Yes, sir. I am vice president of the Morton Manufacturing Corp., trading as Blair of Virginia.

The CHAIRMAN. You may proceed, sir.

Mr. WHITEHOUSE. Mr. Chairman and members of the committee. My name is L. B. Whitehouse. I am vice president of Morton Manufacturing Corp., Lynchburg, Va., and one of the original founders of the business.

Our business was established in 1919—31 years ago. Trading as Blair of Virginia, we manufacture and sell a general line of toilet preparations, food specialties, flavorings, household products, and simple home remedies.

We give regular, full-time employment to about 225 people, and have a pay roll in excess of one-half million dollars annually.

Our products are distributed through the direct-selling method, commonly referred to as house-to-house canvassing. This system of selling is the first and original way of distribution of merchandise by the manufacturer to the consumer.

The successful operation of a small business such as ours is essential to the economic and social life of the community in which we live, but in a bill now before Congress we see a threat to the stability of the business we have built over the past 30 years, and it is for this reason that I am today standing before the most important committee of the world's most important legislative body, seeking relief from the regulations as set forth in a certain section of the now pending Social Security Act, and which we believe would classify as employees the people to whom we ship our goods. We take the position that there independent dealers are not employees, and that any word or words in the act making them employees should be deleted from the bill.

The dealers who buy products from us are secured through the use of mailing lists, magazine and radio advertising. When their replies to our advertising are received, we furnish them with a sample outfit of products and pertinent literature to help them establish a small business of their own. The sales of our 200 or more products, to these independent dealers, is the lifeblood of our business. We sell to them at wholesale and they in turn sell on their own account to consumers through house-to-house canvass. Orders are received from approximately 35 States each month, and our volume of sales is about two and one-half million dollars a year.

Our annual list of dealers consists of over 60,000 names. Approximately 65 percent are women and 35 percent men. We receive an average of 2½ orders per dealer per year and the average size of the order is $12. Our daily average of orders received is slightly above 600.

We receive one order only from many of these people and never hear from them again. We have in our files the names of approximately 20,000 dealers who made their last purchase—in many cases their only one—during the last 3 months of 1948 and the first month of 1949.

These dealers fix their own prices at which to sell the merchandise they buy from us. We have no knowledge of the gross profit made on their sales nor do we have any knowledge of the dealers' expenses nor time devoted to selling our products.

In the case of our company, and in practically all other house-to-house or direct selling companies, dealers and sales persons handle other lines and there is no way of even guessing how much of their effort and how much of their time is given to the various lines that

they sell, to say nothing of expenses incurred in securing the orders and later making deliveries. These dealers pay their own expenses and we have no control over this subject and no ability to control it if we wanted to. The nature of the relationship of these people to our business precludes any possibility of control of any of their activities, however much we might desire to do so.

Most of them sell in spare time only and with a few exceptions they are people who have never been engaged in the conduct of a business that requires the keeping of books or other accounts, and such a thing as accurately figuring profits from sales would be completely foreign to them.

The setting up of a formula for determining their profits as a basis for determining taxes would be pure guesswork. Is the collection of taxes by guess a legal procedure?

To make even an estimate of the profit on an order, each item on the order would have to be figured separately and all figures on the order such as credits, transportation, et cetera, would have to be considered in the calculations.

The resulting estimated profit—which we know would not be accurate—would have to be further reduced by the dealer's selling expenses, and the value he placed on his time which is devoted to selling our line, eliminating the time he devotes to the sales of other lines. It is impossible to determine such expenses. If some magic formula should be set up to fix the dealer's profit which is subject to the tax, we would then have to prepare a social-security card record—name, address, social-security number, et cetera—record this figure, calculate the tax involved thereon, and enter the tax.

During the course of a year we would have to prepare over 60,000 different social-security records and make approximately 150,000 postings of the dealers' estimated profit and the tax applicable to this figure. This is at the rate of approximately 600 postings per day—that would be the equivalent of a pay roll of 600 people each day—this after all the preponderous accounting previously done. As previously mentioned, 20,000 dealers stopped buying from us in one 4 months' period. Thousands of these records would have had one posting only of the estimated profit on which the tax is based and the amount of tax. Assume, for the sake of illustration, that the dealer's net profit on a $12 order is 30 percent, or $3.60. We would be required to charge on the dealer's bill the amount of 5 cents, and we would be required to pay an additional 5 cents. Please consider the figuring incident to such a transaction.

Many thousands of these social-security records covering dealers who reorder would reflect taxes of less than $1 per year, not per quarter.

The cost to the Government as well as to this company of administering such records would be many, many times the amount of taxes involved.

Should this bill be passed as written, these dealers, who are not employees, would be wrongfully so classified, resulting in either our having to go out of the direct-selling business or be compelled to set up a new system of doing business which would make it so expensive that the new system would not be worth undertaking.

It would take an army of field supervisors and a terrific increase in our office administrative costs to properly supervise these dealers and

record their earnings when they are working in practically all of the various States.

Because of the nature of our business, orders must be completely processed each day so that the dealer may secure his merchandise promptly and make delivery to his customers. This prompt service to dealers is of vital importance to the successful operation of our business.

The details required for social-security records would slow down our flow of orders to the extent that good service to customers would be impaired—with the resulting loss of business.

Furthermore, if we had to operate on an employee basis, we would have to screen out all marginal operators (those who buy infrequently or in small amounts) and history has proven that if this has to be done, the profit disappears. We would have a heavy increase in expenses and a drop in volume of business which would be destructive. And we mean by "destructive" that our business would be destroyed.

To arbitrarily put these dealers on an employee basis would destroy the opportunity of thousands of housewives to augment their husbands' incomes, as well as many unemployable persons who are small producers and need supplemental income.

The Nation is now experiencing a definite decline in sales and an increase in unemployment. Our experience over many years shows that as unemployment increases, more people turn to direct selling as a means of livelihood. Since there is no unemployment in house-to-house selling, there is always an opportunity to make some money.

What about the minimum wage of 75 cents per hour now required under Federal law for all employees?

Should these dealers be classed as employees, they would logically come under Federal and State minimum-wage laws. Every dealer, whether part time or not, would have to be cut off if their volume of business is not sufficient to justify the payment of minimum wages. This would mean that when things finally settle down there would be considerably less than one-half of our dealers and salespersons selling Blair products. The minimum-wage element alone would precipitate a condition that would without question mean the total destruction of our way of doing business.

Should these dealers be classed as employees, our company would have to comply with State foreign corporation laws, eventual establishment of tort liability, compliance with the States' workmen's compensation laws, again adding another new force of office employees as well as the payment of insurance premiums under tort liability and under workmen's compensation laws.

Should these people be classed as employees, the various States having withholding provisions in their income-tax laws, similar to the Federal withholding-tax laws, would add further and unreasonable burden of compiling data and accounting, all of which would be unreliable.

Should the proposed bill become law and our self-employed Blair dealers be classed as our employees, we would be unable to determine the taxable earnings of the dealers as a basis for establishing the amount of tax we should pay and the amount to be charged to the dealers for future collection when and if he pays his bill.

Almost 72 percent of our business was done on credit in 1949. And that would mean an added loss to the loss of our charges to our dealers.

We respectfully request deletion in its entirety of subsection 4 of section K of the proposed law, which gives the administrative agencies complete power of determining inclusion or exclusion and also the deletion of any provision in the bill which would make these dealers our employees.

We favor and advocate the extension of social-security benefits to independent dealers, strictly as self-employed individuals.

We ask that the long accepted and usual common law rule defining "employee" continue to be recognized as the determining factor.

We ask that you—not some department of the Government, but you—a Congress of the people, by the people, and for the people, lift from this bill in its entirety that provision which would put a strangle hold upon, and sound the deathknell of, an important industry now enjoying the freedom of the greatest Nation on God's green earth.

Thank you, gentlemen.

The CHAIRMAN. Are there any questions

If not, we thank you very much for your appearance.

Mr. WHITEHOUSE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Calhoun?

Mr. Calhoun, you have had long experience in dealing with social security and social-security problems, and in the conduct of the hearings in the House.

Will you please explain to the committee, so that they might get a fair conception of it, how the taxes may be collected on the self-employed, particularly those smaller people who do not make returns, tax returns, ordinarily?

TESTIMONY OF LEONARD J. CALHOUN, MORGAN & CALHOUN, WASHINGTON, D. C.—Resumed

Mr. CALHOUN. I would say, sir, that as far as this bill goes it does not affect those with "self-employment income" below $400.

The CHAIRMAN. $400 a year?

Mr. CALHOUN. I believe that is the figure.

The CHAIRMAN. I see. Well, is that a net $400?

Mr. CALHOUN. It is the social security net income, which is in general net income from business or profession.

The CHAIRMAN. I understand they have a different definition.

Mr. CALHOUN. That is correct. The bill would add a new subchapter F to the Internal Revenue Code.

Senator Kerr has suggested that I give him a memorandum on the problem of covering persons with relatively small earnings. If you desire I would be glad to give it to the committee in memorandum form, or orally.

The CHAIRMAN. We would be pleased to have you prepare it in memorandum form, if you will, and we will be glad to put it into the record.

We would be glad to have you present it when you have prepared it.

Mr. CALHOUN. Yes, sir.

The CHAIRMAN. I believe that under the Federal income tax each taxpayer who earns $600 is required to make a return, is he not?

Mr. CALHOUN. That is correct, sir.

The CHAIRMAN. Whether he is liable for any tax or not.

Mr. CALHOUN. That is correct, yes.

The CHAIRMAN. But, as a matter of fact, we know that a lot of people do not make returns.

Mr. CALHOUN. I think, sir, you will possibly, if you cover self-employment, somewhat improve lower income tax returns if people genuinely want social security. In other words, they will have an incentive, if they want protection, to file income-tax returns.

The CHAIRMAN. That is true. But if they are brought under the system whether they want to come or not, they might still elect not to make returns.

Mr. CALHOUN. That is correct, sir.

The CHAIRMAN. However, if they were put on a voluntary basis, then certainly they would come in.

Mr. CALHOUN. That might well be.

The CHAIRMAN. I did not know that you were going to prepare a memorandum, but when you do so, please let us have it so that we may have the benefit of it.

Mr. CALHOUN. All right, sir. I will be glad to do so.

(The memorandum to be supplied follows:)

MEMORANDUM RE COVERAGE OF PERSONS WITH SMALL SELF-EMPLOYMENT EARNINGS

H. R. 6000 proposes to cover for the first time, under old-age and survivors insurance, some categories of self-employed individuals. It does this first by imposing a social-security tax on individuals with self-employment income of $400 or more in their taxable year, and second by giving them credits for benefit purposes with respect to the income so taxed. Self-employment income is different from gross income under the income tax, because self-employment business expenses are taken out in arriving at self-employment income (and also, of course, because there is not included in self-employment income income that is unrelated to the self-employed activities). For this reason it is reasonable to assume that most persons with self-employment income of $400 will have gross incomes of at least $600. But there will doubtless be some persons having self-employment income of $400 but a gross income below the $600 level, and hence exempt from the requirement of filing ordinary Federal income tax returns. In the case of such persons the annual self-employment tax would be relatively small (varying from $12 to $18 at a 3 percent rate), but this amount, payable at one time, would have a considerable impact on taxpayers whose income averages no more than $34 to $50 per month.

The proposed tax on self-employment is in general the counterpart of the employee tax presently imposed on earnings from "employment" as defined for social-security purposes. Like the employee tax, it does not apply to income in excess of a specified annual amount ($3,600 under H. R. 6000) and does not apply to income from certain work—for example, from agriculture. Like the employee pay-roll tax, neither liability for tax nor rate of tax is affected by the presence or absence of family dependents.

A principal difference between earnings subject to the social-security pay-roll taxes on wages, and earnings subject to the self-employment taxes, is that wages, no matter how small, are subject to the tax—both the withholding tax and the employer tax—while no tax is imposed on self-employment earnings where the aggregate for the year is less than $400. Indeed, employee taxes are imposed on earnings so small in aggregate that they are ignored for benefit purposes.

In appraising the social-security benefit and tax provisions, as applied to persons with insubstantial earnings over the year or the calendar quarter, it is important that we keep in mind two principal things: (1) Administrative and other practical considerations involved in tax collections, where small

earnings are concerned; and (2) The effect of the exclusion or inclusion of small earnings on eligibility for benefits and on the benefit amounts, in the case of the individuals concerned.

In broad theory, as presently conceived of, old-age and survivors insurance bases eligibility and monthly amount of benefits on earnings, and imposes supporting taxes on those same earnings. Both under existing law and under H. R. 6000 there are limitations on, and departures from, this broad theory.

One limitation is that of disregarding for social security purposes any part of earnings above a certain annual amount--$3,000 under existing law, $3,600 under H. R. 6000. This limitation is in general predicated on the, at least originally intended, purpose of the act—to provide only a floor of protection for individuals. OASI was conceived of as a device for reducing the likelihood that an individual's old age or death would result in creating a public relief problem. The maximum earnings counted for benefits are based on the idea that there is no social justification for providing persons whose incomes have been above the specified annual maximum with larger retirement and survivor benefits than are provided individuals and families whose earnings have been at the $3,000 or $3,600 maximum. In dealing with annual wages above this ceiling the tax and benefit provisions are identical. Each excludes the earnings above the ceiling.

This uniformity of treatment does not exist, however, in the tax and benefit provisions dealing with very small earnings. As a matter of fact, the benefit provisions themselves are not uniform in defining amounts of small earnings which shall be disregarded.

EARNINGS THAT ARE DISREGARDED FOR BENEFIT PURPOSES

Under H. R. 6000, "small earnings" are defined in somewhat larger amounts than in existing law, and the variance in amounts to be disregarded for various benefits purposes is also broader.

In determining whether an individual is "retired," "wages" of $50 or less per month are disregarded. In determining benefit amounts of an individual whose average wage and years of coverage are sufficient to make him eligible for some benefits, if his average wage is actually less than $50 per month it is "deemed" to be $50, and hence the actual amount of small average earnings is disregarded, provided, of course, that they are sufficient to afford "eligibility." I shall come to this in a moment. As for a self-employed individual, in determining whether he is "retired," earnings, regardless of amount per month, are to be disregarded unless the aggregate for the year exceeds $600. There are certain other variances between earnings as an employee and as a self-employed person.

Oddly enough, another figure—$400 per year, an average of $33.33 per month—is used in defining "year of coverage." Earnings below this figure in a year are ignored, whether from employment or self-employment, or a combination of the two. Under the bill a benefit is computed on the basis of average wages and then increased one-half of 1 percent per "year of coverage." Even more important, the bill reduces benefits in direct proportion to years which are not "years of coverage."

Still other size amounts of small earnings are disregarded for determining eligibility. Eligibility is conditioned on an individual having a sufficient number of "quarters of coverage." In the case of earnings as an employee, if wages are less than $100 in a calendar quarter, these wages are disregarded, but if $100 or more the individual has a quarter of coverage toward eligibility. Thus with less than $100 wages in a year an individual has no quarter of coverage toward eligibility; with amounts between $100 and $200 in a year he can have one quarter of coverage at the most, and may have none; with between $200 and $300 he may have none, one or two quarters of coverage, and with amounts between $300 and $400 he may have none, one, two, or three quarters of coverage, and with amounts of $400 or more, he may have one, two, three, or four quarters, depending on when he receives his pay and the amounts received.

In the case of self-employed persons, it is difficult, if not impossible, to determine the particular calendar quarter in which self-employed income was received, so the bill prescribes a special rule for the self-employed. In this case, $200, but less than $400, in earnings in a year is defined to mean one quarter of coverage; $400, but less than $600, is two quarters of coverage; $600, but less than $800 is three quarters of coverage, and $800 and more is four quarters of coverage. However, in cases where self-employed income is less than $400 it is not taxed or counted for benefit purposes. Less than $400 self-employment income would

be taxed and credited only in cases where both (*a*) $400 or more such income was earned, and (*b*) the earner had over $3,200 in wages in covered employment, as well as self-employment. In such case he is taxed and credited only with such self-employment income as will bring up his total covered earnings to $3,600.

It is somewhat baffling to find these varying concepts of "insubstantial wages" which are to be disregarded for various benefit purposes. In this connection, it might be noted that it would be possible to adopt one definition of "substantial earnings" for employment and self-employment, making both of them apply to earnings in a year, and utilizing a single figure which includes all covered earnings for purposes of eligibility and benefit amount. In fact, this was the approach in the 1939 legislation as it passed the House. The quarters of coverage device was introduced by Senate amendment, principally as a method of quickly qualifying people then old and with insubstantial periods of coverage. When the amendments went into effect no one had been covered more than 3 years. If it is found desirable to give fractional years' credit for small earnings, the approach of H. R. 6000 in dealing with self-employment could be followed. It would be of significance only in a comparatively narrow margin of cases where individuals had been intermittently in covered work, or had worked only intermittently. Such a change would permit annual instead of quarterly reporting, and annual posting in Baltimore of the details of each employee's earnings in as wide an area of cases as such a procedure would be feasible and to the mutual interest of the Government and the taxpayers.

EARNINGS DISREGARDED FOR TAX PURPOSES

As has been pointed out, overceiling earnings ($3,000 under existing law, $3,600 under H. R. 6000) are uniformly disregarded for tax and benefit purposes. In instances where an excess is collected (because the individual had two or more employers and in combination they paid taxes on over $3,000 wages) the individual receives a tax rebate of the excess taxes. Under the proposed self-employment tax provisions, no tax will be paid if, or to the extent, it would result, in combination with any taxed wages, in more than a total of $3,600 taxed earnings.

However, in the case of small earnings disregarded for benefit purposes, there is a disparity in the tax treatment afforded employees and self-employed persons under H. R. 6000. Under existing law benefits are based on total wages averaged out over the period in question, so all taxed wages, whether large or small, have significance (assuming that the individual is eligible) in the monthly benefit amount. Under H. R. 6000 they have no benefit amount significance where the amount paid in the year is less than $400. As has been indicated, their significance, if any, toward eligibility is limited to a rather narrow area of cases, and in those cases is further dependent on the quarterly distribution of wage credits over the year in question.

From the viewpoint of OASI being considered a contributory system, it is somewhat difficult to justify tax rebates being denied where the taxed wages have no benefit significance because they are under the floor of wages regarded for benefit purposes, particularly in view of the treatment afforded overceiling taxes. The disparity is emphasized by the fact that self-employment taxes have a $400 per year floor under H. R. 6000, and no tax is paid where earnings from self-employment are below this floor.

It might be noted that both "overceiling" and "underfloor" tax collections are incidents of the withholding technique of the pay-roll taxes, and one could be corrected by rebates as well as the other if the same tax policy applies to both

THE "FLOOR" FOR SELF-EMPLOYMENT TAXES

The foregoing has been largely by way of background in dealing with the question of an appropriate floor ($400 in H. R. 6000) for self-employment earnings. Quite obviously, if administratively feasible, self-employment earnings and employee earnings should have the same floor, just as they have the same ceiling.

But the minimum feasible floor in the case of self-employment, if taxes are to be assessed and collected as provided in H. R. 6000, is limited by the capabilities of the individual taxpayer in question. It is my understanding that there is statistical indication that an extremely high percentage of individuals with $400 or more in earnings from self-employment have gross incomes of at least $600 and hence are required to make income-tax returns under existing law. If this

is in fact the case, the $400 floor for social security self-employment income would add no substantial addition to the number of individuals required to file individual returns under existing law.

This, of course, is no guaranty as to the accuracy of the returns which may be filed by persons with insubstantial earnings. If total income is $674, no Federal income tax is due even for an individual with no dependents, and with $25 more income he owes only $3 tax. But the difference between $399 and $400 social security income is $12 in tax at the proposed 1951 rate. An individual with $1,324 total income and a dependent owes no Federal income tax, but at proposed 1951 rates would owe $30 for social security taxes if $1,000 were social security self-employment income.

It is difficult to evaluate the impact of these amounts of tax on the correctness of reporting both ordinary income taxes and social security self-employment taxes by persons with modest incomes. Presumably this may be considerably influenced by the particular taxpayer's attitude toward social-security protection. Border-line small social security self-employment income cases would frequently involve gross incomes of considerably under $100 per month average, and a multitude of very small transactions and expense items. It is probably unusual for any accurate records, either of income or expenses, to be kept in cases of this kind. My guess is that there will be a considerable area of what might be termed "voluntary coverage" whether the minimum social security self-employment income tax has a floor of $400 or a somewhat higher figure. As a matter of fact, a higher floor, say $800, would require a $24 payment if the person concerned decided his social security income to be $800 instead of $799. The $400 floor would make a $12 difference between paying and not paying.

If it were decided to impose only the employee rate on those with small incomes, perhaps it might make a substantial difference in the border-line cases where the taxpayer decides his social security income is above the floor amount. The 1½-percent rate is, of course, a compromise between the employer-employee rate and the employee rate alone, and is not necessarily the correct rate.

Consideration might be given to extending an option to individuals with some wages or self-employment income, say a minimum of $100 in the current year or perhaps in the previous year, to pay the self-employment tax necessary to bring their current social security wage credits up to the $400 minimum floor. While in theory this option would not be compatible with the general compulsory system, perhaps it might prove a fairly workable solution to the problem of individuals with earnings just below the floor.

To summarize:

(1) The problem of persons with small earnings—whether in employment or self-employment—is an important problem, for their coverage is a very real part of the purpose of the act if it can be feasibly accomplished.

(2) The system should be simplified as much as possible with a single definition of earnings to small to be recognized, and this definition should apply both for tax and benefit purposes, and apply both to earnings from employment and earnings from self-employment.

(3) The definition should be on an annual instead of a quarterly basis so as to permit annual reporting and posting—which will be the case for self-employment in any event.

(4) Consideration should be given to giving elasticity to border-line cases of very small income by permitting some option in such cases.

(5) The tax forfeitures implicit in H. R. 6000 where very small earnings from employment are taxed but no wage credit given should be eliminated by tax rebates on the same basis as applies to overceiling payments.

The foregoing suggestions are made on the assumption that the H. R. 6000 definition of "average wage" will be adopted despite the several rather serious objections to its adoption, and that accordingly a very considerable amount of wages, though taxed, will be ignored for benefit purposes.

The suggestions do not deal with the definition of "insubstantial earnings" to be applied to covered wages earned before the effective date of H. R. 6000. As is the case in H. R. 6000, the existing law as to "quarters of coverage" could remain applicable to these wages. Four of these "quarters of coverage" could be made equal to one "year of coverage" in determining eligibility.

Nor do the suggestions make necessary any radical change from that proposed in H. R. 6000 for "currently insured" status.

The suggestions are also written on the assumption that the committee is not prepared at this time to make a complete or virtually complete extension of

coverage to all gainful employment. Were such extension to be made, the problem of specifying minimum earnings for eligibility would disappear, and the problem of persons with small earnings would be limited merely to the problem of determining the level below which no taxes would be imposed. As has been indicated by some witnesses, universal coverage would permit removal of a series of basic inequities while the foregoing suggestions are principally to correct minor inequities and simplify the system.

The CHAIRMAN. Mr. Harry Minchin? You may have a seat, sir, if you will, please. You are Mr. Harry Minchin of the Specialty Salesman magazine?

STATEMENT OF HARRY W. MINCHIN, CHICAGO, ILL., MANAGING EDITOR, THE SPECIALTY SALESMAN MAGAZINE

Mr. MINCHIN. That is right, sir.

The CHAIRMAN. We will be glad to hear you, Mr. Minchin.

Mr. MINCHIN. Thank you, sir.

My name is Harry W. Minchin. I live in Chicago, Ill. It is my privilege to be the managing editor of Specialty Salesman magazine, the 34-year-old pioneer trade publication of what is known as the direct or independent selling field. I have been identified with this business for over 30 years.

This trade publication, which is distributed throughout nearly the entire country on newsstands by the American News Co., world's largest distributors of magazines, also goes to thousands of our subscribers.

In addition, house-to-house salespersons have an organization known as the Direct Selling Legion and it has thousands of members throughout the country. These members also each receive a copy of our publication monthly. The Direct Selling Legion, in fact, was founded in 1934 and is solely sponsored by our publication and it operates on a dues-free basis.

Through our close connection with our entire readership, including these members of the Direct Selling Legion, we have hundreds of personal contacts with salespersons, we know their problems, and we hear their gripes.

Our magazine specialize in the outside salesperson field and reaches upward of a quarter of a million of such self-employed men and women—mostly men—each month, and these independent self-employed distributors or salespeople, sell items which are used by virtually every segment of our population.

Very few of these independent salespersons handle merely one line—they sell anywhere from one to a half dozen or more. It is very important for this committee to know definitely that these people are totally uncontrolled as to time put in, choice of customers, volume of business, routes or places of travel. They are not required to report for work, are not furnished a place to work, and are totally dependent upon their own action for this business income.

It should also be clearly understood they operate entirely at their own expense and that the company itself has no knowledge of the amount of their expenses, no control of the same and hence, no information as to the amount of their net income, nor the time when it is determined.

These elements, which are entirely absent in the relationship involved, are all very important items which are always present under

a pay-roll situation. The absence of these pay-roll elements in this relationship precludes any conclusion that they are employed persons and makes definite and certain the fact that they are not controlled and furthermore, not controllable.

Our contacts personally and by volumes of correspondence with these people, is such that if they wanted to be put into an employed status, we certainly should have heard of it. We have never received from any of these persons, a verbal or written expression of their desire to be covered. The free-lance character of their relationship does not suggest to them any idea of an employment status.

No direct selling salesman need ever be unemployed except as a matter of his own choice. If a salesperson should give up a selling connection, there are always dozens and dozens of other connections involving the same type of work ready and available without delay. Since suitable work is always available there can be nothing but self-inflicted unemployment in this field.

We mention this for the reason that if the definition in the bill should be enacted into law, the very next legislative step would be to bring these people under unemployment compensation. Furthermore, without regard to whether or not Congress would so act, the labeling of these persons as employees would result very shortly in having them covered under the State acts.

It would be a ridiculous situation to impose taxation for unemployment compensation for the benefit of individuals who would not be eligible to receive such benefits. Our own surveys indicate that their average is 45. Obviously, such an age group of citizens is unable to endure the demands of modern production with its high-speed tempo. Without a freely available selling field to fall back on, they not being first-class employables, would have no place to go for a living.

Are these fine self-employed, self-supporting citizens to be told "you must stop work or become employees. You may no longer pursue your livelihood as self-employed people"?

This type of salesman is not to be confused with the so-called traveling salesman or drummer type of salesperson who does not sell merchandise to consumers but rather to the retail or other trades. In this latter field the elements of the relationship are so different that there is no comparison and ordinarily the drummer or traveling salesman type have always been considered as employees because of the presence of control and employment elements.

Senator MILLIKIN. Do you have any statistics available to you as to increasing sales resistance in this door-to-door business, or is it harder to make sales now than, say, a year ago or 2 years ago?

Mr. MINCHIN. We think not, Senator. There have always been sporadically throughout the country so-called local ordinances to try and prevent a salesperson calling upon people without first having a request to do so. Generally, they are the result of some agitation, and then there is the result of a little enforcement and then a forgetting of it.

Senator MILLIKIN. No; I am not talking about the restrictions on the person who is doing the selling. And I am not so sure that my question is relevant to your testimony, but I am just wondering whether the salesmen are meeting with greater customer resistance, say, now, than they did a year ago.

Mr. MINCHIN. I get your point, Senator; and our correspondence indicates that they do not. Does that answer the question, sir?

Senator MILLIKIN. Yes; that answers the question.

Mr. MINCHIN. Let us also keep in mind the sharp difference between the self-employed persons to whom our publication is dedicated and a person hired to operate a regular route and serve customers of some laundry, dry-cleaning establishment, dairy, bakery, bottling company, or similar establishment. He checks in and checks out, works when and where he is directed, and is fired in the same sense whether he is on a salary or on a commission basis. His required coverage of the assigned route will mark within close limits what his pay will be, regardless of how it is fixed.

Neither the traveling salesmen nor the route drivers handle any side line as a rule, and cannot do so without their firms' consent, but must devote all their time and efforts to the sale of the services furnished or product or products manufactured or distributed by their employer. It is my understanding that the drummers or salesmen just described are already held to be employees when the true facts are disclosed, because the employer directs, and accordingly knows, exactly what they are doing, what they make net, when they make it, and how they make it, and where they are, and is, therefore, in a position to properly make social-security reports.

The case of the independent, self-employed salesperson, for whom we speak, is utterly different. He selects the firm or firms whose products he chooses to sell. He makes no promises as to what time he will devote, what volume he will produce, or how long he will continue to handle the line. Being self-employed, he is free to drop any line he carries at any time he chooses. No one tells him where to go or to whom he may or may not sell. He reports neither time put in, nor earnings, nor expenses.

While I can understand the dividing line between these people and distributors of direct-selling companies, I cannot understand either the so-called factors in the new definition of "employee" in H. R. 6000, or the examples of how they will be applied to distributors in the direct-selling field.

I read the seven illustrations of who will be an employee in the committee report to this bill. Though two of these seven illustrations were of specialty salesmen in the direct-selling field, I am still very confused even in that field. One illustration dealt with nursery-stock salesmen and they were said not to be employees. That was the example numbered 4. Example 7 was of a household-products salesman. He was said to be an employee. I noticed that the nursery company arranged with the salesman to handle its products on a commission basis, gave him a catalog and order blanks, and perhaps gave him some instructions as to sales techniques. This describes what a great many direct-selling companies do. The illustration stated that—

> the performance of the service is neither regular nor frequent; nor is the relationship permanent.

I think this is typical of every firm's experience with a large percent of the salesmen with whom they deal. For these salesmen work when they want to and pick up and drop lines very frequently. A firm never can know, except by subsequent orders, whether a particular distributor will send in substantial business for a long period or small orders for a short time.

The salesman held to be an employee in example 7 was one who decided to devote full time to selling one company's products. This was strictly his own decision. They were careful to say in the illustration that he was not required to meet any sales quota, but only got quantity discounts, which is a rather typical arrangement. It is stated also in the illustration that this salesman was free to handle other products, and to choose his own routes and customers, and that the company had no right to control him in any way. So the decision to work full time and handle only one line was this salesman's decision and not the company's. Of course, no company limits the volume of business it will do with a distributor, and any distributor can work full time or part time as he chooses.

I am still puzzled why illustration 7 states:

> The factors clearly show that the salesman is an employee.

It is not clear to me, for common sense leads to the exactly opposite conclusion. Perhaps I don't understand the factors. This man or woman sells shoes or brushes or some other lines, and the man in example 7 sells fruit trees and is also a farmer, and I don't see anything in the factors about fruit trees or farmers.

I think you are going to confuse and mystify a lot of people if you adopt this definition of employee, judging from these two examples of what we can expect by way of rulings. I also wonder how a company would know whether a particular distributor is working full time, if this is the intended dividing line of what is an employee, or whether he is selling no other products, if this is the dividing line of who is an employee. Whether he is working full time or part time, or whether he is handling one line or more than one line, is solely the decision of the distributor—not that of the firm. The contractual arrangement between him and the firm leaves him perfectly free to decide both questions. Furthermore, he can change either decision at any time. He can take on an additional line or lines of products whenever he desires, or can decide to change from selling any particular product full time to part time, or vice versa. Will these decisions of the distributor, which may not even be known to a firm whose product he handles, have the effect of creating or destroying a payroll tax obligation of that firm, or of shifting the distributor's social-security tax obligation from that of employee to that of a self-employed person?

It would be an utter physical impossibility for the various firms to keep track of and make proper social-security returns on their distributors. Most certainly the self-employed men and women of direct or independent selling would have this source of livelihood torn from them were they distortedly to be forced into the social-security picture as employees. They are not employees. Quite frequently they carry the merchandise of several firms. The resultant attempt to keep track of their activities and arrange proper withholding to conform to the law would result in such chaos and needless expense that many manufacturers would necessarily have to discontinue this traditional form of doing business.

I read a while back that a big cooperative, G. L. F., I believe it was, gave up its income-tax exemption rather than keep up detailed bookkeeping of transactions with customers which were costing it nearly half a million dollars a year. What do you think will happen

to direct-selling companies if they are required to assume an even more expensive bookkeeping and reporting operation?

The firms distributing products which reach the consumer through self-employed distributors come under the heading of small business. Yet, in the aggregate, these small firms have hundreds of thousands of factory and office employees whose wages mean much to the well-being of the respective communities in which they make their living. To deprive these firms of their business arrangements with these self-employed distributors, which you do automatically if you determine to treat these self-employed people as employees, means that by so doing you are crippling the firm and throwing their actual employees out of work.

In view of the foregoing, I am here, as I have said, to speak for the many hundreds of thousands of men and women who would be most adversely affected if they are classed as employees under H. R. 6000, and on their behalf I earnestly urge upon the committee that all provisions in the bill which might affect their independent status be completely eliminated, and that you retain the usual common-law rule so far as these people are concerned.

It is my sincere belief that if they are classed as employees a most harmful situation would be created. As I have already indicated, I have read the new definition of employee and I don't know to whom it applies. I have been told by our attorney that no one knows just who would be in and who would not be in. This sounds like giving the enforcement agencies what virtually amounts to a blank check and the sole discretion as to whom they would include.

The definition would leave numerous large segments of business containing thousands of concerns, in a position where they would not know whether or not they had an employment relationship with independent contractor-type persons until some administrative employee of the Government made up his mind as to the classification.

It is already a well-known fact that the present law has eliminated this uncertainty and the chaotic condition, which existed for a few years after the enforcement agencies had abandoned the original regulations set up for the control of administration action.

Reestablishment of the former uncertainties and chaos would bring about another wave of litigation which would become necessary because of there being no certain or fixed criteria or yardsticks.

In closing this urgent appeal for a realistic view of the situation by this committee, we cannot too emphatically, urge your most conscientious consideration of the far-reaching ill effects of attempting to class these people as employees. Not only would it deprive thousands of these distributors of their present means of livelihood, but stemming back to the firms whose products they buy and sell, would also have the effect of causing these firms to close up their businesses, thus causing unemployment in the ranks of their actual employees, both in the shop and office. No injustice is done to either the distributor or manufacturer under the present definition of employee, but widespread and unnecessary harm can and will be done the industry if the H. R. 6000 definition is adopted.

Thank you very much.

The CHAIRMAN. We will proceed, gentlemen, as far as we can, until there is another call for us or until we find it necessary to recess, if that is agreeable with the committee. I think maybe we can finish.

Mr. Charles J. Brooks? Mr. Brooks, you are appearing here on H. R. 6000.

STATEMENT OF CHARLES J. BROOKS, VICE PRESIDENT, THE C & D CO., GRAND RAPIDS, MICH.

Mr. BROOKS. Yes, sir.

The CHAIRMAN. You may be seated, if you wish to; and please identify yourself for the record.

Mr. BROOKS. Mr. Chairman and members of the committee, I am grateful for the opportunity to appear before you. My name is Charles J. Brooks. I am vice president of the C & D Co. of Grand Rapids, Mich.

My company has been in business for 39 years, selling dresses, lingerie, underwear and hosiery direct to the consumer, throughout the United States. This is done through personal solicitation on the part of approximately 10,000 salespeople. This method of distribution is sometimes known as house to house.

We would like to see all of these salespeople covered by social security—as self-employees, which is what they are. We are vitally concerned, however, over the possibility that they might be brought under social security as our employees which, in actual fact, they are not.

First, I would like to show why our salespeople are not employees, and, secondly, why it would be impossible for us to operate under our present plan of organization if they should ever be declared to be employees.

We have no control over these salespeople. They work when they please. They might put in 10 hours a week or only 2 hours in an entire month; or they might not work at all. They call upon whom they please, when they please. Many of them send in orders only for members of their own families. Many take orders only from friends and neighbors. We send merchandise portfolios and other materials to hundreds of persons every year who never send us a single order.

We require no purchase of samples or other investment. If they order merchandise to wear, or to carry as samples, they pay for it. They pay all of their own expenses.

At no time do we have any of their funds, nor do they receive any compensation on their sales direct from us. We quote a price to the customer and a deposit for the salesperson on each item. The salespeople are supposed to collect the deposit as their profit on each sale. We have no knowledge as to whether the full amount of the deposit, or any deposit at all, is actually collected. Frequently they get on our mailing list just to buy for themselves and close friends, less the deposit.

They work out of their own homes. In most instances they also carry the lines of other companies. It is not uncommon for independent contractors to carry as many as seven or eight lines. Our relationships with them are carried on through the mails. Their earning results are dependent entirely upon their own uncontrolled efforts.

It is not necessary to adopt the pretext that these people are employees of the C. & D. Co., purely for social-security purposes, since

this bill provides them with social-security coverage as self-employed persons. I believe you will consider that the following facts also prove that it would be impractical to consider them as employees.

On January 1, 1949, there were 10,248 people on our mailing list. At the end of the year there were 8,750. During the year we added 10,695 more to our mailing list. In other words, we added over 10,000 people to maintain an average mailing list of less than 10,000. Since we started with 10,248, and sent outfits to 10,695 more during the year, we had on our mailing list, sometime during the year, a total of 20,943.

The approximate 21,000 salespeople on our mailing list last year sold an average of less than $91 each during the entire year. Since their gross receipts (deposits) amount to approximately 17 percent they could not have made more than an average of $15.50 each for the year. From their gross receipts they must deduct their transportation and other costs of doing business, in determining their net profits or earnings.

Each month there were approximately 10,000 people on the mailing list, because each month we were not only adding new ones but discontinuing those from whom we had received no orders for a period of months. In this respect, our operation is similar to that of Sears Roebuck, Montgomery Ward, and other mail-order companies that send catalogs only to those customers from whom they receive some business. There was no month last year when as many as half of the people on our mailing list each month, sent us orders. In July only 3 percent of the people on our mailing list sent us one or more orders. Our best month was December, when we received one or more orders from 49.6 percent of the people on our list.

You can see from these facts that there is not the slightest chance of controlling these people. You will also see that there is a complete absence of any incidence of employment such as a chance to observe the worker while working, the opportunity to check hours put in and to check diligence, loyalty, et cetera.

Under the common-law concept, as covered by the first sentence of section 2, the definition of employees clearly indicates that people selling C & D. merchandise would not be considered employees on account of the complete lack of controllability. In fact, under the common-law concept, we have a ruling from the Treasury Department that these salespeople are not employees but are independent contractors.

While it is certain that our salespeople would be considered as independent contractors under section 2, we are very fearful that they might be declared to be employees under section 4 because, under this section, no one can tell who is an employee and who is not an employee. This, as you know, is the so-called economic-reality section of the bill under which a person is declared to have the status of an employee as determined by the combined effect of (A) control over the individual (B) permanency of relationship, (C) regularity and frequency of performance of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss.

I am going to interject there that many of those things can be interpreted. As for the integration of the salespeople in our business, certainly we couldn't do without them. It is the sole means of distributing our merchandise.

In this section of the bill there is no clear definition by law as to who is an employee and who is not. Such decisions become a matter of judgment on the part of men in charge of administration which is government by man as distinguished from government by law.

There is a grave likelihood that, if this section is included in H. R. 6000, regulations might be issued by the Treasury and Social Security Departments which would result in all of these 21,000 part-time workers being classified as employees. In fact, as you know, some time ago such regulations were under consideration, but were deferred when Congress continued the common-law concept in which controllability is the main factor.

Under the common-law concept, the line of demarcation between the self-employed and the employed is clear-cut. It stabilizes the question of status and there are hundreds of court decisions which form the precedent of such stabilization.

Under section 4, there is no stability, no certainty. People could be held to be employees or not employees, dependent entirely upon the judgment of administrative agencies.

You can imagine the situation we would be in if all of these people were declared to be employees of the C. & D. Co. For example, many States will pass laws setting up employee disability cash allowances. Such laws are already on the books of California, New Jersey, Rhode Island, and New York. Such a situation would be terrible. An actual employer has a chance to see whether an employee has a disability, upon which a claim can be based and amounts paid. We would never have any such opportunity and certainly could expect a multitude of claims of this kind with no chance to show lack of foundation therefor.

And consider the fact that several States and a number of municipalities have local income-tax laws which contain withholding provisions. In those areas we would not only have to handle the withholding for the Federal tax, but for the State and municipal taxes as well, which would be an impossible job.

There is also a probability that, if these persons were declared to be employees, we would be under the necessity of qualifying under the foreign corporation statutes of the various States.

We would, in practically every State, come under the unemployment-compensation requirements of such States. How could we possibly handle unemployment-compensation coverage when there is no unemployment in our business? If these people do not want to send orders for our merchandise, there are hundreds of other companies with whom they can make connections merely by writing a letter. Suitable employment is always available to them since there is never any unemployment, except that which they make themselves.

We would be held responsible for personal injuries, property damages, and death claims. There would be no way to protect ourselves against fraudulent accident claims, from all over the country, except at prohibitive expense. We would have to carry liability insurance on hundreds of people, to whom we send order-taking equipment each year without receiving an order. Our cost of carrying insurance would be excessive, amounting to more than the taxes.

The cost of setting up compliance machinery would be prohibitive. Even if it were financially possible, we do not believe we could secure the efficient cooperation of 21,000 people, scattered throughout the United States, in supplying all of the information required by law on the small amounts of net earnings that would be involved per individual. We have no power to compel them to report to us or to remit to us their part of any tax.

It is a matter of common knowledge that, if these salespersons are held to be employees, the Treasury Department will require the company to make withholdings, for income-tax purposes, despite the fact that the company has no funds of the salesperson in its possession, and would have, by some means or other, to get the salesperson to remit to the company the necessary amount.

If we had attempted last year to make quarterly social-security reports, covering the entire 21,000 people that were on our mailing list during the year, we estimate that we would have submitted approximately 50,000 reports to the Treasury Department. Considering that the average gross reecipts, of these people, amounted to only $15.50 for the entire year, and many of them had operating expenses that were legally deductible, the average amount per report for all of these 50,000 reports would have amounted to less than $4. The social-security tax, on such an amount, would be so small that both the Treasury Department and my company would have handling costs amounting to many times the actual tax involved.

The social-security tax at 3 percent on an amount of $4 would be 12 cents. We estimate that it would cost us at least $2 to maintain all of the records necessary to submit each quarterly report; so that our costs of submitting reports would amount roughly to 16 times the amount of the tax involved, based upon our average sales and earnings of last year.

We also estimate that it would undoubtedly cost the Government an amount as large as the $2 that it would cost us, in which case the Government would have paper costs amounting to 16 times the amount of tax collected.

From my personal experience, for many years in operating as an independent contractor, I can testify that I do not know how I could accurately report my true net earnings to any company.

Four times a year I would have to deduct, from my gross earnings, my transportation costs and other legally deductible expenses, including such items as annual depreciation on my car. Since I always represented more than one company, these costs would have to be broken down in some manner and a proportionate part charged against my earnings from each company. Reporting could be done by following the exact procedure used in making an income-tax report. If I were to be considered an employee, however, my quarterly report to each company would be much more difficult and cumbersome than filling out a Form 1040 income-tax return. Many of my allocations of expenses would have to be based on personal judgment or guess work.

In reference to using the income tax as a basis for paying social-security taxes for self-employed people, I believe that would be a very practical procedure if there was one minor change made in the method of reporting taxes. That would be, rather than reporting gross receipts, to report gross receipts less deductible expenses, as you do in

your income-tax returns. And while the amount varies in the income-tax requirement and the social-security requirement, varying from $500 to $400, the gross amount, the gross receipts, of a person who would have net earnings of $400 would amount to more than $500. Because anyone involved in business as an independent contractor has a number of expenses. As has been mentioned here this morning, there are the expenses of advertising, telephone, the use of an automobile, and many other things that should properly be deducted from their gross receipts in figuring their net income.

So far as my company is concerned, however, it would create an absolutely impossible situation if we were required to secure and report the accurate information that would be necessary in submitting 50,000 or more reports a year. I am positive that we could not continue to operate under our present business structure, as we have been doing since 1941. At the estimated cost of $2 per return, that means that our costs would be raised $100,000, at a minimum, if we were to attempt to follow that procedure in section 4, and our percentage of profit and our total dollar volume of sales do not include such an amount.

Remember, too, that there are literally thousands, probably hundreds of thousands, of people who don't want to work full time; who don't want to be employees; who want to be independent contractors just as they are now; who want to work a little now and then when they need a little extra money; folks who consider themselves independent; who pride themselves on their independence and self-reliance; who are not dependent upon us or anyone else. If this bill, including section 4, should be passed, then we doubt if any company could continue to work through such people.

Last year I had the privilege of testifying before the House Ways and Means Committee when this bill was originally considered, and the members of that committee seemingly were in complete agreement that it was not designed to cover people such as we have, classifying them as salespersons. They seemed to be in complete agreement. And I believe that section 18 was written into the bill in an effort to exclude such people from coverage. But on the other hand, section 4, subject to interpretation by administrative agencies, could very well cause us to be included, as has been cited here this morning in the case of the household-products salesman.

Selling direct to the consumer is the oldest form of distribution, and people have been working in this manner since time immemorial. We believe that the only practical thing to do is to maintain the status of these people, to continue to consider them as independent contractors under the common-law concept.

We wish to repeat that we are not objecting in any way to coverage for social-security benefits of these people as self-employed. Our objection is to the coverage as employees of these persons who are not in an employed status. The mention of independent contractors in section 3 and the language of section 4 could conceivably result in our people being classified by administrative agencies, as employees.

We respectfully urge that these parts be stricken from H. R. 6000 and that the common-law concept be continued as covered by section 2.

I think you, Mr. Chairman and members of the committee, for the privilege of making this statement.

The CHAIRMAN. Thank you very much, Mr. Brooks.

Mr. BROOKS. Thank you.

The CHAIRMAN. Mr. Luhn?

Mr. GEORGE. I don't believe Mr. Luhn is here, and I don't think he has sent any substitute. He is on a mission for the Government overseas on the matter of exchanging of trade information.

The CHAIRMAN. Is there anyone here who can substitute for Mr. Luhn?

Mr. GEORGE. I think not. There are two witnesses left on this list, Mr. Chairman, and neither will take more than 5 minutes.

The CHAIRMAN. We will, then, call Mr. Arthur Miller.

STATEMENT OF F. S. BENNETT, ASSISTANT TREASURER, THE ALUMINUM COOKING UTENSIL CO., NEW KENSINGTON, PA.

Mr. BENNETT. Mr. Chairman, my name is F. S. Bennett. Mr. Miller was to have been here but missed a connection and was not able to be present. I should like, with your permission, to substitute for him.

The CHAIRMAN. Yes, sir. You may do so. Are you representing the same company?

Mr. BENNETT. That is right.

The CHAIRMAN. Will you give the reporter your full name and identify yourself for the record?

Mr. BENNETT. My name is F. S. Bennett. I am assistant treasurer of the Aluminum Cooking Utensil Co., of New Kensington, Pa.

The CHAIRMAN. All right, sir. We will be very glad to hear you.

Mr. BENNETT. Mr. Chairman and gentlemen of the committee, this is the statement of the Aluminum Cooking Utensil Co. with reference to H. R. 6000. The statement was made by the president of our company, Mr. E. M. Grable.

I desire to voice the objection of my company to H. R. 6000 in its present form, with particular reference to the definition of the terms "employee" and "employment." Specifically, we are opposed to the inclusion of paragraphs 3 (G) and 4 of section 210, together with subsection 18 of section 205, or to any definition of "employee" or "employment" which distorts the accepted common-law rule of determining the meaning of "employee." As H. R. 6000 is presently worded, these definitions would make it necessary for us to cancel the contracts of a large number of individuals who now handle our specialty products as independent distributors. This would cause unemployment and would deprive several thousand people of the means of a livelihood, thereby throwing them onto Government relief rolls.

The company, for the past 50 years, has disposed of a large portion of its products through independent distributors who, under a written contract, sell our merchandise direct to consumers in any manner they choose and at their own expense. The distributor collects a deposit on the order at the time it is taken. He keeps the deposit as a partial or a full settlement of his commission on the sale. The company is, therefore, seldom in possession of funds belonging to the distributor from which pay-roll taxes could be deducted, not to mention withholding taxes which would logically follow. The company exercises no direction or control over the manner or means of the distributors'

operations. It would be futile to attempt such control because many are signed up by mail and have little or no contact with the company except through correspondence. Many of these individuals spend only a part of their time taking orders for our products inasmuch as they may carry several lines of merchandise supplied by different manufacturers. Others, for various reasons, spend only a minor part of their time at this work during a given week or month. As they are in reality self-employed, they are free to work when they choose and to remain idle when it pleases them.

Under the common-law rule of determining employer-employee relationship, our distributors have been held to be independent contractors and not employees by the Department of Internal Revenue, the Supreme Court of Illinois, the New York Court of Appeals, and by unemployment compensation commissions in 15 different States. H. R. 6000 in its present form would repeal the common-law rule for the determination of employee status and would substitute therefor language that is so vague and indefinite that endless litigation would ensue. Therefore, we urge that H. R. 6000 be modified to retain the customary common-law definition of "employee."

There are numerous reasons why the provisions of H. R. 6000 in its present form would be ruinous to direct-to-consumer selling and contrary to the interests of the individuals now engaged in that field. Some of these reasons are enumerated below:

1. The geographical distribution of our distributors throughout the United States and Hawaii makes it impossible to exercise any effective check on their time for pay-roll purposes. Seldom, except in large cities, is it practicable to have more than one distributor in a county or groups of counties. Distributors thus dispersed must necessarily be on their own and operate as independent contractors, free from our direction and control as to the details of their work.

2. Many of our distributors handle merchandise of other suppliers and we have no way of knowing how much time they spend selling our products and how much time they devote to other lines. Although it is impossible to determine with any degree of accuracy who are part-time and who are full-time distributors, it is a well-known fact that an overwhelming majority are part-time operators who spend a good share of their time earning income from sources other than the sale of our specialty products. The high rate of turn-over and the great distance at which many are located from our office would make pay-roll administration of their earnings utterly impracticable.

3. A substantial number of our distributors are individuals who, on account of impaired health, physical handicap, or other circumstances, are unable to accept a job with regular hours. Today we have widows, housewives, ex-GI's in school, and the partially disabled who find it necessary to earn a living, but who cannot accept employment which ties them down to a definite schedule of working hours. These people look upon their connection with this company, in the capacity of independent operators, as the answer to their financial problems. Many of these unemployables have no other source of income and if this bill should pass, all of these people, who are largely low-producer units, would have to be dropped and their sole source of income destroyed.

4. The freedom from long hours and exacting work schedules makes an independent distributorship an ideal occupation for men in their last sixties and early seventies who have retired from more strenuous activities and who need some moderate form of diversion to preserve their health and interest in life. Today, we have many such men among our distributors. The proposed definition of "employee" and "employment" in H. R. 6000 would close the door of opportunity to this class of elderly persons.

5. To avoid adding large numbers of intermittent business producers to our pay rolls, involving the details of making deductions for old-age benefits, unemployment compensation, workmen's compensation, State and Federal income taxes, and the like, we would be forced to eliminate more than one-half of the individuals now under contract with us. This would not only deny the means of making an honest living to several thousand men and women in all parts of the country who now act as our distributors, but would also throw out of employment a large number of factory workers and office employees whose jobs depend upon servicing the sales made by these independent distributors.

6. The expense involved in administering the collection of pay-roll and withholding taxes from these independent distributors would add prohibitive costs to our present method of selling our products, requiring a substantial price increase to the public. The consequent reduction of sales volume in turn would adversely affect the company's net income and thus reduce revenue to the Government from income taxes. We seriously believe that if we were compelled to treat these free lance operators as employees, the revenue loss to the Government on the income tax basis would amount to many times the slight difference in pay-roll taxes received by the Government under an employee coverage over the amount received on a self-employed basis.

This company contends that the common law doctrine in determining who is and who is not an employee should be followed, and that its distributors, if brought under social security, should be brought in strictly as self-employed individuals.

The CHAIRMAN. We thank you for your appearance, sir.

Mr. BENNETT. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. N. S. Walbridge?

STATEMENT OF NORTON S. WALBRIDGE, PRESIDENT, BEAUTY COUNSELORS, INC., GROSSE POINTE, MICH.

Mr. WALBRIDGE. Mr. Chairman and members of the committee, my name is Norton S. Walbridge. I am president of Beauty Counselors, Inc., of Grosse Point, Mich.

The reading time on my statement, here, is 20 minutes. The vast majority of the information in it would be merely repetition of what you have already heard, and I would like to respectfully request, therefore, that I be permitted to abridge my comments, and that the statement in its entirety be entered in the record, if I have your permission.

The CHAIRMAN. You may enter it into the record; yes.

(The prepared statement of Mr. Walbridge follows:)

STATEMENT OF NORTON S. WALBRIDGE, PRESIDENT OF BEAUTY COUNSELORS, INC., GROSSE POINTE, MICH., CONCERNING THE DEFINITION OF "EMPLOYEE"

My name is Norton S. Walbridge. I live in Grosse Pointe, Mich., and am president of Beauty Counselors, Inc., Grosse Point, Mich.

Our company favors the extension of social security to self-employed persons, but we are gravely concerned at the prospect of the very serious difficulties with which our company might be faced under the terms of the definition of "employee" as it appears in R. H. 6000.

Beauty Counselors was founded in 1931, and has shown regular volume growth each year. The business has, from its inception, been based upon the in-the-home sale of a line of cosmetic and toiletry preparations. Currently more than 10,000 women throughout the 48 States purchase Beauty Counselor preparations from our company at wholesale and sell them to their customers at retail. These dealers, who distribute Beauty Counselor products, make appliaction for a franchise to sell the products on an application form which reads as follows:

"I hereby make application for franchise to buy and sell preparations of Beauty Counselors, Inc., hereafter designated as the 'Company.'

"I ask to be placed on the mailing list of the Company, so I will be able to take advantage of such information pertaining to its preparations as may be available.

"I further understand that the Company will sell me a set of Beauty Counselor products for the sum of $————, which I am purchasing for resale.

"I will make purchases of preparations of the Company for my own account, payable cash in advance, or c. o. d., according to the wholesale prices effective on the mailing dates of my respective orders and in connection with orders totaling less than $20 net wholesale, I understand that it will be incumbent upon me to accompany such orders with 25 cents postage. Special delivery handling charge, 45 cents. No return or exchanges allowed. Delays or failures to ship orders are excused when occasioned by causes beyond the control of the Company. Title to all merchandise purchased hereinunder shall pass in Michigan regardless of the manner or method of shipment.

"I further understand that I am in business for myself as an independent retail merchant and that as such I am not in the United States Social Security Act (old-age benefits), the State Unemployment Act, Disability Benefits Act, or the State Workmen's Compensation Act."

It is our sincere belief that the individual who buys and sells our merchandise has the same conception of her position relative to "employment" as does the company; namely, that she is an independent distributor or retail merchant. She is free to fix her own resale prices. She is free to handle the sale of merchandise of other companies; is not required to meet a quota of sales, or to furnish reports, or to make calls on specific customers or prospects, or to follow a prescribed route in her calls. The purchasers from her are her customers and some are regular customers and others are not. They are not our customers, and she has complete freedom in dealing with her customers. The company does not know the names or addresses of the dealer's customers, and has no contact or relation with them whatsoever.

Periodically, in the larger centers, meetings are arranged to which dealers in the district are invited, but attendance is not required.

From 1931 until 1946, Beauty Counselors, Inc., acted entirely as distributors, the products being manufactured by private-label houses. Starting in 1946, manufacturing operations were undertaken by the company, and currently the manufacturing and shipping operations occupy more than 30,000 square feet of property in Detroit in addition to the company's office and sales headquarters located in Grosse Pointe, Mich.

Due to the growth of the business, the company is at the present time contemplating a substantial addition to its manufacturing facilities. Currently, the company has approximately 200 employees in its main office, manufacturing division, and its west coast distributing center in San Francisco, Calif.

Due to the loose, free lance, and casual nature of our connections with dealers handling our products, we definitely feel that they don't consider themselves to be employees and don't have any desire or expectation to be converted into employees or to come under the Social Security Act as employees. We have never had any demands, requests, or intimation from these dealers that they consider that they should be covered as our employees. We feel that the company would encounter very serious problems and would be retarded in its growth should their status be distorted to that of employees.

To appreciate the problems which would be posed by such a concept, it is necessary to visualize the fact that with approximately 10,000 of these distributor dealers on the company's mailing list, we receive only about 10,000 orders per month, or an average of 1 order per dealer; and, since many individuals send several orders in a given month, others obviously do not send orders as frequently as once a month. The company retains the names of these dealers on its mailing list until 3 months without an order have elapsed; at which time the individuals's addressograph plate is removed from the active file, to be reinstated there subsequently only upon receipts of an order.

As has already been mentioned, the size of the order received from the individual does not give any indication of the dealer's earnings, because the company has no way of knowing whether the merchandise has been sold by the dealer, or if it has been sold, at what price.

We are convinced that few of these dealers would send us the "employee's" share of the tax. Therefore, the company would have to pay the entire tax, based on some artificial and arbitrary method of computing the possible earnings of the individual dealer. The same problem would be posed in connection with the withholding tax provisions of the Internal Revenue Act, since it is only logical to assume that if these individuals were classified as "employees" for Social Security Act purposes, they would be so classed also in connection with Federal income taxes, State income taxes, municipal income taxes, State workmen's compensation acts, State minimum wage laws, foreign corporation statutes of the States, and the company would eventually be considered liable for their torts.

It is not difficult to visualize the enormous task of back-and-forth correspondence with these 10,000 women in attempting to ascertain their earnings and to collect the various contributions and taxes to be withheld by the company.

Fully to appreciate the difficulties and expense involved, it is essential to take cognizance of the turn-over factor. Currently, approximately 10,000 new dealers undertake the selling of Beauty Counselor products each year. However, about 9,500 dealers discontinue their selling of the products each year. It is easy to see that this turn-over factor practically doubles the amounts of records and reports that the company would have to make.

Since it would not be known in advance which of these dealers were going to discontinue their sales activities a short time after making application for dealership, nor which of them would have other earnings during the period in which they were dealers, the company would be faced with the necessity of attempting to keep complete records on all dealers in connection not only with social-security requirements, but the other Federal, State, county, and local regulations involved. In effect, the turn-over factor would make the cost of attempted compliance way out of line with the taxes accrued to the social-security fund.

With no control whatsoever over the acts of these individuals on the part of the company, it can readily be seen that the company would be spending a large share of its energies, and would be going to terrific expense in connection with the accounting, correspondence, and legal problems which would appear in a never-ending stream; and that proper compliance with all of the local, county, State, and Federal acts and regulations would become a virtual impossibility, as well as a tremendous financial burden to the company, placing it in a most unfavorable competitive position.

We have attempted to analyze the expense of attempting compliance and frankly, gentlemen, we were unable to come up with a figure which we could consider realistic. We were able to make rough estimates of the actual out-of-pocket expenses of setting up a department to attempt to gather the information which would be necessary for the filing of our quarterly reports under the Social Security Act should these ten-thousand-odd dealers have their status altered to that of "employees," but we were unable to follow the cost through to the total which would be involved should compliance be necessary in connection with the local, county, and State regulations and acts. Our best guess—and frankly, it is a guess—is that the cost of compliance could and would run in the neighborhood of $100,000 per year. If accurate, this would represent 40 to 50 percent of our total profit and would, of course, materially lessen our Federal income-tax payments.

We would have to build an addition to our Grosse Pointe offices, purchase additional bookkeeping machinery, employ a group of clerks and correspondents for the sole purpose of attempting compliance. And, all of these problems and this terrific expense seem so wasteful and unnecessary when these dealers can come under the act as self-employed merely by avoiding the distortion of their status which may be effected by what seems to us very unnecessary inclusions

in the "employee" definition of H. R. 6000. We refer particularly to the wording of subsection (4), particularly (C) and (D) relating to regularity and frequency of performance of the service, and to integration of the individaul's work in the business. These are both loose terms which lend themselves to most any interpretation.

These dealers are homemakers; probably 75 percent of them with children. We do not exercise or attempt to exercise control; they, in fact and in experience, are uncontrollable. They have been specifically ruled as being independent contractors by the Treasury Department, and it is of vital importance to us that, after 19 years of building our business, it may be jeopardized by what seems an altogether unnecessary changing of the rules of the game in the middle of the race, through arbitrarily and artificially distorting the long accepted status of these individuals.

Of almost as great importance to us is the fact that so large a portion of our time, thinking, and energy would be directed toward our efforts of attempting compliance, rather than toward the energetic upbuilding of our business.

Possibly, we are prejudiced in this respect; but it is our humble and sincere believe that the direct selling companies, like our own, have played, and do, and will play, a considerable part in the upgrading of the American standard of living; and act as a strong counterbalance in the American economy in times of lesser prosperity.

Experience has clearly demonstrated the fact that in times of depression, many persons losing their regular employment drop in temporarily to selling from home to home. By so doing, they not only benefit financially themselves, but help to stimlate business revival.

Surely, the history of American business in the last two centuries is crammed with the examples of companies who beat a path of the customer's door to educate the American people to new products, and new uses for old products, as could hardly have been accomplished had the merchants waited for the customers to beat a path to their doors. So-called direct selling and national advertising have both played vital parts in creating the awareness to and desire for a higher standard of living, which have overcome the early doubts as to the effect of mechanization and so-called technocracy in industry, which many felt would lead to wide unemployment.

Surely, no direct-selling company would offer this point in attempting to establish that its motives for selecting this channel of merchandise were altruistic; but, we believe, in all sincerity, that properly conducted direct-selling businesses stimulate American business, and that the sales of these companies do not represent business subtracted from customary retail channels because direct-selling companies are constantly educating the public to the use of new products to the benefit of store-sold competing lines, as well as their own.

By the same token, direct selling has given initial sales experience to a large segment of the American sales force, with countless of our leading sales executives today, throughout American business, tracing their experience back to "door-bell ringing." This point is emphasized only because we are convinced that the entire direct-selling industry will be in jeopardy under the "employee" concept of H. R. 6000.

The individual who wishes to supplement the family income, or to earn money for luxuries which the normal family income cannot provide, can turn to this field of activity, as tens of thousands do each year in selling our products and those of other concerns. Because there is no employer-employee responsibility, a company is willing to do business with these independent distributors without the normal procedure of employment. They may sell without incurring the obligation of keeping company hours or rules, or other normal incidents of employment. Thus, in the case of the dealers in our products, a housewife, or a woman with a regular job, or one who cannot obtain employment, is given an opportunity which is limited only by her own ability, and which is terminated only by her own volition. She works when, as, and where she pleases.

The nub of the whole matter seems to lie in the fact of the impossibility of control, no matter how much the desire or preparation for control may be, which would make an artificial employee status an almost insurmountable hardship on a concern such as ours. This is not on account of the tax, but on account of the incidents of classifying these people as employees, making us responsible for everything they do and for the collection of their income taxes and the other factors mentioned earlier in this testimony.

We sincerely believe that it is in the best interest of the people of this country, and of the Federal Government, as well as our company, that an independent

distributor status of these people, as established in the amendment of 1948, b continued, and that they be brought under the Social Security Act as self employed.

Mr. WALBRIDGE. The factors which have applied to the companie represented by the gentleman who have preceded me apply quit universally to our own situation, involving 10,000 women who sell ou products as dealers and are known as beauty counselors.

I would like to jump, if I may, to the subject of the cost which w estimate attempted compliance would involve. I have used the figur in my statement of $200,000, and I would like, if I may, to mentio the fact that we estimate that the loss in revenue to the Treasur would be $106,000: this, of course, involving our Federal income ta payment on the basis of our compliance attempt, including dividend taxed at an average of 40 percent on 50 percent of our net profit afte taxes. I have a break-down of that, which I won't take your time fo but I think that since the factor has been mentioned of the possibl escape from the payment of personal income taxes, which I realiz is not the major issue here, by people who would be considered self employed and might refrain from reporting either their self-employ ment for social security purposes or their Federal income tax—sinc that, as I say, has been mentioned as a possible source of loss to th Treasury, I think this other aspect should be considered as being very serious one also.

And I should like, too, to mention another point which has not bee covered extensively, namely, that I think the history of business show quite clearly that particularly in times of lesser prosperity direct sel ing companies are important to this economy. Our own compan started in 1931, so that we had first hand experience with the cond tions that existed then. And since the direct seller tends to stimulat purchasing among people who might not voluntarily appear in store the effect I believe of these possibly 750,000 people whose position ma be in jeopardy here is very important to the economy of this countr

I would like to suggest, too, that I think, if it were possible—an this may be out of order—if the self-employed came in at $500 instea of $400 the difficulties of securing compliance would be, I think, con siderably lessened. Because I think the fear of being caught, sha we say, on nonreporting of income tax is far greater than would exi in those people's minds concerning social security should they n wish to come under it for any reason.

I think, too, that the companies represented here would gladly send form with their application to a dealer stating that his position wit regard to social security was as follows, and at the end of the first yea when filing his income-tax report, he should also file this return, copy of which might be attached, indicating the advantages whic would subsequently accrue to that individual in later life as a resu of conformance now.

I realize that would still leave loopholes, but I suggest it as bein possibly helpful in this respect.

Our company feels that two-thirds of the dealers we subsequentl have on our list would, of necessity, have to be dismissed if our peopl dealers, were considered to be employees, because of the economics o the cost of handling the paper work with the State, county, municip regulations which we feel sure would follow in addition to the proble

that we are discussing here, as a primary issue, the Federal social security.

I appreciate very much the opportunity of appearing and hope that I have not been out of order in also including some factors here which were not included in my official statement.

Thank you, sir.

The CHAIRMAN. Yes, sir. We appreciate your appearance. Thank you.

The committee will recess until tomorrow morning at 10 o'clock.

(Whereupon, at 1:25 p. m., the committee recessed to reconvene Wednesday, March 8, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

WEDNESDAY, MARCH 8, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Byrd, Hoey, Kerr, and Taft.

Also present: Senator Dworshak; Mrs. Elizabeth B. Springer, chief clerk; and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

We are honored to have you with us this morning, Senator Tobey.

STATEMENT OF HON. CHARLES W. TOBEY, A UNITED STATES SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator TOBEY. I esteem it an honor to be here, Mr. Chairman.

You and I are somewhat familiar with the hymnology of our earlier days, and there is an old hymn, the second stanza of which begins:

A cloud of witnesses around hold thee in full survey.

And making application of that in speaking to you this morning—these witnesses, invisible but real, are small-business men in our State of New Hampshire and throughout New England, who feel very keenly about this definition of "employee" in this proposed legislation.

In connection with the committee's consideration of the Social Security Act amendments, H. R. 6000, I wish to present the views of the lumber industry of my State of New Hampshire with respect to the provisions of this bill, which would change the existing definition of "employee."

New Hampshire lumber and pulpwood operators object strongly to any change in the present common-law rules applicable in determining the employer-employee relationship. The new definition of "employee" contained in this bill would jeopardize the status of independent contractors under the present law.

In New Hampshire much of the forest industry is operated by small independent contractors or subcontractors who engage in any one or combination of the following: logging, chopping, hauling, skidding, sawing, and stacking of lumber, pulp, or cordwood. The independent contractor or logger hires his own men to do this work, has complete charge of these men, including hiring and firing, and directs their work, including methods which may be used to obtain the de-

sired results. The men he hires are his employees. He is on the job with them, knows what is going on each day, makes the necessary deductions from their pay for withholding taxes and social security deductions, keeps the necessary records of hours worked and wages paid—but the owner of the business who hires this independent contractor has no right to hire or fire any of the men working under such contractor: neither has the owner the right to direct the contractor's men in any way as to the peformance of their work.

The industry fears that if these new definitions are permitted to remain in H. R. 6000, thousands of small independent businessmen would be eliminated, because they and their employees would become employees of the larger companies that contract for their services. Independent contractors will lose their status under the new definitions proposed in subsection (k) (s) and (4) of the proposed new definition and become "employees" of the companies for whom they now perform services as independent contractors. In addition, the status of many will remain in doubt, requiring burdensome litigation and administrative interpretation if the well-understood common law test of the employer-employee reationship is abandoned.

My constituents argue that the adoption of such legislation would be in diametric opposition to the policy of Congress to encourage small business, and would result in further strengthening the economic power of big companies. The Senate Special Committee to Study Problems of American Small Business (Rept. No. 46, 81st Cong.) reported that "during the last decade the only way a man has been able to accumulate any substantial estate has been to build up the value of a business equity; to start or take a small business and build it up to some substantial value." The committee found as a plain fact that "a stable economy and kind of competition which will benefit the public requires not only growing small businesses but the steady creation of new ones." So by arbitrarily classifying as an "employee" a person hitherto regarded at law as an "independent contractor"—merely for administrative convenience in collection of social-security tax—would serve only to discourage that person from developing the spirit of competitive enterprise and in individualism which characterizes the American small-business man, whose activities are essential to a healthy economy.

The question of coverage under the Social Security Act is not at issue here. The employees of independent contractors are now fully covered, or they and the contractor himself will be covered by other provisions of this bill. The big contractors do not want this change, and the "little" businessmen do not want it.

To repeat, the lumber industry in New Hampshire, and I join emphatically in their view, protest any definition of "employee" which would tend to force contractors and subcontractors on the pay rolls of the larger companies by whom they are engaged in a contractual relationship. The effect of such a procedure would be to concentrate operations in the hands of a relatively small number of large companies and would materially increase the cost of doing business for these concerns, resulting in a higher cost to the consumer.

The effect of this definition, of course, is not limited to the lumber industry. Analogous situations are to be found in every industry which operate through independent contractors. For instance, in the

oil industry the distributor for a large company, as well as the independent station operators who lease their facilities from the company, and the employees of the independent station operators, could all become employees of the parent company under this proposed law. It would become a very involved, not to say impossible, bookkeeping problem. At a time when the American people are crying for reduced taxes, it would result in materially increasing taxes for many businesses, not through tax legislation but through the indirect route of a changed definition.

In my judgment it would constitute harassment.

The proposed change in the definition of "employee" provided for in section 104 (a) and 206 (a) of the present bill is detrimental to a free economy, a menace to small business enterprises. So I wish to go on record in behalf of the New Hampshire lumber industry in protesting against these sections of the bill and urge that the common-law rules for determining the employer-employee relationship be retained.

The committee's consideration is appreciated.

And I might add one more word. I sit in the Banking and Currency Committee and, as you know, by action of the Senate the Vice President has recently been authorized to appoint a committee of 15 as a Small Business Committee, not a legislative committee but an advisory and research body. That committee is about to be appointed by the Vice President, as I understand it. So the hearts and interest of the Senate are behind the small-business men of this country. And here we are building up constructively efficient help for the small-business men, on the one hand, by Senate action, and on the other hand some agency of the Government, in this case the Treasury Department, by this desire of theirs, seeks to pull down, harass, or make it harder for small-business men to do business.

Somebody has said: "Consistency, thou art a jewel." And I make the point that there is inconsistency here in our regard for small-business men if we permit this definition to stand.

I thank the committee for their courtesy.

The CHAIRMAN. I thank you very much, Senator Tobey. You have very much the same problems that we have down in Georgia.

Senator TOBEY. I am very sure of that.

The CHAIRMAN. Especially in the lumber business, in connection with getting timber out for any purposes, logging for milling purposes, pulpwood, paper, what have you.

Senator TOBEY. Well, Walter, sometimes I am constrained to feel, without any malice at all or vituperation but just regarding it as a fair statement, that this Government of ours, which has so grown and multiplied and increased and mushroomed, has now become titanic in a way. It is far-flung and widespread. But what is the Government, after all? What are these agencies of Government? Call them by rote if you want to; we know what they are. But they are all the creation of Congress, for better government in this country. However, they are the creation and the creature of Congress and not the master of Congress. Whom do we represent? We represent everybody, 150,000,000 people. When these small-business men, in this case and others I might mention, cry out for relief and earnestly seek it, they turn to us. And, in my judgment, the interests of these people are paramount and far transcend the convenience or the efficiency or

the time-saving efforts of a Government bureau, whatever it may be None of them are sacrosanct.

I get back to that thesis that what we need in this country is to demonstrate to little people, after all, that we care something more about them than to get their votes at election time. And one of the reasons that we only had a half, 50 percent, of the people of this country, including both parties, vote in the last election was that people have become a little bit cynical out in the hinterlands of this country about how much we are interested in them.

We can do no finer service toward the strengthening of democracy and toward repelling the inroads of any subversive movement in our country than by demonstrating that we in this Government have a real heart interest in the problems of little men. I think you will agree with me.

I thank you for your courtesy.

Senator KERR. Senator, I gather that your position is that the additional language other than that in the orignial act, but now in H. R 6000, should be eliminated?

Senator TOBEY. That is exactly correct, sir.

Senator KERR. And the definition of "employee" continued in the future?

Senator TOBEY. The status quo.

Senator KERR. As it has been in the past.

Senator TOBEY. I could not express it better, Senator; and thank you for that help.

The CHAIRMAN. Thank you very much, Senator, for your appearance.

Senator TOBEY. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. John B. Veach.

Mr. VEACH. You are representing the National Lumber Manufacturers Association?

STATEMENT OF JOHN B. VEACH, PRESIDENT, HARDWOOD CORPORATION OF AMERICA, AND ASSOCIATED COMPANIES, APPEARING ON BEHALF OF NATIONAL LUMBER MANUFACTURERS ASSOCIATION, WASHINGTON, D. C.

Mr. VEACH. Yes; Senator.

The CHAIRMAN. You may be seated if you wish, Mr. Veach, and proceed with your statement.

Mr. VEACH. My name is John B. Veach, and I am president of the Hardwood Corp. of America and associated companies which operate in western North Carolina, northern Georgia, and eastern Tennessee. I appear here in behalf of the National Lumber Manufacturers Association, a federation of 16 regional associations representing lumber manufacturers in all parts of the United States, and they have honored me with the office of vice president and treasurer of that association.

I would like to speak particularly, this morning, on behalf of the Southern Pine Association, which represents about 20,000 small sawmills in the South from Texas to Virginia, the Southern Hardwood Producers, Inc., which represents the hardwood part of that industry in the South, the Appalachian Hardwood Manufacturers, Inc., which

represents the hardwood industry in North and South Carolina, northern Georgia, Tennessee, Kentucky, West Virginia, and Virginia, and the Northeastern Lumber Manufacturers Association, which is in the New England States and the Northern Hemlock and Hardwood Manufacturers Association, which is in Michigan and Wisconsin. In order to conserve your time, I am not going to try to give you the picture from each one of these districts, because they are practically all the same.

All of the sawmills in the East are practically small business. There aren't, with possibly few exceptions, any really large operators in this entire territory. We are all faced with exactly the same problem. Senator Tobey has expressed to you the feeling of the sawmill men up in New Hampshire and New England. I don't know of a single sawmill man or logger or anybody else that I have any contact with who is in favor of this definition of an employee in H. R. 6000, as it is written.

Senator George, we operate, down at Ellijay and Jasper, Ga., and I know you are very familiar with that particular country down there.

The CHAIRMAN. Yes, I am.

Mr. VEACH. You can go all the way from Mineral Bluff through Blue Ridge and on down to Marietta and Atlanta, and you will find 300 different kinds of small mill operators.

The CHAIRMAN. Yes, I am very familiar with that.

Mr. VEACH. They are all doing the same thing in a different way. There is no way in the world that I know of that you can actually describe what a contract logger or a small sawmill operator is doing.

I had the honor and privilege during the war of serving our Government in the procurement of hardwood lumber and softwood lumber for the armed services. On one occasion we tried to help the Office of Price Administration to define what green lumber was—just the words "green lumber." What is the difference between green lumber and dry lumber? We worked on it for 4 years, and we never did come out with a satisfactory answer of what was green lumber and what was dry lumber. I feel that this situation here, on the matter of trying to define an employee is almost as complicated as trying to define green lumber. We have had occasion in our operations to go before the Supreme Court of the State of North Carolina to determine what an independent contractor was and what an employee was. As a result of our experience I think that we can safely determine today in our contracts whom we are responsible for and whom we are not responsible for.

Now, here is the thing that worries me about this whole proposition. What liability do I assume as a sawmill operator in doing business with a man who I consider as a small-independent businessman with whom I am doing business? I can cite you examples of people like John Rogers, now living at Ellijay, Ga., today, who started out with me 15 years ago without a nickel, but with, however, a knowledge of the logging business. Today he has developed to where I suppose he has $25,000 worth of equipment, caterpillar tractors, bulldozers, teams, a trained organization, and so forth. If he were to start out today under this new definition, because of the liabilities involved, he would never be able to get started.

Let us take Ellijay, Ga. We own a little land down near Ellijay, but it is pretty widely scattered. As a practical matter, we find it necessary to make a contract with a logger to go in and produce logs and lumber and deliver it to the railroad track in Ellijay for, we will say, a price of $30 a thousand. We know from our experience that if he is a good logger and a good sawmill man and he uses reasonable intelligence and works hard, he can make a profit on the operation. It is entirely up to him who he hires, when he hires him, in what weather conditions he will operate, whether road conditions are reasonable for the use of his trucks, or whether he does his own trucking or gets somebody else who is in the trucking business to haul the lumber into the railroad siding at Ellijay. Under the definition of an employee in H. R. 6000, I will be darned if I know what sort of a liability I have as a businessman in doing business with this man. Will I be responsible under the Social Security Act for a tax on the full $30 that we are paying this man? Do we have to get an accountant to sit down and figure out what his profit would be as a self-employed man, you might say? Just what definition would you use to determine the amount of money that the social security would be paid on? On all of the people that he has working for him, be it one, two, three, four, or five, there would be actual salaries or wages on which he would pay anyway into social security. But just whom do we assume responsibility for?

According to the definition in H. R. 6000, even though our contractor is completely independent and operating beyond our control, the fact that his business is integrated with ours and is an essential part of our business, so to speak, in that he is manufacturing lumber and turning it over to us, would seem to make us responsible for social security taxes if somebody in the Treasury Department came down and investigated the matter and so decided.

For another example, a man might come to us and say that he knows where there is a piece of timber that he can buy from a farmer. He tells us he wants to cut that piece of timber and he wants us to buy the timber for him. He takes all of the risk as to whether or not there is 150,000 feet or 200,000 feet of pine and hardwood on the particular tract. We advance him the money to buy this piece of timber, which he pays back to us on, we will say, at the rate of $10 a thousand.

According to the definition of employee in H. R. 6000 that I see in this book, here, he probably would be held not to have sufficient capital to be an independent contractor. We would practically be prohibited from helping this small independent man because under this definition we wouldn't know what our liability was, and they might come back on us later for any number of years and say, that our liability is on the full $30 a thousand that this man received for what he delivered in to us. As I see it, it would force all of us in the entire eastern part of the United States to discontinue doing business with anybody as an independent contractor because of the terrific risk and liability that we would be up against.

Senator Hoey has the same problem in North Carolina that Senator Tobey has in New Hampshire and your constituents have down in Georgia. I am sure Senator Hoey is familiar with the section around Murphy and Robbinsville and Bryson City and on into Asheville, N. C., where we have our operations. We do some business in pulpwood in that area. A man comes to us frequently and says "You have

some pulpwood over here on your land, and I would like to cut that pulpwood and deliver it in here." And you say, "Well, we will give you $10 per cord for this pulpwood and charge you a dollar for the stumpage which belongs to us. The rest of it is entirely up to you. You deliver the pulpwood whenever you want to. You load it on cars whenever you want to, and we will pay you for it at that time." If the weather is good, he works on his tobacco. If the weather isn't good, he goes out and works on this pulpwood.

Now, we couldn't do that under the new definition, as I see it, because we wouldn't know what our liability is. We will not know whether we are responsible for paying social-security taxes and all the rest of the taxes and liabilities that would be added on by the other bureaus of the Government if they are successful in getting this definition in. We couldn't do business with that man, and he would be deprived of the privilege of earning that additional money.

Certainly in any ordinary understanding of the terms of business, in all the years I have been in business, he is very clearly an independent operator; but he would be clearly construed as an employee if they turn the definition around the way it is here. They say there are seven criteria that you can use in determining whether this man is an employee or not. Well, who is going to do the determining? The only person that can do the determining is the Federal Administrator, for this particular act, who would come out to Robbinsville, or come down to Ellijay, Ga., and say that in his opinion we have been wrong, we have guessed wrong, and we are liable for some certain amount. There is no way of our determining what that is. Well, it would change our operations completely.

Senator HOEY. Is that the method by which you obtain most of the pulpwood for the paper mills and other lumber plants?

Mr. VEACH. In Graham County, N. C., which is the particular territory in which we operate on pulpwood, practically all of our operations are confined to individuals, mostly farmers, or cattlemen, or something like that, who want to go on our land, cut pulpwood, and deliver it to our railroad siding. And we in turn act as an agent for the Champion Paper & Fiber Co. and deliver the pulpwood to them.

Under this definition, I am sure that the Treasury intends to call that man an employee. Otherwise they would not have him in there as a contract logger.

The CHAIRMAN. At least, they could call him an employee.

Mr. VEACH. That is it.

Senator, I apologize for wandering from my statement here, because my statement sets out to illustrate the difficulties we would have and the reasons therefor, if H. R. 6000 defined an employee in this way. But I listened to testimony here yesterday, and I listened to Senator Tobey's testimony here this morning, and the thing that bothered me and the thing that I would like to have you honorable gentlemen think with me about for a few minutes is this problem that we are faced with in trying to operate under such an uncertainty. The problem was recognized in 1948 when the Gearhart resolution was passed. Congress went to the trouble at that particular time to state that the common-law definition of an employee and an independent contractor should obtain. Now the Treasury is trying to go back again and again and again and put in a definition which would so interfere with the

rules of the game that we wouldn't be able to play the game. I can't understand why it is that these people are trying to change the rules and completely rewrite definitions that the Supreme Court of the United States and all of our other courts have worked for 150 years to establish.

I don't know of anybody, Senator George, who would not be affected, in north Georgia, or in all of Georgia as far as that is concerned, in these hundreds and hundreds of small logging and timber and cutting and pulpwood operations, by this change. I haven't talked to a single one of them who isn't disturbed about this definition, or anyone who is in favor of having the definition go into the law as you have written it.

I am not trying to discuss with you this morning the problem of the over-all coverage, who should be covered and who should not be covered. I am trying to discuss the matter of the percentage that should be collected from the pay rolls to take care of this old-age insurance. Other people who know far more about it than I do have discussed that phase of it with you at length. I am trying to discuss this definition with you from the standpoint of the territory that you and Senator Hoey are familiar with, and have you try to visualize the problems that we would be faced with if this law should go through.

I think, sir, that is all I have to say.

The CHAIRMAN. Are there any questions?

Thank you very, very much, Mr. Veach.

Mr. VEACH. Thank you, Senator.

(The prepared statement of Mr. Veach follows:)

STATEMENT OF JOHN B. VEACH IN BEHALF OF NATIONAL LUMBER MANUFACTURERS ASSOCIATION

My name is John B. Veach. I am president of the Hardwood Corp. of America and associated companies which operate in western North Carolina, northern Georgia, and eastern Tennessee. I appear here in behalf of the National Lumber Manufacturers Association, Washington, D. C., a federation of 16 regional associations representing lumber manufacturers in all parts of the United States. I am vice president and treasurer of that organization.

The lumber industry as a whole, as well as my own little operations, is strongly opposed to the definition of "employee" which H. R. 6000 proposes to insert in the Social Security Act and in the Internal Revenue Code, and to the repeal of Public Law 642 of the Eightieth Congress (the so-called Gearhart resolution). We believe this new definition is unnecessary and, from my own personal experience, I believe that it will have many serious and undesirable consequences.

The proposed new definition of "employee" tries to go far beyond any accepted present concept of the term and would, in effect, adopt the interpretation which the Bureau of Internal Revenue in its proposed regulations in 1947 tried to force on industry by administrative interpretation—and which the Congress rejected when it enacted the Gearhart resolution. The new definition embodies the so-called economic-reality test for determining whether a person is an employee or an independent contractor. This economic-reality type of test is one that the courts dislike but the bureaucrats like because of the latitude they are given.

The new definition would not only create serious uncertainties, but would result in serious retroactive tax liability in cases where an operator guessed wrong. The new definition would force all thinking companies to forget the independent contractor and put him out of business.

By virtue of Public Law 642 of the Eightieth Congress we have a fairly clear understanding at the present time of who is an employee under the social-security law. The proposed definition would destroy this understanding and leave the determination of employee status almost entirely to the judgment or whim of Federal administrative officials. Thousands of persons will not know their tax liability until it is determined for them by the Treasury Department; and when it is determined, it probably will be retroactive.

The new definition of "employee" leaves unsolved the very problems which brought about enactment of Public Law 642 of the Eightieth Congress (familiarly known as the Gearhart resolution). This law provides that an individual who is an independent contractor under the usual common-law rules is not an "employee" as the term is used in the Social Security Act and the Internal Revenue Code. It is the present law, which H. R. 6000 proposes to change by redefining "employee." How can the average businessman operate when someone is always thinking up ways to change the rules of the game?

Looking back 2 years, it was passage of the Gearhart resolution which prevented the Treasury Department from issuing regulations applying the so-called economic-reality test in determining the employer-employee relationship. The proposed Treasury regulations were intended to extend the Social Security Act to a class of employees not then covered and to simplify the collection of taxes by imposing that collection on the person who did business with independent contractors.

The arguments we advanced at that time favoring enactment of the Gearhart resolution are the same we advance today in opposing the proposed new definition of "employee' contained in H. R. 6000. Our fundamental objection was so ably expressed by the then chairman of this committee, Senator Millikin, in discussing this same matter with the representative of the Treasury Department, that we would like to quote him here. Senator Millikin said: "* * * you [that is, the Treasury Department] are completely in the field of discretion and you do not have dependable criteria on which to base a sensible solution."

The quotation of Senator Millikin follows his questioning of the Treasury representative on a problem of our own industry—that is, When is a timber cutter an employee and when is he an independent contractor? Senator Millikin endeavored without success to get an opinion, suggesting finally, "So if he has a little saw he is [an employee], and if he has a big saw he is not?" The Treasury representative avoided the question. The attempted definition of a contract logger contained in H. R. 6000 still does not answer the question, and it is not clarified by the House hearings or report.

I refer to subsection (k) (3) (E) under section 210 of the Social Security Act, as amended by H. R. 6000. What exactly is a contract logger? What does "performed personally" mean with reference to his contractual services? What would be a "substantial investment"? Would it have to be a sawmill as implied by the representative of the Treasury? What exactly is the "continuing relationship" referred to in the definition? What exactly is "integration of the individual's work in the business to which he renders service"? I submit that these little words will lead to much uncertainty and litigation as a result of administrative interpretation. The industry has much to fear from administrative interpretations, a fact recognized by this committee during the Gearhart resolution hearings.

Administrative discretion and lack of definition and reliable criteria are the very grounds upon which we oppose the definition of employee contained in H. R. 6000. The Federal agency is left a wide-open field of discretion; there are no dependable criteria. H. R. 6000 would abandon a long history involving the common-law test in determining the employer-employee relationship. Thousands of borderline cases determining whether one is an employee or an indepedent contractor now serve the employer as guideposts in figuring out his legal and economic responsibilities, which he must know with great dependability to carry on his business. H. R. 6000's definition of "employee" would junk these guideposts for the so-called economic-reality test which is untried and has had very little judicial application to serve as a guide for administrative interpretation.

As stated earlier, our arguments in favor of the Gearhart resolution are equally valid against the definition of "employee" in H. R. 6000. Conversely, the arguments which the Treasury Department used against the passage of the present law have lost most of their force and logic.

The Department's major premise was that adoption of the common-law test in determining the employer employee relationship would deprive several hundred thousand persons of social-security coverage. The question of coverage is no longer at issue; probably the majority of these several hundred thousand will be covered under the self-employed provision of H. R. 6000. There being no real question as to coverage involved, then we submit that if the common-law test is abandoned for the new definition of "employee," many independent contractors will lose their status as independent American small businessmen and become "employees" of those with whom they now have contracts. Enactment

of the new definition in H. R. 6000 would contravene the policy of Congress and help small business.

The second reason urged by the Treasury Department against the common-law test during the Gearhart resolution hearings has also lost its effectiveness. The extended coverage of the Socal Security Act embodied in other provisions of H. R. 6000 would not require the courts and administrative agencies to ignore the purposes of social-security legislation (as the Department urged the common-law test would). Millions more are brought under its provisions by legislative direction, and not by changing the legal and economic status of the self-employed and independent contractors by juggling word definitions.

A third argument the Treasury used against the common-law test applied by the Gearhart resolution was that "to legislate these workers into a self-employed status might forever deprive them of unemployment-insurance benefits." (You may recall that the Treasury had doubt as to the feasibility of including self-employed under an unemployment-insurance program.) That seems to me to be the most absurd argument against the common-law test which we would like to see retained. Our argument is that to legislate independent contractors into an "employee" status will (and not might) forever deprive them of their status as independent American small-business men in their own right. Show me the American citizen who has so little faith in the future that he will trade a benefit which he presently enjoys for a future benefit—that is, unemployment insurance—he hopes never to depend upon.

Summarizing what I have said earlier, the Treasury Department opposed the common-law test in determining the employer-employee relationship. Their reasons have lost their force, but still the definition of "employee" in H. R. 6000 is essentially the same as the definition the Department sought to apply by administrative regulation. We favored the common-law test then; and our argument we believe still has its same validity, which the Congress recognized by enacting Public Law 642. We believe the present law as it relates to the definition of "employee" should remain unchanged.

The CHAIRMAN. Mr. Beardmore? Mr. George W. Beardmore, of the National Lumber Manufacturers Association?

STATEMENT OF GEORGE W. BEARDMORE, ATTORNEY AND LABOR-RELATIONS ADVISER, POTLATCH FORESTS, INC., LEWISTON, IDAHO, APPEARING ON BEHALF OF NATIONAL LUMBER MANUFACTURERS ASSOCIATION

Mr. BEARDMORE. Mr. Chairman, my name is George W. Breadmore. I appear here in behalf of the National Lumber Manufacturers Association. I am an attorney and labor-relations adviser for Potlatch Forests, Inc., Lewiston, Idaho. I have been associated with the lumber industry most of my life.

My purpose in appearing here today is not to discuss the technical ramifications of this detailed, 201-page bill. There have been or will be many other witnesses far more qualified than I to speak on the mechanics of the social-security system and who have gone into or will go into these complex, though nevertheless highly important, phases of the bill. My remarks will be limited to a consideration of the proposed definition of "employee" contained in sections 104 (a) and 206 (a) of the bill (sec. 210 (k) of the Social Security Act and sec. 1426 (d) of the Internal Revenue Code, as amended by the bill).

Public Law 642 of the Eightieth Congress (the Gearhart resolution) specifically provides that the term "employee" as used in the Social Security Act does not include a person who has the status of an independent contractor under the usual common-law rules applicable in determining the employer-employee relationship.

The purpose of Congress in enacting this law was to maintain the status quo of certain emyployment taxes and social-security benefits

pending consideration and determination of the need or desirability of extended social-security coverage. It followed a flagrant attempt by the Bureau of Internal Revenue, through its own interpretation of the law, and without any authorization from the Congress, to extend the coverage of the Social Security Act by promulgating regulations which, in effect, would have abandoned the ordinary common-law test used in determining the employer-employee relationship.

Such regulations, if their issuance had not been forestalled by act of Congress, would have arbitrarily brought within the coverage of the Social Security Act, by administrative interpretation, "independent contractors" and would have made those independent contractors "employees" of the persons who had contracted for their services so that the persons who had contracted for their services would be liable to pay social-security taxes on their contract earnings.

H. R. 6000 would very substantially extend the coverage of the Social Security Act by direct congressional action. We believe that everyone whom the Commissioner of Internal Revenue sought to include by his proposed regulations in 1947 will be covered under H. R. 6000 without reference to the definition of employee. The issue here, therefore, is not one of coverage, but as to how taxes will be collected.

The definition of employee contained in sections 104 (a) and 206 (a) would permit the Commissioner of Internal Revenue to collect taxes on the earnings of independent contractors and their employees from the person with whom they have entered into contract. Industries like the lumber industry which make extensive use of independent contractors would then become liable for social-security taxes on many persons they have never seen and with whom they have no direct contact.

The proposed new definition of employee, in addition to applying the common-law test in determining whether or not a person is an "employee," would classify individuals in certain occupational groups as "employees" for the purposes of the act, under certain conditions, and would also classify as "employees" persons who are considered to have that status under the combined effect of seven enumerated factors—the so-called economic reality test. It is to those parts of the definition that we address ourselves and show their peculiar applicability to the lumber industry and their effect.

According to the definition, any contract logger would be an "employee" if his contract of service contemplates that substantially all of his services are to be performed by him personally, unless he has a "substantial" investment in the logging facilities or unless there is continuity in the performance of services and they are not in the nature of a single transaction.

What is a substantial investment in logging facilities? What would constitute a continuing relationship, as distinguished from a single transaction? Anyone with experience in dealing with Federal administrative agencies knows that it will take extensive interpretation to define and delimit these expressions. And even after such interpretations have been made, there is certain to be much misunderstanding and litigation.

In the economic reality test, seven different criteria are provided and the status of a person as an employee or independent contractor is to be determined by the combined effect of these seven factors. It is

difficult to imagine a more confusing set-up. There will be thousands of cases where the taxpayers will be in conflict with the Treasury Department as to what the "combined effect" is. On the basis of past experience, there can be little doubt, however, that the Bureau of Internal Revenue will classify as "employees" many thousands of persons who are not employees of those for whom they perform services, but who are actually, in fact and at law, now regarded as independent contractors.

The question of whether or not independent contractors are to be brought under the coverage of the Social Security Act is not in issue here. Many independent contractors and their employees are already covered by social security—or will be under the self-employed provisions contained elsewhere in H. R. 6000.

Federal agencies have estimated that of the special group of more than a million not now covered by social security who are to be brought under coverage, only 17,500 are contract loggers. They have further estimated that eight or nine thousand will be affected by the economic reality test which in substance is set forth in the proposed new definition of "employee." In view of the fact that there are approximately 60,000 sawmills in this country, we have no way to check the figures used by these agencies, but we believe they have grossly underestimated the number. It appears that this definition is proposed for no other reason than administrative convenience in collecting the social security tax, because—as pointed out earlier—the question of coverage is not at issue here.

If this is the reason for this legislation, it should not be accomplished by changing the definition of the word "employee." Let us be forthright and direct and say that substantial companies which make use of the services of independent contractors, or suppliers of any other kind, shall guarantee to the United States Government that social-security taxes will be collected and paid on those contract earnings and on the wages the independent contractor pays his own employees.

I merely say that as a matter of being direct and forthright about the legislation, and not to indicate any approval of that type of collection. However, we would much rather that people would come in the front door and not try to come in the back door, as we believe is being attempted by this particular section of the legislation.

Let me give you an idea of the effect of this proposed definition through a typical example in my home State which occurred prior to passage of the Gearhart resolution. A small sawmill operator in northern Idaho had some logs to be hauled to his mill. He contracted with some men who had their own trucks to haul these logs from the woods to the mill at a stated price per thousand board feet. The mill operator was interested only in the result to be accomplished. He wanted the logs delivered at his mill within a given time. The men commenced hauling the logs and considered themselves independent contractors, as in the past and as was customary. In order to take advantage of the short seasonal hauling weather, they worked long hours and their contract earnings were substantial.

The Internal Revenue Bureau first demanded that a 3 percent transportation tax be paid on the theory that these men were engaged in the transportation business as independent contractors and sub-

ject to that tax. Then another branch of the Internal Revenue Bureau claimed that these men were "employees" and demanded that the sawmill operator pay 2 percent old-age-benefit tax on the "wages" paid, and the 3 percent tax for unemployment compensation administration. The State director of the unemployment division then demanded the 2.7 percent tax on the "wages" for the State unemployment-benefit fund. To add further confusion, the Wage-Hour Division, when making a routine inspection of the mill owner, demanded the men to be paid time and one-half for the hours in excess of 40 worked per week on the theory they were "employees." That was a severe penalty because of their high earnings but, in addition, under the Fair Labor Standards Act, the employer was liable for an equal amount in liquidated damages. When you consider the bulk of production in the lumber industry comes from small operators who do not have an attorney at their elbow, the confusion was confounding and compounded to the extreme. And it will be so if H. R. 6000 is passed with the present definition of "employee" in it.

What did this operator do? He did what every red-blooded American would do when forced to it. A small operator with limited means had to stand up and fight three governmental agencies with unlimited means and talent. The Gearhart resolution adopting the common-law principles and definition have clarified the situation.

There will be many cases like this again if the definition in H. R. 6000 is now adopted. The end result will be that the new definition of employee in the Social Security Act will be a great deterrent to the establishment of small businesses. The express policy of the Congress and of the American people to aid and encourage small business will be overlooked.

In stating the opposition of the lumber industry to the proposed new definition of "employee," I would like to emphasize the danger of classifying as "employers," for no other reason than administrative convenience, persons who up to now have been regarded as independent contractors. I would like to urge upon the committee the fact that such a proposal is potentially dangerous to those people in our forest areas and several million farm wood lots who are dependent upon the forest products industries for all or a part of their living. The proposed definition would disturb a long and established pattern of relationship, economic and legal, which has existed in the forest products industries and in and among those communities which are directly dependent upon such industries. While it is readily understood that competitive private enterprise is often a hazardous undertaking, it is one from which we all benefit in better service and high living standards—and it should not be made more difficult by legislation which envisions burdensome administrative detail which is over and above normal business hazards.

The proposed change in the definition of "employee" would create an impossible situation for many businesses. For example, with reference to contracts that are already in existence and which are drawn under the common-law concept of the "independent contractor," in what position is the company contracting for the services of the independent contractor in attempting to abide with the definition of "employee" contained in H. R. 6000? What are the company's liabilities and obligations? The independent contractor, because of his rela-

tionship with the company which contracts for his services, can refuse to allow inspection of his books and accounts. He can refuse to disclose his own earnings and what he pays his own employees. There is no way the company using his services can determine his pay roll and its own tax liability on his pay roll.

In conclusion let me urge again that you do not change the common-law concept of the employer-employee relationship nor destroy the concept of an independent contractor for the administrative convenience of a Government agency. To do so will cause great confusion and will severely discourage the thousands of men who are establishing themselves in their own businesses with small beginnings as independent contractors. In the final analysis, it would serve no useful purpose.

The CHAIRMAN. Thank you very much, sir, for your appearance.

Mr. BEARDMORE. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. George M. Fuller? You may be seated, Mr. Fuller, if you wish.

STATEMENT OF GEORGE M. FULLER, VICE PRESIDENT, NATIONAL LUMBER MANUFACTURERS ASSOCIATION, WASHINGTON, D. C.

Mr. FULLER. Thank you, Senator.

Mr. Chairman, my name is George M. Fuller. I am vice president of the National Lumber Manufacturers Association.

For the record, I would like to submit several statements submitted by the regional associations affiliated with the National Lumber Manufacturers Association. I have one here from the Northern Hemlock and Hardwood Manufacturers Association, of Oshkosh, Wis., another from the Southern Pine Industry Committee, covering 12 Southern States, and a third from the Southern Hardwood Producers, Inc., of Memphis, Tenn.

I would like to submit these for the record, Mr. Chairman.

The CHAIRMAN. You may do so.

(The statements referred to follow:)

STATEMENT OF O. T. SWAN, SECRETARY-MANAGER OF THE NORTHERN HEMLOCK AND HARDWOOD MANUFACTURERS ASSOCIATION, OSHKOSH, WIS.

The Northern Hemlock and Hardwood Manufacturers Association is a regional organization of small sawmill men in the Lake States. Most of its members are very small operators. This association now is entering its fortieth year.

We are opposed to those portions of sections 104 (a) and 206 (a) of H. R. 6000 which will arbitrarily make employees of many contractors and subcontractors in the widely scattered timber operations of this region and take them out from under the common-law classifications under which these small businesses have long successfully developed.

In the Lake States of Michigan, Wisconsin, and Minnesota, the extensive unbroken forests of virgin timber are gone and with them the old time sawmills which operated for many years with sawlogs from their own contiguous timberlands. These large timber holdings were adapted to the operation of large company camps where sawlogs were produced by company employees under supervision by the company.

Today we have more than 3,000 small sawmills in the Lake States and of these, the smaller classifications produce two-thirds of the lumber output. The sawmill of today is sustained by sawlogs from numerous small scattered tracts of timber. The ownership of these tracts is widely dispersed. A few of the larger companies own timberland but even this is scattered over a considerable area. The bulk of the holdings are owned by settlers and farmers, by the State or Federal Government and by outside parties who hold land as an investment.

The usual farm wood lot or timber tract is so small and the amount of timber thereon is so limited in quantity as to preclude the expense of erecting a company camp. The number of men, frequently from 2 to 10, which can be employed on such small holdings is too small to justify the expense of maintaining a regular company supervisor on the job. Often the location of the operation is too remote from the sawmill to justify moving company equipment to the operation to obtain the small supply of logs which will be produced.

The only feasible method of logging such a tract of land is to contract for the entire operation with an independent contractor in the neighborhood who will assume the entire responsibility. He may be a local farmer or settler who regularly adds to his income by working away from his own land during the winter season or he may be a person who earns his entire livelihood from contract logging jobs.

This arrangement works to the advantage of all parties concerned. The logger can earn his living and profit according to his ability without surrendering his independence. People in the local community obtain work near home. The sawmill operator is freed from exorbitant camp and record keeping costs and very expensive supervision. The consumer is able to buy the finished product at a lower price because unnecessary costs are eliminated. The general economy is strengthened by the building up of a class of small independent businessmen who serve as a further bulwark to the system of private enterprise.

In many parts of northern Wisconsin, Michigan, and Minnesota where there are no manufacturing establishments and where farming and resort activities are at a standstill during the winter, the work resulting from these scattered contract logging jobs and other local timber contract work is of tremendous importance to people who live in the local communities. The proposed aribtrary rearrangement of our employees and independent contractors establishes a precedent which is likely to be used in the administration of other Federal laws and by the States themselves because it seems to simplify their administrative problems. Perhaps the proponents do not see the tremendous complications which this inflicts upon local small industry.

If this proposal becomes law we may expect that through broad interpretation by field agents and interpretation on a policy level by the agency involved it will eventually result in many small independent operators being classified as employees of one company or another. If one agency so classifies them it is reasonable to expect others to do so until one company, for example, would be the bookkeeper and tax collector for every small operation within a radius of 100 miles. The primary operator thus burdened under the law could not supervise these many small businesses over a wide area and would have to eliminate many of them and reorganize his work in more concentrated form with higher costs. It would make it especially miserable for the very small operators who also have contractors because of the complications involved in keeping records and understanding the law. There are many small jobs especially in logging, where a contractor or jobber subcontracts to even the farmer from whom the wood lot is purchased, that would make the small operator feel buried under a mass of technicalities.

We believe the proposed definition of employee in H. R. 6000 would harass and eliminate many of the small logging contractors who qualify as independent contractors under common-law tests.

In the final development of these processes it appears that those engaged in these scattered small operations in the Lake States would eventually have the obligation of withholding income taxes, paying workmen's compensation benefits, making unemployment compensation contributions and paying benefits, making social security contributions, observing the requirements of the Fair Labor Standards Act including the determination of overtime compensation and also bargaining with a secondary group of so-called employees under the Labor-Management Relations Act. The exorbitant expense of maintaining supervision and control over such scattered operations in the Lake States is apparent. A small sawmill may be dependent upon 20 to 30 such operations scattered over considerable distances.

The sawmill operator would necessarily have to reorganize his work. He might cancel or give up contract work and handle the jobs by means of a roving crew from sawmill headquarters. This would be costly and deprive local people of employment. Or he could curtail operations and eliminate the more remote and smaller timber tracts and farm wood lots from the scope of his operation. Some will fear to begin. No matter what choice is forced upon the sawmill operator some segment of society will be injured without compensating benefits.

In Michigan, Wisconsin, and Minnesota we have more than 3,000 very small sawmills, a very large number of independent loggers, and a great many independent truckers who take contracts to haul logs or lumber. The sawmill will have a number of contracts with loggers and the loggers will have contracts with truckers and many of these contractors are not tied up with one firm but have contracts with two or more. The lumber industry is but part of this local picture. The products of these same forests through the work of many other presently independent people maintain important sections of the pulp and paper industry, the veneer and plywood industry, raw material for wood chemical plants, cross ties for the railroads, and timbers for the great iron ore and copper mines of Michigan and Minnesota.

The following list is not complete but indicates the field of operations frequently taken care of by independent contractors:

Jobbers who contract to cut timber and skid and load logs on trucks in the woods.
Independent truckers handling logs or lumber, material, or supplies.
Road-building and gravel contractors.
Bridge-building contractors.
Commission men or lumber brokers.
Some farmer loggers who take pulp-wood-cutting and clean-up jobs in the woods.

Many substantial citizens and men of broad affairs in the local timber industries made their first successes as independent contractors where they obtained a knowledge of management requirements as an executive and developed self-reliance.

This association has received many letters of protest on this part of H. R. 6000. The attached letter from the Ahonen Lumber Co., of Ironwood, Mich., well summarizes what is being said in the local industry.

(The letter mentioned above was read by Mr. Fuller in his oral testimony.)

STATEMENT OF SOUTHERN PINE INDUSTRY COMMITTEE

EFFECTS OF SECTION 210 (K) (4) OF H. R. 6000 UPON THE SOUTHERN PINE INDUSTRY

The adoption of any more general and flexible standards than now apply under the common law for determining the status of a person as an "employee" will lead, in the southern pine industry, to—

(1) The destruction of many small enterprises with consequent loss of freedom and independence of such employers to operate businesses of their own;

(2) A disturbance in relationships that have existed for many years;

(3) A probable increase in the production costs of logs and lumber which, if not absorbed by home builders and other lumber consumers, must necessarily lead to the closing of plants and to unemployment; and

(4) An intolerable burden of administration in the collection of social-security taxes that would be almost impossible of application from the Government standpoint and which would compound the confusion already surrounding businessmen in the determination of the status of the people with whom they deal by contract.

To understand how the southern pine industry will be affected by an administrative agency authorized to determine the status of an "employee" under flexible and variable factors as those named in section 210 (k) (4) of H. R. 6000 (passed by the House at the last session of Congress), it is necessary to examine the structure of the industry and its method of operation.

The sawmilling phase of the industry includes, according to the Bureau of the Census, 20,000 units in the area from Virginia to Florida and to Texas and Oklahoma. A relatively small proportion of these operations own large tracts of timber and usually have their own logging crews. Many others, however, do all or some of their logging through independent contractors. The operators then perform the entire manufacturing process on the trees thus removed.

Besides this type of sawmilling operation, there are approximately 1,500 concentration plants which either buy rough, green lumber on the open market or make contracts with operators of small mills to cut and deliver timber owned or being purchased by the concentration plant.

The remainder of the 20,000-plus units in the southern pine industry are small mills, with a vast range in equipment, managerial skill, capital, and operating methods. They are described by the United States Forest Service thusly: "Most

of these cut less than 10,000 board feet a day and less than 2,000 M feet a year. The typical small mill is a portable mill, employing 6 to 10 men in the mill and about as many in the woods. It works more or less intermittently, seldom more than 200 days a year. These mills cut lumber either on their own account, or under contract for concentration yards or other operators who take the rough lumber, finish it, and put it on the market."

"Few of the small-mill operators own timberland. Many of them buy stumpage from farmers or other landowners, but in many instances the stumpage is purchased by the concentration-yard operators who employ the small-mill men to cut it for them."

"Although some operators keep careful and accurate records, accounting methods at most mills are crude. Many keep no written records at all and have only a vague idea of their costs and earnings."

This description of sawmilling in the southern pine industry has been simplified for quick and easy understanding, but the variety of operating methods, arrangements, and relationships among people in the industry practically defies accurate description.

However, it is in logging operations that most independent contractors perform in the southern pine industry. While some mills log with their own personnel and equipment or buy logs on the open market, thousands of others depend on independent contractors for their woods operations.

There are logging contractors who own but one truck, a limited amount of equipment, and a few employees. On the other hand there are other logging contractors whose investments exceed $25,000 and who employ a dozen or more men. Some contractors have sufficient money to finance equipment purchases: others finance their purchases through banks or other lending institutions; and still others induce the lumber companies with which they deal to lend them money for trucks or equipment, to be amortized from the contractor's earnings.

There are contractors whose arrangements are covered by written agreements, while others have informal understandings with the companies without sacrifice of their independence.

Some contractors perform for the same company for several years with little or no interruptions, while others work for several companies at one time or on different occasions. In still other cases, farmers, during their off seasons, use their labor, tractors, and teams to log as independent contractors.

With most experienced logging contractors, the only degree of what might be termed "supervision" is in connection with the timber to be cut and what conditions will be observed in the cutting. There is no hour-to-hour or day-to-day supervision, but a company representative may visit the woods every few days, not to instruct the contracotr and his employees in methods of doing their work, but to see that the conditions of the oral or written agreement are being observed and that the timber and land are not being damaged.

It is the universal custom that contractors hire and fire their own men and have complete control over pay rates and methods, hours of work, and conditions of employment.

Since most State laws in the South render the principal liable, lumber companies for their own protection, often require evidence from the contractors that compensation insurance is carried or the companies will receive or make the contractor's pay rolls in order to guarantee insurance coverage and make premium payments.

It is evident that with the almost limitless range in contractual arrangements and operating relationships in the southern pine industry, were any administrative agency granted the power to apply the standards of section 210 (k) (4) of H. R. 6000 in its own discretion they would be impossible of practical application to empolyer-contractors who are small and transitory and who keep little, if any, records and operate in rural areas.

If the question of the status of an independent contractor must be resolved in each case under a different set of rules, the uncertainties and confusion will multiply, and the incentive to continue in business will be threatened.

While manufacturers of southern pine must face the taks of accurately judging who is an independent contractor and who is an employee for the purposes of damage suits and social-security taxes, the problem would become further complicated when the operator remembers that the Wage-Hour Division and the National Labor Relations Board, as well as the branch of the Bureau of Internal Revenue collecting the transportation tax, will make their own determinations of each contractor's status independently of the decisions of other Government agencies.

It is only realistic to assume that, if independent contratoers are classified as "employees" in order to alleviate the difficulties of collecting social-security taxes, other Government agencies, in support of their own policies, would regard the social-security determination to be persuasive. Indeed, it is probable that even where contractors have been determined to be employers at common law, they would eventually lose their status under those rules also.

To ascertain the effects on the southern pine manufacturing industry of flexible standards such as those in section 210 (k) (4), H. R. 6000, for the determination of "employee" there are submitted, as exhibit A attached, comments from letters writetn shortly before the end of 1949, direct from lumber producers.

The difficulties of administering the law if it includes a definition of "employee" such as that proposed will be insuperable. To consider contractors and their employees as employees of lumber companies is the equivalent of asking the producers to collect taxes on the compensation of people they don't know, don't pay, and never see.

The proposed definition of "employee," if enacted, would mean the disruption of successful, happy, and practical relationships and a disturbance in the employment pattern of areas in the South.

This statement does not concern itself with the application of social-security benefits to the employees of its contractors, but the southern pine industry contends that, in the administration of the system, the responsibility for the collection of the taxes should rest with those contractors who have always been considered to be employers in their own right.

The southern pine industry does not think that Congress is justified in adopting the definition of "employee" proposed in H. R. 6000 simply to expedite the tasks of an administrative agency when such action would only aggravate an already badly confused situation.

EXHIBIT A

EXCERPTS FROM LETTERS FROM SOUTHERN PINE MANUFACTURERS REFERRING TO EFFECTS OF "EMPLOYEE" DEFINITION IN H. R. 6000

"* * * At present all of our logging is being done by independent contractors with from one to three trucks each. This change would seem to make it necessary to discontinue the contract logging business altogether and do our logging with company equipment and personnel at a higher cost. It is easily understood why personnel will take better care of their own equipment than they will of company-owned equipment, and put forth more effort on contract work than on an hourly basis. There is also less supervision on our part required in connection with the contract logging.

"Should our contract logging be continued under such changed legislation, this would materially affect the amount of clerical work to be done; in other words, it would increase the number on our pay roll by at least 20 percent and all other clerical work accordingly. * * *"

"* * * It is absolutely physically impossible to regulate the affairs of independent contractors. They are men who are in business for themselves and are scattered over a wide area, making it absolutely impossible to regulate their activities in the way of employment. Other than this, if they were taken away from the status of independent contractors, there would be utter confusion as to their contract obligations, securing of materials, what they did in the way of workmen's compensation, and so on. It would destroy a number of small businesses. Independent contractors have the status of a small-business man at this time, but if the law should go into effect, there would be no other alternative than for the mill operators to take over these activities so that they could have a close line on their operation. They would have to spend considerable amounts of money for equipment, and it would materially raise the cost of the products sold due to the extra cost that would be involved in supervision, both men and equipment. * * *"

"* * * The most important other effects this proposal would have on our business would be that, immediately after we were required to report independent contractors and their employees for social security, surely to follow would be employment-compensation commissions of the various States would rule we were responsible to them for independent contractors and their employees. Then would come the necessity of reporting all of these men under

our workmen's compensation insurance and in our case this would not be 1 percent, or 0.5 percent, such as we are now paying the social security and the employment compensation, but it would be an average of around $7 per hundred. Too, there would be no earthly way for us to even know who was working for us until after they reported an accident, making it impossible for them to have a physical check-up before hiring them and no control over them, and the up-shot of this would be we would pay for all of the accidents of these men regardless of where they got hurt—hence our rate would go up steadily from year to year. In some operations where they are widely scattered, it would be possible to have men in hospitals that we would not even know about, as well as have employees reporting accidents, say, 6 months after working for one of the independent contractors, claiming that he sustained permanent injuries while working for some contractor on one of our jobs.

"* * * There will not be one industry who has work done by contractors who will even know where they stand and how much liability is outstanding against them and from what angle it will show up and certainly the cost would certainly skyrocket when you go to paying $7 per hundred on all pay rolls for workmen's compensation insurance, and if this is paid on the contractor, you would be paying on any profit he has and on 50 percent of the gross amount trucks and mules make—so you can see what this would do to logging contractors. * * *"

"* * * We contract with loggers to cut our timber, load it, and haul it to our mills. Our timber is in small scattered stands and it pays us better to have a group of small independent contractors to do this work rather than try to maintain our own logging crew and do it ourselves. In a larger operation, with bigger stands of timber, it might be more inexpensive to do the work with our own crew supervised by experienced men, but since this situation does not exist we find that an independent logger will work side by side with his men and do a better job than we could hope to do if we hired men to supervise these small gangs. It is natural that these contractors take more interest in the efficiency of their operations than they possibly could if they were working for us on a salary basis. The maintenance of their equipment means more to them, as the equipment represents a considerable investment and is important to their very livelihood. If it were company equipment, they would never have the same interest. * * *"

"* * * This would be disastrous in our business as we now operate since a large amount of our sawmilling and all of our logging is carried on by independent contractors. It would mean the end of independent contractors as I see no way that we could still operate after this manner and assume responsibility for practically everything he did. In fact, it would eliminate the need for such contractors. It would mean that we would have to start company operations for all sawmilling and all logging and assuming that everyone did this, as they would probably have to do, it would mean in the long run higher prices in lumber products to the consumer, as the independent contractors can definitely render cheaper services in some instances than can be done by company operations and usually the customer finally pays the bill. * * *"

"* * * Should we be required to treat these independent contractors and their employees as our own, it would be necessary to include these names in our regular weekly pay roll, deducting social security, withholding taxes, etc. This would mean that the number of employees on our regular pay roll would be increased from approximately 120 to at least 150. In addition to our responsibility for the social-security and withholding taxes, a more different feature would be in connection with keeping an accurate record of their social-security numbers, as a number of these employees of the logging contractors are on the job 1 week and gone the next and most difficult to locate. * * *"

"* * * It would not be so bad if we could know definitely just what employees of independent contractos are engaged and engaged solely on work for us, if we could know exactly what such employees are paid, but we have no way of verifying the wage rates, hours of employment, or determining what part of the employees' time is spent on work for us, and because we cannot determine these things accurately, by that very fact we incur a liability for which we cannot very well hold the contractors responsible. * * *"

"* * * It would mean almost the elimination of the market in small amounts produced by farmers. * * *"

"* * * To absorb such small operators (logging contractors) means lowering the incentive basis of good men, who are experts in a small way. * * *"

"* * * It would deny the small operator the privilege of having an independent business. By making the companies responsible for employees of an independent contractor, they are eliminating that contractor. The contract, which has been used so successfully down through the years, has been a stepping stone to bigger things for most of the successful businessmen in the country today. Passage of this legislation, it appears to me, indirectly destroys one of the basic rights of all men, that is the right to make a contract. * * *"

"* * * We are at present using approximately 25 small contractors at our two mills which covers all types of contract logging from those cutting on the company's timber to those cutting timber bought for them by the company and which timber really belongs to them but is carried in the company's name until it is paid out, to those from whom the company buys logs and over which the mill had no control or no connection with whatsoever, the only contact with this contractor being at the skidway where his logs were bought. * * *"

STATEMENT OF SOUTHERN HARDWOOD PRODUCERS, INC., IN OPPOSITION TO H. R. 6000

The Southern Hardwood Producers, Inc., located at Memphis, Tenn., is an association of hardwood lumber mills operating in all or part of 16 Southern States and shipping their lumber and other mill products throughout the world.

The southern hardwood industry is opposed to much of the expanded social-security program represented by H. R. 6000, as it firmly believes this program throws an undue tax burden on industry and represents another step toward socialization of our economy. However, as many witnesses will appear before the committee and discuss fully all phases of the bill, this statement will be confined to a consideration of section 104 (a) and 206 (a), amending the definition of "employee" and more specifically to paragraph (3) (E) of these sections which define a "contract logger" as an "employee."

This proposed definition of "employee" is highly objectionable as it is contrary to the accepted meaning of the term which has been established and recognized under common law for hundreds of years and in many hundreds of court cases. We cannot believe it is the wish or intent of Congress to completely reverse the findings under common law and thereby legislate many small legitimate businessmen out of business. However, this is exactly what will happen if section 104 (a) and 206 (a) of the bill are approved in their present form.

If these Sections, as now drafted, are enacted into law, the Federal Security Agency and the Treasury Department would be empowered to change the status of many persons that are presently self-employed, by simply classifying them as "employees" of the companies with which they have contractual agreements. In many cases, such as a "contract logger," the reversed status becomes mandatory and the administrative agencies are given no choice as to classification, but in other instances the decision is apparently left up to the whim of the Administrator to be announced at such time and under such conditions as he chooses.

To fully appreciate the impact it would have on both the sawmill operators and their independent loggers if the existing relationship between the mills and the loggers is disrupted, a clear understanding of the operations of the industry is necessary. It should be kept in mind that a mill may draw its logs from one or more sources and from a wide area—either from company-owned timberlands, or from timberlands on which they own cutting rights, or by purchasing logs delivered at the mill or some designated site, or from all three sources. Also, these timber tracts can be, and possibly are, located in different localities great distances apart. Few, if any, mills are able to concentrate their woods operations in an immediate locality.

The manner in which the woods work is handled varies with the individual mill. Some mills own their own equipment and do all of their own logging, other mills do part of their own logging and use independent contractors for the balance, while still other mills, representing by far the greatest majority, rely entirely on contract loggers for their supply of logs. There is a number of reasons for these different methods of operations. One mill may decide it is more economical to own and operate its own logging equipment, while another mill may feel it can get the job done better and cheaper through independent contractors. Or, as is frequently the case, the mill simply does not have managerial

personnel to properly look after both the sawmill and the woods operation. Regardless of the reasons prompting the mill to contract for its logging, the arrangements conform with normal contractual relationships.

The provisions of this bill, which would invalidate bona fide independent contractor relationships that now exist between manufacturers of lumber and lumber products and self-employed loggers, would be a death blow to many hundreds of individuals who have, through their own initiative and effort, climbed from a wage earner to the management of their own business. These are not fly-by-night or dummy organizations set up with ulterior motives or for the purpose of evading any laws. They are typical American "small business," which we are given to understand Congress and the Federal Government are sponsoring and encouraging.

The present system of logging through independent contractors or, as termed in H. R. 6000, "contract loggers," is not of recent origin. It has been a practice for a long time and antedates the Social Security Act, many, many years. It represents a mutual satisfactory arrangement which need not and should not be disturbed.

Just as in other lines of business, the size of the contract logger and his scope of activities range from a small operator whose investments in equipment may be less than $10,000 and who employs only a few men, to the larger operator whose investments total more than $50,000 and who employs as many as 50 or more men. Why should these independent-business men who offer employment to many in their territory and who look upon themselves as being self-employed, be forced by law into the uncertain and embarrassing status of an "employee" of the firms with whom they do business?

To illustrate the type of individuals who will be affected by sections 104 (a) and 206 (a) of this bill, we cite the case of a "contract logger" located in a small Mississippi town. Seven years ago this person was on the pay roll of the local sawmill at the prevailing hourly wage rate and his weekly earning averaged around $35. Ownership of the mill changed hands and the new proprietors, being impressed with his initiative and business judgment, assisted him in getting started as a contract logger. Today, this former wage earner has many thousands of dollars invested in equipment, gives employment to 25 or more men and has built for himself and family a comfortable seven-room house. Certainly this committee, or Congress, is not in favor of promoting legislation that will have the effect of putting this man out of business, but under this bill he is a "contract logger" and as such, an "employee" of whatever company he deals with. In other words, if the bill becomes law he reverts to the same status he held 7 years ago—a wage earner on the pay roll of someone else.

In almost all cases the contract logger enters into a negotiated written contract with the mill for cutting and hauling designated tracts of timber at a specified rate per thousand feet. The contractor employs and has complete charge of the men working for him. He is responsible for their wage and is the only one who can terminate their employment. The mill has no direct contact with the contractor's employees, no knowledge of the wages he pays or the hours he works. They do not know or want to know the profit he makes. He is an independent-business man, by every recognized standard, and he is proud of it.

This, of course, would change if, by Federal law, these independent suppliers and the men whom they employ become employees of the company with which they deal. The company would then have to decide between two courses of action. One, to keep complete and detailed records on each of the contractor's employees, including rate of pay, hours worked, and weekly earnings, and also on the profits or losses of the contractor. To withhold social-security tax payments from the wages of the employees and the profits of the contractor. Or two, to cancel the contract the company now has with the logger, buy their own logging equipment, and do all their own logging with employees under their direct supervision and management.

In either case, the independent business of the contractor is destroyed and, therefore, it is believed most companies will adopt the latter course. They will not want to assume the employer's obligations and responsibilities to and for employees, as set forth in the social-security laws, wage-and-hour laws, income-tax law, etc., unless such employees, are, in fact, their employees.

The contract logger is an integral part of the southern hardwood industry. He plays an important role in the production of its products. He is a good citizen of his community and a responsible businessman. He has every right

to expect the Federal Government to recognize and protect the lawful business enterprise he has established.

We reiterate, there is no need or reason for the changes proposed in sections 104 (a) and 206 (a), so in the interest of the self-employed, the independent contract logger, the company with which he deals and the lumber industry, we respectfully ask that the committee amend the wording of these sections to conform with the Gearhart resolution.

Mr. FULLER. In addition to that, Senator, I would like to read a letter from a lumber manufacturer in Ironwood, Mich., which I believe covers this subject quite thoroughly, if that is agreeable to you.

The CHAIRMAN. Yes; you may do so.

Mr. FULLER. This is from Mr. Arvey Ahonen of the Ahonen Lumber Co. of Ironwood, Mich.:

The particular part to which I object is section 210 (k) (4) and its companion amendment to the Internal Revenue Code (206 (d) (4) (as proposed in sec. 104 (a) and 206 (a) of H. R. 6000)).

As you know, there are a large number of independent contractors presently engaged in woods and mill operations. The following list may not be complete, but if it isn't it will give you a very good idea of the variety of operations which are now taken care of by independent contractors.

We have, of course, the jobbers of the class involved in the recent litigation with the Michigan Public Service Commission. Even under section 210 (k) (4) I doubt if any one could conjure these operators into an employee status. In addition to jobbers we have independent truckers, road building and gravel contractors, bridge building contractors, jobbers who take contracts to cut, skid, and load on trucks in woods, small farmer-loggers who take pulp cutting and clean up jobs and work with small crews composed of members of their family or neighbors, and last but not least, commission men or lumber brokers.

In my opinion, the statute in question would make it extremely easy for the Social Security Administration and the courts to classify all of these persons as employees—a situation which would not be particularly desirable from our viewpoint or from the viewpoint of our communities.

We can divide independent truckers into two possible classifications: (1) those who haul logs and forest products from the woods to point of delivery and (2) those who haul finished lumber from the mill to market. In Michigan, and I think in most other States, these independent truckers are required to secure certificates as either limited or general common carriers from the public service commission, and do so. It is possible under the Michigan law for them to secure permits as contract carriers but few if any elect to secure this limited certification. Since the Michigan Public Service Commission at least requires applicants for common carrier certificates, either limited or general, to furnish financial statements, certificates of insurance coverage and general information showing how long they have been in the trucking business, it would seem these men are definitely in a business of their own and might not be classed as employees under section 210 (k) (4). However, in view of the general tendency to make every one possible into an employee I do not think it advisable to take any unnecessary chances with this statute if its passage can be prevented.

These truckers, being common carriers of one kind or another, haul for different concerns at different times and are seldom, if ever, connected with any one concern for very long consecutive periods of time. However, if they should be classified as employees for the purpose of the H. R. 6000 this would furnish considerable argument for getting them classified as employees for other purposes and would create a very undesirable situation so far as liability for negligence is concerned, as well as a very unsatisfactory situation as far as bookkeeping and records are concerned.

In the discussion so far I have seen little reference to commission men and lumber brokers. As you know, these men work on a commission basis. As a general rule they have little or no investment in the facilities for work and little or no capital invested. Their work can easily be said to be integrated in the lumber business and frequently lumber companies make use of the services of a particular commission man or broker over long periods of time, thus creating what might be called "permanency of the relationship." While it is undoubtedly true that the lumber companies exercise no control over these commission men or brokers, as that term is generally understood, it would seem that under the seven tests set out in section 210 (k) (4) it would be entirely

possible to classify these men as employees, at least for the purpose of the Social Security Act, with the same unfavorable results mentioned above for independent truckers.

Road-building and graveling contractors may or may not have a substantial investment in equipment, although they usually do own one or more trucks, scrapers and other tools, and possibly a shovel or clam to get the gravel out of the pit. They would need a considerable degree of skill in the performance of their jobs, but possibly not enough to satisfy the Social Security Administrator. Contract builders of bridges, particularly small bridges, do not need a great deal of equipment and perform their work by themselves or with small crews. However, by all present tests road-building and graveling contractors and contract bridge builders are independent contractors, and for the benefit of the industry should so remain.

Under present practice small jobbers or gypos who contract to cut, skid, and load, and small farmer operators may be able to operate and do operate with few tools other than axes, saws, et cetera—the tools commonly supplied to employee sawyers—plus a horse or team or a small tractor. Their investment in equipment is not usually very large and they have little or no capital invested in the operation. These men would, in my opinion, be particularly susceptible to classification of emplyoees under section 210 (k) (4).

Most of these men prefer to work as independent contractors because as such they are not subject to close supervision by the operator and they do have a chance to make more money than they would working for wages. Often their operations are irregular due to any number of conditions with which you are undoubtedly familiar.

It seems to me one of the main points involved in this controversy is that making employees out of a large number of individuals who at present are independent contractors will have a bad economic effect on the community in which these persons live and do business. Independent contractors, as a general rule, spread their business among a large number of establishments. This is particularly true with regard to truckers and garages and filling stations. If a lumber company owns and operates its own trucks it has a tendency to stick to one make which has proved satisfactory, buy all its gasoline and oil from one distributor and maintain a garage or machine shop of its own for repairs. Local banks also get considerable desirable business financing independent trucks and jobbers, large and small, which business they would lose if these men are employees, as the financing would be taken care of by the companies involved. A man starting out as a small independent contractor has an opportunity to develop into a larger operator. You can readily supply any number of illustrations. Making every one an employee would greatly discourage this tendency, to the general economic and political detriment of the country which operates on the free-enterprise system.

In the House committee report on H. R. 6000, page 84, the committee refers to *United States* v. *Silk* and *Harrison* v. *Gregran Lines, Inc.* (331 U. S. 704, 67 Sup. Ct. 1463), and expresses a little dissatisfaction with that opinion. It is interesting to note that this opinion held independent truckers of the kind with which we are concerned to be independent contractors, although Justices Black, Douglas, and Murphy dissented and Justice Rutledge was not so sure. In view of this it would look as though the authors of H. R. 6000 intended to create a situation under which our independent trucks could be held to be employees.

As I see it, the objectionable parts of H. R. 6000 are just another step in a general attempt on the part of our social-welfare element to force a division of most of our population into two classes—employers and employees on the erroneous assumption that such procedure is somehow for the best interests of the "employees." Such theory is entirely foreign to the whole experience of our country which has operated on the assumption that the faster an individual could work up to being his own boss and having his own business, the better it is for all concerned.

His postscript is:

Concerning farmer-loggers, I think we should also stress the point that these men often take care of their farm work during the same period they are working in the woods. As independent contractors they can start in at 9 o'clock and quit at 3 or 4, as they so desire. Also, they can stay home half a day and work half a day, or if their farm work requires, they can stay home all day. They could not do these things if they were employees.

Thank you, Mr. Chairman.

The CHAIRMAN. Are there any questions?

If not, we thank you very much; and you may leave with the reporter the documents you wish to go into the record.

Mr. FULLER. Thank you.

The CHAIRMAN. Mr. Pringle? You may be seated, sir. Please identify yourself, if you will, for the benefit of the record.

STATEMENT OF WALTER PRINGLE 3D, PRINGLE LUMBER CO., CHARLESTON, S. C.

Mr. PRINGLE. My name is Walter Pringle 3d, and I represent the Pringle Lumber Co., in Charleston, S. C.

Senator George, I do not have a printed statement, as the situation with respect to my company is so simple that I will not have to take up much of your time.

I was at one time an independent contractor, and made a little money, and now I am using independent contractors in my operation.

The CHAIRMAN. Are you in the lumber business?

Mr. PRINGLE. Yes, sir, selling and manufacturing pine, and located in Charleston, S. C.

We have on our list of producers approximately 50 men, of which I doubt seriously whether over 30 or 35 work each week. The others have made enough the previous week not to have to work, or to use their own prerogative. They go fishing, and so forth. Some of them bring in less than $200 worth of logs per week. Others go as high as $3,000 or $3,500.

It would put an impossible administrative task on my office if we were forced to keep up with the wanderings of these "employees."

At times we help them buy timber, and they would definitely be construed as employees under the new definition. It would be impossible for us to do an honest job of interpreting the number of hours that these men work, or where they work. We feel that it would put a hazard on our business operation that might throw us out of business. That is, we would be forced to reduce the market, as we call it, for free logs to the point where it was 4 years ago, before we started our operation.

We produce southern pine lumber, about 50 to 60 thousand feet a day. This operation has been built up from one producing 10,000 feet a day during the past 4 to 5 years. In the meantime, we have given jobs and created a market for up to 250,000 to 300,000 feet of pine logs per week, and we have added to our community $12,000 worth of good American dollars per week. But we feel we could not honestly abide by the new rules if they were adopted. It is that simple with us.

The CHAIRMAN. Those who furnish you with the logs are in no sense your employees, in any ordinary understanding of that term?

Mr. PRINGLE. That is correct. At times, if they are out of timber, my log buyer and wood superintendent will help them purchase timber. If they find attractive timber and say, "Well, I can trade on that for $15," we will buy it for them, put up the money for them, or assure the landowner they will pay at that rate.

The CHAIRMAN. Well, they might go to the bank if they had credit at the bank.

Mr. PRINGLE. Yes, sir.

The CHAIRMAN. But they prefer to deal with you?

Mr. PRINGLE. They prefer to deal with us. But our producers are so small, both white and colored, that lots of them have no credit other than with our company.

The CHAIRMAN. That is true.

Mr. PRINGLE. So it would be an impossible situation, and they can't, lots of them, even persuade the landowner to sell to them; because the landowner fears he might not get the stumpage. They want to have the company purchasing the raw material at the destination agree to deduct the stumpage from the prevailing market price on the logs and mail it to them.

Under the new ruling, we feel that we would have them termed as our employees, and we would be responsible for the social security, the wages and hours, the withholding tax. We don't think we could do it. It is just that simple. And not having the working capital that some of the larger producers in the South have, we are unable to purchase our timber in big blocks. As every one is aware, stumpage is $20 a thousand. To operate anything the size of our mill would require approximately a half to three-quarters of a million dollars of working capital. We don't have it.

So, in lieu of that, we have established what we call a log market for spot logs, the same situation, you might say, as related to spot cotton, throughout the South. In other words, we have destinations within 75 miles of Charleston, where we will pay so much per thousand for logs landed at our siding or at our mill, taking the freight rates into consideration.

Therefore we are able to limit the necessary working capital for raw materials from half a million dollars down to, say, $25,000 or $30,000 by only having our raw material in inventory at our plant.

The CHAIRMAN. Has the old-style shingle mill gone out of use? Nobody has mentioned it.

Mr. PRINGLE. It is very small. There used to be a lot of shingle mills up in Horry County, 100 miles or so north of us, but now the west coast fir mills get most of that business.

The CHAIRMAN. I was just wondering if anyone was still in that line of business. Of course, I can very well recall when, each Monday morning, I usually made contracts with 15 or 20 small shingle mills scattered all over my county and in adjoining counties for their products for that week, or as long as they wished to send me their shingles, at so much per thousand. I used to assist them. Of course, this was long before social security. I used to assist them in buying their timber, or sometimes would arrange at the banks for them to get loans to buy timber, buy their mill, buy their equipment. But they were in no sense employees of mine. They were operators on their own. And if they brought me the shingles, I was glad to get them. If they did not, I did not get them. That process went on from day to day. And they could very clearly be covered under this proposed definition.

Mr. PRINGLE. That is correct.

The CHAIRMAN. I am not so sure but what the operators of naval stores would be covered under the present method of operating naval stores production in the South. I do not see how they could hardly escape. We used to take the gum from the tree, and each turpentine

operator or naval stores operator did his own distilling. But now practically everything is sent to a central mill. It may be sent a hundred miles away. Much of it comes out of Florida to some one of the plants in Georgia. They get certain financial assistance if they need it. They certainly sell their gum to them. And the central plant converts the gum into the resin and turpentine and other byproducts.

I think they might very well come under this, with all their vast operations, as independent operators, scattered all over the whole Southeast, particularly in Georgia and Florida now, where some four-fifths of all naval stores are produced.

Mr. PRINGLE. There is one thing, sir, that I might add. We feel that in the interest of free enterprise if this interpretation or this new ruling would be allowed to go through we would be eliminating, and when I say "we," I mean the country, the possibility for a great many men who have the desire and the initiative, but lack capital, of becoming independent producers and men of stature in their communities.

The CHAIRMAN. I think I have called attention to that. That is the thing that has impressed me so strongly from the first. In my town I doubt if there would be anybody there who would be classed as an independent operator unless he would be the school superintendent or the preacher. Because, invariably, he is representing somebody else in handling his products. He is an independent operator, and he wants to be an independent operator. He occupies that status as a citizen. And there is quite a difference between that status and that of the hired man. The hired man may be just as good a man, but he occupies a different status. He does not have the same roots in the community as the independent operator, who is an independent businessman and who is there on his job 24 hours a day. He does not work on any hourly basis. He is not of that type, and therefore he is an independent business man in one line or another. You could count them all up. I live in a small town with some two or three thousand people, but I do not think there is anybody there that could be said to be an independent operator outside of just a mere handful of people in the town.

Mr. PRINGLE. It would further the taking away of the privilege of using these small men. It would eliminate a market for the small landowner for his timber that the large mills could not buy. For instance, if we were forced to go under this new ruling, I would have to set up a logging operation in which I would have to have at least 100 or 150 thousand dollars worth of logging equipment, to produce 300,000 or 350,000 logs per week. It would eliminate entirely my using small tracts of timber, because I could not move my equipment to a small tract.

So the small farmer, the small tenant in the county, who has 10 or 15 thousand feet of timber, or 10 or 15 trees, would not be able to sell his logs. As it is now, he merely goes to his neighbor, a close neighbor, who is an independent contractor or producer, arranges for the mill to buy it, and that independent producer might produce only 15 loads off of a tract. I have known them to produce as small an amount as 3,000 feet. Now, that did not bring more than $35 or $40 to the family owning those trees, but that was $35 or $40 that they got

that they would not have gotten; and which goes into the general economic situation in our county.

The CHAIRMAN. Well, sir, we thank you very much for your appearance.

Mr. PRINGLE. Thank you for the time, sir.

The CHAIRMAN. If there are no questions, I believe that concludes the testimony for the morning.

Senator BYRD. I want to compliment the witness for making a very clear statement.

The CHAIRMAN. Thank you very much, Mr. Pringle.

The committee will recess until 10 o'clock tomorrow.

(Whereupon, at 11:15 a. m., the committee recessed to reconvene Thursday, March 9, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

THURSDAY, MARCH 9, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Johnson of Colorado, Kerr, and Millikin.

Also present: Senator Dworshak; Mrs. Elizabeth B. Springer, chief clerk; and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order. Before we hear the first witness we will insert a letter from our colleague, Hon. Pat McCarran, of Nevada.

(The letter referred to is as follows:)

UNITED STATES SENATE,
March 2, 1950.

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

MY DEAR SENATOR GEORGE: The mining industry of my home State is alarmed over a provision in H. R. 6000, an act to extend the Federal old-age and survivors insurance system. This bill is now before your committee for consideration.

The provision on lines 4 through 7 of page 50 of the bill as passed by the House is the one that has occasioned the apprehension. It defines a lessee as an employee of the lessor.

The provision is interpreted to mean that mine owners must guarantee lessees at least the minimum legal wage (presumably 75 cents an hour) when entering into contracts. It is also interpreted as making a mine owner responsible for all the social-security taxes of the lessee or licensee, regardless of the size of the operation. Those who have examined the bill believe it also may have other grave ramifications in regard to taxation.

The inclusion of such a provision in the social-security bill would drive another nail in the mining industry's coffin. The industry is already hard hit by over-taxation and a falling market situation. This added burden would be just the "straw that broken the camel's back" insofar as many leasing operations are concerned.

There are very few owners of mining properties who are prepared to guarantee a lessee a salary. The very nature of the mining industry involves operations which make such a guarantee impossible. The operation of a mining property under lease is traditionally an independent enterprise.

The provision would also have a grave and detrimental effect on existing contracts and could work undue hardship and burden on mine owners. The result can only be cancellations of mine leases, confusion, and stagnation in the mining industry.

Unfortunately, this provision was overlooked when it passed the House, or, I am sure, it never would have been included in the bill. It is definitely a mistake.

I hope that your committee will see fit to strike this provision from the bill. I respectfully recommend that your committee carefully review the new classifi-

cations defined as employees under the bill. I am afraid many of these would pu undue hardship on other branches of industry. I do not believe this is the inten of the bill.

Kindest personal regards,

PAT MCCARRAN.

The CHAIRMAN. Mr. Robert M. Searls? You may have a seat at this table, if you wish, Mr. Searls.

STATEMENT OF ROBERT M. SEARLS, ATTORNEY, SAN FRANCISCO CALIF., APPEARING IN BEHALF OF THE AMERICAN MINING CONGRESS

Mr. SEARLS. Mr. Chairman, the presentation for the mining industry this morning is made through arrangements with the American Mining Congress, although the presentations will be made individually for the mine operators and for the leasers, in the States of California, Utah, and Colorado.

The CHAIRMAN. Yes, sir.

Mr. SEARLS. I will speak for the entire industry, and I will then be followed by the leasers from California and then the representatives from Colorado and Utah.

The CHAIRMAN. Very well, Mr. Searls.

Mr. SEARLS. My name is Robert M. Searls. I am an attorney at law, practicing in San Francisco, Calif., where I reside. I am appearing in behalf of the American Mining Congress, and particularly the California chapter of the American Mining Congress, in support of the position taken by these organizations in opposition to the extension of social security insurance to cover mine block leasers. The opposition of the American Mining Congress was evidenced by resolution unanimously adopted at the convention held in Spokane, Wash., last September, copies of which have been furnished to each Member of Congress.

Provisions of the bill to which exception is taken: The mining industry, expressing its views through its industrial association, the American Mining Congress, takes specific exception to the proposals in H. R. 6000 which provide for the reclassification as "employees" of self-employed mine leasers, who hold independent contract relationships with the mine owners. For reasons which will appear in this statement, the industry is opposed to the imposition of social-security taxes on the mine owners covering these independent leasers as newly defined employees of mine owners in whose properties their leases are held. By the terms of the bill mine block leasers would be included in the latter category under the specific definition contained in sections 210 (K) (3) (F) and 206 (d) (3) (F) of the bill, pages 50, lines 4 to 7, and 151, lines 6 to 9, and they would probably be included in the category of employees under the vague and shadowy standard prescribed for the determination of employment in sections 210 (K) (4) on page 51, lines 4 to 16, and 206 (4) (2) on page 152 of the bill. This latter section classifies as employee:

> (4) any individual who is not an employee under paragraph (1), (2), or (3) of this subsection but who, in the performance of service for any person for remuneration, has, with respect to such service, the status of an employee, as determined by the combined effect of (A) control over the individual, (B) permanency of the relationship, (C) regularity and frequency of performance

of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss.

We feel, as do others that have expressed their views here, that it is shadowy, uncertain language that would permit the Social Security Administrator to classify as an employee practically any independent worker in the United States, and we feel it is in the nature of an administrative blank check. I think Mr. Calhoun used that language last Tuesday.

I am aware that the language just quoted is a codification of certain language used by courts in classifying workers in individual cases involving application of social-security laws, and that one main purpose of the Gearhart resolution passed by the 1948 Congress was to clarify these definitions. I am not here to either attack or defend the Gearhart resolution. The mining industry does object, however, to the legislative enactment of vague and indefinite language such as that above quoted which might have the effect of reversing previous adjudications that mine leasers are independent workers and are not employees. Our objection goes both to the specific and to the general inclusion of mine block leaders as employees under the language of the bill above referred to, and I will submit to the committee with this statement a suggestion of the specific amendments to the bill which would overcome our objections.

It seems very significant to us that the Advisory Council of the Senate Finance Committee appointed to study needed Social Security Act revisions did not recommend enactment of any of the sections of the bill to which our objections are made (hearings report, page 6, item M). The Advisory Council would have left the present law unchanged.

The reasons for the objections which the mining industry has to the bill in question are as follows:

(1) Mine block leasing has been judicially determined not to be employment within the meaning of the Social Security Act by both the Circuit Court of Appeals for the Ninth Circuit, and by the Supreme Court of the State of California. The former determination was in the case of *Anglim* v. *Empire Star Mines Company, Limited* (129 Fed. (2) 914), involving directly the application of social-security taxes to mine leasers; and the determination with respect to the State unemployment tax on these same leasers was made by the Supreme Court of California in *Empire Star Mines Company, Limited*, v. *California Employment Commission* (28 Cal. (2d) 33; 168 Pac. (2d) 686). Both of these cases held that block leasers at the Empire Star Mine at Grass Valley, Calif., were independent contractors not subject to social-security or unemployment taxes. This determination was made some time, in fact, 2 or 3 years prior to the adoption of the Gearhart resolution and has been accepted up to the present time by the Social Security Administrator as an adjudication of the leasers' independent status. His office is now seeking by congressional legislation to again saddle the mine owners and mine leasers with this tax burden.

(2) Mine leasers are in fact independent contractors.

I think I can summarize the next two paragraphs of this paper, briefly, by saying that mine leasing in California was brought over by

the old Cornish miners from Cornwall and has been an institution in that State since the earliest days. At Grass Valley, Calif., it has been particularly in effect since the high cost of mining and the 1933 price of gold have rendered gold mining pretty much an unprofitable venture. There are mines there which had produced in past history over a hundred millions of dollars each in gold. There are 300 miles of workings, I think, in the Empire Star group. They extend for more than a mile vertically below the earth and in all directions. They cover an area 2 miles wide by 3 miles long. They comprise a tremendous cubical section of ground in which valuable gold deposits existed, but at long distances from the shafts. Now, the chance for the old-time prospector to go out and locate a vein on the surface and then prospect for it and get the ore out have pretty much disappeared, but there are a lot of these skilled miners who know how to mine those narrow, high-grade Grass Valley veins, who are only too glad to get an opportunity to form a little group and take written leases on cubical blocks of this ground. Instead of going out on the surface, they would take a cubical block of ground maybe between the 8,600 and 9,000 levels of the North Star and between certain mine coordinates, all defined. They are given the exclusive right to mine-map that block for a period of not less than 6 months. Those leases are renewed from time to time if the men want them.

The men take a gamble. They go in there and gamble their time and labor against the chance of making a killing. Some of the leasers, here, show what they can do sometimes. There is a real attraction in it. From the owner's point of view, these people working for themselves will go in there and mine very carefully, making openings no larger than necessary to get at these narrow high-grade veins, will carefully select the ore from the waste and put it into the ore chutes and tram it out to the shaft. Then the company takes over and hoists the ore up the shaft for them, keeping each leaser's ore separate, dumps it into a separate bin at the mill, and each leaser's batch of ore is run through the mill separately.

The leaser does not have to send his ore to the company mill as a matter of contract, but as a matter of convenience he does, because it is the only mill there that really could handle it, and the cost to him is about half of the normal custom milling charge. He gets it milled at less than cost, really. The company does not make any profit on his operations, except the company's share of the gross income from his lease, which is 50 percent, and which covers not only the company's profit but covers the cost of keeping the mine opened, timbered, unwatered, running the hoist and shaft, the mill, and all of that necessary overhead. It is the cost of giving him access to his work much in the same way that a logging company might maintain a logging-train service for contract loggers.

As I stated, each leaser's ore is kept separate as it goes through the mill, is continuously and accurately sampled, so that every dollar of value in it is known as it goes through. The free gold is caught on the plates, melted into bullion, and sent to the mint, with a separate mark carrying the number of the leaser's bar, to show that it is his gold. Then the company gets the mint check and gives him his share of it, and they keep their own.

The concentrates, that is, the part of the ore which does not get caught on the mill plates as free gold, having been continuously

sampled, are bought by the company, because they have to be commingled and put through flotation and then cyanidation, and cyanide precipitate bars are produced. You couldn't keep each leaser's concentrate separate in this process, but the values of each leaser's batch are kept separate through sampling as above stated.

The net result is that the leaser has received his net share of his output. And if he has mined good ore and made a rich haul, he gets everything that he can make on it.

How much does he make? Well, we don't have any record of it. All we know is the amounts that we pay the head leaser. But from information we have, we know that some of these leasers have averaged as high as $11,000 per man per year, others $8,000, probably $5,000 as the ordinary run, and at all times they make much more than miners' wages and are therefore very anxious to keep this independent status. If we had to do the thing on an employment basis, we couldn't do it, because we would have to have shift bosses and superintendents and bookkeepers and accountants and safety engineers and everybody to see that they did the work just right. Even then, the size of the holes they would shoot and the amount of the ore they would bring down and the amount of waste that would get into the ore bins would cause the mill heads to drop to a point where it just wouldn't be profitable.

Senator MILLIKIN. That is the reason you have the leasing system?

Mr. SEARLS. That is the reason we have leases. But from the leaser's point of view, the reason they have the lease is that they can make a stake in life for themselves just as well as they could if they owned an independent property, probably better. And it has meant a great deal to these men. There are 28 groups of leasers at the Empire Star mines and nine at the Idaho-Maryland in Grass Valley. Those in the Empire Star mines are divided between the North Star Mine and the Empire Star mine proper. These leasers will tell you about their position in the matter, but they are anxious to keep it where they can make this income and not be put back on an employee status.

Now, the reduction of these independent workers to employee status is impracticable. In the first place, unless the method of operation is entirely changed the company would have no means of telling what the income of individual leasers was as a basis for social-security taxation. The company simply delivers each leaser group's share of mint returns from bullion produced from gold shipped to the mint for them, or the value of concentrates assayed and purchased from them, to the head leaser of the group and division is made by each group according to its own rules. Sometimes the groups themselves hire men on a day's pay basis to get certain development work done. They impose penalties on each other for failure to join in the operation or for certain classes of absences or for violation of the safety laws. There is therefore no basis on which the company could compute and return social-security taxes on the individual leasers. For all practical purposes it would have to reduce the leasers to employee status to meet the requirements of this bill.

I have already pointed out that it would wreck the company's operations, inasmuch as all of the production at the Grass Valley mines is now being done on a lease basis, and it would mean those mines would have to shut down. They would be filled with water and caved in, and they never would be reopened again, because they are too deep and it would be too expensive. The loss to these little mining

communities like Grass Valley would be practically crushing. I don't think they could survive.

Senator MILLIKIN. In California, what other metals are associated with gold?

Mr. SEARLS. Practically none, Senator. California has some copper mines, but they are small. They, too, have been operated to some extent on a lease basis. But the California mines are practically all gold mines, with small amounts of silver.

Conversion of leases to employment arrangements would wreck many companies' operations: It is undoubtedly not news to this committee that the gold mines of the United States have not been prospering under present labor costs and gold price conditions. Labor cost is a very large percentage of the total cost of underground mine operation. This is also true in non-ferrous-metal mines. If the leasers are made employees by the definition of this act, the companies believe that the mutual advantages of the leaser relationship, for all effective purposes, will be lost to both parties. If Congress makes the leasers employees for social-security taxes, the Wage and Hour Administrator will want to call them employees. The National Labor Relations Board will want to call them employees. The companies will be faced with supervisory obligations, with labor-relations problems, and worst of all, with operating problems in mining clean ore which it does not now have under the leasing system. The managements believe that the increased expenses would so far destroy the margin of profit as to render the operations in question nonremunerative. This in turn would necessitate closing down large sections of several mines and allowing them to cave or fill with water. Several hundred leasers would be deprived of their means of livelihood and the disaster to the already slender economy of these mining communities is not hard to predict.

The consequences of our suggested amendments: I believe the committee will be interested in considering the other side of the picture. What will be the effect on the leasers' welfare if the amendments to the bill requested here are adopted? They will remain as they have been, independent operators. Familiar as most of them are with the traditions and practices of the prospectors and early miners who found, prospected, and developed in the initial stages the great gold mines and oil fields of California, these leasers will continue to use their skill, initiative, and ability to follow the veins in accumulating a modest competence for their retiring years. The groups carry their own compensation insurance with the State of California so that injuries are taken care of. It is obviously a matter of little concern to the owners whether or not the leasers are taxed as self-employed persons. That is contemplated for other groups by the bill in question. However, the leasers themselves will speak on that subject. Their earnings should enable them to make provision for their later years out of their savings.

I only wish to make it clear to the committee that the position which the mine owners are taking through the American Mining Congress in this matter conforms with the position of their lessees, and that if the amendments which we ask are made, Congress will not be deciding in favor of one side or against the other. The effect on the social-security funds in the National Treasury from the lack of contributions from

the few hundred leasers now engaged in mining in the United States would certainly be negligible. The situation is one which does not require the intervention of the Federal Government in the interest of security or protection for groups of individual citizens who are perfectly able to take care of themselves and their wants. On the other hand, the insertion and retention of the amendments which the industry requests will conform with present judicial decisions as to the independent status of the leasers, and it will greatly help in enabling the mining industry to meet, without expense to the Government, some of the major financial and economic problems with which it is confronted.

Even more important than that, I think, Senators, the adoption of these amendments, particularly the elimination of section 4, will be a pronouncement to administrative Washington that in carrying on the social-security program, which nobody disputes is a desirable program for those who need it, the Government must not wreck the independent businessman of the United States. There must be an opportunity for the small-business man to go on his own, to make his own way. And these amendments to the act to which we object, if carried to their possible extents, would result in untold difficulties in administration. There are so many who perform services for half a dozen or more people in a month that you would have everybody in the United States filing quarterly social-security forms and slowly going crazy over the obligation.

If they are taxed as self-employed, it is another story. I think in California the leasers would rather have that an optional privilege. On the other hand, in Utah and Colorado they may have other ideas. But if they are taxed as self-employed that can be done by a simple amendment to the income-tax forms, and have them report their social-security taxes on the same form as the income taxes. Each of them knows what he makes. The owners do not know. In that way the administrative difficulties could be avoided.

In behalf of the gold-mining industry and of the nonferrous-metal-mining industry of the United States, I must respectfully urge your committee to adopt the amendments which we propose which would strike out the specific classification of leasers as employees and would eliminate the generalized uncertain language from section 206 (d) (4) and 210 (K) (4) of the act under which no operator or person holding contractual relations with him could know for certain whether that person occupied an employee's status or not.

I thank your committee for your time and attention.

I would ask that Mr. Carino if possible be called as the next witness.

The CHAIRMAN. Are there any questions of Mr. Searls?

Thank you, Mr. Searls.

Mr. SEARLS. Thank you, Senator.

(The exhibit attached to Mr. Searls' prepared statement follows:)

SPECIFIC AMENDMENTS TO H. R. 6000 SUGGESTED TO THE SENATE FINANCE COMMITTEE BY REPRESENTATIVES OF THE AMERICAN MINING CONGRESS, AND REASONS THEREFOR

1. On page 151 amend section 206 (d) (3) by striking out clause (3) (F), page 151, lines 6 to 9, of the bill, reading as follows: "(F) as a lessee or licensee of space within a mine when substantially all of the product of such services is required to be sold or turned over to the lessor or licensor."

2. On page 50, lines 4 to 7, strike out clause (K) (3) (F) of the bill.

The effect of these two amendments will be to automatically eliminate block leasers in mines from the definition of the term "employee" as used in the bill.

3. Strike out the parenthetical statements in lines 17 and 18, page 50, and in lines 19 and 20, page 151, reading as follows: "(other than the services described in subparagraph (F))." This language becomes unnecessary if paragraph (F) is stricken.

4. Strike out sections 210 (K) (4) on page 51, and section 206 (d) (4) on page 152 of the bill, both sections reading as follows: "(4) any individual who is not an employee under paragraph (1), (2) or (3) of this subsection but who, in the performance of service for any person for remuneration, has, with respect to such service, the status of any employee, as determined by the combined effect of (A) control over the individual, (B) permanency of the relationship, (C) regularity and frequency of performance of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss."

The reason for this exclusion is to prevent the classification as employees under the act of persons who are not and have not been considered as employees under accepted common-law definitions so that mine leasers and similar classes of independent workers could not be classified as employees under the act merely because their leases may continue for a long period of time or they may perform the work under the leases with regularity and frequency or because the production of ore under the leases is usually an identical type of business to that in which the leaser is engaged, and because a mine-block lessee does not normally have a large investment in facilities for work, most of which are owned by the lessor and furnished to the leaser either as a part of the fixtures covered by his lease or as facilities necessary to his use in operating under the same.

5. Insert in the list of exceptions from the definition of employment on page 35 of the bill, following section 210 (a) (1), and on page 137 of the bill, following section 205 (b) (1), the following: "(2) A lessee of mining property or of a block or segment of mining property held under a written lease for a term of not less than 6 months and where no control over lessee's operation is reserved or in fact exercised by the lessor: Provided, That furnishing access, supplies, equipment, transportation, ore storage, milling and/or smelting facilities, the requirement that the premises be worked with diligence and in a minerlike manner, the compliance with safety rules and regulations, the carrying of Workmen's Compensation and Occupational Disease Insurance as permitted or authorized by law, the settlement with the lessor for taxes resulting from the lessee's operations in the leased premises, shall not be considered as reserving or exercising control over lessee's operations sufficient to constitute him an employee."

The purpose of this amendment is to specifically exclude mine leasers, along with agricultural labor, certain types of domestic servants and other services excluded from classification as employment under sections 205 and 210.

6. Renumber the subsections of sections 210 (a) and 205 (b) following subsection (1) to conform with the above insertions.

The CHAIRMAN. We shall be glad to hear from you, Mr. Carino, at this time.

STATEMENT OF AUGUST CARINO, REPRESENTING GRASS VALLEY LEASERS ORGANIZATION, GRASS VALLEY MINES, GRASS VALLEY, CALIF.

Mr. CARINO. I am August Carino, a head leaser of Grass Valley mines.

I, August Carino, have been selected by the Grass Valley Leasers Organization of the Grass Valley mines to represent them in bringing to your attention our hope that you will amend bill H. R. 6000, and I have the authorization paper here and wish to file it.

The CHAIRMAN. Yes, sir. You may do so. We would, of course, accept your word for it in any event.

You wish to file this for the record?

Mr. CARINO. Yes, sir.

The CHAIRMAN. Very well.

(The material referred to follows:)

The undersigned, constituting the head leasers of various leaser groups operating at the Empire, North Star, Pennsylvania, Idaho, and Brunswick mines at Grass Valley, Calif., and the Dannebroge mine at Browns Valley, Calif., hereby authorize August Carino, Chester C. Butler, and Albert J. Straub, who are members of the leaser groups, to constitute and represent the undersigned as a committee in presenting the opposition of each and all of the undersigned leasers to the proposal in H. R. 6000 now pending before the United States Senate which would (*a*) define and constitute the undersigned as "employees" of the mining companies from whom they respectively hold leases, and (*b*) from the provisions of said bill which would levy social-security taxes on the undersigned, either as employees or as independent self-employed persons.

Our reasons for this opposition are based on the fact that (1) we wish to maintain our independent status and opportunities for making a stake for ourselves as independent leasers of mining property, and (2) because we realize that if that status were converted by law from its independent character to an employee's classification, the additional burdens placed upon the lessor companies as employers, coupled with the lack of incentive to the leasers, would result in the entire destruction of the leasing system, with great loss to ourselves and to the communities in which we live.

Dated January 31, 1950.

(Signed by the following head leasers:) August Carino, Geo. W. Little,[1] C. A. Barton, J. H. Heather, Leslie Elliott, Ralph C. Atkinson, H. A. Sukis, G. E. Bowers, Herbert C. Launius, Guy E. Whitehead, A. Giovanola, T. M. Wade, J. M. Slouber, J. B. Manley, Norman Wasley, Thomas B. Gau, Ed Yarborough, Alfred R. Daniels.

Mr. CARINO. We have three main reasons for requesting you to consider our desire for amendment of this bill.

First, the bill changes our status from self-employed leaser to employees. This is a backward step to us, as a leaser must be a master miner—knowing his trade, with years of experience in hard rock quartz mining behind him. I am a lead leaser. In order for me to have the ability to head a partnership lease and do it successfully, I must be more than just a miner. I have worked in gold mines since my early youth. First with pick and shovel, machine, then underforeman and foreman. I graduated to a leaser, then head leaser. To now classify me as an employee is to return me from a master of my trade to an apprentice. This point is very important to all of us who lease. It is only through the lease system that those of us who are highly skilled in mining can use our experience and know-how to best serve ourselves, our families and our community.

Second, gold stands almost alone in all industry. It has a positive fixed price. The costs of mining equipment have risen sharply in the last few years, but the price we receive for gold remains at its fixed level. This has a tremendous effect upon the actual mining of gold. To illustrate: from 1930 to 1940 I was able to work ore assaying $10 per ton. On $20 per ton ore I earned a very good living. Now, due to the greater cost of mining, I must bypass this ore. I must have ore assaying $30 upward. For this reason the leasers cannot carry additional tax. The mining companies cannot work their properties profitably with employees who do not have the incentive or the initiative of independent men. So this bill would force the companies to close the mines, as neither they nor the leasers can assume a greater expense with gold at its present level and the cost of mining the gold at its present high rate.

[1] Lease held in Dannebroge mine; all others held lease in Empire.

Third, the closing of the Grass Valley mines would mortally hurt our community which is almost wholly dependent upon the earnings of the leasers. We are not transitory workers. We own our homes and support our town. We are proud of our ability to be self-employed, independent men; good citizens in a good town. In changing our status from leasers to employees and so closing the mines, this bill, H. R. 6000, takes from us the means by which we earn our living. It causes us to leave our homes and community to look elsewhere for jobs. This is unthinkable to us.

In putting this petition before you, I have endeavored to show you why we, the Grass Valley Leasers Organization, do not want to be classified as employees. The bill, instead of giving us security, takes from us the security we can earn for ourselves as self-employed leasers.

Now, I have here a specimen of ore that was found in the Butler lease in the Empire mine [showing committee specimen of high-grade gold ore].

Mr. SEARLS. That is what gives them their initiative to dig.

The CHAIRMAN. Senator Johnson?

Senator JOHNSON. I would like to know what the difference is between a leaser and a head leaser.

Mr. CARINO. Well, a head leaser is responsible, in other words, for transacting all the business between the company and the leaser. Now I have 12 men on my lease. If each one of these 12 men goes to the company for something, you would never get anywhere. But I transact the business between the company and my group of men, with whom I work as a partnership. We divide equally our money. The only thing is that we penalize each other if one loses time. If one stays home a day, well, naturally, if he doesn't work he can't produce his share of production, and therefore we penalize each other in that respect.

Senator MILLIKIN. You make your own rules as to that?

Mr. CARINO. Not exactly my own, Senator.

Senator MILLIKIN. I mean your group.

Mr. CARINO. It is between the group; yes.

The CHAIRMAN. The company has nothing to do with your rules?

Mr. CARINO. The company has nothing to do with them. When I get a lease from the company for a certain block of ground—I am leasing now merely a mile and a half down and about 3 miles from the main shaft in remote places of the mine—all the company does is give me that lease for that block of ground, setting forth specifically so many feet this way and so many feet that way to a certain point. It begins from the survey point, so we know our definite line, where we can mine and where we cannot. And the company doesn't interfere with our work in any way whatsoever. The head leaser is responsible for his lease. The company holds the head leaser responsible, because they cannot deal with everybody in the lease. If they did that they never would get any work done. By doing so, we try to work our block of ground in a miner-like manner. We have the safety engineer come down and visit our block of ground, and we have our safety meeting every month, so that we can carry on safely and to the best of our ability.

Senator MILLIKIN. You do not find much ore like that which you just showed us, do you?

Mr. CARINO. Well, once in a while. Not that big, but you see a small piece that is like that almost every day. But our veins are very small. In our Grass Valley mines the veins are on the average 4, 5, or 6 inches. Therefore we have to make a breakage, there, in the waste rock of 4 feet, in order to work. Of course, we could get by on 3 feet, but if the company were working they would take 4 or better.

We pick our ore very closely. Everyone has the initiative and the interest to work it as clean and as fast as possible. That is why the company can handle the ore that we leasers can produce at a profit.

Mr. SEARLS. There is about $300 of gold in that piece of ore.

Senator MILLIKIN. It is a beautiful specimen.

Mr. CARINO. Yes, it is, Senator.

Mr. SEARLS. Mr. Straub of the Idaho Maryland Co., will be next, Mr. Chairman.

The CHAIRMAN. All right, Mr. Straub. You may be seated, and we will be very glad to hear you.

STATEMENT OF ALBERT J. STRAUB, LEASER, IDAHO MINE, IDAHO MARYLAND MINES CORP., GRASS VALLEY, CALIF.

Mr. STRAUB. My name is Albert J. Straub.

I have been leasing a portion of the Idaho mine of the Idaho Maryland Mines Corp. at Grass Valley, Calif. I have leased portions of mines or small mines over a period of 25 years in the States of California and Nevada. There are other leasers besides myself in both the Idaho and Brunswick mines of this corporation, totaling 104 men in all, and I come to Washington as a representative of all these men.

I have a petition here signed by these men authorizing me to speak for them.

The CHAIRMAN. Yes, sir. We will put it into the record.

(The petition referred to follows:)

PETITION

The undersigned, constituting the head leasers of various leaser groups operating at the Empire, North Star, Pennsylvania, Idaho, and Brunswick Mines at Grass Valley, Calif., and the Dannebroge Mine at Browns Valley, Calif., hereby authorize August Carino, Chester C. Butler, and Albert J. Straub, who are members of the leaser group, to constitute and represent the undersigned as a committee in presenting the opposition of each and all of the undersigned leasers to the proposal in H. R. 6000 now pending before the United States Senate which would, (a) define and constitute the undersigned as "employees" of the mining companies from whom they respectively hold leases, and (b) from the provisions of said bill which would levy social-security taxes on the undersigned, either as employees or as independent self-employed persons.

Our reasons for this opposition are based on the fact that—

(1) We wish to maintain our independent status and opportunities for making a stake for ourselves as independent leasers of mining property; and

(2) Because we realize that if that status were converted by law from its independent character to an employee's classification, the additional burdens placed upon the lessor companies as employers, coupled with the lack of incentive to the leasers, would result in the entire destruction of the leasing system, with great loss to ourselves and to the communities in which we live.

Dated January 11, 1950.

(Signed by the following, all of whom hold leases with Idaho Maryland Mines Corp.:) Samuel Veale, Alfred W. Williams, Arnold L. Silicani, Leon D. Bird, Edwin E. Lampiae, Thos. L. Carter, F. W. Cartwright, Albert J. Staub.

Mr. STRAUB. I come to protest the definition of "mine leasers" or "block leasers" as employees as described in H. R. 6000. Our reason for objecting is that we are not mine employees at all, but independent groups of men in partnership mining blocks of ground under lease. Under the present system we do not work for the company. We form a group or partnership and the company does not know any of the men in the group outside the man who holds the lease. We go to work and we quit anytime it suits our plan of operation.

The block-leasing system as now in force has a definite advantage for us in that we can make better than a day's pay usually and there is always the possibility of striking unusually rich ore. The men on my lease have received as the smallest check $365 per month and the largest was $1,065 per month. Our average monthly pay as employees would be about $300 per month. We prefer the block-leasing system now in force, therefore, for two reasons: First, we are our own bosses, and, secondly, because we can earn more per month on the average year in and year out.

This block-leasing system is one which requires special skill. We are old miners and are able to carry on this type of work successfully. It offers us a means of livelihood as we grow older and we do not wish to see this system abandoned.

I think that the company could not operate this system where we are both leasers and employees at the same time, so I foresee the abandonment of the leasing system if we are by law classified as employees.

We wish therefore that you would amend H. R. 6000 and specifically exclude "block leasers" from classification as employees.

I wish to thank you for listening to our request.

The CHAIRMAN. We are very glad to have you, sir.

Let me ask you one question. Are your leases limited as to time? When you take a lease from your company, is it limited to months or years?

Mr. STRAUB. It is limited to 6 months, with a provision for renewal provided the company is satisfied with our operations; that is, that we have not wasted ground. If we would "bury ore," in other words, pass ore by that the company never could recover again, they might not renew our lease. But if we mine on a fair and equitable basis, we have renewal every 6 months.

The CHAIRMAN. It is optional with you whether you do renew your lease?

Mr. STRAUB. That is right.

The CHAIRMAN. You are not obliged to renew your lease?

Mr. STRAUB. No.

The CHAIRMAN. Are there any questions by any of the Senators? Thank you very much, Mr. Straub.

Mr. STRAUB. Thank you, sir.

Mr. SEARLS. Would the committee permit Mr. Butler to read a paper of the same length as this, from the North Star Mine?

The CHAIRMAN. Yes, sir.

Mr. SEARLS. He is the lucky gentleman who found this piece of "high grade" that you just saw.

The CHAIRMAN. Mr. Butler, you may be seated.

STATEMENT OF CHESTER C. BUTLER, LEASER, EMPIRE STAR MINE, GRASS VALLEY, CALIF.

Mr. BUTLER. My name is Chester C. Butler. Since 1932 I have earned my living by mining and leasing in the Grass Valley, Calif., mining district and nearby districts. Before the war I worked for the Empire Star Mining Co., starting out as a mucker and working my way up to shift boss and later to mine foreman. Even with shift boss' and foreman's wages I was unable to get ahead appreciably. I have been voted by our local leasing organization to make this statement on their behalf. I wish to file this authorization with the committee.

The CHAIRMAN. Yes, sir. You may file it, and it will go into the record.

(The material referred to follows:)

The undersigned, constituting the head leasers of various leaser groups operating at the Empire, North Star, Pennsylvania, Idaho, and Brunswick mines at Grass Valley, Calif., and the Dannebroge mine at Browns Valley, Calif., hereby authorize August Carino, Chester C. Butler, and Albert J. Straub, who are members of the leaser group, to constitute and represent the undersigned as a committee in presenting the opposition of each and all of the undersigned leasers to the proposal in H. R. 6000 now pending before the United States Senate which would (*a*) define and constitute the undersigned as "employees" of the mining companies from whom they respectively hold leases, and (*b*) from the provisions of said bill which would levy social-security taxes on the undersigned, either as employees or as independent self-employed persons.

Our reasons for this opposition are based on the fact that—

(1) We wish to maintain our independent status and opportunities for making a stake for ourselves as independent leasers of mining property; and

(2) Because we realize that if that status were converted by law from its independent character to an employee's classification, the additional burdens placed upon the lessor companies as employers, coupled with the lack of incentive to the leasers, would result in the entire destruction of the leasing system, with great loss to ourselves and to the communities in which we live.

Dated January 13, 1950.

(Signed by the following head leasers:) A. D. McConnell, W. H. Stein, L. S. Yates, C. W. Forsythe, D. B. Perkins, C. H. Peterson, A. W. Austin, M. Moneta, R. J. Stump, G. H. Cantrell, R. C. Dutton, Charles C. Butler.[1]

AMENDMENT TO H. R. 6000 SUGGESTED TO THE SENATE FINANCE COMMITTEE BY REPRESENTATIVES OF GRASS VALLEY GOLD MINE LEASERS

I. The leasers concur in the amendments proposed by the representatives of the American Mining Congress excluding them from the classification as "employees" and their income from these leases being classified as "wages." In addition the leasers request that their income be excluded from the term "self-employment income" as used in the act by adding to section 1641, subdivision (b), page 178, line 5, a new subsection to be numbered (3), reading as follows:

"(3) The amount or value of or returns from ore, metal, bullion, amalgam, or concentrates received or derived by a mine leaser or a group or partnership of mine leasers from their mining operations."

Mr. BUTLER. After the war I returned to leasing in the Grass Valley district at the Empire Star mine, hoping to earn better than day's wages. I leased a block of ground in the Rowe shaft area from the 900 level to the surface, a block which had been closed down in 1917 because the company could not make it pay.

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[1] Mr. Butler holds lease with Rowe Shaft; all others hold leases with North Star.

There are 14 men on my lease, sharing equally in the profits from production. With the incentive that we might make a stake, we have through hard work, careful planning, and selective mining made the lease pay far better than wages. In the last 2 years each man on the lease has received approximately $15,000, or an average of $7,500 per year, which is far more than could have been earned working for wages.

These men have spent their earnings for homes, cars, and other necessities of life, thus contributing to the economy of the community in general. Their production has also profited the company and helped the company to fulfill their obligations to the leasers in supplying equipment and materials.

This much-favored system of mining will cease if your H. R. 6000 bill is made a law. Mine executives have informed us they will have no other alternative than to close the mines if this bill passes. Under present conditions of high cost of materials, high wages, and the set price of gold it is impossible—except for the very high grade gold mines, which are very few—to operate in any other way than the present leasing system. Therefore, if the bill passes we will be out of work.

Consequently we oppose those portions of this bill that would make us employees. We wish to be left alone as free and independent leasers under the present leasing system with the chance to make a stake for ourselves, and the opportunity to make our own future security in a good American way without having to fall back on the Government for social security. The leasers in this district are well satisfied and are getting ahead under the present leasing system. The interests of the leasers and the company are profiting by this system because the leasers are able to make a stake for themselves and the company in getting ground mined that could not profitably be mined by day's pay miners.

For the above reasons I urge you to amend bill H. R. 6000 so as to exclude block leasers from the bill.

Thank you.

Senator MILLIKIN. Mr. Chairman, may I ask the witness: What are the principal towns in the Grass Valley, Calif., mining district?

Mr. BUTLER. Well, there is Nevada City, Downieville, Sierra City, Auburn, Newcastle, Browns Valley, Alleghany, Smartsville.

Senator MILLIKIN. Those towns are held together by your mining activities?

Mr. BUTLER. That is practically what keeps those towns in existence.

Senator MILLIKIN. They would fold up if you could not continue your leasing system?

Mr. BUTLER. They would undoubtedly.

Senator MILLIKIN. And the miners have their homes there and are raising their children in schools there?

Mr. BUTLER. That is right.

Senator MILLIKIN. You belong to lodges there and enter fully into the life of the communities?

Mr. BUTLER. That is correct.

Senator MILLIKIN. Would you know what the average age of the miners is who work under these systems in your part of the country?

Mr. BUTLER. The average age?

Senator MILLIKIN. Yes; just take a rough shot at it.

Mr. BUTLER. Oh, I would say between 45 and 55. And there are some a lot older.

Senator MILLIKIN. The elderly man under this system has a chance of keeping going longer than if he worked as a straight employee for a mining company; is that not correct?

Mr. BUTLER. That is true. Because some of the old men become crippled up, and their health is broken down to a certain extent, where they can't work under company regulations; and when they are under the leasing system, they can more or less work at their own leisure, and there is nobody to bother them.

Senator MILLIKIN. They may not be able to do as much physical work, but they can bring to bear the skill which they have acquired during a long life of experience?

Mr. BUTLER. That is right; they have the experience, and if they have some younger men under them they can go around and more or less supervise the younger fellows and teach them their knowledge.

The CHAIRMAN. May I ask: Do you own your own equipment, or do you get it from the company?

Mr. BUTLER. There is some equipment that the leasers do own themselves, and if they have not got it themselves, the company does furnish it.

The CHAIRMAN. On a rental basis? Or how?

Mr. BUTLER. Well, it is furnished. The company furnishes the materials as part of their leasing contract if the leaser doesn't have them available himself. However, there are instances where the leasers do furnish part of their own equipment. But in most cases those fellows are not financially able to get started on their own, and the company loans them this equipment to work with. However, as they go along and they make a little money and they need another tugger or another machine or something, that is not available from the company, they can buy it themselves; which they do, in some instances.

The CHAIRMAN. Does the miner have very much investment in his equipment—the leaser? Where he furnishes his own equipment, where he procures it?

Mr. BUTLER. Himself?

The CHAIRMAN. Yes, sir.

Mr. BUTLER. In some instances not an extreme lot of money. The machinery at the present time, with the cost of materials, runs into a pretty considerable sum of money, too, for an individual.

Senator JOHNSON. How much money?

Mr. BUTLER. Well, he used to be able to buy a machine for about $250, and at the present cost of machines a new machine will cost anywhere from $550 to $1,000.

Senator MILLIKIN. A machine? What kind of a machine?

Mr. BUTLER. A drilling machine.

Senator MILLIKIN. The leasers would not be able, even if someone had the power to change the system, to furnish the air, to keep the whole mine timbered, to run the trackage and the cartage necessary to conduct these operations, would they?

Mr. BUTLER. No; not as large as the mines are in Grass Valley. The company almost has to keep those mines open, because it would be too much for any one individual.

Senator MILLIKIN. From the standpoint of the self-interest of the company, they have to keep their mine free from water?

Mr. BUTLER. That is right.

Senator MILLIKIN. And I assume that you have air operations to keep your workings in good condition?

Mr. BUTLER. That is right.

Senator MILLIKIN. That is a very elaborate procedure involving a lot of machinery?

Mr. BUTLER. That is correct.

Senator MILLIKIN. Carrying pipes and so forth and so on. That would be beyond the reasources of an individual miner; would it not?

Mr. BUTLER. Yes: it would, unless he had a lot of capital.

Senator MILLIKIN. And there is no reason why the individual miner should undertake the responsibility for keeping the whole mine timbered so that he can work on a small part of the mine?

Mr. BUTLER. That is right; he couldn't do it.

Senator MILLIKIN. No; he could not do it if he wanted to. So that this practice that you have is fitted to the necessities of the business; is that not correct?

Mr. BUTLER. That is correct.

The CHAIRMAN. Any further questions?

Thank you very much, sir, for your appearance.

Mr. BUTLER. Thank you.

Mr. SEARLS. Mr. Chairman, before turning the presentation over to the Colorado delegation, Mr. Hopkins R. Fitzpatrick, the general manager of the Empire Star Mines Co., has a paper which would take about 3 minutes to read. However, if the committee does not care to hear it, we would like to have the privilege of filing it.

The CHAIRMAN. I think we will be able to hear Mr. Fitzpatrick.

Come around, Mr. Fitzpatrick. Identify yourself, if you will, for the record.

STATEMENT OF HOPKINS R. FITZPATRICK, GENERAL MANAGER, EMPIRE STAR MINES CO., LTD., GRASS VALLEY, CALIF.

Mr. FITZPATRICK. My name is Hopkins R. Fitzpatrick. I am a mining engineer employed as general manager of Empire Star Mines Co., Ltd., a company owing and operating several gold mines at Grass Valley, Calif., where I live. The purpose of this statement is to protest inclusion of mine block leasers as employees under the proposed extension of social security insurance.

The Empire Star Mines Co., Ltd., has leased 34 underground blocks of ground in its mines to 28 leasers, each of whom develops and mines his block or blocks of ground as he pleases with his own crew. The leased blocks of ground lie at various depths, some lying more than a mile below the surface. Most of the leaser blocks lie a mile or two from the nearest hoisting shaft. Only a small percentage of the lease ground could be profitably mined by company employees due to the small size of the veins, remoteness from operating shafts, and prohibitive cost of supervision.

During the nearly 100 years of continuous operations of the Grass Valley mines, development has often opened veins too low grade or too small to be profitably mined by the operating companies. Also, there have been other economic periods, as at present, when the fixed

price for gold would not offset high operating costs. Always in the past, the operating companies have resorted to block leasing those areas that it could not profitably mine with its employees. By that I mean about a hundred years in California, and I think the same length of time in Oklahoma, 60 to 75 years in Colorado and Arizona, 50 years in Utah, 35 years in Idaho.

Past experience has amply demonstrated that skilled miners working for their own account can profitably mine ore that companies can only mine at a loss. Experience has also demonstrated that the most workable method of block leasing is to grant the leaser the widest possible latitude in his leasing operations. This means that the leaser must have the right to assemble his own crew, decide the scale of operations warranted in their particular lease block, decide what ore can be profitably mined, decide what prospecting risks can be taken in the search for new ore, and how the profits of their operation should be divided among his men according to their individual contracts.

The system of block leasing as presently practiced in the Grass Valley district gives to the block leaser the same opportunity to make a stake mining ore from underground that the old-time prospector had on the surface. The block leaser is a skilled miner who combines his skill with initiative, resourcefulness, and a nose for ore so that as a general rule he makes substantially more than miners working for pay, and has the further possibility of striking it rich by encountering bonanza ore. Mine block leasers are, in fact, independent contractors and are not employees of any company. The block-leasing system in the gold mines of Grass Valley has its origin in practices derived from the Cornish tin mines of England, and are essentially the same as the system practiced in the metal mines of the Western States. That means all the Western States where any leasing is done.

As in the past, the present leasing system is tiding the gold mining industry over hard times, thus allowing the mines to be kept open so that they may again give thousands of men jobs should a changing economic cycle again make company operation of gold mines profitable.

There is no difference of opinion between the mining companies and the block leasers regarding the desire not to have block leasers classified as employees.

Senator MILLIKIN. Mr. Chairman, may I ask the witness a question?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. Many people who have never lived in the mining country think that you can turn a mine on or off like you would an electric switch for the lights in this room. Would you make a few observations on the hazards of losing a mine by caving of timbering, by the mine going to water; to the point, if you agree with my observation, that the problem is entirely different, and that if you want to save a mine you have to keep it open and keep it operating.

Mr. FITZPATRICK. That is true, Senator. If I follow your reasoning, what you have in mind is that if you shut down a factory, all you have to do is to put a watchman there and 10 years later a little bit of maintenance work would have your property intact.

Senator MILLIKIN. That is right.

Mr. FITZPATRICK. Whereas, with a mine, even a short shut-down, as short as 6 months or a year, would have serious consequences. The timber is rotting all the time, due to fungus and oxidation. Water percolating in through various seams in the ground causes oxidation of the rock, softening it and allowing it to cave. In the meantime, the water that seeps into a mine completely fills it.

The damage to underground machinery, trackage, pipes, access chutes, anything of metal, is almost totally ruinous, so that even a short shut-down in a mine relegates a mine to a worked out hole. It takes an enormous amount of capital to ever rehabilitate a mine once it has been shut down.

Senator MILLIKIN. And if you allow mines to be shut down, you cause a dispersal of the men who are skilled in the operation of the mine.

Mr. FITZPATRICK. Quite true.

Senator MILLIKIN. And even if you decided to open, you might not be able to assemble the necessary skills to do the job. Is that not correct?

Mr. FITZPATRICK. That is quite true, Senator, particularly so in different kinds of mining. Various factories are able to set up certain standards of production and various forms and methods of producing various parts by small changes in technique and procedure. Mines are not so easily adaptable. You have to adapt a mining method to the conditions in which ore is found in any particular locality, with the result that no two mines even remotely approach each other. There are hundreds of different mining methods that have been worked out to make possible mining in very difficult natural deposits. In nature you have to take advantage of conditions as you find them, if you want to make a profit. For that reason skilled miners who are familiar with a certain district are able to work more profitably in the particular conditions from which they derive their skill.

Senator MILLIKIN. Thank you very much.

Mr. FITZPATRICK. The mining companies do not want block leasers classed as employees as it would raise the tax load on an already hard-pressed industry and would almost certainly open up other costly employer liabilities. The leasers do not want to be classified as employees as they cherish their independence and their right to be self-employed.

I most respectfully urge your committee to consider amending H. R. 6000 so that mine block leasers may retain their present independent contractor status and not be reclassified as employees.

I thank your committee for your time and consideration.

The CHAIRMAN. Thank you very much, Mr. Fitzpatrick.

Mr. SEARLS. I think Mr. Shoup and Mr. Burgess will take over for Colorado, now.

The CHAIRMAN. Will you gentlemen come forward and be seated?

STATEMENT OF MERRILL E. SHOUP, PRESIDENT, GOLDEN CYCLE CORP., COLORADO SPRINGS, COLO.

Mr. SHOUP. Thank you.

My name is Merrill E. Shoup. I am president of the Golden Cycle Corp. and its numerous interrelated and affiliated companies. I reside in Colorado Springs, El Paso County, Colo. The principal busi-

ness offices of the Golden Cycle Corp. and its affiliates are maintained in the city of Colorado Springs, and their principal business is the mining and reduction of gold ore in the Cripple Creek mining district, Teller County, Colo. I have been associated with these companies for more than 17 years—first as their attorney, and now as their principal officer. I have been closely associated with the gold-mining industry as a whole during that entire period of time, and am a member of the board of directors of the American Mining Congress.

I am appearing in behalf of the American Mining Congress, and particularly for the gold-mining industry of the Cripple Creek mining district, Teller County, Colo. It is my intention to state some of the business reasons for our objections to including "split-check" lessees as employees under the Social Security Act, as proposed in H. R. 6000.

In the first place, the "split-check" lessee, as we know him, is a very high-class miner, who has the ambition and desire to make a stake for himself, rather than to work for wages as an employee. In many instances, the "split-check" lessee first works in the mine as an employed wage earner. He saves his wages carefully, and, at the same time, is constantly checking the mine for a possible block of ground which appears to him to have the appearance of a possible strike from which he can make a large sum of money for himself. When he has sufficient wages saved and has selected his block of ground, he takes a "split-check" lease and proceeds to operate as a self-employed person. He considers himself to be independent and to be working for his own benefit.

The "split-check" lessee ordinarily makes much more than a wage earner, and, in many instances, has a very large annual income. Because of this fact, it is my belief that there is no economic reason for including "split-check" lessees as employees under the Social Security Act. This is particularly true because of the fact that if the "split-check" lessee does not make better than wages on his lease, or if he fails to make any profit at all, he then goes back into the mine as a wage earner, and, at that time, becomes subject to the Social Security Act.

I have had prepared certain statistical information which is illustrative, and may be of interest to the committee.

The gold mine closing order known as L–208, promulgated in the fall of 1942, either closed the gold mines or seriously impaired their activities. There has been no normal mining activity in the Cripple Creek mining district since that time. In February 1949, the Midland Terminal Railroad, which handled ore from the Cripple Creek district to the reduction mill in Colorado Springs, was abandoned and dismantled. The reduction mill in Colorado Springs was dismantled, and a new mill is now in the process of construction near Cripple Creek in the center of the mining industry. In the meantime, there is no mining in the Cripple Creek district.

The statistics which I have to present must, therefore, date back to the year 1941 and prior years.

The largest "split-check" operator in the district is the Cresson mine, which, in its lifetime, has so far produced more than $40,000,000 in gold bullion. Because of the size and record of its "split-check" leasing operations, I have taken my statistics from the records of that mine. I am also the president of the Cresson Consolidated Gold Min-

ing & Milling Co., which is the owner and operator of the Cresson mine.

I have started the statistics with the year 1935, and give the information for each year thereafter through the year 1941. The first exhibit is a comparative statement, showing the company ore produced and lessee ore produced for each of the years mentioned, with a comparison of total tons, gross value, freight and treatment charges, net value on company ore produced, the company royalty on leases, the lessee royalty, or earnings, on lease, and the average value of the ore per gross ton.

On this exhibit, I particularly invite your attention to the fact that the net amount received by "split-check" lessees is almost as much as the company received from its own operations.

I also call your attention to the fact that the lessees, for the 7-year period, received more for their share of the ore produced by them than the company received from its own operations.

I am not going to read all of the statistics, which are attached, but I would like to call your attention to the fact that for the period 1935 to 1941 on the Cresson Mine the company produced 417,520 tons of ore, the lessees 466,064 tons. The total value of the company ore was $3,179,826.11 and for the lessees it was $5,413,107.07. On net return the company got $1,677,755.72, while the lessees got $1,755,266.77. They got more returns than the company did during that period of time.

During this same period of time, there were from 40 to 61 underground company employees and from 35 to 41 "split-check" lessees operating on the Cresson property.

As my next exhibit, I have had prepared a statement, for the same years, showing the earnings of some of the principal "split-check" lessees. Bear in mind that these are individual operators who hire some employees of their own, but who, as "split-check" lessees, would be defined as employees under H. R. 6000.

You will note that none of these lessees received less than approximately $1,000 per month from their "split-check" lease, and Hansen & Co., in 1941, received $65,997.48. I submit that you would hardly call those men employees, nor would it be probable that economic circumstances would ever require these men to call for social security benefits.

I am not going to take the Senator's time by reading the list, but we have set out, for example, this Hansen company, which consists of two or three men. What we paid them in 1937 was $15,453.35; in '38, $24,707.66; in '39, $33,576.83; and in '41, $65,997.48.

In that connection, if I may just take a minute, we had a discharged GI who got a lease on the Portland Mine in Cripple Creek just after he was out of the service, and in 2 months he made $35,000 net for himself, and he had continued leasing, and presently we would like to have brought him back. He is sojourning in Rio de Janeiro until we open the mines so that he can come back to work. Now, I submit that that is hardly an ordinary employee.

I have also had prepared, by the Golden Cycle Mill Department, exact copies of actual settlement sheets on shipments of ore from "split-check" leases. You will note from these settlement sheets that one shipment of ore ran as high as $6,000 as the share of the lessee, and none of these individual shipments show a payment of less than $1,200 as the share of the lessee for one shipment.

It is true that not all "split-check" lessees are fortunate enough to obtain these results. On the other hand, these statistics are not taken from isolated cases and could be duplicated from the records of the company from many "split-check" lessees.

For your information, I have also brought with me copies of the printed forms of "split-check" leases and copies of the printed forms of royalty leases as used by our companies. A comparison of these forms may be useful in establishing the same independent nature of the operations as between a "split-check" lessee and a royalty mining operator.

We subscribe to the amendments to H. R. 6000 as heretofore proposed by the American Mining Congress, and I respectfully urge your committee to adopt those amendments.

I wish to thank your committee for your time and attention.

The CHAIRMAN. Thank you very much for your appearance.

Are there any questions?

Senator MILLIKIN. Mr. Chairman, Mr. Shoup is one of our leading Colorado citizens and is a son of one of our great Governors out there, a highly respected man in our State. His wisdom in this business has been demonstrated.

There is only one thing, Merrill. It looks to me from these figures that you have given that your company is the "employee."

Mr. SHOUP. I think we are, Senator.

I might add one thing. We are presently engaged in moving the mill to Cripple Creek. We are taking quite a gamble. Cripple Creek is wholly and entirely dependent upon the gold-mining industry. That is certainly one section of the United States that is completely dependent upon gold mining. Its elevation is from nine to eleven thousand feet. Nothing grows there, there is nothing but gold which can be produced, and we have at stake the retention and maintaining of a community which will support four or five thousand people. Our companies are all in the red. We have not made any money for 8 or 9 years. But we feel if we can contribute and keep a community self-supporting and keep it in existence we are doing our part in the over-all national picture. With us, I think, it is primarily sentiment and the desire to see that a lot of people have good jobs that are in this. It would be far simpler to quit. It would have been simpler in 1942 just to have thrown in the sponge. But Cripple Creek is an old community, established in 1893, and it will afford livelihood and work for a large number of self-respecting people.

Senator JOHNSON. I want to welcome Merrill Shoup here, too. He is an old friend of mine also, as was his father before him.

We are glad to have your support. We know we can depend on what you say, and we know that your conclusions are in the best interests of everyone concerned.

Mr. SHOUP. Thank you, Senator.

The CHAIRMAN. Thank you very much for your appearance.

Mr. SHOUP. Thank you, Mr. Chairman.

(The table attached to Mr. Shoup's prepared statement follows:)

Cresson Consolidated Gold Mining & Milling Co.—Company and lessees' ore production for years 1935 to 1941, inclusive

	Net tons	Gross value	Freight and treatment	Net value	Company ore	Royalty		Paid lessees	Average value per net ton
						Split-check lessees	Royalty lessees		
1935—Company ore	73,000	$537,959 27	$261,536 04	$276,423 23	$276,423 23				$7 37
Lessees' ore	58,389	652,479 33	258,026 41	394,452 92		$189,879 15	$6,203 90	$198,369 87	11 17
1936—Company ore	61,563	465,411 88	219,901 86	245,510 02	245,510 02				7 56
Lessees' ore	58,215	663,831 65	251,851 91	411,979 74		179,951 33	13,004 85	219,023 56	11 40
1937—Company ore	54,374	493,044 38	215,734 79	277,309 59	277,309 59				9 06
Lessees' ore	62,675	728,732 52	284,891 42	443,841 10		194,841 12	11,216 35	237,783 63	11 62
1938—Company ore	63,533	466,821 89	220,775 30	246,046 59	246,046 59				7 35
Lessees' ore	68,890	808,869 87	315,082 25	493,787 62		233,782 90	5,704 39	254,240 33	11 74
1939—Company ore	60,048	451,225 53	215,651 37	235,574 16	235,574 16				7 51
Lessees' ore	68,356	808,200 95	306,918 77	501,282 18		224,104 60	10,467 43	266,710 15	11 82
1940—Company ore	51,779	401,542 03	186,829 12	214,712 91	214,712 91				7 75
Lessees' ore	62,596	777,334 22	286,298 69	491,035 53		226,657 29	7,860 79	256,517 45	12 42
1941—Company ore	53,223	363,821 13	181,641 91	182,179 22	182,179 22				6 84
Lessees' ore	76,943	973,658 53	333,745 19	639,913 34		311,463 62	5,827 94	322,621 78	12 65
Totals:									
Company ore	417,520	3,179,826 11	1,502,070 39	1,677,755 72	1,677,755 72				7 62
Lessees' ore	456,064	5,413,107 07	2,036,814 64	3,376,292 43		1,560,680 01	60,345 65	1,755,266 77	11 87
Average per year for period 1935–41:									
Company ore	59,646	454,260 87	214,581 48	239,679 39	239,679 39				7 62
Lessees' ore	65,152	773,301 01	290,973 51	482,327 50		222,954 29	8,620 81	250,752 40	11 87

Cresson Consolidated Gold Mining & Milling Co.—Principal lessees and royalty paid for years 1935 to 1941, inclusive

Year	Lessee	Royalty	Year	Lessee	Royalty
1935	Walker & Co	$15,899.78	1938	Hansen & Co	$24,707.66
	Delaney & Co	14,334.23		Jackson & Co	22,139.90
	Rose & Co	13,221.89		Young & Co	18,630.54
	Ruppel & Co	11,746.81		McLeod & Co	18,800.41
	Wassaw & Co	11,899.80	1939	Hansen & Co	33,576.83
1936	Porter & Co	18,094.29		Porter & Co	24,321.77
	Rose & Co	15,473.52		Thrasher & Co	17,266.76
	O'Dell & Co	14,059.90		Jackson & Co	16,226.03
	Buschey & Co	13,642.38		Carter & Co	15,908.09
	Beagles & Co	11,650.97	1940	Bachten & Co	32,888.13
1937	Porter & Co	43,895.56		Wicks & Co	23,361.90
	McLeod & Co	16,099.72		Porter & Co	16,094.77
	Hansen & Co	15,453.35		Beagles & Co	14,472.37
	Johnson & Co	12,586.21	1941	Hansen & Co	65,997.48
	Rose & Co	14,503.07		Dahl & Co	25,318.74
1938	Porter & Co	34,836.46		Bachten & Co	26,808.26

The CHAIRMAN. Mr. Burgess?

STATEMENT OF THOMAS M. BURGESS, ATTORNEY AT LAW, COLORADO SPRINGS, COLO., APPEARING IN BEHALF OF THE AMERICAN MINING CONGRESS AND GOLDEN CYCLE CORP. AND AFFILIATED COMPANIES, CRIPPLE CREEK MINING DISTRICT, TELLER COUNTY, COLO.

Mr. BURGESS. My name is Thomas M. Burgess. I am an attorney at law, practicing in Colorado Springs, El Paso County, Colo. I have been representing the Golden Cycle Corp. and its related companies for the past 12 years.

I am appearing in behalf of the American Mining Congress, and particularly the Golden Cycle Corp. and its affiliated companies, all engaged in the gold-mining industry in the Cripple Creek mining district, Teller County, Colo., which is approximately 50 miles west of the city of Colorado Springs.

I understand that there have been previous statements made which apprise the committee of the reasons for the general, as well as some of the specific, objections of the mining industry to certain sections of H. R. 6000.

I do not wish to repeat the information which the committee already has before it, but I do endorse the statement as made by Mr. Robert M. Searls, of California, and wish to state briefly the position of the mining industry in the Cripple Creek mining district of Colorado in regard to some sections of H. R. 6000.

It is our position that a lessee of a block of ground in a mine should not be defined as an employee under the Social Security Act. By the terms of the proposed bill, mine block lessees would be defined as employees under section 210 (k) (3)–(F), page 50, and section 206 (d) (3) (F), page 151.

In these subsections an employee is defined—

(F) as a lessee or licensee of space within a mine when substantially all of the product of such services is required to be sold or turned over to the lessor or licensor.

If this particular subsection was removed, mine block lessees would, in all probability, still be included in the general catch-all clauses,

and in definite standards contained in sections 210 (k) (4) on page and section 206 (4) (2) on page 152 of the bill.

I believe that our opposition to these sections of the bill requir an understanding of the block-leasing system or "split check lease as we identify them in the Cripple Creek mining district.

The "split check" leasing system has been in use in the Cripp Creek district for approximately 50 years. It has consistently i creased in popularity and demand.

It is simple in operation. The various mining companies gra leases on blocks of ground in an operating mine, with each blo being leased to one or more miners. A block is ordinarily about 2 feet square and extending upward from one level to the next. The may be any number of split-check leases in the same mine, and t company also has its own independent operations.

I might say here that in the Cripple Creek mining district we do n have the "head leaser" situation such as was described as to the Cal fornia area. The leasing in the Cripple Creek district is from t company direct to the split-check lessee and there is no intervenin head leaser on any part of the mine.

Senator KERR. Your split-check lessee, as you call him, is permitte to take partners or associates, is he not?

Mr. BURGESS. Yes. He may have partners in with him that t mine knows nothing about.

Senator KERR. Is that not about the same as the head leaser system

Mr. BURGESS. My understanding of the description of the Californ system was that a head leaser would take a very large block of min ground and then sublease that out to other miners under him. Ou system is that we lease to a split-check lessee a certain block of groun which is relatively small from one level of the mine to the othe He does not grant any additional subleases under him. He may tak in a partner to work with him. And in some instances, even, the spli check lessee, we know, actually becomes grub-staked by the grocer man or by the hardware store as to his small supplies, and they take a interest in that lease with him, which is almost wholly unknown t the company itself.

There are also at times leases taken by men who don't even go nea the operations themselves. They hire the workmen to go in for the and do all the work, and they simply carry their responsibility of th pay roll and collect the proceeds.

Under this system, the lessee furnishes his labor and any workme who may be employed by him, together with his machines, hose, an small tools.

The company, or lessor, furnishes the supplies, such as powde fuze, caps, drill steel, timber, and operates the hoist. The storage bin are maintained by the lessor on the surface so that the ore of eac lessee is kept separate and shipped separately.

The ore is ordinarily held in storage bins until a sufficient quantit has been obtained for shipment. It is then sent to a gold-reductio mill in the name of the lessor and is handled by the mill under a instruction agreement signed by the lessor and the lessee.

In substance, the mill is instructed to first deduct the transportatio and treatment charges from the gross value of the ore. The instruc tions then provide that the remaining value, or the net value, of th

ore shall be divided 49 percent to the lessee, 50 percent to the lessor, and 1 percent additional to the lesser to apply on State production taxes. The mill checks are issued direct to the lessor and to the lessee for their respective shares of the net proceeds.

This, in brief, is the system of operation under a split-check lease.

We object to the inclusion of split-check lessees as employees under the Social Security Act for the following reasons:

First, on the Cripple Creek district operations, the Commissioner, at least 10 years ago, ruled that split-check lessees were independent contractors, and not subject to the Social Security Act as it now exists. Unless it is now the intent and purpose to include every self-employed person under the act as an employee then there is no excuse for singling out block or split-check mining lessees for special class treatment and inclusion.

It is my understanding that self-employed farmers, agricultural labor, and crop-share farmers are not intended to be covered under H. R. 6000. The split-check leasing system for mines is copied after the share-crop leasing system on farms. If the share cropper is to be an independent contractor, then the split-check mining lessee should be an independent contractor.

Second, there is no reason for drawing a distinction between a royalty mining lessee and a split-check lessee.

On a royalty lease, the lessor negotiates a lease on an entire mining claim, with its shafts, hoist and other equipment. The lessor has nothing to do with the operation. The lessee must provide all of his supplies, workmen, hoisting costs, and all other expenses that go with the operation of the mine. The ore is shipped in the name of the lessee. The settlement instructions filed by the parties with the mill provide for the split of the net proceeds according to the leasing agreement between the parties. The lessee, of course, gets a larger percentage and the lessor a smaller percentage than under a split-check lease. In the final analysis, however, there is a definite split of the net between the lessor and the lessee.

At the outset, of course, a royalty lessee must have financial backing to open and operate the mine. He may finish with less than a split-check lessee because he has risked more in capital.

Under the terms of this proposed act, the royalty lessee, who operates the mine on his own account and ships the ore in his own name, would not be required to pay social-security taxes, for he still would be recognized as an independent contractor. On the other hand, this split-check lessee, who risks nothing but his time and labor and stands to make more in profit from his operation than does the royalty lessee, would be subject to the Social Security Act and required to pay taxes. I submit that there is no equity in such a provision.

Third, it would be impossible to determine and compute the amount of tax which should be paid for the split-check lessee and for the lessor.

The 49 percent of the net value of the ore as received by the lessee is not the net earnings of the lessee. He must pay for his machines, his additional workmen, if any, workmen's compensation insurance on his employees and other incidental items of expense, the amount and nature of which the lessor has no knowledge and the lessee keeps

inaccurate records. Certainly the amount upon which the social-security tax should be paid would be the net amount to the lessee after he pays all of his incidental expenses, and that sum is wholly impossible for the lessor to determine. I take it, however, that it would be the duty of the lessor, as the employer, to accurately determine the amount of those net earnings and pay the tax accordingly. This the lessor could not do.

The inclusion of split-check lessees, is, therefore, wholly impractical in operation. Such inclusion would, I believe, spell the end of a long-used and highly advantageous leasing system.

We heartily endorse the amendments presented on behalf of the American Mining Congress, and respectfully urge your committee to adopt those amendments.

I thank you for your attention, gentlemen.

The CHAIRMAN. We thank you, sir, for your appearance. We were glad to have you.

Are there any questions?

Senator MILLIKIN. I might say, Mr. Chairman, that Mr. Burgess is one of our great lawyers out in that country. He was president of our State bar association. He is a specialist in mining law, and he is an inheritor of great traditions in Colorado, which he maintains steadfastly and ably. The old-timers in the law made a lot of money when they had a lot of mining litigation out there, and when they were not engaged in the foolishness of politics they were spending their earnings sinking holes in the ground to find that "picture" ore that the gentleman showed us a while ago. I know Mr. Burgess is more conservative than that.

The CHAIRMAN. Thang you very much, Mr. Burgess.

Mr. BURGESS. Thank you, Senator.

The CHAIRMAN. Mr. James K. Richardson.

You may be seated, Mr. Richardson, if you wish.

STATEMENT OF JAMES K. RICHARDSON, MANAGER, UTAH MINING ASSOCIATION, SALT LAKE CITY, UTAH, ACCOMPANIED BY T. P. BILLINGS, CONSULTING ENGINEER, SALT LAKE CITY, UTAH

Mr. RICHARDSON. Mr. Chairman, I have asked Mr. T. P. Billings, a consulting engineer from Utah, to come up with me. In the event you want to ask any questions, he is one of the most experienced men in this field of mine leasing that I know.

The CHAIRMAN. Mr. Billings, we are very glad to have you here.

Mr. RICHARDSON. My name is James K. Richardson. I am a graduate mining engineer who has worked in various capacities in the mines of the western United States. At present, I am the manager of the Utah Mining Association and reside in Salt Lake City, Utah.

This association's membership accounts for the production of approximately 90 percent of the nonferrous metals credited to Utah each year. It is the considered opinion of the members of the association that if the definition of "employee" currently embodied in H. R. 6000 is adopted it will kill leasing in Utah mines. That is the reason I am appearing, in behalf of the association, in opposition to that portion of the act.

Our association has concurred in the resolution adopted by the western division of the American Mining Congress at its 1949 meeting in Spokane, Wash., on this subject. This resolution, in part, reads as follows:

> We strongly oppose such changes in the definition of "employee" as are contained in H. R. 6000 of the Eighty-first Congress, or any departure from the common law criteria for determining employee-employer relationship.

The question, naturally, rises in your minds as to why we are so firmly convinced that the classification of leasers as "employees" would terminate the leasing system. During 1940 mine leasing virtually stopped in Utah. The interruption resulted in loss to all parties involved. The owner lost profits and their mines were impaired; the leasers and their families suffered loss of earnings; farmers lost a market for their products; and merchants lost customers. There was a loss of tonnage for railroads and processors of the ore; school, city, county, State, and Federal taxing units lost tax dollars; and finally the Nation lost production of vital metals necessary for its domestic economy and at that time—the war effort.

This interruption of mine leasing was due to certain rulings holding that a mine leaser was not an independent contractor but an employee of the mine owner. In May 1940 the Supreme Court of Utah in *National Tunnel and Mines Company* v. *The Industrial Commission of Utah, et al* (102 Pac. (2d) 508) held that a mine leaser was an employee and eligible for benefits under the Utah Unemployment Compensation Act. It followed that the mine owner was obligated to make unemployment tax payments on so-called wages of the leaser.

In August 1940, the United States Department of Labor, Wage and Hour Division, issued an administrative ruling, citing the Utah unemployment case, indicating that the Division might find a mine leaser to be an employee and subject to the minimum wage and overtime provisions of the Wage and Hours Act. Finally, in November of 1940, the Bureau of Internal Revenue in Washington, D. C., ruled that operations under a mine lease created an employment relationship between the mine owner and leaser for Federal employment tax purposes. If a leaser was an employee, the mine owner was required to keep a record of his time worked, was obligated to pay him minimum wages and time and one-half his average rate of pay for overtime, notwithstanding there was no basis for determining the rate of pay; and the owner was obligated to pay taxes on the leaser's so-called wages under the Utah Unemployment Compensation Act, the Federal Insurance Contribution Act, and the Federal Unemployment Tax Act. Moreover, the creation of this relationship and these obligations destroyed the leaser's incentive which is the key to success of lease operations, since it assured him going wages irrespective of the economic success of his lease operations and imposed on the mine owner obligations with which it was impracticable and usually impossible for him to comply. The very basis of mine leasing is the ability of skilled leasers to conduct their operations free from the supervision and consequent overhead costs of owner operations.

Because of losses due to the interruption of mine leasing, previously referred to, and because of the need for additional production of critical metals for World War II, a concerted effort was made by governmental agencies, leasers and owners to effect changes in the

rulings which would permit normal resumption of the mine leasing system. This involved:

(1) Amendment of the Utah Unemployment Compensation Act, so as to exclude mine leasers from coverage under the act, unless the lease agreement or operations under it would constitute the leaser an employee of the mine owner at common law. In 1949 the Utah act was further amended to condition exemption upon the leaser being also exempt under the Federal Unemployment Tax Act;

(2) The drafting of a standard form of mine lease, which is now in common use in Utah;

(3) The issuance of a policy statement by the Wage and Hour Division to the effect that leases which followed the standard form created an independent contractor relationship and the leasers were not covered by the Wages and Hours Act;

(4) The issuance of a ruling by the Commissioner of Internal Revenue of the United States that operations under the standard form of lease, if carried out in keeping with the independent contractor character of the lease, would constitute a relationship of independent contractor between the mine owner and leaser, rather than an employment relationship for Federal Employment Tax purposes; and finally

(5) After the District Court of the United States for the District of Utah, in the case of *Combined Metals Reduction Company* v. *The United States of America* held that a mine leaser under a lease similar to the standard form of lease was not an employee, but an independent contractor, and that the mine owner was not obligated to pay social security taxes, the Federal Security Agency agreed that it would follow the Utah case and the *Empire Star Mines Company, Limited*, v. *California Employment Commission* (28 Cal. (2d) 33; 168 Pac (2d) 686) case in the ninth and tenth judicial circuits of the United States.

After a period of 4 years, during which time there had been virtually no leasing in Utah, in reliance on the rulings and decisions refered to, leasing operations in Utah were resumed on a substantial scale in 1944 and are now continuing.

Even though a leaser is an independent contractor at common law, he probably would be an "employee" under H. R. 6000. This would make the mine owner subject to the Federal Insurance Contributions Act, the Federal Unemployment Tax Act, and also the Employment Security Act of Utah—I have referred previously to that, sir, as the Utah Unemployment Compensation Act, but the new amendment that I referred to in 1949 gives that a new name—since exclusion of leasers from coverage under the latter is conditioned upon their being exempt under the Federal Unemployment Tax Act. It also follows that mine leasing would find itself in the same situation that faced it in 1940. This, we believe, would inevitably result in killing of the mine leasing system.

Leasers are self-employed, independent businessmen. An accepted concept of an independent businessman embodies two criteria. (1) Freedom to hazard one's credit, capital, or capital goods on his knowledge, judgment, and skills; and (2) the opportunity for profit or loss as a result of exercising this independent, individual, action. These criteria, in my humble opinion, are fundamental factors in the definition of a mine leaser.

Drawing upon my own personal experience as a miner and a mining engineer, I look back upon leasers and their stories which stirred my imagination and opened to me the door of economic opportunity. My personal failure to walk through these portals cannot be laid entirely to fear of the unknown, but rather to that love of payroll security which besets the vast majority of Americans. Fortunately for America this spirit, which I describe as my own, does not control all Americans. Within many there exists a spark of daring—a gambler's instinct, if you please—which spurs imaginative and daring men on to deeds and activities which, more often than not, are contrary to the attitudes and opinions of their fellowmen. It is these actions which have, cumulatively, made America a strong and progressive member of the family of nations.

Mine leasers, that I have known, have possessed this singular spark of independence and free thinking. They want no boss other than their own limitations. In most instances they have acquired skills within and outside of the mines wherein they lease. Perhaps, as an employee, they saw a vein of ore which they felt should be developed but which a supervisor, pressed for tonnage, felt was uneconomical to follow. The potential leaser saw, therein, an opportunity and sought a lease, on his own initiative, in order to pursue this will-o'-the-wisp even as the legendary Jason sought the Golden Fleece. They were willing to pit their resources, their abilities, and their knowledge against the forces of nature. Often their search led them to the lush valley of success—often they were lured on to the abyss of failure where nature laughs at man's puny efforts. Despite the outcome these men knew that there is always a "next time" and that today's failure may be tomorrow's success.

I have attempted to convey to you my personal opinion that these mine leasers are not ordinary men. The vast majority of them could easily be supervisors in any mine in which they lease due to their imaginative and skillful abilities. Most of them have had a vast underground experience extending over many years under varied geological and mineralogical circumstances. Many leasers train their sons to follow in their footsteps—and train them far better than is possible in our own academic or industrial training programs. Fathers know that the ability to profitably follow a narrow lead to a hoped for bonanza means hand sorting of ore; judicious and skillfull drilling and blasting; and a practical knowledge of geology and mineralizing characteristics. Their fathers know, too, the pain of failure and the joys of success.

There is nothing mysterious or sinister about a mine lease. Ordinarily the potential leaser goes to a mine owner and seeks a lease to explore and mine in a specified area. More often than not these areas are isolated or abandoned. If the man is well and favorably known as a responsible and able individual, the owner may grant a lease if he does not contemplate further work in the area or mine. The owner has certain moral and legal responsibilities which cannot be abandoned and as a result must insist that the contemplated work be done in accordance with the mining safety codes of the State and in such a manner as not to endanger the balance of the mine workings. When several leaser groups seek the same area the owner must insist that

the successful applicant perform certain work minimums to maintain his lease and not merely hold for speculation.

The contention has been made that leasers are forced to ship their ores to designated mills or smelters. This is not so. The higher price a leaser gets for his ore means a better royalty to the owner. Mines A and B, whose lease production is indicated on exhibit C, which is attached to this report, are owned by a smelting company.

Mr. Chairman, I would like to have those exhibits made a part of the record. I won't bother to read them in their entirety.

The CHAIRMAN. Yes, sir. You may do so.

Mr. RICHARDSON. However, in 1948 only 53 percent of the total lease production went to their smelter and in 1949 only 41 percent went there. The balance, in each case, went to the smelting company offering the best price for that particular ore. Ordinarily, however, a leaser can get a better dollar return when his ores are shipped to a plant which treats the owner's ore. This is due to the over-all desirability of large lots for mill and smelter feeds when compared to the small tonnages ordinarily produced by the individual leaser.

Senator MILLIKIN. Is it not true also that oftentimes the owner's mill is the only one that is available?

Mr. RICHARDSON. It is often the only one that is available. That is right, sir.

I might say, however, that in Utah we have this situation, which is the reason that I brought that out, sir: We do have three smelting companies in the Salt Lake Valley, and though the leasing operations were going on at these mines, the leasers' ores were not sent to the company smelter in their entirety. The contention is often made that the leasers are forced to ship their ores to a certain smelter. But I have two leasers here from different areas and I think they can bring out, better than I can, how independent they are in their selling actions.

The mine owner, in an effort to insure work performance must inquire into the available equipment the leaser owns or make arrangements to rent such to him. Services to the leaser such as hoisting, compressed air for drills, blacksmithing, assaying, transportation, timber, dynamite, and such similar items are charged for at or near cost. Often the leaser's workmen's compensation insurance is covered by the owner but the leaser pays for such coverage. These are all operating details contained in the lease. When the lease has been signed the leaser is in business—on his own.

Leasers' investment: Exhibit A, of the attached material, will give you a concrete idea as to the amount leasers have invested in capital goods in one Utah operation. These investments vary from $250 to $60,000. Where they have no equipment the owner or some other individual must "grubstake" them by extending credit or rent them sufficient equipment with which to work.

Many leasers have told me that they would purchase more equipment if they knew that "the rules wouldn't be changed" by Government agencies and they could rely on being recognized as independent, self-employed individuals. During the past 10 years they, like the mine owners, have been continually harassed by legislative and judicial threats as well as administrative rulings relative to their status.

These leasers know from past experience that the owner cannot obtain from regular employees the same careful, industrious workmanship which a leaser, working for himself gives. This is illustrated by the experience of one Utah company owning a mine which, since 1935, has been regarded as "worked out," in the sense that company operations were no longer profitable. Leasers working in that same mine between 1935 and 1940 produced over 300,000 tons of ore. The owner stopped giving leases in 1940, as previously stated, but due to the success of this operation the same men who had been leasing from him were put on the pay roll at the going union wage. These men worked in the identical areas in which they had been leasing. While leasing they had used such care in mining and sorting of ore that shipments had averaged from $8 to $10 a ton in value. After they were put on the pay roll of the owner, shipments fell to an average value of $4 per ton, due to careless mining and sorting. The result was not only an adulteration of the ore, but also an increased smelting and railroad expense due to handling of waste. The owners have not forgotten, nor have the leasers, this experience. The leaser knows that had the mine owner been able to economically do leased work with "days' pay employees" he would have done so and thus never resorted to the leasing system.

The question, naturally, arises as to whether there truly exists an opportunity for profit or loss to such leasers or whether the system is merely a subterfuge to avoid existing wage scales. Exhibit B gives such details as are available at several operations on the profits or losses of leasers. At mine A we find variations from individual lease annual net profits of $28,675.83 in 1948 to losses of $3,506.26 in 1949. In this same mine we find that in 1948 the leasers' profits aggregated $106,685.01 while in 1949 (a period of low metal prices and high costs) they dropped to $33,836.51. The same type story is told by the data on mine B. Mine C, however, rents some equipment and provides certain services on a daily basis to leasers, and accordingly, keeps a record of the shifts worked. From their data we can look at the average earnings per shift worked. We find a high of $60.80 per shift worked in 1946 to a loss per shift worked of $3.88 in 1949. Incidentally the same individual was involved in these examples. The miners' wage rate, at this same mine, was $8.93 per 8-hour shift during the 1946 period and $10.85 per day in the 1949 period.

A study of these exhibits will, I believe, conclusively show that the leaser is the owner of credit, capital, or capital goods and through hazarding them he is presented with an opportunity for profit or loss. I am firmly convinced, therefore, that the leaser meets an accepted concept of an independent businessman.

There is no question in my mind that leasing provides the most practical means of conserving, through use and production, our national mineral resources. As indicated earlier, the ores in the leased area would have been lost as they would never have been mined by the owner. Yet these same areas under leasing arrangements have gone on to yield substantial tonnages of vital nonferrous metals which could never have been produced had the openings been permitted to cave and the mines fill with water. These facts were equally true during the emergency war periods of the past and during industry's conversion to peacetime operations.

Exhibit C indicates the importance of lease production in comparison with owner operations. We feel certain, for example, that the Big and Little Cottonwood districts in Utah would shut down altogether. This area has approximately 40 leasers at work and their 1948 production amounted to approximately $232,172. Virtually the same can be said of the American Fork district which, in 1948, created $218,351 in new wealth. Almost all of Beaver County, Utah's $233,280 production in 1948 would be lost.

Senator MILLIKIN. What kind of production is that?

Mr. RICHARDSON. This is copper, lead, and zinc basically. There is some gold, some silver. But we are not quite in the same category as California or Cripple Creek district, where they are speaking primarily in terms of gold.

I estimate that leasers produced, from these various and sundry nonferrous metals, during 1948 in excess of $1,000,000 in new taxable wealth in Utah!

Individuals within and without Government have often expressed real concern over the status of the known domestic reserves of nonferrous metals. Various means of stimulating the search for new ore bodies have been proposed and considered. In this connection it is right that you should know that leasers, in Utah, are almost wholly responsible for disclosing, through their work, geological information which led to the development of the two foremost lead-zinc mines in our State. These two mines, since their development, have produced millions of pounds of strategic metals which assisted materially in our Nation having successfully prosecuted and terminated World War II. These are not isolated examples but I offer them to substantiate our opinion that the leaser is vital to the national welfare and safety.

The leasing system has provided work for miners who, in many cases, could not have found employment in other mining operations due to physical disabilities or infirmities and who might otherwise have become objects of charity. Their leasing operations provide farm markets and support service industries and resulting jobs in their communities and in areas outside the immediate mining district. The new wealth created provides tax support to Government and keeps on the tax rolls much real property which would have to be abandoned.

I wish that I could state accurately how many leasers will be affected. I feel that the over-all number, at present, is not particularly impressive nationally. I estimate that there are a total of approximately 250 individuals doing business as mine leasers at present in Utah. An increase in metal prices would greatly add to this number. The abandonment of the leasing system would throw onto the local unemployment rolls a significant number of skilled miners who could not, today, be absorbed in our local depressed mining operations.

I would be remiss in my responsibilities to this Nation, as well as to my conscience, if I neglected to call your attention to the importance of mine leasing to our national safety. This honorable body should be apprised of the fact that a substantial portion of the uranium ores produced in the Colorado Plateau area result from the leasing system. Well informed engineers in this area have estimated that approximately 75 percent of the carnotite production in Utah

is mined by leasers. The same figure, I believe, could safely be applied to Colorado's production. Substantiation of these estimates could, I am sure, be obtained from the Atomic Energy Commission.

As an engineer, I seriously question whether any scheme of operation, other than the accepted leasing system now in use could be economically adapted to the mining of these uranium ores. This conclusion is reached due to the nature of such ore bodies and their known occurrence in remote and isolated areas. I feel certain that the financial incentives and independent opportunities offered the uranium leaser are the things that stimulate his search for and production of these extremely critical ores. Therefore, I believe that the adoption of a definition whereby they would be classified as "employees" would seriously jeopardize the Nation's production of fissionable raw materials.

In summary, it is our sincere conviction that the adoption of the definition of "employee," as currently embodied in H. R. 6000, will stop the mine leasing system and thereby:

(*a*) Shamefully waste those national mineral resources which can only be produced under the concepts of a leasing system.

(*b*) Jeopardize the production of fissionable materials whose raw materials are, largely, a result of the efforts of independent mine leasers.

(*c*) Lose to the Nation and the State of Utah taxable income and taxable real property which now exist under the leasing system.

(*d*) Lose to the people of the United States new wealth which provides markets and jobs in community areas often far removed from the immediate leasing operators.

(*e*) Create a further employment and welfare problem in mining areas where leasing is now being practiced.

(*f*) Relegate to anonymity mine leasers who are a segment of independent small business whose continued existence Congress has sought to assure by various means.

In the light of these factors we respectfully urge this honorable body to amend H. R. 6000 so that self-employed, independent small-business men are not classified as "employees" under the act.

I would like to say, sir, that I have, since preparing this statement, read the proposed amendments as suggested to you by the American Mining Congress spokesman, and we would concur in those wholeheartedly.

The CHAIRMAN. All right, Mr. Richardson.

You wish to have the exhibits attached to your brief incorporated in the record?

Mr. RICHARDSON. Yes, sir.

The CHAIRMAN. Very well. If there are no questions, we thank you, sir, for your appearance.

Is there anything you wish to add, Mr. Billings?

Mr. BILLINGS. I would like to add one thing.

Mr. Richardson refers to the profits of the leasers. Those don't include his day's pay, which he turns in as a cost for net proceeds tax, so that in addition to the $28,000 this lessee receives $12 a day, and in case of a loss of $3,000, that $3,000 would be reduced by the $12 a day for each day that he worked, as to his net proceeds.

The CHAIRMAN. Thank you, sir.

(The exhibits attached to Mr. Richardson's prepared statement follow:)

EXHIBIT A

Mine A: Equipment owned by lessees and used on leases

Lease group	Equipment	Approximate value
1	Drilling machines and small tools	$600
2	Drilling machine and small tools	600
3	2 drill machines, slusher hoist, small tools	1,700
4 [1]	2 trucks, small tools (rents some equipment)	1,800
5	2 fans, slusher hoist, 2 drills, small tools	4,200
6	Drill machines and small tools	500
7	Drill machine, slusher hoist, small tools	3,700
8	Drill machine and small tools	500
9	2 drill machines, slusher hoist, small tools	3,500
10	Drill machine and small tools	600
11	do	500
12	Drill machine, small tools (rents some equipment)	600
13	2 hoists (1 tugger), 2 drill machines, small tools	4,700
14	Drill machine and small tools	570
15 [1]	Dragline, traxcavator, caterpillar, trucks (see note 1)	25,000
16	2 slusher hoists, 2 drill machines, small tools	3,500
17	Slusher hoist, drill machine, small tools	3,100
18 [2]	Small gas pump, small tools	300
19	Drill machine and small tools	500
20	do	500
21	(Same as lease group 15)	
22	Drill machine and small tools	500
23	Slusher hoist, 2 drill machines, small tools	2,500

[1] Surface dump leases.
[2] Surface placer lease.

All others are underground leases.

NOTE.—Lease group 15 has contracted truck haulage for some time, also loads ore for lessees at mine B. His entire outfit at present is conservatively estimated at $85,000.

Rental and company service charges

Compressed air	$0.25 per dry ton.
Tramming	$1 per wet ton.
Transportation	$0.05 per passenger.
Cap lamps	$1 per month.
Assaying	$1 per 3 determinations.
Blacksmithing and shop work	$2 per hour.
Sharpening axes	$0.25 each.
Sharpening picks	$0.15 each.
Sharpening and setting saws	$1 each.
Shanking steel	$0.75 each.
Timber and other supplies	Cost to company plus 10 percent handling charges.

Mine B: Equipment owned by lessees and used on leases

Lease group	Equipment	Approximate value
1	2 drill machines, mine car, small tools	$1,500
2	Compressor, 2 drill machines, small tools, etc	3,500
3	Drill machine and small tools	600
4	Compressor, traxcavator, pick-up truck, 2 drill machines	10,000
5	Compressor, bulldozer, 2 drill machines, small tools	17,000
6	Drill machine and some small tools	400
7–8	Mine car, drill machine, small tools	1,000
9–12	Compressor, bulldozer, traxcavator, truck, 5 drill machines, various small tools, all leasing tools necessary.	60,000
13	Drill machine and small tools	200
14	Compressor, bulldozer, mine car, truck, 3 drill machines, small tools	15,000
15	Compressor, drill machine, small tools	2,100
16–18	Compressor, pick-up truck, 2 drill machines, small tools	5,100
19–20	2 drill machines, mine car, small tools	1,000

Mine B: Equipment owned by lessees and used on leases—Continued

Lease group	Equipment	Approximate value
21	Drill machines and rents balance of equipment	
22	Drill machine and small tools	$400
23	2 drill machines, tugger hoist, mine car, small tools	1,300
24	Drill machine, small tools	400
25	2 drill machines and small tools	800
26	do	800
27	Drill machine, small tools	500
28	Hoist, drill machines, small tools	1,000
29	Drill machine, small tools	300
30	do	400
31	do	600
32	do	300
33-34	2 drill machines, small tools	800
35	do	800
36	Drill machine, small tools	300
37	Same as group 1	
38	Same as group 2	
39	Drill machine, small tools	400
40	do	500
41	Truck, drill machine, small tools, mine car	1,700
42	Mine car, drill machines, small tools	800
43	Drill machine, small tools	350
44	2 drill machines, small tools	700
45	Drill machine, small tools	400
46	do	250
47	do	300
48	Same as group 44	
49	Drill machine, small tools	300
50	Same as group 1	
51	Drill machine, small tools	450
52	Same as group 23	
53	Drill machine and small tools	300
54	Same as group 33-34	
55	Compressor, drill machine, small tools	2,800

NOTE.—Rental and company service charges are the same as for mine A.

EXHIBIT B. MONETARY RETURNS TO LESSEES

Mine A lessees: 1948 and 1949 net smelter returns, costs, and net profit or loss

Year and leaser group	Net smelter returns	Lessees' costs [1]	Net profit or loss (—) to lessees
1948			
1	$30,909.91	$21,459.10	$9,450.84
2	32,691.02	19,948.09	12,742.93
3	29,013.22	20,607.44	8,405.78
4	21,947.61	12,573.42	9,374.19
5	39,851.84	21,838.00	18,013.84
6	5,842.31	4,704.25	1,138.06
7	37,346.51	31,714.94	5,631.57
8	6,044.67	5,554.97	489.70
9	35,291.04	31,057.54	4,233.50
10	709.82	1,128.25	−418.43
11	602.03	2,049.18	−1,447.15
12	18,768.69	13,230.11	5,538.58
13	13,155.25	11,299.86	1,855.39
14	1,568.51	4,211.15	357.36
15	47,905.62	19,299.79	28,675.83
16	23,523.07	20,880.05	2,643.02
Total	348,171.15	241,486.14	106,685.01
1949			
1	$9,782.50	$5,832.75	$3,949.75
5	44,564.30	27,732.41	16,831.89
7	16,156.50	17,439.68	−1,283.18
8	4,201.76	2,862.29	1,339.47
9	1,246.18	2,406.93	−1,160.75
12	18,346.07	14,560.39	3,785.68
15	28,413.15	14,663.78	13,749.37
16	8,242.06	11,748.32	−3,506.26
17	14,018.58	15,006.31	−987.73
18	201.05	819.96	−618.91
19	3,277.54	4,137.25	−859.71
20	404.94	1,529.59	−1,124.65
21	12,131.09	7,851.42	4,279.67
22	3,580.38	5,271.20	−1,690.82
23	8,628.12	7,495.43	1,132.69
Total	173,194.22	139,357.71	33,836.51

[1] Includes lessees' expenditures (as reported by them for the purpose of computing their proportion of the property taxes and compensation insurance), royalties, compensation insurance, occupation, and property taxes, and charges for services or equipment furnished by the lessor at lessees' request (such as hoisting, trimming, etc.) and for any supplies purchased from the lessor. Expenditures reported by lessees, principally for labor and supplies, include allowance for wages of working lessees equivalent to the customary wages paid for similar or substantially similar work.

Mine B lessees: 1948 net smelter returns, costs, and net profit or loss

Leaser group	Net smelter returns	Lessees' costs [1]	Net profit or loss (−) to lessees	Leaser group	Net smelter returns	Lessees' costs [1]	Net profit or loss (−) to lessees
1	$8,325.84	$6,813.20	$1,512.64	22	$1,773.07	$2,607.20	−$834.13
2	8,361.11	6,454.31	1,906.80	23	33,288.10	24,302.14	8,985.96
3	342 00	1,200.01	−858.01	24	8,580.50	6,357.38	2,223.12
4	99,824.15	69,347.16	30,476.99	25	20,250.73	13,948.09	6,302 64
5	25,652.93	18,484.44	7,168.49	26	48,232.32	29,734.74	18,497.58
6	17.59	336.26	−318 67	27	20,839.79	13,549.63	7,290.16
7	9,580.98	8,122.94	1,458.04	28	20,052.73	15,534.84	4,517.89
8	1,638.44	718.14	920.30	29	1,472.75	2,952.51	−1,479 76
9	11,095.22	12,155.50	−1,060.28	30	673.72	2,355.97	−1,682.25
10	25,544.38	24,053.52	1,490.86	31	54,498.58	36,375.08	18,123.50
11	71,528 50	65,573.41	5,955.09	32	2,171.52	2,444.17	−272.65
12	8,179.63	8,245.73	−66.10	33	42,305.57	28,376.83	13,928.74
13	462.74	676 70	−213.96	34	3,847.67	2,200 22	1,647.45
14	27,809.79	26,785.11	1,024.68	35	27,529 07	21,643.31	5,885.76
15	9,274.22	5,439.88	3,834.84	36	2,464.65	2,396.66	67.99
16	2,042.06	2,866.22	−824 16		629,358.18	500,588.30	128,769 88
17	−108.86	489 67	−598 53	55 (sublease)	25,596.81	22,897.63	2,699.18
18	9,144.95	8,981 91	163.04				
19	13,588.90	12,185 56	1,403.34	Total	654,954.99	523,485.93	131,469.06
20	4,083.38	4,678.91	−595.53				
21	4,989.46	12,200.95	−7,211.49				

[1] Includes lessees' expenditures (as reported by them for the purpose of computing their proportion of the property taxes and compensation insurance), royalties, compensation insurance, occupation and property taxes, and charges for services or equipment furnished by the lessor at lessees' request (such as hoisting, training, etc.) and for any supplies purchased from the lessor. Expenditures reported by lessees, principally for labor and supplies, include allowance for wages of working lessees equivalent to the customary wages paid for similar or substantially similar work.

Mine B lessees: 1949 net smelter returns, costs, and net profit or loss

Leaser group	Net smelter returns	Lessees' costs [1]	Net profit or loss (−) to lessees	Leaser group	Net smelter returns	Lessees' costs [1]	Net profit or loss (−) to lessees
1	$8,868.86	$10,186 35	−$1,317.49	38	$7,462.10	$6,324 02	$1,138 08
2	16,599.33	15,453.05	1,146.28	39	−618.99	215.43	−834 42
4	86,452.44	56,459.58	29,992.86	40	1,327.52	3,427.31	−2,099 79
5	3,422.64	7,040 76	−3,618.12	41	284.03	829 41	−545.38
6	15,467.19	13,922.64	1,544.55	42	13,395 57	14,513.03	−1,117 46
7	2,103.89	1,752.32	351.57	43	2,426.43	3,146 41	−719 98
9	−11.09	[2] 5.59	−5.50	44	1,695.97	1,198.85	497 12
10	6,737.84	9,369 03	−2,631.19	45	1,450.22	1,903.07	−452 85
11	62,102.74	66,596 61	−4,493.87	46	885 18	992.79	−107.61
12	19,043 91	19,701.62	−657.71	47	1,882 35	1,842 16	40 19
14	380.53	1,208.47	−827.94	48	4,187.65	4,269 62	−81 97
18	20,705.23	16,162.96	4,542.27	49	5,949.72	4,400.76	1,548 96
23	120.49	53.40	67.09	50	515.85	637 29	−121.44
25	13,790.88	10,930.45	2,860.43	51	620 14	804.02	−183 88
27	19,726.51	16,725.58	3,000.93	52	9,652.34	8,161.02	1,491.32
28	25,991 97	21,997 82	3,994.15	53	1,118.29	962.15	156 14
29	27 79	12 32	15.47	54	2,528.34	2,252.57	275 77
30	3,014.96	3,876.34	−861 38		425,931.82	379,794.49	46,137 33
31	14,840 96	10,651 85	4,189.11	55 (sublease)	22,560.29	16,896 74	5,663 55
32		[2] 9.99	9.99				
33	9,780 20	10,384 53	−604.33	Total	448,492.11	396,691.23	51,800.88
35	41,408.04	30,216 98	11,191.06				
37	593.80	1,227.50	−633.70				

[1] Includes lessees' expenditures (as reported by them for the purpose of computing their proportion of the property taxes and compensation insurance), royalties, compensation insurance, occupation and property taxes, and charges for services or equipment furnished by the lessor at lessees' request (such as hoisting, training, etc.) and for any supplies purchased from the lessor. Expenditures reported by lessees, principally for labor and supplies, include allowance for wages of working lessees, equivalent to the customary wages paid for similar or substantially similar work.

[2] Tax refund.

Mine C: Summarization of settlements with block lessees from the resumption of block leasing in September 1946 to and including Nov. 30, 1949

Leaser group	Year	Number of shifts worked	Net smelter returns	Deducted costs [1]	Net return to lessee	Average return per shift worked
1	1946	154	$33,584.10	$25,414.48	$8,169.62	$53.04
	1947	333	27,424 08	19,538 14	7,885 94	23 68
	1948	135	10,281.61	8,562.25	1,719 36	12 73
	Total	622	71,289.79	53,514 87	17,774.92	28.57
2	1946	160	14,705.54	10,191 56	4,513 98	28.21
	1947	226	19,276.12	13,594.25	5,681 87	25.14
	Total	386	33,981.66	23,785 81	10,195 85	26.41
3	1946	163	28,825 79	18,915 39	9,910 40	60 80
	1947	444	55,293 56	37,704 50	17,589 06	39 61
	1948	10	367 96	227.40	140 56	14 06
	Total	617	84,487.31	56,847.29	27,640 02	44 79
4	1946	96	7,657.57	5,617 53	2,040 04	21 25
	1947	278	18,917.42	14,048 13	4,869 29	17 51
	Total	374	26,574.99	19,665 66	6,909.33	18 47
5	1947	259	11,643 21	7,610 56	4,032 65	15 57
6	1947	24	1,324 25	611 10	713 15	29 71
7	1947	152	12,196 93	9,339.64	2,857 29	18 79
8	1947	178	12,135 03	10,067.53	2,067 50	11 61
9	1947	373	7,886 91	5,852 80	2,034 11	5 75
	1948	38	1,475 99	953 00	522.99	13 76
	Total	411	9,362 90	6,805 80	2,557.10	6 22
10	1947	64	1,549.64	1,093 26	456.38	7 13
11	1947	42	363 51	191 76	171.75	4 09
	1948	8	342 06	162 41	179 65	22 45
	Total	50	705 57	354 17	351 40	7 03
12	1948	141½	2,841.22	1,996 85	844 37	5 97
13	1948	187	24,760.57	19,302 05	5,458.52	29 18
14	1948	35	2,212.69	1,973 79	238 90	6 83
15	1948	------	462 13	236 37	225 76	------
16	1948	228	39,372 20	30,275 21	9,096 99	39.89
	1949	326⅛	32,801.08	24,323 85	8,477.23	25.96
	Total	554½	72,173.28	54,599 06	17,574 22	31 69
17	1948	42	1,435.82	1,224 89	211.13	5.03
18	1948	181	11,121.22	8,236.97	2,884 25	15.93
	1949	404½	30,053.46	22,476 70	7,576 76	18 73
	Total	585½	41,174.68	30,713 67	10,461.01	17.86
19	1948	18	244 62	209 09	35 53	1.97
20	1948	75	10,656.38	7,260 52	3,395 86	45 27
21	1948	86	8,778.93	6,239 40	2,539 53	29 52
22	1948	85½	7,545.08	5,102 19	2,442 89	28 57
	1949	461¼	29,368 56	20,983 03	8,385.53	18 18
	Total	546¼	36,913.64	26,085.22	10 828.42	19 80
23	1948	48	1,999.54	1,727.12	272 42	5 68
	1949	28½	2,996.76	2,047.28	949.48	33.31
	Total	76½	4,996.30	3,774.40	1 221.90	15 97
24	1949	143	9,220 50	7,736.27	1,434 23	10.37
25	1949	73	1,268 01	1,126 34	141 67	1 94
26	1949	291½	29,555 30	21,631 29	7,924 01	27.18
27	1949	------	393 14	256.51	136.63	------
28	1949	96⅝	1,733.05	1,975.48	−242 43	−2 51
29	1949	158	26,287.61	20,392.13	5,895.48	37.31
30	1949	139	9,704 66	7,808.25	1,896 41	13 64
31	1949	20	778.30	855.81	−77.51	−3.88

[1] Royalty, rental of equipment and service, workmen's compensation, occupation tax and property tax;

Mine D

Year and lease group	Leasing period	Gross ore value at mine [1]	Operation costs royalty [2]	Net to leaser
1945:				
1	7 months	$5,516.09	$3,386.79	$2,129.30
2	12 months	25,742.99	15,762.81	9,980.18
3	5 months	55,726.01	37,814.95	17,911.06
4	6 months	7,194.51	2,795.58	4,398.93
Total 1945		94,179.60	59,760.13	34,419.47
1946:				
1	12 months	25,662.84	14,996.69	10,666.15
2	9 months	18,467.17	13,019.41	5,447.76
3	12 months	23,021.07	14,996.52	8,024.55
4	12 months	12,485.18	11,572.49	5,912.69
Total 1946		84,636.26	64,585.11	30,051.15
1947:				
1	12 months	9,601.38	5,882.89	3,718.49
2	12 months	54,184.97	35,806.30	18,378.67
3	12 months	36,259.78	23,477.19	12,782.59
4	9 months	4,194.72	2,258.52	1,936.20
Total 1947		104,240.85	67,424.90	36,815.95
1948:				
1	6 months	7,048.17	4,374.49	2,673.68
2	5 months	19,335.93	11,527.28	7,808.65
3	12 months	3,960.52	2,297.60	1,662.92
Total 1948		30,444.62	18,199.37	12,145.25
1949				
1	6 months	15,148.26	9,026.82	6,121.44
2	6 months	10,173.93	6,259.74	3,914.19
Total 1949		25,322.19	15,286.56	10,035.63

[1] After treatment charges and all metal deductions.
[2] Include freight, assaying and sampling, truck haulage, hoisting, tramming, royalty, supplies, labor hired.

EXHIBIT C

Percentage lessee production of total mine production

Mine	1946	1947	1948	1949	Mine	1946	1947	1948	1949
Mine A	8.1	10.8	16.0	14.1	Mine D	23.9	26.9	13.6	8.9
Mine B	48.1	22.5	25.4	26.0	Mine E	1.8	2.2	5.1	3.2
Mine C	14.4	14.8	6.6	9.4	Mine F	100.0	100.0	100.0	100.0

The CHAIRMAN. Mr. Dumont? You may be seated, Mr. Dumont, if you wish, and the committee will be very glad to have your statement.

STATEMENT OF JOE DUMONT, BUTTERFIELD CANYON, NEAR LARK, UTAH; LEASER, LARK MINE

Mr. DUMONT. Mr. Chairman, they have me listed, here, as "Mr. Joe Dumont, United States Smelting, Refining & Mining Co." I am not an employee of that company. I am an independent contractor of that company.

My name is Joe Dumont. I reside in Butterfield Canyon, near Lark, Utah. I am a miner and have been regularly employed in mining since 1914. During much of that time, I have been operating

mine leases. I have had leases at eight different mines in Montana, three different mines in Utah, and one mine in Idaho. On two occasions, I worked for wages so that I could stake another leaser. I have been working on the same lease since July 1945. It is in the Lark section of the United States and Lark mine at Lark, Utah. The company discontinued operations in the general area of my lease more than 20 years ago. I have invested approximately $5,000 in equipment used in my lease operation. I have had as many as four employees, but now only have one. He is a skilled miner and I pay him a little more than the going wage in the district.

I have produced approximately 12,000 tons of ore under this lease. My yearly net earnings during the period of this lease are as follows:

1945	$3,066.44	1948	$10,206.88
1946	9,594.97	1949	885.15
1947	9,294.21		

The CHAIRMAN. What happened to you in 1949, Mr. Dumont?

Mr. DUMONT. In 1949, due to the low metal prices, I had to hunt for different ores, which I just found late in December.

The CHAIRMAN. I see.

Mr. DUMONT. I am on a different type of ore now.

Senator KERR. Might I ask a question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Kerr.

Senator KERR. Are these figures over and above a fixed amount as a monthly salary, or is that the total?

Mr. DUMONT. I have allowed myself a wage besides this. I have allowed myself $12 a day, and these figures represent what I cleared above that.

The ore that I am mining is low grade and must be carefully mined and sorted. Metal prices dropped in 1949. This required more work in selecting and sorting out a product which could be shipped profitably and resulted in increased cost and lower profit, my earnings for the year being considerably less than the wages paid my employee.

In mines where I have worked there are usually corners and remnants of ore bodies in stopes and many small detached ore showings and lean ore showings which the mining company cannot profitably mine under day's pay operation, and which for this reason were abandoned so far as being mined by company operation. These ore bodies and showings may be in idle properties or in sections of operating mines now remote from the company's operations. I mentioned that the company discontinued operations in the general area of my lease more than 20 years ago. The reason the company cannot mine these ores profitably is the extra cost of supervision and overhead and the low output per man-shift when they are mined by company operation. Most leasers have had much experience in mining before they start leasing. They know how to mine these ores with the least effort. They know how to drill, blast, select, and sort the ore so as to avoid its dilution with material that is waste rock and finally get the most ore of profitable grade at the lowest costs, and they have the personal interest and initiative that comes from an opportunity for profit in doing so.

Like most men, I have looked for opportunities to make more money and have tried to save something for my old age. Leasing does not assure me the regular income that day's pay or a salary would. As

is the case with many of my fellow leasers, I quit a shift boss job, for which I was paid a salary, to take a lease. Over the years, I have made considerably more at leasing than I would have at day's pay, and I believe also more than I would have earned on any salaried job to which I might have been promoted. Then there is always the hope and possibility that I will hit it big and make a real stake. I get a lot of satisfaction in being a small-business man and my own boss, owning my own equipment, and being an employer, although I have only one man now. I work right with my employee and do most of the planning, arranging for supplies, and looking after the details relating to my business either before or after the usual working hours. This is not a burden to me; in fact, I enjoy it. There is a certain satisfaction in not having to follow a definite work schedule. I can come and go about as I please, although actually I am nearly always on the job. I belong to the local Lions Club and from association with other members of the club, I have concluded that many of the problems in my business are common to most small-business men.

The possibility of leasing being stopped has created a personal problem for me. I have engaged in mining for 36 years. I cannot do as much physical work as I could 30 years ago, but I believe that the knowledge I have acquired about geology, planning, and proper mining methods required to obtain the best results under different conditions, and the application of the skill I have developed in doing mining work in those 36 years more than compensate in my business for the loss of physical strength. I am afraid that I would have difficulty in passing a company preemployment physical examination, and even if I could, I would find it hard to fit in with company operations as a steady vocation. I have given considerable thought as to what I could do if mine leasing were stopped, but I haven't found the answer. After engaging in one kind of work for 36 years, it isn't easy to shift to other work.

The comments which I have made about my leasing operation apply generally to leasers I have known. In appearing here, I represent the leasers in the Bingham district of Utah, and will leave with you a petition which 36 of my fellow leasers and I have signed, asking that the definition of "employee" as now written in H. R. 6000 be changed so that it will not include us.

If you have any questions, I will be glad to try to answer them.

The CHAIRMAN. Thank you very much, Mr. Dumont.

Mr. DUMONT. Thank you, Mr. Chairman.

The CHAIRMAN. This statement signed by leasers of the State of Utah will be placed in the record.

(The statement referred to follows:)

SENATE FINANCE COMMITTEE,
Senate Building, Washington, D. C.

GENTLEMEN: We, the undersigned leasers, having been advised that you are now considering H. R. 6000, which would amend the Social Security Act, respectfully petition as follows:

That we are experienced in the work of mining ores containing copper, lead, zinc, gold, and silver.

That we are engaged in the business of mining such ores in the Bingham district, State of Utah.

That we operate under leases granted by mining companies, which permit us to conduct an independent mining operation with the usual freedom and risk incident to an independent business venture.

That we have accumulated equipment and facilities for use in our leasing operations—in some cases of modest value and in other cases having very substantial value.

That sometimes the earnings from our lease operations are less than they would be if we were engaged in mining work in the district at day's pay, but generally our earnings are more and in some cases much more than day's pay.

That in most cases the blocks or areas which we hold under lease could not be worked profitably by the company, either because of the narrow vein or peculiar operating conditions which require special skills and a personal interest in the mining operation.

That the definition of an "employee" under H. R. 6000 would probably make us an "employee" under the Social Security Act, and that if we are so classified, probably all mine leasing in the district will be continued.

That this would stop us from engaging in an independent business which many of us have followed for many years.

That some of us will find it difficult to secure other work.

That we could get back only a small part of the money we have invested in the equipment we now own and are using on our leases.

That much of the ore which could be mined under leases would be lost, since it could not profitably be mined by the company.

We, therefore, respectfully ask that the definition of "employee" as now written in H. R. 6000 be changed so that it will not include us; and we appoint Joe Dumont, one of our fellow leasers, as our representative to appear before you and explain the problems of mine leasing and urge you to amend the definition of "employee" so that it will not include us.

Dated this 22d day of February 1950.

Leno P. Morandi, A. N. Cole, A. I. Coombs, A. O. Jacobson, John T. Bowles, George J. Usher, Tony Stelenovich, Vel Reed, Albin L. Holt, Martin Kannikar, Anton Kannikar, Peter Cuevas, C. B. ————, Mark Zano, Giovanni Ren, Archie E. Parry, Jesus Avilar, Curin Heinede, Tony Bullock, George Heinecke, O. E. Yates, Don Palmer, Angelo Kostopolo, Robert Ren, Frank Bullock, Ross H. Stilwell, Ray Bodell, Erick Hartell, Sherly Shoemaker, Roger Bare, Muril Bodell, Howard Bare, Leonard Vevatto, Melvin Clements, Joe Dumont, Herman Heinecke, P. L. Burbank, David V. Houser, J. H. Dansie.

The CHAIRMAN. We have one more witness, Mr. Ralph Hopes, and I believe that will complete the call of the witnesses.

All right, Mr. Hopes. You may have a seat, if you will.

STATEMENT OF RALPH HOPES, EUREKA, UTAH, MINE LEASER, APPEARING IN HIS OWN BEHALF AND AS REPRESENTATIVE OF THE TINTIC SMALL MINE OPERATORS AND PROSPECTORS ASSOCIATION OF EUREKA, UTAH

Mr. HOPES. Mr. Chairman and members of the committee, my name is Ralph Hopes and I reside at Eureka, Utah. I am what is commonly called a mine leaser, and I am appearing here in behalf of myself and the Tintic Small Mine Operators and Prospectors Association of Eureka, Utah.

In order that the committee may be informed as to the actual operations of the leasers and their problems, I will review my personal history, because it is typical. I am 64 years old and have been in the business of mine leasing for 44 years. During this period I have regularly worked with my hands and I am now engaged in training my son as a leaser. I first leased from the Eureka Hill Mining Co. in 1906–1907. Then I leased in the Bullion Beck mine about 1909–1911. Later I leased in the Beck tunnel until 1913. Then I leased from the McCrystal Co., working in the Gemini and Ridge and Valley mines. In 1929 I was leasing on the dumps of the Victoria and the Eagle

and Blue Bell mines. During 1935, 1936, and 1937 I leased underground in the Eagle and Blue Bell mine. In 1939 I began leasing at the Colorado and I am presently engaged in leasing at that mine. During these periods of time I have had partners and at one time I have employed as high as six men. My present lease at the Colorado is on a basis where my son and I are partners. We have no employees. We drill our own rounds, muck our own ore, and tram it.

Leasing presents all the problems of a small business. Leasing, like any other independent business, has its ups and downs. At times I have been quite successful financially and at other times I have sustained substantial losses. Because of the low price of metals now prevailing, my present lease is not too profitable, but I recognize that this is the uncertainty which attends all business and I hope for better metal prices.

Leasers are skilled men with substantial investments in equipment. Shortly after my son returned from service in the Second World War, he became my partner and I have tried to teach him to distinguish ore from waste and to identify leads which might open up ore bodies as distinguished from those which my experience has taught me are not associated with ore deposits. My son and I have our own equipment, consisting of a compressor, drills, fittings, and hoses, our investment being approximately $3,000. We go to work and leave work as we wish. Many weeks go by without a visit from the officials or employees of the company which owns the property. The surveyor of the company enters our working place probably not oftener than once a year. The opportunity for profit when prices are not depressed exceeds that of working for wages, provided the leaser has a background of mining, is somewhat of a student of geology, and is willing to work. Mine leasing, like any small business, to be successful requires initiative, judgment, and foresight. It also has its moments of excitement. The possibility of blasting a round which may open a large ore body is constantly present.

Interference with leasing will cause great hardship to leasers and their families. The committee should keep in mind that many successful leasers have reached an age in life where they cannot pass the preemployment physical examinations required by the companies of prospective employees and that any legislation which would interfere with or result in the discontinuance of mine leasing will throw many men out of work. In the Tintic district in Utah there are probably 100 leasers. Many of these men are old-time miners familiar with the district and at this time fully able to support themselves under mine leasing. These men take leases in abandoned or marginal mines where their experience leads them to believe shipping ore may be available. By leasing they are able to work as hard or as little as they wish. They do not have to meet rigid company time schedules and may stay away from work without embarrassment or censure.

Leasers do not want a repetition of their 1940–44 experience. In 1940 or 1941 there was an attempt by governmental agencies to compel the mining companies to classify leasers as employees. The result was that the mining companies in Utah refused to renew leases until this situation was clarified. Many men were thrown out of work during this period. Ultimately a model lease was worked out which the mining companies and the governmental agencies felt would protect

the company from claims under the wage and hour law, the Social Security Act, and other legislation. Mine leasing was then resumed. The leasers in the Tintic district do not want a repetition of the 1940–44 incident.

If it is feasible, the leasers in the Tintic district desire that the social security law be amended so they may continue as independent operators but permitted to come within the benefits of the Social Security Act as self-employed individuals, the cost of such coverage to be borne by the leasers as an operating expense. The leasers do not desire this status, however, if it must be done at the cost of stopping all mine leasing. The alternative that the leasers suggest is namely a provision permitting them to carry their own social security.

Senator KERR. May I ask you a question there? Do you think that provision should be one that gave them the opportunity and made it optional with them, or which identified them as self-employed independent operators but which compelled them to come under the provisions of social security?

Mr. HOPES. I don't understand, Senator.

Senator KERR. Well, the law could be passed so that either they would have the option of doing it or, although they were self-employed, they would be compelled to do that?

Mr. HOPES. Well, that is possible, too, Senator.

Senator KERR. Now, the reason I ask you the question is that you make the statement, here, that "the alternative that the leasers suggest is namely a provision permitting them to carry their own social security." I gather from that that your recommendation is that the law be written so as to make it optional with them.

Mr. HOPES. Yes; that is, it, Senator.

The CHAIRMAN. You do not think it wise to make it compulsory on the leasers?

Mr. HOPES. No, Senator; I don't.

The CHAIRMAN. Well, sir, you know more about the conditions of your fellow citizens who engage in this kind of work than I do, at least, and perhaps other members of the committee.

You may proceed with your statement.

Mr. HOPES. The Tintic Small Mine Operators and Prospectors Association, of which I am a director and for which I am authorized to speak, has filed with the committee a resolution in this regard.

In summary, mine leasing has existed in the Tintic district for more than a half century. It has worked well, both for the company and for the leasers. It provides work for men who might be physically disabled and unable to obtain work as employees. It results in the recovery of ore which otherwise would be lost to the economy. Leasing should be recognized as an independent business. It offers an opportunity for large profits, as well as substantial losses. We leasers know that if we are classified as employees of the company, leasing will not continue and that many of our best men will join the ranks of the unemployed. The model lease now in use fully protects the leasers from exploitation. The present system is working well and we urge that there be no legislation which will curtail or injure mine leasing.

The CHAIRMAN. Thank you very much, Mr. Hopes, for your statement to the committee.

That completes the call of the witnesses for this morning.

Senator DWORSHAK. Mr. Chairman, before you recess, I should like to ask permission to have placed in the record at this point a letter which I have received from Mr. Donald A. Callahan of Wallace, Idaho, outlining the views of Idaho mine operators on the proposal to change the definition of the term "employee" in H. R. 6000.

The CHAIRMAN. Thank you, Senator Dworshak. It will be entered in the record.

(The letter referred to follows:)

FEBRUARY 25, 1950.

Hon. HENRY C. DWORSHAK,
Senate Office Building, Washington, D. C.

MY DEAR HENRY: I am writing you concerning H. R. 6000, which has passed the House and is now pending in the Senate. I understand that committee hearings on this bill will commence early in March.

This bill, as you know, provides for certain amendments to the social-security law. I am not writing at this time concerning the purpose of the bill in general but only as to one feature of it which is of great importance to the mining industry and also to the entire economy of the country. This is true because the production of minerals and metals means so much to our economy and the national defense.

The feature of the bill to which we take exception, particularly, is that provision which would change the present definition of the term "employee" to include "a lessee or licensee of space in a mine when substantially all of the product of such services is required to be sold or turned over to the lessor or licensor."

The effect of this provision would be to make mine leasers, in effect, company employees. For years the Social Security Administration has been endeavoring to bring this about and have been restrained by the passage of the so-called Gearhart resolution, which defined "employee" in this regard.

This is clearly an attempt of a Federal Bureau to interfere with the natural relationships existing between owner and lessee solely for the purpose of adding new power to their bureau—and also new revenue. Such trends in Government should be definitely checked if for no other reason than to restrain the bright chaps in the bureaus from seeking to create new and unnatural busines relationships and to harass industry. Men who are engaged in the business of producing metals have plenty to do and sufficient problems to face without trying to cope with swivel-chair bureaucrats, thinking up new schemes to enhance the importance of their bureaus.

I say this because the passage of the bill containing the above interpretation would, in the language of one of our operators, have the following effect: "If the proposed legislation should be enacted into law, all mining operations of this nature [meaning leasing] would cease, resulting in the loss of a very large tonnage in mineable ore which could not otherwise be exploited and in addition the loss of employment to thousands of men now engaged in this type of mining operations throughout the country."

This statement is true because the leasing system in this district is used either in abandoned workings of a mine which is presently being operated or in mines entirely abandoned by the owner company. These are marginal operations and do not warrant any added cost, such as social-security and unemployment-insurance payments. The lessee in such operations must be kept upon the basis of an independent contractor, taking all the risks and costs due to the operation, or the owner must refuse to enter into the agreement. Besides, it is fundamental that the owner must have entire charge of the operation if he is to bear these burdens. Result: He will not lease the premises. It may be that the contracts call for settlement for ore shipped in the name of the owner but this is merely to insure that the owner will collect the royalties due on the ore mined and shipped. These usually are provisions to permit the owner to inspect the operations but these are only for the purpose of insuring good mining practices and safety.

In this particular district there is no block leasing. I presume the provisions referred to in the bill is intended to cover this type of leasing, particularly; however, the same argument applies against inclusion of block leasing as against any other type. The provision of the bill to which we object attempts to create a relationship of employer and employee where none exists and seriously retards

the orderly operation of a leasing system which is annually providing ton after ton of minerals and metals to be added to the national stock and providing employment to labor.

I hope that you will consult with the American Mining Congress concerning this bill. Mr. Robert Searls of San Francisco will be in charge of the Mining Congress's presentation before the committee. I am asking you to cooperate, even to the extent of appearing before the committee, personally, to present the views of our industry which I have set forth in this letter.

Thanking you and with personal regards, I am

Sincerely yours,

DONALD A. CALLAHAN.

The CHAIRMAN. Is the position taken by the Idaho Mine Operators substantially in accordance with the position which has been expressed this morning?

Senator DWORSHAK. I so understand, Mr. Chairman.

Mr. SEARLS. I would like to express to the chairman and to the committee our appreciation for the courtesy which has been extended this morning to the members of the mining industry and the American Mining Congress.

The CHAIRMAN. We were very glad to have the opportunity to hear you.

(Whereupon, at 12:20 p. m., the committee recessed to reconvene Friday, March 10, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

FRIDAY, MARCH 10, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George, chairman, presiding.

Present: Senators George, Connally, Byrd, Kerr, and Millikin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Weiss, you are the first witness? You may be seated if you wish.

Senator CONNALLY. Mr. Chairman, may I intervene for just a minute?

The CHAIRMAN. Yes, Senator.

Senator CONNALY. Mr. Weiss is a prominent citizen of Paris, Tex., a businessman, who has been personally known to me for many years. He is thoroughly reliable, and I commend him to the committee.

STATEMENT OF SAM WEISS, WHOLESALE DISTRIBUTOR OF PETROLEUM PRODUCTS, PARIS, TEX., APPEARING ON HIS OWN BEHALF AND AS REPRESENTATIVE OF THE PETROLEUM MARKETERS' ASSOCIATION OF TEXAS

Mr. WEISS. Thank you, Senator.

The CHAIRMAN. We are very glad to have you, Mr. Weiss. We will be glad to hear you now on H. R. 6000.

Mr. WEISS. My name is Sam Weiss. I am engaged as a wholesale distributor of petroleum products in Paris, Lamar County, Tex. I appear today as a representative of myself and of the recently organized Petroleum Marketers' Association of Texas. By the way, this association represents Gulf, Texas, Magnolia, St. Clair, Continental, Phillips, Skelly, Cosden, Cities Service, Humble, Standard of Texas, Panhandle, Independent, and several other oil companies operating in the State of Texas.

A few weeks ago I heard that the House of Representatives had passed a bill to expand the coverage of social security and that the bill was so written that independent businessmen like myself would probably be included as employees of the company who supplied most of our products. I talked to several others who are in the same position as I am, and I learned that legal authorities believed that the definition of "employee" in the bill as it passed the House would make oil distributors and consignees, like myself, as well as perhaps service-

station operators, employees of the oil companies whose products they handle.

Several independent businessmen engaged in the distribution of petroleum products met in Fort Worth, Tex., on February 24, 1950, at which time the Petroleum Marketers' Association of Texas was organized. Although that association is less than 1 month old, it already has a membership of approximately 400. We expect to have a membership of at least 2,000 within the next few months.

At this meeting in Fort Worth the association discussed the definition of "employee" as contained in the bill H. R. 6000 and unanimously adopted the following resolution:

> That this association go on record as strongly opposing H. R. 6000 in its present form, and particularly that portion thereof wherein the definition of "employee" is so vague and uncertain that it is most likely to be construed that distributors such as we will be considered employees of our suppliers; that this bill be so amended that the definition of "employee" be so clear that there can be no question but that the distributors will not be included therein, but will be able to maintain his present status as an independent businessman.

The members of our association have no objection to social-security benefits. As a matter of fact, we have and are now paying the social-security tax on all of our employees. We are, however, very much opposed to that portion of the bill which attempts to define the term "employee," for the reason that we feel that the vague and uncertain language used in defining "employee" will be construed by those charged with the enforcement of the act to mean that we wholesale distributors of gasoline and oil are "employees" of our suppliers. We definitely do not want to be considered "employees" of our supplying companies for any purpose.

If I may digress for a minute, Mr. Chairman: I worked for the Gulf Oil Corp. I started with them soon after I was discharged from World War I. I left their employ, and at that time I held an executive position with them. I left in '27, because I did not want to be an employee of the company. I wanted to be in business for myself. And I have been operating my business since then. I hope I can continue as such, and not as an employee of the corporation.

Some of us have been distributors for oil suppliers for as long as 35 or 40 years. We have been able to use our own initiative, business judgment, and energies to build up a sound and substantial business for ourselves and our families. Many of us are engaged in other businesses separate and distinct from the distribution of petroleum products.

Incidentally, I am in the bottling business in addition to being distributor for an oil company.

We have in our association large, small, and medium-sized distributors, but each has the right and privilege of exercising his best efforts to increase his business, based on keen competition, which is as it should be under any free enterprise. I am representing a large group of individual businessmen who are not, in any sense of the word, "employees" of their suppliers.

We are the bosses of our businesses. The people who work for us are chosen by us and we direct their activities. None of them has any responsibility, directly or indirectly, to our suppliers. Their salaries and hours of work are set by us. Their vacations, sick leaves, and other matters concerning their working conditions are agreed upon between

us and them. Those of us who are engaged in other businesses devote whatever time we deem necessary for the efficient management of these other businesses and if and when we find it necessary we can and do use certain of our employees in these other businesses in which we are engaged.

Some members of our association own their bulk plants. In most instances, however, the distributor leases his bulk plant from his supplier. The lease contract with the supplier is for a definite period and for a stated consideration. We have made considerable investment in our business. We pay all of the operating costs in connection with the distribution of our products. We are entirely responsible for the success or failure, the profit or the sale, that we make out of this business.

I realize that all of the facts I have just mentioned which show that I am an independent businessman may cause one to wonder why we in our association are fearful that we might be considerd as "employees" under this bill. In the first place, I remember that under the original social-security law oil consignees like myself were at first considered "employees" by the Administrator. After considerable litigation, the court finally ruled that we were not "employees."

And, incidentally, while we paid throughout those years to social security, we finally received a refund for 4 years that we paid in, and lost the rest, because the Government claimed it was out of date. About 2 years ago the Government again tried to treat us distributors as employees, and it was necessary for Congress to pass a law to prevent that. It is clear to me that they are trying again by this bill to include bulk-oil distributors, like myself, as employees of the supplying company. I have read the definition of "employee" in the bill, but I am unable to understand it. I do understand, however, what the Ways and Means Committee, House Report No. 1300, says on page 206, which I quote:

> The proposed definition may result in defining employer-employee status to include a wide range of service relationships, in addition to those listed above, which have heretofore been considered independent contractor relationships. Among these are the following:
>
> * * * (b) Bulk oil plant operators:
>
> Wholesale distributors of oil products may have quite extensive investments and may hire numerous employees, but they are subject to some regulation by the oil companies whose products they distribute. There is permanency in their relationship with the oil companies, and they are closely integrated in the business of the oil companies, since they perform the integral function of serving as outlets for oil-company products.

There are several facts in the relationship between the supplying company and the oil distributor which have been developed through practices of the past which, as the above quotation from the report indicates, may cause the Government to rule that we should be called "employees" under this bill.

I do not want to burden the members of the committee by going into details regarding these practices, but it seems sufficient to me to say that they are all based upon good business practices and have been followed for many years. I might add that, with knowledge of all of these practices, the Federal courts in numerous cases have ruled that we are nevertheless independent contractors and are not employees under the social-security law; that is, without the amendments that are contained in H. R. 6000. The desire of the association

and myself is that Congress not write any new legislation which will disturb that situation.

We have worked hard and devoted the best that we have in trying to develop these distributorships in sound businesses of which we can be justly proud. We feel that we should be able to continue in the pursuit of this business, which has been entirely satisfactory to all of us, under our present manner of operation.

May I say, Mr. Chairman, that the bewildering thing to us, to me and to others, is that we constantly hear from all sources, including the Chief Executive of our Nation, that the small-business man in the Nation is the one that counts so much, that he needs all the protection he can get, and that he will be protected and given every aid. And yet certain bureaus and departments are constantly fostering legislation that, in this instance, for example, would wipe us out completely. Because if this law and other similar legislation that is being sponsored and is to come up would pass, our suppliers would find it profitable to handle these distributorships on a straight salary basis instead of the commission basis on which we are operating today.

We therefore urge your honorable committee to amend the present bill so that the term "employee" shall be defined so clearly that I, as a citizen, can read and understand whether it covers me, without having to consult a lawyer or go through litigation and get the Federal courts to decide if I am covered by that law.

The CHAIRMAN. Thank you very much.

Mr. Weiss, the quotation that you read is not a part of the report of the majority of the Ways and Means Committee, but it is found in the minority report. However, that does indicate that there is a difference of viewpoint and a difference of opinion and therefore possible difference of construction of the actual language contained in the bill.

The House majority indicated rather clearly that in your position you would not be covered. They do not go, however, very much beyond the case where the bulk distributor himself is the owner of his plant and the owner of his trucks and vehicles. What the agency might insist and what the Treasury might conclude if the bulk distributor was not the owner of his trucks but was the mere lessee from the supplier, I am not able myself to say. I just call attention to the fact, however, that it would seem that the majority opinion does not construe your case to fall within that of "employee."

Mr. WEISS. Thank you, Senator. Of course, the thing that we are afraid of is the fact that if it was left to the judgment or interpretation of the Administrator we will have trouble constantly in trying to clear it up, unless, you know, we go to court and get a court decision.

The CHAIRMAN. The committee understands your position.

Senator Connally?

Senator CONNALLY. Your position is that as long as it is nebulous and uncertain, the Administrator might make such a construction.

Mr. WEISS. That is right.

Senator CONNALLY. You are urging that the act be made so clear that there cannot be any doubt about it; is that the point?

Mr. WEISS. That is right. That is what we are asking.

Senator CONNALLY. Now, Mr. Weiss, in beginning your statement you said that your association, these handlers, represent several oil

companies; and you named them. What you meant was, was it not, that the association was composed of people who were distributors for those companies? They do not represent the companies as such.

Mr. WEISS. No, sir. They are distributors handling the products of these different companies.

Senator CONNALLY. What is the basis of your handling them? You get a commission, do you?

Mr. WEISS. Yes, sir.

Senator CONNALLY. In your case, do you own a lot of equipment and things of that kind?

Mr. WEISS. Well, I own all the rolling stock, trucks, because it is necessary to deliver; and I lease my warehouse from the Gulf Oil Corp. and pay them monthly rent for that.

Senator CONNALLY. In other words, with your own equipment you carry on, and you naturally pay the expenses of that equipment and things of that kind.

Mr. WEISS. That is right.

Senator CONNALLY. Is there anything else you want to submit, sir?

Mr. WEISS. I would like to ask this, Mr. Chairman, if you will permit me: Our association has another member present, Mr. E. B. Chapman. If you will permit it, sir, he would like to make a short statement.

Senator MILLIKIN. Might I ask the witness a brief question, Mr. Chairman?

The CHAIRMAN. Yes, Senator Millikin.

Senator MILLIKIN. Does the oil company send you the oil products on consignment, or do you pay for them as you get them?

Mr. WEISS. It is on consignment, Senator?

Senator KERR. In that connection, you either have to send it back or pay for it?

Mr. WEISS. That is right. I am responsible for it. I have to pay for it.

Senator KERR. Or return it?

Mr. WEISS. Or return it.

The CHAIRMAN. Thank you very much, Mr. Weiss.

Mr. WEISS. Thank you, Mr. Chairman.

The CHAIRMAN. All right, Mr. Chapman. We will be glad to hear from you. You are from Sherman, Tex.?

STATEMENT OF E. B. CHAPMAN, DISTRIBUTOR FOR THE TEXAS CO., SHERMAN, TEX.

Mr. CHAPMAN. Yes, sir. My name is E. B. Chapman. I am from Sherman, Tex., Grayson County. I am a distributor for the Texas Co. and have been for 18 years. I own my own equipment. The Texas Co. owns the warehouse in which I do business, but the products are consigned to me.

I also am interested in two other businesses. And if we were termed as "employees" under this bill, we are afraid that we would not be able to participate in these other businesses that we are interested in.

Now, I am interested in an International Harvester dealership, and if we were termed as "employees," it might be possible that I could only be considered as an employee of each company. We would like

to remain as independent businessmen, which we are now. We direct our own activities, we hire our own people, and we take what time off we deem necessary. We don't ask anybody about what we should do. We like this relationship much better. In fact, we would not be able to operate, I don't believe, if we were termed as employees, because they would just go ahead and take us over. They would operate it themselves.

Senator CONNALLY. You hire your own people?

Mr. CHAPMAN. Yes, sir.

Senator CONNALLY. And you pay them?

Mr. CHAPMAN. Yes, sir.

The CHAIRMAN. And your workers employed in other departments of your businesses may be called upon to serve in any one of your businesses?

Mr. CHAPMAN. That is correct.

The CHAIRMAN. That is the general custom, practiced throughout the country.

Mr. CHAPMAN. Yes, sir. We are permitted to expand our businesses. We own service stations, over which we have absolute control. They are not leased to the companies. We are really independent businessmen, the way we operate now, and we are afraid if this thing happens we will lose that status. And that is what we certainly don't want to see happen.

Senator CONNALLY. May I ask a question, Mr. Chairman?

The CHAIRMAN. Senator Connally.

Senator CONNALLY. You say you are independent businessmen. In other words, if you are going to deal in oil, however, you have to get it from oil people?

Mr. CHAPMAN. That is right, sir.

Senator CONNALLY. You do not produce it?

Mr. CHAPMAN. That is correct, sir.

Senator CONNALLY. So that you are merely an intermediary, as it were, independent as to your own expenses and your own help and all of the apparatus that goes along with the business. Is that correct?

Mr. CHAPMAN. That is correct, sir.

The CHAIRMAN. Thank you very much.

Mr. CHAPMAN. Thank you.

Senator CONNALLY. We are glad to have had you.

The CHAIRMAN. Mrs. Olga Ross?

STATEMENT OF OLGA S. ROSS, EXECUTIVE SECRETARY, NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC., NEW YORK, N. Y.

Mrs. Ross. Mr. Chairman and gentlemen of the committee, I realize that you are pressed for time, that a great many people are petitioning you for an opportunity to be heard, and consequently with your permission I would like to ask you gentlemen simply for time to identify myself and to have included in the record this statement, copies of which have been furnished to you and your clerk, Mrs. Springer. Naturally, if you prefer, I will read the statement.

The CHAIRMAN. If it is agreeable to you, you may include it in the record as a whole and make such statement as you wish.

Mrs. Ross. I think that actually this statement, Senator George, will speak for itself, and I feel sure that it will have your complete consideration.

I should also like to ask that it be included as part of these hearings.

The CHAIRMAN. It will be included as your statement in the record of the hearings.

Mrs. Ross. Thank you.

May I just say this: My name is Olga Ross. I am the executive secretary of the National Council of Salesmen's Organizations, Inc., with headquarters at 80 West Fortieth Street, in New York City. We are a nonprofit organization of affiliated salesmen's associations.

We would like to ask only your favorable consideration of paragraph 3, lines 17 and 18 of H. R. 6000, which covers outside salesmen in the manufacturing and wholesale trades, to the end that they may be identified as employees. That is the burden of our statement.

The CHAIRMAN. We were very glad to have you, and your statement will be included in the record.

Mrs. Ross. Thank you.

(The statement referred to follows:)

STATEMENT OF THE NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC.

IDENTITY

Mr. Chairman, gentlemen of the committee, my name is Olga Ross. I am the executive secretary of the National Council of Salesmen's Organizations, Inc., which represents the largest single groups of affiliated wholesale salesmen's associations in America. Chartered under the laws of New York State, ours is a nonprofit, voluntary organization; our main objectives to foster, promote, and advance the welfare of salesmen, to improve their working conditions and employer relationships, and to advance their opportunities for profitable employment.

FOR WHOM WE SPEAK

I am here today to plead the cause, not only of our members but that of an estimated 3,000,000 wholesale salesmen throughout the country—that vast group whom the editors of Fortune magazine recently designated "the biggest man-made force working to keep the economy going." Save for the spokesmanship of our organization and that of a kindred group, these men have no other voice in matters of national concern that directly relate to their own well-being.

TWO YEARS AGO

Two years ago my organization had the privilege of addressing itself to this most important committee—at that time as the sole spokesman for the salesmen—on the very matter that brings us here today. I refer to the Gearhart resolution and the legislation H. R. 6000 now before this committee for consideration.

THE GEARHART RESOLUTION

On our previous appearance here we came to voice our protest against enactment of the Gearhart resolution, which served to deprive many thousands of salesmen of the benefits and protection afforded those who enjoy coverage under the Social Security Act.

Today we are here to urge your favorable consideration of that particular section of H. R. 6000, paragraph 3[1] (a), covering outside salesmen in the manufacturing and wholesale trades. This would nullify the Gearhart resolution and restore to salesmen full assurance of their rights to social-security coverage. It will further clear away any remaining doubts as to their genuine status as employees.

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[1] P. 49, lines 17–18.

NOT SPECIALISTS

National council is not here to argue the pros and cons of social-security legislation. We are neither specialists nor authorities in this field. As laymen, we believe that it is wise and good legislation, that it should be extended, and its benefits increased in order that the people of America may face the future with the serenity that only a feeling of some economic security can provide.

WHY LEAVE SALESMEN OUT?

What principally concerns us here is why the salesman should be singled out from his fellow citizens and coworkers to be deprived of the same protections they are afforded under the Social Security Act. Wherein does he differ?

Are his employment opportunities any greater? No; because the salesman, who is the first to feel the effects of business off-years, is also the last to benefit in boom times when his services are least essential.

Are his rewards so much greater? No; because they are far less stable and the maximum of his best earning periods will barely offset his losses when goods are hard to move.

WRONG ASSUMPTIONS ON SALESMAN STATUS

Too many false assumptions exist regarding the economic position of the salesman and his status as an employee. The truth of the matter is that while this status is as variable as the weather, it is much more easily shifted to suit the employer's convenience. In plain language, when a salesman is hired—when he is being trained—when the terms and conditions of his employment and the rate of his commission are under discussion—he is an employee. When his services are no longer wanted, he was an independent contractor.

EMPLOYER-SALESMAN RELATIONSHIP

The relationship between the salesman and his employer is neither easy to understand nor easily defined. The variations in this relationship are multiple because of the complex structure of our economy and because the salesman epitomizes the very spirit of our free, competitive enterprise. Choice of and control over the factors that govern this relationship are never the salesman's own.

TERMS AND CONDITIONS

Salesmen are hired under all sorts of terms and conditions; under written contracts or the loosest forms of verbal agreements. But however they may be hired or under whatever terms they may work, the incontrovertible fact remains that the great mass of salesmen are most literally "employees," if that term is to be determined by the criteria of control and supervision exercised by the employers.

THE POINT OF SUPERVISION AND CONTROL

We make this point of supervision and control and will strive to prove our point because, during the past 2 years, this has been the continuous source of debate in discussion of social-security coverage for salesmen.

REVIEW OF FACTS—SUPREME COURT DECISIONS

To review briefly facts of which this committee is undoubtedly well aware: Determination of the status of salesmen for purposes of title II of the Social Security Act was always obscure until in June 1947 the Supreme Court of the United States handed down decisions in the now famous Silk, Greyvan, and Bartels cases, which found that "an employee is an individual who, as a matter of economic reality, is dependent upon the business to which he renders service."

GEARHART RESOLUTION

But with enactment, in June 1948, of the Gearhart resolution, the salesman's status again reverted to the twilight zone and it became necessary to establish degree of supervision and control exercised before he was entitled to coverage, as a bona fide employee.

DEGREE OF CONTROL AND THE MASTER-SERVANT RELATIONSHIP

The point is invariably raised that the degree of control exercised by employers over salesmen does not conform, as stipulated by the Gearhart resolution, to the usual common-law concept of the master and servant relationship. But, by the very nature of the work salesmen perform, such control must deviate from this narrow, legalistic concept.

NOT THE DEGREE BUT ITS MANIFESTATION

As a matter of fact, it is not the degree of control, but its manifestation which, in the case of the wholesale or "outside" salesmen, differs from that of other employees. Obviously, these salesmen must work away from the premises of their employers.

EXERCISE OF CONTROL BY THE EMPLOYER

Nevertheless, the employer retains direction, supervision, and control over their activities. He does this when he assigns the territories they may cover and the accounts they may solicit; the products they sell and the quantities, terms, and methods by which these products are to be sold. He assumes direction when he trains them in his methods of selling; when he provides them with the samples and advertising matter that are the "tools of their trade"; and he further assumes control when he dictates to them what "side lines"—if any—they may carry; and when he summarily decides to cut their commission rates—often retroactively—and on a take-it-or-leave-it basis. Most important of all, he reserves to himself the right to hire and fire "at will."

FACTUAL MANIFESTATION ACCEPTED BY THE LOWER COURTS

These are the factual manifestations repeatedly established in numerous State courts and upon which these courts have based their decisions that determined the salesmen's status as employees. As example of two such cases, I respectfully refer this committee to the case of *Margaret Morton* v. *Spirella Co.*, decided by the New York State Court of Appeals on November 19, 1940, and that of *John F. Goeber* v. *H. Busch & Co.*, decided by this court on October 1, 1941.

DETAILS OF THE SALESMAN'S WORKING CONDITIONS

With the committee's permission, I should like to go briefly into some detail of the salesman's employer-employee relationships. In actuality, he is far less well off than his counterpart among other professional employee groups. He has no job tenure; he can be told he is "through" without so much as a day's notice; his earnings can be and are reduced at the whim of his employer; he is required to share the credit risks of his firm. He is paid only for business that he has already produced and not upon a reasonable evaluation of his continued worth to his company.

A CASE HISTORY

I have here a post card that came unsolicited to the office of national council. It is only one of hundreds we receive, and was selected solely because it is both current and concise. This penny post card, dated February 27, 1950, is addressed "National Council of Salesmen's Organizations, 80 West Fortieth Street, New York City," and it reads:

GENTLEMEN: Can you advise me whether or not there is a law protecting an outside commission salesman from being discharged, thereby losing all commissions on future incoming business, that had been built up over a period of 14 years?

I omit the name of the sender, but offer the card in evidence.

THERE IS NO ANSWER

Gentlemen, there is no satisfactory answer the national council can offer this salesman, as you yourselves must be aware.

THE PLIGHT OF THIS SALESMAN

While I have not as yet had an opportunity to interview this salesman, I would like to venture a guess—that I am pretty sure is a good one—that this man's

employer did not assume social-security tax liability for him; that if the salesman is close to retirement age he will experience almost insurmountable difficulties in obtaining another connection; and that in the years he has worked he has managed to save very little to provide for himself and his dependents should he fail to get a job or should he have passed the normal retirement age.

OTHER EXAMPLES

I could cite to you innumerable instances of this nature—of men 72 and older—still job-hunting, as salesmen, still desperately needing these jobs, after years in a single firm's employ. Nor are these exceptional cases. Rather, they are the general rule.

STRAIGHT COMMISSIONS

Let me give you the prevailing circumstances under which straight commission salesmen are hired and the conditions under which they work. Incidentally, the practice of hiring salesmen on this straight commission basis has become increasingly widespread during recent years.

SALESMEN'S COMPENSATION FORMS

These salesmen's compensation is based solely upon the payment of a flat commission on those orders they secure which are accepted and shipped by the employer. It remains, however, within the employer's discretion as to what orders or what percentage of any order he may elect to fill. Furthermore, the salesmen's commissions are figured upon a net basis—which means after the deduction of every possible loss that might accrue to the employer such as credit losses, cancellations, returns, discounts, etc.

DRAWING ACCOUNT—OVERDRAWING AGAINST COMMISSIONS

These same conditions apply also to the salesmen who work on a drawing account. This means that they are "guaranteed" a certain weekly amount, but this is solely as an advance against their anticipated earnings. Should the salesman fall too far behind they are, of course, "let out," even though future orders may be pending as a result of their work. Some employers have gone so far as to bring suit to recover the "advances" made to dismissed salesmen. But we know a few instances where employers have voluntarily offered to salesmen the commissions due them on orders that have come in after they have been dismissed.

THE SHORT-SIGHTED EMPLOYER

One might well ask, what is there in the relationship between salesmen and their employers that brings about this disregard for accepted and standard practices to maintain good employer-employee relationships?

THE GOOD EMPLOYER IS ALSO PENALIZED

The national council believes that it is not genuine callousness upon the part of employers but a normal—if thoughtless and short-sighted—expression of our strongly competitive enterprise system. The salesman is in the one spot where the employer can cut corners, reduce costs, and hence outdistance his competitors.

A word must be said here for the many conscientious employers who willingly accept the social-security tax for their salesmen. Should these employers too be penalized by loopholes in the law which provide their competitors with a useful method of evading their like responsibility?

SUMMARY

SALESMEN NEED OLD-AGE INSURANCE

For the many valid reasons I have cited national council believes that social-security coverage is a vital necessity for both the young salesman beginning his career in selling and for the older man who is facing the downgrade. Federal old-age and survivors insurance—and unemployment compensation as well—is as great a need for all categories of salesmen as for those workers who are now clearly covered.

THE ASSOCIATION'S EXPERIENCE

Every salesmen's association can attest to this, for each is forced to maintain sickness, unemployment, and death benefit funds for its members and their dependents. And there is seldom a time when these funds remain idle. At great cost, these associations can, to a limited extent, provide for the emergencies of life which befall their members.

BENEFIT FUNDS NOT EXTENSIVE ENOUGH

But this can nowhere near begin to help the thousands of salesmen who have no associations within their own industries or who may not be able to afford membership in existing associations.

The National Council of Salesmen's Organizations respectfully submits that the majority of salesmen—save those who can be clearly identified as independent contractors—differ in no other way from other types of employees included under the Social Security Act, except insofar as one type of job may differ from another; that it is not the degree of control exercised by the employer but its manifestation that is different; that the salesmen provedly stand greatly in need of this economic protection; and that as long as the Social Security Act stands they are equally entitled to participate in its benefits.

Furthermore, we firmly believe that the definition of employee as set forth in H. R. 6000 is reasonable, fair, and protective both of the salesmen's rights and his employer's interests. We must heartily endorse its enactment and urge that this august committee give it due and favorable consideration.

May I thank you in behalf of my organization for the courtesy you have extended to it in granting us the privilege of placing our views before you.

Respectfully submitted.

OLGA S. ROSS,
Executive Secretary.

(For the National Council of Salesmen's Organizations, Inc.)

Representing: Allied Textile Association, Inc.; Associated Millinery Men; Fabric Salesmen's Association for Boston; Fabric Salesmen's Club of Chicago; Garment Salesmen's Guild of New York, Inc.; Infant and Children's War Salesmen's Guild, Inc.; Luggage and Leather Goods Salesmen's Association of America, Inc.; National Handbag and Accessories Association, Inc.; New York Candy Club; New York Corset Club; New York-Penn.-Ohio Travelers Association, Inc.; National Paint Salesmen's Association of the United States; Philadelphia Textile Salesmen's Association; Sales Representatives, Inc.—plumbing and heating division; Southern Travelers' Association, Inc.; Sportswear Salesmen's Association, Inc.; the Far Western Travelers Association, Inc.; the Piece Goods Salesmen's Association, Inc.; Toy Knights of America; Underwear-Negligee Associates, Inc.; Work Clothes and Sportswear Salesmen's Group; Wash Frock Salesmen's Association, Inc.

The CHAIRMAN. Mr. Mantler? Mr. Marshall J. Mantler?

STATEMENTS OF MARSHALL J. MANTLER, MANAGING DIRECTOR; ANDREW FEDERLINE, WASHINGTON COUNSEL, BUREAU OF SALESMEN'S NATIONAL ASSOCIATIONS, WASHINGTON, D. C.; AND JACK WENCK, VICE PRESIDENT AND GENERAL SALES MANAGER, "PIONEER, U. S. A." DARBY, PA.

Mr. MANTLER. Mr. Chairman, I have with me Mr. Jack Wenck, the president of our bureau, and Mr. Andrew Federline, Washington counsel for our bureau, who will say a few words when I am through.

The CHAIRMAN. Yes, sir.

Mr. MANTLER. My name is Marshall Mantler, and my home is in Atlanta, Ga. I am here today in my dual capacity as managing director of the Bureau of Salesmen's National Associations and executive di-

rector of the National Association of Women's and Children's Apparel Salesmen. The latter organization is one of the three Nation-wide organizations of salesmen which make up the bureau. The other two are the National Association of Men's Apparel Clubs and the National Shoe Travelers' Association.

These three organizations have a combined membership of approximately 20,000 commission salesmen selling at wholesale to retailers for resale. These members cover all parts of the United States and reside in every State of the Union. The three national groups maintain among them 86 State, regional, and territorial organizations to which their respective members belong. During the course of a year, practically every major city in the country witnesses a convention, trade show, or exhibitors' market sponsored by these member groups.

For your information, the bureau is a service organization or joint staff set up by the three national associations named. One of our main objectives is to foster good will and cooperation between manufacturers and their salesmen. Our employment service helps manufacturers obtain qualified salesmen to carry their lines, and does this without charge. We help both manufacturers and their salesmen to settle differences about commissions. Only national organizations of salesmen are eligible to belong. Let me add that a basic principle of the bureau is to advocate only those things which are in the best interest of all traveling salesmen, not just those of its members. It is in this spirit that we approach your honored committee today.

Getting down to H. R. 6000, our particular concern is for retaining in the bill an adequate provision which will eliminate any doubt that commission salesmen selling at wholesale to retailers for resale are "employees" for purposes of social security taxation and benefits. The wording of H. R. 6000 as it now stands and as it applies "to an outside salesman in the manufacturing or wholesale trade" appears to meet this need. You will find the specific language in sections 104 (A) and 206 (A) of the bill. These provisions appear on pages 49 and 150 of H. R. 6000. (Specifically, these provisions are par. 3 (A) of subsec. 210 (K) of the proposed new language to be added to title II of the Social Security Act when sec. 209 of that act is repealed; and par. 3 (A) of the proposed amendment of sec. 1426 (D) of the Internal Revenue Code.)

The CHAIRMAN. Let me ask you: Are you not now classified as employees?

Mr. MANTLER. Yes, sir. We are classified as such. But under the present wording of the bill——

The CHAIRMAN. I am not speaking of the bill. I am speaking of the present law.

Mr. MANTLER. Under the present law we are classified as such.

The CHAIRMAN. All right.

Mr. MANTLER. We are interested in seeing such provisions become law because they would clearly define the status of the wholesale commission salesman as an employee within the meaning of the act, and would clarify once and for all his right to old-age and survivors' insurance, disability, and other benefits.

There may be some question in your minds as to why a specific definition is needed to protect the salesmen's rights. You may be amazed

to learn that more than half of all the salesmen who are members of our three national organizations are regarded as "employees" by their companies, and have social security deductions taken from their commissions, while the remainder, who perform the same duties and answer to the same degree of control, are regarded as exempt by their employers. Many of our members have traveled the same territory for the same firm since long before 1937, but have never had one dollar deducted for this purpose. I believe the same could be said of wholesale salesmen in every line—that roughly half are without the protection of social security, although their duties, responsibilities, and conditions of work differ not one iota from those who are covered and who can now look forward without dread to age 65.

As you may well understand, the salesman who is not covered wonders why the law cannot be made definite enough to eliminate any question about coverage. He does not feel that it is proper to leave his social-security status to the discretion of his employer, which is the condition that prevails today. He is an employee in every reasonable sense of the word, and does not feel that he should be subjected to the embarrassment of pleading with his employer or resorting to filing a formal complaint with the Bureau of Internal Revenue on account of his employer's failure or refusal to take proper action. In many cases brought to our attention, employers who are not complying with their obligations toward their commission salesmen selling at wholesale are acting under advice of their accountants, whose viewpoint is not that of a lawyer and who have been influenced by the publicity surrounding the Gearhart resolution. There are also some employers who deliberately disregard their salesmen's rights to social security.

I use the word "rights" advisedly, because our Bureau, shortly after passage of the Gearhart amendment, consulted with both Treasury and social-security officials, and received assurance that salesmen working under the conditions that generally prevail among traveling men in our industries are entitled to social security, because their relationship to their firms is clearly and definitely that of employees. But when we asked how to obtain the compliance of recalcitrant employers on this point, we were told it was up to each individual salesman to obtain redress by filing Social Security Form No. 8, whereupon an official decision would be made as to whether or not he is eligible.

While this may seem like a solution, we submit that it is not a safe one for the average salesman, who is open in many ways to retaliation.

The present situation not only works a hardship on these uncovered salesmen but also is a discriminatory burden on those employers who do pay the social-security tax.

We are not going to burden your committee with a lot of legal jargon concerning the technicalities of the master-and-servant law, about which large volumes have been written and regarding which the courts themselves have disagreed for many centuries. We are more concerned with the spirit of the act.

We stressed this viewpoint at the hearing of the House Ways and Means Committee on this same bill. That testimony, along with other pertinent details, is printed in pages 1643–52 of the printed record. We were very pleased, therefore, when the committee announced its

decision to insert a specific definition of the traveling salesman as an "employee" in section 210 of the bill which is now before you.

As the Ways and Means Committee pointed out, and I quote:

> The usual common-law rules for determining the employer-employee relationship falls short of covering certain individuals who should be taxed at the employee rate under the old-age and survivors and disability insurance program. The statutory provisions set forth in paragraphs (3) and (4) are designed to correct this deficiency in existing law by extending the definition to include these individuals who, although not employees under the common-law rules, occupy the same status as those who are employees under such rules.

In applying this principle to outside salesmen in the manufacturing and wholesale trade, the staff of the Joint Committee on Internal Revenue Taxation observed as follows in appendix B of the Ways and Means Committee report, and I quote:

> The outside wholesale salesmen who are not treated as employees under the usual common-law rules are the city and traveling salesmen who sell at wholesale to retailers, operate off the company's premises, and are compensated on a commission basis. These salesmen are ordinarily assigned to specific territories, are required to sell merchandise at the price set by the company, and their relationship with the company may be terminated at short notice. The company reserves the right to accept or reject orders sent in by the salesmen. The company fills the salesmen's orders by shipping directly to the customers and billing the customers directly. The salesmen receive their compensation from the company. The salesmen are not controlled as to the details and means by which they cover their territories, but in the ordinary case they are expected to call on regular customers with a fair degree of regularity, and if their sales fail to meet the expectations of the company they may expect the relationship to be terminated. These salesmen may in some cases be required to make periodic reports to the company on their own activities, and they may be required to attend sales meetings and to report at the company's offices periodically.
>
> Salesmen of the type described above are subject to a considerable degree of control, although it may not be sufficient to meet the usual common-law rules. Permanency of the relationship is contemplated and in the ordinary case it may be assumed that they are closely integrated in the business of the company they serve.

Senator MILLIKIN. Mr. Chairman, may I ask a question, please?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. I do not want to involve you in a technical discussion on the common-law rule, but in what respects does this relationship that you are describing fall short of the requirements of the common-law rule?

Mr. MANTLER. Sir, under the common-law rule they try to establish the master-servant relationship, and in simplified test cases they ask: does this man have to punch a time clock every morning? Or: if this man wants to go fishing on Thursday afternoon, does he have to ask his boss? Those things are not applicable to a salesman who is covering an entire territory, because he might well come into Washington in the morning to call on one account here, and have the buyer say, "I can't see you until 4 o'clock in the afternoon." That man doesn't have to punch a time clock at 8:30 in the morning. He may be able to sleep until noon if he wants to.

Mr. FEDERLINE. May I answer that question, Senator?

It falls short in that outside commission salesmen, generally speaking, are not within the master-and-servant rule insofar as their employers are not liable for torts committed by the salesmen. In other words, when the tort test is applied as the basis for social security coverage, there may be instances where the employer is not liable. In every other respect they are employees.

Senator MILLIKIN. Well, let us take this particular category that you are referring to. A salesman of the type described here gets careless with his car and injures someone. Is the salesman responsible, or is the employer responsible, under the decisions that have come down?

Mr. FEDERLINE. My opinion is that the salesman is responsible.

Senator KERR. And that the company is not?

Mr. FEDERLINE. Ordinarily the company is not. But because there might be question about it some cases, companies frequently require their salesmen to be coverd by insurance; so that the situation is taken care of in that way.

I made an inquiry recently as to whether or not the companies themselves provide automobile liability insurance for their outside commission salesmen and I understand that they do in some instances at their own expense.

The CHAIRMAN. Well, I suppose the company might not be held liable in all tort actions, or for all torts; because the employee—and it seems to me you are employees; I do not think there is any doubt about that, under your statement of fact—is left the discretion of means by which to accomplish his end. He does not have to use a car. He might walk or take a train.

Mr. MANTLER. He might take a train or take a plane, yes, sir.

The CHAIRMAN. And he is an employee still, but he is given discretion as to the means that he will employ in doing the job.

Mr. MANTLER. Yes, sir.

The CHAIRMAN. But otherwise, it seems to me that your people under present law are employees.

Mr. MANTLER. That is the way we feel, sir. We are employees, and yet our men are not getting the coverage, sir.

The CHAIRMAN. Some of them?

Mr. MANTLER. Some of them are not.

The CHAIRMAN. Well, we can understand that, of course. But your position is that you want it made clear that you are employees?

Mr. MANTLER. Yes, sir, so that there is no loophole whatsoever; I mean, so that there is no question of doubt, no legal hodge podge, there. What is needed is a provision stating that every salesman meeting these specifications is an employee—period. It should not be up to the employer to make the decision. When Congress decides that outside commission salesmen are employees, it is not up to the employer to make that decision, sir. We want such decisions taken out of employers' hands.

The CHAIRMAN. I should think a fair disposition of it would be to say that for social security purposes, old-age and survivors insurance purposes, under this act, you are employees.

Mr. MANTLER. Yes, sir. That would be excellent.

The CHAIRMAN. And leave the courts, and the employer, and the agents to fight it out in the case of torts, and libels, and slanders, and other things of that kind. We do not want to upset the whole plan of salvation, here, just to cover the social security aspects.

Senator MILLIKIN. May I ask this question: Do all the salesmen for whom you are speaking operate under the same type of contract?

Mr. MANTLER. Written contract, sir?

Senator MILLIKIN. Whatever the contract may be.

Mr. MANTLER. No.

Senator MILLIKIN. I was curious about this statement you made a while ago about the Bureau asking each salesman to put in his own report. Under some aspects of it, that is obviously impractical, and I tried to think why they would ask that that be done, and it occurred to me that perhaps these salesmen operate under so many different types of contracts that they felt they could not make an over-all rule.

Mr. MANTLER. Do you mean when I referred to social security Form 8 as a means of redress, sir?

Senator MILLIKIN. I am a little allergic to forms, but I was interested to learn the reason for the Bureau asking each salesman to put in his own report.

The CHAIRMAN. You are referring to the fact that the Social Security Agency itself requested that this be filled out if they thought they should come under it?

Senator MILLIKIN. Yes. I have been trying to think why they did that. It seems unfair to me on the face of it, but I have been groping around, wondering why they wanted that done, and it occurred to me that perhaps there are so many different types of contracts that they would say to themselves, "We have to decide each one of these on its own bottom." Is that true?

Mr. MANTLER. Well, there are different types. One salesman may have a written contract with his firm; another salesman may have an oral contract with his firm.

Senator MILLIKIN. All right. Let us assume that is correct. Does the contract, whether written or oral, follow the same substance?

Mr. MANTLER. Basically, yes, sir. In principle it would. There may be little variations. One salesman may get 5 percent and another 6 percent. One may have complete territorial rights, and another may have house accounts pulled out. But in principle, the contracts for employment among all salesmen are the same.

The CHAIRMAN. Do you represent here broadly what we used to know as drummers in the old days?

Mr. MANTLER. Yes, sir. That is an expression, of course, that we resent very strongly, Senator George, because we feel we are professional businessmen in an honest calling. But that is what we are called, unfortunately.

Senator MILLIKIN. What is the matter with it?

Mr. MANTLER. There was a connotation, there, that tied in too closely with the farmer's daughter, that we didn't appreciate.

Senator MILLIKIN. Well, what is the matter with that?

Senator KERR. Was it the connotation, or the condition, that you resented?

Mr. MANTLER. You see, sir, in answer to the Senator's question, too many of our salesmen are married and their wives don't appreciate such jokes very much.

The CHAIRMAN. Somewhat on the same principle as a pullman porter does not want to be called "George"?

Mr. MANTLER. Yes, sir, Senator George.

Senator MILLIKIN. Or like a real estate man wants to be called a "realtor" or an undertaker a "mortician."

Mr. MANTLER. Yes, sir. In fact, some of our salesmen want to be called "merchandise consultants."

Senator MILLIKIN. That is pretty fancy.

Senator KERR. I imagine that some of their customers would like for them to attain that status.

Mr. MANTLER. That is true.

The CHAIRMAN. All right, Mr. Mantler. You may proceed.

Mr. MANTLER. The joint committee also points out that the average salesman in this category has little investment, other than perhaps an automobile, in the facilities for work, and that the employer's right to reassign territories, alter prices, or reduce commissions acts as a brake on the salesman's opportunity for profit. Incidentally, this same committee also cites the statistics of the Federal Security Agency to the effect that 220,000 outside salesmen in the manufacturing and wholesale trades not now subject to social-security taxes will come under the act if the definition and philosophy of section 210 are enacted into law. I think I may also add, without fear of contradiction, that all 220,000 will be glad to be included. To our knowledge, no objection was raised by any of the manufacturers concerned during the hearings before the House Ways and Means Committee. We believe no such objection will be voiced before your committee.

With your permission, I would like to voice one caution. We are concerned over a possible confusion of wholesale salesmen in the manufacturing and wholesale trades with door-to-door salesmen, certain types of whom are covered in the new language proposed as paragraph (3) (G) of section 210 We respectfully urge you gentlemen to keep in mind that door-to-door salesmen perform a retail function, while our members and the other salesmen for whom we speak are purely wholesale. This distinction, while easily lost sight of by persons unacquainted with distribution and marketing, is tremendously important because of the different circumstances and conditions of work involved. To appreciate this is to understand why the House enacted separate definitions for these two entirely different types of salesmen.

In degree of control, in expectancy of tenure, in the requirement of reports, and in many other ways these two classifications of salesmen are as far apart as day and night We have no argument for or against coverage of door-to-door salesmen: housewives earning pin money by selling dresses or hosiery to their neighbors and friends; itinerant subscription salesmen, or any other groups. Our point is that outside salesmen in the manufacturing or wholesale trade occupy an entirely different status. Yet, lacking such specific treatment as is accorded them in the proposed new wording of section 210 (3) (G), wholesale salesmen in the manufacturing and wholesale trades might easily fall victims to a chain reaction following upon a court decision or regulatory interpretation aimed originally at door-to-door salesmen or the other types mentioned above. Hence, we urge you to retain the definition of "employee" in this section, as phrased in the bill which passed the House, as it applies to outside salesmen in the manufacturing and wholesale trade.

In closing, let me say that never before has social security been so important and necessary to the salesmen in the fields we represent. The buyers' market has depressed the salesmen's incomes, because prices are down and orders are smaller. The average retailer is buying on a hand-to-mouth basis, which means that the salesman must make more frequent trips around his territory. At the same time,

costs of travel, of hotel accommodations, and other expenses have gone higher and continue to rise. The resulting squeeze means slimmer savings; in many cases, none at all. So you can well imagine how important social security has become to these hundreds of thousands of employees, especially so in view of the enlarged benefits contemplated in this bill.

Thank you very much for your consideration of our plea.

The CHAIRMAN. Are there any questions?

Thank you very much.

Mr. MANTLER. This is Mr. Wenck, Senator George.

The CHAIRMAN. We will be glad to hear from you, Mr. Wenck. You may be seated, if you wish.

Mr. WENCK. Senator, my name is Jack Wenck. My home is in Philadelphia. I am president of the National Association of Men's Apparel Clubs, president of the Bureau of Salesmen's National Associations, and vice president and general sales manager of Pioneer, U. S. A., of Darby, Pa., manufacturers of men's accessories. I was a salesman for 25 years.

In requesting you to include a specific provision in the amendments to the social-security laws stating that commission salesmen selling at wholesale to retailers for resale—or equivalent language—are employees, we are not asking your committee to add a new group for social-security coverage. These men not only are employees, but are entitled now as a matter of right to social-security coverage under existing law. By mentioning them categorically in the amendments you will not be stretching the common-law concept of the employer-employee relationship, but you will dispel any doubt in any employer's mind that he must pay the social-security tax on these employees.

More than half of the employees we represent have social-security coverage, and the remainder probably would have had it long ago if the publicity concerning the exclusion of door-to-door and certain other commission salespersons had been less confusing.

The root of our problem lies in the failure of many persons to differentiate between classes of salesmen within the large category of commission salesmen. Reasons given by employers for excluding door-to-door salesmen and certain other groups under existing law, have never applied to the type of commission salesmen we represent, and frankly I don't believe any employer in the fields we cover would want to appear before your committee and maintain that his outside commission salesmen were not employees for social-security purposes.

The remedy that our outside commission salesman who are not covered have by filing a formal complaint with the Bureau of Internal Revenue on form S–8 is not adequate, and the only logical solution of our problem we can see is for Congress, on the recommendation of your committee, to spell out social-security coverage for commission salesmen selling at wholesale to retailers for resale.

Thank you, Senator.

Senator MILLIKIN. Mr. Chairman, may I ask Mr. Cohen a question?

The CHAIRMAN. Certainly, Senator.

Senator MILLIKIN. What is the theory, Mr. Cohen, of asking these salesmen who are not covered by their employers, or whatever you want to call them for the purposes before us, to put in their own returns?

Mr. COHEN. Well, that has been based, I would say, Senator, on the actual experience that unless we get the actual factual information concerning the conditions of employment we are not in a position to determine in the individual case whether there really is control.

Senator MILLIKIN. Do you agree that this particular type of salesman we are talking about is covered by what we might term a fairly uniform contract? Or are there wide variations?

Mr. COHEN. Well, the kind of cases we get usually, I suppose, accentuate the differences rather than the similarities, because usually the kind of case where this form has to be used is a case where the employer, probably on the advice of his counsel, has said that they are not covered, and the employee comes in and says he thinks he is. Then, of course, we try to look at the facts in that situation.

Senator MILLIKIN. How are most of those cases resolved?

Mr. COHEN. Well, I could not say right now what the preponderance has been on the basis of those forms. I wouldn't know offhand. But I do know that we have included some on the basis of those form 8's, because the facts as determined after an investigation are somewhat different than those stated when the employer felt that he wanted tax exemption.

Senator MILLIKIN. Mr. Chairman, I would like to ask if these gentlemen would be in position to give us an assortment of sample contracts covering the employment of this type of salesman.

Mr. WENCK. We can do that.

Mr. MANTLER. Do you mean verbally, now? Or to submit them to you later?

Senator MILLIKIN. To supply us with the form of contract.

Mr. WENCK. Senator, I think this might bring it out. There are many of the salesmen who do not sign a contract at all. In other words, originally these men go out to represent a line. They pay their own expenses, and they have monthly settlements, although they are still subject to the rules prescribed for other salesmen.

Senator MILLIKIN. But they do have a written contract?

Mr. WENCK. No, sir.

Senator MILLIKIN. In no case? A gentleman has testified otherwise.

Mr. WENCK. There are some salesmen, though, that don't have written contracts.

Senator MILLIKIN. But where there are written contracts; could you not get a sampling of those?

Mr. WENCK. Yes, sir.

The CHAIRMAN. We understand that the commission would vary according to the merchandise, the products that you are selling, and according to the salesmen, according to the territory, and according to various things that may enter into it. We are not so much interested, as I apprehend, Senator Millikan, whether they get 5 percent or 4 percent or 10 percent, but the general form of the contract, showing the nature, really, of the relationship.

Mr. MANTLER. I might have a copy in my brief case.

The CHAIRMAN. You may supply that later, with several of those types if there are varying types.

Mr. FEDERLINE. May I add one word to that, Senator?

The CHAIRMAN. Yes, sir.

Mr. FEDERLINE. I doubt that the type of contracts that can be submitted would reveal all the factors of control that the Social Security Agency might wish to consider in a case.

The CHAIRMAN. Well, naturally, because they have borderline cases; there are some cases that fall within, and some without, as Mr. Cohen has indicated, in the Agency.

Mr. Cohen, generally speaking, the type of salesman here represented is regarded in the Bureau as coming under present law, within the act, is he not?

Mr. COHEN. That was our feeling in the early period, that many of them were employees, even under the original law, and even at the present time; but it really has become a real administrative problem of determining that in every individual case. It cannot be just a blanket determination.

The CHAIRMAN. I see.

Thank you, gentlemen, for your appearance.

Mr. MANTLER. Thank you, Senator.

The CHAIRMAN. Mr. Pillen? Mr. Herbert G. Pillen?

Did you have somebody with you, Mr. Pillen?

STATEMENT OF HERBERT G. PILLEN, PRESIDENT, CONTROLLED-CIRCULATION NEWSPAPERS OF AMERICA, INC., WASHINGTON, D. C.

Mr. PILLEN. No, I am by myself, and I need only about 5 minutes.

My name is Herbert G. Pillen. I am president of the Controlled-Circulation Newspapers of America, Inc., and appear here in behalf of what we call the carrier-boy amendment to the act. Our association has about 151 members and a circulation in excess of 5,000,000 a week.

Senator MILLIKIN. Mr. Chairman, may I ask: What do you mean by a controlled-circulation newspaper?

Mr. PILLEN. A controlled-circulation newspaper, Senator, is a newspaper that is delivered to every home owner in a community regardless of whether there is a paid subscription or not.

Senator KERR. You call it a throw-away, do you not?

Mr. PILLEN. No, sir; we do not call it a throw-away.

Senator MILLIKIN. Is it a throw-away?

Mr. PILLEN. I have here, for instance, a copy of the Observer, of St. Louis. It has everything in it that any other newspaper has, except that it is restricted to a community, and advertisers pay for it because it is so restricted. For instance, in Chicago, where you have quite a large population, you have a number of these area papers, which carry the news of that area. It is a community within a community. And they limit their coverage to that, and an advertiser, of course, is more concerned with his own people than the millions who live——

Senator MILLIKIN. It is controlled in that it is limited to a definite geographical area?

Mr. PILLEN. That is right, Senator, and gives complete coverage. This, for instance, is a community newspaper in St. Louis. Well, you can see that while it has a good deal of arvertising in it, it has just as much news as any other paper. But it is restricted to its own community.

As I say, we have a circulation of about 5,000,000.

In 1939 your committee wrote into the Social Security Act a provision exempting from the term "employment," the services rendered by a schoolboy in the delivery or distribution of newspapers and shopping news. That provision is presently in the law, and was retained in the legislation as it passed the House.

I would have assumed that this provision would remain undisturbed if it were not for the fact that the bill as originally introduced in the House and which was reported to be the administration proposal, carried a provision to discontinue this exemption, to delete it.

The provision to which I have reference is embodied in paragraph 16 (A) of H. R. 6000 and appears on pages 42 and 144 of that bill. It provides that "employment" does not include "service performed by an individual under the age of 18 in the delivery or distribution of newspapers or shopping news, not including delivery or distribution to any point for subsequent delivery or distribution."

These carrier boys are not engaged in full-time employment. It is true the present exemption runs to carrier boys whether in full-time or part-time employment, but the fact is that the overwhelming majority of them are part-time employees who work an hour or two after school, and if, therefore, the committee feels that carrier boys under 18 years of age who make their living in this business should be included within the act, as distinguished from those boys who do it as an after-school occupation, then I would suggest an amendment to include, after the number "18," in line 2, the words "whose principal occupation is a student actually attending a regular daytime public or private school."

It appears that these carrier boys can receive no benefit from the law anyway, and it would seem that if they cannot benefit from the law they ought not to be taxed under it.

As I have heretofore stated, this exemption runs only to boys under 18 years of age. Section 214—page 62 of the bill—limits eligibility to coverage to the years after 21, in these words:

> (1) He had not less than a quarter of coverage for each four of the quarters elapsing after 1936 or after the quarter in which he attained the age of 21, whichever is later.

So that these carrier boys will not be given old-age benefits based on their service prior to age 21.

What about survivors' benefits, if he should die while employed? It would appear that the only persons who could conceivably be beneficiaries are his parents, since it is unlikely that he will have a wife or children. Now, the bill, in determining whether a parent may be a beneficiary, states as a condition that that parent must have attained retirement age; which would mean that if the boy were under 18, he must have been born to a father who was 47 years of age or over, or a mother who was 42 years of age or over, which would appreciably reduce the number of eligibles. Further more, the proposed act would provide that such a parent must have received at least one-half of the amount of his support from the individual at the time of the individual's death. Certainly a boy working after school for 2 or 3 hours a week could not possibly provide one-half of his parents' support from that income.

As to the payment of disability benefits, Mr. Altmeyer stated in his outline of the act that:

> The strict quailfying requirements for insured status will limit benefits to those whose work record shows both recent and regular attachment to the labor force.

Of course, if these boys are injured while they are actually serving as carrier boys, they would be covered by the workmen's compensation acts in the various States. If they are injured, however, while at play, it would seem that they ought not to have benefits as an employee, since their primary occupation is going to school, and other school children injured at play are not given benefits.

Another factor which I should like the committee to consider is how much of a nuisance and problem it would be for the employer to get social-security cards for each one of his carrier boys, some of whom will be employed for one delivery only because the regular carrier failed to show up. Under the act, a social-security card would have to be secured before the boy is employed. I do not have statistics on all our members, but I think the report which comes to me from Cleveland is representative. It shows that there are 1,090 carrier boys on the current pay roll, that during the last 6 months there has been a turnover of an average of 172 boys per month, which means an average of 15.8 percent per month of new boys added. On this same basis, it would mean an average of 189.6 percent turn-over per year, or practically two complete turn-overs a year.

I am sure you will realize that there are many times when boys do not show up for delivery. It then becomes necessary for the employer to hire another boy on the spot, and get him a social-security card. If these boys should be covered into the act, it would be necessary for an employer to secure a social-security card on each of the boys and arrange for deductions. Now, on the basis of 189.6 percent turn-over per year on these boys, the records which the employer would be required to keep would be a tremendous nuisance and considerable expense, and I presume it would cost the Government as much or more than the employer to keep its records, records which in a sense are useless.

As to the amount of money earned by carrier boys, I find they are paid an average of $1.10 per delivery. Since the publishers whom I represent are publishers of weeklies or semiweeklies, it will readily be seen that the income is under $50 per quarter; and, as you know, one of the factors used in determining coverage is that the employee earn at least $50 a quarter.

On this showing it is earnestly to be hoped that the present exemption running to carrier boys may be continued. Of course, as you know, it runs to all carrier boys, whether they are our type of publishers or not. It so happens that I was the one who appeared here in 1939 to urge the exemption originally; that is why I am still carrying the ball on it.

That is all I want to say on the subject, Mr. Chairman.

The CHAIRMAN. Any questions?

Thank you very much, Mr. Pillen, for your appearance.

Mr. PILLEN. Thank you.

The CHAIRMAN. I would like to insert in the record at this time the statement of Mr. Millard Reese, of Brunswick, Ga., which is in opposi-

tion to the definition of "employee" as provided in the House-passed bill H. R. 6000. Mr. Reese is known personally to the chairman and is one of the most prominent professional and business men in southeast Georgia. He was unable to appear personally and present his views but submits this fine brief for the record.

(The brief referred to is as follows:)

MEMORANDUM IN OPPOSITION TO CERTAIN PROVISIONS OF H. R. NO. 6000

(Prepared and submitted by Millard Reese, of Brunswick, Ga.)

This memorandum will deal particularly with the amendments proposed to section 1426 (d) of the Internal Revenue Code found in section 206 (a) of the bill.

I

The original Federal Social Security Act of August 14, 1935, expressly provided that the term "employee" did not include "(1) any individual who, under the usual common-law rules applicable in determining the employer-employee relationship has the status of an independent contractor. * * *" (I. R. C., title 26, sec. 1426 (d).)

The amendments proposed by the pending bill to the section of the Internal Revenue Code cited are drastic and far-reaching, and it is believed they would result not only in severe hardships upon many employers whose own employees fall within the operation of the act but in great confusion and uncertainty as well.

It will be recalled that the original act created the Social Security Board as the agency charged with the primary duty of administering the law. It is our information that soon after its organization this Board had prepared a uniform law which it recommended or submitted for adoption by the respective States desiring to claim the rights offered the States in connection with participation in the tax imposed by the Federal law and the administration of the law.

It is our understanding that the Georgia act of 1937 (Georgia Laws of 1937, p. 806) followed quite closely the uniform act recommended by the Social Security Board, though no doubt inconsequential changes were made. That act (as amended in immaterial respects for the purposes of this memorandum) now appears in title 54 of the 1947 Cumulative Pocket Park of the Code of Georgia Annotated. Section 54–657 (f) of the Code Supplement mentioned contains the following paragraph:

"Whenever any employing unit contracts with or has under it any contractor or subcontractor for any work, which is part of its usual trade, occupation, profession, or business, unless the employing unit as well as each such contractor or subcontractor is an employer by reason of subsection (g) of this section or section 54-623 paragraph (c), the employing unit shall for all the purposes of this chapter be deemed to employ each individual in the employ of each such contractor or subcontractor for each day during which such individual is engaged in performing such work; except that each such contractor or subcontractor who is an employer by reason of subsection (g) of this section or section 54–623, paragraph (c), shall be liable for the employer's contributions measured by wages payable to individuals in his employ, and except that any employing unit who shall become liable for and pay contribution with respect to individuals in the employ of any such contractor or subcontractor who is not an employer by reason of subsection (g) of this section or section 54–623, paragraph (c), may recover the same from such contractor or subcontractor."

This matter is codified from section 19 (f) of the Georgia act, at page 841, of Georgia Laws of 1937.

This language or substantially the same language appears in the qualifying acts adopted by at least 11 States, as shown by Prentice-Hall Social Security Tax Service. These States are listed below, the number following each referring to paragraph numbering of the Prentice-Hall service mentioned.

Georgia 26080, Iowa, 26073, Louisiana 26080, Maine 26014, New Mexico 26073, New Jersey 26078, North Dakota 26012, Oklahoma 26071, Rhode Island 26014, South Carolina 26077, Tennessee 26007.

The qualifying acts of other States contain provisions framed in different language but designed to accomplish the same end as those quoted above from the Georgia act. These States, with the paragraphs of the Prentice-Hall service

mentioned dealing with them respectively, are as follows: Connecticut 26009, New Hampshire 26010, Virginia 26013, Wisconsin 26007, New York 26057, Nebraska 26018.

II

The provisions quoted above from the Georgia act have been before the appellate courts of the State, and have been construed by these courts. The leading Georgia case on the subject is *Jeffreys-McElrath Manufacturing Company* v. *Huiet* (196 Ga. 710, 27 S. E. 2d, 385, 150 A. L. R., 1200). In that case it was held in effect that the liability imposed upon employer X for the tax on the earnings of employees of a contractor or subcontractor with whom X had dealt is the liability of a surety. The court said that X "is not the party ultimately liable for the tax or contribution, and is hardly more than a collecting agency for the State." It also was held that where X paid taxes or contributions under section 19 (f) of the Georgia act, he would have the right to recover against the party ultimately liable, i. e. against his contractor or subcontractor who was in fact the real or actual employer of the employees involved.

It is submitted that this is as far as any amendment to the Federal act should go in an effort to enlarge the coverage of the Federal law by imposing liability for the tax upon one who is not liable to the employee for his wages and hence is not the real or actual employer.

In the Jeffreys-McElrath case, supra, the supreme court of Georgia sustained the provisions of section 19 (f) of the Georgia act against constitutional attacks based upon the due-process provisions of the State and Federal Constitutions and the principle of uniformity of taxation found in the State Constitution. It would be no idle matter for Congress at this time to adopt an amendment to the Federal law, presumably seeking to serve the same purpose as the provisions of section 19 (f) of the Georgia law, but so different in phraseology as to reopen the question of constitutionality under the Federal Constitution and under the respective State Constitutions in the event States should rewrite or amend their existing laws to conform with the proposed amendment to the Federal law.

An annotation appearing in 150 A. L. R. commencing at page 1214, follows the report of the Jeffreys-McElrath decision and the decision of the Connecticut Supreme Court of Errors in the case of *Elizabeth Bourn* v. *Waterbury Battery Co.* (129 Conn. 44, 26 Atl. (2d) 467), which was a workmen's compensation case. Hence the annotation not only covers cases arising under unemployment compensation acts but under workmen's compensation laws containing provisions analogous to section 19 (f) of the Georgia Unemployment Compensation Act. The annotation itself covers 38 pages. It appeared in a volume published in 1945. Later annotations bearing upon various phases of the questions discussed appear in 158 A. L. R. 915, and again at page 1237; in 160 A. L. R. 713; in 161 A. L. R. 842; and in 164 A. L. R. 1411.

It is believed that even a casual review of these valuable annotations will convince members of the committee that the law as it exists has been sympathetically considered and construed by the courts of last resort and now stands as well settled in many of the States. This is valuable to the agencies administering these laws as well as to employers and others who have to observe them.

III

It is suggested that under the peculiar provisions of the Federal act permitting the qualifying States to exercise the enumerated rights and powers permitted under the Federal law, a very different situation may be presented where the provisions of the Federal law enlarge or might be construed to enlarge the coverage of the laws of the given State, as compared with the situation which has existed at least with respect to the 17 States above enumerated, where the coverage of the laws of the respective States enlarged the coverage of the Federal law. To make clearer the point attempted to be set out in the preceding sentence, let it be stated this way:

The laws of the 17 States enumerated above extended coverage in stated circumstances to employees of independent contractors or subcontractors not covered by the Federal law. That was all right, because first the Social Security Board and later the Federal Security Administrator had to approve and certify a State as qualified under the Federal law. Naturally no valid objection might be made to a State law enlarging the coverage provided by the Federal act.

But if an amendment to the Federal act should be enacted into law which enlarges the coverage afforded by the laws of the respective States, what will the situation be?

It is believed that the definition of "employee" found in the proposed new paragraph (4) of section 1426 (d) of the Internal Revenue Code is intended to extend and does extend the coverage of the Federal act to groups not covered by any of the acts of the respective States.

If such provisions should be enacted into law, what would be the effect upon the State laws?

IV

The new paragraph (4) added to section 1426 (b) of the I. R. Code by section 206 (a) of the bill as passed by the House gives a new and remarkable definition of "employee." The proposed definition is not definitive. It is vague, indefinite, and uncertain and might be held to support almost any construction an administrative officer or a court might desire to give it. The minority report of the House Ways and Means Committee states vigorously and emphatically very real and substantial objections to the proposed definition. (See House Ways and Means Committee report, pp. 162–3).

A fundamental conception of Anglo-Saxon law which has made that law great, and has enabled it to serve well the numerous civilizations living under it, is that a statute should be so expressed in words as to enable those who are affected by it to know what the statute means; to determine, with reasonable certainty at least, what the law requires and what it prohibits, and to act accordingly.

It should be remembered that the bill under discussion, in part at least, is a taxing statute. In the Jeffreys-McElrath case, supra, Chief Justice Bell of the Georgia supreme court made a significant and an illuminating observation when he said (p. 118):

"The Unemployment Compensation Act is quite lengthy, and it may be that some of its provisions should be construed strictly as a taxing statute, and that others should be interpreted according to some more liberal rule. * * * Thus section 19 (f) should perhaps be construed in part as a taxing statute, since it may under some conditions either create or increase a tax liability as against someone; but even so, the paramount rule in all cases is to ascertain the intention of the legislature, looking to the statute as a whole, and keeping in view at all times the old law, the evil, and the remedy."

Where the law requires an employer to deduct taxes owing by the employee from his earnings and imposes taxes upon the employer himself based upon the earnings of the employee, the employer can comply with such requirements where the true or contractual employer-employee relation exists and the wages earned by the employee are paid by the employer. Even this method requires the employer to keep many records and to make numerous remittances and reports an employer would be relieved of keeping and making if he were not required to be a collecting agent for the Government.

But where, as in the bill under consideration, business concern X is made the "statutory" employer of earner Y, who actually works for Z, and the contract of employment is between Z and Y, with Z paying the wages earned by Y, it would be fearfully unfair and unreasonable to impose upon X the burdens and obligations contemplated by the bill.

CONCLUSION

The author's interest in the pending legislation is primarily because the largest source of natural wealth in his section of Georgia is timber, and most of the industrial plants of the area are dependent upon trees in one form or another as raw materials. For instance there are creosoting plants at Savannah, Brunswick, and Jacksonville. There are paper or pulp mills at all of these places as well as at St. Mary's, Ga., and Fernandina, Fla. There are plywood plants at Savannah and Brunswick and perhaps elsewhere in this immediate section. Sawmills and planing mills are numerous.

Some of these plants own timbered lands, but the author knows not one which relies upon timber procured by its own lands as the sole source of its supply of raw material. To procure poles and piling meeting required specifications means that cutting frequently will have to be done over a large area of land. A pole must be straight, must be of a certain diameter at the butt and must taper gradually to a diameter not less than a specified size at the small end.

No creosoting company doing a substantial business in poles could hope to procure all the poles it needs from its own lands. In order to stay in business such companies have to deal with contractors. The procuring of poles has grown to be almost as distinct a business from the treatment and distribution of poles as the growing of cotton is from the manufacture of cotton into yarns and fabrics.

Similarly the procuring of pulpwood is a distinct business from the manufacture of that wood into paper or paper pulp. The mills generally much prefer to deal with contractors to furnish pulpwood, even where the pulpwood may be taken from lands owned by the mill itself. The same contractor may deal today with one mill, tomorrow with another, or he may deal with more than one mill at the same time. Unless there should be a controlling reason to the contrary, it would be foolish for a contractor to deliver pulpwood to a mill more than 100 miles from where wood may be located when another mill within 50 miles would be willing to take the wood at the same delivered price.

There are many ramifications to the pending bill which those who are advocating it probably knew nothing about and did not foresee. These should be considered carefully before making such drastic changes in the law.

The CHAIRMAN. Dr. Benson? Dr. George S. Benson?
You may be seated, Doctor. We will be very glad to hear you.

STATEMENT OF DR. GEORGE S. BENSON, PRESIDENT, HARDING COLLEGE, SEARCY, ARK.

Dr. BENSON. Thank you, Senator George, and members of the committee. I do not have a formal written statement. I would like to present an oral statement from brief notes, with your permission, and I would like to file later a written statement which will include the things I am prepared to say at this time.

The CHAIRMAN. You may do so, Doctor.

Dr. BENSON. Thank you.

As an educator, I am deeply interested in the present generation of Americans and in future generations, and I certainly appreciate your kindness in giving me a few minutes to appear before your committee this morning.

I would like to take just a little bit of that time to express my very deep appreciation to this committee and the men on the committee. For a good many years, I have watched with much admiration the unselfish work of a number of the men on this committee. Your responsibilities are very heavy, and at a time when the financial policies of this Nation are very important I appreciate the fact that you are giving several weeks to hearings on H. R. 6000. That is only an indication of your sincere desire to do the best that can be done for this Nation. And I speak the sentiments of many Arkansas people when I express deep appreciation for your public service.

Now, in beginning testimony on H. R. 6000, I would like to recite a series of connected incidents in the history of France, which I think are very pertinent at this point.

In 1786, Mr. Necker was the able Minister of Finance in France. He was a wizard at finding ways of getting money to meet the growing needs of the Government. But as the task grew harder and harder, he finally came forth with an idea of selling to the people guaranteed annuities at 8 or 10 percent interest. The savings of the people were freely loaned in exchange for Government promises. But in 1789, when the resourceful Necker could no longer finance the payments on the annuities, he was removed from office. Then the people

suddenly realized that the State was in bankruptcy and that the annuities were worthless. The people raged, and in a few months the French Revolution was on, and heads rolled.

Well, I am just indicating how serious it is when a country oversteps its ability to meet its financial obligations.

Necker said:

> The most dangerous of expedients is that of raising loans without having secured payments of interest thereon.

Now, I note that people have testified on the apparently desirable features of H. R. 6000 with scarcely a word about how the payments will be met in 20, 30, or 40 years from now, when the burden would be heaviest. People now 20, 30, and 40 and 50 years old will qualify ultimately for insurance and pensions. In 1990, the burden of payments would be staggering. The present number of 11,500,000 who are at the ages of 65, it is estimated by Arthur J. Altmeyer, would be 19,000,000 by 1975. What might it be by 1990? We don't know. The longevity is constantly increasing, so it is impossible to estimate what the burdens and responsibilities under H. R. 6000 would actually be 20 or 30 or 40 or 50 years from now. The United States News estimates that if we had hundred-dollar pensions for only 30,000,000 people, and we secured them by adequate reserves, it would require about $375,000,000,000 in reserves. But H. R. 6000 looks forward to twice that many coming under hundred-dollar pensions or more. So that would, if entirely secured by reserves, require $750,000,000,000. That runs several times our present national income annually, or our present national debt. And, of course, we recognize that it would be virtually impossible to create such reserves and it probably would be imprudent even to attempt to create them. We wouldn't know what to do with the reserves if we had them. We wouldn't know how to invest the money. So the matter of creating the reserves seems to be a problem we naturally try to avoid.

But there is another very important factor. If we do not create the reserves—and we wouldn't—we would be collecting money year by year on the incomes of the people. But we wouldn't be saving the money to meet those obligations when they arrive. On the contrary, our custom is to spend that money. So this in reality becomes a tax bill, whereby we raise revenue and spend it as we go, year by year. Then we would have to look forward to our children and our children's children being able to meet these obligations when they came due.

I notice the testimony of one person here recently, Miss Marjorie Shearon, editor and legislative consultant, refers to the funds of the OASI. Their statement shows assets of $10,000,000,000. But far over 90 percent of it is in Government securities. In other words, IOU's, Government bonds, seem to replace pretty rapidly the cash that accumulates in these funds. And then it means when it is replaced it must be done by taxes collected at the time it is to be replaced. So our children would have to have the obligation of the payments.

The Brookings Institution is probably as reliable as any fact-finding group that we might look to, and they have undertaken to estimate the cost of old-age and survivors benefits, compulsory health insurance, public assistance, and veterans' benefits. That is more than is covered by H. R. 6000, but it includes much that is in H. R. 6000. But the Brookings Institution estimates that by 1970 just those things I

have mentioned, old-age and survivors benefits, compulsory health insurance, public assistance, and veterans' benefits, would run somewhere between 26 and 41 billions. They give a low of 26 and a high of 41. It would probably fall somewhere between those figures. They estimate by 1990 the cost would be between 33 and 55 billions. That would mean approximately doubling our present budget. Our tax load is now, according to former President Hoover, about 30 percent of our total national income, including local, State, and National taxes. Some have stated 26 percent, but a recent statement by Hoover was 30 percent. However, taking either figure it would mean that by 1975 or 1980 or 1990, we would be paying probably 45 percent of our national income in taxes if we were to meet the load that would, according to H. R. 6000, be saddled on our country.

Senator MILLIKIN. Does the Brookings Institution extrapolate what is assumed to be a rising income in the United States? Or is that on the assumption of maintenance of present income?

Dr. BENSON. No; it is on the assumption of maintenance of present income. They also discuss the possibility of a higher income, which would mean inflation, and which probably wouldn't simplify the problem; because benefits would become less in value. But they have set these figures on present income.

Senator MILLIKIN. It might not necessarily be inflation. It could mean inflation, but it might not necessarily mean inflation.

Dr. BENSON. If we could come to a tax load of 45 percent of our national income, which these benefits would probably entail, it would be a tax load that no nation as yet has been able to carry and continue to prosper. England, at the present time, is paying 40 percent of its national income in taxes, but she can't carry her own weight. They have had nearly seven billions of aid from this continent since the end of the war, and they still can't get on their feet. The smaller countries of western Europe have been able to restore their productivity, and I assume if it weren't for fear of Russia we would withdraw all aid immediately, but we couldn't do so with regard to England. They would collapse at once. With a tax burden of 40 percent, they can't get going. Well, I think we would be unable to carry our weight and pay 45 percent or more of our income in taxes. Yet that is the burden we would be saddling on our children. Accordingly, I think we have no moral right to saddle such a load on our children and our children's children. It would be immoral to allow people to make payments now expecting to get certain pensions, and then not pay them, and it is equally immoral to collect that money and spend it as we go along and then expect our children to meet the payments, when we realize it would put upon them a burden the like of which no people yet have been able to carry.

Senator MILLIKIN. Mr. Chairman, may I suggest to the witness that when you add local and State taxes to our Federal taxes, you are beyond the 30 percent point right now. And the State and local expenditures are rising rapidly. Even if our expenditures did not continue to rise rapidly, you will be close to the 40 percent you are talking about before very long in this country.

Dr. BENSON. Thank you for adding that information. But it only emphasizes, as I see it, the danger of increasing our social-security load, as H. R. 6000 would increase it.

Senator KERR. As I understood the witness, he stated that the estimate by ex-President Hoover was based upon the total tax load, State and local as well as national, and the entire load amounted to approximately 30 percent of the national income.

Dr. BENSON. Yes. That is the figure Hoover recently used, as to our total taxes, State, local, and national.

Senator KERR. And I think it was fairly recently that he made that statement.

Dr. BENSON. That is right.

Senator KERR. You do not know of anything in the meantime that has increased that by 23 or 24 billion dollars, do you, that would take it up from 30 to 40 percent of the national income?

Dr. BENSON. I don't.

Senator MILLIKIN. I was not suggesting it is 40. I was saying that if you make allowance for the rising expenditures in the States and local governments, and the rising expenditures of the Federal Government, it will probably be not long until it is 40 percent.

Senator KERR. I understood you, Senator, to say that that did not contemplate the amount being paid by State and local government at this time.

Senator MILLIKIN. No; I started out by saying that it is now perhaps 20 percent Federal, and when you add your State and local you are probably in the neighborhood of 30. And since the whole thing is on a rising curve, it probably will not be long until it is 40. That is all I was saying.

Senator KERR. I misunderstood you, Senator.

Dr. BENSON. Consequently, I would like to urge that the increased benefit under H. R. 6000 not be adopted. I would like to urge that any additional benefits by on a pay-as-you-go basis, for these reasons. In the first place, we would not then be recreating obligations the magnitude of which we can't really measure, and second, we would not be placing on our children obligations that we seem to lack the courage to meet ourselves. If we want these various benefits, why not pay for them as we go, instead of projecting a load on our children.

In the third place, it would tend, I think, to keep our taxes where, if we wanted to decreased these benefits, we could do so. If we allow payments now to be made for 10, 15, 20, or 30 years, with the understanding that a person is then to be qualified for a certain pension, and then we find the load too heavy, we have really an immoral situation if we begin to welch on it, while if we create a pay-as-you-go basis, then any time it gets too heavy the people can cut down on it without creating any immoral situation, without creating a kind of situation of the type which Necker created in France.

There is another danger, as I see it. Right now of all times is a time when our Nation should be building its internal strength. We forsee, I think, a serious test in the next few years ahead of us, and if we overobligate ourselves financially it will be extremely dangerous. You probably remember Lenin's statement when he was formulating a policy to communize the whole world, and he said: "We shall force the United States to spend itself into bankruptcy."

Roushenbusch, the rather well-known Socialist writer in the New Leader, insisted that probably it would be found impossible to create a revolution in America, because we didn't have a hunger situation and we don't have class strife and hatred. Consequently, he recom-

mended that America be socialized a little bit at a time. William Z. Foster, a student of Lenin, has urged that pensions and insurance be worked out on a full wage basis.

Senator MILLIKIN. Mr. Chairman, if I may suggest to the distinguished witness: That was the Fabian policy in England, of socializing a little at a time.

Dr. BENSON. That is right. And it seems to me we have already taken a good many small steps in that direction, and we are being urged to look on each as an objective within itself; whereas, when we look at them as a whole, it seems to me they fall into a rather definite pattern calculated for the socialization of our Nation, which would add to our financial burden obligations we wouldn't be able to meet, and which would stand the possibility of wrecking our financial structure, and should that happen we would have a different form of government and one which I am inclined to think we wouldn't like. So as the future of our children is at stake, and the future of our Nation, I think we should measure very carefully our obligations, and any added obligations should be on a pay-as-you-go basis. That constitutes the burden of what I wanted to say this morning.

The CHAIRMAN. Any questions?

Senator BYRD. No questions.

I would like to thank the doctor for his statement.

The CHAIRMAN. Doctor, you estimated the pensions at $100 a month under H. R. 6000. That is rather high, is it not? The old-age insurance benefits would average less than $55 a month under H. R. 6000, would they not?

Dr. BENSON. I understand it is a little bit high.

The CHAIRMAN. The wage base, of course, is raised from $3,000 to $3,600 a year, and that would make it possible for a maximum pension or benefit to go as high as some eighty-od-dollars for certain beneficiaries, of course.

Dr. BENSON. There is an urging for it, though, to go higher. And in industry, pensions have started at $100 a month, and 2 days ago at Detroit, Walter Reuther promised they were going to see within 7 years that pensions go up to $200. So the tendency is to increase them. And I am looking, here, at what I think is a tendency.

The CHAIRMAN. Yes; undoubtedly that is the tendency. There is no question about that. And I think there can be little doubt but what the total tax burden upon the total production, when it gets as high as 40 percent, is going to stymie us as a competitor in world affairs. It has always been my view that you could not put the total tax take as high as 40 percent and retain a fair competitive position in the modern world. And the single illustration of that, which I think you very properly present, is Great Britain at the present time. With a total tax there of 40 percent they are not able to make their way. I do not like to be a prophet of doom, but I doubt if they will be able to make their way if their rate of taxation remains at that level. It simply takes too much out of production. And while under the modern theory, that theory that we are overusing, I think, much of the tax take by Government goes back into productive enterprise, after all it goes back there not in the hands of the man who made the money and therefore had the capacity to make and save, but it goes back in the hands of the politicians. While politics is a very honor-

able profession, at the same time it must be said that it has not had altogether a glorious history in the field of business.

Thank you very much, Doctor.

Senator MILLIKIN. Mr. Chairman, if I might burden the committee with an observation: As an offset to some of the things you have said, Doctor, it has been asserted that we are going to continue to raise our national income. I am thoroughly convinced that we can raise it. We can raise it almost limitlessly, on an honest productive basis. But the question is whether it will be raised that way, or whether it will be raised by inflation.

There is another thing to be kept in mind. This is not the only "deduct" that we are talking about. There are several others in the offing. It is not to be assumed that our expenditures will remain static over the next 20 or 30 years; for even if we increase our national income we will be increasing all of our expenditures and will be adding other "deducts" as time goes on. I merely mention that, because those have been stated as offsets and counter offsets to some of your testimony.

Senator KERR. Mr. Chairman, I was quite interested in the remarks of the witness with reference to the proposal to pay as we go. I did not understand what the doctor said as to how much, if any, expanded coverage he was recommending.

Dr. BENSON. Personally, I would not be too much concerned with added coverage if it was on a pay-as-you-go basis, because then we would know what our burden is as we go. We probably would not increase it too much. And we could honorably decrease it if we wanted to at any time.

Senator KERR. Well, would you finance such a program by an added tax in the form of a pay-roll tax, or would you attempt to raise the revenue on the one hand and disburse it from the general fund on the other?

Dr. BENSON. I do not consider myself an expert on taxation. I am not recommending how it be done. I am recommending the principle that we pay as we go, if we increase our benefits, for the two reasons that I gave.

Senator KERR. Well, what would your thought be about expanding the coverage on the one hand and then, in the future, in case of difficulty of payment, being able to lessen it?

Dr. BENSON. If it were on a pay-as-you-go basis, and people were conscious of what they were paying, it could be done; otherwise it could not. I think it is rather striking in England that Churchill did not promise to roll back a single step that had been taken in the direction of nationalization and socialization. All he could promise was: We will stop where we are. I think there is no rolling back. That is why I am saying here: Let what we have got alone, but before we add more let us study very carefully what its costs would be, and do it on a pay-as-you-go basis, so that people will know what they are paying and what it is costing them and can determine from time to time whether they want to continue it or not. But when we adopt legislation that is as far-reaching as this, you cannot stop it without seeing our financial structure crack.

The CHAIRMAN. Doctor, as I understand it, your recommendation is that arrangements be made to take care of the increased benefits

or increased cost of the social-security system on the pay-as-you-go basis?

Dr. BENSON. That is right.

I appreciated, too, your remarks about England. As a student of history I used to watch with much interest the rise and fall of civilizations. I thought that was something that belonged to antiquity. Yet now we see, here in our own day, a nation which we can remember as one of the great nations of the world moving down the western slope; and to see that they haven't got what it takes to come back brings the challenge pretty close to home. I don't think England will stage a comeback. After twice studying conditions on the field, I am not convinced that England will come back. I think we will see them move on down the western slope, as did Rome and other nations. It should be a sobering lesson to us, because we are following pretty closely so far the policies of England. We are doing it with regard to social security.

The CHAIRMAN. Thank you very much, Doctor.

Dr. BENSON. Thank you, sir.

STATEMENT OF OLGA S. ROSS, EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC., NEW YORK, N. Y.—Resumed

Mrs. Ross. Mr. Chairman, if I may, I would like to add one thing.

In reference to the discussion that came up regarding testimony this morning on the salesmen's contract, I would like to add to the statement of the National Council of Salesmen's Organizations that to our best knowledge 90 percent of the wholesale and commission salesmen work without a written contract.

While the testimony of the witness, Mr. Marshall Mantler, was to the effect that he could produce contracts in his own particular industries, the National Council takes in a wider range, a cross-section, of trades and industries, and in our experience the majority of salesmen are without written contractual agreements with their employers.

We have found on numerous occasions employers seeking to evade their tax liability, requiring their salesmen to sign statements saying that they were independent contractors, regardless of the fact that these salesmen worked under exactly the same supervision and control as salesmen who were actually covered by the Social Security Act.

That is all, Mr. Chairman.

The CHAIRMAN. Thank you.

That completes the call of the witnesses for the morning and we will recess until Monday morning.

(The following statements were submitted for the record:)

ABILENE, TEX., *January 19, 1950.*

Hon. PAT MCCARRAN,
Senate Office Building, Washington, D. C.

DEAR SENATOR MCCARRAN: It has come to my attention through newspaper articles and trade publications that Congress is considering an act to broaden the

coverage of the Social Security Act. The House of Representatives has already passed a bill, H. R. 6000. I am not interested in most of the provisions of this bill—many of them seem to be desirable. There is one provision in this proposed bill, however, that may affect me personally in such a way as to practically destroy my oil business. This provision is one which, I understand, will broaden the definition of "employee" so as to include me in the type of operation I conduct.

I am, and have been for 15 years, an independent businessman. I lease a bulk station from the Gulf Oil Co., and in addition, have a supply agreement with the Gulf whereby they consign me gasoline, motor oils, and other petroleum products. I also purchase automotive accessories, tires, etc., from them, as well as other people, direct. My lease agreement, as well as the supply contract, is for a firm period of 1 year at a time. The arrangement I have has been entirely satisfactory, and very profitable to me during the past year, and I surely want to continue my status as an independent merchant. I engage in other enterprises other than my oil business, such as being Pontiac automobile dealer and have interest in radio stations both in Abilene and Odessa. I devote as much time to my oil business as I feel is necessary, of course dividing my time among my other enterprises. I hire and fire my own help in all of these businesses, fix their wages, and determine the hours they shall work. My employees are under my direction alone, and the Gulf Co. has nothing whatsoever to do with the number of employees, the wages they are paid, the work they perform, or the hours they work. I pay social-security tax on all of my employees. All of my employees are used interchangeably in my oil business and such other enterprises in which I may be engaged. I have in the past, and hope to be able to do so in the future, conducted my oil business without interference from anyone. I have a considerable investment in this business and have built up good will in the territory which I operate. I maintain my own bookkeeping system. My interpretation of this bill in its present form is that it will probably put me out of the oil business. Its effect will undoubtedly deprive me of my status as an independent businessman. If I and my own employees are to be considered employees of the major oil company within the meaning of this proposed bill then I would have to surrender to that corporation all of the benefits, advantages, and freedom I have enjoyed over the years in the conduct of my business.

If this bill is passed in its present form so as to include me within its coverage, and I am permitted to continue to operate my oil business under the present arrangement, considerable hardship and confusion will result. This is illustrated very graphically when a few years ago the Commissioner of Internal Revenue ruled that, under the present Social Security Act, I and my employees were employees of Gulf Oil Corp. within the meaning of this act. Under the Commissioner's ruling Gulf Oil Corp., in an effort to comply therewith, requested me to supply them with a list of my employees and the wages they were paid. Since the corporation knew nothing about the internal affairs of my business they necessarily had to rely on the information I supplied them. Until the courts ruled that I and my employees were not employees within the meaning of the present act, this haphazard and unsatisfactory condition continued to exist. If the proposed definition of "employee" is passed in its present form it will be necessary to again report these facts to the corporation in order that they may comply with the provisions of the new act. Frankly, it is none of the Gulf Co.'s business the internal functions of my business, and I do not intend to tell them what my costs of operations are, or how I operate.

I am very much opposed to being deprived of my status as an independent businessman, and would surely like to see the definition of "employee," as contained in the proposed bill, be revised so as to exclude me therefrom.

I realize that I, as an individual, have very little weight in speaking to the lawmakers in Washington, and, knowing that you are acquainted with all of the men in Washington who are members of the Senate Finance Committee, I would certainly appreciate your interceding on my behalf.

This condition applies to oil petroleum distributors all over the United States and effect those in Nevada also.

With kindest personal regards, I am,

Sincerely yours,

W. P. WRIGHT.

AMERICAN FEDERATION OF LABOR,
Washington, D. C., March 24, 1950.

HON. WALTER F. GEORGE,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR GEORGE: When on March 1 President Green, Mr. James A. Brownlow, and I appeared before your committee in support of H. R. 6000, our statements were confined largely to support of the proposals contained in that measure, together with amendments which we offered with a view to further liberalizing the bill.

Since that time, a number of witnesses have appeared testifying with respect to the provisions in this bill relating to the definition of "employee." In view of the circumstances, I should like to ask that this communication be brought to the attention of the other members of the committee and included in the record of the hearings on H. R. 6000 as a supplement to our previous testimony.

We are particularly concerned with the provisions of the bill which would extend the protection of social security to hundreds of thousands of working people who are members of unions affiliated with the American Federation of Labor who throughout the past years have been denied this protection because of their classification as "agent drivers." These victimized workers are found in the provision and meat industries in all fields, such as processed foods, laundry, milk, bakery, soft and alcoholic beverages, petroleum products—in short, virtually every industry in which delivery is an element. They are employees, yet they are denied the benefits of social security.

The classification of agent-driver was invented by employers upon the enactment of the Federal Social Security Act and the various State unemployment insurance laws. It was designed as a clever subterfuge by which employers could avoid payment of Federal and State taxes required under this social legislation. And because of the Government's apparent willingness to condone such a ruse, the plan has worked splendidly.

For employers, the process of converting some or all of their regular route salesmen into the hybrid agent-driver bracket was simply a matter of taking the driver off the pay roll and putting his income solely on a commission basis. Some employers went further and required the driver to purchase his own truck; others did not. In all cases, the new method was to sell merchandise directly to the driver, letting him keep as his commission the difference between that price and the price at which he sold the goods. Most companies kept a small staff of delivery salesmen on a regular basic salary, while at the same time retaining a number of these so-called independent, or agent-drivers.

Defenders of the system might argue that the agent-drivers like it that way. They don't, for as it works out in actual practice, the agent-drivers' earning capacity is no greater—and often a good deal less—than that of salaried salesmen who perform the same duties.

The agent-driver's truck, whether owned by himself or his employer, is usually emblazoned with the company's or the product's name. Having bought merchandise from his boss, who may paint a rosy picture of the huge profits that lie ahead, he finds that, quite logically, the competition of regular drivers has made it impossible for him to earn more than, at the very best, a commission of roughly 6 percent. In the provision industry, he is lucky if he clears $65 at the end of a week's work. The regular driver-salesman, meanwhile, has delivered his merchandise at a flat 3-percent commission, to which is added a basic salary of some $45. His take-home pay averages $75 a week or better, and conditions in other industries follow the same pattern.

Both men, remember, do exactly the same type of work. Yet, if the regular driver loses his job, he draws unemployment compensation. The agent-driver in similar straits finds himself without protection, and when the regular driver reaches the age of 65, he collects social-security payments. The agent, on the other hand, is ineligible. Very often he becomes a public charge, dependent upon charities for his very survival.

Every day, more and more salesmen on fixed salaries are being reclassified into this unfair work category. How can they then be called independent businessmen? Does this reclassification make their livelihood any less dependent upon the company whose products they sell? They are employees in every practical sense of the word.

They are, indeed, victimized—by employers who have used them as tools for tax evasion and by a Government that has apparently closed its eyes to their plight.

And the employer who uses this agent-driver delivery system runs a constant risk in that he relinquishes all responsibility for his product upon selling it to the driver. It would seem, then, that from the standpoint of management as well as labor, deliveries by salaried salesmen are necessary as insurance that business will be kept on a sound and healthy basis.

Through the years, various State courts have recognized these men as employees for purposes of collective-bargaining agreements, and a few States, Georgia for instance, have gone further and included agent laundry drivers under State unemployment compensation laws (*Brewster* v. *Hewitt*, 69 Ga. App. 593, 26 S. E. (2d) 198).

In some instances, test cases have been made for individual agent-drivers before the social-security agencies, but this has required so much litigation through the various courts, that most of the cases have eventually been dropped by the claimant for lack of funds. Even in the few instances where such a claim has been recognized and the inequity corrected, the ruling has benefited only the individual involved.

Finally, in various decisions, the United States Supreme Court has ruled that agent-drivers are employees (*Milk Wagon-Drivers' Union, Local No. 753* v. *Lake Valley Farm Products, Inc.*, 311 U. S. 91, 98).

This was also the court's decision in the case regarding newsboys (*Chronicle Publishing Co.* v. *United States D. C. U. S., No. Dist. of Calif.*, 70 Fed. Supp. 666, aff. per curiam June 23, 1948), but the Eightieth Congress reversed that stand with the passage of Public Law No. 492, the so-called news vendors bill (H. R. 5052), which has denied them social-security coverage.

H. R. 6000 recognizes the economic realities affecting these so-called agent-drivers and other commission salesmen and seeks to eliminate the ambiguities and correct the deficiencies contained in the original Social Security Act. This purpose is clearly set forth on page 81 of the majority report of the House Ways and Means Committee, which states:

"Your committee believes that the usual common law rules for determining the employer-employee relationship fall short of covering certain individuals who should be taxed at the employee rate under the old-age, survivors, and disability insurance program. The statutory provisions set forth in paragraphs (3) and (4) (sec. 210 (k)) are designed to correct this deficiency in existing law by extending the definition to include those individuals, who, although not employees under the usual common law rules, occupy the same status as those who are employees under such rules."

This was elaborated on by Representative Walter A. Lynch, a member of the Ways and Means Committee, on the floor of the House. Representative Lynch stated:

"It is our intention to bring under coverage those who were callously thrown out of social security by the Gearhart Act and *likewise to circumvent unscrupulous employers who believe that, by entering into contracts with agent-drivers, and commission driver salesmen, and similarly situated salesmen stating that they were independent contractors, they can go behind the intenttion of the Social Security Act.*" [Emphasis supplied.]

The American Federation of Labor is convinced that it is of the utmost importance to clear up any ambiguity in the Social Security Act which might deprive these hundreds of thousands of workers protection afforded wage earners doing precisely the same kind of work. We urge therefore that most careful and favorable consideration be given to the amendments to clarify these provisions of the social-security program.

Sincerely and respectfully yours,

NELSON H. CRUIKSHANK,
Director, Social Insurance Activities.

TINTIC SMALL MINE OPERATORS,
LEASERS, AND PROSPECTORS ASSOCIATION,
TINTIC MINING DISTRICT.
Eureka, Utah, January 27, 1950.

Senator WALTER GEORGE,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

DEAR SIR: We are a small organization without the resources to send a man to Washington to testify before your committee on H. R. 6000. We have a membership over 200 and represent all of the leasers in the Tintic district. Tintic

is the second largest nonferrous metal producing district in the State of Utah which is the second largest State in the country in order of production.

Our resolution is self-explanatory and we hope that you will give careful consideration to our problem. Many people think that defining leasers as "self-employed" will change their status under present State workmen's compensation laws. This is not true.

If our organization can help your committee with further information we will be glad to furnish any details. Since this subject has been a thorn in the side of leasing operations since 1940 we are well qualified to speak.

Yours very truly,

JAMES QUIGLEY, *Chairman.*

RESOLUTION ADOPTED BY THE TINTIC SMALL MINE OPERATORS, LEASERS, AND PROSPECTORS ASSOCIATION

Whereas the membership of the Tintic Small Mine Operators, Leasers, and Prospectors Association is composed of companies and men, either directly or indirectly concerned with mine leasing, and that it is fully aware of the vital part mine leasing holds in the economy of the West and in particular in the economy of the Tintic mining district, where for many years this system of a joint partnership of mine operators and experienced miners, freely entered into on both sides, has contributed greatly to the production of mining wealth and to the economic stability of a great mining district; and

Whereas it is recognized that certain provisions of H. R. 6000 will very likely be interpreted in such manner that mine leasers will be classified as "employees" by the Social Security Board, and that such action would lead eventually to the Wage and Hour Division also classifying mine leasers as "employees" in connection with the administration of the provisions relating to "minimum wages"; and

Whereas it is fully recognized by both the mine operators and the leasers that such classification would carry such implied penalties that mining companies would no longer be in a position to enter freely into the usual form of lease agreements, and that existing leases would be canceled at the first opportunity, thus losing to the industry the skill and experience of many men, some too old or too incapacitated to hold regular employment in the industry, and that a large number of the leasers thus affected would be forced into the ranks of the permanently unemployed; and

Whereas the membership fully appreciated the advantages of coverage under the Social Security Act and wishes to enjoy the benefits to be derived from it: Therefore be it

Resolved, That the Tintic Small Mine Operators, Leasers, and Prospectors Association, by the unanimous action of its assembled members, proposes that H. R. 6000 be so revised and written that mine leasers be definitely classed as "self-employed" with full provision that they may enjoy the benefits of the Social Security Act by making direct contributions as provided in the case of other "self-employed" groups; and be it further

Resolved, That copies of this resolution be forwarded to Utah's congressional delegation, chairman of the Senate Committee on Finance, and any other individuals or groups who may later be determined.

R. E. WATT, *Secretary.*

JANUARY 17, 1950.

GENERAL CARD CO.,
Chicago, Ill., January 20, 1950.

Hon. WALTER GEORGE,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: The proposed "Social Security Act Amendment of 1949" as embodied in H. R. 6000 can have such a serious effect on our business and on other business of similar nature, as to make it impossible to continue to operate.

We are publishers of greeting cards and our sales are made by individuals who act as independent dealers over whom we have no control whatsoever. While we suggest a retail selling price, we do not know whether these dealers sell at that price, or more or less, or they may even sell some merchandise at a loss in the event they are overstocked. We give no exclusive territory, and a sales kit sent to one party may be turned over to another party, so we do not even know in advance of actual sales, the names of people buying from us.

We employ up to a peak of 600 people in our plant and sales distribution is

handled through some 65,000 independent dealers. Our orders amount to from 33 cents up, with the average amount for the past season from $40 to $45 at our regularly established wholesale prices on cash-with-order basis. We received approximately 180,000 individual orders this past season plus payment for 33,000 sample orders sent on approval.

Paragraph 4, page 51, of the amendment is so broadly written that it could be subject to interpretations later which would be so detrimental to this business and all other business of similar nature, as to actually put us out of business and deprive thousands of persons of making a small Christmas earning.

We are not protesting against the extension of social-security coverage but we do contend that our independent dealers are self-employed and that such independent dealers should be excluded from coverage and the proposed act should be so written as to explain this. Thus eliminating the hazard of having them ruled otherwise later.

We state again that it would be impossible for us to continue in business if these independent agents were termed employees because:

1. We have no control over these people. We only know that on the average they buy from $40 to $45 worth of merchandise from us. We are not sure at what price they sell, so we cannot even estimate their profit. We cannot withhold tax as they collect their own money.

2. Many of these independent dealers sell other items of merchandise.

3. If these independent dealers were termed "employees," we would have the problem of withholding income tax which would, also, be impossible.

4. Since many of these independent dealers sell for more than one company, think of the complications which would be caused by duplication of unemployment claims, etc.

In conclusion, we would like to state that these people are independent dealers; they work intermittently (90 percent of them sell Christmas cards during the month of September, October, and November) and they are trying to make a little extra money for the holidays. We exercise no control over them; we give them no territory; we ask no reports from them: they also sell any other merchandise they care to.

From this you can see that any tax that might be forthcoming from this vast number of people doing, individually, such a small amount of business, would be insignificant compared to the cost of collecting the tax which cost could be excessive enough to cause many concerns to go out of business.

The proposed amendment should, therefore, properly classify these people independent dealers, self-employed persons who would thus be covered under the self-employment provisions of the Social Security Act.

We hope that you will be guided by the above facts in considering this very important legislation.

Very truly yours,

GENERAL CARD CO.
L. A. SOLBERG, *Secretary.*

NATIONAL RETAIL LUMBER DEALERS ASSOCIATION,
Washington, D. C., March 9, 1950.

Subject: Definition of employee, H. R. 6000.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance, Washington, D. C.

DEAR MR. CHAIRMAN: The association which I represent is spokesman for the 25,000 retail lumber and building supply dealers in the United States. Over half of the 25,000 dealers are in communities having a population of less than 2,500 people and three-fourths of them are in communities having a population of 25,000 or less.

In these small communities and in the rural areas the lumber dealer is more than a distributor of building materials. He must arrange for the financing of the homes, finance the carpenter-contractor, provide the plans and in a very general way supervise the construction. These are services rendered to the consumer in order to create a market for the dealer's products and for which the dealer receives no direct remuneration.

The carpenter-contractors engaged in the actual construction are not employees of the dealer, are not on the dealer's pay roll and are neither hired nor discharged by the dealer. On the other hand, the dealer being interested in sound construction and the proper application of materials maintains a remote super-

vision to the same extent that an architect maintains supervision in order that his plans and specifications are carried out.

The vague formula contained in section 210 (k) (4) of the bill (H. R. 6000) for determining who is an employee would result in uncertainty in our industry. That subsection provides that an individual who is not an employee under the common-law test or not specifically enumerated in subparagraphs 1 and 3 shall be deemed an employee by the combined effect of the following factors.

(*a*) Control of the individual;
(*b*) Permanency of relationship;
(*c*) Regularities and frequency of the performance of the service;
(*d*) Integration of the individual's work in the business of which he renders service;
(*e*) Lack of skill required of the individual;
(*f*) Lack of investment by the individual in facilities for work; and
(*g*) Lack of opportunities of the individual for profit or loss.

It is to be assumed that either the Administrator of the Social Security Act or the Secretary of the Treasury or both would have the function of determining when an individual, who is not in fact an employee, would become a "statutory employee" under this formula. The bill is silent as to how much weight should be given to any one of the determining factors. To cite a few examples of the thousands of questions that may arise under these tests, in our industry, I would like to propound some questions:

1. Must the "control over the individual" be direct and immediate or may it be indirect or remote?
2. Does the "control of the individual" relate to the employment, discharge, hours of work, or the application of his skill, time, and type of work?
3. If a carpenter-contractor happens to work on several projects to which the dealer supplies material is this to be considered "permanency of relationship"?
4. If a carpenter-contractor is employed on a series of projects to which the dealer supplies materials can it be said that "there is regularity and frequency of performance of the service"?
5. If a carpenter-contractor works on a series of projects to which the dealer supplies material can it be said that there is an "integration of the individual's work in the business to which he renders service"?
6. Could it be said that a carpenter-contractor, having no special skill in any particular trade would be classified as an employee when all other factors are equal?

The obvious purpose of this section is to make certain businessmen the collector and payer of taxes in those situations where the Treasury Department feels it may be difficult to enforce the collection of this particular tax.

The carpenter-contractor in the smaller communities is a self-employed person who receives financial assistance and technical aid from the building-supply dealer. It is distortion, however, to claim that there is an employer-employee relationship between the two or that there is any integration between their activities. The carpenter-contractor's chance of loss or profit is clearly independent of the building-supply dealer's chance of loss or profit. Working in close harmony with him, however, the building-supply dealer promotes a market for his product and the carpenter-contractor creates an opportunity for self-employment. It is no different than the cooperation that exists between financial institutions and the dealer or between the manufacturer of building products and the dealer.

Congress in 1948 enacted the so-called Gearhart amendment clarifying the uncertainty created by previous Treasury rulings. We trust that Congress now will not reverse this situation. Since the bill (H. R. 6000) covers self-employed individuals there appears to be absolutely no justification for changing the present law governing the test of employer-employee relationship.

For commerce and trade to thrive there must be a high degree of certainty in the law and this is especially true where the small-business man is involved. The small-business man does not have the financial resources to gamble on uncertainty or to be continually resorting to legal advice.

It was the uncertainty in the wage-and-hour law that threatened thousands of small-business men with bankruptcy. The enactment of this proposal would not only create uncertainty but an almost impossible task from the standpoint of the lumber dealer in computing the amount of tax due, let alone collecting the "statutory employee's" contribution.

We, therefore, recommend that subparagraph 210 (k) (4) be deleted from the bill.

Respectfully,

H. R. NORTHUP,
Executive Vice President.

THE W. T. RAWLEIGH CO.,
Minneapolis, Minn., March 1, 1950.

Representative WALTER H. JUDD,
Washington, D. C.

DEAR SIR: I understand that the Federal social-security bill—H. R. 6000—will soon be up for consideration again.

I especially wish to call your attention to subsection (4)—that part of the bill defining "employee." I am strongly opposed to this part of the bill, as it would change the usual common-law rule as the yardstick to determine whether or not a person was an independent operator or contractor, or an employee.

As the bill is now written, it would include independent contractors—men who are in business for themselves—engaged in direct selling. Our company, as well as hundreds of others engaged in direct selling, has no control over the hours or production activities of our customers. They are independent operators in the full sense of the word—they can work 1 hour or 10 hours daily—2 days or 6 days a week—whatever hours they themselves want to devote to it, with no control on our part. They own and operate their own businesses. Their profits are determined solely by their own initiative, industry, and capacity.

We have no objection to social security and the broadening of its scope soundly. And we believe the new bill contains provisions for self-employed persons. But they should be covered as such.

Therefore, I respectfully request and urge you to use your influence to have subsection (4) changed so there will be no confusion in business relationships, so that it will be determined by the common-law rule, and thus no employer will be liable for social-security taxes on a person who is not in truth and fact his employee.

Respectfully yours,

THE W. T. RAWLEIGH CO.,
By F. A. WICKS,
Manager, Minneapolis Branch.

(Whereupon, at 11:40 a. m., the committee recessed to reconvene Monday, March 13, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

MONDAY, MARCH 13, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George, chairman, presiding.

Present: Senators George, Byrd, Hoey, Kerr, Millikin, Brewster, and Martin.

Also present: Senator Thye, Representative Frank W. Boykin, First District, Alabama; Mrs. Elizabeth B. Springer, Chief Clerk; and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Canfield is the first witness. You may come around and have a seat.

STATEMENT OF ROBERT E. CANFIELD, NEW YORK, N. Y., REPRESENTING AMERICAN PULPWOOD ASSOCIATION

Mr. CANFIELD. My name is Robert E. Canfield. The address is 122 East Forty-second Street, New York City.

I am appearing for American Pulpwood Association in opposition to the proposed amendment of the definition of "employee" in the Social Security Act and the Internal Revenue Code, which proposal is set forth in sections 206 (a) and 104 (a) of H. R. 6000.

The American Pulpwood Association represents the pulpwood industry; that is, dealers in and producers and consumers of pulpwood throughout the United States. Pulpwood is the basic raw material from which nearly all paper and paperboard is made, and paper and paperboard, of course, are the basic commodities without which no other industry, no government, no school, no form of written communication can exist, without which freedom of the press is a meaningless phrase, without which, in fact, civilization as we know it would be impossible. There is, therefore, public interest and concern aplenty in what concerns the paper and paperboard industry, and the industry which supplies its basic raw material.

The pulpwood industry is opposed to the inclusion of the definition of "employee" in H. R. 6000 as proposed in the sections 104 (a) and 206 (a) because it knows that that definition, if made law, would not accomplish what some think it is intended to do, and indeed would accomplish little if anything desirable. On the contrary, it would cause a major upheaval of the industry and a complete change in the methods of wood procurement in common use for many years by most consumers of pulpwood, necessarily involving the destruction

of thousands of small businesses. This is something which the industry certainly does not desire, and which it can hardly believe Congress would be happy about.

Let us take these points up one at a time, and in the order stated:

(1) The objectionable definition would not add one single solitary person to the social-security rolls. All of the persons to whom the seven "slithering criteria" (to use Senator Millikin's expression of a year or so ago) could possibly be applied are either employees of someone, and as such covered by the present act, and the proposed act, or are self-employed, and as such would be covered by the provisions of H. R. 6000 providing for social-security coverage of self-employed persons.

(8) Whether this definition is in the law or not, it would not affect by one penny the amount of the benefits to be paid under the law to any person. This is so because H. R. 6000 provides that despite different tax rates for employees and self-employed persons, the benefits payable to each are identical.

These two basic facts being true, it is clear that any of you, Democrat or Republican, can, with a perfectly clear conscience as far as party commitments are concerned, vote against the inclusion of all parts of the proposed definition that seek to include other than common-law employees as "employees" for the purpose of the act. The platforms of both parties may call for broader coverage and greater benefits, but both objectives are accomplished by H. R. 6000 in identical degree, whether or not any new definition of "employee" is included in it. The platforms of neither party called for disruption of existing business relationships, the creation of a wholly new class of persons which for want of a better description, might be called administrative law employees, or the delegation by Congress to an administrative officer of its power and obligation to determine tax liability.

If paragraph 4 of the definition will not give coverage to anyone and will not improve anyone's benefits, what will it do that might possibly seem desirable? I have stretched my imagination to come up with this list:

First, it would save a self-employed person who was held to be an employee some money.

To be exact the amount he would save at the maximum would be 52 cents a week in 1950 and an average of 81.3 cents per week over the next 20 years.

I doubt if either Congress or the self-employed person would think of putting such a small price tag on the loss of independence and of the opportunity to start a small business which might, as so many have in America, become big.

Second, it would increase the Treasury's take by the same amount.

This, of course, results from the fact that under H. R. 6000 the tax paid by a self-employed person would be 75 percent of that paid by and for the account of an employed person—a difference for which no actuarial basis has been demonstrated by anyone, and which Dr. Altmeyer in his own words admits is "merely a compromise" and without attempt "to make any exact estimate."

Third, it would also increase the Treasury's take by improving the "track breakage."

I do not suppose the Treasury Department will be very pleased with my use of terminology deriving from the parimutuel betting on the horses.

Senator KERR. Do you think they will know anything about that?

Mr. CANFIELD. The Treasury Department? They should.

Senator KERR. Maybe they have not had the benefit of the experience that the witness has had.

Mr. CANFIELD. That is quite possible.

Senator MILLIKIN. They collect quite a lot of revenue from them.

Mr. CANFIELD. That is why I think they should know about it.

But I can think of no more apt description for the curious quirk in the law which provides that where a person is employed by two or more employees, each shall withhold and each shall pay full social-security taxes, the excess withheld being recoverable by the employee, but the excess paid by the employers being recoverable by no one but retained in the Treasury as pure windfall.

Fourth, it will make the Treasury's collection job and perhaps its bookkeeping somewhat easier.

No doubt it is easier to deal with a few big business units rather than with many small ones. This hardly appears, to me at least, a valid reason for forcing small-business men out of business. Parenthetically, it might be noted that it will not simplify the bookkeeping of the Social Security Agency, since all of their records are individual records.

Fifth, and last, and also (despite the fact that I am a lawyer) in my opinion least desirable, it will make lots of work for lawyers.

The creation of a whole new concept of relationship between persons who perform services and persons for whom they are performed, with accompanying tax liabilities, under the best circumstances would be bound to give rise to a great deal of litigation. When this is due to a definition so broad and so nebulous as to make it impossible for anyone to say in advance when the relationship may be deemed to exist, it can hardly be regarded as under the best of circumstances, and the amount of litigation is bound to be even greater.

We have, therefore, two things that the proposed definition will not do which may be thought to be socially desirable, but which have been done by other means, and five things which it will do, none of which as any social significance, and all of which add up to virtually no value. Against this must be measured the unquestioned major result of the use of that definition of "employee" which I would like now and for the balance of my statement to analyze and discuss.

Like most other manufacturing industries, the pulp and paper industry has depended upon others for the bulk of its raw materials. It is not integrated from tree to finished product. Over a period of many years, and since long before any wage and hour act, social security act, or even workmen's compensation acts were passed, it was clearly brought home to these companies that they could not go out in the immediate vicinity of their mills and cut pulpwood to supply all their needs. They had to obtain their requirements from scattered sources and from areas where it was more practical to arrange for local cutting and transportation of the wood than it would be to do it themselves.

The pulp and paper industry obtains this most important raw material generally from five sources:

1. By purchase from dealers, who in turn purchase the pulpwood from producers or farmers.

2. By purchase from producers who cut pulpwood from their own lands, or lands upon which they have acquired stumpage rights.

3. By making arrangements with contractors to cut pulpwood from the pulp and paper companies' own lands.

4. By purchase from farmers who cut wood from their own woodlots, and

5. By cutting from their own lands with their own employees.

The third of those, making arrangements with contracts to cut pulpwood from the pulp and paper companies' own lands is what the trade calls contract logging. That differs from the use of contract loggers in section 3 of the paragraph of definition. I think you will probably hear more about it, and there might be confusion because the trade term talks about contractors who may have large amounts of equipment and big crews, and section 3 talks of contract loggers only as the individual who works all by himself.

These arrangements take a great variety of forms. Sometimes it is contemplated that the dealers, producers, farmers, or contractors will deliver the wood at the mill with their own employees and their own trucks. Sometimes it is contemplated that the transportation work, or various other phases of the work, will be subcontracted. Sometimes it is contemplated that the plup and paper companies themselves will arrange for the transportation of the wood, either with their own employees and equipment or by contracts with motor carriers or barge carriers or railroads.

The persons who actually cut and transport pulpwood are employees of someone under the present act and would be such under paragraph 1 and 2 of the definition of "employee" in the proposed act. They are employees either of dealers, or producers, or contractors, or of the pulp and paper companies. Farmers cutting wood in their own wood lots are the exception. As farmers they are not covered by either the existing law or by H. R. 6000.

I think I am wrong about that. Apparently H. R. 6000 has a provision where if a person works during any pay period for more than 50 percent of his time at a covered employment, he can be an employee, and that means a lot of farmers with hired hands who do some woodcutting will suddenly find they have employees covered by social security where they did not imagine so before.

The dealers, producers, and contractors are not covered under the existing act, but would be covered as self-employed under the proposed bill. It is these latter independent contractors who are the people that the majority of the Ways and Means Committee repeatedly says "should be covered as employees." What possible reason for these particular self-employed persons being covered differently than other self-employed persons and what difference it makes whether a person is covered as an employee, or covered in some other manner, is never made clear, or hinted at for that matter, and I, for one, cannot guess. If a person is covered, he is covered, and the purposes of the Social Security Act are carried out. Whether his coverage is as an employee or as a self-employed person makes no possible difference as far as the purpose of the act is concerned.

If these people are to be declared to be employees of the pulp and paper companies, presumably their employees would also become the

employees of the pulp and paper companies. The obligation of an employer under the social-security law is to pay a stated percent of the wages paid to each employee and to withhold a similar amount from the wages paid each employee at the time they are paid, and to pay over those amounts quarterly to the Government. Performance of that obligation is simple enough in the case of actual employees. It is completely impossible in the case of independent contractors and their employees, arbitrarily determined to have the status of employees of pulp and paper companies by the application of paragraph 4 of the definition of employee in H. R. 6000.

What is the "wage" paid to an independent contractor? Obviously it is not the full price paid him for the performance of his contract. The only thing comparable to wages is his profit, and the provisions of H. R. 6000 with reference to the base for social-security tax in the case of self-employed persons would indicate that this is the measure to be taken. How do you withhold from profit at the time of payment? When do you pay a profit? How do you go about determining the profit of somebody over whom you have no control? Is it not at least conceivable that an independent businessman has no desire to disclose and will refuse to tell persons with whom he deals what his profit is? How much of his profit is attributable to wood produced for or sold to one company, and how much is attributable to wood produced for or sold to another company? How much work he did producing naval stores or railroad ties or all of the other things that people operate in? Merely to ask those questions is to demonstrate the utter impossibility of complying with the law if someone tells you that a person, who is in fact an independent contractor, is to be deemed an employee for purposes of the social-security law.

How about the contractor's employees? On the present basis of doing business, the pulp and paper companies do not know who they are, how many there are, or what they are paid, and have absolutely no method of finding out except from the contractor. Is it not just possible that the contractor would refuse to tell them about it? Assuming that he would tell the pulp and paper mills whom he employed and how much he paid them, how can the companies withhold from wages which they do not pay? Again, merely to ask the question is to demonstrate the impossibility of compliance with the law.

The answer to the dilemma is perfectly clear. If one is to be charged with the obligations imposed by the Social Security Act on an employer, he must in fact be an employer. There is no other way to handle it.

That is what must, and inevitably will happen if paragraph 4 of the definition is applied and independent contractors and their employees are held to have the status of employees of pulp and paper mills. They will have to become employees in fact so that the employer may be able to discharge his legal obligations. Maybe it will not make much difference to an employee of a contractor that he now becomes an employee of someone else, but it certainly will make a difference to the contractor that he has been forced out of business, has lost his independence, his opportunity to make a profit, his pride in creating a small business which some day might become big. Personally, I think it might make a great deal of difference to the employee, too. There is a lot more comfort and security in working for

someone you know and who knows you, someone who lives in the same community you live in, than there is in working for a remote corporation.

You might think it would not make much difference to the pulp and paper companies, that they might even save money by cutting out the profit of the middleman. I can assure you that no pulp and paper company will be happy about it. There are a variety of reasons for this. From the purely material point of view, the companies know it will cost, not save, them money.

Please do not misunderstand me. I am not talking about added cost due to paying social-security taxes. I am talking about the added expenses of procuring wood in an impractical manner. If it would save money for the companies to make pulpwood entirely with their own employees, that is the way they would be doing it. Cost of wood is the basic cost of paper, and every mill in the country is accordingly striving to keep that cost down by efficiency in its production. To the best of my knowledge, and I think my knowledge is entirely complete on this subject, there is not a single mill in the whole country which does not buy wood from independent dealers, or producers, or contractors or farmers. That is more than significant. To any reasonable man it would be proof beyond any question that pulpwood production through independent contractors, at least in part, is the most efficient and economic method of procurement. Supervision by paid employees of the paper companies in the case of these scattered operations was not economically sound 50 years ago and it is not economically sound today. This is the most important reason why the paper companies have avoided integrating pulpwood procurement operations to their own operations. This lack of supervision is the reason that the law for centuries has concluded that such relationship should not be considered that of an employer and employee.

There are reasons other than those purely materialistic. No pulp and paper company is going to be happy to be the instrumentality by which an agency of the Government in Washington forces small-business men out of business. No pulp and paper company is going to be happy to be forced into undesired and uneconomical vertical integration, and it will not assuage its unhappiness in the least to know, as everyone does, that the same Government in Washington sometimes seems to believe that vertically integrated companies are guilty of illegal and monopolistic concentration. It will not make any pulp and paper company happy to become a forced participant in such concentration of economic power. The industry is at present one of the least concentrated of all.

A recent outhoritative tabulation shows that out of 452 industries, the paper and pulp industry was near the bottom of the list in degree of economic concentration; its ranking was 396. The same tabulation shows that only one of 42 industries, with an average plant as large as the pulp and paper industry, is less concentrated—that of big industries, billion dollar or more, only 7 of 38 are less concentrated.

Considering all the heat that seems to be developing here in Washington about concentration of economic power, it is not surprising that the pulp and paper industry is pleased with its position and will not be pleased with anything which forces it away from that position.

The next logical question is: Even if paragraph 4 is included in the act, will it be applied to the pulpwood industry? To this question there

is no answer. I do not know and you do not know and the industry does not know. It depends upon the judgment of the Treasury Department and the Administrator. More accurately, because of the indefiniteness of the factors set forth in paragraph 4, the whim of the Treasury Department and the Administrator, rather than their judgment, would control. It might be pointed out that judgments or whims of the Treasury Department and the Administrator of the Social Security Act may differ. They have in the past.

The result of such a situation of uncertainty is identical with the result of an affirmative answer to the question. If you do not know, but have to guess what the ruling will be in any given situation, you simply cannot afford to continue these situations; not when the penalty for guessing wrong is, as it is here, heavy fines, possible imprisonment, and interest on debts you did not know you had, at a rate about three times as high as you can earn money put out at interest.

Senator MILLIKIN. In the Government we have what is called calculated risk against yourself. As a witness, you do not know about that.

Mr. CANFIELD. The difficulty here, Senator, is that no one is capable of making the calculation.

Senator MILLIKIN. Of course, you can make a guess and call it a calculation.

Mr. CANFIELD. And what happens when you guess wrong?

Senator MILLIKEN. It is bad for the country.

Mr. CANFIELD. It is not good for the company.

Senator MILLIKIN. Some day somebody will start calculating safety for the country. Would that not be a novelty?

Mr. CANFIELD. It certainly would; rather an interesting one, too.

If the application of paragraph 4 is as uncertain as I have said it is, then, not daring to run the risk of accumulated interest, fines, and imprisonment, and not caring to be branded a felon any more than you would care to be, companies are simply not going to take the chance. They will have to, and will, change their method of pulpwood procurement in such a way as to eliminate dealing with the small-business men they now do business with. They will have to, and will concentrate their pulpwood procurement into one of two channels, or perhaps both; production by their own employees, or procurement from independent suppliers who are so large, who have so much capital invested, who deal with so many companies, that even the most whimsical Administrator would not care to call them employees.

Is the application of paragraph 4 as uncertain as I have said it is? Let us analyze it and see.

A majority of the members of the House Ways and Means Committee said:

> In this paragraph of the definition your committee has attempted to chart a more definite course than that laid down by the Supreme Court * * *. Your committee has prescribed the factors which it believes should be considered in paragraph 4 of the definition in determining the existence of an employer-employee relationship for social security purposes * * *. The combined effect of all the factors will control the determination under this paragraph of the definition.

Having stated that there was intended to be laid down a definite course to be followed, they immediately found it necessary to add almost seven pages of explanation, and examples of how they thought

those factors should and would be applied. At the same time, 10 members of the same committee, commenting on the same paragraph, said:

> A mere cursory glance at the wording of the above definition will show that at any time the Internal Revenue Bureau, or the Federal Security Agency, or the Court wants to make a person an "employee" rather than a self-employed person, or vice versa, it can do so * * * paragraph 4 serves no social purpose. Instead, it leaves the status of millions of our citizens to the almost unbridled exercise of administrative discretion * * *.

When two groups of representatives of the people who have studied the matter in detail can come no closer to agreement than this, is it any wonder that businessmen think there is something less than definiteness in the definition.

In the process of explaining for several pages what this allegedly definite set of factors means, which of course would have been wholly unnecessary if they were in fact definite, the majority of the House Ways and Means Committee cited an example having to do with woods operations.

In that example, they said that when a contractor, having sufficient capital, including equipment to carry out certain operations, contracted with a company to cut trees on the lands of that company according to certain specifications stated in the contract—including the completion of the work within a definite period, although there were successive similar contracts—and hired others to work for him, kept his own records and was paid the contract price periodically, "the combined effect of all of the factors clearly shows that—the contractor—is pursuing a business of his own and is accordingly not an employee under paragraph 4 of the definition."

That is what the majority of the House Ways and Means Committee said.

Some months later the Administrator of the Wage and Hour Act published an interpretation of the word "employee" as used in that act in connection with certain types of forestry work. His interpretation of the word "employee" followed the familiar pattern heretofore used: First, by the National Labor Relations Board and then in the dicta of the Supreme Court, until Congress specifically ordered otherwise, then proposed to be used by the Administrator of the Social Security Act and the Treasury Department until Congress again specifically ordered otherwise, and now proposed to be included in the new Social Security Act, H. R. 6000.

Although in slightly different words, the criteria stated by the Administrator of the Fair Labor Standards Act are, for all practical purposes, identical with those contained in the definition in H. R. 6000. In discussing his interpretation, Mr. McComb, the Administrator, said that the total situation in each individual case would have to be considered in order to decide whether or not a person was an employee. He then went on to say:

> At least, in one situation it is possible to be specific; where a sawmill or concentration yard to which the products are delivered owns the land, or the appropriation rights to the timber or other forestry products, the crew boss has no very substantial investment in tools or machinery used, and the crew does not transfer its relationship as a unit from one sawmill or concentration yard to another——

Senator MILLIKIN. I do not understand that.

Mr. CANFIELD. I think they mean that they work on successive contracts for the same mill, rather than hopping around from A company to B company to C company.

The CHAIRMAN. Where he takes over this whole crew and puts them on another job.

Mr. CANFIELD. He says unless they do that.

—the crew boss and the employees working under him, will be considered employees of the sawmill or concentration yard. * * * Where all of these three criteria are present, it will make no difference if the crew boss receives the entire compensation for the production from the sawmill or concentration yard and distributes it in any way he chooses to the crew members. Similarly, it will make no difference if the hiring, firing, and supervising of the crew members is left in the hands of the crew boss.

You will note that the example cited by the majority of the Ways and Means Committee, and the example cited by the Administrator of the Wage and Hour Division, are identical. The only apparent difference is that the Ways and Means Committee's operator had "adequate capital" and the Administrator's operator, while he presumably must have had adequate capital, had "no very substantial investment in tools or machinery used." Yet, the members of the Ways and Means Committee and the Administrator come to directly opposite conclusions. In the face of this, is it any wonder that businessmen feel that there is something short of certainty in the definition?

A week ago Senator Taft asked a question here of a witness as to whether his fears about the definition could be justified in the light of the Ways and Means Committee example, indicating that timber operators were not employees. I do not think he got a clear answer then. I think the clear answer lies in the example of administrative interpretation I have just cited. There, without any shred of authority, an Administrator interpreted the law directly contrary to the clearest possible congressional language.

While you sit here considering whether or not to make this definition law, an Administrator has effectively written it into another law where Congress never even considered including it. Why? I do not know why. But I know what they are doing with it.

The Wage-Hour inspectors in the field are using that interpretation to keep people from utilization of the 12-man forestry exemption the Congress thought they gave them. Our fears about the definition are justified by experience. We have been administered before. And to put it mildly, not always in accordance with what Congress intended.

Three weeks ago the Pulp Wood Association made a formal written protest to the Administrator of the Wages and Hours Act, pointing out his total lack of authority from Congress for his actions. The result to date, not even an acknowledgment. It looks as though there might be needed another joint resolution of Congress to point out to another Administrator that when Congress says "employee," it means "employee."

The trouble with the definition is that the factors listed constitute no criteria at all. They are simply things to be taken into account which, in themselves, are intangible and indefinite in every particular, and when taken into account—intangible and indefinite to begin with—are to produce an equally indefinite "combined effect" without any statement of the weighting to be given any single factor. The Admin-

istrator and the Treasury Department are given no clue, let alone direction, as to what to do with these factors. Consider them one by one.

1. Control over the individual: How much control? There is always a scintilla of control. Is that enough? H. R. 6000 does not say.

Senator MILLIKIN. If a man makes a loan from a bank, he is under a certain amount of control.

Mr. CANFIELD. I have always felt that way myself.

Senator MILLIKIN. Yes. Any corner grocery store who has an account with a jobber to a certain amount of control.

Mr. CANFIELD. I would think so. That is what I had in mind when I said there is always a scintilla of control.

Senator MILLIKIN. Maybe more than a scintilla, and yet you could not say that the corner grocery man is an employee of the jobber.

Mr. CANFIELD. I could not, but the Administrator could.

Senator MILLIKIN. Yes, and would, probably.

Mr. CANFIELD. Undoubtedly.

The CHAIRMAN. You think there is a difference between a debtor and creditor and employee and employer?

Mr. CANFIELD. If there is not, I will have to go back to law school.

2. Permanency of the relationship: What does permanency mean? If you do something only once, of course, it is not permanent. If you do it twice, is it or is it not? If you do it 10 times, is it permanent? Who knows? H. R. 6000 does not say.

3. Regularity and frequency of performance of the service: If you perform the service every day, 5 days a week, 52 weeks a year, for several years, it would be regular and frequent. If you did it 1 day a week every third week for a year, it would be regular, but would it be frequent? If you did it 5 days one week, did nothing for the next 2 weeks, then performed again three consecutive weeks, 5 days a week, it would be frequent, but would it be regular? Who knows what the phrase means? H. R. 6000 does not say.

4. Integration of the individual's work in the business to which he renders service: Nobody hires anybody to do work that is not necessary in connection with his business. Does that mean that a hired worker is always integrated in the business of the hirer? If it does not mean this, then what degree of integration or essentiality to the business is necessary? I do not know, nor do you, nor does the Administrator. H. R. 6000 does not say.

5. Lack of skill required of the individual. How much skill, or how little? What kind of skill? The clumsiest man in the world might be a good businessman. The most skillful axman in the world, despite his skill, is almost certain to be an employee, not a businessman. What conceivable relationship has skill as such to the question of whether or not somebody is an employee? Nobody knows. H. R. 6000 does not say.

6. Lack of investment by the individual in facilities for work: Does that mean total lack of investment? Cannot a man even own an ax or a bucksaw and still be an employee? Or does it mean that if he does not have, to use Mr. McComb's language "very substantial investment in tools or machinery used," he is an employee.

Senator MILLIKIN. I think Senator Kerr knows even more about this than I do; out in the oil country, very frequently it happens that

a contract is made for a fellow to drill a well. I have known many cases where he did not even have a hammer or a saw or a wrench, but by a process of what they optimistically call "borrowing," which means going out over the countryside and borrowing pipe and rigs and other things that you find around with the best intention in the world of returning it, lo and behold that contractor assembles enough material to drill a well, and if he follows that practice long enough, he is apt to become very wealthy as a contractor. You understand I am saying borrowing, because he intends fully to return the material: of course, after you get pipe in the well and it produces, it is very hard to return the material.

Mr. CANFIELD. I should think it might be.

Senator MILLIKIN. He might not have a penny when he started out, and drill a successful well and become very successful. I have never been able to see this factor or any of these factors singly or in combination, so far as that goes, as affording any certain basis for a sound definition.

Senator Kerr, can you add any enlightenment to that wholesome practice?

Senator KERR. The Senator does not need to define the word "borrowing" to any man who has been a contractor in the oil country.

Senator BREWSTER. The proper phrase would be osmosis.

Senator MARTIN. I might add, if it comes in a gusher, then there is no trouble, but if it is a dry hole, there is a lot of trouble and many folks lose.

Senator KERR. If it comes in a producer, the contractor is present and troubles are absent. If it comes in a dry hole, troubles are present and the contractor is absent.

Mr. CANFIELD. If that is so, is the converse true, that unless someone has a very great investment, he cannot possibly be an independent businessman. Who knows? H. R. 6000 does not say.

7. Lack of opportunities of the individual for profit or loss: What does that mean? How much opportunity? If a man has a cost-plus contract, is he an employee merely because there is no opportunity for loss? Suppose the only capital he needs is to carry pay rolls. He needs nothing for machinery, tools, or equipment. Does he still have an opportunity for profit or loss? Mr. McComb apparently thinks not, and he is an Administrator using substantially the same words that the Ways and Means Committee uses when it thinks yes. Who knows the answer? H. R. 6000 does not say.

Suppose the Administrator finds that the particular work being performed is 100 percent integrated in the business to which he renders service. The production of pulpwood is: you cannot run a pulp mill without pulpwood. If there ever was integration, that is it. Does that mean that in the entire absence of all the other six factors the man could be held to be an employee? Who knows? H. R. 6000 does not say.

Suppose the Administrator finds a situation where the factors pointing toward independent business exist to a substantial extent, while the factors pointing toward employee relationship exist only to a minor extent? May he still hold the person to be an employee by saying that in his mind the weighting to be given the factors pointing toward an employee relationship should be 10 times the weighting

given those factors pointing to independent business? Who knows? H. R. 6000 does not say he cannot. And I will guess he would.

Paragraph 4 is supposed to be a definition of "employee," and the seven factors I have been discussing are supposed to constitute the criteria to be used in arriving at the definition. Webster's new International Dictionary defines the word "define" as "to fix, decide or prescribe clearly and with authority," and it defines the word "criterion" as "a standard of judging; a rule or test, by which facts * * * are tried in forming a correct judgment respecting them." I submit that no one with a straight face can claim that those seven factors form any standard or rule, the application of which to any given set of facts, will result in any single judgment, let alone a correct one. I submit that no one with intellectual honesty can claim that paragraph 4 of the definition of "employee" decides clearly who is and who is not an employee. Clearly it is no definition at all.

Everyone knows that Congress, and Congress alone, has the power to tax. It is well understood that Congress has the right to delegate detail work under stated criteria the application of which will assure the carrying out of the congressional intent. Presumably it is the intent of paragraph 4 to delegate to an Administrator the detail of determining who is an employee for purposes of imposing taxes within the intendment of Congress. Considering the vague nature of the so-called definition set forth in that paragraph, can you wonder that the minority of the House Ways and Means Committee, in their report on H. R. 6000, said, "Its adoption is a shameful departure from the constitutional division of powers among the three branches of government, and marks the surrender by Congress of its prerogative and duty to define tax liability."

The Senate of the United States has the opportunity to prevent a virtual unconditional surrender by Congress of its taxing power and duty. We are asking you to prevent just that so that a large number of small-business men will not be put out of business as a result of the inability of other businessmen to determine what their tax liabilities are.

The CHAIRMAN. Are there any further questions by the Senators?

Mr. Canfield. I have observed before during the hearings here, I wish to observe again, I do not think that it is fully appreciated that this definition really would do with respect to the independent operator, who is carrying on his own business, converting him into an employee.

You said in the course of your statement that there were good reasons why your business, that is, this business had been built up along lines it has been built, and there are very good reasons. I sometimes think it is advantageous to live in a small town where you have the oil business, your wood business, pulpwood business, and various other lines of business all carried on by small men, small independent contractors, and the difference between the independent contractor and an ordinary employee is this, that the independent contractor will get up at all times of the night to further his business, to improve it, to add to its volume, and the ordinary employee will work only during business hours. That is a very important and significant fact to the community. And it is just the difference between the employee and the other businessman who is doing the same thing.

Mr. CANFIELD. It is the difference between a self-contained, living community, and a wholly factory town.

The CHAIRMAN. Exactly that. So that all of the social advantages and all of the social force is really against the conversion into an employee of a self-employed person—a man engaged in his own business. He may be a good man, no doubt he would be, in either capacity, but he is simply in two different capacities.

Mr. CANFIELD. I agree with you. I would dislike terribly to see a law which would force changes in that situation, and this law would do it, not by mandate, but by economic pressure.

The CHAIRMAN. If it were given that kind of construction, of course.

Mr. CANFIELD. It is being given that kind of construction today in the woods, every day.

The CHAIRMAN. I have looked at this section 4 and it looks to me that it comes very nearly down to the question of saying that an employee is a person who in the discretion of the Administrator is an employee.

Mr. CANFIELD. Yes.

The CHAIRMAN. It is very largely a simple discretion that is vested in him.

Mr. CANFIELD. It is almost exactly that.

Senator MARTIN. Do you have any, Mr. Canfield, any estimate of the number of small so-called business concerns that are employed in the production of pulpwood for the paper and pulpwood industry?

Mr. CANFIELD. Not exactly. I think some of the other witnesses have some estimates of that. I would say it was at least 10,000 in the South alone. That is my own guess. But I am just a lawyer, you know, and the men that do the work know more about that; there are many listed to testify this morning.

Senator MARTIN. I think it would be rather important, Mr. Chairman, to get that in the record.

The CHAIRMAN. I imagine we will get that.

Senator MARTIN. I know in my own State of Pennsylvania, I think we have thousands who are preparing wood for the paper mills, and for the chemical mills and pit props for mines, and it is a matter of a great deal of profit, and it is a thing that means something to certain small communities. If they did not have that, there would not be very much employment for the people of that locality. Pennsylvania's timberland has been cut over and now one-half of the State of Pennsylvania is in what we call second growth timber. It is very profitable. It maintains a great number of families and communities.

Mr. CANFIELD. If after all of the witnesses are through, you want further information, I would be glad to get the association to try and make an over-all estimate.

Senator MARTIN. I think it ought to be in the record.

The CHAIRMAN. I think it will probably be developed. If not, we might get the industry to give us an over-all picture.

Senator MARTIN. I think it would be very helpful if we had that broken down for this industry. The statistics show that there are 3½ million small-business concerns in America controlled by an average of 2½ people, and they employ two-thirds of the people of the United States, which is the most important thing in our economy.

Mr. CANFIELD. The pulpwood producers are a big chunk of that.

Senator MARTIN. Yes; that is true.

The CHAIRMAN. We thank you very much, Mr. Canfield, for your appearance.

Senator MILLIKIN. I would like to congratulate Mr. Canfield on his remarks to the committee. He has appeared before, as the chairman knows, and he illuminates any subject he discusses.

Mr. CANFIELD. Thank you, Senator.

The CHAIRMAN. We will call Mr. Robertson next, Senator Thye, and get to Mr. Johnson.

Senator HOEY. I would like to say that Mr. Robertson comes from North Carolina, and represents the Champion Paper & Fibre Co., which has a very extensive plant at Canton in my State. They employ about 3,000 men at their plant. His company also has a parent plant over at Hamilton, Ohio, and then another plant at Houston, Tex.

I would like to say that Mr. Robertson and his company are very important in the industrial life of North Carolina, and we of course are very much interested in the things that concern the company. I am glad the committee will have the opportunity to hear him.

Senator MILLIKIN. I have a piece of this witness. I was born and raised at Hamilton, Ohio.

Senator HOEY. That is the parent company. That is the home office, and later it came down to North Carolina, and then later to Houston, Tex.

The CHAIRMAN. We will be glad to hear you.

STATEMENT OF REUBEN B. ROBERTSON, JR., EXECUTIVE VICE PRESIDENT, CHAMPION PAPER & FIBRE CO., CANTON, N. C.

Mr. ROBERTSON. My name is Reuben B. Robertson, Jr. I am executive vice president of the Champion Paper & Fibre Co.

Our company has been engaged in the procurement of wood for conversion into pulp at Canton, N. C., for a period of more than 40 years, and at Houston, Tex., for a period of more than 13 years. We have also operated paper mills at Hamilton, Ohio, for more than 50 years.

The pulpwood procurement area for the North Carolina mill includes portions of North Carolina, South Carolina, Georgia, and Tennessee. The Texas mill's wood supply comes entirely from within that State. No pulp is manufactured at the Ohio plant, its operation being confined to converting pulp into paper.

In the discussion of our pulpwood procurement program in relation to paragraph 4 of the definition of "employee" in H. R. 6000, I shall describe the methods employed at the North Carolina mill, where our experience has extended over a very long period. They are typical of methods generally employed throughout the South. The North Carolina plant consumes pulpwood at a rate of slightly more than one-half million cords per year. This wood is made of approximately two-thirds pine and one-third hardwood. Our expenditures for pulpwood at the North Carolina plant are approximately $8,000,000 annually, $6,000,000 of which is represented by the purchase price of wood and $2,000,000 of which is paid to the railroads for freight.

The production of this quantity of pulpwood would require the full-time services of approximately 1,600 men. Actually there are probably more than 4,000 individuals involved in part-time activity.

The sources of pulpwood are timberlands or stumpage owned by our company and timberlands in alien ownership, including thousands of

farm wood lots. More than 90 percent of the North Carolina mill's requirements is obtained from the farm wood lot. This same ratio exists in Texas.

Senator MARTIN. That is owned in fee by somebody else than your company?

Mr. ROBERTSON. Yes. Included in that are lumber companies, small lumber companies, and the farmer group.

The methods of obtaining the pulpwood include:

1. Purchases of manufacturing wood direct from dealers, who obtain the wood from independent producers.

2. Purchases direct from producers under contract. The contract specifies quality of wood and rate of shipments over specified periods, and, in some instances, the trees to be cut. That is in the interest of conservation.

3. Spot purchases from individual sellers who deliver wood direct to our mill woodyard by truck.

4. Purchases from individuals, in carload lots, of wood which the individual has assembled by truckload purchases from others.

Of these four methods the first two account for by far the largest percentage of total volume of wood received at the mill. However, regardless of which method is employed, the actual production of the wood in the last analysis in practically all instances involves an individual who owns a truck and employs labor and is paid on the basis of number of cords of pulpwood produced and/or delivered. He has always been considered an independent contractor in that no control whatsoever is exercised over his method of operation. The principal with whom he contracts merely prescribes the character of the wood, the quantity and rate of delivery, the price, and, in some instances, the trees to be cut. Success of the operation is entirely in the hands of the contractor, who is free to work, however——

Senator MARTIN. Who controls the trees to be cut?

Mr. ROBERTSON. That is varied, depending on the nature of the individual deal that that dealer or contractor makes with the owner of that land. Often it may be tied to a deal that includes cutting for a small sawmill.

Senator MARTIN. Would the forestry department of the State have anything to do with that?

Mr. ROBERTSON. No; that is individual, between the owner and the other. There are efforts to guide, in the interest of constructive forestry, that type of cutting, but in the last analysis he cuts whenever he chooses, and employs whatever number of helpers he chooses, and uses whatever type of logging, loading, hauling, or other equipment he may elect.

It is estimated that in the North Carolina mill's wood-procurement territory there are at least 500 contractors making wood for eventual shipment to our company. Throughout the South there are probably more than 10,000. That is a rather vague figure: some estimate it as six, eight, or ten thousand. It is rather difficult to tell exactly.

These individuals are enjoying the advantage of the entrepreneur. They are independent businessmen deriving the satisfaction of being their own bosses and of planning their organization and work according to their own judgment.

It is my understanding that in the event that paragraph 4 of the definition should become law an indeterminate number of these contractors would be considered to be our employees for whom we would have to assume the obligation imposed upon an employer under the provisions of the Social Security Act. That would mean that we would have to exercise control over them with respect to their pay rolls; and this degree of control would place these same contractors in the status of employees under the Wage and Hour Act, Workmen's Compensation Acts, tort liability, income-tax withholding, and the National Labor Relations Act. Under such circumstances we would be forced to make them employees in fact, because of the confusion which would result from their being in a hybrid status, part free and part hireling.

Such a development would be highly undesirable. From the standpoint of the dealer or producer, he would be eliminated as an independent businessman in the only field of activity for which his location or capabilities fit him. From the standpoint of our company, we would be encumbered by the requirements of a greatly expanded organization to supervise the large increase in the number of widely scattered employees. It would practically double our number of employees. And from the standpoint of our forest economy, one very important phase of its development would be hampered. Today the most pressing problem in our over-all program of forest conservation is to obtain the interest of the millions of owners of farm wood lots in the practice of forestry. An essential factor is the availability of profitable markets for small and poorly formed trees, removal of which constitutes a necessary operation in the improvement of the remaining forest. It is widely recognized by conservationists that the greatest single stimulus to the practice of forestry on wood lots throughout the South has been the markets for pulpwood provided by the pulp mills. In the event that these mills should find it necessary, because of having to handle large working groups, to concentrate them in large areas susceptible of close supervision, the market for the farmer would be tremendously reduced, if not entirely eliminated.

Another objection to concentration of wood procurement in relatively large operations, with all producers actual employees of the pulp company, is that the type of individual—in the South particularly—who is attracted to woods work, is somewhat allergic to formalized work programs; also in most instances he is a part-time worker in the woods, having other interests in connection with farming or other activities, to which he is accustomed to devote his energies during certain periods of the year. This would mean a very heavy turn-over of employees.

In the wood-procurment territories of many pulp mills, including our North Carolina mill, timberlands are scattered in relatively small blocks. This would limit the opportunity to establish pulpwood operations on a scale large enough for most economical supervision and administration by a pulp company. In such instances it would then become necessary for the pulp company to organize its woods employees as mobile units, with resultant penalty of high-cost operations and elimination of opportunity for local farmers to apply their labor in the operation of neighborhood timber.

It is my considered opinion that any legislation which would result in interference with the independent contractor system as it has developed in the field of pulpwood production would lead to endless confusion and litigation and would be a disadvantage to the rural economy of a large section of our country, as well as to our industry.

The CHAIRMAN. Are there any questions of Mr. Robertson?

Senator MILLIKIN. I am just curious. This is not of interest to the committee.

Does all of that stuff come into Hamilton from all of these points in the South?

Mr. ROBERTSON. Senator Millikin, the amount of pulp necessary to run the Ohio mill, which is about 400 tons a day, does come from the two southern mills, a third from the North Carolina mill and two-thirds from the Texas mill.

Senator MILLIKIN. It is ground up down in the South before it comes to Hamilton?

Mr. ROBERTSON. Chemically cooked and bleached.

The CHAIRMAN. There is no connection between the wood cutters for pulp and the contract logger that is described here in another portion of the bill itself; the contractor logger is a different person altogether?

Mr. ROBERTSON. Yes; that contrast logger is a term and a technique that is used more, as I understand it, in the sawmill logging game. The contractor, as we speak of it here, is the man who undertakes to go on a piece of property and cut the pulpwood, cut it up into short lengths, load it and accumulate a carload. I think that is a quite different term.

The CHAIRMAN. I understand that.

Senator HOEY. About how many cords of pulpwood do you use?

Mr. ROBERTSON. About 500,000 a year.

Senator HOEY. You have about how many employees in the Canton plant?

Mr. ROBERTSON. We have just under 3,000 directly there in Canton.

Senator HOEY. And this plant has been operated there for 40 years?

Mr. ROBERTSON. Yes, sir; over 40 years, and these techniques have been used almost during the entire period.

Senator BREWSTER. You do not import any pulp?

Mr. ROBERTSON. Yes; we do. We import some of a specialty nature. We are importing some from several companies in Sweden and Norway.

Senator BREWSTER. Has that materially changed in the last year, the imports?

Mr. ROBERTSON. Actually the pulp situation at the moment is rather tight, and there has come, the imports have come up from about 120,000 tons in 1949 to a rate of approximately 550,000 tons currently. It is expected to go to between five and six hundred thousand tons this year.

Senator BREWSTER. Would that affect your procurement in the South?

Mr. ROBERTSON. At the moment we do not think so. We think that is about a healthy balance, as long as there is a full operating industry.

Senator BREWSTER. Your figures are for the over-all?

Mr. ROBERTSON. That includes all chemical pulps, unbleached kraft.

Senator BREWSTER. Not your company alone?

Mr. ROBERTSON. I was speaking Nation-wide. Imports constitute less than 1 percent of our flow.

Senator BREWSTER. In the country as a whole?

Mr. ROBERTSON. In the country as a whole, the importation of chemical pulps is running at the rate currently of about 3½ percent.

Senator HOEY. What is the particular character of these imports, what sorts of woods are the imports?

Mr. ROBERTSON. That was pulp, not pulpwood. Some wood comes in from Canada. There is none coming from Sandinavia at the present time that I know of. That is finished pulp, and mostly specialty pulp, although there is a lot of unbleached kraft and unbleached sulfite.

Senator MARTIN. What do you mean by specialty pulp?

Mr. ROBERTSON. I mean pulps that lend themselves to very high qualities, superior qualities, very fancy coated papers, or paper for greeting cards, such things as that.

Senator MARTIN. Is it necessary to secure that from abroad or do we have any here?

Mr. ROBERTSON. We do have a great deal in this country, but there is a shortage of that particular type of pulp and therefore it is being imported.

Senator MARTIN Do you have an estimate of the number of men that would be, on the average, employed by the mill in North Carolina to secure for you the pulpwood?

Mr. ROBERTSON. We estimate if there were full-time employees that it would take about 1,600. We also estimate about 4,000 actual, because of this part-time feature.

Senator MARTIN. Of course, if it is in North Carolina like it is in Pennsylvania, there are many of these men that might work a day, a week, or certain seasons of the year with us, which makes a very valuable addition to their income.

Mr. ROBERTSON. Yes, very much so. I think that is pretty generally true all over the South.

Senator BREWSTER. Is it a seasonal operation or does it run right through the year?

Mr. ROBERTSON. We try to level out the flow, I am speaking in the South, just as much as possible, but it is necessary to accumulate usually treble the amount of your consumption for the four bad months—December, January, February, and March, and that applies almost over the South, because in the wet season, it is very difficult to get it out. The farmers and these operators are able to balance that load against their other farming operations, and maybe sawmill operations, or whatever it may be.

The CHAIRMAN. Mr. Robertson, did you know Dr. Herty?

Mr. ROBERTSON. Yes.

The CHAIRMAN. Does the Herty process succeed in getting the resin out of pine to a degree that makes it usable and serviceable for fine paper purposes?

Mr. ROBERTSON. May I attempt to answer that in this way: The use of pine wood for papers is divided into two basic categories, the chemically cooked and prepared, and the mechanically ground. When Dr. Herty was earlier working in Savannah, Champion was even then bleaching the chemically cooked wood, pine wood, into white paper for such uses as bond or tablets or things of that sort. His work, the major contribution of his work was the ability to grind that wood in these mechanical power-driven grinders, and so control the pitch in that method that it would make it possible to use the ground wood for printing papers. That is being done on a large scale at Southland, the Southland Paper Co. at Herty, Tex., very successfully, and the techniques developed, there through the control, the acidification, and the control of the H in that grinding operation has been the key to its use.

We have subsequently applied that technique to the manufacture of such paper as for Life magazine in our Houston plant, and are now making or just starting this week high quality papers out of that process.

The CHAIRMAN. Thank you very much.

Mr. ROBERTSON. It has been a constructive development.

The CHAIRMAN. Thank you very much. We appreciate your appearance here.

Senator Thye, we will call Mr. Melvin Johnson. I believe you have other committee assignments?

Senator THYE. I do have other assignments; yes.

Senator George, if I may be permitted to make just about a 1-minute comment and recommendation concerning this legislation, H. R. 6000, before I introduce Melvin Johnson of Minnesota?

The CHAIRMAN. We will be glad to hear you.

STATEMENT OF HON. EDWARD J. THYE, A UNITED STATES SENATOR FROM THE STATE OF MINNESOTA

Senator THYE. Chairman George, this legislation has the keenest of interest and concern in my State, the State of Minnesota. I have received a great number of letters, and I would like to file this letter in order that all may see this letter from the Blandin Paper Co., northern Minnesota. Mr. Blandin is one of the senior members of the wood or paper operations in Minnesota, and one of the very grandest men that I have had the privilege to meet while serving in public life. Mr. Blandin's letter is practically comparable to all of the letters that I have received from those that are engaged either in the processing of pulpwood or in the making of paper, and I think it would be helpful if this letter was permitted to go into the record.

The CHAIRMAN. We will be glad to incorporate it.

(The letter referred to follows:)

BLANDIN PAPER CO.,
St. Paul, Minn., December 31, 1949.

Senator EDWARD J. THYE,
United States Senate, Washington, D. C.

DEAR SENATOR THYE: My attention has been called to paragraph 4 of subsection K of section 210, H. R. 6000, and paragraph 4, subsection (a) of section 206, H. R. 6000.

I am interested in this as a manufacturer of paper who buys pulpwood from small and large contract loggers and I believe the Senate should eliminate the paragraphs mentioned because they lack clarity of wording and intent. They carry with them an indefinite delegation of the powers of Congress to a group who do not know the desires of the people who elect men and women to Congress to represent them.

My principal opposition to the parts of sections 206 and 210 referred to is two-fold. First, neither employees nor employers can be sure as to who is an employee and who is an independent businessman or contractor, and second, there is the danger that some bureau would interpret the law in such a way to to be disadvantageous to the timber producer and detrimental to the timber user.

As to the first, I need only quote from House of Representatives Report No. 1300 which on page 158, paragraph 4 under Summary of Recommendations, of the minority, says as follows:

"4. *Elimination of the authority of the Treasury to extend definition of 'employee.'*—Paragraph 4 of the definition of 'employee,' gives to the Treasury Department virtually unlimited discretion, through authority to extend the definition of "employee," to determine where the impact of the social-security, taxes will fall. As a result of this authority, large numbers of persons will have no way of knowing their social-security tax liability until the Treasury determines it for them."

Now, if a substantial number of lawmakers themselves do not know the impact of the law until the Treasury Department makes its decisions then how is the taxpayer to know what they mean and what he should do to make his actions conform to the law?

As to the second part of my objection—if the Treasury Department with virtually unlimited discretion should decide that the timber user (in my case a paper mill using pulpwood) has the responsibility of collecting social-security taxes from small timber producers we would have only one choice. We would have to buy from the large pulpwood contractor where there would be no question of the limits of our responsibility to the Treasury Department.

This would have the effect of eliminating the small operator as a free enterpriser and thus work to his disadvantage.

To make matters worse, timber producers both large and small may furnish products to more than one user or converter—such as pulpwood to paper mills, poles to electric or telephone companies, ties to one or more railroads, etc. Who would be the employer if the department should decide the producer is not self-employed?

It would not be good for the timber industry because the cause of timber growing, conservation and proper and timely use is much better served if a large number of small operators are interested than if a small number of large contractors reap the benefit from cutting the timber.

Businessmen, large and small, as well as taxpayers in general, already carry a heavy burden of Government supervision and dictation. Each additional regulation carries with it the danger of being the straw that breaks the camel's back. I hope it can be avoided.

Yours very truly,

BLANDIN PAPER CO.,
C. K. BLANDIN, *President.*

Senator THYE. You will notice Mr. Johnson is not an old gentlemen, yet he has blazed quite a number of trails of achievement into the northern part of Minnesota, or what we might term the wilderness of Minnesota. I have known Mr. Johnson for the past 15 years, and I have known him in the manner that he serves his section of the State and serves the public, and he does serve and has served on several State committees.

He was asked to come down here representing the small pulpwood operators or small loggers from our section of the United States, from northern Minnesota.

Mr. Johnson commenced many years ago as a small what you might call a stump farmer or cut-over area farmer, and he recognized that he would have to supplement his farming operations in order to make

a go of it, and it was then when he turned toward logging operations in the wintertime. That is what I mean when I said he has blazed a few trails up in that wilderness area. He proved so definitely to the M. & O. Paper Co., and other paper manufacturers that this was the type of logging operation that assured them a constant flow of pulp logs or a constant flow of raw materials coming to the mill, and this manner of logging operations has permitted going out and catching the small tracts of timber that otherwise were left standing there to deteriorate, because it was getting overripe, and because it was not profitable for the big operator to go in and to establish cutting operations.

So I say that with Mr. Johnson opening up this type of logging operations, he showed a way of making the litle farmer not only able to make a profit out of his winter months, but a way to supplement his farm operations.

So I was particularly anxious that Mr. Johnson would have an opportunity to come and appear before this committee because, as I say, he is yet a young man, but he has certainly proven not only his ability to do things, but he has been leaned on by the M. & O. Paper Co. to go out and to convey the message to the loggers in the northern part of the State of Minnesota during those war years, that not only inspired the little operator to greater activities in the woods and brought forth the necessary pulpwood that kept our mills in operation every single month throughout the war years, and we have often spoken not only about men like Melvin Johnson, what they did in the contribution to the war effort, but they inspired other men to do greater things by their own enthusiasm.

I know that he will bring an excellent message to you and will prove conclusively that there is a grave concern, not only on his part, but on the part of his associates and the processor of pulpwood in our section of the United States.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Thye. We will be glad to hear Mr. Johnson.

STATEMENT OF MELVIN JOHNSON, CONTRACT LOGGER AND FARMER, LITTLEFORK, MINN.

Mr. JOHNSON. I thought it over when I was asked to come down before this committee. This work has been in my heart for many years, and I am going to read my script, which is very brief. I could have written a book on it.

How will social-security bill 6000 affect me and hundreds of other small independent timber operators like myself? This question is bothering me and the many other contractors in our area and I would like to have the bill clarified so that I know whether or not I am going to be able to continue logging as a small independent operator or will be classified as an employee of a large timber-using industry.

Most small contract loggers in my area started out as employees in large logging camps but as the larger camps were closed and more of the wood cut by contract, we were able to start our own operations on a small scale and became independent contractors. We like our independence but we are afraid that this bill will force the large

companies to go back to the larger camps for their production. The reason we think this is true is because obviously no one can afford to guess wrong as to who are his employees and the proposed definition makes it all guesswork. Under such circumstances the only safe thing to do is operate with your own employees instead of contractors. As an example of how many of the small contractors got started and now operate, I would like to talk about my own operation.

I bought a piece of cut-over land in northern Minnesota in 1934 and with a lot of hard work have developed a nice modern farm. In the summertime I work on the farm and in the winter I have been able to do contract logging. In this way I have full time employment because the logging jobs are close to home and I can work a few hours a day in the woods and still take care of farm chores. With the woods work in the winter and farm work in the summer we really have two crops and only by working the two together could I have developed the nice farm which we now have.

When World War II came, industry and our Government wanted more forest production, so I set up social-security and other records so I would be able to increase production. Prior to this time my contracts were for about 200 cords per year or just what I could handle myself. Now I produce about 1,000 cords per year and employ 5 or 7 of my neighbors.

I lay out my own job, keep my own records, sometimes rent horses for skidding, snow plow the roads, supervise the job, and do my own financing. It is sometimes necessary to use the company's heavy equipment on roads, and I get this on a rental basis. My contract calls for so much a cord delivered at the mill.

Some of the timber which I cut I buy myself, but some of it is owned by the company that I contract for. They have their own lands, but they also buy State and county timber that I contract to log. The timber has to be cut according to good forestry practices; but the road lay-out, how the timber is cut, skidded, and hauled is up to me.

Senator MILLIKIN. What kind of wood do you have there?

Mr. JOHNSON. We have the aspen, we have the spruce, the tamarack, cedar, we have different varieties of wood that is native to our north country.

Senator KERR. Is there any fixed proportion that you have to supply of softwood on the one hand and hardwood on the other?

Mr. JOHNSON. We have little hardwood. My contract generally calls for this: If I have three or four different species, I have so many cords of popular, so many of spruce, or so many poles of cedar, or so many posts of cedar. Some of it may be sawlogs that I may purchase back from the company that they do not use in pulpwood and prabably make a deal, and sell them to some little sawmill, wherever I can make my best deal out of it.

Senator KERR. What is the average price for this pulpwood per cord?

Mr. JOHNSON. Pulpwood will average in price according to the market, as much as anything else. We have a market and a demand. Some years the demand is stronger, which makes a stronger market. Sometimes on a contract basis, if it is on company timber, I am interested in this thing if I can go in there and log with the ability that I

have learned in logging and can come out with a profit. That is what I am interested in. If it is their timber, I get so much a cord delivered at mill.

Senator THYE. How much is that a cord? I think that was the question.

Mr. JOHNSON. How many dollars per cord?

Senator KERR. How much is the average?

Mr. JOHNSON. About $18 on spruce, that is the black spruce, the long-fiber wood that is a high-grade wood. Poplar is $1.50 on the present purchase program.

Some years I make pretty good on my logging contract but other years I do not make very much. In spite of the bad year I want to continue as an independent contractor because I could not have done nearly as good as an employee of any company as there would not have been the same opportunities for work or for profit.

There are a lot of other small contract loggers besides farmers in northern Minnesota. Some of these have other businesses and work in the woods during slack periods and some make a nice substantial living on timber alone.

Most of these contractors operate about as I do. That is, they either own or buy a little of their own timber and log it for one of the companies in the area, or they contract to log timber owned by one of the companies. In many cases they require financial assistance in the form of advances on their production and they sometimes rent the company's road and snow-plowing equipment. As myself, most of these contractors have a substantial investment of their own in cutting tools, skidding drays, horses or tractors, jammer loaders, and trucks. The amount, of course, varies with the size of the contractor.

These men consider themselves independent contractors and they want to continue that way. They determine where the roads should go, whether the timber is to be cut by the piece or by the hour, whether it is to be skidded by the hour or by contract and whether it is to be hauled with their own trucks or by contract haulers. They buy their own supplies, employ their own men, and make the best contract they can. For these reasons it seems that they are just as independent, if not more so, than any other type of contractor.

As previously mentioned, I am afraid this bill may not only cause us to lose our independence but also to force us out of the timber business by encouraging the company to go into larger camps again. That will not only hurt the small contractor, but it will hurt the timber resource.

We have had better cooperation in forest-fire prevention since the small contract logger could operate on his own. The small operator can do a better job in selective cutting and in all-around forest management and the forests which we have left will have to be given the best management if we are going to have timber for future generations.

This is a serious matter where I come from and I think it would be a serious mistake to change the status of the contract logger.

The CHAIRMAN. Are there any questions?

Senator BREWSTER. You cut about 200 cords when you operated alone; did you do that personally or with your hired man?

Mr. JOHNSON. If it is on the farm, we might cut it at odd times throughout the year. If it would be a rainy day, such as that. Most of the time it was done in the wintertime.

Senator BREWSTER. How much can a man cut out there a day?

Mr. JOHNSON. If we are in good timber, I have men out there cutting about 60 cord a month.

Senator BREWSTER. Something over 2 cords a day.

Mr. JOHNSON. Yes. I have had men cut up to 4 cords per day.

In closing, I would like to give just one example.

Senator MARTIN. Do you pay the man so much a cord or so much a day?

Mr. JOHNSON. My men are paid sometimes on the stick rate, so much per stick, and sometimes they are paid an hourly rate. It depends on our timber stands and the condition of the timber stands we work in.

Senator BREWSTER. When you say per stick, what do you mean?

Mr. JOHNSON. Of course, we do not set that. The CIO sets that for us, by the way. I have nothing to do with that. That is one thing that I have no control over. They come out and we have to sign a union contract up there, and an 8-foot stick with a 4-inch top is $7\frac{1}{4}$, 7-inch top, 8 feet long is $12\frac{3}{4}$, and a 10 inch is 21 cents. That is as big as they get in the black spruce. And in poplar, we have a schedule much the same.

In closing I am going to sum up why I was scared of this bill. In 1947, I was called on the telephone and somebody said, "Mr. Johnson, are you going to be home this afternoon?" I said, "Yes." "We want to come down and go over your logging records." It was the unemployment man.

Every spring I used to go up, when I got done with the logging contract, and see if I had employed over 8 men twenty consecutive weeks in any calendar year, as to whether I would or would not be liable for the unemployment tax. They would say, "You are not liable, if you send in the money, they will just send it back."

One day an administrator decided differently. I had to go back to 1942 just because somebody said I was all right and another man said I was not. It cost me a little over $700 to pay back the unemployment insurance. Those are some of the things that I was scared of in this bill. We might think we are all right, maybe going along for 3 years, and then some administrator says, "I guess we better make you an employee." That is what I was scared of. And there are a good many of us the same way.

I also have with me here some petitions signed by independent operators in the northern part of the State that asked me if I could file them in the record of this committee.

The CHAIRMAN. We will be glad to have you file them as part of the record.

(The petitions referred to follow:)

PETITION

We, the undersigned do hereby petition the Senate Finance Committee to eliminate from the Social Security bill, H. R. 6000, paragraph 4 of subsection (k) of section 210 and paragraph 4 of subsection (a) of section 206. We are opposed to the change in the common-law concept of employer-employee relations; to the elimination of opportunity for small contract-loggers to start on

a small scale with limited capital and to the monopoly which would develop in the timber industry if the new tests contained in paragraph 4 are allowed to become law.

(Signed:) Arthur Derfler, Hill City; Clayton Rollins, Pine River; T. M. Long, Brainerd; M. E Long, Brainerd; John Van Rassegham, Onamia; M. John Watson, Wahkon; W. J. Hodgdon, Wahkon; Melvin Conley, Redtop; Henry Witnauer, McGrath; Oscar Bakke, Redtop; Arthur E. Strom, Hili City; H. Rossin, Hill City; Nick Rossin, Hill City; R. F. Corell, Big Falls; Hjalmar Lofgren, Big Falls; Bennie Brooks, Hines; Senator Bushnell, Tamarack; Tilmon P. Gregg, Akeley; Jaemera Kuka, Sebeka; Richard B. Jamme, Hill City; Gordon Bolewan, Hill City; Paul Becker, Grand Rapids; L. J. Wilson, Minneapolis; Gordon Newgard, Hill City; Donald Lipsey, Hill City; Pat Sackett, Lamberton; H. B. Christensen, Hill City; George Gaylord, Hill City; W. R. Schmechel, Hill City; Dix's Hwy Store, Mrs. Glen Dix, Hill City; Wilbur Coe, Hill City; Frank W. Kammermeyer, Hill City; Ralph H. Wallace, Hill City; E. M. Saylor, Hill City; Ed. S Mimm, Hill City; O. K. Stone, Hill City; Chester E. Foster, Hill City; James Parker, Hill City; Clarence W. Flynn, Hill City, Gaylord Parker, Hill City; H. E. Eichhorn, Hill City; Bruce R. Eichhorn, Hill City; James Ryan, Narthome; Borgerding Timber Co. (by N. Borgerding, Pt.), Bagley; Eimo Johnson, Tower; Kirk Minnesota Co. (by G. Thorkon), Duluth; Paul M. Hedrick, Duluth; Robert J. Hofer, Grand Rapids; Chas. W. Latvala, Nashwauk; Frank A. Kelly, Cloquet; W. G. Wey, Cloquet; R. M. Hagman, Duluth; T. Howell, Duluth; Carl J. Dahlberg, Effie; L. R. Dickinson, Dickinson Lumber Co., Bemidji; Andrew T. Giffen, Federal Dam; George Biondish, International Falls; Taish M. Laeoja, Grand Marais; A. G. Kalfrener, Cloquet; K. J. Wood, Cloquet; Bernard LePak, Duluth.

Senator KERR. I would like to ask Mr. Johnson a question, if I may. you and your neighbors have been operating as independents up there for many years?

Mr. JOHNSON. Yes, sir.

Senator KERR. You developed your business on that basis?

Mr. JOHNSON. Yes, sir.

Senator KERR. You think it would be destructive if a Federal agency in Washington were given the discretion to determine that today you were an independent and tomorrow an employee or vice versa?

Mr. JOHNSON. That is correct. I am going to cite one more example.

Through the war we had the wage-and-hour men come up. We met with them at the courthouse at International Falls and I was asking some questions, the questions that I could not interpret on the law as written. As I asked them some questions, he pointed his finger at me and said, "I want you to see how you are going to get under this law." "That is not bothering me," I said, "I am just wondering how I am going to stay within it. I have three questions I would like to ask you. They have been bothering me and I have not been able to answer them." This was an attorney for four States. I asked him these three questions, and he said, "Well, I don't know." He says, "I am going back. I will get Mr. Fleming" or whoever was the Administrator in Washington, "to let me know." So I said, "If you don't know, how do you expect us lumberjacks to know or do you expect us to get along without knowing these laws?"

Those are some of the things that are bothering us independent contractors that are not trying to get into the public welfare. We want to make our own. If this thing continues, I do not know what we will be.

The CHAIRMAN. Thank you.

Mr. JOHNSON. Thank you.

The CHAIRMAN. Mr. Thomas B. Farwell. You may identify yourself.

STATEMENT OF THOMAS FARWELL, PRESIDENT AND GENERAL MANAGER, RYEGATE PAPER CO., EAST RYEGATE, VT.

Mr. FARWELL. My name is Thomas Farwell. I am president and general manager of the Ryegate Paper Co. of East Ryegate. Vt. We have a comparatively small company employing about 100 people in the manufacture of pulp and paper. We draw our supplies of pulpwood largely within a radius of 40 miles. Some of this comes from Vermont and some from New Hampshire. Our requirements are approximately 1,000 cords per year.

Our own holdings of forest lands are negligible—providing a growth of only about 2 percent of our annual requirements. There are no really large blocks of timberland in our area—much of the timber is on what we term farm-forest land. Northern Vermont farms are traditionally divided into tillage, pasture, and forest land. Since 1906 when we started in business we have had satisfactory experience in buying our pulpwood from producers or jobbers who cut from farm forests and privately owned forest land and deliver the pulpwood to our mill at so much per cord. By cooperating in the encouragement of good forest practices we believe that we have had some influence in protecting a permanent source of forest products.

I am appearing here for the single purpose of explaining to you how the provisions of paragraph 4, subsection (k) of section 210, H. R. 6000, as it now stands, would be unduly burdensome to us and to the many, many small forest industries in the Northeast that generally operate as we do. If the definition of this subsection should become law, I cannot for the life of me figure how we could practically carry along the traditional relationship with our producers who are, and always have been, considered "independent contractors."

Pulpwood production is a seasonal operation. The people with whom we contract are not working on our supply the year around. They generally are not large operators. The comparatively small amount of pulpwood we purchased in 1949 came from 53 different contractors, and in 1948 from 98. The contract arrangements vary greatly, dependent upon the circumstances in particular cases. Who owns the stumpage? What are the cutting specifications? Is the wood to be delivered to the mill or is it purchased at roadside? Is it necessary to advance money as the operation proceeds? These, and many other factors, have to be taken into account to determine the terms of our contracts with producers.

But, all of those contracts have this in common—they all are purchase and sale contracts under which we undertake to buy a specific number of cords of pulpwood and the producers undertake to sell them to us. There is nothing obscure about them; they are not subterfuge to get around some law or other. They are an exact reflection of the way we have been doing businesss for a great many years. We must have pulpwood. We have found it satisfactory to buy it rather than produce it ourselves, so we buy it from people who have it to sell. It is as simple as that.

The payments we make to contractors cover the many elements of their cost. We pay them so many dollars per cord. This covers elements of labor, such as cutting, peeling, yarding and trucking; elements of equipment, such as saws, tractors, and trucks; elements of expense, such as camps and woods roads; the elements of overhead, such as depreciation, insurance, and supervision; the element of depletion of stumpage, and the important element of profit which keeps these people in business. These payments are not wages by any stretch of the imagination.

These people we buy from consider themselves as independent contractors. They are small business. It would be a blow to their self respect to sudenly find that by legislation, or by interpretation of legislation by an Administrator, they had suddenly become "employees." During the course of a year they may contract with a number of users of forest products. Everyone has always considered them as independent contractors. Under the provisions of H. R. 6000, which we are considering, what would they be? I do not know. Some might be considered "employees" and some as "independent contractors." A producer might be an independent contractor some of the time, and then the situation might change so that he would become an employee. A change in interpretation of the act, if passed as now written, might change the status overnight. We certainly would not be smart enough to be right in our judgment all of the time.

If a contractor suddenly becomes our employee, what about his employees? I do not know how many he has, who they are, or what he pays them. What are the wages of this contractor who has become an employee? As Mr. Canfield said earlier, I suppose it would have to be his profit, but I do not know that any more than I know the profit made by the haberdasher from whom I buy my shirts. Actually, of course, not even the contractor can know his profit from quarter to quarter as would be necessary for social-security purposes.

I am supposed to withhold social-security taxes from wages when they are paid. When is the profit paid? Our small office force certainly is not geared to the mechanics of this problem. Somebody asked me how many it would add, and the best estimate I could make was about 50 percent that it would add to our small clerical force.

It all adds up to the fact that we could not operate practically with some of our pulpwood suppliers being ruled as our "employees" and others as "independent contractors"—with their status changing from time to time—with our never knowing whether we were right or wrong. There would seem no course open except for us to change the whole economy of pulpwood purchasing and operate ourselves from the timberland to the mill. This would be most difficult with the widely scattered sources of supply. This would wipe out a respected element of our local economy.

We used about 8,000 cords per year, and Mr. Robertson said they used about half a million in one mill alone. I would like to emphasize that relatively this problem is just as important to us as it is to a big company.

Senator MILLIKIN. You are like the Swede railroad fellow that had a short logging road who went to Jim Hill and asked him for a pass because he was the chairman of a railroad, and Jim Hill said, "Why, your railroad is only 8 miles long. I can't give you a pass for that."

He said, "Mr. Hill, my railroad may not be as long as yours, but it is as wide as yours."

Mr. FARWELL. And probably just as important to him, too.

I am not officially authorized to represent anyone except the Rye-gate Paper Co. in this matter. I can report, however, that I have talked with a lot of people in our area—other users of forest products, and independent contractors—and without a single exception there has been grave concern when they understood the provisions of this legislation.

I am not here, gentlemen, to argue in any way against the extension in coverage on social security. I am here solely to request that in extending this coverage, if desirable, you do not do it in a manner that will be highly impractical and which will tend to destroy the long satisfactory relationship between purchaser and independent contractor in our industry.

Senator MILLIKIN. If my history is incorrect, will you correct me? As I recall it, before Vermont became independent, the King had the right to select the best trees in every wood lot for making spars for the King's Navy. May I adopt the general conclusion that you would like to have the King keep his nose out of your business?

Mr. FARWELL. That is right.

The CHAIRMAN. Are there any other questions?

Thank you very much.

Mr. FARWELL. Thank you.

The CHAIRMAN. Next is Mr. Russell Watson.

Please identify yourself for the record.

STATEMENT OF RUSSELL WATSON, COMMERCIAL FORESTRY, MANISTIQUE, MICH.

Mr. WATSON. My name is Russell Watson. Forestry is my business, and has been all my life. My location is in northern Michigan, where I am an owner and operator of timberlands, and a buyer and seller of forest products which I obtain from many small producers and resell to pulp and paper plants, sawmills, excelsior mills, and so forth. My territory is typical of most of northern Wisconsin and Michigan, in that the greater part of the original heavy stands of virgin timber have been cut, and a vast amount of second growth is now arising with intermingled small pieces of merchantable forests.

The day of the large lumber camp, with railroad logging, is going, and the bulk of the timber supplies, especially of pulpwood, fence posts, railroad ties, handle bolts, and the dozens of other wood products come from many small-woods operators. Our local pulp and paper mill, for example, usually has a hundred or more separate contracts for deliveries of pulpwood by small producers. Each one may be modest in size, but in the aggregate they bulk large.

As the owner of a considerable acreage of such forested land, I find oftentimes that for many reasons it is most satisfactory to contract with local enterprising fellows to cut the timber and to skid and deliver the wood on a contract basis. I have been doing this for many years, and am thoroughly acquainted with the procedure. The man engaged uses his own simple tools and employs his neighbors to work with him. He is likely to be a local farmer who has little else to do

during the winter months from October to the break-up of winter in March. His tools are those he has about the place, namely, saws, axes, drays, horses or small tractors, a hired man or two, and likely a grown son home from the Army, just married and eager to work. His outlay for equipment is small, and much of it, such as drays or small barns or sleeping shacks, he himself constructs and repairs at odd hours or as needed. He pays the local men whom he employs such wages as he knows from experience they deserve and will get the work done best. Being his own boss, he works as many hours as he pleases and being a contractor, he has the vital incentive of the rewards of hard work, skillful planning, and honest endeavor. I have engaged many such fellows over the years who have enlarged their sphere of activities until they, too, became owners and in turn let out jobs to local contract loggers. Our north-woods operations are in large part done by such men who rose from humble beginnings.

The method has many advantages. From my point of view, as a forest owner, I am relieved of the detail of the administration of many small jobs, which enables me to place my emphasis on sales of products and the multitude of duties which crowd upon us during the rush hours of the winter season when we are the busiest. It is a systematic delegation of duties to trusted men, and the savings of overhead costs and expenses can be shared with the contractor.

From the point of view of the contractor, it enables him to use his men and equipment during the season when work otherwise might be slack on the farm. His horses, for example, might be "eating their heads off," as the saying goes, doing nothing, if it were not for winter woods work. It brings him in cash payments, and many a farmer in our north country makes more money from his winter's woods operations than he does from his summer's farming. The two operations, farming and forestry, supplement one another splendidly; it is almost an ideal arrangement, and has been built up over the years into a smooth-working performance. I would very much dislike to see it broken up by a law which would insist that these small contractors become my employees.

If such becomes the fact, I shall not be able to deal with these men at all, except as actual individual laborers on a piece-work or a day-wage basis. The reason I will not be able to deal with them as in the past is that I would have to know how much profit they make in order to withhold social-security contributions and to pay social-security taxes for their account. I would assume that if these contractors are deemed to be my employees, then their employees would also be deemed to be mine. In that case, I would also have to take over payment of wages to their employees so that proper withholding and payment of taxes could be made. There is no possible way for me to do either of these things unless the men are actually my employees. If you make this proposed definition the law, then I shall have to make presently independent businessmen my hired hands, or else refuse to do business with them. This, such men definitely will not enjoy. They are independent by nature. They do not wish to work at the beck and call of a foreman; they work best when they are self-employed. Their compensation is directly commensurate with their initiative and hustle, their pay is proportionate to their accomplishment.

From my experience, I would say that the difficulties which wer first experienced of getting such small employers (or contractors) t take good care of social-security payments and withholding taxes o the men they employed, are rapidly passing. The entire social security set-up came upon us suddenly and we all went through period of sharp pains until we caught on how to handle it and unti prices of our products rose enough to cover the added expense o administration and payments. Some of us, with a more bookkeepin turn of mind who handle paper work easily, had little difficulty learn ing the routine; others, such as are many of these independent sma contractors, who are normally rebellious of any governmental inte ference in their activities, were longer coming to it. But over the year gradually the difficulties and dissensions have been overcome and i my neighborhood, at least, I doubt that the auditors from the co lector of internal revenue have much fault to find. Also, the em ployees of the contractors are themselves quick to exert pressure upo their employers if their social-security contributions and deduction are not made promptly and properly, and if their withholding-ta returns are not correctly computed.

Such contractors, because of the possibilities of continual work int the future, readily adopt programs which have to do with forest cor trol. They know that fire prevention, better silviculture and trespa control, is part of their business, and they take a deep and abidin interest in such matters. A program of sustained yield, for exampl from a forest area, is more important to such a resident contracto than to anyone else. The local economies of the situation come ver close to his fortunes; he visualizes good forest management in term of his own gain.

It may be felt that an independent contractor should be consid ered an employee in order that he might look forward with satisfa tion to receiving social-security benefits when he reaches the age o 65. Perhaps some do, and they will or can obtain old-age coverag under other provisions of the bill without becoming employees an surrendering their independence. But I believe that most of thes small contractors think of their security in terms of income from thei own place, and they wisely prefer to invest their savings into develo ment of it rather than to entrust it into the hands of a distant gover ment. They have confidence in their ability to provide for thei old age through their own foresight and hard work. Many of the know, as men close to the soil everywhere know, that the finest an best old-age security is that of the resources of your own farm, larg or small, where one can take full advantage of the gifts of goo growing weather, warm sun, and gentle rains on well-kept soil.

Such men are a strong leavening influence in our whole north-wood social structure. They wish to advance. They should by all mean be encouraged, not discouraged. They should be given every oppo tunity to remain free and independent, and not bound into an employe relationship. Leave them alone.

The CHAIRMAN. Are there any questions?

If there are no questions, we thank you very much, Mr. Watson.

Mr. WATSON. Thank you.

The CHAIRMAN. Next is Mr. John E. Johnston, of Port Leyde N. Y.

STATEMENT OF JOHN E. JOHNSTON, CONTRACT LOGGER, PORT LEYDEN, N. Y.

Mr. JOHNSTON. I am a contract logger, and represent the contract loggers of the Northeast. We take our contracts from half a dozen paper mills in our vicinity and for the last 16 years have operated almost exclusively on their lands. That does not mean that I individually do all the work I contract for and therefore would be deemed an employee under paragraph 3 of sections 104 (a) and 206 (a) of H. R. 6000. With paragraph 3 as it stands, I have no personal nor particular complaint except that it is unnecessary, but if you were by any chance to drop that general qualification covering individual work, I would be concerned with it as much, and for the same reasons, as I am concerned with paragraph 4 of those sections of the act as they now stand.

I object to the provisions contained in paragraph 4 of sections 104 (a) and 206 (a) of H. R. 6000. When I say that I object, I am perfectly certain that I reflect the thinking of every independent contractor in the logging business who is aware of what Congress is threatening to do to him. So from now on, I am going to say "we" instead of "I."

We object to the provisions contained in sections 104 (a) and 206 (a) of H. R. 6000, and particularly to paragraph 5 describing an "employee," because in our opinion they will destroy our status as independent contractors and make us employees.

Ever since logging started in the Northeast generations ago, it has been largely carried on by contractor loggers, large and small, as independent contractors. Frequently large contractors sublet some of their work to smaller contractors and, since the advent of trucks, practically all of us let our trucking to independent contracting truckers, sometimes owner-drivers, and sometimes driven by hired drivers. All of these contractors carry their own public-liability and property-damage insurance, and if they have help, pay social-security and unemployment taxes on them.

We are not talking about piece workers. We understand their status as employees.

Many successful operators have started as lumberjacks, accumulated a little money, become independent contractors in a small way, been successful, and grown and accumulated equipment, and eventually became large contractors in the true American manner. The removal of the incentive to become independent contractors, and the possibility of becoming employees, would be detrimental to the morale of many of the better woodsmen. It would be a blow at small business. It would eliminate the opportunity for more woodsmen and truckers to become independent businessmen and would be another step in the process of causing America to cease being a land of opportunity.

If we are forced to pay social-security taxes on our subcontractors and their employees, then our subcontractors and their employees must actually become our employees; otherwise we could not do it. And if they are our employees, then we must carry compensation insurance on them, and deduct withholding taxes and pay unemployment taxes, and we are responsible for their adherence to the wage-and-hour law, and we must inspect their records and supervise their bookkeeping. What they make or lose on their contracts with us is not our

affair and we have no right to know it, and what we make or lose o the contracts that we take from our principals is none of their co cern, and they have no right to ask us.

Seven or eight years ago, the Public Service Commission of Ne York State announced that they were going to regulate the trucke hauling forest products within the State. They held hearings lastin for weeks in Utica, Watertown, and several other cities convenientl located, and called in not only representatives of paper mills but th logging contractors and the truckers themselves. After sever months of weighing the evidence, the public service commission an nounced that the trucking of forest products within New York Stat could not be regulated, because the truckers were independent co tractors, and would in any event continue to truck what they wishe where they wished, and when they wished. Any attempt to gathe these independent contractors into one fold and make the parties fo whom they operate contribute social-security taxes for them will mee with the same results. The confusion and the violations will b unlimited.

Logging, whether saw timber or pulpwood, is seasonal and inte mittent. There is no control over the contractor, except inspectio There is no necessary regularity. Skill and experience are require Investment in trucks and their equipment is necessary. In all case profit is probable. But who knows or can even guess what weigh the Administrator will give to these facts. As a matter of economi reality an independent logging contractor is no more dependent upo the person from whom he takes a contract than any other contracto in any other line of business. They can take the contracts or leav them.

We are listed in the group which may or may not be included a employees. If we have to pay social-security taxes as self-employe we would much prefer to pay taxes 1½ times that paid by the em ployee rather than be classed as employees and lose our independence We do not want our books and records inspected by the several com panies from whom we take contracts, and we want to continue to be i position to take, and to let, such contracts as we choose, from any com pany that we choose, and as many as we choose.

Under the proposed law, our status would be too uncertain. W would never know when some Administrator might rule us employee and the risk of getting innocently into trouble would be great. W consider this bill just another step toward regimentation and social ization, and we have already taken too many steps in that direction

We feel that we and our subcontractors simply cannot properly b classed as employees because in fact we are not but are independen small-business men. The present administration has said much abou helping small business. Accordingly, we respectfully request that th Senate eliminate from the bill paragraphs 3 and 4 which are include for the sole purpose of making possible the forcing of independen businessmen out of business and into the category of dependen employees.

The CHAIRMAN. Are there any questions?

If not, we thank you very much, Mr. Johnston. We appreciat your being here.

Mr. JOHNSTON. Thank you.

The CHAIRMAN. Mr. C. S. Crosby, of Farmington, Maine.

STATEMENT OF C. S. CROSBY, FARMINGTON, MAINE

Mr. CROSBY. Mr. Chairman and members of the Senate Finance Committee, I am a small producer and buyer of wood, handling from 5,000 to 8,000 cords of pulpwood for the Brown Co. of Berlin, N. H., and 500 to 1,000 cords of veneer-grade hardwood for the Foster Manufacturing Co. of Strong, Maine. This wood is procured from 75 to 100 individuals as over 50 percent of all forest products produced for the consuming mills are produced by the small operator. The larger part of these 75 or more individuals is the farmer who lumbers a part of the season.

I, as a small producer, am very much concerned with the definition of "employee" contained in the Social Security Act amendments of 1949 (H. R. 6000). Subsection 4 of section 104 (a) of the act is a very broad definition of "employee." There are very few small producers of pulpwood but what three or four of the factors mentioned in subsection 4 would apply to them in some degree. The bearing of these several factors relative to the status of the individual is left entirely to the discretion of the Administrator. I believe that the definition should be clarified so that the individual can determine whether he is self-employed or an employee without taking the chances of being penalized because of some ruling made by the Administrator of the act with which the producer is not familiar.

I would like to take just a moment to tell you how we operate as I believe that will give you a better understanding of our problem.

Using my own case as an example, I take a contract from the consuming mill for a certain number of cords of different species of wood, then in turn buy small lots of 10 to 50 cords and subcontract for larger lots. The wood is contracted for at a price delivered roadside in some cases and in other cases priced delivered to the mill. It is rarely that I know the laborers on these various jobs as I see the wood only when it is piled on the roadside and ready for shipping; in fact, it would be impossible to visit 75 to 100 operations each week and keep track of the wages paid in each individual case. If these men are to be considered employees of mine, I could only purchase wood from the producer who had 500 or more cords per year, because I could not possibly check up on wages paid and profits made by a much larger number of smaller operators in order to make the necessary withholdings and tax payments.

This would leave the small-business man who employs from four to eight men without any market for his lumber. There are thousands of those men in the State of Maine and other New England States, and it would be a great hardship upon them. I believe that the mills would not purchase pulpwood from any of us as they would not take the risk of having us classed as their employees under this act, and because of the added expense of checking on the small operators which is estimated to cost at least $1 per cord, or 10 percent of the present cost of pulpwood on roadside. Therefore, these mills would produce their pulpwood with their own crews and generally on their own land or large tracts of land where they can purchase the stumpage. This will also leave the owner of small tracts of land without any chance of selling his stumpage.

The small-business man who employs four to eight men is very proud of his station in life and is usually the backbone of the rural

community in which he lives. Yet this act would appear to do away with him and the opportunity for a young man to go into business for himself except in some field that is exempt from the Social Security Act, such as the retail field.

I hope the common law definition that we now have for employees will remain as the definition to be used, thereby preserving the status of these small-businessmen.

There would be little difference in the amount of taxes received, as those who are not employees will be self-employed and as such will pay the social security tax.

Senator KERR. Do you think that it would be wise to include this group under the act, but classified as self-employed.

Mr. CROSBY. If you and the people want additional coverage of social security, I see no reason why self-employed should not pay the social security tax. Our main worry is the fact that we will lose our independence of being self-employed.

Senator KERR. I understand, and I share your concern in that, but I was interested to know what your opinion is with reference to the advisability of extending it to this group but with the classification of self-employed.

Mr. CROSBY. I think that that is all right.

Senator KERR. Thank you.

Mr. CROSBY. It will make more work for the Internal Revenue Department to handle the larger number of accounts, but I believe it is worth that added expense to preserve what I consider the backbone of the country, the small-business man.

There is an exemption clause to the wage-hour law for the producer of forest products who uses less than 12 men. But with the definition of "employee" in the Social Security Act, there would be no small operators, so it would appear that where the small-business man is to receive help on one hand, one the other he would lose everything and will have to try to find employment with the large mills. In many of our small communities a large percentage of the population is employed by the small-business men, employing less than 12 men, so it will mean these men will have to leave their families and go where the large concerns are operating or remain with their families and depend upon the Government for aid in getting a living. Either way is not pleasant for some people.

I know you gentlemen are going to give the Social Security Act in its entirely a great deal of thought for it is one of the most important pieces of legislation you will have to consider this session, and I hope that I have been able to give you a better idea of what the act means to the small fellow in the rural community.

I thank you gentlemen for your time.

Are there any questions?

The small-business men are paying the social security taxes on their employees. I think the most of us have little objection on the additional coverage of the act, but we do urge you gentlemen to preserve the status of the independent contractor and the opportunities for the small-business man.

Senator BREWSTER. These people you speak of, these 75 or 100, are mostly farmers who have some other activities as well?

Mr. CROSBY. Probably 95 percent of those people are farmers who lumber a part of the year. That is their way of maintaining a steady income throughout the year.

Senator BREWSTER. How is the cutting going on now?

Mr. CROSBY. At this present time it is improving. They are getting a fairly good cut at this time, and it would appear to continue good until summer.

Senator KERR. Do you think it would be a tragedy for a Federal agency to have the power to change your status from that of an independent operator that you have achieved for yourself, and automatically make you an employee which would put you under a situation that you neither asked for nor could survive under?

Mr. CROSBY. I do. I do not think that the mills can use all of us as employees. They have to concentrate their operations within an area where they have individual supervision.

Senator KERR. You do not want to be their employee?

Mr. CROSBY. I do not want to be, no, sir, and I do not intend to be.

The CHAIRMAN. Thank you very much.

Mr. CROSBY. Thank you.

The CHAIRMAN. Next we will hear from Mr. William S. Mundy, Jr., Lynchburg, Va.

STATEMENT OF WILLIAM S. MUNDY, JR., PRESIDENT, MUNDY & CO., INC., LYNCHBURG, VA.

Mr. MUNDY. I am William S. Mundy, Jr., of Lynchburg, Va. I am president of Mundy & Co., Inc., a very small corporation. As a matter of fact, in addition to its officers, it has only two employees. I am also an attorney at law, practicing in Lynchburg, and as such am familiar with the problems of a great many small-business men and different kinds of businesses. The kinds of small-business men who I think are the subject of so many benevolent general comments in the process of enacting legislation, but whose burdens resulting from the legislation actually enacted seem for some reason daily to increase more and more.

My remarks on the subject of this bill are not to be construed as reflecting a generally negative attitude. On the contrary, I am very much in favor of most of the objects of this legislation, and, in fact, I think that the coverage of the act should be extended even further than it is extended by the House bill.

I am opposing only the definition of the word "employee" as contained in these two subsections 104 (a) and 306 (a) of the bill. The opposition does not include or imply opposition to coverage for any single person. The issue of the propriety of extending social security coverage does not relate whatever in any way to the issue of the propriety of extending it by means of this definition.

These sections of the bill would enact a definition of the word "employee" different from its definition by the present law, and different from the definition of the word for the purposes of other laws. It would be a special definition for the sole and exclusive purpose of the Social Security Act. The employer-employee relation is a common and ordinary relation. It is a relation that exists on the one hand between large corporations and their numerous employees, and on

the other hand, it exists between many small employers who hav only one or two employees.

At one extreme, it is the relation to which a great corporation wit a large legal staff is a party, and at the other extreme there are man employers in this country, millions of them, who have no suc resources. There are quite a few employers in this country who ca neither read nor write.

Any uncertainty as to the meaning of the definition of the employe employee relationship will cause innumerable difficulties, econom consequences, causes of litigation and possibly, indeed probably, sul stantial penalties to be incurred by many persons who have acted i good faith and used their best efforts to comply with the requirement of the law.

The courts of the United States and of the United Kingdom hav taken several centuries, taking up one case at a time, studying it an listing it, considering its consequences, to evolve by processes of inclu sion and exclusion the common-law tests to determine whether or n a person is an employer or an employee. I would be less than fran to say that sometimes the application of the common-law tests t a particular factual situation is difficult. The reason is that th economic relations which may exist between two persons, particularl in the case of small businesses, vary in different patterns, so numerou as to frustrate all efforts to classify them completely. The difficult inherent in applying any test or definition of the employer-employe relation to the facts results from the variety of these patterns in th actually existing facts, and this difficulty will exist whether the te or definition to be applied is the common-law definition or a statutor definition as is attempted in this bill.

One of the principal objections to any statutory definition of th word "employee," be it good or bad, differing from the common-la definition, is the fact that the common-law definition has been applie by the courts in thousands of cases which now constitute precedent for determination of questions that arise. So many cases have bee decided under the common-law definition that the average small-bus ness man has a general understanding as to who is and who is n his employee, although he may at the same time have some difficult in applying this definition to an unusual or difficult set of facts.

There perhaps would be some justification for a statutory definitio of the relation if the statutory definition were in terms more definit and certain in application than the common-law definition. But th is not true of the definition in these two subsections. As a matter fact, to paraphrase a well-known quotation, it is as if to make uncer tainty doubly uncertain.

The language of the two sections is more vague and uncertain tha the terms of the common-law definition. The elements mentioned i this statutory definition are in a large measure the same often referre to by the courts in discussing and applying the common-law definitio But presumably these elements were intended to have a different mea ing or effect in the statutory definition. The courts could hardly a sume that the elements of this statutory definition are to be given th same meaning and effect as in the common-law definition, for if thi were the correct construction there would be no legislative purpose i enacting the definition.

If these elements of the statutory definition are to have a different meaning and effect from their meaning and effect in discussion of the common-law definition, what is that meaning? The definition provides that the relation is to be determined—

> * * * by the combined effects of—
> (A) control over the individual,
> (B) permanency of the relationship,
> (C) regularity and frequency of performance of the service,
> (D) integration of the individual's work in the business to which he renders service,
> (E) lack of skill required of the individual,
> (F) lack of investment by the individual in facilities for work, and
> (G) lack of opportunities of the individual for profit or loss.

Assuming that these elements must be given some meaning or effect other than their meaning and effect when in discussion of the common-law definition, what meaning and effect do they have? I seriously doubt that the draftsmen of these sections themselves could tell us what it is. How often is frequent? How long is permanent? How much lack of skill is involved? In this definition there are untold opportunities for the Supreme Court to divide 5 to 4 and with every justification for doing so.

If the elements of this defintion are to be given meaning and effect different from the definition at common law, it will take many years of litigation to make the new statutory definition attain the degree of certainty already attained by the common-law definition. The average small-business man cannot afford to litigate such matters with his Government. The cost of litigation apparently means little to a Government department or agency determined to settle an issue in the courts, but pulpwood dealers, producers and other small-business men cannot generally afford to engage in such litigation. The uncertainties created by the statutory definition will in effect leave such small-business men at the mercy of enforcement officers. If legislation is enacted with such vagueness and uncertainty, imposing substantial penalties, and operating retroactively after judicial interpretation, the average small-business man will have no choice except to settle for as little as possible, if a claim is made against him.

Let us assume for a moment that the statutory definition is enacted and is finally clarified by judicial interpretation to the point at which it is possible to determine who constitutes the presently unknown class of persons not included in the common-law definition, but included in the statutory definition.

Let us assume this class includes a pulpwood producer from whom another has been buying pulpwood over a period of years at a price per cord. How is anyone to determine the amount of remuneration or compensation on which the tax is to be paid? Presumably the tax relates only to compensation or remuneration for personal services and not to the gross sales price which includes cost of the timber and production and delivery costs. Where the trade is conducted on the basis of sale at a price, that is per unit, the purchaser has no record of the costs and expenses of the seller, even though the statutory definition may have made the seller an employee for purposes of the tax.

If this definition is enacted and so construed, there seems to be no means of ascertaining the facts necessary to compute the tax unless

the buyer terminates the independent character of the seller's operation and puts the seller on his pay roll.

The possibility that the independence and opportunity of many small operators may be terminated in this manner is causing grave concern among pulpwood dealers, producers, and truckers.

In addition to the inherent unsoundness of this particular statutory definition, the small-business man will be gravely affected by the legislative policy involved in the defining of a common and ordinary relation, such as employer and employee, in one way for the purpose, for one purpose, and in another way for the purposes of other statutes.

If the Social Security Act is to have a definition of this relation for the separate purposes, the same policy would permit different definitions of the same relation for various other acts. If the policy is pursued in other legislation, two persons attempting to ascertain the relation between them could find that one is an employee for the purposes of the Social Security Act, but not for the purpose of the Fair Labor Standards Act, that he is an employee for the purposes of the withholding provisions of the Internal Revenue Code, but that he is not for the purposes of the National Labor Relations Act, and that he is an employee for one purpose but not for another, and so on ad infinitum, and at the same time for the purposes of contract and tort liabilities, and for provisions of adequate insurance coverage, the standards for determination of their relation could be entirely different from any of those in the cases mentioned.

It is impractical to expect even the most astute businessman to say nothing of the average operator of a small business to know from day to day who his employees are and who are not and to perform his duties as required by law if the statutes are to define employee in one way for one purpose and in other ways for other purposes.

It is obvious that if laws are to be observed, they must first be laws which will allow the people a reasonable opportunity to learn and to know what their duties and obligations are. The people cannot as a practical matter have this opportunity if Federal legislation is to be further and unnecessarily complicated by defining a common ordinary relation, such as employer and employee, in numerous different ways for numerous different purposes.

None of these considerations implies opposition to social-security coverage for any person who would be included in the definition of employee as contained in the House bill, but who would not be included as an employee by common-law standards. The issue is not whether such a person should be covered by the Social Security Act, but is whether he should be covered as a self-employed person or as the employee of another.

If it is regarded as desirable to bring such persons within the coverage of the act, they should be covered as self-employed persons and not by any illogical and impractical corruption of the definition of a common and ordinary relation, to the further confusion and burden of those who are attempting to do business under our already complicated laws.

If the Congress, contrary to our expectations and belief, should be willing to impose further burdens and uncertainties upon small-business men for no greater purpose than is involved in this definition, it would be not difficult to foresee the day when the truly small-busines

man is completely bound by governmental regulations, gagged with administrative rulings, weighted down with official forms, and drowned in the muck of bureaucracy.

The CHAIRMAN. Thank you very much.

Mr. MUNDY. Thank you.

The CHAIRMAN. Mr. Cloyd Taylor. Identify yourself for the record.

STATEMENT OF I. CLOYD TAYLOR, SHADE GAP, PA.

Mr. TAYLOR. My name is Cloyd Taylor of Shade Gap, Pa. I have prepared a short statement that is along the lines of the other statements you have already heard. I am not going to read it. I just want to say that I am in the lumber business.

The CHAIRMAN. You may put your statement in the record if you wish.

Mr. TAYLOR. Thank you.

(The statement referred to follows:)

STATEMENT OF I. CLOYD TAYLOR, SHADE GAP, PA.

My name is I. Cloyd Taylor. I live up in the mountains of Pennsylvania and speak for the group of interested pulpwood dealers, producers, and small-business men operating in southern tier counties of that State. I am in the lumber business, oversee the operation of a farm, and have been a supplier of pulpwood for the past 25 years. Ninety percent of our pulpwood comes from farms, manufactured and delivered to the mill by farmers, their sons, or labor employed on the farm. We have, of course, independent truckers who haul a small percentage of the wood to the mill and occasionally bring back a load of coal or other products. This might be fertilizer, lime, feed, etc. These same truckers haul lumber to the coal fields and wood to the several wood-consuming companies. Under the proposed definition of "employee" it would be difficult to ascertain who is the employee and employer.

Under the new definition of "employee," he could be employed by all these people. Many of the small lumber producers purchase stumpage from the farmers and, in turn, the farmer might even cut the logs. Does this make the farmer an employe of the sawmill operator? Of course, it doesn't in fact, but with the proposed definition, the Administrator could say it does.

Under the present law, the definition of "employee" for social-security purposes is especially important in determining who is and who is not covered, but this problem is eliminated by the provisions of H. R. 6000 by extending coverage to self-employed, as well as to employees. It would appear that the purpose of defining "employee" as proposed is to cause payment of a higher tax. It certainly won't add a single person to the benefit rolls.

It seems to me the Congressmen were right when they said on page 162 of the report:

"Paragraph (4) serves no social purpose. Instead it leaves the status of millions of our citizens to the almost unbridled exercise of administrative descretion and does so just at a time when they must for the first time determine at their peril whether they are to be covered as employees or as self-employed. It will result in the unsettling of many established business practices and produce endless costly litigation. Its adoption is a shameful departure from the constitutional division of powers among the three branches of government and marks the surrender by the Congress of its prerogative and duty to define tax liability."

The statement that the definition will result in the unsettling of many established business practices means, when you get right down to cases, that I am out of business. Nobody can afford to do business without any idea of what his tax liabilities are, so buyers of wood just won't do business with people like me. In order to know where they stand, and not be in position to get stuck years later with taxes, fines, and penalties for guessing wrong, they will have to produce their wood with their own employees. That means that a lot of people who are now small independent businessmen working for themselves and liking it,

are going to have to go to work for somebody else and not like it. They are going to like it any better than you would.

If the definition of "employee" now appearing in H. R. 6000 is retained, it v greatly retard the growing and conservation of timber in the North by sm landowners in that they will have less opportunity to dispose of their timl growth at a reasonable profit.

I sincerely believe that there would be so much confusion under the propo definition of "employee" that small-business men would not know what to do.

Mr. TAYLOR. I just want to say that I am in the lumber busine and oversee the operations of a farm, and have been a supplier pulpwood for the past 25 years.

Ninety percent of our wood comes from farms, manufactured a delivered to the mill by farmers. Their sons labor and are employ on the farm. We have independent truckers who haul a small pe centage of this to the mill and occasionally bring back a load of co or other products. It might be fertilizer, lime, feed, and so forth. T same trucks haul lumber to the coal fields, and wood to several woo consuming mills. Under the proposed definition of "employee" this bill, H. R. 6000, it would be difficult to ascertain who is the e ployee and the employer.

I am greatly concerned as to the effect and outcome of our busin if this proposed definition were to be retained and become law.

That is all I have, Mr. Chairman.

The CHAIRMAN. Thank you very much, sir.

Mr. TAYLOR. Thank you, sir.

Senator MARTIN. Do you have any idea how many men are co ducting businesses in Pennsylvania similar to your own?

Mr. TAYLOR. In Pennsylvania. I would have to make a guess. would say 75. You mean pulpwood suppliers?

Senator MARTIN. I am getting at the ones that supply pulpwoo wood for chemical plants and pit posts for the mines, and things that kind, if you have knowledge of that.

Mr. TAYLOR. We are out of the chemical section, and we have fe pit posts, but very few, and most of the products there are used f lumber and pulpwood in our section. Our operations, I might sa are all small, from one to three men operations. We do not have a large ones.

Senator MARTIN. A great number of you also operate small farm

Mr. TAYLOR. Yes.

Senator MARTIN. You are primarily farmers and then you do th cutting of pulpwood and things of that kind to supplement your far work?

Mr. TAYLOR. That is correct. I think 90 percent, as I mentione here, is a conservative figure of the wood that they get comes off t farm. I would rather think it would reach 95 percent.

The CHAIRMAN. Thank you very much for your appearance.

Mr. TAYLOR. Thank you.

The CHAIRMAN. We will next hear from Mr. Stallworth.

Representative BOYKIN. I would like to tell you a word or two abo this gentleman who will speak to you now. He and I were born a raised in the same little town, Fairfood, Ala. His father gave m my first job at 35 cents a day. That is a long time ago, before he w born. I was in this business, and his father was, too, and he h come right along on it. He is one of the finest human beings I ha

ever known in my life. He understands this bill, and he tells me unless we get some relief, they will be absolutely out of business. They run a tremendous business, little ones and big ones, not only in the pulpwood business, but they are in the turpentine business, and you know more about that than anybody, because your State has 54 percent of all that produced in this country. They have two automobile businesses. They have a splendid pulpwood business. We used to have to throw away our pulpwood. We had not place for it to go, just the top of the trees. He does business with all the pulpwood people in that country. I just wanted you really to truly know about this particular boy. He is a man, but to me he is just a boy. I appreciate any consideration you may give.

The CHAIRMAN. We are very glad to hear him.

STATEMENT OF M. C. STALLWORTH, JR., VINEGAR BEND, ALA.

Mr. STALLWORTH. My name is M. C. Stallworth, Jr. My business includes the buying of pulpwood, generally from producers or farmers, and the selling of this pulpwood to paper mills. As such I guess I would be considered a dealer in pulpwood. I live in Washington County, Ala. This county until recently did not have an incorporated town within its boundaries. A few years back it was estimated that this county was supported 90 percent by forest products and 10 percent by annual agriculture and livestock.

I started here as an individual, and after it was known that I was coming, I was contacted either personally or by mail by some 75 other producers and dealers who asked me to represent them at this hearing.

The CHAIRMAN. All engaged in this work?

Mr. STALLWORTH. All engaged in the production of pulpwood either as dealers, producers, or contractors.

I am not an economist. I am not familiar with the national social-security problems that your committee is working on. I do not know how much is collected each year in social-security taxes. I do not know whether enough is collected or can be collected to carry out the program of benefits that is now being urged. I do not know whether it is wise to collect social-security taxes based upon the wages of workers for the old-age benefit of these workers when these taxes are really paid for in the price paid by consumers of the paper or other finished products finally produced. It may well be that the buyer of the paper who indirectly pays those taxes is the one who should be given the social-security benefits. Presumably, one reason that the buyers of the finished products are not asked to pay these taxes directly is because they are not in a position to know the number of workers or amount of wages upon which the taxes are based. I believe that we dealers would have a similar problem if the proposed new definition of employee contained in H. R. 6000 is adopted.

As I understand the bill which you are now considering it is intended to collect social-security taxes from various groups of persons.

The self-employed person is to pay social-security taxes out of his earnings for his old-age benefits. The common law employee and his employer are to pay social-security taxes at rates based upon the earnings of the employee for the old-age benefit of the employee. In each

of these situations the taxes are to be paid by persons who know number of employees involved and the amount of wages paid. Th is consequently no uncertainty as to who is the taxpayer and as to amount of tax to be paid with respect to these groups. My conc is with that indefinite, vague, and uncertain group of persons ot than common-law employees which subdivisions of section 104 (a) a section 206 (a) of the bill seek to classify as employees.

As I understand the bill, these persons would be considered s employed and covered, as such, under the bill if the bill did not ar trarily treat them as employees under the proposed new definition employee. By arbitrarily including them as employees they then excluded from the self-employed group. The exclusion of th persons from the self-employed group after having classified th as employees is provided for by the proposed amended section 211 of the Social Security Act and the proposed amended section 1641 of the Internal Revenue Code.

I do not urge that these persons be excluded from coverage. I o urge that if they are to be covered they be covered as self-emplo persons in cases where they are not, in fact, employees of any one

The reasons why so many of the pulpwood dealers like myself persons in cases where they are not, in fact, employees of anyo lowing:

First, the bill makes the employer of this uncertain and indefi class of persons responsible for withholding, making returns, a paying taxes. In making the definition of employee so uncertain, bill necessarily makes it uncertain as to who is the taxpayer. Th have been many cases, I would like to add, where the man in the wo who has no opportunity to keep up with these rulings has b pounced on by changed rulings by uncouth field men and penali in various ways, and we have no way as laymen out in the wo of keeping up with all of these changed rulings. We just are l at their mercy to find out later, after we have violated some law, as whether or not we were on the right track.

There are probably well over 60,000 persons employed in the pu wood industry in the South. We dealers ordinarily acquire pu wood from producers and farmers. There are probably some five seven thousand producers in the South each of whom has his o crews and supplies the pulpwood to one or more dealers. We deal in turn sell the pulpwood to one or more paper companies.

We pulpwood dealers will not know until such time as the Treas Department, the Social Security Administrator, and the courts t us whether we are employers for the purposes of social-security ta of all or some of these five to seven thousand producers and th 60,000 or more employees, contractors, and subcontractors. The ministrative agencies and the courts will have to determine whet our relationship in each particular case is of such a permanent natu or has such regularity, or whether the business of these producers so integrated with our business, or these producers are so lacking skill or investment or opportunity for profit and loss, as to ma us the employers for the purposes of social-security taxes.

Second, the final ruling with respect to each particular situati will depend upon the vague factors set forth in the proposed definiti The enforcement agencies can under the proposed definition probat

assert liability for social security taxes, in some situations at least, against a paper company, a dealer, a producer, a contractor, or a subcontractor. This leaves us all in a situation that is certainly not to be desired. This is particularly true when the failure of any of these people to guess what the final conclusion of the enforcement agencies may be can cause these people to incur not only large fines, but perhaps even jail sentences.

Third, it might be urged that we should play safe. Even if we dealers could withhold and pay social security taxes against the earnings of the producers and the wages of the workers, it may well be that the producer will later be found to be an employer and himself a self-employed person. He would then not have been paying the proper amount of taxes or filing the proper returns. We would presumably then be required to reimburse him for the taxes withheld and turned over by us to the Government.

Fourth, if dealers are to be considered the employers of the producers, their contractors and subcontractors, and the employees of each of them for the purposes of social security taxes, I do not see how we could make up the necessary tax returns.

I have tried to figure out how this could possibly be done. In many cases we have no contract with the producer until he and his crew have cut the wood. At the time it is cut, the producer may not know where he is going to sell it. He may ultimately sell part of it to one dealer and part to another. Even if he were supposed to advice us of the amount of his earnings, the wages of his employees, the earnings of his contractors and subcontractors, and the wages of their employees, the date for our filing of returns may have passed by the time we decided to purchase the wood, and furthermore, he certainly cannot tell us which persons worked upon that part of the wood he purchased, and which persons worker on that part of the wood he sold to other dealers.

Fifth, if the mills are to be made the employers of the dealers, producers, contractors, subcontractors, and of the workers employed by each of them, I have an even more serious objection to the proposal. If such is the case, I will have lost my business and the chance to carry on the kind of work I have spent my life learning. The reason I chose to be a pulpwood dealer of all of the professions or the occupations that I have followed is because I could work as a free American citizen where I wanted to and when I wanted to and as long as I wanted to, and not have to punch a clock and be directed and redirected by some large corporation or some employer who I did not want to work for.

I chose this method to better my condition. My father only went to the fourth grade in school, and he progressed rapidly. He is still living. I think you know him, Senator George.

The CHAIRMAN. Yes, I do.

Mr. STALLWORTH. I have followed with him, and we have followed that pursuit all of our lives, and I do not intend to become the employee of the paper mill or any other concern, because if it comes to that, then that means that I get out.

Sixth, to the extent that the mills are required under this proposed definition of employee to recognize dealers, producers, contractors, subcontractors, and the workers under them as employees of the mills

for the purposes of social security taxes, it is my considered judgm that they could not take on this responsibility without making th persons their employees for all other purposes. They could not und take the social security tax responsibilities without sooner or la taking the responsibility for wages and hours, workmen's compen tion, labor relations, unemployment insurance, income tax withho ing and tort liability.

I have no official information but I have rather direct informati that a case in Florida was decided by a jury because a dealer w keeping up with the social security taxes, as a matter of accommodati to one of his producers who was not qualified in an educational w to do it. They proved he had been keeping it up and paying it him. It was a deciding point of judgment against this dealer-opera for a tort liability. And that is just carrying out some of these fe that I have.

In such a picture, we dealers and the producers would have no pla Operations carried on by mills are generally mass-production affa Small lots are passed by. The farmer's wood lot and the tree farm comparatively small stand of pulpwood, now playing such an i portant part in the aggregate in the reforestation program in t South, will lose a great deal of their attraction. The mills will n be as anxious to acquire this wood either directly or indirectly throu dealers and producers as they are now. Neither the mill nor t dealers can afford to take this pulpwood if along with the wood th must purchase some uncertain possible liability for social secur taxes upon some unknown and indefinite workers.

My only request to this committee is that if it decides that all these persons now covered by the bill, either as self-employed or as t comon-law employees, are to be covered, the committee cover them their true categories and not by arbitrarily defining them to be son thing that they are not. The changed definition set forth in the b now pending before you does not extend coverage to persons not ready covered by other portions of the bill. It is my firm belief th the proposed definition will (1) create confusion, expensive litigati and possibly unfair and exhorbitant penalties; (2) change tradition relationships and methods of harvesting pulpwood in the South; (have a detrimental effect upon the presently expanding reforestati program being developed with considerable success on small tree far in the South; (4) drive many small independent businessmen out business; and (5) place in the hands of administrative agencies opportunity to use such wide discretion in administering the law as constitute the surrender by Congress of its true legislative authority administrative agencies.

I would like to add one thing there, Mr. Chairman, if you plea I am, as Congressman Boykin said, in the naval stores business. am on the board of directors of the American Turpentine Farme Association and work very closely with Judge Lansdale and M Newton and Mr. Broughton. I have heard nothing concerning th from them. I assume that the reason is because the producing, ha vesting, and gathering of naval stores products does not come und coverage, so they have enough to do without looking for somethin But upon reading this, and studying it, knowing the methods procuring gum for our central stills, and the methods of procuri

pulpwood for the paper mills, there is a vast similarity of conditions in many cases and if these definitions should stand, the Administrator could make us dealers and producers employees of the paper mill. There are many cases of naval stores producers who could be in my opinion made employees of the central stills. Where you would get with an employee in an uncovered field being the employee of an employer in a covered field, I do not know.

The CHAIRMAN. I had some misgivings myself, Mr. Stallworth, that under the system now of distilling turpentine and resin through your central stills, it might be quite possible that this definition could be extended to the operator who is not under social security, who is expressly taken out because he is classified as a farmer. But of course the central still is under social security, under wage-hour, and nearly all gum turpentine now is handled through the central stills, is it not?

Mr. STALLWORTH. A very large percentage of it.

Mr. STALLWORTH. A very large percentage of it.

The CHAIRMAN. The old-fashioned individual still by the operator has gone out, and he carries his products many long miles to the central still, is that not correct?

Mr. STALLWORTH. Yes, sir.

The CHAIRMAN. I am not sure that you are correct in that, but I do think that there is some basis for apprehension that you might have that very awkward situation of bringing in employees of operators who themselves are not under social security, because they are exempted for other reasons, and yet if they could be held to the employees of the central still to whom they delivered the gum—they get their pay from them, right there by the unit that they carry in, do they not?

Mr. STALLWORTH. Yes, sir; that is right.

The CHAIRMAN. That is a situation that would destroy the whole naval-stores business as we now operate it.

Mr. STALLWORTH. Yes, sir.

The CHAIRMAN. We are certainly very glad to have you here before the committee.

Are there any questions?

If not, we thank you very much.

Mr. STALLWORTH. Thank you.

The CHAIRMAN. We have only three other witnesses. I do not think their testimony is very long, and we may finish soon. Mr. E. C. Wall, of Conway, S. C.

STATEMENT OF E. C. WALL, PRESIDENT, CANAL WOOD CORP., CONWAY, S. C., READ BY N. W. COX

Mr. COX. Mr. Chairman, I would like to say that my name is N. W. Cox from Conway, S. C., and I am here on behalf of Mr. Wall because of illness.

The CHAIRMAN. You are substituting for him?

Mr. COX. We are associated in the same business. He has asked that I present his statement before the committee.

The CHAIRMAN. Very well. You wish to read it or have it incorporated in the record?

Mr. COX. I wish to read it.

My name is E. C. Wall of Conway, S. C., representing several companies dealing in forest products. We operate in the Carolinas and are primarily engaged in buying and selling pulpwood.

During the year 1949 we bought over 324,000 cords of pulpwood from 392 different producers, who directly employed about 3,100 workers. Our product was sold to seven different paper mills located in Virginia, North Carolina, South Carolina, and Georgia.

Many of these individual producers depend entirely on the sale of pulpwood for their sole income. Under this business arrangement, that of individual proprietorship, these men have become successful, small, independent businessmen, enjoying basic American rights with opportunity and the incentive to own and conduct their own business for profit. A typical example is an operator who owns one 2-ton truck, employing 6 workers besides himself, and producing about 1,500 cords of wood annually from trees on his own land, or buying the timber from his neighbors and others. From the proceeds of the sale of this wood, he pays for timber, stumpage, truck operation, and depreciation, labor, social security, unemployment, and other taxes, leaving him a net return of from $2,500 to $3,000 a year. Any legislation or interpretation thereof tending to eliminate or interfere with this little fellow's business structure would serve to undermine our country's basic economy.

The social-security bill, H. R. 6000, as passed by the House of Representatives and now before your honorable committee contains a definition of "employee" which, if approved by Congress, would serve to entirely destroy thousands of these small businesses dealing in forest products, as well as deprive many landowners from disposing of their timber profitably.

We have the following objections to this H. R. 6000 as now written:

1. Under current various legal interpretations and by the authority of court rulings a citizen has a reasonably clear understanding as to who is an employee under existing social-security laws. The new definition would create widespread confusion and indefiniteness and leave too much discretion to the administrator of a Government agency.

2. It would be inequitable to require a forest products dealer to collect and pay social-security taxes on unknown individuals, naming the amount of wages received, or even the basis of employment. Meticulous records would be required concerning persons having no relationship to a company according to logical standards. In the case of the group of dealer companies I represent, after first having computed in some unexplained manner the portion of the money paid by us to each producer, that is, in fact, remuneration to the producer for his services and not reimbursement of his expenses, this would require that we collect and pay social-security taxes upon 392 producers. We would then be required in some unexplained manner to determine the amount of wages paid by the producers to each of the estimated 3,100 workers.

3. The injustices and hardships resulting from adoption of the bill would become apparent when the dealers, or even the eventual consumer, would be required to consider as an employee about every person who even touched the product. The control and meticulous checking of the producers' records by dealers and eventually consumers that

would necessarily be required for social-security-tax purposes, if the proposed new definition of "empiloyee" is adopted, can hardly help but lead to an employer-employee relationship between dealers or consumers on the one hand, and producers and their employees on the other under wage-and-hour, workmen's compensation, national-labor-relations and income-tax laws. Finally, my company or the ultimate consumer would be held liable for all accidents occurring to every worker, as well as being legally responsible for acts of negligence on his part. In many cases it may not, at the time of the accident, even be known whether my company is going to purchase and sell the wood being produced, or to what consumer it is ultimately going to be sold.

Such situations illustrate the absurdities to which the proposed new definition can lead. Like thousands of other firms in the United States, we have grown from a small unit into a successful enterprise with substantial investments in timber and equipment, under the assurance as citizens we would continue as independent operators. We do not choose to liquidate at a tremendous sacrifice which we consider would inevitably follow if the proposed definition of an employee be retained. We are afraid that big industries would take over the function of firms such as ours or they would exercise such control over the details of our business that we could no longer feel or act independently. They would not do it because they want to, but because as a practical matter you made them. How in the world do you think any company can withhold wages from someone to whom they pay no wages? How can any company make a tax return on wages paid by somebody else to hundreds, or even thousands, of people it never heard of? Obviously, if you are going to hang the responsibility of an employer on someone, he must in fact became an employer, and his new employees will be little-business men you people in Congress put out of business.

We sincerely urge your committee to retain the interpretation of "employee" as defined in Public Law 642 under which we now carry on our business.

The CHAIRMAN. We thank you, sir, very much.

Representative BOYKIN. Judge Ben Turner is here, and he has some time tomorrow and so does Mr. Smith, from South Carolina, but they want to give it over to Mr. Wilcox, knowing that all of these people have some things that they want to get in the record, and I imagine you will let anybody that wants to put their statements in the record.

These two men would like to get out of the way and let the other ones have it, if it would suit you all, because it is so important that Mr. Wilcox speak, because they figure his is very important.

The CHAIRMAN. We will do so, and will put any statement in the record, any brief that is desired. Thank you very much.

Next is Mr. Turnell of Madison, Ga.

STATEMENT OF R. M. TURNELL, FARMER AND PULPWOOD DEALER, MADISON, GA.

Mr. TURNELL. My name is R. M. Turnell. I am a farmer and pulpwood dealer operating in the middle Piedmont section of Georgia.

In our locality during the past 5 years, the Soil Conservation Service, the Extension Service, and the Forestry Department have put

on an intensive campaign to replant pine trees on all of our submarginal lands in order to replace the timber which has been and is being cut. Small property owners and farmers have taken advantage of this program to plant their own wood lots so that they might timber-farm as a diversification measure and at the same time utilize the parts of their land which have hitherto been nonproductive.

During this same period, conservation-cutting and fire-control methods have been practiced so that at the present time a large portion of all pulpwood produced in this section is furnished to dealers, such as myself, from small timber owners and farmers who would not otherwise have a market for their product. These farmers produce with their own labor and market pulpwood through myself and a number of independent dealers who operate in the territory.

In a growing number of instances, the property owners are salvaging tops from the sale of saw timber and working it up into pulpwood. This wood would otherwise be waste.

We independent wood dealers, generally, are residents and property owners of the communities which produce this wood and have taken an active part in the furtherance of the above programs. We feel that we are much better prepared to carry on this practice as independent dealers than as direct employees of the industry to whom we in turn sell the wood.

It is our belief that our market for these products would be cut off if the provisions of House bill 6000 governing employees are passed. The mills to whom we sell would not know our status. We would not know our status. The small wood-lot owners and farmers would not know their own status under the bill, and in all probability would be unable to sell their wood. If the mills were made responsible for social-security taxes with respect to us dealers, the wood-lot owners and farmers and their employees, they would be unwilling to accept the responsibility without supervising the work and thus becoming employers for all other purposes. The costs of such supervision would not warrant their harvesting from these small areas. We certainly cannot deal in the wood if the mills cannot buy it without buying a possible liability for social-security taxes.

I do not, and I do not believe that a great many others, oppose the extended Social Security Act, as such, but the definition of "employee," as proposed is such that it is entirely possible that anyone who works in the industry in any capacity, may be classified for social-security purposes as an employee for the final consuming mill. If this is done, the amount of wood produced from the small landowner and farmer will necessarily have to be curtailed, as the mills will secure the supplies of raw material from their own timberlands and from larger tracts and with employees over whom they have direct control.

It is only in the past few years that landowners and farmers, and by that I mean small-acreage owners, have realized the necessity of diversification and conservation. The wood business has grown up in the South over a period of the past 20 years and has done much to supplement the income of farmers and others who are actively engaged in the business.

We ask that you gentlemen protect us by placing a definite and simple definition of "employee" in the bill so that we might preserve our status as independent businessmen.

The CHAIRMAN. Mr. Turnell, has it not been your observation in Georgia, at least, that these independent businessmen who do have the crew of hands working under them or who themselves buy from others who are operating, have been the primary force in the state that has induced our people to replant their lands, reforest their acreage suitable for pine production and other wood production?

Mr. TURNELL. I certainly do believe that.

The CHAIRMAN. In other words, without their active participation our forestry in the State would have been very much further back than it is at this time, is not that true?

Mr. TURNELL. There is no doubt about that.

The CHAIRMAN. And as you and I know from our own experience and observation, if the dealer is to become, for instance, the employee of Union Paper Bag or any other paper mill, why, the mill must of necessity simply change the status of the dealer into that of a straight employee in order to protect itself. It could not do it otherwise, could it?

Mr. TURNELL. That is correct.

The CHAIRMAN. Our programs could not, our business could not be carried on otherwise, and would not be carried on otherwise.

Are there any further questions?

Senator MARTIN. As I understand it, it would just result in the big corporations taking the whole thing over and then they would go to large centers where there is an enormous acreage of timber, and it would absolutely wipe out these others.

The CHAIRMAN. It would wipe out the small dealer now who operates on small tracts, small acreage, wood lots, so to speak, of the farmer, because if the Union Bag or any others, I am simply using that name as an illustration, if they had to convert you and many of your neighbors in middle George, or through the southern end of the State, and even in north Georgia, into employees, even if you were willing to accept that employment, why, they could not profitably carry on except on big operations and big concentrations where they could reduce the number of employees that they would have to take over if they carried on the same operation that is now carried on; that is correct, is it not?

Mr. TURNELL. That is correct, sir.

The CHAIRMAN. Mr. Turnell, we are very glad to have you, sir, very glad to have your contribution.

Now, Mr. Wilcox.

Mr. TURNER. There was confusion. What Mr. Wilcox would prefer to do is to go over to tomorrow. He really has a rather long and comprehensive statement.

The CHAIRMAN. We will have some ahead of him tomorrow, but we will be glad to get to him tomorrow; is that all right?

Mr. TURNER. That is all right.

The CHAIRMAN. I believe that completes the list for today. We will carry Mr. Wilcox over to tomorrow.

(At 1:10 p. m., the committee recessed, to reconvene Tuesday, March 14, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

TUESDAY, MARCH 14, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George (chairman) presiding.

Present: Senators George, Lucas, Hoey, Kerr, Myers, Millikin, Butler, and Martin.

Present also: Senator Stennis, Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Mr. Reporter, please insert this letter in the hearings of the morning, by Senator Burnet R. Maybank, of South Carolina, who expresses an interest in the appearance made here by witnesses from his State, and also an amendment to section 4 of subsection 210 of H. R. 6000.

(The letter referred to follows:)

UNITED STATES SENATE,
March 13, 1950.

Hon. WALTER GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR: Last January I discussed with you a certain section of House bill 6000 and again today.

I have a large number of constituents in South Carolina whose business will be adversely affected if section 4 of subsection 210, page 51, becomes a law. It will adversely affect, as I am reliably told, many small industries.

You have been good enough to hear these witnesses and I am merely writing you this letter to express my feelings.

With kindest regards, I am

Sincerely yours,

BURNET R. MAYBANK.

Senator STENNIS. Mr. Chairman, may I just say a word because I am going to have to leave.

The CHAIRMAN. Of course, Senator.

Senator STENNIS. Mr. Chairman, I am not appearing before your subcommittee this morning, but I am intensely interested in H. R. 6000 and the problems that it presents in connection with industries from my area. I am very glad to be here this morning with two of your witnesses, Mr. Wilcox, of Laurel, Miss., and Mr. A. K. Dexter, president of the Mississippi Forestry and Chemurgic Association, Inc., Jackson, Miss.

I wish I could stay in order that I may hear these gentlemen, but I feel they will have a fine contribution to make to your committee.

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The CHAIRMAN. Senator Stennis, we are glad to have your appearance. Mr. Wilcox and Mr. Dexter are both listed for the morning, and I am sure that they will be heard either this morning or at some time during the day.

Senator STENNIS. Thank you, Mr. Chairman. I might add that I am going to hear some of the testimony myself.

The CHAIRMAN. Thank you very much, Senator.

Congressman Morris, you may proceed now if you are ready.

STATEMENT OF HON. TOBY MORRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Representative MORRIS. Mr. Chairman and gentlemen of the committee, the clerk advised me that I might have about 10 minutes' time this morning, and I think I can present this statement in about that time.

My name is Toby Morris, Congressman from Oklahoma.

I am deeply interested in the subject of social security and old-age pensions. It is, therefore, a great pleasure to me to know that your honorable committee is giving time for thorough consideration of this subject. It is also a pleasure to present to you some observations I have made to the House of Representatives and also publicly with regard to this matter generally, and to the matter of better security for our aged citizens particularly.

My interest in this subject goes back even much further than my tenure as a Member of Congress. For many years, the great need for an adequate and dependable income for aged people, and what it would mean to all citizens, has impressed my mind and heart. I am also of the opinion that an adequate, regular, dependable income to our retired elder citizens will constitute a well distributed buying power in this segment of our population that will be a factor in maintaining our high level of national income which is so important to our national economy. If it is possible for our citizens to retire on a reasonable pension at retirement age, job opportunities will be open to younger people, the responsibility of supporting parents on the part of children will be obviated, and the entire population will benefit.

While our present legislation, in effect, is not adequately meeting the great needs of our people, the provisions that have been made, are truly a great help. Much good has been accomplished. In many cases, dire suffering and want has been alleviated. Perhaps the dollars that the Congress has made available through old-age assistance have gone as far toward meeting dire needs of many helpless and deserving citizens, as any appropriations that have been made. I want to be understood as in no way attacking or decrying the good work that has been accomplished in this field.

Our present legislation falls far short of taking care of the great needs for adequate security for our elder citizens. Many who badly need regular incomes, and who are of retirement age, are not included. Neither is it possible for them to qualify under our present laws. Great inequities exist in the operation of our present system. Different, and in fact, greatly varying payments are being made to recipients in our States. Hardly do we find the same payments, month by month, in any two of our States. Moreover, we also find that the

payments may vary in different parts of the same State. These inequalities should have our careful consideration. I wonder if Members of the Congress have stopped to consider the actual conditions with regard to the operations of our present system. Let me illustrate:

Under our present Federal laws, and under "Old-age assistance," as shown by the report of the Federal Security Agency, for the month of October 1949, which is the last report that I have before me, I am taking figures for just two of our large States in population, and also two of our smaller States. I am comparing the payments on the following points:

1. Number of beneficiaries.
2. Amount of monthly payment to each beneficiary.
3. Total amount of payments for the month in each State.

These comparisons show clearly what I mean by inequalities. Here they are:

State	Number of recipients	Monthly payment	Total amount paid for month
California	264,672	$70.74	$18,723,603
Pennsylvania	90,681	39.94	3,621,989

Does it not seem strange that the number of recipients should be so much greater in the one State than in the other, when the States are not far from equal in population? Again note the average payment to the individual.

Senator MILLIKIN. Are they equal, Congressman, in age brackets? Would you say that there are more elderly people per thousand population in California than in Pennsylvania?

Representative MORRIS. I think that accounts for it, to some extent, sir, but not entirely. I think it is the liberality of the law and the administration of the law that also accounts for a large part of it. Your point is well taken and is correct in part. I mean, the point is well taken and it partly explains it.

In one State it is over $70 while in the other it is less than $40. Then, look carefully at the total amount received during the month by the recipients. In one State it is over $18,000,000 while in the other State it is only over $3,000,000. Certainly these facts deserve careful consideration.

Now, let us look at the figures from two States of small population. Let us look at Virginia as compared with Colorado. Let us remember, also, that Virginia has a population of more than double that of Colorado. Please keep this fact in mind and then study the figures. Here they are:

State	Number of recipients	Average monthly payment	Total amount paid for month
Colorado	48,592	$75.01	$3,644,839
Virginia	18,568	20.77	385,650

When we look at these figures, certain very important facts are inescapable. Virginia, with more than twice the population, has less than half as many beneficiaries. The old folks in Colorado received over $75 per person for the month of October; while in Virginia, they received less than $21. The total benefits in dollars paid to recipients for the month was almost 10 times in Colorado what it was in Virginia, notwithstanding the fact that in population Virginia is almost twice that of Colorado.

I believe these simple comparisons illustrate clearly what I mean by inequality of our present system among the various States. I shall, however, file with the committee the entire report showing the figures from all the States, from which these figures are taken. I suggest also, that each Member of Congress might watch these monthly reports and study them carefully as they are issued month by month by the Federal Security Agency.

A bipartisan group in the House of Representatives, led by my colleague, Representative Van Zandt, of Pennsylvania, representing the minority, and myself, for the majority, have been giving serious study to this problem. We have united with us, in this effort, now more than 130 Members of the House. We have our individual opinions as to many details concerning remedial legislation, and each Member is, of course, entitled to his own opinion. However, we do find that there is a definite field of agreement, and there are positive points of agreement, on which we seem to be united. Among these points are the following:

1. We should enact a Federal pension to take the place of "old-age assistance" under the Social Security Act.

2. The pension should be paid uniformly in all the States without regard to what the States pay.

3. Eligibility of recipients should be liberalized. A property owner should be considered as well as those who have no property.

4. Many of us believe the amount of the Federal pension should be $100 per month, but the figure on which we have agreed is "at least $60 per month."

I introduced a bill in the House, H. R. 2620, embodying these features and will file a copy of it along with my remarks, with the committee. I hope it will have the careful and full consideration of the committee, and that when your report is made to the floor of the Senate, you will have seen fit to recommend a decided improvement in our provisions for those citizens who are now of retirement age.

I am deeply interested in the future of America. It shall be my pleasure to give full and complete attention to the future problems of security for those who are now actively engaged in production. I am anxious, insofar as we can, that we shall anticipate the needs of all of our active workers, and plan for their security, once they are old enough to retire. However, as important as this appears, it is not an emergency that must be met at this moment. Young people, those who are the workers of today, will not need retirement until they retire. For this reason, I do trust that we will put first things first in this matter. I am thinking first of those who have served so well, in peacetime and in war, and have brought us to the proud place we now occupy as the leading Nation, in many ways, in all the world. I am very deeply concerned about those who are now old to the point

where there is no hope for them in labor, business, professions, or in industry. They are in need of old-age security now. Young people may be able to wait at least a little while. But unless we do something for those who are now old, we are missing a vital opportunity.

If we fail, Mr. Chairman, to meet our obligation to this important segment of our population, I am speaking of those who are now too old to earn it will be disastrous. Many of them are in dire need. I certainly see no depression coming but the specter of unemployment is casting its menacing shadow across our land. We are looking for markets to keep our farms, mines, mills, and factories going. We are facing the problem of keeping money in circulation. Let us consider the matter of American old-age pensions in this light. It will be a very efficient and equitable way to keep money circulating in every section of the land. Should we see that our elder citizens can have just a reasonable cash amount each month, giving the employment they now have to younger people, it should benefit business and strengthen our economy. It will aid in maintaining or increasing our national income. This is very important to our future growth and prosperity. In addition to that, it will perhaps accomplish more in genuine happiness and well-being among those deserving security than any other like amount of money which the Congress will appropriate. Should we fail—then I shall dread to contemplate the position in which we have left the deserving fathers and mothers of our country.

Of these facts, Mr. Chairman, I feel sure:

1. America can well afford a reasonable uniform pension to all citizens of retirement age.

2. There is a great and crying need for such a pension.

3. The pension money being spent in our markets month by month, would go a long way toward compensating our economy for the burden of any added tax.

4. While security for our young people, when they become old, is important, it can well wait until the present crying needs of our deserving elder citizens have been provided for.

I know of no action that this Congress can take, short of that which deals with our national security, that will yield as much in happiness and general good, as to provide a genuine American pension for our deserving retired American citizens. I trust, and I pray that this Congress will give the matter full and complete consideration; that we may have such a pension enacted as early as possible this year. Most certainly an old-age pension is better than old-age assistance.

In conclusion, may I say that the bill I introduced, H. R. 2620, provides, in substance, that every citizen of the United States who is 60 years of age, or older, and who does not have an income sufficient to require him or her, as the case may be, to file a Federal income-tax return, and who applies for same, is entitled to a Federal pension at the rate of $60 per month. I think that this is a simple, moderate, and workable plan. I would do away with the present case-worker system and with much of the administrative cost. It would not be necessary to set up any new boards or bureaus as the question of income tax could be determined under the present law and rules and regulations of the Bureau of Internal Revenue.

A number of groups in our society now have retirement benefits, such as coal miners, steel workers, Government officials, and employees.

Why should not all of our citizens enjoy retirement benefits whe they reach the proper age? It is sometime pointed out that the grou just mentioned pay into their retirement fund. The real truth the matter is, as I see it, that society generally pays into these fun and not the individual beneficiaries, for the reason that salaries a wages are raised either by fiat of law or by employers, so that sa groups may have sufficient money to pay into their fund. Whe salaries and wages are raised, the increased tax and the increased co of production, such as coal and steel, is passed to the public. So, truth and in fact, the public pays the bill. If the public pays the bi for these groups, why shouldn't it pay it for all groups and tre them all alike. I certainly do not complain that the groups mentione have retirement funds—I am glad that they do have them—but n desire is that all groups have the same, or similar, privileges, to wh they have.

If the Congress does not think it wise, at this time, to replace t old-age assistance section of the Social Security Act with an old-a pension program, then I respectfully request that it give considerati to the following formula in the old-age assistance title of H. R. 600 to wit:

That the Federal Government by five-sixths of the first $30 of t average payment, per recipient, plus one-half of the balance up to maximum on individual monthly payment of $60. In substance, t net effect of this proposal is to provide an additional $10 in Feder funds, per month.

I am truly grateful to the committee for having given me th opportunity to present my views in regard to this most importa matter.

The CHAIRMAN. Thank you very much, Congressman.

Representative MORRIS. Thank you, sir. It is a real pleasure to here, Mr. Chairman, and I appreciate it very much.

The CHAIRMAN. You are quite welcome, sir. We are very glad have you.

At this point in the record the bill introduced by Congressma Morris, H. R. 2620, and the advance release of statistics of publ assistance for October 1949 referred to by the Congressman in h statement will be inserted in the record.

(The material referred to follows:)

[H. R. 2620, 81st Cong., 1st sess.]

A BILL Providing a direct Federal old-age pension at the rate of $60 per month to certa citizens sixty years of age or over.

Be it enacted by the Senate and House of Representatives of the United Stat of America in Congress assembled, That (a) the Federal Security Administr tor (hereinafter called the "Administrator") shall pay, out of any funds her after appropriated for such purpose, an old-age pension to qualified individua at the rate of $60 per month.

(b) For the purpose of this Act an individual shall be deemed to be a qualifi individual—

(1) if he is sixty years of age or over, is a citizen of the United Stat and has been a citizen of the United States for not less than ten years;

(2) if he resides in the United States and has been a resident of t United States for not less than ten years;

(3) if his gross income is less than the minimum amount with respe to which a Federal income-tax return is required to be filed; and

(4) if he has made application for the benefits of this Act.

(c) Payments to qualified individuals shall be made monthly.

SEC. 2. Any individual making application for the benefits of this Act shall furnish such evidence of age, citizenship, and residence as the Administrator may by regulation prescribe. Whether a Federal income tax with respect to the income of any individual were payable for any taxable year shall, for the purposes of this Act, be established from records and data in the possession of the Secretary of the Treasury. The Secretary of the Treasury shall upon request furnish to the Administrator any documents, records, or information which he may have relating to whether a Federal income tax were payable for any taxable year with respect to the income of any applicant for the benefits of this Act.

SEC. 3. No payment to any State under title I of the Social Security Act, as amended, shall be made for any quarter beginning on or after the date of enactment of this Act.

SEC. 4. The Administrator shall prescribe such rules and regulations as may be necessary to carry out the provisions of this Act.

SEC. 5. As used in paragraph (2) of subsection (b) of the first section of this Act, the term "United States" means the States, Alaska, Hawaii, and the District of Columbia.

Old-age assistance: Recipients and payments to recipients, by State, October 1949 [1]

State	Number of recipients	Payments to recipients		Percentage change from—			
		Total amount	Average	September 1949 in—		October 1948 in—	
				Number	Amount	Number	Amount
Total [2]	2,697,721	$119,710,636	$44.37	+0.7	+0.5	+9.2	+16.8
Alabama	76,349	1,579,094	20.68	+2.3	−7.2	+11.7	+4.5
Alaska	1,537	89,066	57.95	+.5	+1.2	+10.8	+27.9
Arizona	12,334	649,692	52.67	+1.6	+1.9	+13.0	+22.3
Arkansas	58,864	1,457,882	24.77	+1.3	+1.4	+16.9	+47.8
California [2]	264,672	18,723,603	70.74	+1.8	+1.9	+36.6	+57.8
Colorado [2]	48,592	3,644,839	75.01	+.7	+12.7	+5.4	+1.0
Connecticut	17,989	1,022,482	56.84	+.6	+3.1	+14.7	+21.0
Delaware	1,580	44,935	28.44	+.6	+.8	+14.8	+20.5
District of Columbia	2,679	113,411	42.33	+.6	+1.2	+7.7	+4.9
Florida	66,599	2,684,470	40.31	+.3	−23.8	+9.5	+11.5
Georgia	95,031	2,149,366	22.62	+1.1	+1.8	+9.0	+23.9
Hawaii	2,360	74,612	31.62	+.3	−9.2	+7.5	+1.5
Idaho	10,988	514,635	46.84	+.8	+1.0	+6.2	+7.8
Illinois	128,315	5,679,523	44.26	+.3	+.4	+2.3	+8.2
Indiana	50,629	1,799,818	35.55	+.3	+.5	+1.1	+6.8
Iowa	48,683	2,371,305	48.71	(3)	+.3	+.4	+11.1
Kansas	37,979	1,903,814	50.13	+.6	+.9	+5.1	+26.2
Kentucky	60,828	1,282,960	21.09	+.4	+.7	+15.1	+17.2
Louisiana	120,149	5,662,232	47.13	+.4	+.4	+12.4	+12.5
Maine	14,187	604,881	42.64	+.2	+1.5	+6.0	+33.8
Maryland	11,958	442,565	37.01	(3)	−.2	+1.5	+6.4
Massachusetts	95,712	5,845,635	61.08	+1.0	+1.1	+6.4	+10.6
Michigan	97,296	4,520,507	46.46	+.6	+1.2	+6.8	+18.0
Minnesota	55,617	2,707,138	48.67	+.2	−.4	+1.8	+8.9
Mississippi	60,888	1,146,922	18.84	+.9	+1.0	+14.2	+36.3
Missouri	127,066	5,465,704	43.01	+.6	+.8	+7.0	+10.4
Montana	11,303	580,888	51.39	+1.1	+1.7	+4.1	+19.3
Nebraska	23,835	1,037,304	43.52	+.1	+.3	+.1	+5.0
Nevada	2,519	136,238	54.08	+1.0	+1.1	+12.6	+12.9
New Hampshire	7,181	313,091	43.60	+.5	+1.2	+3.7	+7.4
New Jersey	24,089	1,173,544	48.72	+.6	+1.1	+3.0	+14.8
New Mexico	9,749	353,855	36.30	+1.6	+3.8	+8.5	+23.4
New York	117,977	6,366,026	53.96	+.4	+3.0	+4.3	+10.3
North Carolina	56,914	1,234,798	21.70	+.8	+1.0	+19.9	+31.8
North Dakota	8,833	415,142	47.00	+.1	+.4	+1.6	+8.6
Ohio	126,144	5,898,813	46.76	+.1	+.1	+2.0	+2.6
Oklahoma	100,820	5,255,107	52.12	+.1	+.1	+2.7	+3.9
Oregon	23,188	1,213,403	52.33	+.1	+7.9	+3.4	+14.8
Pennsylvania	90,681	3,621,989	39.94	+1.4	+.8	+4.3	+5.1
Rhode Island	10,019	456,899	45.60	+.9	+1.2	+9.9	+17.3
South Caroloina	38,849	860,452	22.15	+.7	+1.4	+13.2	+4.8
South Dakota	12,051	466,434	38.71	+.1	+.6	+.9	+7.4
Tennessee	60,836	1,878,276	30.87	−2.3	−1.9	+12.4	+30.7

Footnotes at end of table, p. 1800.

Old-age assistance: Recipients and payments to recipients, by State, October 1949 [1]—Continued

State	Number of recipients	Payments to recipients		Percentage change from—			
		Total amount	Average	September 1949 in—		October 19 in—	
				Number	Amount	Number	Am
Texas	218,440	7,461,547	34.16	+.3	+.2	+5.4	
Utah	10,093	458,498	45.43	+.2	+.4	+1.1	
Vermont	6,702	232,236	34.65	+6.2	+5.9	+4.2	
Virginia	18,568	385,650	20.77	+.8	+1.2	+9.1	+
Washington	70,539	4,679,683	66.34	−.1	−.7	+10.1	+
West Virginia	24,758	671,341	27.14	+1.6	+1.6	+9.7	+
Wisconsin	50,675	2,151,373	42.45	+1.1	+2.6	+5.2	+
Wyoming	4,097	225,968	55.40	+1.2	+1.2	+2.9	

[1] For definition of terms see the Bulletin, January 1948, pp. 24–26. All data subject to revision.
[2] Includes 15,855 recipients under 65 years of age in California and 3,269 in Colorado and payments to t recipients for which Federal participation is not available.
[3] Increase of less than 0.05 percent.
[4] Represents approximate amount of fiscal month authorizations; in some counties only 1 check was is in the change from monthly to semimonthly payments.

The CHAIRMAN. Congressman Wheeler, was it your desire to ma a statement?

STATEMENT OF HON. W. M. (DON) WHEELER, A REPRESENTATI IN CONGRESS FROM THE STATE OF GEORGIA

Representative WHEELER. Mr. Chairman, I would like to just sa word in the way of introduction of Mr. Oettmeier. I do not prop to speak for the Forest Farmers Association, which he represents which he is president, but I would like to say to the committee th there is no man in the Southeast who can better speak in the inter of people who are interested in the forestry industry than Bill Oe meier of Fargo and Valdosta, Ga. I know Bill Oettmeir by repu tion and personnally. There is no finer man, and there is no man the Southeast who has the interest of that section of the country a his nation at heart more than does Bill Oettmeier. You can do w to listen as he presents his case to you, gentlemen.

Mr. OETTMEIER. Thank you, sir.

The CHAIRMAN. We are very glad to hear from you, sir.

STATEMENT OF WILLIAM M. OETTMEIER, PRESIDENT, FORES FARMERS ASSOCIATION, FARGO, GA.

Mr. OETTMEIER. Senator George and gentlemen of the committ as mentioned by Congressman Wheeler, my name is William Oettmeier, and I am president of the Forest Farmers Association Valdosta, Ga.

I make my living managing 208,000 acres of forest land, known Suwannee Forest, owned by Superior Pine Products Co.

In qualifying myself for what I am going to say, I might add th for 24 years I have been connected with ferestry in the South, both managing a large tract and in cooperating and operating with sm timberland owners. In our presentation here, we are mostly interes in the term "employee" as defined in H. R. 6000, presently before y

We think it is almost disastrous to the forest industry of the South, or the Nation as a whole, when one considers that for the past 25 or 30 years the Federal agencies and the State agencies have been working extremely hard with what we call the small timberland owner. He is the man to whom, I think, President Roosevelt referred when he said that the South was the No. 1 economic forestry problem.

In the South, as you know, we burned our lands over years ago, and continued to burn them until an era which started about 20 years ago. All during this time the small owner has been the man who was the cause of all the trouble. The man who owned the large tract of land could well afford fire protection. He had enough education and knowledge to know that he benefited more and the Nation benfited more by good forestry management and good fire protection.

I should like to point out that 76 percent of the privately owned forest land in the United States is owned by four and a quarter million people, the average of which is 62 acres, and the balance of the privately owned forest land—the other 24 percent—is owned by 3,600 people, the latter being in tracts of over 5,000 acres of commercial forest land. In other words, of the total number of people represented, the small owner represents 99.9 percent of the owners; that is, by forest land ownership. So it is important from the point of view of what I am saying that we take this into consideration before we upset a precedent we set 20 years or more ago—to get this small timberland owner in line.

Those of us who work in associations, and so forth, promised the small timberland owner that if he practiced good forestry and fire protection we would get the pulp industry in the South and grow more timber, and that his life in the future would be more livable. In other words, he would have income from this forest land.

As I interpret this term of "employee" in the present Social Security Act, there is an awful risk, and a great risk involved. I have been informed by people who interpret these things better than I that the consumer of the raw materials, that is, the manufacturer thereof, is liable to be responsible not only for social security but by amendment to the Internal Revenue Act may be liable to the wage-and-hour law. This proposed change goes so far down that while the paper mill and big sawmill operator has no actual control over these men, he may be liable for their social security, their wage-and-hour law, and maybe other actions of employees who are not actually his employees but employees of others. In that connection, we run an awful risk of putting the sawmills and these paper mills in the position of having to go out and produce their own pulpwood and their own saw logs.

Today that work is mostly farmed out to small operators, to people known as contractors, who in turn employ producers. While there may be 500 or 1,000 trucks (for each mill) delivering wood to railroad sidings and to paper mills, those 500 or 1,000 trucks may be in the ownership of 300 or 400 or 500 small producers. The man who owns one or two trucks can afford to go out to one of these average 62-acre places—or even if it is 500 or 1,000 acres—make a contract, cut the man's sawlogs or cross ties or pulpwood, and deliver to the mills. If the paper mill or the sawmill has to produce its own wood, it first puts out of employment, naturally, the contractor; and then he puts out of employment these hundreds and hundreds of small producers, and the paper-mill people can tell you better than I how many there are.

Further than that, gentlemen—and this is the greatest disadvant to our forestry in the South—is the fact that when the paper-mill erator goes out, or the big sawmill operator goes out, he cannot aff to stop at a 100-acre tract or a 500-acre tract. In order to produce volume, he has to have 5, 10, or 20 or more trucks, a large crew of n and he has to go to a big place and operate on his own land; where the small producers or contractors operate all over on tracts as sn as 5 acres.

I should say that right today the majority of the pulpwood in South is produced from small ownership.

Now, what happens if they forget the small men? Those of who agitated this forestry program years ago told the small own that if they practiced good forestry, they would have a good mar for their crops; but if this bill is passed as is, and if the small ow is bypassed, we will all have to go back to where we started 20 ye ago.

Senator MILLIKIN. I wonder if you could tell me how long it ta the kind of a tree that you are referring to, to mature in the Sou

Mr. OETTMEIER. In our section of the South, Senator, it depends what you are growing it for.

Senator MILLIKIN. Let us assume it is for the purpose of pulpwo

Mr. OETTMEIER. It takes about 10 to 12 years for that purpose, S ator. That is, under certain conditions; if it is done under pro management. If it is under poor management, it takes longer.

Senator MILLIKIN. Let us assume it is for the purpose of fence p or railroad ties or something like that.

Mr. OETTMEIER. Senator, fence posts is a small operation in South. It is either dead wood, or from trees cut in thinnings wh are creosoted; it just involves small saplings, not over 5 or 6 years

Senator MILLIKIN. Now take a railroad tie.

Mr. OETTMEIER. Railroad ties are usually from farily well mautu trees, from 20 to 40 years old, depending on whether or not they in the turpentine area, that is whether they have been grown as su The sawlogs run from 25 to 40 or more years.

Senator MILLIKIN. What are the different types of trees that y have in mind?

Mr. OETTMEIER. In our particular section of the South, through what we call the naval stores belt, it is practically slash and long-l pine. In that area, we also have the various short-leaf pines such loblolly. Cypress is practically gone, from the commercial standpo

Senator MILLIKIN. I am probably asking a very stupid questi but I should like to know what you mean by the expression "na stores."

Mr. OETTMEIER. That is turpentine and rosin, Senator. I have f gotten that some of the folks are not used to our terminology in t South. Naval stores means the manufacture of turpentine and ro from the pine tree. In other words, you collect the crude gum fr the living pine tree and that crude gum is distilled into turpenti and rosin.

Senator MILLIKIN. What does that have to do with "naval store

Mr. OETTMEIER. The term dates way back to the early days of t country, Senator, in the days of the wooden ships when they used t tar and pitch to calk the vessels. They obtained naval stores—I th

they started in North Carolina—and carried them back to England and used them for calking.

Senator MILLIKIN. Thank you very much, and pardon the interruption.

Mr. OETTMEIER. That is about all, gentlemen. I do not want to take any more of your time. I hope you will consider that very important phase of this bill; that is, the definition of an "employee" as it is listed in H. R. 6000, because under present circumstances I am quite certain that the large operators why buys the timber, who manufactures the timber into lumber or into paper, is going to be extremely handicapped in buying from the small timberland owner. I might add, Mr. Chairman and gentlemen of the committee, that the organization of which I am president, represents throughout the South practically 200,000,000 acres, and again using that same figure of 76 percent of the ownership in the hands of small owners, that is, below 5,000 acres, whose acreage averages 62, that is a lot of people who are dependent upon the forest for a livelihood. But further than that, the Nation is depending on the man who ownes the forest to grow a better crop of timber.

As has been repeated here on numerous occasions in the past, it has been claimed that we have been depleting the forest faster than we are growing the timber. We have a good start toward solving that problem.

I think we made more progress in the South in the last 20 years than has been made anywhere else in the Nation as far as timber-growing is concerned. We have gone from practically no forestry program, from burned over forestry land, where you could see a cow for 2 miles, to the point where today you could not see a cow over 50 or 100 feet off the road, due to heavy stands of timber.

Gentlemen, we have made progress in the South in the forestry program, and we do not want to run the risk of any legislation like this upsetting that. I think we should go back to the original bill, the common-law practice of who is an employer and who is an employee, and I think that will serve the purpose.

The CHAIRMAN. Thank you very much, Mr. Oettmeier.

Mr. OETTMEIER. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness will be Mr. P. M. Harbert. We are glad to have you with us, sir. Will you kindly identify yourself for the record?

STATEMENT OF P. M. HARBERT, SAVANNAH, TENN., DIRECTOR, FOREST FARMERS ASSOCIATION

Mr. HARBERT. Mr. Chairman and gentlemen of the committee: I am P. M. Harbert from Savannah, Tenn.—not Georgia. I am the Tennessee director for the Forest Farmers Association. It has only one director and it happens to be myself.

I have been asked to come before this committee to represent the small landowners; that is, the individual landowners of this association; that 76 percent of which Mr. Oettmeier spoke. I live in the northern edge of what is called the short-leaf pine. It comes out of Alabama and Mississippi up into Tennessee only a short distance. Much of our land there is hardwood, but short-leaf pine grows there readily. I am right at the corner of Alabama and Mississippi on the

Tennessee River. That river is said to be the leading cross-tie market of the world. As to that, I cannot say, but we do produce a great many railroad cross ties in that community. We have quite a few sawmills and planers. Many of our sawmills are what we term the "peckerwood sawmills"—small ones in the country?

The CHAIRMAN. The ones you move about?

Mr. HARBERT. Yes, sir. And we have poles—that is, telephone poles—or piling, there is great abundance.

I own about 20,000 acres myself. It is my land, and I do not represent any corporation or association.

I might add, Mr. Chairman and gentlemen of the committee, I am a country lawyer. I accumulated that land throughout a period of 30 or 40 years when I could see this land selling and timber going at practically for nothing. I thought there was a future in it. I spent all I could in accumulating these acres and I have learned to think a great deal of it. It is growing me a good living. In fact, better than my law practice.

I have on my farms or places—I have some farm lands—about 10 to 15 families. Of course, I know of others, and I am taking myself as an example. However, I represent more acres than the average man. Most of our farmers have only possibly 50 acres or 100 acres, or as high as 1,000 or more acres, perhaps. I feel that I am fairly well acquainted with the problems confronting the small timberland owners, and I think I am equally as well versed with the problems confronting the employees, or the men that actually pull the cross ties out of the woods. I have come to speak in behalf of both these classes of people.

I have come to the conclusion that to extend the provisions of this Social Security Act to the timber workers and the timber owners would be very unwise, unless possibly this coverage would include a man that is self-employed. I say that for several reasons. The main reason I have, is this tendency to drive the little man out of business, as I see it. You take a man, for instance, with, I will say, 300 acres of land; he will have 100 acres for pasturage or tillage and 200 acres of timber. In the off-season of farming, he can go in there and work his own timber and put it on the market. He can use his own hands. He can go work it when he pleases. He may not work over a week in a year in some years. He may work more in some years than others. He is not working that timber all the time. He works at it spasmodically, I might say. In other words, he can go and work that timber when he pleases. It is not like a highly industrialized area.

When he goes there to work that timber, he has to keep up with it largely and he has enough education generally to know whether he is making money or not. But if and when he comes to have to make these reports, as required, keeping up with the social-security numbers, and making quarterly reports and annual reports, as would be required, and when the Government man comes around checking up on him, he may find that he has missed some, and he gets jittery; he gets dubious of his own ability to keep his books and proper reports. He is afraid of being involved with the law. He either comes to one conclusion or the other; that is, he is going to sell his holdings to a bigger concern, or he is going to be driven to possibly employing clerical assistance to keep his books. If he selects to hire the clerical

assistance, he may find out that it is an expensive proposition. That kind of employment costs him a great deal more than his common laborers do. He will soon see that his profits are being depleted, and to recoup this, he will have to cut down on what he pays his employees; or, if he can, he will hike the price of his products, and that, of course, tends toward inflation.

He may work that way for a while, but he is soon driven to the conclusion that he will have to sell out. Nine out of ten will sell all they have to the big timber man and let him handle it.

Senator MILLIKIN. May I suggest that he might not even find a purchaser in the big timber fellow because the big timber fellow would be inclined to consolidate his holdings in order that he may work them in a consolidated and integrated way. Without pretending to know anything about your business, except what I have heard here, it seems very unlikely that the big company would be buying small tracts in scattered areas. It seems like a very impractical operation.

Mr. HARBERT. Yes, Senator. Another way that I see it is that it is like a "squeeze." The big purchaser would like to own his lands. He is not inclined to lend very much effort to the little man because he would like to own that himself. I do not think he gets very much sympathy from the man who owns a million acres of land. He may get some assistance, but he is caught in a squeeze so he cannot compete with the big man.

Now, I might illustrate the point I was making before. If you were to get on a highway 20 miles from town and your automobile were to stall—there being something the matter with it—you may not know what to touch to start it. Now, you are lost there just like the timberland owner is lost in making out his reports. You may think it is simple, but those reports are annoying to a timberland owner. It may be simple, and it is simple to a man who gets onto it: but he is lost with that just like you would be lost with your automobile stalled.

Senator MILLIKIN. Like we were lost a couple of days ago when we made our income-tax returns.

Mr. HARBERT. Yes, sir.

I find it is not satisfying to the employee either. He fels that he is being deprived of the present use of what he actually earns and what is really his. He is continuously thinking about it. He devises ways and means whereby he can withdraw or bring back those funds which have been paid out and which he feels are rightfully his. He hears of a man under social security drawing a lot of pay, more than he paid in, and he feels, and is driven to feel, "that man is drawing part of the pay that belongs to me." And he does not appreciate funds being taken from him. Besides that, he is very hard pressed and he can hardly spare those funds to be put in a general fund for a while.

Then, too, he feels that he is restricted in his freedom of action. He feels that he knows better than the Government or any agent as to what he should do with his money. He feels that he can invest that money in Government bonds. He can buy a farm on the installment plan. He can loan that money, that is, what surplus he has. If he is very wise—and he usually is—he will come to the inevitable conclusion that an investment in this maner is far better in the way of income than the uncertainty of social security.

By telling a man how to act and how to spend his earnings deprives him, I think, largely of his initiative. "Let somebody else do your thinking for you" I do not think is a good plan.

I read an interesting article not long ago to the effect that a man that is able to make a decision, make it readily, even though he makes it erroneously is the man that gets along.

I might summarize by saying that I do not think the members of this committee have ever grown up on social security. You never had a plum held out before you many years ago. All in all, I think these dole systems lead to socialism and eventually to communism, and I do not think it is good for America. It is not the stuff our forefathers were built up on.

When our forefathers started to colonize the West, they did not fill their pockets full of social-security cards.

That is my statement, gentlemen.

The CHAIRMAN. Are there any questions of Mr. Harbert?

If not, thank you very much, sir.

Mr. HARBERT. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness will be Mr. Paul W. Schoen, the executive secretary of the Forest Farmers Association of Valdosta, Ga.

STATEMENT OF PAUL W. SCHOEN, EXECUTIVE SECRETARY, FOREST FARMERS ASSOCIATION, VALDOSTA, GA.

Mr. SCHOEN. Mr. Chairman and members of the committee, my name is Paul W. Schoen, and I am executive secretary of the Forest Farmers Association of Valdosta, Ga.

The CHAIRMAN. You are located where, now?

Mr. SCHOEN. My headquarters office is located at Valdosta, Ga., sir.

The CHAIRMAN. For the information of the committee, that is very close to the Florida line, about 10 miles away, I believe.

Mr. SCHOEN. About 10 miles on a direct line, Mr. Chairman; about 15 by road.

The CHAIRMAN. And you are in the Florida-Georgia timber area?

Mr. SCHOEN. That is correct, sir.

Senator KERR. How far is that from the Suwanee River?

Mr. SCHOEN. Mr. Oettmeier, our president, informs me it is 40 miles. He has the Suwanee River on his property, so the information should be very accurate.

As Mr. Oettmeier has indicated, in his testimony, our organization is composed of timberland owners and while our headquarters office is in Valdosta, Ga., we represent the group of timberland owners throughout the 12 southern States from Virginia south, and westward to Texas and Oklahoma. Mr. Oettmeier also indicated that there are about four and a quarter million of these timberland owners in the United States. In the South alone, we have about 1,600,000 of these small land ownerships, who are or should be carrying on a forestry program in one degree or another.

We, as timberland owners, are very much interested and concerned by the definition in H. R. 6000, in sections 104 (a) and 206 (a) which give a new interpretation to the employer-employee relationship, and leave to the discretion and the whim of the administrator as to what

that relationship may be. This will affect the future forestry practices by our members and other timberland owners.

In the Eightieth Congress, you gentlemen very definitely indicated through Public Law 642 that it was the right of Congress and not of any administrator to decide who is an employee. We believe that H. R. 6000 will both nullify and repeal that particular section and give the dictatorial power to the administrator. It also introduces a large measure of vagueness and uncertainty which is going to affect not only industry but the timber grower upon whom industry depends for the raw product.

This committee has heard from industry as to their reaction to H. R. 6000, and what we are trying to present to you this morning is the reaction of this man who is growing the timber.

It has been stated that the market will be closed to this small man, and it is not because industry wishes to close that market. It is a matter of pure economy to industry. It is a matter of practical business operation that they cannot afford to go out to all of these small owners and pick up their small lots of timber, no matter whether it is for pulpwood, sawlogs, poles, piling, or whatever it may be, if it is going to be necessary for them to assume that risk of having the man that is supplying the timber being considered as one of their employees.

It also puts the seller in a rather peculiar position. Let us take, for example, a man that is harvesting his timber under good forest management. We do not recommend, from a forestry standpoint, that a man cut his timber all for pulpwood, or that he cut it all for sawlogs. Under good forestry practice, we are going to have an integrated operation. He is going to cut a certain percentage in thinnings for pulpwood; then he is going in and take out his best and straightest trees for poles and piling. He is going to take out his sawlogs. Perhaps he is going to cut a certain amount of fuel wood, ties, or posts which he is going to sell. He may do the cutting himself on a contract basis, alone, using his farm help or neighbors. He and his help under H. R. 6000 may be classed as "employees."

Now, let us suppose you give this new definition to the "employee." Here is a man that is selling or cutting for perhaps four or five different products. Who is going to be responsible for his social security? Of whom will he be an employee? Will he be responsible to any of those companies? Will any of those companies wish to assume the responsibility for his full cutting or will his work be divided among all purchasers with separate accounting for each? If we do discourage him in his forestry work and say, "Now, because you are classed as an employee, you will have to sell everything for pulpwood, or everything for sawlogs," we are going to defeat the whole program of conservation for which our association and other groups have been working over a period of many years.

As Mr. Oettmeier indicated in his testimony, the progress of forestry in the South has been remarkable. I have not been there quite as long as Mr. Oettmeier. I mentioned in a conversation with Senator Martin yesterday, that I was a native of Pennsylvania. So I claim both the North and the South, because I have been in the South long enough to feel that is also home. Therefore, from my experience throughout the eastern section of the United States, I recognize the great progress we have made, and the need which there is to help the

small timberland owner to continue along the lines that he has started with respect to his forest land development. We should take no steps to set him back. We certainly hope, without repeating many of the things that you gentlemen of the committee have heard over and over in reference to this definition that you will redefine it; that you will stand by the Gearhart amendment which you insisted upon in the Eightieth Congress, and that you will continue to insist it be clear and certain as to the exact status of the employee.

I thank you.

The CHAIRMAN. Mr. Schoen, the small-landowner, with a portion of the land in timber, thinks of himself as a dealer in wood, does he not?

Mr. SCHOEN. Absolutely, Senator. It is a part of his business as a farmer and farm woodland owner.

The CHAIRMAN. And as a manager of his own business in developing his wood so he may sell it for either ties, or sawlogs, or pulp, and handle it himself?

Mr. SCHOEN. Yes, sir.

The CHAIRMAN. He does not visualize himself at all as an employee of the mill to which he makes a sale. That is correct, is it not?

Mr. SCHOEN. Absolutely, Senator; and the time he begins to be an employee, I am afraid of the effect it will have on him.

The CHAIRMAN. Then you are afraid he will lose his interest in the forestation work and the growth of the timber?

Mr. SCHOEN. I think we all appreciate, when we speak of the small owner, the fact that very often that timberland is just part of the whole farm operation. He has other lands. I think there is no segment of our population that is more independent or takes more pride in that independence than does the farm group. If we begin to subject him to the fact that before he does anything he has to be considered an employee of somebody else, we are disturbing what is fundamental in our democracy; that is, the right of private enterprise and the right to do for yourself. I do not think it would be harmful in other occupations nearly as much as it would with this timber land owning group, or the farm group, when we curtail their independence of action and way of living.

The CHAIRMAN. Are there any questions, gentlemen?

If not, thank you very much.

Mr. SCHOEN. Thank you for the privilege of being here, Mr. Chairman and gentlemen of the committee.

The CHAIRMAN. The next witness will be Mr. Breckenridge.

STATEMENT OF PEYTON D. BRECKENRIDGE, COLUMBUS, GA., REPRESENTING THE SOUTHERN PULPWOOD DEALERS CONSERVATION ASSOCIATION

Mr. BRECKENRIDGE. Mr. Chairman and gentlemen of the committee: I should like to present to you Mr. B. E. Pelham of Ellaville, Ga., and Mr. Dewey Williams, from Augusta, Ga.

The CHAIRMAN. Will you gentlemen please take seats.

Mr. BRECKENBRIDGE. It was the desire of my organization to make available to you gentlemen a large fund of general knowledge and a greater scope of experience than I could possibly give you in case you had questions concerning something that was not specifically cov-

ered in our statement, and that is the reason these gentlemen are here with me.

The CHAIRMAN. Sir, we are glad to have them and glad to have you, Mr. Breckenridge.

Mr. BRECKENRIDGE. Thank you, sir. You have heard from the landowner and you have heard from corporations. We are small-business men.

We represent the Southern Pulpwood Dealers Conservation Association. We have direct authorization to speak for 144 pulpwood dealers in the Southeastern States and their 1,584 producers. Each of these men has donated a few dollars from his pocket that we may represent him before the Senate of the United States and acquaint you gentlemen with his convictions concerning the proposed social-security legislation, H. R. 6000.

We feel that, since opinion amongst our own membership is so unanimous, we are also speaking for the entire southern pulpwood industry consisting of approximately 600 dealers and 6,000 producers, and employing approximately 60,000 persons. Therefore, assuming each worker to have an average family of four, the number of persons directly affected by this proposed legislation, in our industry alone, would approach the quarter-million mark.

A pulpwood dealer is an individual engaged in the buying and selling of pulpwood. The paper mills scattered throughout the South are his markets. He purchases his wood from several sources. Producers, individuals who harvest and load timber, are his main source of wood. The dealer often purchases large tracts of timber for future harvest, contracting with the producers to cut it. In addition, he purchases from part-time operators, from farmers who utilize farm labor during the winter months in cutting their own lands, from right-of-way, crews, and so forth.

In studying the proposed redefinition of the employer-employee relationship in paragraph (4), we find that its most vicious aspect is the lack of concrete definition of the terms. Neither we, nor our legal counsel can determine our exact status under the definition. That determination, apparently, will be the function of the Administrator. The whole future of our businesses will depend upon the whim of an individual. Until he has made up his mind, the paper mills, we dealers, and our producers must, with a guess and a prayer, determine what we think our status to be under a statute involving not only financial, but criminal penalties.

Senator KERR. May I ask the witness a question, Mr. Chairman?

The CHAIRMAN. Yes.

Senator KERR. You are just as anxious that the group you represent not be defined or designated as "employees" as you are that the definition itself be clarified?

Mr. BRECKENRIDGE. Very definitely. And I think that it will be brought out to a greater extent as we go on with the statement that we have prepared here, Senator. However, if when I finish the statement, we have not made it clear, I would certainly welcome the question again.

For instance, we as dealers, have established ourselves over a period of years to supply wood to paper mills. We hope to continue shipping wood to these mills. It requires a good deal of experience to select and

buy timber, and to correctly estimate future markets and prices. We have an opportunity for profit and loss in the purchase and resale of this wood. We have a good many thousands of dollars tied up in our businesses, some of which is borrowed from the paper companies, some from our local banks, and some of which is our own working capital. We supply wood to several different mills concurrently.

We have always considered ourselves independent businessmen, and we are extremely proud of our position as such. Through our own initiative, ability, and endeavor we have succeeded in establishing ourselves as integral parts of our national economy. I state this case not as an individual, but because it will bring home to you gentlemen, in a personal way, the case of each of the 600 dealers I speak for here today.

Yet, under the proposed legislation what do we find? The paper companies exercise at least a degree of control in orders they issue, naming the number of cars we ship them each week, and the weeks during which they purchase no wood from us. Our relationship certainly has a degree of permanency. Our sales to the mills could be regarded as service which is performed regularly and frequently, and is integrated in the work of the mill. What amount of personal capital invested will satisfy the requirements of section (F)? What weight will in fact be given to any one of the seven factors involved? This will have to be determined by the Administrator and the future of our businesses hangs in the balance. Gentlemen, we want no "high commissioner" of industry.

If it is determined that we, as dealers, are employees of the paper mill for social security purposes, it will be necessary that we submit to these mills all of our records, including our pay rolls and our profit and loss figures, immediately. What if we are selling pulpwood to two different mills at the same time? It would then be necessary that our pay rolls be so prepared as to show, separately, the time our employees consumed in the production of pulpwood for each of the said mills. These are items which we consider are our own business. And, considered in the light of past events, it will be but a matter of time until we become employees for purposes of unemployment insurance, workmen's compensation, withholding taxes, National Labor Management Relations Act, minimum wage and hour law, and eventually, liability in tort.

It is obvious that no organization consuming pulpwood could accept this tremendous liability without also assuming the necessary authority and control necessary to protect itself. If we, as producers and dealers are declared to be employees, our business would be wiped out, we would be forced to liquidate our assets at forced-sale prices suffering severe losses, and the hours of work, planning and worry which we have spent in the establishment and development of our businesses would have gone for naught. We believe that if this happens, we are legislated out of business by a Congress which claims to be primarily interested in the small-business man.

The effects of this bill, gentlemen, would be even more far-reaching than that. The furtherance of the concentration of economic power in this country would be tremendous. We dealers and producers placed in circulation in the Southeastern States an estimated $135,125,000 in 1948. I personally believe that is a conservative estimate.

Figures are not yet available for 1949 but will probably prove to be very similar. This money was spent in our local communities for trucks, saws, chains, timber, tires, gasoline, salaries, and the myriad other supplies used in the harvesting of pulpwood. It is logical to assume that, with the mills harvesting their own wood, economy would dictate large operations, held by their very size to large tracts of land, and the purchase of all supplies in wholesale lots, directly from the manufacturer, and bypassing the local merchant.

In the same way the dealer-producer relationship is left in doubt. If the dealer is the employee of the mill, the producer and his common-law employees are also employees of the mill. If the dealer is not an employee of the mill, the same seven vague and indeterminate factors would be used by the Administrator to determine whether or not the producers are employees of the dealers. Should they be so determined, the dealer would be saddled with such additional bookkeeping personnel as to put a severe strain on the profit margin of a small business. The extension of the definition, to include such items as torlt liability, would force us to take personal charge of our own operations, thus forcing our producers out of business, or to drop out ourselves, which would have the same effect. We certainly could no longer purchase wod from part-time operators such as farmers and small wood-lot owners, who would lose a market for their forest products, an additional income, and such investment as they have made, often at the behest of public agencies, in planting and improving forest land.

And all of this is to attain an end which is obscure to us. The stated purpose of this section of the bill is to increase coverage of social security. It does not do so. The common-law employees of the producers, by far the largest group numerically, are already covered by existing legislation. As self-employed individuals, whether we desire it or not, producers and dealers will be covered even without the redefining of "employee." Therefore, it is method of coverage rather than degree of coverage which is involved. As self-employed persons we would be required to put out a larger sum from our own pockets to purchase the same amount of insurance than we would as employees. Evidently the proponents of this legislation fear to tell us frankly what this coverage is costing, and do not give us credit for enough intelligence to realize that we must eventually foot the bill no matter what the manner of payment is. If, however, the additional payment from our pockets is a tax levied on our independence, that is one tax we will gladly pay.

If the purpose of the legislation is to make collection less of an administrative burden on the Treasury Department, we feel that the welfare of thousands of small businesses which would be seriously affected should be of far greater importance to the Congress than the covering of the shortcomings of this Agency.

We feel that it is the duty of you gentlemen, who are our elected representatives, the Congress of the United States to definitely define our tax liability, in words which we can read and understand beyond a shadow of doubt. We ask that you strike out the proposed definition of "employee" and substitute the Gearhart resolution definition which is now in effect and which leaves our status definite. We believe paragraph (1) and (2) of the proposed definition to be

essentially a restatement of existing law. We do not like paragraph (3) but feel that it is the prerogative of the Congress to spell out who is and who is not liable under tax legislation. Since paragraph (3) goes no further than that, we can only object to it on the grounds that it will work a hardship on many individuals. Paragraph (4), however, while serving no legitimate purpose, will have catastrophic effects on our business, our communities, and our lives. We ask you to shoulder your responsibility in defining tax liability and strike this paragraph from the law.

The CHAIRMAN. Are there any questions, gentlemen?

Senator MYERS. Mr. Chairman, may I ask one question, please?

In the second paragraph of your statement, you refer to 60,000 persons that these dealers and producers employ.

Mr. BRECKENRIDGE. Yes, sir.

Senator MYERS. Are those 60,000 persons covered under the present law?

Mr. BRECKENRIDGE. Yes, sir; they are covered under the present law. And the dealers and producers themselves under the self-employed provisions of the new law would be covered.

Senator MYERS. I am only referring to the 60,000 persons indicated in your statement.

Mr. BRECKENRIDGE. The existing legislation covers those.

Senator MYERS. That is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

If not, thank you very much, sir.

Mr. BRECKENRIDGE. Thank you very much, Mr. Chairman.

The CHAIRMAN. Mr. Clippert, will you come forward, please, and have a seat?

STATEMENT OF GEORGE H. CLIPPERT, CAMDEN, ARK., REPRESENTING SOUTHERN PULPWOOD CO., INC.

Mr. CLIPPERT. Mr. Chairman and members of the committee, my statement is quite similar to many heard here and I will tell you how it affects us out in Arkansas.

The CHAIRMAN. Will you please identify yourself for the record?

Mr. CLIPPERT. My name is George H. Clippert, and I represent the Southern Pulpwood Co., Inc., of Camden, Ark.

Our company is a pulpwood dealer buying pulpwood from producers and selling it to two paper companies. We buy pulpwood from approximately 60 producers operating in an area which extends almost 100 miles from east to west and about 60 miles from north to south. The producers from whom we purchase pulpwood are individual small contractors or producers who run their own business as they best see fit to do.

Our company and its producers are very much concerned about the effect that the pending social-security bill, H. R. 6000, could have upon our operations if it became law. We are concerned over the definition of "employee" as it appears in this bill and how it could be interpreted. If such a bill were to become law as it is now written, we feel that we would be unable to continue operating not knowing until some later date who is or is not an employee when it would be decided by an administrator or court. If we continued to operate under such a law, we would risk having heavy penalties levied against us at a later date

when a man that we have never known or have never seen, or to whom we have never paid wages, might be declared to be one of our employees.

At present, the social-security and withholding taxes are collected and paid by the producer who actually knows each man that works for him and to whom he pays wages. Under the proposed law, it would appear that dealers like our company, or even the paper companies to whom we sell the pulpwood, might be expected to collect taxes from these men with whom we have no contact. If these men were determined to be employees for tax-collection purposes, we feel that they could easily be considered to be our employees subject to other Federal and State legislation. Also, it might be determined that we were liable for the actions of these many men and their equipment operating in a remote and widespread area and over whom we have no control.

We are also concerned that such a bill could be passed by the House of Representatives which contains a definition of "employee" that would make the destinies of millions of American people dependent upon the interpretation that an administrator could give. An administrator could decide that every man who has anything to do with a load of pulpwood, from the time that it is cut until it is loaded on a car for shipment or delivered directly to a paper mill, is an employee of the dealer who buys the wood or of the paper companies themselves. If such a decision were made, thousands of small-business men who are now known as contractors, vendors, producers, or subcontractors, would be forced out of business and lose their status as independent small-business men.

In trying to determine who might be declared an employee of our company under the proposed law, we are confused by the definition as it now stands. Under the following sections:

(A) Control over the individual: Would we be exercising control by telling a producer how many cords of wood we can buy from him in a given week as determined by our orders from the paper companies, or by telling him what size to cut the wood and whether it should be gum or pine wood?

(B) Permanency of the relationship: Would a man who has produced pulpwood for me or my company for a number of years, even though he is free to sell his pulpwood to other dealers, be considered our employee?

(C) Regularity and frequency of performance of service: What would be the status of the men who are full-time pulpwood producers?

(D) Integration of the individual's work in the business to which he renders service: It would certainly be determined that the production of pulpwood is essential to the manufacture of paper.

(E) Lack of skill required of the individual: We cannot see what this would have to do with determining who is or is not an employee, nor tend to show whose employee he is.

(F) Lack of investment by the individual in facilities for work: Would the individual be our employee if we lend him money to buy timber, or a tire for his truck, or to have his truck motor overhauled? The Administrator could say he was.

(G) Lack of oportunities of the individual for profit or loss: It would appear that the Administrator could interpret this in whatever manner he desired and thus make him an employee.

There is one additional question I would like to ask. I stated in m opening paragraph that my company sells pulpwood to two paper com panies. Let us assume that the Administrator should decide in th future that I am not an independent businessman, but for purposes o social-security taxation, am really the employee of the paper mills t whom I sell pulpwood. Since I am, in fact, serving two paper com panies in selling them pulpwood; which paper company would b responsible for the collection of my employee's share of the social security taxes and which one would be responsible for the employer' portion of the tax?

In recent years we have become convinced of the value of the forest conservation practices advanced by the various Federal, State, an private organizations.

One of the chief aims of these conservation programs has been th development of interest in the small landowner and the farmer to prac tice good forestry and to conserve and grow timber in ever-increasin amounts on the small timber tracts owned by these individuals; t treat their timber as a crop in the same manner as they treat thei cotton, corn, or similar crops. There are thousands of these smal timber tracts in widely scattered areas of the South, and the results o this concentration of good conservation teachings has been to raise an enlarge upon our total supply of forest growth.

If the production of pulpwod had to be controlled by large opera tors or the paper mills, the economic necessity of operating large-scal cutting jobs on large tracts of timber would give little opportunity t the small farmer or timber owner to sell the few cords that might b selectively cut for the benefit of his timber.

It would not be economically sound for these large-scale operator to fool with the small, widely scattered forest plots above referred to Instead they would have to concentrate their cutting operations on th large tracts of timber, just as is done in the Pacific Northwest. This then, would eliminate the small timber owner from consideration; i would not permit a small farmer in practicing good forestry to thi and sell his own timber in his off season and would thus deny to th fast-growing conservation program here in the South the fruitfu field of development presently shown in the small landowner and th farmer.

We believe that the present Public Law 642 gives an adequate an clear definition of an employee which protects both employers an employees, and we feel that there is no need for changing this defini tion under the proposed law. As the law is now written, every intel ligent person has a fairly clear conception of who is and who is no an employee. We believe that if you will carefully consider thi matter, you will find that the definition of employee now embodie in Public Law 642 is fair, equitable, and just. We beg you not t inflict upon us the burdens which would be imposed by the fourth paragraph in the presently proposed definition of employee. It would leave us at the mercy of an administrator and so confuse our statu that we would not know who our employees were nor whose taxe we would be required to pay.

The CHAIRMAN. Are there any questions by any member of the committee?

If not, we thank you very much, Mr. Clippert, for your appearance.

Mr. CLIPPERT. Thank you, sir.

The CHAIRMAN. Mr. Wilcox, will you identify yourself for the record, please, sir?

STATEMENT OF R. D. WILCOX, HARRIS-WILCOX TIMBER CO., LAUREL, MISS.

Mr. WILCOX. Mr. Chairman and gentlemen of the committee, my name is R. D. Wilcox, of the Harris-Wilcox Timber Co., Laurel, Miss., pulpwood dealer.

The CHAIRMAN. You are a dealer?

Mr. WILCOX. Yes, sir.

Mr. Chairman, my statement is a little bit lengthy. You gentlemen have been very kind and patient, and a number of my points will have been covered very thoroughly, I think. I would like to file my entire statement for the record and then forego reading part of it and take up some points that I might enlarge upon a little.

The CHAIRMAN. You may do so. Your statement will be entered in the record as a whole, and you can discuss whatever features of it if you wish.

Mr. WILCOX. On page 2 of my statement, I state there: "If the proposed definition should be retained as it now appears in the House bill, it is our conviction that the following results would prevail, and I enumerate by number there."

I would like to turn, then, to the bottom of page 6, point No. 8: "If the definition of employee now appearing in H. R. 6000 is retained, it will greatly retard the growing and conservation of timber in the South by small landowners in that they will have less opportunity to dispose of their timber growth at a reasonable profit."

To enlarge upon this conclusion, I direct your attention to the fact that about three-fourths of the timberland acreage in the South is owned by small-land owners. This small-land ownership is scattered to the extent that every farm owner has some type of wood lot on his ownership. As an illustration, in Mississippi there are 16,500,000 acres of timberland; of this amount about 11,700,000 acres are owned by small-land owners, about 3,000,000 are owned by what is termed large owners or companies, and about 1,800,000 acres are owned by the public (Federal and State).

The public lands are well handled from the standpoint of good forestry practices and the acreage is fast being brought back to full production under the conservation program initiated by the Federal and State agencies in charge. The acreage owned by the large-land owners is about the same as the acreage owned by the State and Federal Governments. These large owners have put into operation their own forestry programs under skilled leadership and are bringing their lands back to full production in a sound and orderly manner.

The CHAIRMAN. Mr. Wilcox, you refer to 1,800,000 acres owned by the public; that is, Federal and State. Is that a forest reservation?

Mr. WILCOX. Yes, sir.

The CHAIRMAN. Yes, I supposed it was.

Senator MARTIN. Has that land been cut over one time, and is this now what we might term second growth?

Mr. WILCOX. All of our timberland in the State of Mississippi is second growth. The acreage that was acquired by both the Federal and State Governments was——

The CHAIRMAN. Cut-over lands?

Mr. WILCOX. Yes, sir; and completely denuded in many instances.

Senator MARTIN. How long does it take to regrow those forests?

Mr. WILCOX. That depends, to a very large extent, of course, upon the type of management, Senator. Under the Federal and State program, where they do have good management, they can bring that timber back to merchantable pulpwood timber in a period of from 10 to 15 years. Of course, larger timber and sawlog timber takes longer.

Senator MARTIN. With respect to these large owners that you refer to, the 3,000,000 acres, who owns that?

Mr. WILCOX. That is large individuals and mostly companies; that is, wood-using and log-using companies.

Senator MARTIN. Are they developing it into what you call sawlog timber?

Mr. WILCOX. Yes. The pulpwood interest, of course, is in developing pulpwood. But in growing pulpwood, you have to grow some saw timber. It just develops into saw timber. The sawman has to raise some pulp to raise saw timber, and the pulp man has to raise some saw timber to raise pulpwood.

Senator BUTLER. The small farmers grow mostly pulpwood?

Mr. WILCOX. Yes, sir, it is mostly the second growth. They usually market that primarily for pulpwood.

With the examples set by the Federal and State Governments and the large owners of timberlands, plus the leadership furnished by them, the small timberland owner is fast coming into his own as a tree farmer. Many States have discontinued ad valorem tax on standing timber and have passed severance tax laws where a tax is paid at the time of severance. This has encouraged all types of timberland owners, especially the small owners, to raise more timber. Some States have passed harvesting laws which require that certain timber be left on areas at the time of cutting. Skilled personnel, free of cost to the small owner, is furnished him to help solve his growing and harvesting problems. This service is available from both Federal and State agencies, various forestry organizations and associations, and from the larger consumers of forest products. Forestry courses and textbooks have been introduced in many of the schools, free conservation schools for boys and girls are arranged each year, and many forestry demonstrations are held each year. All of this has brought conservation to the attention of both young and old throughout the South, and utilization as well as conservation of all our resources, together with our timberland resources, is far ahead of what it has ever been before.

Senator MILLIKIN. Down in your country, are you bothered with the fire hazard with respect to your trees?

Mr. WILCOX. That is our No. 1 problem in the South.

If the proposed definition of an employee is enacted into law, there seems to be little doubt but that an administration could and would put into effect a chain reaction whereby each person in the process will be linked to the next one up the ladder as an employee, which would in the final analysis link the ultimate consumer to the tree farmer or the cutter in an employer-employee relationship.

As to whether the ultimate consumer, large or small, can live in such a position with the exposure involved, I am unable to say. But with

such a development that certainly would be no place for the independent dealer as producer in the industry. The consumer would be forced to produce his own pulpwood on such a mechanized basis he would, through necessity, operate on only the larger timberland holdings as such, and operation could not thrive on the small wood lots and fence corner areas.

Senator MARTIN. What do you mean by "fence corner areas"?

Mr. WILCOX. That is strictly an expression that is adapted to our area, Senator. That is the small land holdings around the field termed a "fence corner" operation. Maybe a man would have timber in a small area at the edge of his field that would not exceed 1 or 3 acres. It is a very small operation.

The CHAIRMAN. Around the branches?

Mr. WILCOX. Yes, sir. That terminology issued in our area.

Senator MARTIN. I had never heard it before. Thank you.

Mr. WILCOX. The consumer-type operation could not give each landowner or a farmer a job, therefore the market for the small timberland owner's timber would be greatly reduced and the prospect of selling his own labor with his own timber would be greatly impaired. Without a good competitive market for his timber, the incentive to carry out a good conservation program is greatly weakened.

The thousands of pulpwood dealers and producers in the South have substantial investments in equipment and timber which they have acquired in contemplation of continuing in business as independent contractors, dealers, and producers. If this definition is retained, we will be forced to liquidate our businesses at a serious sacrifice as we could not hope to continue under the proposed definition.

In conclusion, we respectfully direct your attention to Public Law 642, which is now in effect, and which defines "employee" under existing social security law. This definition follows the common law concept and is ample to protect the interest of employers and employees alike. The attempt to depart from Public Law 642, as manifested by the proposed definition now appearing in the House version of H. R. 6000, would result in a confusing situation and in grave injustices to the small-business men of the country who are, and hope to continue to be, classified as independent contractors or vendors.

The present law was passed in order to prevent the Treasury Department from promulgating and enforcing a rule or regulation which contained in it the same measure of injustice which is contained in the presently proposed definition. We, therefore, urge your honorable committee to reject the definition of "employee" now appearing in the House version of this bill and substitute therefor the definition as set forth in Public Law 642, which carries forward the common law concepts of the master and servant relationship.

If the committee is not convinced of the sensibility and fairness of our position, then we do urge that you strike from the presently proposed definition the fourth paragraph thereof and spell out, in understandable language, those who you believe should be employees and thus avoid a complete and unjustifiable surrender of the prerogatives of the Congress to an administrator.

Mr. Chairman, may I close with this further statement of just a few words. I am just as much out of place here in Washington and before this committee as a person could possibly be, and I realize it.

I am a country boy from a country town and my dealings are with country people. When I get out of my surroundings, I am naturally ill at ease and sometimes I feel maybe I should have stayed at home.

Senator MARTIN. Mr. Chairman, may I observe that some of us feel the same way at times.

Mr. WILCOX. You gentlemen have been very kind.

The CHAIRMAN. You have no occasion to be in the slightest embarrassed.

Senator MARTIN. No, indeed; you are in America.

Mr. WILCOX. That is the point I want to make. But this thing, as I see it, means so much to me and my family, which is small, and I would say thousands of families like mine, that I had to come forward and represent myself and try to protect my business and retain what happiness I might have at this time. It is great that a fellow of my limited capacity and ability can come to you as leaders of our Nation and Congress and represent myself, like these other gentlemen have done before me, and some who will follow.

My humble plea is "Let us keep it that way." Do not turn us over to an administrator. Then we would be governed or controlled by rule and regulation rather than by law. I have stated here in my statement that if you could not do anything else for us that you rewrite and spell out in understandable language this paragraph 4 so we would know where we stood and if you do that, then if we cannot comply, we can get out of business. I know I cannot do it. I cannot write it out, I could not spell it out; and I doubt seriously if Congress could write it out and spell it out. I certainly doubt an administrator could write it out or spell it out. But if this definition goes through as proposed, the administrator will have to spell it out. But he is going to spell it out in his language and I am afraid that it probably will be language that we will not understand. It is of very little importance whether my little business stays alive or not; that is, very little importance to anyone except myself. But I think it is important, and it is important to a great number of people that my little business has an opportunity to stay alive.

That is my message, and I appreciate your consideration.

The CHAIRMAN. Are there any questions?

If not, thank you very much, Mr. Wilcox, for your appearance. We are very glad to have you here.

Mr. WILCOX. Thank you, Mr. Chairman and gentlemen.

(The full statement of Mr. Wilcox is as follows:)

STATEMENT OF R. D. WILCOX, HARRIS-WILCOX TIMBER CO., LAUREL, MISS.

My name is R. D. Wilcox. I am what is generally termed a small-business man, being one of approximately 600 pulpwood dealers securing wood from an estimated 6,000 wood producers in the Southern States. This industry works about 60,000 persons. These pulpwood workers have, on the average, families of from four to five and it will thus be seen that there are in excess of 250,000 persons who are directly or indirectly dependent on our industry for their livelihood, to say nothing of the many thousands of merchants, and persons similarly situated who also enjoy benefits from the industry.

The vastness of this industry may best be visualized by referring to statistics which show that 11,500,000 cords of pulpwood were produced in the South in 1948. While no figures are presently available for 1949, it is our thought that the figures would be approximately the same.

A large volume of the pulpwood produced in the South is produced by part-time workers who are farmers or public workers, who produce some pulpwood at ir-

regular intervals as a means of supplementing their income. In such instances the producer will cut and haul his wood to the nearest rail or barge siding or concentration yard and sell it the same as he would sell his farm produce. In many cases this irregular sale of wood gives a small farmer the cash money he needs to finance his farming operations during the growing season. In such cases the wood dealers have no knowledge of the wood being produced until the wood shows up at the delivery point. The wood dealer does not know the people involved in producing the wood, the ways and means employed or the regularity of the operation, even though the same producer might repeat this action a number of times.

I represent or speak for a group of pulpwood dealers and producers who play an important part in this industry and who are vitally concerned about what the proposed social-security law (H. R. 6000) will do to the industry if it becomes a law.

The definition of employee now appearing in the pending bill (H. R. 6000), passed by the House of Representatives and now before this committee, is an entire departure from existing law. This new definition is so written as to seriously affect all independent dealers and producers of pulpwood and other timber products.

If the proposed definition should be retained as it now appears in the House bill, it is our conviction that the following results would prevail:

1. It would be impossible for those who deal in pulpwood or other forest products to know who their employees are until such time as the administrator, and in some instances the courts, have decided that question. In the meantime, the determination of who is or who is not an employee would not be decided by law but by an administrator, who is given unlimited power of interpretation.

2. By the time the Administrator has determined whether a named person is or is not an employee, and whose employee he is, many penalties may have been imposed, and in excessive amounts, against dealers because they failed to guess what the administrator would hold in regard to particular subcontracts and their status. This is a risk that the average dealer or producer cannot afford to take, as a mistake in this respect could force him out of business.

3. It will make tax-collection agencies out of forest-products dealers and possibly consumers of forest products, and require them to pay social-security taxes on people they do not know and to whom they do not pay wages or any remuneration, nor will they know the amount of wages upon which the tax should be based.

4. If a forest-products dealer or consumer is required to pay social-security taxes on any person, it will follow that such person will ultimately be classed and considered as the employee of said dealer or consumer for all purposes, and, sooner or later, said dealer or consumer will be required to recognize him as an employee under the wage-and-hour law, the Workmen's Compensation Act, the National Labor Management Relations Act, and income-tax law, the Unemployment Compensation Act and finally be held liable for all of his acts of negligence. For instance, if such an employee so classified cuts a tree down on the lands of another, or has an accident injuring another crew worker, or any outsider, the person required to pay social-security taxes on this person could be held responsible to pay all the resulting damages.

5. The definition of "employee" now appearing in the House version of H. R. 6000 is not a definition of employee in the language of any congressional declaration, but leaves the status of many people to the full exercise of administrative discretion.

We agree with the statement appearing on page 162 of the minority report as it appears in Report No. 1300 accompanying this bill, wherein it is said: "Paragraph (4) serves no social purpose. Instead it leaves the status of millions of our citizens to the almost unbridled exercise of administrative discretion and does so just at a time when they must for the first time determine at their peril whether they are to be covered as 'employees' or as self-employed. It will result in the unsettling of many established business practices and produce endless costly litigation. Its adoption would be a shameful departure from the constitutional division of powers among the three branches of Government and marks the surrender by the Congress of its prerogative and duty to define tax liability."

6. The proposed definition would eliminate independent contractors and tend to make employees out of many small-business men who are now classed as contractors or subcontractors, and who are enjoying the privileges of working out their own destiny in the American way of life. These men do not want to surrender their hard-won privileges of working for themselves in pursuits or businesses which they have elected to enter, and they would seriously object to being converted into employees rather than independent businessmen.

7. Paragraph 4 of the definition supposedly constitutes a formula by which the Administrator, the Treasury Department, or ultimately the courts, may determine whether a person is or is not an employee, provided he is not made an employee under paragraphs 1, 2, or 3 of the definition and is not self-employed. It is provided that employment be determined by the combined effect of seven factors. If it is the will of Congress that such an issue be determined by the combined effect of these seven factors, then Congress should further prescribe the effect of the absence or presence of each of said factors. While the definition itself does not so provide, the committee report shows that some of the factors are to be considered as proving that one is an employee, while other factors are to be considered as proving that one is not an employee. We refer to page 85 of Report No. 1300, Union Calendar No. 536, and to page 193 of the same report. No one can know what the Administrator would hold under any given statement of facts. One becomes more confused when, after reading the language of the definition, he reads the conflicting explanations which appear in the committee's report. To dissect the definition, we might ask what is meant by "(A) Control over the individual." The word as here used admittedly means a lesser degree of control than is required under the common law, otherwise it serves no purpose in this paragraph.

It is impossible to conceive the lack of some element of control, such as is referred to by the committee's report, in any relationship where one sets about at the request of another to accomplish a designated purpose or task in the performance of a service; therefore, in every case the Administrator could find some element of control, indicating an employee status under the definition.

What is meant by "(B) Permanency of the relationship"? Under the definition, only the Administrator or the Treasury or the courts can say. It does not seem reasonable to say that a relation of subcontractor can be transferred to a relation of an employee, merely because of the length of time during which the service continues. The same criticism applies to the phrase, "(C) Regularity and frequency of performance of service." Again what sense could there be in saying a man is a contractor today, but becomes an employee tomorrow because he is engaged to repeat a stipulated type of service?

What is meant by "(D) Integration of the individual's work in the business to which he renders service"? In the majority report to the committee, appearing on page 85 thereof, it is stated in part, "integration in particular cases may be evidenced by one or more of a variety of circumstances, such as the fact that the service is essential to the business." The growing of trees is certainly essential to the production of pulp and paper and to all other forest-products industries. The production of pulpwood is certainly essential to the manufacture of pulp and paper. The sawing and transportation of logs is certainly essential to the production of lumber. Therefore, since under the definition, the Administrator is left to determine the relative value of the several factors, pulpwood producers, logging contractors, and tree farmers could be declared arbitrarily by the Administrator to be employees of the business to which they render service.

One of the factors is "(E) Lack of skill required of the individual." The vagueness of this requirement makes the factor very confusing, because as individuals, we all have human limitations. The folly of this requirement can best be shown by a reference to the statements concerning this factor, appearing in the committee's report on page 193 and page 85, to which statements reference is here made. As read in the light of the statements there appearing, the phrase becomes vague and meaningless. Evidently the phrase is brought into this definition simply to confuse the terms of the definition and add to the arbitrary powers of the Administrator.

The next factor is "(F) Lack of investment by the individual in facilities for work." It is safe to say the vast majority of businesses from the largest to the smallest, on down to the individual, operates on some borrowed capital. In fact our economic system is a credit system. No standards are set up in the definition showing the amount of the investment required to qualify under this factor, and again it is left to the unlimited discretion of the Administrator to determine the force and effect of this factor. One fact that would enter into this definition is whether or not a pulpwood dealer has advanced money to a producer from whom he buys pulpwood to enable him to purchase equipment or stumpage. If such advancements were made, the Administrator could, and in all probability would, hold that the investment by the individual in facilities was reduced to such an extent that the Administrator would not recognize the investment as

being sufficient to prevent the individual from being an employee under the provisions of this paragraph.

The last factor relates to "(G) Lack of opportunities of the individual for profit or loss." This factor is quite similar to factor (F) above quoted. The Administrator is not controlled in any degree whatever in the application of this factor, and in each separate transaction it would be left to the Administrator to determine whether there was an opportunity of the individual to make a profit or sustain a loss under the existing circumstances.

It seems such discretion as is allowed the Administrator under section 4 of the proposed definition represents a failure on the part of Congress to assume its just responsibilities, and amounts to government by rule and regulation rather than by law.

8 If the definition of "employee" now appearing in H. R. 6000 is retained, it will greatly retard the growing and conservation of timber in the South by small landowners in that they will have less opportunity to dispose of their timber growth at a reasonable profit.

To enlarge upon this conclusion, I direct your attention to the fact that about three-fourths of the timberland acreage in the South is owned by small landowners. This small landownership is scattered to the extent that every farm owner has some type of wood lot on his ownership. As an illustration, in Mississippi there are 16,500,000 acres of timberland; of this amount about 11,700,000 acres are owned by small landowners, about 3,000,000 are owned by what is termed large owners or companies, and about 1,800,000 acres are owned by the public (Federal and State).

The public lands are well handled from the standpoint of good forestry practices and the acreage is fast being brought back to full production under the conservation programs initiated by the Federal and State agencies in charge. The acreage owned by the large landowners is about the same as the acreage owned by the State and Federal Governments. These large owners have put into operation their own forestry programs under skilled leadership and are bringing their lands back to full production in a sound and orderly manner.

With the examples set by the Federal and State Governments and the large owners of timberlands, plus the leadership furnished by them, the small timberland owner is fast coming into his own as a tree farmer. Many States have discontinued ad valorem tax on standing timber and have passed severance tax laws where a tax is paid at the time of severance. This has encouraged all types of timberland owners, especially the small owners, to raise more timber. Some States have passed harvesting laws which require that certain timber be left on areas at the time of cutting. Skilled personnel, free of cost to the small owner, is furnished him to help solve his growing and harvesting problems. This service is available from both Federal and State agencies, various forestry organizations and associations, and from the larger consumers of forest products. Forestry courses and textbooks have been introduced in many of the schools, free conservation schools for boys and girls are arranged each year, and many forestry demonstrations are held each year. All of this has brought conservation to the attention of both young and old throughout the South and utilization as well as conservation of all our resources, together with our timberland resources, is far ahead of what it has ever been before.

If the proposed definition of an employee is enacted into law there seems to be little doubt that an administrator could and would put into effect a chain reaction whereby each person in the process will be linked to the next one up the ladder as an employee, which would in the final analysis link the ultimate consumer to the tree farmer or the cutter in an employer-employee relationship.

As to whether the ultimate consumer, large or small, can live in such a position with the exposure involved, I am unable to say. But with such a development there certainly would be no place for the independent dealer as producer in the industry. The consumer would be forced to produce his own pulpwood on such a mechanized basis he would, through necessity, operate on only the larger timberland holdings as such and operation could not thrive on the small woodlots and fence-corner areas. The consumer-type operation could not give each landowner or farmer a job, therefore the market for the small timberland-owner's timber would be greatly reduced and the prospect of selling his own labor with his own timber would be greatly impaired. Without a good competitive market for his timber, the incentive to carry out a good conservation program is greatly weakened.

9. The thousands of pulpwood dealers and producers in the South have substantial investments in equipment and timber which they have acquired in contemplation of continuing in business as independent contractors, dealers, and producers. If this definition is retained, we will be forced to liquidate our businesses at a serious sacrifice as we could not hope to continue under the proposed definition.

In conclusion, we respectfully direct your attention to Public Law 642, which is now in effect, and which defines "employee" under existing social-security law. This definition follows the common-law concept and is ample to protect the interest of employers and employees alike. The attempt to depart from Public Law 642, as manifested by the proposed definition now appearing in the House version of H. R. 6000, would result in a confusing situation and in grave injustices to the small-business men of the country who are, and hope to continue to be, classified as independent contractors or vendors. The present law was passed in order to prevent the Treasury Department from promulgating and enforcing a rule or regulation which contained in it the same measure of injustice which is contained in the presently proposed definition. We, therefore, urge your honorable committee to reject the definition of "employee" now appearing in the House version of this bill and substitute therefor the definition as set forth in Public Law 642, which carries forward the common-law concepts of the master-and-servant relationship.

If the committee is not convinced of the sensibility and fairness of our position, then we do urge that you strike from the presently proposed definition the fourth paragraph thereof and spell out, in understandable language, those who you believe should be employees and thus avoid a complete and unjustifiable surrender of the prerogatives of the Congress to an administrator.

The CHAIRMAN. Our next witness will be Mr. Adams.

STATEMENT OF S. M. ADAMS, PRESIDENT, S. M. ADAMS, INC., MOBILE, ALA.

Mr. ADAMS. Mr. Chairman and gentlemen of the committee, my name is S. M. Adams and I am president of S. M. Adams, Inc., a corporation, of Mobile, Ala., a dealer in pulpwood and timber products.

We buy and sell standing timber and manufactured pulpwood. The bulk of our business is the buying and selling of manufactured pulpwood. We sell in excess of 100,000 net cords per year to one large mill and lesser amounts to other mills. This wood is bought from some 120 producers who in turn employ approximately 500 woods laborers. They own their equipment consisting of trucks, tractors, power saws, axes, and numerous other accessories necessary to their work. Their investment will run from $2,000 for the smaller producers to $10,000 for the larger and will average about $3,500 each.

After reading and studying the provisions of paragraph 4 of H. R. 6000 (Federal social-security legislation) the fear has arisen in my mind that an organization such as we have perfected would be destroyed should we be made responsible for the collection of social-security taxes from men whose earnings we do not know and, in some cases, have never seen. It would necessitate the employment of clerical help and field men to collect and tabulate the amounts involved. It would also cost us the current employers' percentage on approximately $600,000 per year. The total added expense as of the current year to my company is estimated at approximately $17,000 per year. This would exceed the corporation's net profits, after taxes, for the years 1948 and 1949.

Our business touches the interest of a great number of people who regard us as responsible and trustworthy. In this belief they entrust the cutting and sale of their standing timber to us and we must in turn

enforce such cutting methods and restrictions upon our pulpwood producers as will insure proper conservation cutting and proper payment to timber owners for timber removed. This, under A, paragraph 4, could be considered "control over the individual."

We have contract producers who have been with us for several years. This, under B, paragraph 4, could be termed "permanency of the relationship."

The location of the work performed changes frequently. The agreed price per unit of work changes frequently. Otherwise the producer performs the same function as his equipment is fitted for. This could, under C, paragraph 4, be considered "regularity and frequency of performance of the service."

If the Administrator desired to do so, he could probably hold that sections D, E, F, and G of paragraph 4 do not convert pulpwood producers into employees of the dealers but under the definition he is certainly given the power to arbitrarily classify the employees of the producer as employees of the dealer. There is simply no necessity for so framing the definition that pulpwood dealers and dealers in other timber products would be burdened with the duty of keeping the records for those who actually do the employing and paying and in ultimately having to pay taxes on such employees.

In view of the above facts as set out, I respectfully ask that paragraph 4 be deleted from H. R. 6000 and that the common-law version of employer-employee or Public Law 642 be the means of determining who is an employer and who is an employee.

Gentlemen, you have heard from men who are dealers like myself who have other business connections. I would like to put in the record that this is strictly a pulpwood dealer. That is all we are. We are engaged in no other form of business. Therefore, if we were put out of business, we would have nothing to fall back on.

The CHAIRMAN. How long have you been engaged in that business?

Mr. ADAMS. Twenty years. I built it up over a period of 20 years.

Senator MILLIKIN. Mr. Chairman, may I invite the witness's attention to the fact that in connection with these tests from which they determine you are or are not an employee, when the matter was before us a couple of years ago, the Department in connection with proposed regulations on the same subject, roughly the same test, said:

> Just as the above listed factors cannot be taken as all-inclusive so too the statement of facts or elements set forth in [an amplifying] paragraph * * * cannot be considered complete. The absence of mention of any factor, fact, or element in these regulations * * * should be given no significance.

So you have seven, plus anything else that anyone might imagine.

Mr. ADAMS. Well, my limited intelligence prevents me from interpreting any of them. Whether there is anybody smart enough to do it, I don't know. But all of us would have to continue in business with that threat hanging over our heads. If an adverse decision was handed down against us, we would be subject to penalties and fines, and the result would be that we could not go on.

The CHAIRMAN. Are there any further questions?

If not, thank you very much, Mr. Adams, for your appearance.

Mr. ADAMS. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness will be Mr. Carr Gibson.

STATEMENT OF CARR GIBSON, CAPE FEAR WOOD CORP., ELIZABETHTOWN, N. C.

Mr. GIBSON. Mr. Chairman and gentlemen of this honorable committee, my name is Carr Gibson of the Cape Fear Wood Corp., located at Elizabethtown, N. C., and is doing business as a pulpwood dealer. We buy pulpwood from those who produce it and we then sell it to the paper mills. The pulpwood industry is much concerned about the proposed definition of "employee" as it appears in H. R. 6000, recently passed by the House of Representatives and now pending before this honorable committee, the Senate Finance Committee.

Pulpwood producers and dealers are relatively small-business men or corporations located throughout the country and especially in the Carolinas and other Southern and Southwestern States. Some idea of the volume of pulpwood operations may be found in a statement made by H. J. Malsberger, general manager, Southern Pulpwood Conservation Association, at a recent meeting in Atlanta, in which he said:

> The pulp and paper industry provides about a $200,000,000 annual pay roll to the economy of the South by using no more wood than is now wasted through fire and its disastrous after effects.

Gentlemen, I would like to expand on that just a little. In other words, according to this statement made by Mr. Malsberger, who is in a position to know from data he has gotten from various sources, the pulp industry does not use any more wood from the forests than is destroyed by fire in the South each year. That is our defense to some people who have the erroneous conception that pulpwood is destroying the South. It is not doing it at all, in my opinion and Mr. Malsberger's opinion.

While this statement was directed toward conservation of timber and timber products, it does clearly indicate the volume of the pulpwood business. Those who are engaged in the production and sale of pulpwood, as producers or dealers, have made considerable headway in teaching and applying the principles of conservation in preserving and increasing the growth of timber. Under the present law, every farmer who conserves and wisely disposes of his timber growth is greatly benefited through the methods now available to him for handling of his forest products and the sale thereof produces an income greatly needed in the future development of his farming operations.

As a pulpwood dealer, I have carefully considered what would likely happen to producers and dealers in the South if this committee approves the definition now appearing in the House version of the bill. I have discussed this possible effect with others and all of us who are engaged in the pulpwood business and who know and understand the problems of the business feel that it would be very disastrous to the industry if the present definition is retained. We, therefore, appeal to you gentlemen to come to the rescue of these small-business men to the end that a definition of employee which is not destructive of their business may be substituted in the pending bill. Our objections to the proposed definition, briefly stated, are:

1. It will deprive us of our independence as small-business men and force us either to quit business or become employees of the paper

companies to which we sell our products. We do not want to go out of business because, by hard work and intelligent planning, we are making a living out of this business. We do not want to be forced out of business because we have considerable investments in timber, timber rights, and equipment; and if we are forced out of business, we will never be able to dispose of our equipment without suffering a heavy loss.

2. The pulpwood producers who pay wages to men employed by them in the production of pulpwood are required under the law to report these men for social-security tax purposes and to pay social-security taxes on these employees. The producers know who the men are. They know how much money or other remuneration is paid to them and, therefore, the amount of tax which they are required to pay. Why is it deemed necessary to confuse the employer-employee relationship by bringing into the proposed definition several factors which do not determine the true relationship but which, in fact, mystify and becloud it? Other than for the convenience of those charged with the collection of social-security taxes, why should it be the desire of the sponsors of this definition to require people to pay social-security taxes on men they do not know and with whom they have no contacts?

3. As drafted, the proposed definition is a radical departure from the concept of the employer-employee relationship as we have known it for years. Every sensible person in business now has a clear understanding as to who his employees are. If the new definition is adopted, all of the principles by which the employer-employee relationship has been determined will be discarded and the entire matter will be left in the hands of an administrator to determine who is and who is not an employee and whose employee he is. The formula set up by paragraph 4 of the proposed definition serves no purpose but to leave it in the hands of an administrative bureau to determine who is and who is not an employee and whose employee he is.

4. The establishment of such a definition would result in hopeless confusion in the pulpwood industry and would subject dealers and producers, and possibly the paper mills, to severe penalties because of decisions made by the administrator long after the so-called employee had severed his relations with the industry which he served.

5. The definition, if adopted, would foster a feeling of unrest and fear in the minds of small-business men because of the continuing fear of penalties which might be imposed.

6. The responsibility of defining the employer-employee relationship is with Congress and ought not to be passed onto an administrator for determination. It seems to be true that those charged with the administration of such a law would be anxious to broaden its scope and bring everybody under it that it possible to bring. With this thought, we do not seriously contend; however, we do object to any law which would permit the administrator to so construe the definition as to put the burden of paying the taxes upon those who have no contact with the employees involved, merely to make the collection of the tax easier for those charged with the enforcement of the act.

7. We respectfully submit that if the fourth paragraph of the present definition is adopted by your committee and the Senate, that there

is abundant evidence that the present, or any future administrator of the law would find in its language an opportunity to extend its meaning far beyond that which Congress intended it to have. To illustrate this point, I call your attention to the fact that under the present Fair Labor Standards Act, an employee is defined as "'employee' includes any individual employed by an employer."

Notwithstanding this simple definition, the Administrator, Wages and Hours Division, recently issued an interpretation relating to forestry or logging operations, in which not more than 12 employees are employed. This bulletin directly relates to section 13 (a) (15) of the Fair Labor Standards Amendments of 1949. I am attaching hereto a copy of this bulletin, and I direct your attention to paragraph (b) appearing on page 4 of the bulletin wherein, notwithstanding the simple definition of employee above quoted, the Administrator arbitrarily rules that whether or not one is an employee or independent contractor must be determined by practically the same factors which appear in the presently proposed definition of employee in H. R. 6000.

(The bulletin referred to follows:)

TITLE 29—LABOR

CHAPTER V.—WAGE AND HOUR DIVISION, DEPARTMENT OF LABOR

SUBCHAPTER B—STATEMENTS OF GENERAL POLICY OR INTERPRETATION NOT DIRECTLY RELATED TO REGULATIONS

PART 788—FORESTRY OR LOGGING OPERATIONS IN WHICH NOT MORE THAN TWELVE EMPLOYEES ARE EMPLOYED

Sec.
788.1 Statutory provisions considered.
788.2 Introductory statement.
788.3 "Planting or tending trees, cruising, surveying, or felling timber (and) preparing or transporting logs."
788.4 "Preparing * * * other forestry products."
788.5 "Transporting (such) products to the mill, processing plant, railroad, or other transportation terminal."
788.6 Counting the twelve employees.
788.7 Employees employed in both exempt and nonexempt work.

AUTHORITY: Sections 788.1 to 788.7 issued under 52 Stat. 1060, as amended; 29 U. S. C., and Sup., 201 et seq.

SEC. 788.1. *Statutory provisions considered.* The Fair Labor Standards Amendments of 1949[1] amend the Fair Labor Standards Act of 1938[2] by providing, among other things, a new exemption, section 13 (a) (15), from the minimum wage provisions of section 6 and the maximum hours provisions of section 7, as follows:

The provisions of sections 6 and 7 shall not apply with respect to * * * any employee employed in planting or tending trees, cruising, surveying, or felling timber, or in preparing or transporting logs or other forestry products to the mill, processing plant, railroad, or other transportation terminal, if the number of employees employed by his employer in such forestry or lumbering operations does not exceed twelve.

This exemption need not be considered unless the employee is "engaged in commerce or the production of goods for commerce" as those words are defined in the act so as to come within the general scope of sections 6 and 7. That problem is considered in Part 776 of this chapter and the discussion will not be repeated in this part. Neither does this part discuss the exemption provided in section 13 (a) (6) and defined in section 3 (f) to include forestry or lumbering operations incident to or in conjunction with certain farming operations. That problem is considered in Subpart B of Part 780 of this chapter.

[1] 63 Stat. 910, effective January 25, 1950
[2] 29 U. S. C. 201 et seq.

SEC. 788.2 *Introductory statement.* The purpose of this part is to make available in one place the general interpretations of the Administrator which will provide "a practical guide to employers and employees as to how the office representing the public interest in enforcement of the law will seek to apply it."[3] The interpretations contained in this part indicate, with respect to section 13 (a) (15) of the act which refers to forestry or logging operations, the construction of the law which the Administrator believes to be correct and which will guide him in the performance of his administrative duties under the act unless and until he is otherwise directed by authoritative decisions of the courts or concludes, upon reexamination of an interpretation, that it is incorrect. Under the Portal-to-Portal Act of 1947,[4] interpretations of the Administrator may, under certain circumstances, be controlling in determining the rights and liabilities of employers and employees. The interpretations contained in this part are interpretations on which reliance may be placed as provided in section 10 of the Portal-to-Portal Act, so long as they remain effective and are not modified, rescinded, or determined by judicial authority to be incorrect. However, the omission to discuss a particular problem in this part or in the interpretations supplementing it should not be taken to indicate the adoption of any position by the Administrator with respect to such problem or to constitute an administrative interpretation or practice or enforcement policy.

SEC. 788.3 "*Planting or tending trees, cruising, surveying, or felling timber (and) preparing or transporting logs.*" By its terms, the exemption is limited to those employed in the named operations. These are terms of ordinary speech and mean what they mean in ordinary intercourse in this context. These operations include the incidental activities normally performed by persons employed in them but do not include mill operations. Thus employees employed in "planting or tending trees" include those engaged in seeding, planting seedlings, pruning, weeding, preparing firebreaks, removing rot or rusts, spraying, and similar operations when the object is to bring about, protect, or foster the growth of trees. Employees engaged in "cruising * * * timber" include all those members of a field crew whose purpose is to estimate and report on the volume of marketable timber. Employees engaged in "surveying * * * timber" include the customary members of a crew accomplishing that function such as the chainmen, the transit men, the rodmen, and the axmen who clear the ground of brush or trees in order that the transit men may obtain a clear sight. Similarly, the usual members of a crew which goes to the woods for the purpose of felling timber and preparing and transporting logs are engaged in operations described in the exemption. Typically included, when members of such a crew, are fellers, limbers, skidders, buckers, loaders, swampers, scalers, and log truck drivers.

Preparing logs includes, where appropriate, removing the limbs and top, cutting them into lengths, removing the bark, and splitting or facing them when done at the felling site, but does not include such operations when done at a mill. Employees engaged in sawmill, tie mill, and other operations in connection with the processing of logs, such as the production of lumber, are not exempt.

SEC. 788.4 "*Preparing * * * other forestry products.*" As used in this section, "other forestry products" means plants of the forest and the natural properties or substances of such plants and trees. Included among these are decorative greens such as holly, ferns, and Christmas trees, roots, stems, leaves, Spanish moss, wild fruit, and brush. Gathering and preparing such forestry products as well as transporting them to the mill, processing plant, railroad, or other transportation terminal are among the described operations. Preparing such forestry products does not include operations which change the natural physical or chemical condition of the products or which amount to extracting as distinguished from gathering, such as shelling nuts, or mashing berries to obtain juices.

SEC. 788.5 "*Transporting (such) products to the mill, processing plant, railroad, or other transportation terminal.*" The transportation or movement of logs or other forestry products to a "mill, processing plant, railroad, or other transportation terminal" is among the described operations. *Loading and unloading, when performed by employees employed in the named operations, are included as exempt operations.* Loading logs or other forestry products onto railroad cars or other transportation facilities for further shipment if performed as part

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[3] *Skidmore v. Swift & Co.* (320 U. S. 134).
[4] 61 Stat. 84.

of the exempt transportation will be considered a step in the exempt transportation. However, any other loading transportation, or other activities performed in connection with the logs or other forestry products after they have been unloaded at one of the described destinations is not exempt. "Other transportation terminal" refers to any place where there are established facilities or equipment for the shipment or transportation of logs or other forestry products. Motor carrier yards, docks, wharves, or similar facilities are examples of other transportation terminals, but the place where logs are picked up by contact motor carriers or haulers at the site of the woods operations for transportation to the mill, processing plant, or railroad is not such a terminal.

SEC. 788.6 *Counting the twelve employees.* Regardless of his duties, no employee is exempt under section 13 (a) (15) unless, "the number of employees employed by his employer in such forestry or lumbering operations does not exceed twelve."

(a) The determination of the number of employees employed in the named operations is to be made on an occupational and a workweek basis. Thus the exemption will be available in one workweek when twelve or less employees are employed in the exempt operations and not in another workweek when more than that number are so employed. For a discussion of the term "workweek" see Part 778 of this chapter. The exemption will not be defeated, however, if one or more of the twelve employees so engaged is replaced during the workweek, for example, by reason of illness. But if additional employees are employed during the workweek in the named operation, even if they work on a different shift, the exemption would no longer be available if the total number exceeds twelve. Similarly, all of an employer's employees employed in any workweek in the named operations must be counted in the twelve regardless of where the work is performed or how it is divided. Thus if an employer employs six employees in felling timber and preparing logs at one location and seven at another location in those operations, the exemption would not be available. Similarly, if he employs ten employees in such operations and three other employees in transportation work as discussed in section 788.5, the exemption could not apply. Under such circumstances he would be employing more than twelve employees in the named operations. The fact that some of these employees may not be engaged in commerce or the production of goods for commerce will not affect these conclusions. Except for replacements, therefore, all of an employer's employees employed in the named operations in a workweek must be counted, regardless of where they perform their work or in which of the named operations or combinations of such operations they are employed. The length of time an employee is employed in the named operations during a workweek is also immaterial for the purpose of applying the numerical limitation. Thus, even if an employee would not himself be exempt because he is engaged substantially in nonexempt work (see section 788.7), nevertheless, if, as a regular part of his duties, he is also engaged in the operations named in the exemption he must be counted in determining whether the twelve employee limitation is satisfied. The exemption is available to an employer, however, even if he has a total of thirteen or more employees, if only twelve of them or less are employed in the named operations. Thus if such an employer employs only twelve employees in the named operations and others in operations not named in the exemption, such as sawmill operations, the exemption is not defeated because of the fact that he employs more than twelve employees altogether. It will not apply, however, to those engaged in the operations not named in the exemption.

(b) In many cases an employer who operates a sawmill or concentration yard will be supplied with logs or other forestry products by several crews of persons who are engaged in the named operations. Frequently some or all of such crews, separately considered, do not employ more than twelve persons, but the total number of such employees is in excess of twelve. Whether the exemption will apply to the members of the individual crews which do not exceed twelve will depend on whether they are employees of the sawmill or concentration yard to which the logs or other forestry products are delivered or whether each such crew is a truly independently owned and operated business. If the number of employees in such a truly and independently owned and operated business does not exceed twelve, the exemption will apply. On the other hand, the Administrator will assume that the courts will be reluctant to approve as bona fide a plan by which an employer of a large number of woods employees splits his employees into several allegedly "independent businesses" in order to take advantage of the exemption.

The Supreme Court [5] has made it clear that there is no single rule or test for determining whether an individual is an employee or an independent contractor, but that the "total situation controls." In general an employee, as distinguished from a person who is engaged in a business of his own, is one who "follows the usual path of an employee" and is dependent on the business which he serves. As an aid in assessing the total situation the Court mentioned some of the characteristics of the two classifications which should be considered. Among these are: The extent to which the services rendered are an integral part of the principal's business, the permanency of the relationship, the opportunities for profit or loss, the initiative, judgment, or foresight exercised by the one who performs the services, the amount of investment, and the degree of control which the principal has in the situation. The Court specifically rejected the degree of control retained by the principal as the sole criterion to be applied.

At least in one situation it is possible to be specific: Where the sawmill or concentration yard to which the products are delivered owns the land or the appropriation rights to the timber or other forestry products, the crew boss has no very substantial investment in tools or machinery used, and the crew does not transfer its relationship as a unit from one sawmill or concentration yard to another, the crew boss and the employees working under him will be considered employees of the sawmill or concentration yard. Other situations, where one or more of these three factors are not present, will be considered by the Administrator as they arise on the basis of the criteria mentioned in the preceding paragraph. Where all of these three criteria are present, however, it will make no difference if the crew boss receives the entire compensation for the production from the sawmill or concentration yard and distributes it in any way he chooses to the crew members. Similarly, it will make no difference if the hiring, firing, and supervising of the crew members is left in the hands of the crew boss.

SEC. 788.7 *Employees employed in both exempt and nonexempt work.*—The exemption for an employee employed in exempt work will be defeated in any workweek in which he performs a substantial amount of nonexempt work. For enforcement purposes nonexempt work will be considered substantial in amount if more than 20 percent of the time worked by the employee in a given workweek is devoted to such work. Where the two types of work cannot be segregated, however, so as to permit separate measurement of the time spent in each, the employee will not be exempt.

Signed at Washington, D. C., this 25th day of January 1950.

WM. R. MCCOMB,
Administrator, Wage and Hour Division.

(F. R. Doc. 50–817; Filed, Jan. 27, 1950; 8:53 a. m.)

Mr. GIBSON. My reason for reference to this bulletin is to illustrate that Congress ought not to pass the responsibility of determining a matter which is so vital to the interest of the small-business man of this country over to an administrator. Such procedure is not justified by any existing emergency and is wholly unfair to those who are and want to continue to be independent contractors and operators.

Senator MILLIKIN. Did you hear what I read from the proposed regulation of a couple of years ago, which resulted in the law which Congress passed stopping the whole business? Did you hear me read that a few minutes ago?

Mr. GIBSON. Yes, sir.

Senator MILLIKIN. With reference to that and several things of the same effect, this committee, in its report on that legislation, said:

> But the fatal error of the Treasury's proposed regulation is that this end-point determination of the existence or absence of control under the usual common-law rule as required by the act, as is correctly interpreted by existing regulations and by the legislative history of the act, has been subordinated and diluted and reduced to possibly inconsequential effect by making it into only one (No. 6) of the specified, numbered, but completely unweighted factors, and into only one of an unlimited number of unspecified and unweighted factors which may be invented by the administrators to satisfy the exigencies of their future decisions.

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[5] *Rutherford Food Corp.* v. *McComb* (331 U. S. 722); *United States* v. *Silk* (331 U. S. 704); *Harrison* v. *Greyvan Lines* (331 U. S. 704); *Bartels* v. *Birmingham* (332 U. S. 126).

I read that to you because it may give you gentlemen a little hope. I would not venture to predict what this present committee is going to do, but I hope the chairman will not think I am impertinent in saying that I believe that he agrees with you, and when you have him, you have a regiment.

Mr. GIBSON. Thank you very much for reading that quotation again.

In closing, may I respectfully urge you gentlemen to consider the trend of our times and then determine whether you will depart from some of the principles which have enabled us to reach this milestone in our existence or whether you will inflict upon us the reign, control, and domination of bureaucracy by adopting the presently proposed definition. I feel that the present law is fair to employer, employee, and Government and that the adoption of the new definition will not in any way advance social security but will seriously injure the small-business man of the Nation.

Gentlemen, may I expand just a little bit here. It has been mentioned by several who have been up before me here about the large companies in the event that this law goes into effect; that is, they will of necessity have to put on large operations, thereby cutting out the small landowner and principally the farmer who has timber for sale. During the war, some of the larger companies did just that. They, of necessity, had to start their own company operations. They could not get their pulpwood from the public, because they were either in the service or defense factories, and so forth. So out of this necessity they put in several operations of their own, employing their own men, trucks, and equipment. They therefore could not and did not go on to the small landowners' land because they could not possibly do it.

The case is a little different there, and it was a war emergency. However, I think that well illustrates the point that several have brought out of what would happen. This actually did happen, as many of us in the pulpwood industry knew. However, I was in the Army; but it was continued until shortly after the war to close out these large operations.

Frankly, gentlemen, I am very confident that this committee and the Congress will never permit this bill to go through, because I think you agree it is basically not economically sound. It is going to hurt us in a small business way or in a small big business way—meaning that no business remains the same. You might start out small with nothing, as we did, and you advance along with the time and different ones coming into the business. I just will not think, and I have reasonable assurance to know that this will not go through. It is just not the thing—absolutely not.

With that, I do appreciate very much and consider it a distinct honor to appear before you gentlemen.

The CHAIRMAN. Thank you very much for your appearance.

Mr. GIBSON. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness will be Mr. F. P. Ellis.

You are listed here from Atlanta, Tex.

STATEMENT OF F. P. ELLIS, HANNER & ELLIS, ATLANTA, TEX.

Mr. ELLIS. Yes, sir.

The CHAIRMAN. I did not know there was an Atlanta, Tex.

Mr. ELLIS. Well, like a lot of other things, they have overlooked the little places.

Senator BUTLER. We have an Atlanta, Nebr., Mr. Chairman.

The CHAIRMAN. I knew there was an Atlanta, Nebr., but I have not heard of Atlanta, Tex.

Mr. ELLIS. My name is F. P. Ellis and I am a member of the firm of Hamner & Ellis, a partnership having its place of business at Atlanta, Tex. We are pulpwood dealers and producers, and produce, buy, and sell pulpwood. We buy pulpwood from about 12 different independent producers and through them obtain 85 percent of the pulpwood which we sell. We produce about 15 percent of the pulpwood we sell.

As pulpwood dealers, we are very much disturbed about the definition of "employee" which now appears in the social-security bill. It seems to us that if this definition is adopted by the Senate, it will mean the imposition of intolerable conditions upon those of us who are engaged in the production and sale of forest products and that it will mean the end of our independence as small-business men. Although it attempts to enlarge upon the meaning of "employee" for purposes of social-security taxation, the proposed definition would not extend coverage to a single person or group not covered under other provisions of H. R. 6000. It is not right for Congress to delegate to an administrator to determine for us who our employees are and in some instances whose employees we are.

I have carefully read the statement filed with your committee by R. D. Wilcox of Harris-Wilcox Timber Co., Laurel, Miss. In his statement he very clearly points out the evils of this proposed definition and how it will affect the pulpwood business in the South. The objections which he makes will apply with equal force to pulpwood operations in Texas. In order not to unduly extend the record, I endorse the Wilcox statement and respectfully urge you gentlemen to consider it as applicable to our problems.

I sincerely hope that your honorable committee will reject the proposed definition of employee now appearing in the pending bill and that you will define employee in sensible and understandable terms.

I would like to add that this is a serious proposition to us small-business men in Texas. We are in this profession primarily to make money and because we like it, and we certainly want to stay independent businessmen. If the proposed definition of "employee" goes through, it will not only affect my particular business, but it will affect other businesses connected with forestry products in my particular area of Texas, such as the tie producers, and the pulp producers, and the sawmills. I am afraid that it would definitely hinder the whole economic procedure in our particular part of Texas that is based primarily on forestry products.

I feel, like Mr. Wilcox, that I would be better off at home rather than appear before this committee, but it is that great American way of life—where we do have a right to come before a group of men and plead our cause rather than plead our cause to what I would term one administrator.

So, gentlemen, please define "employee" in such terms that we can stay in business.

The CHAIRMAN. Thank you very, very much, Mr. Ellis. You think you would rather take your chances before the committee than come up the year after next and go before the Administrator?

Mr. ELLIS. Yes; I sure would. They say that several heads are better than one, and I certainly agree with it in this instance.

Mr. Chairman, I also have a statement here from Mr. J. N. Shoptaw, who is a pulpwood dealer in Texarkana, Ark.—in my neighborhood—who was not able to attend.

The CHAIRMAN. That may be inserted in the record at this point.

(The statement referred to follows:)

STATEMENT OF J. N. SHOPTAW, PULPWOOD DEALER, TEXARKANA, ARK., IN OPPOSITION TO H. R. 6000

I wish to say that the definition of employee now appearing in the pending social-security bill, H. R. 6000, is so written as to seriously affect my pulpwood business, and other dealers in timber products, in the following ways:

1. It could, and probably would, make a tax-collection agency out of me and other timber-products dealers and require us to pay social-security taxes on people we do not even know and never saw.

2. It could, and probably would, be so construed as to make us employers of all the subshippers, their subshippers, and their employees to the lowest timber marker or checker we have. Therefore, we might be responsible for all the wages under the wage and hour law, the Workman's Compensation Act, the income-tax law, the Unemployment Compensation Act, and finally be held liable for all the acts of negligence of every and everybody's employee involved.

3. It would eliminate independent contractors, such as myself, and my subcontractors, who are enjoying the privileges of being in businesses of their own.

4. It would retard the growing and conservation of timber in the South by small landowners and farmers who receive a reasonable profit by producing pulpwood from their woodlands.

5. I feel that it would force me to liquidate my business at a great sacrifice because I could not operate under the new law.

I respectfully ask this honorable committee to reject the proposed definition of employee and to return to a sound, reasonable, and fair definition of this term.

The CHAIRMAN. The next witness is Mr. C. D. Utsey.

STATEMENT OF C. D. UTSEY, PULPWOOD DEALER AND LUMBER MANUFACTURER, HARLEYVILLE, S. C.

Mr. UTSEY. Mr. Chairman and members of the committee, my name is C. D. Utsey and I reside at Harleyville, S. C. I am a pulpwood dealer and purchase pulpwood from approximately 40 producers who operate in several counties in lower South Carolina. Each of the producers from whom I purchase pulpwood employs approximately five men, and these producers collect and pay social-security taxes on the men whom they employ. I also own and operate a small saw mill, a farm, and a cotton gin.

I am very much concerned about the definition of "employee" now appearing in H. R. 6000, which has passed the House of Representatives and is now under consideration by you gentlemen, the Senate Finance Committee. The definition is a radical departure from existing law and its adoption would result in widespread confusion and injustice. It could be so interpreted as to eventually extinguish and put out of business many small-business men who are now operating and own businesses. It does not undertake to say who an employee is but leaves it to an administrator and the Treasury Department to determine this all-important question.

I am, therefore, opposed to this definition, and in opposition to its adoption, I urge upon you the following:

1. The definition could be so interpreted as to require the various companies to whom I sell my pulpwood and lumber to collect social-security taxes on those producing the pulpwood and lumber, notwithstanding the fact that the companies purchasing the pulpwood and lumber have no record of the wages paid to those who produced it. In like manner, it could be so interpreted as to require me, as a buyer of pulpwood, to pay social-security taxes on those who actually produce it, even though I did not know who produced it nor the amount of wages paid to them by their actual employer. If this definition is adopted for social security purposes, it would most certainly be extended to other legislation, such as unemployment and workmen's compensation, where coverage is now limited to employees in fact, as determined by the application of common-law rules and precedence. Its enforcement would be a physical impossibility and would result in great hardships on the small-business men of the country.

2. If the new definition remains in the social-security law, it will destroy small contractors and producers and result in the large companies taking over the business now conducted by several independent operators. Such a result would strike deeply at private enterprise. If the large companies took over pulpwood dealers, their producers would be declared employees, rather than self-employed, thus destroying their individuality and independence. Its adoption would tend to put in the hands of a few the operations now being conducted by many men who know themselves as independent contractors.

3. According to the act the definition of an employee now appearing in the House version, H. R. 6000, is not a precise definition of an employee. It leaves the status of many people to be determined by the administrative opinion whether or not they are an employee or self-employed.

4. I would like to state here, as an independent dealer in pulpwood and lumber for the past 14 years, buying pulpwood where I found it for sale, and selling it to various mills in the South, under the present system under which we are now permitted to operate, those who make their living by dealing in these forest products have greatly prospered. They have nice homes, automobiles, and live on improved farms upon which they pay taxes. If they are forced to abandon this status and become employees of the larger companies, they will lose their incentive for the forward drive.

Finally, it is the belief of all small-business men that they should be permitted to continue the operation of the pulpwood and lumber industry in the manner in which it is now operated; that Congress, and not an administrator, should determine who is and who is not an employee, and that their destinies should not be surrendered by Congress to any such agency. I sincerely believe that the present definition of employee as set forth in Public Law 642 is sound, fair, and reasonable, and that there should be no departure therefrom.

I am a lot like Mr. Adams, Mr. Chairman; you shook the bushes pretty hard to get us fellows up here. Of course, it is of so much importance to us that we feel that we had to come before you gentlemen.

The CHAIRMAN. Where is Harleyville, sir?

Mr. UTSEY. It is about 40 miles from Charleston. It is between Charleston and Columbia.

The CHAIRMAN. You are not right in on the coast?

Mr. UTSEY. No, Mr. Chairman; about 40 miles out.

The CHAIRMAN. Thank you very much for coming.
Are there any questions? If not, thank you, sir.
Mr. UTSEY. Thank you, too, sir.
The CHAIRMAN. The next witness is Mr. Dexter. Will you identify yourself for the record, please, sir?

STATEMENT OF A. K. DEXTER, PRESIDENT, MISSISSIPPI FORESTRY AND CHEMURGIC ASSOCIATION, INC., JACKSON, MISS.

Mr. DEXTER. Mr. Chairman and gentlemen of the committee: I am A. K. Dexter, a resident of Canton, Miss., and president of the Mississippi Forestry and Chemurgic Association, which is a nonprofit organization of Mississippi landowners, and others, who are making an effort to improve the forests of the State of Mississippi. This group includes large and small landowners, wood-using industries, farmers, civic clubs, businessmen of all categories, and other citizens of our State.

This organization functions chiefly in the field of education and information to acquaint the general public with the need of protecting, conserving, and improving the forests. The purpose of this effort is, in the end, to advance the welfare of the citizens of the State and to encourage the conservation of its natural resources. The Association is therefore vitally interested in any phase of the growth, conservation, and use of forest products.

The association, after studying paragraph 4 of H. R. 6000 has determined that the Administrator would have the power to interpret the term "employee" in such a manner as to place undue responsibility upon the small timber growers, independent producers of forest products, and others engaged in small forest products businesses.

According to the best figures available there are 35,000 places for full-time employment for woodworkers in the forests of Mississippi. However, most of this work is part-time employment so that a conservative estimate places the number of persons, part or full time, employed in such industry at approximately 100,000. The prevailing system used in removing the forest products is 90 percent carried out by contract operators. These contractors employ, in some instances, only one person and in other instances employ several hundred in their operations. In some instances the contractor is a farmer himself, cutting and delivering his own forestry products to market.

Under the present definition of the "employer" and "employee" relationship under existing law, all parties know their responsibility concerning social security. The proposed definition would be confusing and would practically eliminate the small operators. As interpreted by the Administrator, it would undoubtedly affect every type of forest operations such as sawmill operations, the paper-wood dealer, crosstie maker, veneer and plywood logger, poles and piling, and even the cutting of forest products for fuel.

After careful study by the directors of the Mississippi Forestry and Chemurgic Association it is their opinion that the suggested change in the definition of "employee," as appears in H. R. 6000, would completely paralyze this great industry in our State and would be a severe hardship on the small operators, independent contractors and businessmen, now engaged in the forest products industry, and they have au-

thorized and directed me to file this statement registering their protest against the proposed definition.

The association does not oppose social security. Its only concern is the suggested change in the "employer" and "employee" relationship. We therefore respectfully urge that you reject the proposed definition in H. R. 6000 and retain the present definition of the relationship.

The CHAIRMAN. Are there any questions, gentlemen?

If not, thank you very much, Mr. Dexter.

Mr. DEXTER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. W. L. Rhodes of Estill, S. C., has requested that his statement be filed for the record, and without objection, that will be done at this point.

(The statement of W. L. Rhodes, Estill, S. C., follows:)

STATEMENT OF W. L. RHODES, ESTILL, S. C.

My name is W. L. Rhodes, and I am a pulpwood dealer residing in Estill, S. C. I have been engaged in various forms of the timber business for more than 40 years, and have operated in Florida, Georgia, and South Carolina. I am vitally concerned with and will be seriously affected by the pending social-security bill, H. R. 6000. I sincerely feel that if the bill is made into law in its present form that it will necessitate my going out of the business, as the hazards, increased expense, and uncertainty that will be produced by such a law will not warrant the required risk of capital involved in such business. The industry is at the present time thriving. This statement embraces both the producers and their employees. A complete harmony now exists between the dealer, producer, and laborer. The present order of things has proven itself mutually profitable to all three of these groups. I am sure that none of these groups are actually demanding any change such as that proposed by this bill. The change has probably originated with some person or groups of persons who have no conception of the pulpwood industry or its needs and, even if they can understand the bill as written, they have not the slightest idea of the practical impact and effect which it will work upon the pulpwood industry. There are a great many people today who mistake any change for progress. They are unwilling to permit an harassed businessman to understand and apply one set of governmental regulations before they promulgate an entirely new and different set of regulations. The time-tested and essential principle of "stability in business" is apparently alien to their thinking. The result is that businessmen and their employees are kept in a constant mental attitude of anxiety, unrest, and turmoil.

The following are some specific objections which I have to the proposed legislation as it affects my small business.

(1) To begin with, I am unable after reading several times the definition of "employee" as contained in the bill, to even vaguely understand it or to know what its practical application would be. This is probably not surprising in view of the fact that I am a mere businessman and no lawyer. However, I have handed a copy of this bill to a very competent and experienced attorney, and he tells me, after studying it, that he is just about as confused by the legal hodgepodge as am I. Is it possible that Congress would pass legislation that is this ambiguous?

(2) From the above paragraph it is apparent that those of us who would be embraced within this proposed legislation would have no idea of how to interpret it. It means that we would possibly and probably place an interpretation upon the legislation different from the Administrator. We would not know of this "wrong guess" of ours until some bureaucrat advised us of it. In the meantime we would probably have incurred severe penalties for noncompliance. With the staggering toll which taxes already take from our business, it would quite possibly mean that we would have to go out of business rather than try to operate under a system where the bureaucratic referee makes the rule as the game is being played.

(3) The producer is very unhappy over the proposed legislation. At present he is an individual operating his own little business. He is free to exercise his own judgment and initiative. He is justly proud of his independence. The

dealer does not even know who the producer employs, the manner in which he produces, or any other part of the operation of his business. As I understand it, this legislation could mean that the dealer would be held responsible for paying social security on the employees of the producer and, of course, would ultimately, if not immediately, mean that the dealer would be held liable in tort for injuries sustained by the employees of the producer while at work. Thus, the dealer would have no recourse but, if he stayed in business, to eliminate entirely the role of the producer, of which there are thousands in the South. Would this result be fair to this hard-working, free-enterprising producer? Would this be in keeping with our so-called free enterprise system?

(4) The pulpwood industry has been a godsend to the economy of the South. This year the section of South Carolina in which I live, which is principally an agricultural area, experienced the worst crop failure in recent history. It has been designated as a "distress area" by the Department of Agriculture. The economic salvation to these small farmers this year has been the fact that they have been able to sell pulpwood from their farms and provide food and clothing for their families. Should we discourage and hamper an industry which is operating satisfactorily to all concerned and which is so vital a part of the economy of the South?

I have not undertaken to discuss the technical and legal aspects of the proposed legislation as I am not qualified to do so. I have attempted to briefly state how the small dealer, such as myself, feels about this bill. I sincerely and earnestly hope that the good sense and judgment of the men in our Senate will assert itself to prevent the enactment into law of this impractical legislation.

The CHAIRMAN. That completes the hearing for the morning.

We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 12:10 p. m., the committee recessed to reconvene Wednesday, March 15, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

WEDNESDAY, MARCH 15, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George (chairman) presiding.

Present: Senators George, Byrd, Lucas, Hoey, Kerr, Myers, Millikin, Butler, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

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

Senator Millikin, will you please take over until I can finish a conference with a gentleman from my State?

I think Mr. Reuther is the first witness this morning.

Senator MILLIKIN (presiding). The first witness is Mr. Reuther. Will you come forward, please?

STATEMENT OF WALTER REUTHER, PRESIDENT, UNITED AUTO WORKERS, CONGRESS OF INDUSTRIAL ORGANIZATIONS, DETROIT, MICH.

Mr. REUTHER. My name is Walter P. Reuther. I am appearing here as the president of the United Automobile Workers Union, representing more than a million wage earners in the automobile, aircraft, and agricultural implements industries.

I appreciate this opportunity to appear before the committee to testify on the legislation now before your committee. I would like to submit to the committee a prepared statement, and in addition to that an appendix describing a tentative approach to an American standard family budget that we have been working on. We have put into this budget about 4 months of very careful research, and I think it represents one of the most comprehensive jobs that has been done to date.

We would like very much to include both my prepared statement and this tentative approach to the American standard budget for an elderly couple into the record.

Senator MILLIKIN. It will be put into the record at this point.

(The statement and budget referred to follow:)

STATEMENT PRESENTED TO THE SENATE FINANCE COMMITTEE IN HEARINGS ON H. R. 6000 BY WALTER P. REUTHER, PRESIDENT, UAW-CIO

At the UAW–CIO 1949 convention, a large mural across the convention hall had three panels. One panel was a photograph of an aged worker and his wife. The second was of a disabled worker in a hospital. The third and principal

panel was of a group of happy children. Across the top was a pledge: "For These We Fight." Since then, copies of this mural have been installed in many of our local union halls.

In the statement presented to you today, we begin with a recommendation that Congress provide adequate coverage and benefits under the old age and survivors insurance title of the Social Security Act. We propose the addition of disability insurance and we ask that, at an appropriate time, we may appear in support of a national system of medical-care insurance. We conclude with a plea for the health and welfare of our children, all children, the hope of tomorrow even in this age of A-bombs and H-bombs and want in the midst of man-made surpluses.

We have come here to keep our convention pledge. To keep that pledge, 89,000 Chrysler workers have been on strike for 7 weeks. Democratically elected representatives of a quarter of a million GM workers will shortly begin negotiations with the $3,000,000,000 General Motors Corp. They, too, will keep that pledge.

We shall keep that pledge until we win the security we seek, not just for ourselves, but, we hope, for all Americans.

I. RETIREMENT BENEFITS MUST BE ADEQUATE AND CAN BE BEST HANDLED BY UNITED STATES GOVERNMNT

The members of the UAW-CIO and, I believe, American wage earners generally, are determined to do away with the immoral, uneconomic, and indefensible double standard in pensions.

When corporation executives paid as much as $300,000 a year are too old to work and too young to die, they are assured of noncontributory pensions of $25,000, $50,000 and up a year for the rest of their lives.

The same corporations' employees, who have invested their lives in production for wages of $3,000 a year and less, can look forward to getting the disgraceful sums of $130 to $540 a year when they are too old to work and too young to die.

In the past year, some workers, by collective bargaining, have more than doubled these amounts. But $1,200 a year is not enough for an aged worker nor is the preesnt top of $1,460 enough for an aged couple to live on.

[Four months ago the Congress recognized the facts of living costs when it raised the statutory minimum wage to 75 cents an hour, or $1,500 a year, assuming steady employment for 50 weeks a year. And that is not enough for a family or an aged couple to live on.]

Adequate Federal program is best way to meet the need.

We believe that the conscience and good sense of the American people reject such wide differentials in pensions as we have mentioned. They demand—and the American economy will be strengthened by providing—pensions large enough for aged workers to live on at a level above that needed to resist disease, isolation, and despair. They believe such pensions can best be provided by a Federal program giving maximum coverage at the least cost and without penalizing mobility of workers and employers.

Because we are committed to the proposition that progress is made with the community and not at the expense of the community, we urge that coverage be as close to universal as is practical. We particularly urge the inclusion of farm operators and hired farm labor so that all farm people may share the security in old age that industrial workers are determined to obtain. As purchasing power for aged farm people is assured, levels of living in rural areas will be raised and the entire economy will be benefited.

Adequate United States program will aid cause of democracy in world

Anxiety about the expenses of the cold war against aggressive Communist totalitarianism, the plea that today we cannot "afford" it—none of these should postpone action on this issue. We shall strengthen ourselves within our borders and in the cold war by being able to say that now in the United States of America, in the midyear of the twentieth century, a democratically elected Congress implemented a policy adopted 15 years earlier assuring workers security in old age.

That is the most effective of all propaganda; it is the propaganda of the deed. This and other policies and implementation of the Fair Deal program together offer the best hope of victory in the global contest between democracy and totalitarianism, perhaps without the cold war becoming a hot war. If war should be precipitated as an act of desperation, such recognition of the value of individual human lives will give us more to fight for. It will give other peoples a sample of the kind of democracy that is at stake and for which their help will be asked.

The minimum satisfactory solution: enough to live on decently

The present double standard in pensions cannot be satisfactorily improved by even a doubling of average primary benefits to $624 a year.

The minimum satisfactory solution would be to provide in the Federal program for incomes upon retirement that are large enough to buy a living at standards of decency for the aged worker and his wife.

For an aged couple, this should be a minimum based upon the Federal Security Agency's Budget for an Elderly Couple, adjusted for certain increases and additional items essential to an American standard of living.

In section II and the appendix of our statement we offer an adjusted budget which we propose as an approach to an adequate standard of living for retired American workers. We challenge anyone to point out to the American people any item in that budget that should be reduced or cut out. We challenge anyone to show why any retired American worker should have less than this budget provides.

Deficits left by various proposals

Measured against this budget, which comes to $2,089 a year or $174 a month, the level of benefits in the present Federal program leaves a deficit of $96 to $106 a month for an aged couple in the $200-to-$300-a-month earnings bracket and with 30 years in covered employment.

The level provided in H. R. 6000 as passed by the House leaves a deficit of $53 to $70 a month for such an aged couple.

The level proposed in the bill when introduced as H. R. 2893 would leave a deficit of $35 to $64 for such an aged couple.

The level proposed in Commissioner Altmeyer's recommendations to this committee would leave a deficit of $18 to $47 for such an aged couple.

Wide range of benefits caused by wage differentials

The ratio of benefits to past earnings proposed by CIO, which we endorse and support, would provide monthly payments of from $136.50 to $175.50 to aged couples with average earnings of $200 to $300 a month during the best 5 years in 30 years of covered employment. This would leave deficits of as much as $37.50 for those who had earned $200 a month and even greater deficits for those whose earnings had been lower.

We deplore the fact that millions of Americans during their working lives receive such low wages that relating benefits to earnings results in pensions that are substantially less than the amount necessary to support an aged couple at a level of decency. This brutal and uneconomic class and geographic stratification is part of our wage jungle. As unions and Government raise prevailing and minimum wage levels in the most depressed areas and industries, pension benefits can be raised until every aged worker and his wife can look forward to retirement, not as a sentence to worse poverty, but as a modest reward for a life of hard work.

Auto workers should not be penalized twice for management's failures

The pattern of irregular employment in the automotive industry before the war makes necessary a refinement of the benefit formula so as to provide that average wages in the highest quarters of the base years—the five consecutive best years—shall be used in computing the monthly benefit amounts.

Auto workers willing and able to work have not had steady employment and have suffered income loss through no fault of their own. Now, unless the highest quarters in each of the base years are used, auto workers will be penalized again; they will be punished twice for the same offense—the inability or refusal of management to provide the same steady income for production workers that it provides for itself and, particularly in the auto industry, for stockholders. More about stockholders later.

Irregular employment threatens to return because industry has kept prices and profits high and wages down, thereby reducing purchasing power.

Auto industry management, paying itself by the year and providing itself with pensions up to $25,000 a year, may yet restore the prewar pattern of yearly cycles of boom-and-bust within its own industry. We submit that auto workers should not take a double beating because of management's irresponsibility or worse.

Until needs are met, private plans must supplement Federal benefits

If the Congress in this session were to amend the old-age and survivors insurance title of the Social Security Act to provide adequate incomes for workers

insured under the system, the minimum needs of our members, as of now, would be met.

Until the Congress satisfies the human needs of American workers for a decent level of living in their old age, organized labor must continue to look upon the Federal program as a subminimum, to which must be added supplemental pension arrangements reached by collective bargaining with employers.

We are not as pessimistic as General Motors President C. E. Wilson about the possibility that Congress will step up to do the job. Last November, speaking to some soft-drink manufacturers, he predicted some increase in Federal benefit levels and more private pension plans to supplement the Federal program which, he assumed, would continue to be inadequate. Since Mr. Wilson has an income of more than $300,000 a year and can look forward to a pension of $25,000 a year, his standards of adequacy may be higher than those who, like Members of Congress, look forward to pensions substantially less than $25,000 a year.

We prefer a Federal program for the whole job, provided it is adequate

We prefer to hope that this Congress, or a future Congress, will do the whole job. When that is done, we can have one integrated Federal program that will meet human needs and, of almost equal importance, the needs of our economy. We are going to keep working on the basis of that hope and that belief.

Let me say that we recognized the value of a Federal system in all our 1949 negotiations when we provided for integration with the Federal system of pension agreements reached by collective bargaining.

Again and again, we have stated every shortcoming of private systems and we did so long before the same points were raised by others who, for 14 years, did little or nothing about bringing the Federal system up to a minimum level of decency.

At this point I present for the record excerpts from an editorial in the October 1949 issue of the Auto Worker that sets forth our position with respect to Federal programs, with particular reference to the Ford pension plan provided for in a contract between the UAW-CIO and the Ford Motor Co., dated September 29, 1949. This editorial was widely distributed with the statement that it represents official UAW-CIO policy. I believe copies of it and of the Ford agreement were sent to members of your committee last year.

"In winning a pension plan for themselves, the Ford workers have performed a service that will benefit millions of their fellow citizens throughout the Nation.

"As a result of the Ford pension program and similar efforts being made to win pension plans throughout American industry, Federal Social Security benefits are going to be increased and they are going to be extended to cover many millions of Americans who need this protection but who are presently excluded from social-security coverage.

"This is the most important result of the Ford workers' victory.

* * * * * * *

"Today, those who blocked expansion of social security are singing a different tune. With the prospect before them that industry will have to pay old-age retirement programs won in collective bargaining, industrialists and reactionary Congressmen are suddenly 'discovering' virtues they never before saw in liberalized Federal social-security legislation.

"BREECH SOUNDED KEYNOTE

"The night before the Ford agreement was finally reached, Ernest Breech, Ford executive vice president, stated in a speech in Youngstown, Ohio, that the most satisfactory method of providing old-age security was through Federal legislation. He acknowledged, however, that present benefits are inadequate and something had to be done to increase them.

"The UAW-CIO and labor generally have always maintained that the most satisfactory way of providing old-age security is through Federal Social Security legislation. More people are covered through that system and an individual worker is free to move from one job to another without losing his pension rights. However, Ford workers and other UAW-CIO members, as well as steel and other industrial workers, could not afford to wait any longer for congressional action. It was necessary for us to move in the collective-bargaining field. If that move prompts Congress to action and removes a major portion of the opposition in the past to increased social-security benefits, so much the better. We prefer it that way. In the meantime, until social-security benefits are

increased to a decent level, we will fight to supplement them through collective bargaining.

* * * * * * *

"As improvements are made in Federal social security, a larger portion of the company's 8¾ cents' contribution will be used to retire past service credits. As increased Federal benefits make it possible to pay off past service credits at a faster rate, the road will be cleared for the union through collective bargaining to win additional company-financed benefits in pensions and hospital and medical programs.

"PROGRESS FOR ALL

"The tying together of our pension fight through collective bargaining with the fight to increase Federal old-age security is another practical demonstration of the UAW-CIO philosophy that we can only make progress with the community and not at the expense of the community.

"That will be the greatest victory of all—not just for the Ford workers or just for UAW-CIO members but for the whole Nation."

Arguments against private plans are arguments for adequate United States plan

Every argument that has been made against private pension plans is now submitted by us as an argument to you for the enactment of amendments to the old-age and survivors insurance title of the Social Security Act that will do the job that must be done in the field of pensions for aged workers.

When that level of adequacy is reached, it will be time to talk about relaxing our efforts to obtain supplemental pensions by collective bargaining with employers.

Until that time comes, by action either of this Congress or a future Congress, we propose to press on with all the strength of our organization to break down the existing double standard. Under that standard, those who have high incomes out of which they can save for their old age are amply provided in addition with pensions in their old age; those who receive incomes so small that they cannot save for their old age are offered so-called pensions that, in many States, are less than half as much as can be obtained in relief from State and county-welfare agencies. Many who receive these pensions are compelled to apply for supplemental aid, which they get after—and only after—they have qualified by liquidating all the little equities and small possessions they have managed to accumulate in a lifetime of hard work and search for work during periods of involuntary unemployment.

Inadequate benefits do not make good economic sense

Not only is the present and growing spread between pensions for the high-income few and pensions for the low-income many humanly and morally indefensible, it is against economic good sense. It is economically debilitating to us as a people and as a Nation. It weakens our national strength, stability, and security.

One of the greatest needs of our economy today is for such a distribution of the national income as will sustain mass purchasing power instead of weakening it, as at present. The people must be able to buy, year in and year out, the potential plenty of food, fibers, and manufactured goods and services that our farms, factories and other industries, businesses, and professions are capable of producing.

Under the trickle-down theory of prosperity, this potential abundance continually threatens us with so-called overproduction caused by the unhealthy coagulation of profits, dividends, and savings at the top and, everywhere else, shrinking purchasing power, shrinking markets, and accelerating spasms of fear.

This results in top-heavy inventories, cut-backs in production to prop up prices, and in lay-offs of millions of workers.

We then have the onset of depression and long-term chronic mass unemployment, an economic sickness that requires drastic and costly measures to check and remedy.

Autoworkers remember past depressions' cause—Lack of purchasing power

Like most Americans, the auto workers remember this out of our experience in 1929–39. In those years the American people lost more than 200 billion dollars in production; a whole generation was scarred; our appearance of weakness encouraged Hitler and Stalin to attempt the conquest of the world. In those 11 years, our democratically elected Government spent and invested 16.3 billion dol-

lars more than it took in; we launched some public works and should have launched many more TVA's. We mitigated unemployment; we did not solve the problem of unemployment.

That problem, which is the unfinished business of the twentieth century, had a magnitude of more than 8 million persons out of work as late as 1940. It was "solved" temporarily by the pick-up of defense and, later, war production.

Today, that problem is being held off and minimized temporarily by extraordinary expenditures and production required by 15 billion dollars in national defense, 3.5 billion dollars for ECA, and 1.5 billion dollars for arms aid to other nations.

Prewar stagnation, unemployment setting in

Even with these stimulants temporarily sustaining our economy, consumer debt is increasing at a rapid rate, as shown by the following table:

Total consumer credit in United States, August 1945 to October 1949

Date	Billions of dollars	Date	Billions of dollars
August 1945	5.6	December 1947	13.7
December 1945	6.6	December 1948	16.3
December 1946	10.2	November 1949	17.8

Simultaneously, profits and savings by the high-income few run ahead of capital investment for plant and inventories. Cash and bonds continue to accumulate and become stagnant in corporate tills.

Neither extraordinary investment in new plant and equipment nor generous dividend payments have been sufficient to soak up the fantastic profits industry has been extracting from its workers and its customers. According to the Federal Trade and Securities and Exchange Commissions, cash and securities held by United States manufacturing corporations amounted to 16.8 billion dollars at the end of the first quarter of 1947. Two and a half years later, by the end of the third quarter of 1949, such holdings had increased by more than 25 percent to 21.1 billion dollars.

The automobile and parts corporations, during the same period, increased their cash and Government security holdings by over 160 percent, from 1.1 billion dollars to 2.9 billion dollars.

General Motors alone held 960 million dollars in cash and Government bonds as of September 30, 1949, compared to 278 million dollars at the end of 1945, shortly after the war had ended. During the same period, Chrysler's holdings rose from 137 million dollars to 310 million dollars.

These accumulations will, at best, be paid out in dividends to stockholders while a large part of the population is drawing unemployment insurance and relief.

We see beginning already the simultaneous increase of unemployment and dividend payments that characterized the beginning of the 1929 depression.

Corporate dividend payments rose from 7 billion dollars in 1947; to 7.9 billion dollars in 1948; to 8.4 billion dollars in 1949.

Meanwhile in February 1950, unemployment rose to about 4.8 million including those temporarily unemployed and waiting to report on new jobs. Another 8.9 million were working part time—less than 35 hours per week—including 2 million who either worked less than regularly scheduled full-time hours for economic reasons or who accepted part-time jobs because they could not find full-time work. With 800,000 or more to be added to the labor force this year, unemployment is almost certain to be above 5 million by next fall. Last year, 1.5 million exhausted their unemployment-insurance credits in one or more quarters.

These facts indicate economic stagnation, a drift back to prewar conditions.

Although the lines of workers are already lengthening before the unemployment-insurance offices, profits in the auto industry are higher than ever before in history. To give just two examples:

General Motors profits in 1949 amounted to more than 1.1 billion dollars before taxes and over 600 million dollars after taxes.

Chrysler profits in 1949 amounted to 213 million dollars before taxes and 132 million dollars after taxes.

In both corporations profits after taxes were well in excess of 33 percent of net worth. It will take less than 3 years of such profits to earn the stockholders a return equal to their total investment.

Profits of this size throw interesting light on the allegedly crushing burden of adequate pensions. According to the actuaries, all the benefits provided under the various insurance titles of H. R. 6000 would cost 1.3 billion dollars in 1950, if the bill were already in effect. The 1949 profits before taxes of only two corporations, General Motors and Chrysler, were more than sufficient to cover the costs of these benefits.

Adequate pensions will help sustain purchasing power and prosperity

Incomes of minimum adequacy assured to aged workers will not be hoarded; they will be spent quickly, currently, as received. They will not be spent for mink coats, platinum watches, and orchids. They will be spent at the grocery, the meat market, the fuel dealers, the dry goods store, with the doctor and the druggist and the hospital.

Every dollar of this money will have high velocity, to use the economists' term for money in rapid circulation, creating business, employment, and profits as it moves. Whatever the expense of providing adequate pensions, we should not look upon it as an added "cost," but as a partial solution of the problem of promoting a healthy distribution of the national income. It will be good for business, good for farmers, good for labor, good for the Nation as a whole. It will promote healthy consumption by the American people, including the aged who, for the simple reason that during their working lives they did not get a saving wage, do not have the funds with which to maintain the remainder of their lives at even a minimum level of decency.

II. HOW HIGH SHOULD PENSIONS BE?

We have already indicated that we will continue to rely upon private pension plans obtained by collective bargaining only until there is a Federal program in existence that is paying benefits sufficient in amount to enable the aged to maintain themselves on an American standard of living.

If it were possible, we would name a figure today. We would like nothing better than to be able to tell you that, when our retired members start receiving pension checks in the amount of *X* dollars per month, there will be no further need for our private pension plans.

Why no satisfactory budget figure is available

Through no fault of ours, that *X* must, for the time being, remain an unknown quantity. Our lack of a satisfactory measure of the needs of the aged can be traced back to certain developments in the course of the Bureau of Labor Statistics' work on the preparation of family budgets.

The Bureau undertook this work at the request of Congress. In the Spring of 1945, the Labor and Federal Security Subcommittee of the Committee on Appropriations of the House of Representatives directed the Bureau "to find out what it costs a worker's family to live in the large cities of the United States." In the absence of a clear directive as to the level of living which Congress had in mind, the Bureau, at first, prepared to work up the cost of living at two distinct levels. One was to be a "minimum cost" level. The other was to represent the American standard of living.

At this point, within the technical advisory committee assisting the Bureau of Labor Statistics an attempt was made to strip the minimum budget, transferring items to the American standard budget.

This would have made the "minimum" budget dangerous and the American standard budget meaningless for practical purposes.

On the excuse that there was to be an American standard budget, it was sought to strip the minimum-cost budget of all amenities and comforts. These, it was argued, belonged in the American standard budget. This attempt went so far as to propose the omission from the minimum-cost budget of such a common possession of even our poorest families as a radio. Members of the committee perceived the very real danger that the emaciated minimum budget would become the guide for collective bargaining and legislation while the American standard budget would be treated as a fanciful projection to which no serious attention would be paid.

Why the "budget for an elderly couple" is not adequate

To block these maneuverings, the technical committee and the Bureau felt impelled to abandon the project for an American standard budget and to con-

centrate on preparation of a meaningful minimum-cost budget. (See the appendix for details of this discussion and its settlement.)

The minimum-cost budget, published in December 1947 under the title "City Workers' Family Budget," later became the basis for development of the so-called budget for an elderly couple prepared by the Federal Security Administration in cooperation with the Bureau of Labor Statistics.

The budget for an elderly couple is the only official measure presently available of the needs of a retired worker and his wife. It is emphatically not, however, an adequate measure of America's obligations to its retired citizens.

The budget for an elderly couple is not and does not purport to be a budget representing the American standard of living.

In fact it represents a last-ditch-resistance level of living.

It represents a level which families will struggle desperately to maintain through dissipation of savings, debt, and charity, no matter how much income shrinks.

It is the level below which families lose self-respect and social status.

It is officially described as a "necessary minimum" budget which, translated, means that it is, at best, on the border line of inadequacy.

Food allowance is at the public relief level

The food allowance in this budget is at the public relief level. It provides a monotonous diet consisting in large part of stews, hamburgers, frankfurters, and fish. It allows for turkey or some good cut of meat only three times a year—on Christmas, Thanksgiving, and New Year's Day, according to the Commissioner of Labor Statistics.

Clothing allowance is below relief level

The sum allowed for clothing is less than the amounts paid to recipients of public relief in several important cities. Allowances for some clothing items are so small as to be ridiculous if they were not so hard upon couples forced to live within them.

Medical care allowance is obviously insufficient

Although no allowance is made for saving against illness and other hazards, the medical-care component of the budget is obviously insufficient to meet the needs of a couple actually confronted with the type of serious illness to which the aged are particularly subject. The budget's medical allowances are based on "average" needs, apparently on the implicit assumption that those who suffer illness above the average will somehow manage to borrow from those who escape with less than the average. The medical allowance is inadequate to purchase even the limited protection offered by the Blue Cross and Blue Shield plans, where those are available to the aged, after provision is made for other medical and dental essentials not covered by those plans.

No allowance for car upkeep and operation

The automobile is the recognized symbol of the American standard of living throughout the world. A third of all elderly couples own at least a used automobile. Yet, by an admittedly arbitrary decision, the cost of upkeep and operation of an automobile was excluded from the budget for an elderly couple.

Budget is 25 percent below average per capita consumption for U. S. A.

The total dollar amounts allowed to each member of the couple are 25 percent below average per capita consumption for the population as a whole, depressed though that average is by the poverty incomes of millions of Americans. Taking into account the fact that the consumption expenditures of adults tend to be higher than those of children, the gap between the budget's allowances and the average per capita expenditure by adults must be greater than 25 percent.

The budget sells America short

The budget standard falls far short of the level of consumption needed to sustain a full-employment economy in the United States. In budgeting for a dull, monotonous, and poverty-haunted old age, it sells America short.

It first assumes that America cannot afford a decent old age for its people.

It then sets levels of expenditures for them that will prevent the absorption of enough goods and services to keep the economy going at full-production and full-employment levels. If the consumption of the aged is, in practice, limited to the budget level, then the budget will justify itself. For with production geared to that level, America will not be able to afford a decent living for its elderly citizens.

Pensions present and proposed are below the pitifully inadequate budget

Measured even by the meager standards of the budget for an Elderly Couple, pensions presently paid and those proposed in H. R. 6000 are disgracefully inadequate.

According to the latest official figures, it would cost $1,720 a year or $143 a month for an elderly couple living in Detroit to sustain life at the miserably low level of the Budget for an Elderly Couple.

Grossly insufficient though the budget is, its cost is nevertheless more than 3½ times the average pension currently being paid to such a couple under the Federal program.

It is substantially more than double the average payment which would result from enactment of H. R. 6000.

A better budget is needed to maintain living standards

We start from the premise that all Americans willing to pull their weight in the productive process are entitled to an American standard of living both while they work and after age has made it impossible for them to continue actively to participate in the Nation's work.

We reject the notion that because a man has made his full lifetime contribution to the American standard of living he is no longer entitled to live at that standard.

Pensions should provide a living that is a reward for work well done, not a penalty for inability to continue at work. Pensions are a matter of right and not of charity. Pension amounts must therefore satisfy in full the retired worker's legitimate claim to an equitable share in the fruits of the economy to which he has devoted his working years.

For this purpose we need a measure of that claim. The budget for an elderly couple is obviously not a satisfactory measure. It would be appropriate for your committee, perhaps in cooperation with the Joint Committee on the Economic Report and the Senate Labor and Public Welfare Committee, to call upon the statistical agencies of the Government to develop a proper measure of the cost of maintaining an elderly couple at the American standard of living. We urge that you do so.

A tentative approach to an American standard

Meanwhile, the aged are with us and growing more numerous with each day that passes. Their need is in the present. They cannot wait until we calculate the cost of meeting our obligations to them.

We need some tentative measure now that will serve as a guide in taking at least the first steps in fulfillment of that obligation.

We have attempted to prepare such a guide. You will find it spelled out in detail in the appendix.

We have prepared it with full awareness of the limitations of our statistical resources in the face of a task of this magnitude. Because of those limitations we have been forced to fall back, for items involving nearly half of our final cost figure, on the allowances specified in the inadequate Budget for an Elderly Couple. Such revisions as we have made are based in their entirety on recognized Government authority. The sources upon which we drew for these revisions do not purport, in presenting their own data, to reflect the American standard of living.

For these reasons it is clear that even the revised budget represents a level of living substantially lower than the American standard.

The dollar cost figures reduce the level still further because, in pricing the quantities of the various items, we have relied almost entirely on prices collected by the Bureau of Labor Statistics in connection with its Consumers' Price Index. These prices are for goods of the relatively low quality purchased by wage and salaried workers' families with average incomes of $1,524 in the years 1934–36.

It must be understood therefore that, in terms of both the quantities and the qualities of the goods included in the revised budget, it falls far short of the level of living which retired American workers may claim as their right.

What the budget allows

We invite the committee's careful examination and analysis of this revised budget and the appendix in which the details of its composition are set forth.

In presenting this adjusted but still woefully inadequate budget, we challenge anyone to point to a single item for which our allowances are too generous. Even after our revisions, the budget allowances are pitifully small, as may be seen from an examination of some of the quantities and qualities provided.

The budget allows no steak better than round steak.

The budget allows one-eighth of a pound of butter per person per week. This is 6½ pounds per year while last year 11.4 pounds of butter were produced for every man, woman, and child in the United States.

The allowances for clothing and house furnishings were taken directly from the Budget for an Elderly Couple. Items in these two categories that are made of cotton are the equivalent of 15 pounds of raw cotton per person per year. This times 11,000,000 aged equals 165,000,000 pounds or 330,000 bales. Cotton consumption by the elderly would have to be considerably above this level to have any noticeable impact on the size of our cotton surplus.

The male member of the couple may have 2⅓ shirts per year of which one must be a work shirt.

He may buy 1⅓ union suits per year plus two-fifths each of an undershirt and a pair of underdrawers—in other words, the equivalent of less than two sets of underwear per year.

For housework, his wife is allowed one house dress every year and one apron every 2½ years.

The man is allowed one overcoat every 8 years.

He is allowed no umbrella, but he gets one raincoat every 25 years and a combination of rubbers, arctics, and boots that works out to one pair every 4 years.

His wife gets no raincoat, but she is permitted one umbrella every 20 years and the equivalent of one pair of rubbers or galoshes every 10 years.

The wife is allowed eighty-five one-hundredths of a handkerchief a year, or one every year and 9 weeks. Her husband does slightly better. He gets ninety-two one-hundredths of a handkerchief every year, or one every year and five weeks.

The wife is allowed 4½ pairs of stockings a year of which 1⅓ are cotton and 2½ are rayon. She is permitted to buy a pair of nylons once every year and a half. Her husband is allowed 4¼ pairs of socks a year of which 3¼ are cotton.

The man is allowed one wool suit every 4 years plus one cotton or tropical worsted suit every 16 years.

We have revised the transportation budget upward to provide 2,200 miles a year, or 42.3 miles a week, of automobile travel for the one-third of the couples assumed to have cars.

The dental-care allowance, which was taken from the Budget for an Elderly Couple, allows the woman one dental examination and prophylaxis every 25 years and the man one every 30 years.

In the recreation budget, which we have taken intact from the budget for an elderly couple, one would expect that ample provision would be made for a worker and his wife who are no longer occupied by work. However, the budget allows them to indulge in the American family's favorite form of recreation—attendance at the movies—11 times a year or less than once a month. This budget will not help Hollywood out of its current doldrums.

Is there anyone who will say that allowances of the kind recited above are too liberal for those who have served our economy for a lifetime? Is there anyone who will say that it is morally wrong for the aged to expect more than this from a Nation that has, at least in principle, acknowledged an economic responsibility to its retired citizens?

This still inadequate budget costs about $2,100 a year or $174 a month

Our revised budget, with allowances for many items as inadequate as those we have listed, would cost $2,089.49 a year or about $174 a month in the city of Detroit with prices at the November 1949 level.

This is $323 a year more than the estimated $1,766 Detroit cost of the budget for an elderly couple as of the same month.

This difference of over 18 percent arises out of changes which we have made affecting only the food, transportation, and medical-care allowances of the budget for an elderly couple. These categories account in the aggregate for less than half the cost of that budget.

While it is unsafe to jump to conclusions in technical matters of this kind, it is certainly within the realm of possibility that, had reliable data been available for complete adjustment of all the categories, for both quantity and quality, the cost of a completely revised budget consistent with a truly American standard of living might have been computed at a figure 40 to 50 percent higher than the cost of the budget for an elderly couple. In that event, the cost would be in the neighborhood of from $2,475 to $2,650. As noted in the appendix, there are indications that the figure should be even higher.

Acceptable information not being available for such a thoroughgoing revision, we have had to content ourselves with adjustments confined to three major categories of the budget. We present below a table showing the cost differences by categories between the revised budget and the budget for an elderly couple.

Since there is no detailed break-down for the BFEC for any month later than June 1947, the table shows the official figures for that month and our estimates for November 1949.

Better food, a car, more adequate medical care

The committee and the public, which has an important stake in these hearings, are entitled to an explanation of the nature of the revisions which increased the cost so greatly. For the details, see the appendix.

In general terms, we provided a tastier and more varied diet; we allowed one third of the couples a car; and we made it possible for them to pay for the hospital and surgical care available under the Blue Cross and Blue Shield plans.

Summary comparison of cost of revised budget in Detroit, November 1949, with cost of budget for an elderly couple in same city, June 1947 and November 1949

	Budget for an elderly couple		Revised budget,[3] November 1949	Percent revised budget higher than BFEC, November 1949[4]
	June 1947[1]	November 1949[2]		
Total	[5] $1,635	$1,766	$2,089	18.3
Food, total	540	559	758	35.7
Family food at home	489	506	686	35.7
Guest meals served	28	29	40	35.7
Meals purchased (net additional cost)	23	24	32	35.7
Housing, total	656	724	724	0
Rent, heat and utilities	508	571	571	0
Household operations	103	107	107	0
Household furnishings	45	46	46	0
Clothing, total	104	115	115	0
Man	53	60	60	0
Woman	51	56	56	0
Other, total	335	368	492	33.8
Medical care	[5] 106	115	183	59.5
Personal care	34	34	34	0
Recreation and reading	71	76	76	0
Tobacco	22	25	25	0
Transportation	54	67	113	69.1
Gifts and contributions	48	51	61	18.3

[1] Federal Security Agency, Social Security Administration, Division of Research and Statistics, release headed "Cost of Budget for an Elderly Couple in Selected Cities," May 16, 1949, p. 3

[2] See appendix for methods of computing cost of separate categories. Differences in quality specifications as between the items priced for the budget in June 1947 and those priced for CPI in November 1949 may make for some small incomparabilities as between the figures shown for those 2 months.

[3] See appendix for detailed explanation of content and cost computation with respect to food, medical care, and transportation allowances.

[4] Percentages computed before rounding off dollar figures.

[5] Given by FSA (see footnote 1) for Detroit as $8 higher as result of error in computing allowance for medical care. Correct figures shown in this table are from letter from FSA dated February 17, 1950.

NOTE.—Items do not necessarily add correctly because of rounding.

The food allowance provides what the United States Department of Agriculture calls its "moderate cost" food plan. The foods provided under this plan are described by the Department as "the amounts purchased by families having an income approximating the average family income for the United States" with "slight adjustments" for "nutritional adequacy."

Studies have shown that about one-third of all elderly couples own cars, and we have made allowance for that proportion to operate and maintain them. Those in this one-third have been assumed to use their cars to the extent of 2,200 miles per year. Their allowances for transportation in public conveyances have been reduced drastically on the assumption that most of their travel would be by

automobile. The allowance for replacement of the car is figured on the same inadequate basis as in the city workers' family budget—that is, they are allowed an annual sum based on the cost of a used car at prices that prevailed in 1941.

In adjusting the medical-care allowance, we were guided by the statement of the Federal Security Administration that "the necessary minimum of medical care varies widely from family to family and from year to year, and hence those categories cannot be budgeted in the same sense as can other segments of family spending." We were therefore faced with the choice of allowing substantial savings to provide against the need for hospitalization or surgery, or to reduce the allowance for the individual couple by amalgamating its risks with those of other families through membership in the Blue Cross and Blue Shield plans. (Both these plans happen to be open to the aged in Detroit, although they are not in all cities.) Allowances for items covered by these plans which had been separately provided in the budget for an elderly couple were, of course, deleted from the revised budget.

Be it noted in passing that the cost of providing adequate pensions would be lower by something like $183 a year per couple if the medical, surgical, and hospitalization needs of the aged were provided for under a comprehensive national health program of the kind our union and CIO have long advocated.

One last revision of the budget flows from the three described above. The amount allowed for gifts and contributions in the budget for an elderly couple is calculated at 3 percent of the cost of all the other items. Even a slightly higher standard of living assumes greater participation in community and family life and we have therefore retained the same ratio.

This is the sum total of all the adjustments we have made in the budget for an elderly couple.

It would be interesting to know whether there is anyone, here or elsewhere, who thinks we have gone too far in this careful and conservative effort to approach more nearly the cost of providing an American standard of living for our retired workers.

An American standard will be achieved

We refuse to reconcile ourselves to anything less than the American standard of living for those who have spent their working years in productive effort. We propose to win that standard as a matter of right.

We prefer that it be achieved and enjoyed through an integrated Nation-wide plan covering every member of the labor force no matter where he works.

Until such a program is in full operation, however, we shall consider it our moral and economic responsibility to continue to press through collective bargaining for pensions to supplement the Federal program.

Measured against the cost of the revised budget, average pensions presently paid to an elderly couple are short by more than $130 a month. Average pensions payments called for by H. R. 6000 would be short by more than $100 a month.

These deficiencies would be greater if measured against the cost of a budget that reflected the full cost of maintaining an American standard of living.

More adequate pensions for aged widows

In developing the revised budget we encountered one problem which deserves the most serious consideration by your committee and by the Congress.

We found that the average wife is younger than her husband and, age for age, has a life expectancy greater than his.

In other words, the average widow may expect to live 10 to 15 years beyond the date of her husband's death if it occurs after age 65.

The present law provides, and H. R. 6000 proposes, pensions for a surviving aged widow equal to one-half of the pension paid the couple while the husband lives.

Available studies indicate, however, that maintenance of a given standard of living costs a single person at least two-thirds as much as a two-person family.

This raises another grave question as to the adequacy of one aspect of the Federal pension system. We believe Congress should rectify the hardships now imposed upon the aged widow upon the death of her husband.

One method of doing this would be to provide a pension rate for the retired couple sufficiently large to permit the wife to save enough so that, together with her survivor's benefit, she would be able to continue living on an American standard to the end of her days.

Added to the cost of the revised budget, this would require total pension payments for the couple very substantially in excess of $2,100 per year.

The disadvantage of this method is that it is based on the average situation. It will provide more savings than are needed for widows dying shortly after their husbands and not enough for others who survive for longer than 10 or 15 years.

Another, and in our view, the preferable approach would require an increase in the pension rate for surviving aged widows to at least two-thirds of the pension paid the couple.

III. THE ECONOMIC POSITION OF THE AGED

Having developed a budget which shows that an elderly couple needs more than $2,089.49 a year, or $174 a month, to maintain an American standard of living, let us turn now to what the aged actually have. The contrast between what they should have and what they do have is shocking.

Income

Eleven million of our population (not counting those in institutions) are 65 years of age or older.

Of these, 3½ million had no cash income whatsoever in 1948.

Of the remaining 7½ million, 4½ million had incomes of less than $1,000 for the year.

The median income for the entire 7½ million who did have some income was $808 for the year.

The difficulties which the aged encounter in attempting to support themselves are evident from the fact that in the next-lowest age group, 55 to 64, median income amounted to $1,898 or considerably more than double the median for those who have reached retirement age.

Income and family status

Age does not always mean the end of family responsibilities. Because of the low incomes of the aged, families headed by older persons live on a drastically lower economic plane than do those headed by younger persons.

Of the 38,530,000 families in the United States in 1948, nearly one in eight, or 4,720,000 families in all, were headed by persons 65 years of age or older.

In families of all sizes, the incomes of families headed by aged individuals were strikingly lower than those headed by younger persons.

In two-person families, for example, 37.2 percent of those headed by men or women 65 years of age or older had incomes of less than $1,000 for the year, as contrasted with only 11.9 percent of those headed by younger individuals.

Only 19.2 percent of the two-person families headed by aged persons had incomes of $3,000 or over, while 51.8 percent of the families with younger heads had incomes in that bracket.

Median income for the year was $1,436 for the two-person families with older heads or less than half the median of $3,000 for the others.

Almost two-thirds of the two-person families headed by aged individuals had incomes of less than $2,000 in 1948.

Facts in the census report on 1948 family income and the report on low-income families prepared for the Joint Committee on the Economic Report show how individuals and families tend to sink economically after the family head passes the 65-year mark.

Income	Percent of all individuals not in families with heads aged—		Percent of 2-person families with heads aged—	
	25 to 64	65 and over	21 to 64	65 and over
Under $1,000	57.9	73.2	11.9	37.2
$1,000 to $2,000	24.7	17.0	15.3	29.2
$2,000 to $3,000	20.2	5.2	21.0	14.4
$3,000 and over	17.2	4.6	51.8	19.2
Median	$1,447	$697	(1)	$1,436

[1] Over $3,000 but cannot be computed exactly.

The low incomes of the aged might be cause for less concern if it were possible for them to live out their last years on farms. However, only about one out of six of all single individuals over 65 and families headed by persons that old

or over actually do live on farms. The remainder, who must face the higher costs of off-farm living, had median incomes of $1,472 in 1948. Nonfarm two-person families with aged heads had a median income of $1,546.

Incomes of aged beneficiaries

Our Federal pension system was designed, in theory at least, to relieve the aged of the economic pressure to make what are often fruitless efforts to support themselves. With pension payments at present levels, it fails miserably to accomplish that purpose.

The Federal Security Agency has compiled data on the total annual income from all sources, including Federal insurance payments, of all aged beneficiaries on the OASI roster in 1948–49. (These beneficiaries include, in addition to those drawing primary and wife's benefits under the pension program, recipients of aged widows' and parents' benefits as well as a negligible number who had dependent children drawing benefits.)

Of the 1,270,000 aged couples and nonmarried persons drawing benefits, the Agency calculates that 37 percent, or 470,000, had total annual incomes of less than $500.

Incomes of another 37 percent were between $500 and $999.

Thus the total incomes of nearly three-fourths of all aged couples and nonmarried persons who were beneficiaries of our Federal insurance system were less than $1,000. Only 5 percent had incomes of $2,000 or more.

More than half of all aged persons drawing old age and survivors' insurance benefits, 864,000 in number, were married and living with their spouses.

Dependency

Freedom from dependency for the aged and freedom of the young from the often impossible burden of supporting aged relatives are certainly among the major purposes of any pension program.

These purposes, too, our Federal program has failed signally to accomplish because of the inadequacy of its benefit structure.

Of the 1,270,000 aged couples and non-married persons drawing OASI benefits, 630,000 or slightly less than half, are living by themselves. Comparison of their incomes with those of the entire group of aged beneficiaries suggests that a little difference in income goes a long way in avoiding dependency.

Analysis of the Federal Security Agency's data on the aged beneficiaries shows that only 39 percent of those with incomes of less than $500 live by themselves as compared with 84 percent of those with incomes from $2,000 to $2,500.

Those who live by themselves are to a high degree independent, even though some may be receiving part of their support from children or charitable agencies. Living with others suggests, although it does not necessarily coincide with, dependency. These qualifications must be kept in mind in examining the available figures on the proportions of the aged in the two groups. Nevertheless, the facts seem to indicate that the large numbers of our elder citizens who live in a state of dependency could win independence if their incomes were increased by relatively small amounts.

The following figures, computed from data in the report on low income families prepared for the Joint Committee on the Economic Report point to a close relationship between income size and dependency.

Annual income 1948–49	All aged OASI beneficiaries	Aged beneficiaries living by themselves	Percent in income class living by themselves
Less than $500	470,000	183,000	39
$500 to $999	470,000	252,000	54
$1,000 to $1,499	190,000	101,000	53
$1,500 to $1,999	76,000	50,000	66
$2,000 to $2,499	38,000	32,000	84

NOTE.—The original percentage figures for incomes $2,500 and up are too small to permit carrying the calculations above that point without distortion resulting from rounding off.

Aged Americans have no savings to speak of

Americans reach retirement age with no savings to speak of. Because of the inadequacy of their incomes during their working years, they cannot possibly hope to accumulate enough savings to provide for their old age.

To provide a single man aged 65 with a life income of only $100 a month for the 14.4 years he may expect to live (according to the 1937 Standard Annuity Table) would require $17,280.

As against this need, 70 percent of all American spending units having incomes of less than $3,000 in 1948 had less than $500 in liquid assets as of early 1949.

Liquid assets were less than $500 for 54 percent of those with incomes of $3,000 to $5,000 and even for 22 percent of those with incomes of $5,000 or over.

In the absence of an aequate Federal pension plan the vast majority of the aged are economically submerged and are forced to become dependents of relatives or public or private charity.

This is not security in old age.

IV. COVERAGE AND BENEFITS FOR OLD AGE AND DISABILITY

The revisions of the Social Security Act contained in H. R. 6000 as passed by the House are a definite step forward. However, we believe many more constructive amendments are necessary if the Federal social security program is to provide adequately for retired and disabled workers and their dependents.

Our proposals, which are in line with the CIO recommendations previously presented to this committee, go further than the recommendations of the Federal Security Administration, the essentials of which are in H. R. 2893.

Previous experience suggests that the bill passed by this Congress may stand for some time without further adjustment of benefits, eligibility and coverage to meet the human needs of the American people and to strengthen our economy. For this additional reason, we urge the committee to give careful consideration to our proposals for amendments to the bill before you.

What you and the Congress finally do with this bill may determine the degree of security that aged workers and their dependents can expect from their Government for some years to come.

It will have an impact upon the future content of collective bargaining.

Coverage should be practically universal, including farmers and hired farm labor

In proposing a more nearly adequate measure of security for old age and disability, we want nothing for ourselves that we are not willing and eager to share with all the American people, including farmers, hired farm labor, self-employed business and professional persons.

The facts regarding farm operators' equities and savings, presented to you by Mr. Altmeyer, show the need for extending the insurance system to them, along with other self-employed persons.

Hired farm workers have been and are today the almost forgotten men and women in our society and in our economy. They have been excluded from all labor and social legislation during the past 15 years. But the Nation has drafted their sons for war service. Both their sons and daughters have done the hard work in planting, cultivating and harvesting the abundant farm production of the past 10 years. Millions went into factories to turn out the war production that shortened the war and made it less costly in lives and money; many have returned to the farm labor market; others alternate between uncovered farm and covered factory employment, taking work where they can find it.

As a group, hired farm workers are the lowest paid, the most irregularly employed, the least organized and the least secure during their working lives. Handicapped by natural forces governing farming and their own Government's discrimination against them during their working lives, their lack of security in old age is a personal and family calamity. They should be admitted to coverage under the bill before you, so that they may have some income in their old age, inadequate though it will be because of their low and irregular wages during their working lives.

Mr. Altmeyer's statement that it is administratively feasible to cover farmers, other self-employed and hired farm labor has not been controverted, though it may be disputed for other reasons.

Evidence of growing support for such extension of coverage, coming from many groups, including the State and National farm organizations, and the recommendation of this committee's own Advisory Council, suggest that you should go all the way in extending coverage, excepting only members of religious orders and, for constitutional reasons, State and local government employees for whom coverage can be optional.

Making the monthly benefit amount a proportion of the worker's monthly wage

The purpose of a benefit formula should be to provide monthly benefit payments that, based upon the insured worker's monthly wage, will provide him with a decent living in his retirement during old age or disability. As will be shown in a later section of this statement, funds to pay these benefits can be supplied by a combination of pay roll contributions and general funds.

It seems to us misleading to talk of monthly benefits related to average monthly earnings and then to average the insured worker's earnings out over his entire working life. In nearly all cases, this means spreading earnings over periods in which, through no fault of his own and in spite of his best efforts to find work, he was unemployed and without wages or other income, or was employed short time at reduced weekly and monthly wages.

H. R. 6000 lessens the injustice by excluding years of unemployment (less than $200 to $400 in earnings.)

The pattern of irregular employment which was prevalent in, but not peculiar to, the automotive industry before the war is built into the wage records of our members. The future holds the threat of a return of that pattern of irregularity so long as the industry persists in its present price and production policies. This makes it necessary for us to urge upon you the adoption of a benefit formula that, carrying forward the motive of H. R. 6000, attains the objective by relating benefit payments to wages earned in the highest quarters of the five best consecutive years.

Unless such a relationship governs the computation and payment of benefits, aged and disabled workers who have studied statistical tables of average earnings and monthly benefits are going to be disillusioned and resentful when, on receiving the benefit payments, they find that their earnings, nearly always irregular, have been ironed thin to cover periods of low or no earnings, and an average taken as the base for surprisingly small monthly benefits. Like other people, retired workers and their dependents do not live on statistical averages; they live from day to day, from one meal to the next, and from one income payment to the next.

Other changes in the benefit formula to provide for higher monthly payments

In part I we have given the deficits that would be left by the benefit provisions of the present law and various proposed amendments.

To provide benefit payments approaching the standards of minimum adequacy we have described in parts I and II, the following additional amendments to H. R. 6000 are necessary and we strongly support the CIO recommendation that they be adopted:

1. The wage base should be increased to $4,800 from the present $3,000, which the House Ways and Means Committee raised to only $3,600, despite your Advisory Council's recommendation that it be raised to $4,200.

The proportion of workers whose full time earnings were covered by the $3,000 ceiling when first set was greater than the proportion that would be so covered by $4,800 now. (See chart, p. 102, pt. I, Senate Finance Committee Hearings on H. R. 6000.) Moreover, more of the costs of the system will be met by a lower rate of contribution if the taxable wage base is increased to $4,800.

2. Benefits should be related to the length of coverage as well as to past wages. The 1 percent annual increment in the present law should replace the one-half percent in H. R. 6000.

3. In addition to using 50 percent of the first $100 of the average monthly wage, the percentage of the remainder of the monthly wage should be increased from 10 to 20 percent. Using 10 percent of wages over $100 flattens the differential which the retired worker had during his working life under the wage "structure," so-called. As logic and justice are introduced into the present wage jungle, wages and benefits must be leveled up, not down.

4. The use of the high quarters which we have urged earlier is essential if benefits are not to be a distorted caricature of what the insured worker actually earned while working.

Of course, the above proposals to have full meaning require the removal of the $150 a month benefit ceiling contained in H. R. 6000. Such a ceiling would deprive retired workers of dependents' allowances. We urge the CIO recommendation that there be no dollar ceiling, but that the maximum for combined primary and family benefits be 80 percent of the base average monthly wage.

Together, these amendments would result in benefit payments approximating what an insured worker, reading the various benefit formula tables, assumes he is entitled by law to receive.

Larger benefits for widows and other dependents are recommended

For the reasons stated in section III, we endorse the CIO recomendation that the widow of an insured worker be paid two-thirds of the benefits paid the couple, or 100 percent of the primary benefit.

We also endorse the CIO recomendation that the allowance for the first child or dependent parent of a deceased worker be increased to 75 percent, as proposed in H. R. 6000.

We support the CIO recommendation for a minimum of $50 a month for all insured workers and the CIO endorsement of H. R. 6000's present allowance for outside earnings up to $50 a month.

We support the CIO recommendation that liberal wage credits be allowed veterans for their period of service, the cost to be met from the general revenues.

V. THE NEED FOR, AND THE FEASIBILITY OF, PERMANENT AND TEMPORARY DISABILITY INSURANCE AND REHABILITATION

The worker who, because of permanent or temporary disability, is unable to work and earn wages, can become just as broke, hungry, cold, dispossessed, and depressed as either (a) the unemployed brother or sister who is able and willing to work but is unemployed through no fault of his or her own, or (b) the aged worker who has chosen or been forced to retire.

The Social Security Act for 15 years has provided some measure of security to the able unemployed and to the aged worker. But it has provided nothing for the worker who, however willing he may be, is temporarily or permanently disabled and incapable of working.

Often, if not always, it costs more to be unemployed and disabled by sickness or accident than to be simply unemployed but well and able to work. Fees for doctors, nurses, other personal services, hospital care, medicines, sick-room equipment and therapeutic and prosthetic devices are all extra. They are piled on top of the normal living expenses, tending to drive the disabled worker and his family into debt and to create all the family and social stresses and strains that accompany such a descent into hardship.

Normal family life and development of the children may be disrupted, even wrecked by the catastrophe of unemployment plus disability plus extra expense plus total lack of income.

Normal recovery and rehabilitation of the disabled breadwinner are often delayed or prevented by this drying up of funds and credit and accompanying anxiety.

This anxiety and the actual deprivation suffered by him and his dependents are not dispelled so long as his only recourse is to charity or relief. No program which involves a means test can be considered to offer security to the worker and his family.

Disability insurance in H. R. 6000 is a historic first step—but too limited

Now, in H. R. 6000, the House has made a start toward filling in this tragic and costly gap in the Social Security Act. It proposes to insure and make eligible for total and permanent disability benefits all those persons to be covered by the amended OASI title of the act. Though unnecessarily limited and inadequate, this is a historic first step in the direction of providing security against a hazard faced daily by everyone in both industrial and farm communities.

Disability, either for a temporary period or permanently, is not confined to old age. All workers of all ages are subject to accidental injuries and diseases that may impair or destroy working capacity.

The incidence and frequency of permanent and total incapacity per thousand workers has been found to be approximately as follows: [1]

Number becoming permanently and totally disabled, per 1,000 workers

Age of workers	Number	Age of workers	Number
20 years	2	50 years	7
30 years	2	60 years	28
40 years	3		

[1] Tabular rate of disability derived from third actuarial valuation, under the Railroad Retirement Act (1946).

For younger workers, the rate of permanent and total disability is very small. The cost of providing disability retirement benefits for them is not very great. But, whether or not a particular individual becomes incapacitated, all workers are exposed to the hazard of becoming incapacitated. This type of insurance affords valuable protection for all against early curtailment of working capacity.

As workers advance in age the need for disability benefits increases and the cost becomes higher. However, their claim for benefits based upon longer service has also become greater.

Provision for retirement on grounds of incapacity due to disability has as great a claim as a retirement benefit program as the attainment of old age. Without protection against loss of income due to disability the program is incomplete.

Fear of administrative difficulty—meaning malingering—is answered

The need for disability benefits cannot be evaded; it must be met somewhere. The alternatives to providing for incapacity retirement are to make the disabled workers dependent on relatives or to abandon them to public relief or charity. The Advisory Council on Social Security found that:

"In a high percentage of the total cases (of permanent and total disability), however, the disabled worker exhausts his own resources and becomes dependent on public assistance. Few persons, even those receiving moderately high salaries, can accumulate enough to support their families during prolonged periods of income loss" (reports of the Advisory Council on Social Security to the Senate Committee on Finance, Washington, 1949).

It is universally conceded that permanent disability benefits are needed and are desirable. The only objection is administrative difficulty. The claim is sometimes made that conditions of disability are difficult to evaluate. The charge is made that the programs are subject to abuse by malingering workers.

These claims and charges were answered by Mr. Altmeyer in his testimony before the Committee on Ways and Means of the House of Representatives. He stated:

"Disability insurance is part of the social-insurance systems in practically all countries and its administrative feasibility has been proved beyond question. In the United States we have had considerable experience with disability programs. The various special public retirement systems, the program for railroad wrokers, the veterans' program, workmen's compensation, the State cash sickness insurance programs and commercial insurance have provided valuable sources of information and experience in planning a * * * program of disability insurance."

The early experience of insurance companies in this field, often cited against the feasibility of disability insurance, is irrelevant as is shown by their present eagerness to sell group-life plicies with permanent and total disability riders.

After full consideration, the Advisory Council on Social Security also concluded that insurance against permanent and total disability is feasible if proper safeguards are instituted.

The pessimistic prophecies that had been made about difficulties in administration did not materialize under the railroad retirement program. The vast majority of employees who claimed total and permanent incapacity were able to present objective evidence on which satisfactory findings could be based.

Eligibility requirements should be moderated

The severe eligibility requirements for permanent and total disability proposed in H. R. 6000 should be moderated. An individual should be considered insured for purposes of disability insurance benefits if he had not less than four quarters of coverage during the eight quarters ending with the quarter in which his disability determination had occurred; or if the individual has no recent connection with the work force, because of some physical disability which develops into a permanent and total disability, he should be considered insured for purposes of disability insurance if he had not less than four quarters of coverage during the eight quarters which preceded his termination of employment.

Benefits should be same as for aged workers and dependents

A person considered fully insured for old-age pension should also be considered insured for the permanent disability insurance benefit, with the same primary and dependents' benefits we have recommended in section IV. Dependents' benefits are as important in a permanent and total disability program as they are in an old-age retirement program. The loss of income that is suffered with permanent and total disability puts the family in a destitute position, having to rely upon general assistance programs on a means test basis.

Temporary disability insurance is also needed

In addition to a permanent and total disability benefit, it is necessary that workers have protection against wage loss during periods of temporary disability. We support the CIO recommendation that you restore to H. R. 6000 the administration proposal for a national system of temporary disability insurance that was included in H. R. 2893 and provided maximum primary benefits of $30 a week and $45 for a worker with three or more dependents for a maximum duration of 26 weeks.

We are not willing to leave to chance the question of whether or not a worker has protection during such periods.

Although four States have taken action in this field, we remember too well the 38 years that elapsed before all States enacted workmen's compensation laws. We are not content to wait another such period for State action in the field of nonoccupational disability protection. Even if the period could be shortened by some Federal-State device workers do not desire the inadequate, inequitable, patchwork programs that inevitably result from a State-by-State approach.

A major step in meeting the problem of insecurity is inclusion of a coordinated program of protection against losses of income arising from sickness and accident for temporary as well as permanent losses—within the framework of national social security legislation.

Thorough rehabilitation program should be provided

An adequate rehabilitation program which will maximize the individual's earning power is an essential element in an integrated approach to disability. H. R. 6000 adopts a negative approach. It provides only for the disqualification of workers who do not take rehabilitation training. A positive approach is required. The present rehabilitation program must be renovated, reoriented and strengthened. An adequate educational program, coupled with research facilities, and administered by efficient and well-trained personnel will in the long run more than pay for itself in higher morale, greater restoration of the individual's ability to support himself and his family, and decreased public welfare expense.

We strongly support the CIO recommendation that H. R. 6000 be amended to include temporary disability and provision through this bill and other legislation for a real program of rehabilitation research, education and training to restore lost or impaired ability or to make compensating adjustments that will enable the disabled worker to resume work and earnings.

VI. COST AND FINANCING

Arguments against adequate pensions are not new

The arguments advanced against provision of adequate pensions for our aging citizens are the same in their essence as those put forward since the birth of the industrial system against every proposal to make life better and more secure for the masses of people.

Every age has its men of little vision who deem it their duty to oppose the next steps forward.

Their stock argument, used against every new proposal, is that it costs too much, would place an intolerable burden on the economy, and lead ultimately to catastrophe.

Traditionally, they know the cost of everything and the value of nothing that tends to make life richer and freer from care and worry for the majority of the people. Again and again, what they have fought as a danger to their own profits has protected and even increased those profits.

Happily, our people have never paid too much heed to those who, like the leprechaun in Finian's Rainbow, cry "gloom and doom" at every opportunity. The doubters and the fearful have been able to impede and delay but not permanently to block our progress. And because we have made progress, we have shown in practice over and over again, how false their arguments are. Their dark foreboding, of economic catastrophe resulting from the fantastically exaggerated cost estimates with which they frighten themselves and their followers have never come to pass. Economic collapse has come periodically, because of and not despite them. It has come when we have let them persuade us to do too little and too late what urgently needed to be done.

After the measures which they oppose become firmly rooted in our way of life, the intellectual descendants of these men of small hopes and little heart point with pride to those very measures as symbols of the progress the Nation has made. We have all heard them boast, for example, of our free public-education

system which early American trade unions won against the bitter opposition of the forbears of today's doubters and viewers-with-alarm.

These confirmed opponents of everything new take too much pride in progress made yesterday and pay no attention at all to the needs of today and tomorrow. They ask us to rest smug and satisfied with what we have achieved over the fierce resistance of their grandfathers. Absorbed in rapt contemplation of what has been accomplished already, they cannot see the new goals challenging our Nation on the road ahead. They drive down the road to the future in a car that has a rear-view mirror where the windshield belongs.

These lessons from history have direct bearing on the arguments we now hear about the future economic consequences of the cost of adequate pensions.

The cost is already with us

We are told that we have an aging population. We are warned that, even if pensions remain at present levels, the increased number of pensioners will add substantially to cost. Frightful pictures are painted of the crushing economic burden which increased pensions will place on our younger citizens in the years ahead.

All this, of course, measures tomorrow's costs against today's possibilities.

Even measured against the present situation, the prospect is not nearly as menacing as some would have us believe.

One member of your committee has stated that provision of $100 a month pensions for all over 65 would cost $12,000,000,000 a year.

Looked at by itself, the figure seems imposing. Seen in perspective, it dwindles into insignificance.

While precise figures are not available, it is entirely possible that we are spending that much now to support the aged by a crazy-quilt system of public and private charity and pensions, to say nothing of the economically unwise and socially undesirable sacrifices wrung from willing but themselves impoverished relatives.

According to Fortune magazine, which omitted some of the components in the present cost of pensions, the bill for 1950 under our existing chaotic programs is already $9,000,000,000.

"The discernible components of this prodigious tab" says Fortune "include $3,000,000,000 of social security pay-roll taxes, over $250,000,000 of interest accruing to the social security fund, Federal and State old-age assistance payments above $1,300,000,000, the railroad retirement fund's $700,000,000 income, service pensions, civil-service retirement pay, and veterans pensions of $2,000,000,000 a year, and private pension-plan payments of something like $1,500,000,000."

These figures neglect, among other things, the cost of public and private homes for the aged, fraternal society benefits to aged members, church pension funds, support provided by private welfare agencies, and similar means of caring for those who can no longer support themselves.

The real question: How best to meet the cost?

The burdens thrust on relatives of the aged, including the sacrifices often imposed on the young children of such relatives, have long-run social consequences which cannot be measured in dollars.

These costs will continue as long as our legislative provisions for the aged remain haphazard, partial, and inadequate. As the aged grow to a larger proportion of our total population, these hidden but real costs would rise just as surely as the cost of an orderly, logical, and adequate pension system covering practically all our working citizens.

American workers are not satisfied with the present patchwork system of provision for the aged, the ill, and their dependents. They have expressed their determination to win something better. They have begun to make that determination effective in collective bargaining and, when necessary, on picket lines. They will continue to do it that way as long as they have to.

The choice no longer lies between incurring or avoiding the costs of adequate social security. The only choice today is this: How shall these costs be met?

We in the trade-union movement, if we are left no alternative, can press on year after year to improve and expand the private pension and health security programs which we have started to establish, despite their inherent defects and limitations.

This method will cost more and provide less than an adequate and comprehensive Federal program. And it will leave out millions of people whose need

for security is at least as urgent as the needs of our members but who lack our organized strength.

Our constitutionally elected Federal Government can do the job better and at less cost; and we would prefer to free ourselves and management from the responsibility for doing what Government properly should do.

These facts should be borne in mind by those who are so busy counting the cost of social security that they have lost sight of its inevitability in one form or another.

We should plan today for a better tomorrow

The cost of providing security will grow with the years. But so will our economy grow in size and output.

The cost of adequate pensions must be measured against the potentialities of our expanding economy to pay for them as and when they come due. Regardless of how we finance pensions—whether we pay as we go or build up reserves now against the future—those in retirement at any time will consume out of the production then current. Pensions paid in 1980 will be used to buy goods produced in or around that year, not in 1950.

The cost of protecting our citizens against certain contingencies is now accepted in principle by the great majority of the American people as one of the inescapable costs of conducting our economic affairs. The fact-finding board established for the steel industry last year simply gave expression to the moral sentiments of the community as a whole when it noted that the cost of human wear and tear is as proper a charge on production as the wear and tear of machinery.

A glance backward at the recent history of our economy emphasizes both the inevitability of the costs and the ease with which we shall bear them when they come due.

In today's prices we may estimate roughly that our total national product a half-century ago, in the year 1900, was worth $50,000,000,000. Taking Fortune's figures on the current cost of supporting the aged, we are now devoting the equivalent of 18 percent of the 1900 product to that purpose alone.

It is not difficult to imagine the protests of the opposition had a proposal been made in 1900 to adopt a social welfare and insurance program of that magnitude. Yet there is practically universal agreement today that our present provisions for the aged are inadequate and must be improved.

Today's $9,000,000,000, that is equal to 18 percent of the total national product of 50 years ago, is equal to less than 4 percent of our current output. The cost of what we propose today will, by the same token, look much smaller to the next generation than it does to us.

Using fear of the future to paralyze action now

The prophets of doom can find no support for their fears in the immediate impact of H. R. 6000 upon our economy. The actuaries estimate that the combined cost of the benefits provided under all the insurance titles of the bill would come to about 1.3 billion dollars this year, one-half of 1 percent of our total national output. A program twice as liberal would cause no alarm.

So the opponents of an improved social security add up costs 30 and 50 years hence. They appear to hope the public eye will not be quick enough to detect the sleight-of-hand involved in this implicit comparison of tomorrow's costs with today's ability to pay.

The Council of Economic Advisers, however, has spoiled the game by pointing out that: "* * * if enactment of legislation now involves the commitment that *X* number of people who will not be working 30 years from now will receive *Y* number of dollars of old-age benefits per month, the real test of whether the Nation can afford such a program is not *XY* dollars per month measured against the *current* size of the economy by *XY* dollars per month measured against the productivity of the economy *30 years from now*. [Emphasis in original.]

Adequate pensions can help consumption keep pace with full production

History establishes the fact that our output per hour per worker has multiplied itself several times over since this Nation was founded. That trend continues with undiminished and probably growing force.

The decision now before you and the Nation involves the distribution of a small part of our future abundance. Out of each dollar added to our wealth, how much shall we use to assure the people who work to create that wealth that their incomes will be maintained when, for certain specified reasons, they or their breadwinners are unable to work?

In the years ahead, the American people can, should, and will have a reasonable measure of security together with, and not at the expense of, greatly improved living standards. In fact, the advances in social security which we seek will contribute materially, by improving the health and efficiency of our people, to the increase in the national wealth out of which the cost of security will be paid.

Cost of program proposed by CIO may be 6.3 billion dollars in 1955

We support the CIO program, which in terms of benefits, is considerably more liberal than H. R. 6000, although because of the need to reckon with the wage jungle to which reference has been made, and the political realities of the moment, it also will not yield for all retired workers an income sufficient to maintain an American standard of living.

We are fully conscious of the fact that more adequate benefits mean greater cost. We are convinced that much of the discussion of cost is for propaganda effect. Nevertheless, we are prepared to meet on their own ground those who profess to balk at the costs.

The assumptions behind our cost estimates are essentially the same as those made by the actuaries for the Federal Security Agency and your committee, with the following adjustments:

1. We have substituted the CIO sponsored coverage, eligibility, and benefit provisions for those provided in the insurance titles of H. R. 2893 and H. R. 6000.

2. We have assumed the wage levels will rise at a somewhat faster rate than the increase in the total national product.

The second assumption is made for two reasons. First, it is necessary to facilitate the comparison with the Nation's total output which we shall make later. Secondly, unless wages rise, the economy will be clogged with unsalable goods and the increases in total output to which we look forward will not be realized. We refuse to accept a future of economic defeat and chronic mass unemployment.

We go no further than 1955 in our cost projections because experience during the short life of our social-security program has shown that the actuaries tend to overshoot the mark on costs and that their projected estimates diverge increasingly from reality as time goes on.

On the assumptions stated, it appears that the program recommended by the CIO will cost 6.3 billion dollars in 1955.

This is one-tenth of the increase in our total output which we may expect to have attained by 1955. This 6.3 billion dollars is less than 2 percent of the total national product we can expect in that year.

Is old-age and disability security worth 10 cents of every dollar in new wealth?

We do not believe that the American people will see anything wrong with devoting 10 cents out of every dollar added to their wealth to provision for the aged, the widowed, the orphaned, the permanently and totally disabled, and their dependents.

On the contrary, we maintain that enactment of the program we propose is, at least to the extent of 10 cents of every dollar of new wealth, a solution to the problem of avoiding disaster by a better distribution of the abundance that now threatens all of us with surpluses and depression.

Cost of quarterly wage base can and should be negligible

Most of the changes which we propose in H. R. 6000 will add to the cost of the program. We urge them because they are needed and because we are convinced that the American people will receive full value for every last cent of the cost.

There is one important change, however, that can and should involve only negligible cost. We refer to the computation of pensions based on averages of quarterly rather than of annual wages.

The difference in cost as between an annual and a quarterly wage base could be insignificant or great depending upon our success or the lack of it in achieving stable full employment.

If workers are assured of steady employment the year around, year after year, it will make no difference whether we calculate their average wages on a quarterly or an annual basis.

We in CIO are committed to the achievement of steady employment for our members and for all American workers and we propose to make good on that commitment within the measurable future. The Nation, in fact, has made the

same commitment in the Employment Act of 1946 which sets maximum employment as the goal of Government economic policy.

While the quarterly wage base undoubtedly means some increase in costs during the interim period, it can and should make only a negligible difference in cost over the long run.

Those who would oppose this change on grounds of cost, implicitly admit that they have no faith in the Nation's ability to iron out the economic fluctuations which are far more costly than the change in the computation formula which we urge.

Meeting the cost—a mixed system of financing

Pay-roll taxes as the exclusive source of our social insurance funds have been justified because of the restricted coverage of the original and present acts. With large sections of the working population excluded from benefits, it would have been inequitable to require them to share in the cost. Discriminatory exclusion has been given as the reason for a regressive tax.

We concur in the view expressed by the Council of Economic Advisers that "as coverage becomes more general, a larger part of social-security receipts should be obtained from general revenues rather than pay-roll taxes."

We in CIO now propose that coverage be made practically universal. On that basis, there is no reason, in principle, why the entire cost should not be borne out of general revenues raised through progressive taxation. Social insurance remains insurance regardless of whether the insured pay for their protection through pay-roll taxes or general taxation. Any argument to the contrary is nothing more than a bookkeeping quibble.

Nor is the principle of insurance negated when amounts paid into the insurance fund by any person bear no direct relationship to the cost of providing him, as an individual, with the protection specified. Group life insurance is unquestionably insurance despite the fact that wide variations in the relationships between total premium payments and benefits received are actuarially predictable for participants of widely differing ages and physical condition.

Pay-roll taxation of the employee is without question regressive and economically unsound. The same is true, although to a lesser degree, of pay-roll taxation on the employer. The employer will pass on the pay-roll tax whenever conditions permit and resultant higher prices may fall ultimately on those consumers whose ability to pay is smallest.

For these reasons we believe that the cost of social insurance should ultimately be financed as most other social costs are—through general taxation. And we support the CIO position that general taxation should be progressive.

Nevertheless, we do not propose that the pay-roll tax be eliminated immediately. The principle of social security is still new in America and there are still those who live in the past to such an extent that they hope, through direct or devious means, to abolish it.

We therefore accept, at this time, limited pay-roll taxes on employees so that no question can be raised as to their right to receive the benefits.

The harmful effects of such regressive taxes must be minimized by setting a ceiling on the tax rates. We propose that the tax on employees be limited to 2 percent of covered wages.

The major part of the cost should be paid out of the general revenue raised by progressive taxation. This is clearly the only fair and logical way to meet the accrued liabilities of the social insurance system resulting from the fact that the system is so new that contributions on behalf of many covered workers have been made during only part of their working lives.

Acceptance of the principle of meeting at least part of the cost of the program through general taxation has bearing on the question of reserves.

We propose that provision be made for reserves, but that the reserves be limited, at any time, to an amount sufficient to meet costs anticipated over the next 4 or 5 years. The purpose of such reserves would be solely to assure the payment of benefits despite temporary, unforeseen contingencies.

We propose limiting the size of the reserves because it makes sense to meet increased future costs out of an enlarged future income which will make those costs less burdensome. Government, unlike private corporations, must be presumed to be immortal and responsible to its citizens and possess unlimited constitutional power to levy on the total wealth of the Nation. There is no reason, therefore, to fear pay-as-you-go financing in connection with a governmental social insurance program.

VII. PUBLIC ASSISTANCE

The need for Federal aid in public assistance is not a permanent and inevitably growing problem. It is so big today because the coverage and benefits under the social-insurance titles of the Social Security Act are so small. Its magnitude is a measure of the failure of the basic social-security system to accomplish its proper purpose.

Within 5 minutes after these hearings opened January 17, it was established in the record (at p. 23 of pt. I) that—

1. More than 5,000,000 persons are receiving some form of public assistance;

2. Half that number are receiving assistance to piece out old-age and survivors insurance benefits;

3. Public assistance expenditure, Federal, State, and local, exceed $2,000,000,000.

4. Old-age and survivors insurance benefit payments are only about one-third this amount;

5. Old-age assistance expenditures—Federal, State, and local—are increasing at the rate of more than $1,000,000 a month and, at this rate, will exceed an annual rate of $1,500,000,000 by the end of 1950. Of this sum, the Federal Government is to pay $900,000,000 and the States and local communities $600,000,000.

The witness, Mr. Altmeyer, pointed out that the public assistance cost had steadily increased because of the inadequacies of the social-security system. He endorsed the statement of the House Ways and Means Committee, made in favorably reporting H. R. 6000, that: "The bill is designed to speed the day when most of the aged and of the Nation's dependent families will look to the insurance program for protection and when the role of public assistance can be drastically curtailed."

Public assistance needs will drop as insurance system improves

But H. R. 6000 does not go far enough fast enough to do that job. Even if this committee and Congress should go the whole distance in accepting our proposals, the need for public assistance would not be "drastically curtailed" at once. It is likely to continue for years. It will taper off as we—

Enact a comprehensive, adequate national social-insurance system including old-age and survivors, unemployment, disability and medical-care insurance;

Attain stable full employment by implementing the purposes of the Employment Act of 1946.

At best, this will take time. Renovation of the Federal-State system of unemployment insurance is complicated by vested interests in the present merit-rating provisions of State laws and their incentives to make benefits harder for the unemployed to get.

Meantime, unemployment tends to increase, as we have shown in earlier sections. More unemployment insurance benefit rights are exhausted, wartime savings and equities are liquidated, local communities and States find themselves unable to meet the demands being made upon them.

Variable grants needed to aid poorer States

Poorer States, in terms of per capita income, are hardest hit. Their people generally have fewer resources and more quickly reach destitution when adversity strikes; local communities and the State itself have fewer resources with which to meet the proportionately greater need.

In prosperity, the poorest States have per capita income about one-half of that of the richest States; in depression, the spread is wider. Although the poorer States generally make a relatively greater effort than the wealthier States to aid their needy, the amounts paid to the individual are smaller, too small for the individual's needs, too small to promote directly and indirectly the restoration of the individual to productive work.

In public assistance, as in wages and the social insurances, we should work toward putting uniformly higher values on human welfare throughout the Nation. Many articles of commerce made and sold throughout the Nation, including automobiles, farm implements, and planes, have one price; the people who make them should not be discriminated against in wages paid them while employed, in benefits payed when unemployed, disabled, or retired, or in assistance paid them because they have exhausted their insurance rights or, due to their Government's decision or their own misfortune, they were never eligible for such bene-

fits. Because the wage jungle does exist, it is not possible to attain this goal immediately. But we should make a start in that direction in public assistance, as in the social insurances and as unions are doing in the field of wages themselves.

Public assistance grants-in-aid to States should be authorized on a variable basis, related to need and to the State's ability or inability to meet that need. This will make possible some comparability in assistance and in quality of administration among the States. This method has worked successfully in the hospital survey and construction program, the school lunch program, and under the National Mental Health Act. It has been used, in modified form, in the allocation of Federal funds for maternal and child health, for crippled children, for child-welfare services, and for public-health services in the original Social Security Act.

What shall we do about our own displaced persons?

Many persons fall in the cracks between what the experts call the categorical assistance programs. They are not blind, they are not children, they are not mothers of dependent children; they are simply in need.

In many instances, they have moved about the country in search of work; they are not residents of the States in which they find themselves; they do not have money to get back to their place of residence; were they to return, they might find difficulty in getting aid because they have been away for years, in some instances since the beginning of World War II. They are, in effect, our own American displaced persons.

We should provide at least as well for these persons—and there are hundreds of thousands of them—as our Government has provided for the displaced persons of other countries. In saying this, we intend no reflection on what has been done on the international DP problem; we favor amendment to remove the discriminatory features of the present DP law. We are saying that we should also do at home what we advocate and do abroad.

Federal funds and standards needed for public assistance

The last depression showed us that only the Federal Government can meet the cost and set the uniform standards necessary for a general public assistance program that will meet the needs of individuals and serve the welfare, strength, and security of the Nation. Specifically:

1. State "residency" requirements should be eased.
2. Persons not qualifying under existing "categories" but in need should be given public assistance by expanding Federal matching grants to meet all types of need.
3. Matching provisions should be liberalized.
4. Limitations on Federal funds per individual should be adjusted to permit adequate allocation to high-cost areas.
5. Simpler and more liberal definitions of need should be substituted for definitions which, in some States, are used to save money and squander people.
6. Federal standards should promote liberalization and more uniformity in State lien laws.

This committee and Congress can improve the administration of old age assistance programs in the States by raising the Federal law's standards for such administration. Political favoritism can be reduced, if not completely eliminated, by strengthening civil-service requirements. Federal grants-in-aid should be approved not only for cash payments to the needy aged but also for the improvement of State and county facilities for institutional care of the aged.

In making these recommendations, we say again that the best way to deal with the public assistance program is to do away with the need for it and its accompanying means test and administrative difficulties. Build as quickly as possible a universal social-insurance system that will provide adequate protection to the individual against the hazards with which, in our modern society, he cannot cope single-handed. As discussed in section VI, on cost and financing, the cost of meeting human needs must be met one way or another; the best way is to meet it by a comprehensive social-insurance program.

Aid to dependent children should be increased, eligibility broadened

We urge removal of limitations and inequities in the dependent children program by amendment of the Social Security Act to—

1. Take off the present maximum Federal allocation (three-fourths of the first $12 of the State's average monthly payment per child, one-half of the re-

mainder up to $27 for the first child and up to $18 for each additional child i a family). In operation, poorer States have limited their expenditures to matc ing Federal funds; richer States have contributed more than required to mat Federal funds. Result: dependent children in poorer States are handicapped i comparison with dependent children in richer States.

2. Make eligible under Federal and State laws—

Children living with persons other than the relatives now specified in th act;

Children aged 16 and 17 who are not attending school;

Children who are in want because of the parent's unemployment.

Monthly average monthly payments to the blind should be increased; rehabil tation aided

We urge the raising of the present limitation on Federal funds per individua blind person. As in all assistance programs, the budget estimates of need ar obviously too low. The Federal share of cash payments now averages about $2 a month.

As much as anything except the necessities of bare living, blind persons nee and the Federal Government should furnish adequate educational and rehabili tation services that will enable them to provide for themselves.

Under the imperatives of wartime full employment, many of the blind wer trained and placed in productive jobs to the benefit of their own incomes an well-being and a lightening of the assistance load. What we did in war, we shoul have the intelligence and cooperativeness to do in peace.

VIII. CHILDREN'S SERVICES

Current interest in providing more nearly adequate pensions and assistanc for the aged and disabled must not result in neglect of responsibilities for legis lative action to strengthen and improve Federal services to children.

"Children are the hope of tomorrow; children are a symbol of man's immorta faith and hope."

These phrases come easily. But services to make children tomorrow's hopefu do not come easily. Children do not vote, even when they are old enough t fight for their country; children cannot formulate and present their needs i ways that make legislative action easy. To date, in all discussions on th Nation's needs in social security, the group most neglected, with the exceptio of farmers and hired farm labor, has been the children.

The very smallness of the funds needed to provide substantial public socia and medical services for our children perhaps contributes to the general for getfulness.

H. R. 6000 adds only 3.5 million dollars to the 3.5 million dollars appropriate for children under the existing law. This is only for the extension of child welfare services, that is, social services for children who need help with thei personality problems and whose parents need help in meeting the problems of a child whose behavior suggests possible development of a delinquency patter or who is delinquent. Certainly this is a major and urgent need.

But it is not the only children's need.

Provision should be made in this bill for preventive social services for chil dren in need of mental hygiene and other forms of treatment. Such service given now will mean not only happier and more useful lives for such children but also less expenditure tomorrow for custodial care in our penal institution and mental hospitals.

If we are to provide for the adult population who need institutional and hospital care and treatment and if we are to prevent the increase of need for these public services, we will be wise to do two things at once. As we provide for those persons already socially and mentally ill, we will at the same time provide for the children who live under the conditions and have the kinds of problems that make for mental and social illnesses in adults. We urge the Congress to increase the funds for child welfare services from 7 million dollars now in H. R. 6000 to at least 12 million dollars a year.

We urge that authorization for grants to the States under title V for maternal and child health services and for medical and other services for our crippled or otherwise physically handicapped children be increased from the present 18.5 million dollars to at least 50 million dollars a year. This amount should later be increased as personnel and facilities are available. As it stands, H. R. 6000 has no provision for any increase whatever for these services.

Since passage of the Social Security Act in 1935, much has been learned through administrative experience and research about the needs and treatment of maternal and child health problems. In that time, Congress has enacted public health measures of various types to improve services to adults. But only 18.5 mililon dollars, or about 40 cents a year are provided for such services for our 46 million children.

Maternal and child health clinics and services, as integral parts of community health and medical services, should be expanded in every city and in our rural areas. Present grants for these purposes are pitifully inadequate.

Crippled children's services need expansion. Thousands of children are on the waiting lists in the States, denied their best chance of restoration. Lack of funds denies many children new treatments for the mentally and physically handicapped. Every children's hospital in the Nation needs funds to provide care for handicapped children whose parents cannot pay for such care, often long, slow, and expensive even for families of fairly good income. Most hospitals lack specialized staff and facilities for such care.

APPENDIX

A TENTATIVE APPROACH TO AN AMERICAN STANDARD BUDGET FOR AN ELDERLY COUPLE

1. THE INADEQUACIES OF EXISTING BUDGETS

With the passage of the Social Security Act in 1935, the United States as a Nation abandoned, in principle, the notion that those too old to work and too young to die should properly be relegated to dependence on children or charity, or sent over the hill to the poorhouse. We have come a long way, in principle, from the Indian tribes who sent their aged out to die in the "bad lands."

But practice did not conform to principle. Amounts allowed for pensions under the Social Security Act were no more than token acknowledgment of the new responsibility the public had assumed for the aged. As living costs rose while pensions remained frozen, the gap between principle and practice grew even wider and more intolerable.

In order to close that gap, it became necessary to measure it. As a result, recent years have seen a number of attempts to calculate the cost of maintaining elderly couples who have earned the right to retirement by lifetime service as producers.

The budget for an elderly couple

The cost has been computed by setting up quantity budgets of goods and services and pricing the quantities allowed. A number of such budgets were developed on various bases. The quantities in some represented the informed judgment of experts. Others reflected a search for more objective measures. All of them examined preliminary to preparation of this statement, however, came up with results that represented something considerably less than what would be considered a truly American standard of living. They reflected minimum requirements (with "minimum," of course, variously defined) rather than what the typical American citizen would consider a genuinely adequate standard.

It is not our purpose to review all these budgets in detail, although it will be necessary to refer at times to several of them. For purposes of simplifying the presentation, this discussion will take as its starting point the so-called Budget for an Elderly Couple (BFEC),[1] prepared by the Federal Security Administration in cooperation with the Bureau of Labor Statistics. This budget has won more acceptance as a measure of the needs of the elderly than any other thus far issued.

The techniques and concepts developed by the Bureau in the so-called City Worker's Family Budget (CWFB)[2] published in December 1947 were applied in the Budget for an Elderly Couple. It will therefore be necessary first to examine the former.

The City Worker's Family Budget

All attempts to prepare family budgets face many grave difficulties which need not be elaborated here. One of the most serious is determination of the

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[1] Federal Security Agency, Bureau of Research and Statistics, A Budget for an Elderly Couple, Bureau Memorandum No. 67.

[2] U. S. Department of Labor, The City Worker's Family Budget, Monthly Labor Review, February 1948.

level of living which the budget is designed to represent. The City Worker's Family Budget marked a great step forward in that it represented the first attempt to settle on a level of living and to fix the corresponding quantities of goods and service on an objective basis.[3]

Examination of the descriptions of the City Worker's Family Budget written by those responsible for developing it reveals conclusively that it does not by any means represent an American standard of living. It was not, in fact, intended to represent such a standard. It is a minimum standard and not a standard which all Americans can and should have as a matter of right. It is not the kind of standard that American workers would or should be willing to accept in satisfaction of their claims to an equitable share in the fruits of their toil. It is a standard that falls far short of the level of consumption needed to sustain a full employment economy in the United States.

It is true that the phrase "American standard" is used in connection with the budget, but the reference is to "American standard of what is required,"[4] not of what is reasonable and right. According to the official description—

"The budget therefore should represent the *necessary minimum* with respect to items included and their quantities as determined by prevailing standards of what is *needed* for health, efficiency and nurture of children, social participation, and the maintenance of self-respect and the respect of others."[5] [Emphasis supplied.]

It is significant that those who developed the CWFB at one time considered the preparation of two separate budgets.

On September 28, 1945, the Technical Advisory Committee, established to consult with the Bureau of Labor Statistics on the preparation of the budget requested by Congress, adopted a formal motion stating:

"The Committee recommends that the BLS, in addition to preparation and pricing a minimum cost adequate budget, start preliminary work on an estimate of the average quantities of various products and services which constitute the American standard of living and which will be available to families under conditions of full and efficient employment. * * * ."[6]

The idea of an American standard budget provided the occasion for one member of the Committee to propose evisceration of the minimum cost budget. He went so far as to suggest the deletion of radios, an item commonly owned even by the poorest families.[7] As one member of the Committee put it:

"The minimum budget is in danger of being stripped of amenities and comforts because it will be said that these can be put in the 'American' budget, but it is only the minimum budget which will figure in legislation and collective bargaining."[8]

Fearful of this result, the Committee decided to limit its work to the minimum budget. The American standard budget had to be abandoned.

According to the record of the meeting of December 8, 1945:

"Miss Kyrk asked Mr. Myers to comment on his letter to Mr. Hinrichs, in which he raised a question whether the Committee might wish to change its position on some of the decisions reached on the minimum adequate budget (budget A), since the Committee had recommended that the Bureau construct two budgets. Budget B was to be based on standards of living possible under conditions of full and efficient employment. Mr. Myers stated that he considered budget A, as presently constructed, to be higher than minimum adequacy. Mr. Jacobs offered a motion that the Committee advise the Bureau that it had no further interest in budget B, and that any further work done on it would be on the Bureau's own initiative and not on the Committee's recommendation. Mr. Keller seconded the motion and it was carried (Mr. Myers voted against)."[9]

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[3] The food allowances in some earlier budgets were based on more or less objective nutrition standards but the City Worker's Family Budget was the first to seek objective bases for the allowances of items other than food.

[4] U. S. Bureau of Labor Statistics, Bulletin No. 927: Workers' Budgets in the United States: City Families and Single Persons, 1946 and 1947, p. 6.

[5] Ibid.

[6] Draft summary of September 28, 1945, meeting, the Technical Advisory Committee on Standard Budgets, p. 1. The motion was made by Miss Margaret G. Reid of the Department of Agriculture's Bureau of Human Nutrition and Home Economics.

[7] Mr. Howard B. Myers, of the Committee for Economic Development, quoted in memorandum of A. F. Hinrichs, Acting Commissioner of Labor Statistics, to members of Technical Advisory Committee dated October 17, 1945.

[8] Broadus Mitchell, quoted in memorandum from Mr. Hinrichs to committee members dated November 1, 1945.

[9] Summary of December 8, 1945, meeting, Technical Advisory Committee on Standard Budgets, p. 3. Mr. Jacobs, it should be noted, was one of the original proponents of an American standard budget but felt impelled to make his motion in order to protect the minimum cost budget from being stripped of all but subsistence items.

The budget finally prepared represented the concepts of standard budget A which was clearly distinguished in the minds of the Bureau's staff and the members of its Advisory Committee from an American standard budget.

The Committee was quite clear that its budget does not represent an American standard of living. What it actually does represent is made clear in the following series of tentative definitions:

"The least that anyone, in terms of what the economy can provide, ought to be asked to live on, or that the country ought to tolerate anyone living on." [10]

"The Committee has tentatively defined the standard budget as the one necessary to health and efficiency. Hence, it is the least that anyone ought to live on or that the country ought to tolerate anyone living on." [11]

"The Committee has tentatively defined this minimum adequate standard budget as being one providing the minimum adequacy neceessary to health and efficiency, making possible an active participation in the social life of the typical American community. A lower level, therefore, by definition represents inadequacy." [12]

As the Committee visualized it, the City Workers' Family Budget represents a level of living on the borderline of inadequacy. Anything less was regarded as intolerable from both an individual and a social standpoint.

Quantity standards

This view of the budget was directly translated into the quantities of goods and services allowed.

With the exception of food, housing, medical care, and some items of relatively minor monetary importance, the quantity allowances were based on examination of the relationships revealed by surveys of consumer expenditures, between quantities purchased and income. Moving down the income scale, it was found that there was a point where quantities purchased tended to level off. There was a point, in other words, below which even the poorest families would not, if they could possibly help it, reduce their purchases.

It was this point on the income-expenditure scale which the Bureau took as the basis for determination of the quantities allowed in the City Workers' Family Budget. In the Bureau's own words: "The budget must be sets of goods and services regarded as so necessary that families would go into debt or reduce their level of savings to maintain consumption at that level when, for example, prices in general were increased." [13]

Far from representing an American standard of living, it is clear that the quantity allowances in this budget represent what might be called a "last ditch resistance level." Families would tend to strain every resource of credit, charity, and ingenuity to avoid falling below the level represented by the budget.

The phrase "resistance point" was, in fact used by the Commissioner of Labor Statistics in describing the method by which the quantity allowances were determined.

"If the income goes down families economize by buying fewer clothes, shoes, furnishings, etc. This decrease in purchases continues with declining income until a certain point is reached. This we might call the '*resistance point*,' since below this point further decreases in family purchases are not as great as decreases in income. Thus, even with lower income the families keep on trying to buy what they regard as an *essential number* of shoes, dresses, furnishings, etc., although they do try to buy these at lower prices.

"It may be asked how families could continue to make these *minimum* purchases with incomes cut down. The answer is that they *buy on credit*, go *into debt and use up savings.*

"We have selected this point on the scale of buying as our standard for groups of clothing and for most other items in the budget other than food and rent." [14] [Emphasis supplied.]

Quality standards

The "resistance point" was determined in terms of quantities alone, although purchases rise in terms of both quality and quantity in income levels above those which the Bureau took as the basis for determining the allowances in the City Workers' Family Budget. The qualities priced for determining the

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[10] Minutes, meeting of September 24, 1945.
[11] Minutes, meeting of September 25, 1945.
[12] Minutes, meeting of September 28, 1945.
[13] U. S. Bureau of Labor Statistics, Bulletin 927, supra, p. 13.
[14] Statement of Mr. Ewan Clague before Western Subcommittee of the Joint Committee on the Economic Report, December 16, 1947, p. 5.

dollar cost of the budget were "determined by reference to the prices paid by families at the budget level in 1941." [15]

In the case of food, for example, the budget quality standards can, by no stretch of the imagination, be said to conform to the quailty called for by the American standard of living. According to the Commissioner of Labor Statistics:

"About three-fifths of the budget for meats is made up of what is ordinarily fairly low-cost meat—stews, hamburger, frankfurters, and fish, for example. About one-fourth of the meat allowance provides for roast, round steaks, or pork chops which might be classed as medium-priced meats. When it comes to steak, higher priced chops, poultry, and other typically high-cost meats, only 33 pounds a year is provided. This means that *there is just about enough for a turkey or some good cut of meat for Thanksgiving, Christmas, and New Year's Day.*" [Emphasis supplied.] [16]

The scaled-down food allowance provided in the budget for an elderly couple, of course, conforms to the same quality standards as the City Workers' Family Budget. Those who would use the former as the measure of the Nation's obligation to its aged citizens must contend either (*a*) that three good meals a year are consistent with an American standard of living, or (*b*) that retired workers and their wives have no right to live at levels that conform more closely to generally accepted notions of the American standard.

Effects of poor quality

Low quality standards aggravate the consequences of the inadequate quantity allowances provided in both the City Workers' Family Budget and the Budget for an Elderly Couple.

It must be borne in mind that the quantities allowed in the budget for a large range of items (durable and semidurable goods) are essentially replacement quantities intended to maintain the families' inventories of those goods after earlier purchases have worn out. Since quality in such goods is often practically synonymous with durability, poor quality will require more frequent replacement than good quality. Replacement quantity allowances that might be satisfactory if purchases of good quality were permitted, would turn out to be sorely inadequate on the basis of poorer quality.

The size of the allowances in the budget must therefore be gaged not only in terms of the obvious inadequacy of the quantities provided, but also in the light of the probability that deficiencies in quality will necessitate relatively frequent replacement. The fact that the quality standards provided in these budgets approximate the cheapest levels is indisputable. The former Acting Commissioner of Labor Statistics has noted that: "Below this (the budget) levels * * * people find it harder and harder to economize, being unable to shift extensively to cheaper commodities and therefore forced to do without." [17]

The city worker's family budget and actual levels of living

The levels of well-being at which American families actually live are, of course, limited by their incomes. The average level of living in the Nation is, in turn, influenced by the millions of families living at poverty levels. The influence of these families upon the average is not wholly offset by the countervailing influence of the relatively small number of families who live in luxury or in the upper ranges of the comfort scale.[18]

It is relevant, therefore, to test the level of living represented by the city workers' family budget for conformity to the American standard of living by comparing that budget with the actual incomes and expenditures of American consumers.

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[15] U. S. Bureau of Labor Statistics, Bulletin 927, supra, p. 19.

[16] Statement of Mr. Clague, supra, p. 3.

[17] U. S. Bureau of Labor Statistics, Bull. 927, supra, p. 1.

[18] It may be argued that this fact makes any standard higher than current or recent average consumption an unrealistic one. That argument is false because it overlooks a number of important factors. Consumption in the postwar period has been limited by diversion of an abnormally high proportion of our economic resources to military purposes and to investment at a rate which we cannot expect to sustain for any prolonged period. Indeed, investment is already declining sharply. With less spending for military purposes and with investment proceeding at a rate that could be maintained on a stable basis, total (and therefore average) consumption could be raised sharply. Moreover, postwar investment has been maldirected in important degree neglecting some of the bottlenecks that impede the raising of consumption levels. The very limited expansion of steel capacity is an example. With this and similar monopolistic hindrances removed, with resources development work such as the proposed Missouri, Columbia, and Central Valley developments, and with the various other proposals often made to improve the efficiency of the economy, there is no doubt but that average consumption could be raised substantially and quickly. There is room for considerable improvement even within the limitations imposed by the present military program.

By this test also, it is apparent that the CWFB and the related budget for an elderly couple fall far short of the American standard.

Comparison for three cities

The Bureau of Labor Statistics, from time to time, makes detailed studies of consumer income and expenditures in various cities. Its most recently published study of this type is for the year 1948 and for the cities of Detroit, Denver, and Houston. The report on this latest study, unlike the earlier ones, shows income and expenditure data by family size thus making possible direct comparison between the allowances provided for four-person families in the city workers' budget and the actual incomes and expenditures of families of that size.

The data show with startling clarity that the CWFB represents a level of living suffered only by a depressed minority of our population. It is not only far below the American standard but significantly lower than average consumption.

The cost of the budget level of living in the three cities is from 25 to 32 percent below the actual average incomes of four-person families in the same cities.[19]

Only a fifth to a fourth of all such families had incomes which would require living below that level.

Comparison of incomes of 4-person families with cost of city workers' family budget, Detroit, Denver, and Houston, 1948

	Cost of CWFB [1]	Average income of 4-person families [2]	Percent budget cost below average income	Percent of families with income lower than budget cost [3]
Detroit	$3,335	$4,442	24 9	23 7
Denver	3,189	4,714	32.4	18 0
Houston	3,036	4,245	28 5	28 4

[1] Average of monthly or quarterly estimates made by Bureau of National Affairs and published in its Daily Labor Report. While the method used to make these estimates is open to question, it is the same method recommended by the Federal Security Agency, Bureau of Research and Statistics, in A Budget for an Elderly Couple, Bureau Memorandum No 67, pp. 18-20.

[2] U. S. Bureau of Labor Statistics, Monthly Labor Review, December 1949, p. 633. The averages include only families with incomes below $10,000.

[3] Taken from cumulative curve plotted on basis of data in Monthly Labor Review, December 1949, p 630.

The bulk of the four-person city families living below the budget level, of course, are families headed by industrial workers. It is significant that Denver, where the proportion of industrial workers to total population is relatively small,[20] also shows the smallest percentage of families below the budget level.

This is to be expected, since the budget was designed to find the cost of "minimum adequacy" for a worker's family and all too many workers still live below that level.

However, no one will contend that there is more than one American standard—one for workers and others for more favored groups in the population. Living by industrial work may necessitate some variations in expenses from those incurred by other groups—e. g., the purchase of work clothing. But, aside from these occupationally related differences, there is but one American standard to which all families may legitimately aspire as a minimum regardless of their function in the productive process.

Expenditure studies emphasize inadequacies of BFEC

In the section II of this statement it is suggested that a truly American standard of living for an elderly couple might cost from $2,475 to $2,650 per year.

The expenditure studies indicate that this rough estimate may be unduly conservative. In fact, the studies point to the probability that a higher income may be necessary to an elderly couple simply in order to maintain themselves at the level of living actually achieved by the average family during the working years of its breadwinner.

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[19] The averages include only families with incomes below $10,000.

[20] The number of production workers in Detroit manufacturing establishments shown in the 1947 Census of Manufactures equaled 10.4 percent of the city's total population in that year as estimated by the Census Bureau. The corresponding proportion for Denver was 5.1 percent. No official 1947 population estimate was found for Houston.

Incomes of four-person families may be used as the basis for estimating th average achieved standard, since almost half of all families pass through th four-member stage at one time or another.[21]

As of the year 1948, such families in Detroit had average incomes of $4,442, a shown above.

It has been found that two-person families require 65 or 66 percent as muc income as four-person families in order to maintain the same standard of living Applying this percentage to 1948 incomes of four-person Detroit families, would therefore appear that a couple would have needed about $2,900 per yea to maintain the average standard of living actually prevailing in Detro in that year.

Even after allowance is made for the lesser needs of an elderly couple i some categories of consumption (e. g., expenditures related to work, additiona food consumed by persons engaged in work, etc.) it is probable that considerabl more than $2,650 per year would be needed to enable an elderly couple to liv at existing average standards.

More, of course, would be needed to meet the American standard of livin

The CWFB is below average consumer expenditures

Starting again from the premise that average consumption falls short of th American standard, the CWFB may also be tested by comparing its allowance with the amounts of various goods and services actually purchased by the ave age American consumer.

The Commissioner of Labor Statistics emphasized the inadequacies of th CWFB from this standpoint in his presentation of the food allowances for four-person family.

"You will realize that this is, in fact, a fairly modest food budget, when I te you that it provides for 6 loaves of bread a week for the family, 12 quarts o milk, or about 3 per person per week, about 20 eggs a week, and about a poun and a half of butter or margarine. *These quantities are below the average pe capita consumption for the United States as a whole.*

"When it comes to meat, these families can buy about 9 pounds of all kinds o meat per week or a little over 2 pounds per person. *This is about two-thirds o the average per capita consumption of meat in the United States* in 1946, whic was 185 pounds." [Italics supplied.] [23]

The food allowances in the BEFC are, of course, on the same level as those i the CWFB.

It is worth more than passing note that families living on the food allowance described can hardly be considered as contributing their share to the prosperit of our agricultural population.

The BFEC is below average consumer expenditures

The budget for a elderly couple may also be compared, category by categor with the average per capita expenditures of American consumers in general a shown by Department of Commerce data.[24]

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[21] U. S. Bureau of Labor Statistics, Bull. 927, supra, foreword, p. iii.
[22] Ibid., p. 51.
[23] Statement of Mr. Clague, supra, p. 3.
[24] Similar comparisons between average consumer spending and the actual consumptio of farm families are made in U. S. Department of Agriculture Miscellaneous Publication N 653, How Families Use Their Incomes. (See for example, charts on pp. 30, 41, and 4 and related tables following p. 53.) The comparisons are subject to some degree of erro because the Department of Commerce treats differently expenditures made directly b individuals and those made through nonprofit institutions.

Per capital consumption expenditure by categories, United States 1947 compared with per person dollar allowances in budget for an elderly couple, Detroit, June 1947

Consumption category	Per capita expenditure [1]	Budget allowance per person [2]	Budget allowance as percent of per capita expenditure
Food	$462	$270	76
Housing and household operation (including house furnishings)	258	328	127.1
Clothing	159	52	32.7
Medical care	53	57	107.6
Transportation	109	27	24.8
Recreation	68	36	52.9
Personal care	16	17	106.3
Tobacco	27	11	40.7
Religious and welfare activities, gifts	[3] 11	[3] 24	(4)
Subtotal	1,103	822	74.5
Private education and research	8	(5)	----
Personal business	43	(5)	----
Foreign travel	5	(5)	----
Total	1,159	822	70.9

[1] U. S. Department of Commerce, Survey of Current Business, July 1949, pp. 23-24, for total personal consumption expenditures in each category which were divided by population estimate for July 1, 1947 (144,024,000) given in U. S. Census Bureau Release Series P-25, No. 34, Dec. 23, 1949.

[2] Federal Security Agency, Social Security Administration, Division of Research and Statistics, release Leader Cost of Budget for an Elderly Couple in Selected Cities, May 16, 1949, p. 3. Figures for Detroit were divided by 2 to obtain per person allowances.

[3] The budget allows $48 to the couple for "gifts and contributions" without separating the amounts allowed for each. The personal consumption expenditure data category "religious and welfare activities" corresponds to the "contributions" component of the budget allowance but expenditures for "gifts" would be scattered through several of the other categories.

[4] Not comparable.

[5] The budget provides no allowances for any of these categories.

It appears from the table that the BFEC allows but 75 percent of the average per capita expenditures of all consumers for the combined list of categories directly compared, and 71 percent of the per capita average for all consumer expenditures.[25]

It should be noted that, in computing per capita expenditures, children are given equal weight with adults, despite the fact that by and large the consumption of the former is lower. For example, per capita expenditures for tobacco would be considerably higher if total expenditures had been divided by adults only rather than by the entire population. Were it possible to adjust the per capita expenditure figures in terms of adult-equivalents, the gaps between the budget allowances and average consumption would be somewhat greater in many of the categories.

On the other hand, account must also be taken of the fact that the elderly couple would have less need for some of the items included in the various categories than would younger persons. For example, assuming the elderly couple is retired, there would be little need for the purchase of work clothing (the BFEC, however, does allow overalls for the man). For this reason we have omitted entirely expenditures for education and personal business.

While it has not been possible to segregate out from each category expenditures for those items not likely to be purchased by the aged, it can nevertheless be stated with assurance that, on balance, the table understates rather than overstates the gap between the budget allowances and average per capita purchases by adults.

Medical care, housing, and personal care costs

Medical care, housing, and personal care are the only categories shown in the table for which the budget allowances approximate or exceed average per capita consumption expenditures. There are several fairly obvious reasons for these exceptions to the general situation.

[25] The budget allows $24 per capita for gifts and contributions. The Department of Commerce category "religious and welfare" activities shows per capita expenditures of $11. Assuming the couple contributed at the Department of Commerce rate, there would be $13 a year available to each for gifts. This sum cannot be ditributed among the various consumption categories shown in the table.

The medical care allowance in the budget, inadequate though it is, was developed on the basis of substantially more generous criteria than were used elsewhere in the budget.[26] The need for medical attention is considerably greater among the aged than among younger people. Thirdly, the medical care expenditures shown by the Department of Commerce do not by any means account for the total outlay for such services on behalf of the population as a whole.

Aside from direct consumer outlays for medical services and supplies, millions of our citizens rely on public institutions in whole or in part for their medical care needs. According to the Hoover Commission, the Federal Government alone, "is attempting to give varying degrees of direct medical care to 24,000,000 beneficiaries—about one-sixth of the Nation." [27] As of 1946, Government hospitals (State and local as well as Federal) accounted for almost three-fourths of all hospital beds and for more than three-fourths of the average number of persons in hospitals during the year.[28]

While services of certain publicly financed institutions are, of course, available to the aged on a means test or charity basis, no budget can be considered adequate which would require resort to charity.[29] Similarly the fact that some of the aged have access to the public institutions as a matter of right, does not help the others to meet the cost of required medical and hospital services.

The reasons for a budget housing allowance in excess of per capita expenditures are somewhat similar to those affecting the medical care comparison. The budget housing standards, like those for medical care, were determined on the basis of criteria more liberal than those applied to most of the other budget categories.[30] Secondly, housing expenditures on a national scale are influenced downward by the fact that on a per capita basis the rental value of farm houses is little more than one-third as great as that of nonfarm dwellings.[31] Thirdly, housing costs vary more from one community to another than the cost of any other single major category of consumer expenditures and Detroit, the city selected for comparison, is a relatively high-rent city.[32]

The close correspondence between per capita personal care expenditures and the budget allowance in this category is undoubtedly due in important part to the fact that, in computing the former, no adjustment was made for the relatively smaller consumption of children as compared with adults. For example, toilet articles and preparations, which account for approximately half of all personal care expenditures,[33] undoubtedly consist in large part of cosmetics rather than of absolutely essential cleaning items of the kind allowed in the BEFC. Very young girls, obviously, consume smaller quantities of cosmetics than adult women including elderly women. The same is true of beauty parlor services which account for more than a fourth of total expenditures for personal care.[34]

Rest of budget short of average by from 47 to 75 percent

For all categories other than medical care, housing and personal care, the BFEC dollar allowances fall short of average per capita expenditures by from 47 to 75 percent.

In the case of such an essential as food, the budget allowance is 33 percent lower than average expenditures. The clothing allowance is less than a third as great as the average amount spent; transportation, a fourth; tobacco, less than half, even though no adjustment is made for nonconsumption by children

The budget allowance for recreation, which should be expected to take into the account the exceptional needs of a couple whose time is no longer occupied with work, is actually little more than half of average per capita expenditures.

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[26] Federal Security Agency, Bureau Memorandum No. 67, p. 8.

[27] Committee on Organization of the Executive Branch of the Government, Medical Activities, a report to the Congress, March 1949, p. 3.

[28] U. S. Department of Commerce, Statistical Abstract of the United States, 1948, p. 84.

[29] An adequate national medical-care program would meet the needs of the aged as well as of the rest of the population. Until such a program is in effect, however, budgeting for living standards above the charity level must take realistic account of the actual cost of medical care.

[30] FSA, Bureau Memorandum No. 67, supra, pp. 2, 3, and 5.

[31] U. S. Department of Commerce, Survey of Current Business, July 1949, p. 23, for rental value figure and Census farm and nonfarm population data from Statistical Abstract of the United States, 1948, p. 15.

[32] Out of the 34 cities priced for the CWFB, however, 13 show higher housing costs than Detroit (Bull. 927, supra, p. 23). If Congress were to support the Senate Appropriation Committee's judgment that rent controls should be ended now, rents would rise sharply and inflict added hardships on aged persons, no less than others.

[33] U. S. Department of Commerce, Survey of Current Business, July 1949, p. 23.

[34] Ibid.

Conclusion—BFEC is far below acceptable standard

It thus clearly appears that the BFEC level of living is far below actual present average living levels, low though that average is as a result of the inadequate incomes of substantial segments of our population.

No budget representing a level of living lower than the average actually prevailing in the United States can be considered as even approaching an acceptable American standard. The BFEC must therefore be rejected as a measure of America's obligation to its aged workers.

2. THE BFEC AND FULL EMPLOYMENT

There is yet another compelling reason why the budget for an elderly couple must be rejected as a measure of the pensions which America should provide. If we are to have a full employment, full production economy, the aged, too, must be able to make their full contribution to consumer spending. Our currently growing problem of unemployment is witness to the fact that current average consumption is far less than what we need to sustain such an economy. And the budget for an elderly couple represents a level of living far lower than the average.

Pensions geared to that budget would not presently enable the aged to make their full contribution to the maintenance of prosperity. When measured by the needs of the future—and it must be borne in mind that when we consider pensions we plan far into the future—it falls even further short of the needs of the economy. The Council of Economic Advisers estimates, for example, that an increase of 8 percent in per capita food consumption is required by 1954 if we are to have a prosperous farm population.[35] Yet the budget for an elderly couple allows the aged to consume 33 percent less than 1947 average consumption, measured in dollar terms.

The same essential point is valid for the rest of the economy. The Council of Economic Advisers has estimated that total consumption must be raised somewhere between 18 and 26 percent by 1954 to sustain full employment.[36] In per capita terms, this means raising the present average by 13 to 21 percent.[37] Pensions based on the budget for an elderly couple would be woefully inadequate measured against this need for increased consumption.[38]

No matter what the test of an American standard of living, it is apparent that the budget for an elderly couple does not provide such a standard. Those who would use that budget as a measure of pension needs must therefore assume the burden of proving that the retired worker is not entitled to live at the American standard. Everyone reluctant to take on that difficult and unpleasant task must seek another more generous measure of the needs of the aged.

As a result of the maneuvering described in part II and earlier in this appendix there is at present no such measure. An American standard family budget which could have been adapted for an elderly couple, as was the city workers' family budget, was never developed by the Bureau of Labor Statistics.

3. THE ADJUSTMENTS MADE—WHY AND HOW

It is not the purpose of this memorandum to set forth an American standard. The research resources of the trade-union movement are at present totally inadequate for such an endeavor. It took the Bureau of Labor Statistics, with the largest staff available for the purpose anywhere in the Nation, more than $2\frac{1}{2}$ years to work up the city workers' family budget. No trade-union research staff could hope to complete a comparable task in several times the period required by the Bureau.

The purpose of this study was much less ambitious. It was proposed simply to assemble from available authoritative data a more generous scale of quantity allowances to be presented, on a highly tentative basis, as approaching, more

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[35] Council of Economic Advisers, Annual Economic Review, January 1950, p. 85.
[36] Ibid., p. 108.
[37] Ibid., and U. S. Department of Commerce, Census Bureau Releases, Series P–25, Nos. 18 and 27.
[38] Under the best of circumstances, the nature of averages makes it certain that some will consume less than the average. However, from a social standpoint, it is imperative that the average be raised from present levels by improving the living standards of those now consuming substantially less than the average. This means that the subaverage groups must be raised much more sharply percentagewise than the projected rise in the over-all average. As a group, the aged fit into the subaverage category.

nearly than the budget for an elderly couple, the requisites of an American standard of living for the aged.

Because the problems of budget making are so complicated and controversial, the tentative standard developed here is based in its entirety on accepted authority.

The major objective was to find, within the limited time and resources available, a sound basis for allowances more consistent with an American standard of living than those provided in the BFEC. For this purpose, budgets from many other sources, public and private, were assembled. The complete budgets and the various major components like food, clothing, etc., were rigorously examined. While quite a few were found that provided substantially more liberal quantities than the BFEC, it was difficult, in practically all cases, to determine the basis upon which the item by item allowances had been set.

It was decided not to use any budget or any component of a budget unless it was unquestionably both authoritative and reasonable. They were considered authoritative only if: (1) they were compiled by agencies or individuals generally acknowledged as authorities in the field; and/or (2) they were used by responsible agencies, public or private, for administrative purposes involving the expenditure of funds. Data which passed the foregoing tests were then analyzed in detail to make sure (1) that the quantities allowed for any item were in no sense excessive, and (2) that the separate quantity allowances appeared to be in balanced relation to each other.

A number of budgets were found that were both considerably more liberal in their allowances and authoritative. In some cases this greater liberality extended to all or practically all major categories; in other cases only some of the major components were more generous than the BFEC allowances.

Certain of these budgets are used as the basis of calculation of payments to the clients of public-relief agencies. It was felt that it was dangerous to use these. In every community, reactionary organizations are ever on the watch for opportunities and excuses to depress still further the miserably low payments made to the helpless clients of the public-welfare agencies. Attracting attention to relief payments better than the allowances of the BFEC might furnish the occasion for new drives for economy at the expense of those who can least afford it. It was decided therefore not to base any revision on public-relief allowances even where the latter were substantially greater than those in the BFEC.

The item allowances provided in the remaining budgets, when compared against each other, revealed a picture of such confusion as to raise questions about the validity of all of them, though not about parts of some of them.

The revisions in general

In the final analysis it was found possible to revise with assurance only the food, medical care, and transportation categories and the dollar allowance for gifts and contributions which was computed, as in the BFEC, as a percentage of the total cost of all the other items. (The details of the adjustments appear in later sections.)

The food allowances were taken bodily from the Department of Agriculture's moderate-cost food plan. This plan does not purport to represent an American standard of living. Neither can the revised medical care and transportation allowances be considered high enough to be consistent with such a standard. The remaining categories were taken intact from the BFEC which is admittedly a budget designed to include only the "necessary minimum."

Obviously, therefore, the final result of the revision falls short of an American standard, although by a lesser degree than does the BFEC.

Since this is true for all components, it is not particularly important that the allowances for the separate broad categories may, to some degree, be unbalanced as among themselves (i. e., that, given incomes equal to the cost of the budget, elderly couples might, for example, devote more than is allowed here here to clothing and less to food).[39] This problem would become significant only if it could be demonstrated that allowances in one or more of the categories are excessive. In the absence of such a demonstration, the fact that the typical couple with an income equal to the total cost of the budget would spend more on clothing and less on food than the budget allows would indicate only that the clothing allowances were more seriously deficient than the allowance for food—

[39] In this respect, the revised budget, like the BFEC, may may be said to be "a composite of average rates of spending at different income levels." Memorandum No. 67, supra, p. 12.

that the need for more clothing was more urgent than the need for more or better food.

Pricing

Once quantity allowances had been determined, it became necessary to price the quantities to arrive at cost. Properly, in line with the basic objective, prices should have been obtained for goods of a quality consistent with maintenance of an American standard of living. It has previously been noted that quality rises as well as quantity in the higher-income levels. In fact, improvement in quality tends to become more important than quantitative increases in higher-income brackets, as the Bureau of Labor Statistics noted in connection with the CWFB:

"The quantities of goods and services purchased in each of the other consumption categories—clothing, household furnishings and equipment, transportation, recreation, medical care, and miscellaneous—increase systematically from the lowest-income bracket to the highest. At the lower end of this scale of purchases the differences between the successive levels are primarily in quantity, the housewife buys more dresses and the husband more suits; at the upper end of the scale the differences are primarily in quality, wives and husbands buy more expensive dresses and more expensive suits." [40]

Inadequate resources made it impossible to determine the appropriate quality standards and to price goods conforming to them. It was necessary, therefore, to fall back on prices for goods of lower quality than is contemplated by the objectives of the budget. This, obviously, resulted in understatement of the cost of the budget—a budget which, to begin with, understated the quantities required for an American standard of living.

Thus there is a double bias on the conservative side.

Mainly BLS prices

In pricing the budget, as in developing the quantity allowances, every effort was made to secure the most authoritative and reliable data obtainable. In the main, the prices used were those collected by the Bureau of Labor Statistics in connection with its Consumers' Price Index. The level of quality represented by these prices is made clear by the official explanation of the index.

"The choice of quality of articles to be priced was made on the basis of the articles most frequently purchased by families in the wage-earner and clerical group." [41]

"The incomes of the group covered by the index ranged from $500 up, and averaged $1,524" in the years 1934–36.[42] The families included in computing the income of $1,524—the equivalent of roughly $2,600 in 1950 prices—numbered 3.6 persons, on the average. It is apparent that the qualities purchased by such families must have left much to be desired. This is evident from the example provided by the Bureau of the prices paid by these families for men's heavy wool suits. In 1934–36, more than five out of eight purchases of such suits by these families (63.7 percent, to be exact) involved suits selling for less than $27.50. Just about a third—33.2 percent—involved suits selling for less than $22.50.[43]

Conditions under which other than BLS prices used

The prices obtained by the Bureau for its index do not cover the full range of items represented either in the budget presented here or in the budget for an elderly couple. It was therefore necessary to obtain certain prices from other sources. For some items for which there is only a single seller (e. g., telephone and utility service, Blue Cross and Blue Shield) the price was obtained directly from that seller. Prices of most other items were obtained from authoritative public or private agencies. Certain food prices collected by a private organization were used only after a check was made for comparability of its prices with Bureau prices for such items as were priced by both. It was found that there was a high correspondence between the two sets of prices.

In the case of a few items, no authoritative up-to-date price was available from any source. For such items, the latest authoritative price obtainable was brought up to date by adjusting it by the percentage change in the price of the item in the Consumers' Price Index to which the Bureau "imputes" (assigns the weight of) the price changes of the unpriced item.

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[40] U. S. Bureau of Labor Statistics, Bull. 927, supra, p. 13.
[41] U. S. Bureau of Labor Statistics, Bull. 699, Changes in Cost of Living in Large Cities in the United States, 1913–41, p. 7.
[42] Ibid., p. 3.
[43] Ibid., p. 7.

In most cases the "imputation" process involved applying to a June 1947 pric obtained by the Bureau the percentage change between June 1947 and Novembe 1949 in the Bureau's prices for the related item or items. In a number of case it was found that the Bureau's specifications for the related items had change so that this process was impossible. In those cases the Bureau's national index for the related item or items was used. Since item indexes are published onl quarterly, it was necessary to use the December 1949 index numbers for suc items rather than a November figure.

In some instances, particularly those involving seasonal merchandise or item for which the Bureau's specifications have changed, no June 1947 index numbe was available. Where possible, the last preceding and first subsequent figure were averaged to obtain an estimated June 1947 index number. Where no figur for any month prior to June 1947 was available, the September 1947 index numbe was used as the basis for imputation. Use of the September 1947 index probabl results in understatement of the cost of the budget in November 1949 since ther were significant increases in all major categories of the CPI between June an September 1947.

By and large, the specifications of items priced for the budget for an elderl couple were found to be identical with the specifications of items priced for th Consumers' Price Index. However, substitute specifications had come into us for some items since the last official pricing of the budget for an elderly coupl in June 1947. The price of the currently used CPI item was used in such cases This meant prices higher than those for goods conforming to the old specificatio in some instances, and lower prices in others. All the specifications, howeve presumably are within the range of quality purchased by families of the typ whose expenditures are represented by the CPI (average income of $1,524 i the years 1934–36).

Since the Bureau will not permit the publication of average prices for individua items other than foods, it has been necessary to show total costs for categorie of individual items. (Detailed prices will be released if and when the Burea of Labor Statistics permits.) Wherever possible, however, individual item price are given. Prices, in all cases, represent costs in Detroit as of November 194 except where use of the item index numbers for imputation purposes yield estimates of December 1949 prices.

The cost of the budget was calculated only for Detroit because it was im possible with limited time and staff to compute the cost for more than one city Detroit was selected, first, because it is the city where UAW-CIO membership i most highly concentrated and, secondly, because it is a fairly typical industria city whose costs are not out of line with other similar cities.[45]

Cost of the revised budget

The cost of the basic budget came to $2,089.49 in Detroit as of November 1949 distributed among the major categories as follows:

Total	$2,089.49
Food, total	758.46
Family food at home	686.40
Guest meals served	39.81
Meals purchased (net additional cost)	32.25
Housing, total	723.81
Rent, heat, and utilities	570.60
Household operations	106.87
Household furnishings	46.34
Clothing, total	115.4
Man	59.6
Woman	55.8
Other, total	491.8
Medical care	183.3
Personal care	37.8
Recreation and reading	75.5
Tobacco	24.7
Transportation	113.4
Gifts and contributions	60.8

No savings allowed

It should be noted that the revised budget, like the BFEC, makes no allowanc for savings although there are at least two important contingencies against

[44] Published in indexes of retail prices of apparel, house furnishings, and services an miscellaneous goods to moderate income families in large cities of the United States (vari ous dates).

[45] In June 1947 the cost of the CWFB was within 5 percent of the Detroit cost in all bu 5 of the 34 cities in which the budget was priced.

which no provision is made in either budget. The first is the likelihood, especially strong among the aged, that one or both members of the couple may suffer serious illness involving costs not covered by the Blue Cross and Blue Shield plans, membership in which is allowed under the revised budget. The second, is the probability that the wife will survive her husband by a number of years. As noted in the main body of this statement, the OASI benefit currently provided the surviving aged widow will not enable her to maintain the standard of living possible for the couple on the basis of the combined primary plus aged wife's pension.

Provision against these contingencies would add very substantially to the total cost of the budget and it is doubtful whether adequate provision could be made in any case sufficient to meet the cost of serious illness for those couples actually faced with such costs.

It is our position that it would be preferable by far to deal with these contingencies by other means. The cost of illness should be covered by a comprehensive national medical-care program, in which case the entire medical component could be dropped out of the budget. The needs of the surviving widow should be met by increasing the ratio of her benefit from the present 50 percent of the aged couple's combined benefit to at least 66 percent.

Until these things are done, however, aged couples will be under strong pressure to save out of their pensions so that even pension payments geared to the current cost of an American standard of living will not, in practice, yield such a standard to the recipients.

4. THE BUDGET QUANTITIES

The food budget

The revised budget provides an annual allowance for food for an elderly couple in Detroit of $758.46 at November 1949 prices, consisting of the following:

Allowance for food at home	$686.40
Net additional allowance for food purchased away from home	32.25
Guest meals served	39.81
Total allowance for food	758.46

The food quantities, and the cost of purchasing them

Instead of the food quantities contained in the BFEC, the quantities allowed in this revised budget are those recommended by the United States Department of Agriculture for the planning of food budgets at moderate cost.[46] The items needed for this food plan, the respective quantities required for a man and a woman each over 60, and the cost of these foods in Detroit are shown in table A–1.

TABLE A–1.—*Cost of weekly allowance for food at home for an elderly couple, Detroit, November 1949*

Food item [1]	Unit [1]	Quantity			Cost per equivalent unit [2]	Cost of food item
		Man [1]	Woman [1]	Total		
Cereals and bakery products	Pounds	2.500	1.7500	4.2500	$0.2377	$1.010
Dairy products	Quarts	5.500	5.5000	11.0000	.1882	2.070
Meats	Pounds	2.750	2.5000	5.2500	.6328	3.322
Eggs	Dozens	.500	.5000	1.0000	.7060	.706
Potatoes and sweetpotatoes	Pounds	2.750	2.0000	4.7500	.0602	.286
Dried beans, peas, nuts	do	.125	.0625	.1875	.1900	.037
Tomatoes, citrus fruits	do	2.750	2.7500	5.5000	.1171	.644
Leafy, green and yellow vegetables	do	3.500	3.5000	7.0000	.1675	1.173
Other vegetables and fruits	do	3.000	3.0000	6.0000	.1240	.744
Fats and oils	do	.750	.5000	1.2500	.4358	.545
Sugar and sweets	do	.750	.6250	1.3750	.1257	.173
Accessories:						
Beverages	do	.350	.3500	.7000	.2092	.146
Other accessories	Dollars	.071	.0710	.1420		.142
Total cost per week						11.00
Adjusted for 2-person families [3]						13.20
Annual cost						686.40

[1] U. S. Department of Agriculture, Helping Families Plan Food Budgets, Miscellaneous Publication No. 662, December 1948.

[2] See table A–III, Computation of Cost of Food Budget at Detroit Prices, November 1949. Cost per equivalent unit is the weighted cost of 1 pound, or quart, or dozen of the individual food items that make up the allowances within a particular food category.

[3] See text for explanation of this adjustment.

[46] U. S. Department of Agriculture, Miscellaneous Publication No. 662 Helping Families Plan Food Budgets.

The Department of Agriculture food plans

To help families plan their food purchases so that the nutritional needs of the family may be adequately met, the United States Department of Agriculture has prepared two lists of foods which meet the dietary requirements established by the food and nutrition board of the National Research Council.[47] One of these lists of foods makes possible meeting the family's nutritional needs at low cost; the other list provides the same nutritional content in a more attractive diet at a somewhat higher, though "moderate," cost. The food quantities contained in these lists have been modified by the Department to make it possible to plan nutritious meals for people in different age groups, and to meet the varied needs of people engaged in greater or lesser activity.

In describing these food plans, the Department of Agriculture says: "The average quantities of food in each group purchased by low-income families—as shown by dietary studies—were used as a starting point * * * These quantities were checked for nutritional adequacy * * * the quantities were adjusted to allow more milk, cereals, dry beans, and peas, and potatoes. The leafy, green, and yellow vegetables and citrus fruits and tomatoes were increased. Other vegetables and fruits, meats, and eggs were reduced."[48]

"For the moderate-cost plan, *the amounts purchased by families having an income approximating the average family income for the United States was used* * * * Only slight adjustments were made for the moderate cost plan—chiefly an increase in milk and vegetables other than potatoes." [Emphasis supplied.][49]

Both food plans were then modified to fit the needs of individuals differing in age, sex, and activity.

Why the moderate-cost food plan was selected for this budget

In preparing this budget, there were thus three food plans to be considered—the food allowances set forth in the budget for an elderly couple, the low-cost-food plan of the Department of Agriculture, and the moderate-cost food plan of the Department. The moderate-cost food plan was chosen because the other two, closely similar in cost, are clearly plans of the kind used to compute food allotments to the clients of welfare agencies. The latter have no place in an American standard budget.

A comparison between the food quantities allowed in the budget for an elderly couple and those allowed by the Department of Agriculture at the two levels of cost is contained in Table A–2 which follows.

TABLE A–2.—*Food quantities allowed per year in the budget for an elderly couple, compared with quantities allowed in Department of Agriculture food plans at 2 levels of cost*

Food items	Unit	Budget for elderly couple	Department of Agriculture		Difference	
			Low cost	Moderate cost	Column 2 less column 1	Column 3 less column 1
		(1)	(2)	(3)	(4)	(5)
Cereals and bakery products	Pounds	336.3	286.0	221.0	−50.3	−115.3
Dairy products	Quarts	416.0	520.0	572.0	+104.0	+156.0
Meats	Pounds	208.0	208.0	273.0	.....	+65.0
Eggs	Dozens	43.3	34.7	52.0	−8.6	+8.7
Potatoes and sweetpotatoes	Pounds	268.4	299.0	247.0	+30.6	−21.4

[47] The following description of the make-up and program of the National Research Council is quoted from the presentation of the city worker's family budget, Monthly Labor Review, February 1948, p. 141: "This Council was established in 1916 by the National Academy of Sciences to assist the Government in organizing the scientific resources of the country. Its membership is composed of about 220 representatives of scientific and technical societies, research organizations, Government scientific bureaus, and a few members at large. It has eight major divisions, one of which is the Division of Biology and Agriculture. The Food and Nutrition Board is one of the technical groups established within this Division. Its work is carried on through committees assigned to special subjects. The Committee on Dietary Allowances, composed of scientists with special competence in the field of human nutrition, was set up to review and evaluate all available evidences and to formulate nutrient allowances for use in evaluating foods consumed by persons and families and in planning adequate diets. The first recommended allowances were issued in 1941; they were revised in 1945, and will undergo further revision as needed."

[48] Department of Agriculture, Miscellaneous Publication No. 662, supra, pp. 3–4.

[49] Ibid.

TABLE A–2.—*Food quantities allowed per year in the budget for an elderly couple, compared with quantities allowed in Department of Agriculture food plans at 2 levels of cost*—Continued

Food items	Unit	Budget for elderly couple	Department of Agriculture		Difference	
			Low cost	Moderate cost	Column 2 less column 1	Column 3 less column 1
		(1)	(2)	(3)	(4)	(5)
Dried peas and beans and nuts	Pounds	10.7	13.0	9 75	+2.3	−1.0
Tomatoes, citrus fruits	do	226 6	234.0	286 0	+7 4	+59 4
Leafy green and yellow vegetables	do	232.0	260 0	[1] 364 0	−28 0	+132.0
Other fruits and vegetables	do	316 0	182.0	[1] 312 0	−134 0	−4 0
Fats and oils	do	81 3	58 5	65 0	−22.8	−16 3
Sugar and sweets	do	89 2	58 5	71.5	−30 7	−17 7
Accessories:						
Beverages	do	44 5	15.6	44 0	−28 9	−4 5
Condiments		$2 00	$4. 16	$7. 28		
Other miscellaneous	Pounds	3 4				

[1] Tabulation by U. S. Department of Agriculture, BHNHE; supplied by letter of Mar. 2, 1950.

The table shows that both of the Department of Agriculture plans provide less cereals, less fats and oils, less sweets than the BFEC.[50] The Department allowances, however, emphasize citrus fruits and tomatoes and milk and other dairy products at both levels of cost. In the moderate-cost food allowance, there is greater allowance of vegetables and fruits than in the BFEC, with a sharp decrease in the allowance for potatoes and for cereal products.

Thus, in the moderate-cost food plan, the family is allowed about 156 quarts more of milk and its food equivalents. An outstanding improvement in this food plan as compared with the BFEC is the addition of about 59½ pounds more of citrus fruits and tomatoes and about 128 pounds more of other fruits and vegetables. However, the moderate-cost plan allows for 115 pounds less of flour and cereal products and 21½ pounds less of potatoes and sweetpotatoes. It provides, also, for smaller purchases of fats and oils and of sugar and other sweets.

The BFEC food allowance is at the relief level

That the low-cost food plan is a welfare-level plan is shown by its acceptance by many relief and welfare agencies as the basis for making welfare grants to families on relief. Yet the cost of this relief food budget is as high as the cost of the food allowance in the budget for an elderly couple.

The cost of the food portion of the budget for an elderly couple in Detroit in June 1947 is given by the Federal Security Administration as $540. When this figure is adjusted for the change in prices to November 1949, it becomes $559.[51]

In response to telephone and telegraph inquiries addressed to public-welfare agencies of 12 large cities, 6 of these agencies reported that their dollar allowances for food for an elderly couple approximate or exceed the alowance for food in the budget for an elderly couple at November 1949 Detroit prices. The amounts allowed in these cities are:[52]

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[50] The dietary standards of the National Research Council were revised in 1948, after the BFEC was drawn up. The Department of Agriculture food plans conform to the new standards. At least in part, the differences between the BFEC food quantities and those in the low-cost food plan are due to this revision.

[51] The method used in making the adjustment, which probably understates the increase in the cost of the food allowance, is the one suggested by the Federal Security Agency, as follows:

"The Bureau of Labor Statistics is attempting to develop a special price index which can be used in bringing the dollar cost figures for the budgets up to date over short periods of time. * * * Until such an index is available, if current costs are needed for administrative or other purposes, an estimate might be derived by deflating the percent change in the Consumers' Price Index from June 1947 to the current month proportionally to the difference between the percent increase in the Consumers' Price Index from March 1946 to June 1947 and the percent increase in the cost of the budget from March 1946 to June 1947. The deflation factor as well as the percent increase in the Consumers' Price Index from June 1947 should, of course, be computed separately for each city. A similar procedure can be followed for the food and clothing segments of the budget and the index." (Federal Security Agency, Bureau Memorandum No. 67, supra, p. 18.)

[52] In the comparisons made with relief budgets, above and in the section on clothing, it should be borne in mind that individual components of the relief budgets may not be in balance with other components of the same budgets. This problem was noted earlier in connection with the revised budget presented here and with the BFEC.

Food allowance for an elderly couple

City:		City—Continued	
A	$660.00	D	$520.44
B	559.20	E	502.80
C	555.60	F	492.00

The welfare allowances for food, shown above, are in many cases based on the Department of Agriculture's low-cost food plan. In view of the way this plan was drawn up, no public agency can possibly justify allowing less than the cost of the food quantities provided in that plan.

Low-cost and BFEC allowances assume expert knowledge

Even if the food allowance in the budget for an elderly couple were in all cases no lower than the cost of the low-cost food plan, neither that allowance nor the low-cost plan could be adopted as the basis for the budget presented herewith. America's retired families should not be asked to live the rest of their lives on an unappetizing diet based on the food purchases of America's lowest-income families. Nor should they be asked to struggle along on food expenditures which will yield adequate nutrition only if the housewife is equipped to apply the technical knowledge of a nutrition expert.[53]

Under the moderate-cost food plan, the pressure to scrimp and save would be eased somewhat. That it would not be entirely eliminated can be seen from the fact that this plan—with only minor modification—represents the experience of families having average incomes. The failure of these incomes to meet real standards of adequacy and comfort is too well known to need elaboration here. Specifically, the Department of Agriculture points out that neither of the two food plans permits much waste, though the moderate-cost plan has slightly more leeway.

The Department of Agriculture also points out that—

"Menus made from the quantities suggested in the low-cost plan will be simple. They will include foods requiring a considerable amount of home preparation and will call for skill in cooking and to make varied and appetizing meals * * * On the other hand, the moderate cost plan will allow for menus with greater variety, some frills and less home preparations. * * *

"The moderate-cost plan allows for larger quantities from the more expensive food groups, such as meat and eggs. It also allows for some of the higher-priced cuts of meat, a few out-of-season foods." [54]

The moderate-cost food plan is clearly the only one of the two which can be considered for purposes of this tentative budget. However, examination of this food plan from the point of view of its acceptability as a plan for living reveals many serious inadequacies which will require that adjustments be made if and when a definite attempt is made to develop an American standard budget.

For example, the phrase "higher-priced cuts of meat," quoted above, means that some round steak is provided, but no higher-priced steak appears in the budget.

The allowance for guest meals

The allowance for food discussed so far makes no provision for serving meals to guests. However, the BFEC makes it clear that elderly couples like to entertain their children and grandchildren—as well as their friends—at an occasional meal. Since the family gathering at the home of the grandparents is an American custom which none would propose abandoning, we have included the same number of individual meals to be served to guests that the BFEC provides, without the little extras that are almost invariably served when company comes

Computing the cost of the food allowance

The food quantities and instructions for using them in planning family budgets are set forth by the Department of Agriculture in its publication called Helping

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[53] In this connection, the following comment from the City Workers' Family Budget (Monthly Labor Review, February 1948, p. 142) is appropriate:

"* * * the method used in many low-cost food plans is to start with the customary food habits of low-income families and to reduce the quantities of some foods and to increase the quantity of others in order to have an adequate diet at low cost. This type of food plan has merits in teaching low-income families how to get adequate diets with little or no increase in the cost of food. As a basis for measuring the cost of an adequate diet it has been criticized on the basis that it is developed by people thoroughly familiar with the scientific values of foods in relation to their costs—a condition which applies to few housewives."

[54] Department of Agriculture, Miscellaneous Publication No. 662, supra, p. 3.

Families Plan Food Budgets, referred to above. The form for making the actual cost computations is published by the Department.[55]

The cost of each of the categories of food items contained in the allowance has already been shown in table A–1. The computation of this cost figure, following the procedure and the form referred to above, is shown in the following table:

TABLE A–3.—*Computation of cost of food budget at Detroit prices, November 1949*

Food item [1]	Unit [2]	Weight [2]	BLS price [3]	FBC-adjusted price [4]	Cost
1. Cereals and bakery products:					
Cereals:					
Flour, wheat	10 pounds	.02	$0.966		$0.0193
Macaroni	1 pound	.05		$0.175	.0088
Wheat cereals		.01		.295	.0030
Cornflakes	8 ounces	.08	[5] .177		.0103
Cornmeal	1 pound	.02	.106		.0021
Rice	do	.03	.159		.0048
Rolled oats	do	.02	[5] .16		.0026
Flour, pancakes	20 ounces	.04		.193	.0077
Bakery products:					
Bread, white	1 pound	.52	.134		.0697
Bread, whole wheat	do	.06		.185	.0111
Bread, rye	do	.06		.196	.0118
Vanilla cookies	do	.14	.470		.0658
Soda crackers	do	.08		.259	.0207
Total cost per pound equivalent					.2377
2 Dairy products:					
Cheese	1 pound	.03	.513		.0154
Milk (average)	1 quart	[7] .90	.192		.1728
Milk, evaporated	14½ ounces		.124		
Total cost per quart equivalent					.1882
3 Meats:					
Beef:					
Round steak	1 pound	.10	.860		.0860
Rib roast	do	.05	.697		.0349
Chuck roast	do	.07	.616		.0431
Stew meat	do	.05		.688	.0344
Liver	do	.05		.710	.0355
Hamburger	do	.05	.521		.0261
Veal:					
Cutlets	do	[6]	1.004		
Roast	do	.05		.781	.0391
Pork:					
Chops	do	.05	.692		.0346
Ham, sliced	do	[6]			
Ham, whole	do	.05	.578		.0289
Sausage	do	.05		.489	.0245
Bologna	do	.05		.486	.0243
Lamb:					
Leg	1 pound	.05	.734		.0367
Rib chops	do	.03		.942	.0283
Poultry: Chicken, roast	do	.15	.498		.0747
Fish:					
Salmon Pink	16-ounce can	.10	.475		.0475
Salmon Red	do	.05		.683	.0342
Total cost per pound equivalent					.6328
4 Eggs	dozen	1.00	.706		.7060
5 Potatoes and sweets:					
Potatoes	15 pounds	.05	.643		.0322
Sweets	1 pound	.25	.112		.0280
Total cost per pound equivalent					.0602
6 Dried beans, peas and nuts:					
Navy beans	1 pound	.75	.142		.1065
Peanut butter	do	.25		.358	.0895
Total cost per pound equivalent					.1960

See footnotes at end of table.

[55] U. S. Department of Agriculture Pricing of Diet Plans, BHNHE No. 354, revised September 15, 1948.

TABLE A–3.—*Computation of cost of food budget at Detroit prices, Novemb 1949*—Continued

Food item [1]	Unit [2]	Weight [2]	BLS price [3]	FBC-adjusted price [4]	Cos
7. Tomatoes, citrus fruits:					
Oranges	1 poond	.11	$0.472		$0 0
Grapefruits	each	.15		$0.181	.0
Grapefruit juice	No. 2 can	.1[illegible]		.153	.0
Tomatoes, can	do	.13	.140		0
Total cost per pound equivalent					1
8. Leafy, green, yellow vegetables:					
Beans, green fresh	1 pound	.20	.273		.0
Cabbage	do	.25	043		0
Carrots	1 bunch	10	112		.0
Lettuce	1 head	.27	.210		.0
Spinach	1 pound	.10		.158	0
Beans, green, canned	No. 2 can	.[illegible]4		.186	0
Peas, canned	do	.08	.138		0
Total cost per pound equivalent					1
9. Other vegetables, fruits:					
Apples	1 pound	.25	.055		.0
Bananas	do	.20	.183		.0
Onions	do	.10	.089		0
Beets	bunch	.20		.133	0
Peaches, can	No. 2½ can	.03	.295		.0
Pineapple, can	do	.04	.413		.0
Corn, canned	No. 2 can	.04	.194		.0
Prunes	1 pound	.02	.256		.0
Total cost per pound equivalent					.1
10. Fats and oils:					
Butter	do	.20	.732		1
Bacon	do	.15	.657		0
Salt pork	do	.05	.403		0
Lard	do	.15	.184		.0
Shortening, other than lard:					
In carton	do	.05		.306	0
In other containers	do	.05	.320		.0
Salad dressing	Pint	.05	.316		0
Oleomargarine	1 pound	.20	.292		0
Oil, cooking or salad	Pint	.10		.375	0
Total cost per pound equivalent					.4
11. Sugar and sweets:					
Sugar	1 pound	.70	.10		0
Corn sirup	24 ounces	.03		.228	0
Molasses	18 ounces	.13		.217	0
Apple butter	16 ounces	.10		.207	.0
Total cost per pound equivalent					1.
12. Coffee, tea, cocoa:					
Coffee	1 pound	.30	.652		1
Tea	do	.03		.1526	0
Cocoa	do	.02		.450	0
Total cost per pound equivalent					2
13. Other accessories (dollar allowance)			.0710		0

[1] U. S. Department of Agriculture, Helping Families Plan Food Budgets, Miscellaneous Publicati No. 662, December 1948.
[2] U. S. Department of Agriculture, Pricing Diet Plans, BHNHE No. 354, revised Sept. 15, 1948.
[3] BLS average prices for food in Detroit in November 1949.
[4] Prices shown in this column are for items not priced by the BLS. The prices were gathered by t Family Budget Council of Detroit in October 1949, and adjusted by the Consumers' Price Index as plained in the text. Michigan State sales tax was alao added to make the prices comparable with Bl prices. (See text for measure of comparability of these prices.)
[5] 11 ounces.
[6] 20 ounces.
[7] No weight given for this item in Department of Agriculture moderate-cost food plan.

The cost of the food quantities listed by the United States Department of Agr culture for the moderate cost food plan was computed, using the quantity weigh set up by the Department of Agriculture and the average prices for food iten obtained by the Bureau of Labor Statistics in Detroit in November 1949

connection with the latter's Consumers' Price Index. For food items not priced by the Bureau of Labor Statistics, October 1949 prices were obtained from the Family Budget Council of Detroit.[56]

The comparability of the prices supplied by the Family Budget Council with those of the Bureau of Labor Statistics was established by computing the cost of that part of the food allowance for which prices were supplied by both agencies. Since the aggregate weighted cost of the items priced by both agencies was approximately the same, it was concluded that the Family Budget Council prices could be used for items not priced by the Bureau of Labor Statistics.

Comparison of the two sets of prices yielded the following results:

Cost of the partial list, at BLS prices		$10.42
Cost of the same food items, at Family Budget Council prices		$10.57
Difference	percent	1.4
Cost of complete list, at Family Budget Council prices		$13.50
Proportion of total FBC cost covered by partial list	percent	78.3

The figures given above have been adjusted for a two-person family and, in the case of the FBC data, for the Michigan State sales tax. The cost at Family Budget Council prices has also been adjusted for the increase of 1.6 percent in the Consumers' Price Index for food in Detroit between October and November 1949.

The individual prices supplied by the Family Budget Council for October 1949 were adjusted for changes in prices in Detroit between October and November 1949, using the "imputation patterns" of the Consumers' Price Index[57] and the Bureau of Labor Statistics prices for October and November in Detroit.[58]

Adjustment for size of family

As shown in table A–1, the allowance for food at home, based on the moderate cost food plan of the Department of Agriculture, for an elderly couple was $13.20 per week at Detroit, November 1949 prices. This includes the adjustment for the size of the family, which is necessary, as the Department of Agriculture points out, because "small families usually cannot buy and prepare their food as economically as large families."[59]

The Department of Agriculture gives the reasons for making the adjustment, and the adjustment to be made, as follows:[60]

"For very small or very large families it may be desirable to make some adjustments in consideration of small or large quantity purchasing. The cost figures given here are based on buying practices of four or five members. To insure meals of equal variety as well as nutritive value for families of other sizes, additions of 35 percent may well be made to the amount computed for one-person families; 20 percent for two-person families; and 10 percent for three-person families. Not more than 5 percent, if any, should be deducted from the food allowances of families of more than seven members."

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[56] The Family Budget Council of Detroit is an agency belonging to the Council of Social Agencies of Detroit. Its chairman, the director of the Visiting Housekeepers Association, also a member agency of the Council of Social Agencies. The organizations which constitute the Family Budget Council are as follows: Wayne University, home economics department; Harper Hospital, out patient department; Wayne County Bureau of Social Aid; Visiting Housekeeper Association; Detroit Department of Health; Wayne County Department of Social Welfare; American Red Cross, Detroit chapter; Wayne County Health Department; Detroit Department of Welfare; Visiting Nurse Association; and Merrill Palmer School. The member agencies are represented on the Family Budget Council by the individuals who are in charge of home economics activities within their respective agencies.

[57] U. S. Department of Labor, Bulletin No. 699, Changes in the Cost of Living in Large Cities in the United States, 1913–41, pp. 82–87.

[58] For example, "veal roast" is listed among the food items in the moderate cost food plan, but it is not priced by the Bureau of Labor Statistics. According to the imputation procedure of the Bureau of Labor Statistics, changes in the price of this item are measured by the changes in the price of "veal cutlets," which is priced for the Consumers' Price Index. According to the Bureau of Labor Statistics "Retail Food Prices by Cities—October 15, 1949," and to a list of November prices furnished by the Bureau of Labor Statistics, the price of veal cutlets rose from 98 cents per pound in October to $1.004 per pound in November, an increase of 2.5 percent. The price of veal roast, as given by the Family Budget Council for October was therefore increased by 2.5 percent, from 74 cents to 75.8 cents per pound. The Michigan sales tax of 3 percent was added, making the price per pound of the veal roast 78.1 cents per pound. This price was used in computing the allowance for meat in the moderate cost food plan.

[59] Department of Agriculture, Miscellaneous Publication No. 662, supra, p. 6.

[60] U. S. Department of Agriculture, Instructions for Estimating the Cost of Food Budgets, p. 3.

In accordance with these instructions, and with the practice followed by welfare agencies when computing the cost of the Department of Agriculture food plans, the allowance for food in the revised budget was adjusted by adding 20 percent to the cost.

Allowance for guest meals served

The Budget for an Elderly Couple provides an allowance for meals served to guests. The Federal Security Agency comments:

"Older Couples, perhaps because they do not travel or move about very much apparently have their children, grandchildren, and friends as guests more frequently than they eat out as guests." [61]

The Budget for an Elderly Couple, therefore, allows for 127 guest meals per year, at an average cost equal to the per meal cost of family meals at home This is the equivalent of 5.8 percent of the annual cost of the family food at home. The BFEC does not take notice of the fact that meals served to guests are almost invariably a little better and a little more expensive than those normally prepared for the immediate family. In an adequate budget, allowance would be made for this difference in the cost of food served to guests. However, computing the cost of the 127 meals as the BFEC does, by using the average cost per meal of the food at home, yields $39.81 per year on the basis of the revised food allowance

The net additional allowance for meals purchased away from home

The computation of the allowance for meals purchased away from home in this revised budget follows the computation of the same item in the BFEC.

The BFEC allows for 49.6 individual meals to be purchased away from home Since the average cost of a meal consumed at home in Detroit is 22.3 cents at June 1947 prices, the purchase of this food away from home represents a saving in home food consumption of $11.07.

The BFEC allowed an additional $23 in June 1947 for the purchase of meals away from home, or a total of $34.07. In other words, the average meal eaten at home cost 32.49 percent as much as the average meal purchased and eaten outside of the home.

In the revised budget, the average cost of a meal consumed at home is approximately 31.3 cents. The purchase of 49.6 individual meals away from home represents a saving in home consumption of $15.52.

If the BFEC ratio between cost of meals at home and cost of meals purchased away from home is applied, the total cost of meals purchased away from home comes to $47.92. The net additional allowance necessary to make possible the purchase of these meals is $32.35.

THE MEDICAL AND DENTAL CARE BUDGET

The revised budget provides an annual allowance of $183.35 for medical and dental care for an elderly couple in Detroit at November 1949 prices. The allowances provided in the budget and the cost of these allowances are shown in table B–2.

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[61] Federal Security Agency, Bureau Memo. No. 67, supra, p. 7.

TABLE 2.—*Medical and dental care allowances and cost in Detroit at November 1949 prices* [1]

Item	Unit	Services per 1,000 persons per year		Cost in Detroit November 1949
		Man	Woman	
Medical:				
Physician calls:				
Home	Each	1,996	2,981	
Office	do	3,211	3,802	
Total cost physician calls				$46.26
Private duty nursing:				
Graduate	Day	446	866	
Practical	do	561	1,064	
Total cost nursing				30.41
Eye refractions				
Without lenses	Each	15	7	
With lenses	do	58	98	
Lenses	Pair	58	98	
Frames	do	23	39	
Prescriptions	Each	365	478	
Total cost eye care and medical prescriptions [2]				3.43
Total cost medical care				80.10
Dental:				
Examinations and prophylaxis	Case	35	40	
Fillings	Each	180	183	
Extractions	do	249	101	
Crowns	do	10	10	
Dentures and bridges	Case	65	43	
X-ray	do	17	54	
Total cost dental care				11.63
Medical supplies (dollar allowance)				[3] 8.42
Hospital, medical and surgical plan, 1 year, ward care.				[4] 83.20
Total cost medical and dental care				[5] 183.35

[1] BLS prices, except as indicated. BLS prices for individual items withheld from publication at the request of the Bureau.

[2] Combined to avoid disclosure of BLS prices for individual item.

[3] BFEC allowance, of $7.60 at June 1947 prices, supplied by BLS by letter of Feb. 17, 1950, adjusted to November 1949 by BLS index for medical care and drug index in accordance with the Bureau's imputation pattern.

[4] Obtained from a local representative of Blue Cross and Blue Shield.

[5] This figure is to be compared with the corrected BFEC allowance of $106.23, instead of the erroneously reported figure of $114. Corrected figure received from BLS by letter of Feb. 17, 1950.

Content of the revised budget

The commodities and services provided in this revised budget are identical with those in the budget for an elderly couple, augmented by allowing for the hospital, surgical, and the limited medical care [62] insurance provided under the Blue Cross and Blue Shield Plans on a ward-care basis. To the extent that these insurance plans include some of the services already provided in the Budget for an Elderly Couple, the latter were dropped from the list, and then covered in the revised budget through the insurance programs.

The services eliminated from the budget for an elderly couple list, and covered by insurance instead of by direct allowances, are all operations, anaesthesia, medical X-ray, physiotherapy, and laboratory charges.

All other services provided in the budget for an elderly couple were carried over, with adjustments for price changes.

The insurance plans provide the elderly couple with a limited protection against the financial catastrophes resulting from surgery and hospitalization and the doctor's bill while in the hospital on a somewhat more adequate basis than the budget for an elderly couple allows.

In computing the cost of the City Worker's Family Budget, "The cost of group hospitalization insurance plans were used in those cities in which such plans were generally accepted and were providing comprehensive service." [63]

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[62] The plan allowed includes a medical care benefit of $5 for each of the first 2 days of hospitalization, and $3 per day for the next 118 days.

[63] U. S. Department of Labor, City Worker's Family Budget, Monthly Labor Review, February 1948, p. 151.

In developing the Budget for an Elderly Couple from the CFWB, the insurance protection was dropped, and specific allowances were made for some of the services that would otherwise be provided by insurance. This action was apparently deemed necessary because the Blue Cross and the Blue Shield organizations in some cities do not insure people over 65. However, since the Michigan organizations—as well as a number of others—do insure elderly people, there is no reason for denying this protection to elderly couples in this revised budget.[64]

By adding the insurance programs to the budget for an elderly couple allowances, the revised budget provides a degree of basic protection against financial hardships arising from the need for surgery and hospitalization.

Inadequacies in the allowance for medical and dental care

The allowance in the Budget for an Elderly Couple would make charity the only recourse for couples confronted with the need for hospitalization or surgery

How allusory the protection provided in the Budget for an Elderly Couple really is becomes apparent when the allowances for hospital care in that budget are analyzed. The total allowance for hospital items in the budget for an elderly couple is $14.81 per year. This sum is arrived at by the statistical device of computing the percentage of people who may be expected to incur the cost of each of the services such as X-rays, anaesthesia, and certain operations, and allowing for each individual his proportionate share of the costs likely to be faced by all elderly persons as a group.

Thus, in the Budget for an Elderly Couple, the amount provided per family to cover the cost of X-ray, laboratory, and physiotherapy is $2.35.

Obviously, the total allowed in the Budget for an Elderly Couple for any single type of hospital treatment is inadequate to purchase that treatment. The November 1949 Bureau of Labor Statistics price for anaesthesia, for example, was 16 times as great as the Budget for an Elderly Couple allowance for anaesthesia for the woman, and 17 times as great as the allowance for the man. Anaesthesia usually accounts for only a small fraction of the total hospital bill.

The shortcomings of this method of budgeting medical care were recognized by the FSA, which points out that "The necessary minimum of medical care and dental care varies from family to family and year to year between very wide extremes, and hence these categories cannot be budgeted for in the same sense as can other segments of family spending." [65]

The Federal Security Agency suggests that the allowance in the budget be regarded as a sum to be "prorated over a considerable number of years or a large group of families to equalize the burden on a family between years of light and heavy medical and dental expenses".[66]

The self-insurance scheme suggested in this comment is impossible to achieve in practice. Inclusion of the Blue Cross and Blue Shield plans in the budget helps to accomplish what self-insurance cannot.

Medical care, outside a limited amount in hospitals, is not provided for in these plans. Costs of a major illness at home, of the kind to which the aged are especially subject, would have to be met out of the other allowances in the revised medical and dental care budget which are obviously inadequate for the purpose

The costs to the individual and to the society of the failure to send for the doctor or to visit the dentist until further delay is no longer possible are too clear to need exposition here. Yet the allowances in the budget for an elderly couple would inevitably result in reluctance to call professional help until a minor ailment had developed into a major emergency.

Clear illustration of the fact that the individual will be under pressure to refrain from getting help when he needs it is given by the allowance for dental examinations and prophylaxis. In spite of universal recognition that at least annual visits to the dentist are required for this purpose, the budget allows 35 visits per year per thousand men, and 40 visits per year per thousand women, roughly one visit every 30 years for the man and one every 25 years for the woman. Assuming a charge of $4 per examination and prophylaxis, a typical fee in Detroit, the budget for an elderly couple (and the revised budget, for want of authority on which to base the necessary correction) allows 30 cents per elderly couple for this purpose. If the man and his wife both visited the dentist

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[64] The UAW-CIO social-security department studied Blue Cross hospital plans in 84 cities. In 55 of these cities, people over 65 were eligible for insurance under these plans. 37 out of 58 Blue Shield plans studied insured people over 65.

[65] Federal Security Agency, Bureau memorandum No. 67, supra, p. 8.

[66] Ibid.

for the recommended annual examination, each would have left out of the total dental care allowance little more than $1.50 to pay for all other dental care needs for the year.

Visits to and by the doctor may be of doubtful value if the elderly couple must adhere to the budget for an elderly couple allowance for prescriptions. While the budget recognizes the need for over five doctor's visits per year per man, and almost seven visits per year per woman (including both home and office visits) less than one prescription per year is allowed for both together. In money terms the allowance per prescription is less than $1.

The budget makes no allowance at all for the purchase and maintenance of hearing aids and prosthetic devices. Since a great many elderly people need this equipment which is available only at high prices, the omission of an allowance for these items means reliance on charity or sacrifice of other essentials by those who need them.

THE TRANSPORTATION BUDGET

The revised budget provides an annual allowance of $113.43 for transportation for an elderly couple in Detroit at November 1949 prices. The allowances provided in the budget and the cost of these allowances are shown in table C–1.

TABE C–1.—*Transportation allowances, and cost in Detroit at November 1949 prices* [1]

COUPLES OWNING CARS

Item	Unit	Quantity per year	Price [1]	Cost in Detroit November 1949
Car expense:				
Gasoline	Gallons	159.500		
Oil	Quarts	16.000		
Tires	Each	.433		
Tubes	do	.172		
Insurance	Annual policy	.450		
Cost of gasoline, oil, tires, tubes, and insurance.				$67.89
Registration	Annual	1.000	[2] $9.800	9.80
Inspection [3]				
Operator's permit		[4] .500	1.250	.63
Repairs and replacement	Dollar allowance			[5] 10.86
Parking and garage rent	6.5 percent of cost of above			5.80
Tolls, fines, damages, accessories, and association dues.	1 percent of cost of above			.89
Automobile purchase	Dollar allowance			106.75
Total, car expense				202.62
Local rides by public transportation		[6] 26	.125	3.25
Total allowance for car-owning couple				205.87

COUPLES NOT OWNING CARS

Item	Unit	Allowance in BFEC	Price	Cost in Detroit November 1949
Local rides, public transportation	Each	485	0.1250	$60.63
Trips out of the city, public transportation	Miles	100	.0345	3.45
Taxi	Dollar allowance			3.00
Total allowance for couple not owning a car.				67.08

[1] BLS prices except as indicated. BLS prices for individual items withheld at request of Bureau.
[2] Michigan State registration fee for a car weighing 2,800 pounds.
[3] Not required in Michigan.
[4] Based on the assumption that in all car-owning families, 1 member has an operator's permit, and that in one-half of the families the other member also has a permit. The fee for a permit in Detroit is $1.25; permits are issued for a 3-year period.
[5] See explanation in text.
[6] Allowed in the revised budget because of the assumption that both members have operator's permits in only half the car-owning couples.

COMPUTATION OF ALLOWANCE FOR ALL COUPLES

Allowance for couples that own cars	$205 87
Allowance for couples that do not own cars, multiplied by two	134 16
Total	340 03
Divide by three to get weighted average allowance per couple; equals	113 43

The allowance for car ownership

The transportation budget presented here is based on the transportation allowance set forth in the BFEC. However, one serious omission from that budget is corrected. In the revised budget, an allowance is made for the fact that a very significant proportion of the older couples own cars, and will continue to drive them after they retire.

The BFEC states: "Although one-third of the elderly couples included in the expenditure sample and one-third of those in the $1,000–$1,500 income group were automobile owners, an arbitrary decision was made not to include provision for automobile ownership in the budget."[67]

This frequency of car ownership among elderly couples was confirmed by the Federal Reserve Board, which reported that 33 percent of the spending units whose heads were 65 years of age and over owned one or more cars in 1948.[68]

As income rises, the incidence of car ownership rises among elderly couples just as among the population as a whole. The United States Department of Agriculture study of family spending, based on the WPA consumer purchases study in 1935–36, showed that among elderly couples in small cities and villages the proportion owning cars increased markedly with higher income.

Car ownership among families without children in which the wife was 60 years of age or older, in 1935–36 was as follows:[69]

Family income:	*Percent of families owning cars*
$500 to $999	46
$1,000 to $1,499	54
$1,500 to $1,999	83

These figures strongly suggest that the proportion of the elderly owning cars would rise sharply above the present one-third if incomes were more adequate.

Adjustment of the BFEC to allow the one-third presently owning cars enough to operate and maintain them, therefore, still falls short of the requirements of an American standard of living.

Allowances for car-owning couples

The BFEC assumed that a couple which depended on public transportation would make about 485 local trips per year. According to the Detroit Department of Street Railways, which operates Detroit's public transportation system, it was learned that the average ride per streetcar and coach rider was approximately 3.5 miles per trip.[70] Thus, 485 trips would be the equivalent of about 1,700 miles of travel per year.

According to the Department of Agriculture study, older couples owning cars actually traveled considerably more than 1,700 miles per year. Couples without children in the income group $500–$999, in which the wife was 60 years of age or older, covered 3,142 car miles per year in family driving, exclusive of any driving for business purposes. Couples in the $1,500–$1,999 group drove 4,167 miles per year.

The number of miles of local travel allowed for in the revised budget is therefore higher than the 1,700 which might be assumed from the BFEC allowances. It was increased conservatively to 2,000 miles of local travel.

It is reasonable to expect that while many of the trips taken by the car-owning couple would be made together, there would be some occasions when only one person used the car. Therefore, the total number of miles traveled would not be cut in half by car travel, even if no increase in travel took place as a result of

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[67] Federal Security Agency, supra, p. 4.

[68] Federal Reserve Board of Governors, Federal Reserve Bulletin, 1949 Survey of Consumer Finances; Pt. VI, Ownership of Automobiles, Stocks, and Bonds and Other Nonliquid Assets, October 1949, p. 1188, table 5.

[69] U. S. Department of Agriculture, Family Spending and Saving, p. 42. While these dates apply to smaller cities and towns, the same tendency of car ownership to rise with income is undoubtedly present in larger communities.

[70] Figure obtained by telephone inquiry to the information department of the department of street railways.

having a car. Availability of a car would certainly mean an increase in the amount of traveling done by the average couple.

It should be emphasized that even the higher allowance of 2,000 car-miles of local travel per year provides less than 40 miles per week, an amount easily used up in trips to the store, visits to children and to friends, and the many other uses to which a car is normally put.

Trips out of town are allowed in the BFEC at the rate of 100 miles per couple per year. In this budget, the allowance for a car-owning family has been increased to 200 miles per year, on the assumption that possession of a car would make for more travel.

The total number of miles of travel by car in the revised budget, for those couples owning cars, is therefore 2,200 miles per year.

The allowances for expenditures related to automobile travel in this revised budget are based on those in the city worker's family budget.

Those allowances which are incurred on a per-mile basis—the cost of gasoline, oil, tires, and tubes—were reduced from the quantities allowed in the CWFB, proportionate to the reduction in mileage from the 6,000 miles per year allowed in that budget to the 2,200 miles allowed in the revised budget.

An additional allowance was made in the revised budget for local travel by public transportation of one round trip fare every 4 weeks. This follows from the assumption that one member of the couple in every other couple would not have an operator's permit, and would occasionally make a trip by public transportation.

Allowances which are fixed on an annual or similar basis—like insurance, registration, and the operator's permit—were carried into the revised budget from the CWFB, except that the cost of the operator's permit was modified to conform to Michigan State fees. Instead of the two permits per couple provided for in the CWFB, this budget provides for 1½ permits per couple.

The allowance in the CWFB for car inspection was not carried into the revised budget, despite the fact that safety would seem to require one, because Michigan law does not make inspection mandatory.

The CWFB set the allowance for repairs and replacements in dollar terms. Part of the cost of repairs and replacements arises normally out of the aging of the car. Part of it is the result of wear. Since the lower mileage allowance for travel by an elderly couple should reduce that part of the repair cost due to wear, the allowance for such repairs was reduced. In the absence of specific measures of how much reduction should be made for this purpose, it was decided to reduce the total allowance for repairs and replacements by one-third.

The city worker's family budget made an allowance of $106.75 per year for car purchase. The obvious inadequacy of this allowance is underlined by BLS Commissioner Ewan Clague in the following statement:

"Typically, the cars owned by these families at the budget level are about 8 years old and cost about $350 (after trade-in allowances) in 1941. At that time, cheap second-hand automobiles were available. This budget does not allow for the replacement of automobiles at the current high prices. It makes an allowance of only $107 a year toward purchase of a car. If inexpensive cars do not return to the market as current inventories are scrapped the budget pattern will necessarily be changed in the near future toward a lower percentage of automobile owners, with related changes in all the other segments of the budget." [7]

Despite its obvious inadequacy, the CWFB car-purchase allowance was carried into the revised budget without change.

The comparison between the allowances made in the city worker's family budget, and the allowances in this revised budget are shown in table C–2.

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[7] Statement of BLS Commissioner Ewan Clague on the city worker's family budget before the western subcommittee of the Joint Committee in the Economic Report, December 16, 1947, p. 7. Why the budget should not be changed, instead, by a higher allowance for car replacement is not entirely clear.

TABLE C–2.—*Automobile transportation allowances in city worker's family budget and in revised budget for an elderly couple*

Item	Unit	Allowance in CWFB[1]	Allowance in revised budget
Gasoline	Gallon	435.000	159.500.
Oil	Quart	43.500	16.000.
Tires	Each	1.180	0.433.
Tubes	do	0.470	0.172.
Insurance	Annual policy	0.450	0.450.
Registration	Each	1.000	1.000.
Operator's permit, renewal	Number	2.000	0.500.
Repairs and replacement	Dollar allowance	$15.140	$10.860.
Parking and garage rent		6.5 percent of cost of above.	6.5 percent of cost o above.
Tolls, fines, etc		1 percent of cost of above.	1 percent of cost o above.
Allowance for automobile purchase	Dollar allowance	$106.75	$106.75.

[1] U. S. Department of Labor, City Worker's Family Budget, Monthly Labor Review, February 19 p. 168.

Cost for car-owning couples

With three exceptions, prices used in computing costs were obtained from BLS. The registration fee shown in the revised budget is the fee collected by the State of Michigan (35 cents per hundred pounds of weight) on a car weighing 2,800 pounds, which is the weight typical of 1939 low-priced cars. Operator's permit fees were obtained from the State and city departments which issue permits. For local transportation, the four-trip ticket rate, the lowest charged by the Detroit Department of Street Railways, was used.

The allowance for repairs in the city worker's family budget was $15.14 at June 1947 prices. Using prices obtained by BLS for its Consumers' Price Index the allowance was adjusted to November 1949 by computing the weighted price of the repair services priced by BLS in both June 1947 and November 1949 using BLS weights and prices. The increase in the weighted price, 7.6 percent was applied to the allowance for repairs and replacements in June 1947, and a cost of $16.29 at November 1949 prices was thus obtained. For the reasons explained above, this amount was reduced by one-third to $10.86 per year.

The total allowance per year for travel by an elderly couple owning a car is $205.87.

Computing the cost for non-car-owning couples

The budget for an elderly couple allows 485 local rides and 100 miles of out-of-town travel by public transportation. In addition, it allows $3 for taxi travel per year.

The allowance for local rides by public transportation was computed at the four-trip fare of 12½ cents charged by the Detroit Department of Street Railways, which operates the public transportation system. The price used in the computation is the price per ride if tickets are purchased; the cash fare is higher. The allowance per mile of railroad travel is at the price collected by the BLS in Detroit for November 1949.

Since there has been no increase in taxi fares in Detroit since June 1947 the budget for an elderly couple allowance of $3 for taxi fare is also allowed in this budget—enough for perhaps one emergency round trip per year.

The total allowance per year for travel by an elderly couple not owning a car is $67.08.

Average cost per couple

Since it was assumed that there are two couples without cars for each couple owning one, the allowance for travel by the former was multiplied by two and added to the allowance for a car-owning couple, and the total thus obtained divided by three to get the weighted average allowance per couple. This conforms to the procedure followed in connection with the city worker's family budget.

The weighted average allowance for travel per elderly couple is $113.43.

RENT, FUEL, AND UTILITIES BUDGET

The revised budget provides an annual allowance of $579.60 for rent, fuel, utilities, and refrigerator purchase for an elderly couple in Detroit at November 1949 price.

The allowances provided for in the budget are identical with those allowed in the budget for an elderly couple, adjusted for price changes to November 1949.

The allowances and the cost of these allowances in Detroit in November 1949, are shown in table D–1.

TABLE D–1.—*Rent, fuel, and utilities allowances; and cost in Detroit at November 1949 prices* [1]

Item	Unit	Quantity per year	Cost in Detroit November 1949	Annual cost per couple	Percent of couples paying for	Budget cost in Detroit November 1949
Rent	Monthly	12.0	[2] 45.82	$549.84	100.0	$549.84
Fuel, utilities, and refrigerator purchased.						
Coal	Tons	4.050			8.9	
Gas	Therms	1,272	[3] 1.34	16.08	33.0	5.31
Water	Cubic feet	4,800,000	[4] 2.04	8.16	2.0	0.16
Electricity	Kilowatt-hours.	300.000	[5] 2.78	16.68	31.7	5.79
Refrigerator purchase	Each	.060			26.0	
Total fuel, utilities and refrigerator purchase.						$20.76
Total rent, fuel, utilities, and refrigerator purchase.						$570.60

[1] BLS prices, except as indicated. BLS prices for individual items withheld from publication at the request of the Bureau.
[2] June 1947 allowance, adjusted by BLS rent index for Detroit.
[3] Monthly bill, at Detroit rates, from Michigan Consolidated Gas Co.
[4] Quarterly bill, at Detroit rates, from city of Detroit, water department.
[5] Bimonthly bill, at Detroit rates, from Detroit Edison Co.

How the allowance was computed

The budget for an elderly couple allowance for rent in Detroit in June 1947 is the rent reported by the Bureau of Labor Statistics. This allowance was adjusted to the November 1949 level by the Bureau of Labor Statistics rent index for Detroit.

The budget for an elderly couple used the cost of coal to represent heating costs in Detroit. The price of coal used for computing costs in Detroit in November 1949 is the price collected by the Bureau of Labor Statistics for its Consumers' Price Index. The annual coal allowance in the budget for an elderly couple is 4.05 tons of Pocahontas stove coal. Because only 8.9 percent of the elderly couples in Detroit pay for heat in addition to rent, that percentage of the total cost of the coal allowance is provided for heat in the revised budget.

Gas and electricity allowances were determined by computing the cost of the quantity allowed in the budget for an elderly couple at rates charged by the local utility companies, adjusted as in the case of coal, for the proportion of the couples paying separately for these utilites. It is noteworthy however that in both cases the quantity allowed in the budget for an elderly couple is significantly lower than the per capita consumption reported by the local utility companies.

The allowance for water was determined by computing the cost of the quantity allowed in the budget for an elderly couple at the rate charged by the Detroit City Water Department for that proportion of the families paying separately for water. In this case, the quantity allowed by the budget for an elderly couple is apparently higher than per capita consumption in Detroit. Since no adjustments were made in the case of the other utilities, the quantity allowed for water was also carried over into this budget.

The budget for an elderly couple allowance for refrigerator purchase was carried over into the revised budget, in spite of the fact that it was derived by the "resitance point" technique and is therefore below the requirements of an American standard of living.

The level of living provided in the budget

The housing allowance in the budget for an elderly couple was determined on the basis of rent costs obtained by the Bureau of Labor Statistics for rental housing conforming to standards derived by the Bureau from those set by the

committee on hygiene of housing of the American Public Health Association and the Federal Housing Authority. The Bureau of Labor Statistics priced two- or three-room unfurnished housekeeping units that met these standards with respect to construction, repair, and location.

Thus the method of determining the housing allowance (exclusive of gas, electricity, and refrigerator purchase) was not the same as that used in most of the other sections of the budget for an elderly couple. The allowance for rent is set somewhat above the "resistance point." This allowance, therefore, probably approximates the American standard of living more nearly than do other sections of the budget.[72]

While the housing allowance is computed on the basis of rents paid, a large number of the elderly couples own their own homes. The Federal Reserve Board reports that in 1949, 60 percent of the nonfarm families whose heads were 65 or over owned their homes.[73] An American standard of living would probably involve as high or higher a proportion of home ownership.

The Federal Security Agency recognized the fact of home ownership, and the difference in what is paid for housing by home owners and renters, in the following statement:

"Current costs of home ownership cover items not now included in any retail price series, and represent cost elements not easily included. Hence it was decided for the present not to give recognition to the fact that a relatively high proportion of elderly couples live in owned homes. For the house-owning couples expenditure records show average yearly out-of-pocket costs for housing below those for renters at the same level, although the difference would undoubtedly be much less or even nonexistent if interest on the owner's equity and depreciation were taken into account."[74]

It thus appears that, even if allowance were made for the proportion of home ownership consistent with an American standard, real housing costs would probably not be affected one way or another for dwellings conforming to any given standards.

THE HOUSEHOLD OPERATIONS BUDGET

The revised budget provides an annual allowance of $106.87 for household operations for an elderly couple in Detroit at November 1949 prices.

The items and the quantities allowed in the revised budget are identical with those allowed in the budget for an elderly couple, adjusted for price changes to November 1949.

The allowances and the cost of these allowances in Detroit at November 1949 prices are shown in table E–1.

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[72] In fact, dwelling units significantly superior to the standard were included in the sample from which average rental costs were computed. The FSA estimated that this may have increased the rental allowance by approximately $2 per month for the cities other than Washington, D. C. (Federal Security Agency, Memorandum No. 67, supra, p. 14)

[73] Federal Reserve Board of Governors, Federal Reserve Bulletin, 1949 Survey of Consumer Finances, pt. V, Home Ownership and Expenditures for Housing, September 1949, p. 1040, table I.

[74] Federal Security Agency, Bureau Memorandum No. 67, supra, p. 13.

TABLE E–1.—*Household operations allowances and cost in Detroit at November 1949 prices* [1]

Item	Unit	Quantity per year	Cost in Detroit November 1949
Commodities:			
Laundry soap	Bar	26	
Laundry soap flakes, powder	Box	26	
Subtotal			$9 57
Stationary, postage	Dollar allowance		[2] 3 52
Miscellaneous household operations	do		[3] 4 08
Total, commodities			17.17
Services:			
Paid help	Dollar allowance		[4] 35 36
Laundry sent out	do		[5] 20 16
Telephone	Minimum service	$0 45	[6] 34 18
Total, services			89 70
Total, household operations			106. 87

[1] BLS prices, except as indicated. BLS prices for individual items withheld from publication at the request of the Bureau.

[2] Estimated by imputing to allowance for the stationery component of this category the increase in the BLS price for toilet paper, in accordance with BLS imputation pattern.

[3] Estimated by applying BLS index for household operation to the BFEC allowance of $3.97 at June 1947 prices.

[4] Estimated by applying the BLS index for domestic help to the BFEC allowance of $34.94 at June 1947 prices.

[5] Estimated by applying the increase in the weighted average of laundry services priced by BLS to the BFEC allowance of $17.89 at June 1947 prices.

[6] Type of service, and quantity allowed is carried over from BFEC. Rate used in the computation is rate in Detroit for telephone service of type specified in BFEC. See text for discussion of this allowance.

Cost computations

The prices of the soap items listed in the budget for an elderly couple and the cost of telephone services were obtained from the Bureau of Labor Statistics which includes these items in gathering prices for its Consumers' Price Index.

The BFEC allowances for miscellaneous household operations and for paid help in June 1947 were adjusted by applying the Bureau of Labor Statistics indexes for household operations and for domestic help, respectively.

The BFEC allowance for stationery and postage is $3.43. In adjusting the allowance for stationery, it was necessary to estimate the proportion of this $3.426 allowance which covered each of the two items. The estimate was based on the relationship between stationery and postage in the CWFB, in which 39.1 percent of the allowance for stationery and postage is the allowance for stationery. This indicates that 39.1 percent of the $3.426 allowed for this category in the budget for an elderly couple—the sum of $1.34—represents the cost of stationery in the budget for an elderly couple, and the balance of $2.086 covers the postage.[76] The estimated BFEC stationery allowance was increased by the BLS imputation procedure which relates price changes in all paper items to the price of toilet paper. The resultant amount was added to the estimated BFEC allowance for postage to arrive at the cost of stationery and postage combined.

The bases of the other cost figures appear in the footnotes to table E–1.

[76] Actual allowances in the CWFB are: 65 stamps at 3 cents each, and $1.25 for writing supplies at 1947 prices.

Inadequacies

According to the Federal Security Agency, the allowances for household operation were derived by the "resistance point" method.[76]

The inadequacies of the allowances obtained by this method have been discussed. They can be illustrated again by translating certain of the dollar allowances for household operations into the actual amounts of service that the allowance will provide.

The allowance for paid help—essential if the elderly woman is to be spared the most arduous housekeeping tasks—permits a maximum of 4 hours per month at current wages for household help in Detroit.[77]

The allowance for laundry permits the elderly woman to send out an average of one 20-pound bundle every 7 weeks if the laundry is done rough dry; if it is to be done family finish, a bundle could be sent out only once in every 16 weeks.

The impossibility of following such schedule is too clear to need exposition. Since the cost of laundry would rise markedly if sent out more frequently in less-than-20-pound bundles, since the budget allows no washing machine or ironer, and since the allowance for paid help is inadequate, the laundry allowance in the budget would require an elderly woman to do most of the washing and ironing, as well as the other heavy housework, under the most difficult conditions.

The telephone allowance in the BFEC is stated to provide for minimum service to 45 percent of the couples. The dollar allowance, however, is sufficient to purchase private line, unlimited service, the most expensive available.

It was nevertheless decided not to correct for this error in the BFEC. Telephone service belongs in an American standard of living on a 100-percent basis—that is, every couple should be allowed such service. It was considered especially important that the elderly have telephone service available for ready communication with physicians or relatives in case of illness or other emergency. If one member of the couple took ill suddenly or fell victim to a household accident, for example, the other would have to remain in the home to provide whatever immediate care might be necessary. A telephone is the only means by which help might be summoned under such circumstances, and the availability of one would contribute materially to the couple's sense of security.

Substitution of the lowest-cost service available in Detroit—two-party line 30 calls per month—for all elderly couples (in place of the service actually allowed by the BFEC for 45 percent of the couples) would have changed the annual telephone allowance from $34.18 to $34.56. Since the difference is insignificant, the BFEC allowance was left unchanged.

THE HOUSEHOLD FURNISHINGS AND EQUIPMENT BUDGET

The revised budget provides an annual allowance of $46.34 for household furnishings and equipment for an elderly couple in Detroit at November 1949 prices consisting of the following:

Household textiles		$13.28
Furniture and equipment:		
Furniture and floor coverings	$13.69	
Durable household equipment	17.78	
Miscellaneous household equipment	1.59	
Total furniture and equipment		33.06
Total allowance for household furnishings and equipment		46.34

The furnishings and the equipment included in the revised budget, and the quantities allowed per year, are shown in table F–1.

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[76] "Household operation was divided into two parts, one covering services, and one covering miscellaneous housekeeping supplies, such as soap, other cleaning supplies, paper, matches, etc. The two parts were derived separately, by the same method as used for clothing, etc." (Federal Security Agency, Bureau Memorandum No. 67, supra, p. 67).

[77] The Bureau of Labor Statistics does not price domestic help in Detroit. Wage rates in Detroit were obtained from the Michigan Unemployment Compensation Commission. For an 8-hour day, the Detroit rate is $6 plus lunch and carfare, or 75 cents per hour.

TABLE F–1.—*Household furnishings and equipment allowances and cost in Detroit at November 1949 prices* [1]

Item	Unit	Quantity per year	Cost in Detroit November 1949
Household textiles:			
Sheet	Number	1.50	
Pillowcase	do	1.95	(2)
Bedspread	do	.05	(3)
Subtotal			$4.46
Blanket	Number	.10	
Mattress	do	.05	
Subtotal			3.44
Bath towel	Number	1.50	
Hand towel	do	.75	(3)
Subtotal			1.80
Lunch cloth and napkins	Number	.15	(3)
Dish towel	do	1.70	(3)
Curtains and drapes	do	.35	
Subtotal			2.95
Miscellaneous textiles	Number		[4] .63
Total cost, household textiles			13.28
Furniture and floor coverings ([5] $12.79)			[6] 13.69
Durable household equipment ([5] $17.89)			[6] 17.78
Miscellaneous household equipment ([5] $1.55)			[6] 1.59
Total cost, household furnishings and equipment ([5] $44.91)			46.34

[1] BLS prices, except as indicated. BLS prices for individual items withheld at the request of the Bureau.
[2] Derived from BFEC June 1947 price by imputation.
[3] Derived from June 1947 BFEC allowance by applying BLS index for individual items.
[4] Allowance is 5 percent of total cost of preceding items.
[5] Dollar allowance at June 1947 prices
[6] See accompanying text for explanation of computation of these figures.

The household textile items, and the quantities of each, allowed in this budget are the same as those provided in the budget for an elderly couple. For the other categories of this section of the budget, the BFEC lists only dollar allowances, not items and quantities. These allowances were carried over into this revised budget after adjustment for price changes.

Cost computations

November 1949 prices collected by the Bureau of Labor Statistics for its Consumers' Price Index were used for the household textile items included in this budget wherever such prices were available. However, some of the household textiles provided in this budget are not priced regularly by the Bureau of Labor Statistics, and prices for these items in Detroit in November 1949 are not available.

In these cases, the June 1947 prices of these items, gathered by the Bureau of Labor Statistics when the original city worker's family budget was being prepared, were adjusted to November 1949 by the imputation method.

Furniture and equipment

The budget for an elderly couple does not itemize the furniture and equipment provided. It was not possible, therefore, to reprice the items covered by this allowance. Instead, the amount allowed was adjusted to November 1949, using BLS weights and prices. The allowance was broken down into its three components.[78] The allowance for each component was adjusted by constructing an index which would show the increase in prices for that component and applying the percentage change to the BFEC June 1947 dollar allowance.[79] Michigan sales tax was added.

[78] According to information supplied by BLS, furniture and floor coverings accounted for 39.7 percent of the total, durable household equipment for 55.5 percent, and miscellaneous household equipment for 4.8 percent.

[79] The Bureau of Labor Statistics indexes for individual items were used to adjust the dollar allowances for furniture and equipment. Since the indexes are issued quarterly, and no indexes are available for November 1949, the December 1949 indexes were used.

For example, to adjust the allowance for "furniture and floor coverings," the June 1947 and the December 1949 indexes for the individual furniture and floor-coverings items priced by BLS were weighted by their relative importance in the index for this component of the Consumers' Price Index. The percentage of difference between the total weighted index for June 1947 and for December 1949 was computed. This difference was applied to the allowance for June 1947.

The same method but different indexes was used for durable household equipment and for miscellaneous household equipment.

Allowances inadequate

Use of the "resistance point" method to derive the household furnishings and equipment budget made, inevitably, for allowances that are far from adequate when measured against the requirements of an American standard of living.

In the case of items other than household textiles, inadequacies were aggravated by ruling out larger expenditures from among those analyzed to determine the "resistance point." As the Federal Security Agency explains: "* * * available expenditure records did not yield data adequate for the derivation of satisfactory allowances for the individual items. Accordingly, these data were used as a basis for determining a flat dollar allowance. Total amounts spent for such items by all families in the sample were arrayed, expenditures at the extremes of the array ($100 and over) were omitted, and for each such item, the largest outlay of less than $100 was substituted, and an adjusted average computed." [80]

The meager allowances for house furnishings apparently reflect the restricted incomes of the prewar elderly, rather than their requirements.[81]

Allowances lower than earlier budget

Comparison of the allowances in the BFEC with those in an earlier budget for aged people underlines the inadequacy of the allowance for household furnishings and equipment.[82]

The money allowances for household furnishings and equipment in this earlier budget were roughly adjusted for price changes for purposes of comparison with the BFEC. It appeared that the cost of all house furnishings and equipment allowed in the earlier budget exceeded those in the BFEC by about 15 percent The allowance for household textiles in the earlier budget appeared to be more than 20 percent higher than in the BFEC.

Nevertheless, the BFEC allowances were carried over into the revised budget because it was not possible to check the validity of those provided in the earlier budget.

THE CLOTHING BUDGET

The revised budget provides an annual allowance of $115.42 for clothing for an elderly couple in Detroit at November 1949 prices, consisting of the following:

Clothing allowance, elderly woman:	
Allowance for clothing purchase	$53.92
Allowance for cleaning, repairs, and miscellaneous accessories	1.89
Total, woman	55.81
Clothing allowance, elderly man:	
Allowance for clothing purchase	$54.94
Allowance for cleaning, repairs, and miscellaneous accessories	4.67
Total, man	59.61
Total clothing allowance, elderly couple	115.42

The clothing quantities, and the cost of purchasing them

The items, and the quantities of each allowed in this budget are the same as those provided in the budget for an elderly couple despite their obvious inadequacies. These allowances, and their cost in Detroit in November 1949 are shown in table G–1.

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[80] Federal Security Agency Bureau Memorandum No. 67, supra, pp. 7–8.
[81] See statement by Dr. Brady quoted on p. g–7 of the appendix.
[82] Federal Security Agency Bureau Memorandum No. 53, Cost of Living for Aged Persons, p. 21.

TABLE G–1.—*Clothing allowances and cost in Detroit at November 1949 prices* [1]

WOMEN'S CLOTHING

Item	Unit	Quantity per year	Cost in Detroit, November 1949
Hats			
Felt	Number	0.18	(2)
Fabric	do	.37	(2)
Cap or beret	do	.05	(2)
Total, hats			$3.058
Coats			
Heavy, with fur	Number	.06	
Heavy, no fur	do	.06	
Light wool	do	.08	
Sweater, wool	do	.18	(3)
Suits, wool, no fur	do	.03	
Total, coats, sweaters, and suits [4]			10.813
Dresses:			
Cotton, street	Number	.21	(3)
Housedresses	do	.51	
Rayon	do	.69	
Wool	do	.09	
Total, dresses			12.506
Blouses:			
Cotton	Number	.05	(2)
Rayon	do	.05	(2)
Total, blouses			.472
Housewear and sportswear:			
Apron	Number	.40	(3)
Bathing suit	do	.05	(2)
Total, housewear and sportswear			.715
Underwear.			
Slip, cotton	Number	.43	(2)
Slip, rayon	do	.32	
Panties, cotton	do	.36	(2)
Panties, rayon	do	.67	
Panties, part wool	do	.07	(2)
Unionsuit, cotton	do	.25	(3)
Unionsuit, rayon	do	.08	(2)
Undershirt	do	.35	(3)
Brassiere	do	.17	(3)
Corset or girdle	do	.20	
Total, underwear			5.548
Nightwear:			
Nightgown, cotton	Number	.22	(2)
Nightgown, rayon	do	.11	
Nightgown, flannel	do	.23	(2)
Robe, cotton	do	.01	(2)
Robe, rayon	do	.04	(2)
Total, nightwear			1.605
Hosiery:			
Cotton	Pair	1.30	(3)
Rayon	do	2.52	( )
Cotton and wool	do	.05	(2)
Nylon	do	.63	
Total, hosiery			3.942
Shoes			
Fabric	Pair	.10	(2)
Leather	do	.97	
Houseslippers	do	.21	( )
Total, shoes			11.482
Rubbers, arctics.			
Rubbers	Pair	.03	(2)
Galoshes	do	.07	(2)
Total, rubbers and arctics			211

See footnotes at end of table.

TABLE G–1.—*Clothing allowances and cost in Detroit at November 1949 prices* [1]—Continued

WOMEN'S CLOTHING—Continued

Item	Unit	Quantity per year	Cost in Detroit November 1949
Accessories:			
Gloves, cotton	Pair	.22	(2)
Gloves, rayon	do	.03	(2)
Gloves, wool	do	.04	(2)
Gloves, leather	do	.02	
Handbags	Number	.21	(2)
Handkerchiefs	do	.85	(2)
Umbrellas	do	.05	(2)
Total accessories			2.3
Yard goods:			
Cotton	Yard	1.66	
Rayon	do	14	
Total yard goods			1.0
Total clothing purchase, woman			$53.9
Allowance for cleaning, repairs, and miscellaneous accessories (3.5 percent of cost of above).			1.8
Total clothing allowance, woman			$55.8

MEN'S CLOTHING

Hats:			
Felt	Number	0.51	
Straw	do	.16	(2)
Cap	do	.08	(2)
Total, hats			$5.9
Coats:			
Overcoats	Number	.12	
Raincoat	do	.04	(2)
Total, coats			6.3
Sweaters, jackets:			
Sweaters, wool	Number	.05	
Sweaters, cotton	do	.07	(2)
Jacket, wool	do	.12	(2)
Total, sweaters and jackets			1.2
Suits:			
Wool, heavy	Number	.22	
Wool light	do	.04	
Cotton	do	.02	(2)
Tropical worsted	do	.04	(2)
Total, suits			12.8
Trousers and overalls:			
Trousers, wool	Number	.15	
Trousers, cotton	do	.25	(2)
Trousers, rayon	do	.02	(2)
Overalls	do	.52	
Total, trousers and overalls			4.9
Shirts:			
Cotton, work	Number	.96	
Cotton, other	do	1.29	
Rayon	do	.05	(2)
Total, shirts			6.4
Sportswear:			
Slack suit, rayon	Number	.04	(2)
Bathing suit	do	.05	(2)
Total, sportswear			.67

See footnotes at end of table.

TABLE G–1.—*Clothing allowances and cost in Detroit at November 1949 prices* [1]—Continued

MEN'S CLOTHING—Continued

Item	Unit	Quantity per year	Cost in Detroit, November 1949
Underwear and nightwear:			
Undershirt, cotton	Number	.29	
Undershirt, part wool	do	.11	(2)
Underdrawers, cotton woven	do	.07	
Underdrawers, cotton knit	do	.23	(2)
Underdrawers, part wool	do	.10	
Union suit, cotton	do	1.16	
Union suit, part wool	do	.19	
Pajamas, cotton	do	2.24	
Total, underwear and nightwear			3.797
Socks			
Cotton, heavy	Pair	1.76	
Cotton, dress	do	2.02	(2)
Rayon	do	.21	
Wool	do	.21	(2)
Total, socks			1.296
Shoes:			
Leather, work	Pair	.40	
Leather, other	do	.49	
Fabric	do	.02	(2)
House slippers	do	.14	(2)
Total, shoes			8 439
Rubbers			
Rubbers	do	.17	
Arctics	do	.03	(2)
Boots	do	.05	(2)
Total, rubbers			.863
Accessories:			
Gloves, cotton	Pair	1.10	(2)
Handkerchiefs	Number	.92	(2)
Ties	do	1.09	(2)
Total accessories			2.115
Total clothing purchase, man			54.94
Allowance for cleaning, repairs, and miscellaneous accessories (8.5 percent of cost of above)			4.67
Total clothing allowance, man			59.61
Total allowance, woman's clothing			55.81
Total allowance for elderly couple			115.42

[1] Prices collected by BLS for the Consumers' Price Index were used to compute the cost of the clothing-allowances in November 1949, except as indicated below. Prices for individual items withheld from publication at the request of the Bureau.

[2] Estimated by imputation, using percentage change in appropriate BLS item applied to June 1947 BFEC prices.

[3] Estimated by applying BLS item index to June 1947 BFEC prices; adjusted by index for June 1947 and December 1949.

[4] Combined to avoid disclosure of BLS price for individual items.

[5] Estimated by applying BLS item index to June 1947 BFEC prices; adjusted by index for June 1947 and June 1949.

[6] Estimated by applying BLS item index to June 1947 BFEC prices; adjusted by average of indexes for March and September 1947, and December 1949.

[7] Estimated by applying BLS item index to June 1947 BFEC prices; adjusted by average of indexes for February and September 1947 and December 1949.

[7] Estimated by applying BLS item index to June 1947 BFEC prices; adjusted by index for September 1947 and December 1949.

How the prices for November 1949 were computed

The November 1949 costs shown in table G–1 were computed from prices obtained from BLS, or were brought up to date from the BFEC figures by using data and methods the same as, or similar to, those used by the BLS for the purpose of measuring price changes.

Prices collected by BLS for its Consumers' Price Index were used wherever such prices were available for items included in the budget. Some clothing items in the budget are not priced regularly by BLS, and prices for these items in Detroit in November 1949 were therefore not available. In these cases the June 1947 prices of these items, gathered when the original budget was being prepared, were obtained from BLS and were adjusted to November 1949 either by the imputation method or by applying the changes in the BLS indexes for specific items to the June 1947 price.

The following examples show how these methods were applied:

Imputation: BLS did not price women's rayon blouses in November 1949. For purposes of its index, the Bureau assumes that changes in the price of women's rayon blouses are the same as changes in the price of women's rayon dresses.[83] According to the prices collected by BLS, rayon dresses cost 15.5 percent more in November 1949 than in June 1947. The price of a rayon blouse in June 1947 was accordingly increased by 15.5 percent, and this latter price was used in computing the allowance for rayon blouses in the revised budget.

Where the specifications of the priced items had changed between June 1947 and November 1949, use of the percentage change between the price of the new and the old item would have yielded results of questionable validity if used for imputation purposes. In these cases, the BLS price was used in computing the budget cost for the priced item, but the price change was not imputed to other items in the budget. Where the imputation pattern could not be applied, the June 1947 BFEC price was adjusted by the BLS index for the individual item for which no price was available.

Adjusting by the index for individual items: Price changes in men's wool sweaters are imputed, according to BLS procedures, to changes in the price of women's wool sweaters. However, the specifications of the men's wool sweaters priced by BLS had changed between June 1947 and November 1949. The sweater now priced cost 39 percent less in November 1949 than the June 1947 price of the sweater priced in that month. Instead of applying this decrease of 39 percent to the price of women's wool sweaters, the change in the price was computed by applying the decease in the index for men's wool sweaters to the June 1947 price of women's wool sweaters.

In this instance, as in others indicated in table G–1, there was no June 1947 index available. The index for February 1947 and the index for September 1947 were averaged, and the change from this base to December 1949 (the nearest quarterly index available) was computed and applied to the June 1947 price.

What level of living does the clothing budget permit?

The clothing allowances in the budget were determined by the resistance-point method and are actually at public relief levels. They are carried over from the BFEC into the revised budget only because no other clothing budget was found whose validity seemed beyond question.

The inadequacies of the BFEC allowances become strikingly apparent when item by item comparison is made with allowances for the younger adults whose needs the CWFB attempted to reflect. Younger and more active people may have greater need for certain clothing items than other individuals leading more sedentary lives, but it hardly seems likely that the differences can be as great as those indicated by comparison of the two budgets.

As compared with the allowances for the younger man in the CWFB, the allowances for the elderly man in the BFEC were cut from—

Approximately 4 pair per year to less than 2 pair, in the case of unionsuits or their equivalent in underdrawers and undershirts.

From 0.76 per year to 0.51 per year, in the case of felt hats.

Approximately one every 3 years to one every 8 years, in the case of sweaters.

Approximately 0.77 per year to 0.26 per year, in the case of suits, including light and heavy suits.

From slightly over 3 per year to approximately 2⅓ per year, in the case of shirts.

From 13½ pair per year to less than 4½ pair per year, in the case of socks (on the basis of the combined weights for all types).

From 1.23 pair per year to less than 1 pair each 2 years, in the case of shoes.

Approximately 6½ handkerchiefs per year to less than 1 each year.

From three per year to one per year, in the case of ties.

[83] U. S. Department of Labor, Bull. No. 699, supra, p. 94.

As compared with the allowance for the younger woman in the CWFB, the allowances for clothing for the elderly woman were cut from—

Over one per year to less than one each 2 years, in the case of felt hats.

One every 2 years to one every 5 years, in the case of the combined allowance for all coats.

From 4.17 dresses per year of all kinds to 1½ each year, the allowance for skirts was eliminated, and the allowance for blouses was cut from 1 every 2 years to 1 every 5 years.

From 2.18 per year to less than 1 per year in the case of shoes, and from 0.46 per year to 0.21 per year in the case of house slippers.

The differences are explained by use of the resistance point method which inevitably results in reflection of the inadequate incomes of those in the group whose expenditures are analyzed.

According to one of the outstanding authorities in the field, the basis for smaller allowances for the aged seems to be disappearing:

"As a result of my current research on family consumption and savings, I reached the tentative conclusion that the age differentials in the standards of clothing and house-furnishings have been rapidly disappearing since 1941. The result of some regular and assured income, although very small, has been apparently to allow the grandparents the aesthetic and social values that prior to the war they were denied by customs that were determined by the uncertainties of their incomes. If the same methods were used with current data, I believe that the up-to-date BFEC would show a considerable increase in the quantity budgets for clothing and house-furnishings." [84]

Allowances at relief level

The fact that welfare grants for clothing for elderly couples often approximate or exceed those provided in the BFEC is further evidence of the inadequacies of the latter.

The Federal Security Administration points out that the clothing allowance made by the Massachusetts State Department of Welfare for old-age assistance to an elderly couple was $143 in September 1947. The allowance for clothing in BFEC at June 1947 prices in Boston was $95.[85]

The Federal Security Agency also called attention to the fact that the clothing and personal care allowance for an elderly couple in the minimum adequate budget set up by the Council of Social Agencies of the District of Columbia amounted to $142 at December 1946 prices, while the allowance in the BFEC for clothing and personal care cost $120 at prices of March 1946 and $141 at prices of June 1947.[86]

Following are the clothing allowances currently being made by a number of relief agencies, or the cost of the clothing items being issued by those agencies, for an elderly couple. (In order to achieve comparability, the figures exclude cleaning, repairs, and miscellaneous accessories).

Clothing allowance

Agency: [1]		Agency: [1]	
A	$101.79	E	$132.00
B	127.00	F	130.00
C	124.02	Allowance in revised budget	110.64
D	99.07		

[1] Information supplied by the agencies in response to inquiries from UAW CIO. 2 of the agencies are municipal government welfare bodies; 2 are State government agencies; 2 are community social agencies to which are affiliated leading private charity organizations in their respective communities. All of the allowances shown are used for actual provision of clothing to aged relief or charity clients.

The inadequacy of the clothing allowance in this budget becomes even more obvious when the allowances for specific items are examined.[87] Such examina-

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[84] Dr. Dorothy S. Brady, professor of economics, University of Illinois in letter, dated February 20, 1950, addressed to Nat Weinberg of the UAW-CIO. Dr. Brady was formerly with BLS where she played an important part in developing the CWFB.

[85] Federal Security Agency, A Budget for an Elderly Couple, Social Security Bulletin, February 1948, p. 11.

[86] Ibid.

[87] Some examples of these inadequacies have already been given in sec. II.

tion shows that the BFEC allowances are even lower in many instances than those made by the welfare agencies.[88]

In the allowance for clothing for the woman, the budget provides $3.30 per year for underwear. Among the welfare agencies studied for this purpose, the lowest allowance made is $4.92. For nightwear, this budget assumes an expenditure of $1 per year. Yet none of the agencies allows less than $2.39.

The allowance for rubbers and galoshes is lower in the BFEC than in any of the agency allowances.

The BFEC does allow for the purchase of $2.17 worth of yard goods a year for home sewing, for which none of the relief agencies provide.

The inadequacy of the clothing allowance for men is indicated by the fact that all of the welfare agencies studied made a bigger allowance for buying each of the following items than does this budget: Underwear, socks, handkerchiefs, nightwear, sweaters.

Not included in this list are items for which one of the welfare or charity agencies provides a lower allowance while all the other agencies provide more than this budget. An example is rubbers; one agency provides less than does the revised budget for this item, but all the others are significantly higher.

Nevertheless, no substitutions or increases in the BFEC allowances were made in computing the cost of this revised budget.

THE PERSONAL CARE BUDGET

The revised budget provides an annual allowance of $33.88 for personal care for an elderly couple in Detroit at November 1949 prices. The services and commodities provided in the budget, and the cost of these services and commodities is shown in table H–1.

TABLE H–1.—*Personal care allowances, and cost in Detroit at November 1949 prices* [1]

Item	Unit	Quantity per year	Cost in Detroit November 1949
Services.			
Haircut, man	Each	14.50	
Shampoo, woman	do	4.17	
Permanent waves	do	.37	
Total, services			$27.31
Commodities			
Toilet soap	Cake	40.00	
Cosmetics	Dollar allowance		[2] 1.65
Shaving cream	5-ounce tube	3.00	[3]
Total, soap, cosmetics, and shaving cream			5.56
Tooth paste	3-ounce tube	5.00	
Tooth powder	4.5-ounce can	1.00	[3]
Total, tooth paste and tooth powder			.79
Miscellaneous toilet articles and preparations	Dollar allowance		[4] 2.22
Total, commodities			8.57
Total allowance for personal care			33.88

[1] BLS prices, except as indicated. BLS prices for individual items withheld at the request of the Bureau.
[2] BFEC allowance of $1.58 at June 1947 prices, adjusted to November 1949 by the BLS index for personal care.
[3] Estimated from BFEC price by imputation from the change in the price of tooth paste.
[4] Allowance is 7 percent of the total cost of all personal care items.

The services and commodities provided in the revised budget are identical with those in the budget for an elderly couple, adjusted for changes in prices to November 1949.

[88] The items used in making comparisons between budgets are those which cannot be interchanged with others that are allowed in the budget. For this reason, the allowances for women's dresses, blouses, suits, and coats are not compared with each other, and the allowances for men's suits, trousers, and jackets are also excluded.

A comparison between the allowances for commodities and services in the budget for an elderly couple with those made by welfare agencies confirms the judgment that the budget for an elderly couple allowances, set by the "resistance point" method, are at a very low level. For example, the budget for an elderly couple allowance for cosmetics for the elderly woman is $1.65 per year. The welfare department of one State, which supervises the distribution of welfare funds throughout the State, makes an allowance for this purpose of $2.31.[89] The budget for an elderly couple allowance for miscellaneous toilet articles is $2.22; the same State welfare department allows $5.30.[90] The welfare allowance for these two items, which make up only 10 percent of the total personal care allowance in the budget for an elderly couple, is $3.74 less than the welfare allowance.

READING, RECREATION, AND TOBACCO BUDGET

The revised budget provides an annual allowance of $100.28 for reading, recreation, and tobacco for an elderly couple in Detroit at November 1949 prices. The allowances in the budget, and the cost of these allowances, are shown in table I–1.

TABLE I–1.—*Reading, recreation, and tobacco allowances, and cost in Detroit at November 1949 prices* [1]

Item	Unit	Quantity per year	Cost in Detroit, November 1949
Reading:			
Newspapers	Number	365.00	
Magazines	do	52.00	
Total, reading			$31.20
Recreation:			
Movies	Number	22.00	
Radio purchase	do	.11	
Radio upkeep	Dollar allowance		(2)
Total, movies and radio			16.58
Social dues	Dollar allowance		[3] 6.94
Other recreation	do		[4] 20.82
Total, social dues, movies, and other recreation			27.76
Total, recreation			44.34
Tobacco:			
Cigarettes	Pack	52	
Cigars	Number	56	
Total, cigarettes and cigars			15.40
Pipe tobacco	1 ounce	[5] 78	
Other, including supplies	Dollar allowance		[6] 3.41
Total, pipe tobacco and other tobacco, including supplies			9.34
Total, tobacco			24.74
Total, reading, recreation, and tobacco			100.28

[1] BLS prices. Prices for individual items are withheld at the request of the Bureau.
[2] Allowance is 25 percent of the annual cost of radio purchase.
[3] Allowance is 14.7 percent of the annual cost of movies, radio purchase, and reading.
[4] Allowance is 44.1 percent of the annual cost of movies, radio purchase, and reading.
[5] As published by FSA, quantity reads 78 tins of 1¾ ounces each per year. Information from BLS is that the correct allowance is 78 ounces per year.
[6] Allowance is 16 percent of the annual cost of cigarettes, cigars, and pipe tobacco.

[89] Yearly allowance: 1 large jar deodorant, 1 large jar hand lotion, 1 medium box face powder, 2 packages hair pins, 1 large lipstick, 1 medium box rouge.
[90] Yearly allowance: 2 combs, 1.3 hairbrushes, 4 tooth brushes, 1 shaving brush, 0.5 razor 10 packages razor blades.

Allowances in the revised budget are identical with those in the budget for an elderly couple, adjusted for changes in prices to November 1949. Costs, in all cases, are based on prices collected by BLS for its Consumers' Price Index.

Recreational opportunities

For the retired couple, the activities classified as "recreation" are not a supplement to a full day's occupation with job and family; they are in large part the major activities of the day. Unless adequate opportunity and means for recreation are available, the freedom from work which retirement brings is likely to result in mental and physical decay with each member of the couple taking out his or her frustration on the other.

If the elderly couple is to maintain the position in the community and to find the pleasure in old age which the American standard calls for, the allowance for recreational activity would have to be much larger than the allowance actually made in the budget for an elderly couple. The test of the adequacy of the budget lies not alone in the statistical measurement of the frequency with which the elderly couple can take part in particular activities; it lies also in the sense of opportunity which the allowance permits.

On both of these tests, the allowance in the budget for an elderly couple fails.

For all reading and recreation, except for tobacco, the allowance in the budget is approximately $75 per year, less than a dollar and a half a week per couple. Faced by the necessity of planning recreation and reading on that amount, no elderly couple would find that old age provided sufficient opportunity for relaxation and creative enjoyment.

The budget allowance provides for one newspaper a day and for one magazine per week. Since the magazine may be purchased each week only if a 15-cent publication is chosen, the choice of publications will be seriously limited. The highly popular weekly magazines in the 20-cent class would be eliminated from consideration, as would all the monthly magazines. While public library service is available in most areas, some families will want to buy an occasional book. However, the allowance provides nothing for this purpose, even on a statistical basis of so much per thousand couples.

The allowance for movies provides for 11 per year per person. This allowance will provide for attendance only at neighborhood movies, and those less than once a month.

The allowance for radio purchase and radio repairs is inadequate in view of the fact that nearly all families now can be expected to have at least one radio. The allowance would permit replacement of the radio once every 9 or 10 years, an average life for the radio hard to achieve, since the total allowance per year for this purpose is less than the price of one tube. One bill for service, particularly if it included parts replacement, would absorb the amount allowed for service for many years.

The allowance for "other recreation," $20.82, looms large until it is appraised in terms of the wide range of recreational activities which normally interest an American family and for which no specific allowance has been made in the recreation budget. Among these would be attendance at ball games and other sports, fishing, and the purchase of the games that come into vogue from time to time for home use.

The affects of inadequate income would tend to be reflected sooner in expenditures for recreation than in most if not all other categories. Use of the resistance-point method in analyzing recreation expenditures is likely, therefore, to have particularly serious effects on the adequacy of the recreation allowance.

GIFTS AND CONTRIBUTIONS

The BFEC provides an allowance for gifts and contributions on a flat percentage basis. This allowance, which is equal to 3 percent of the total cost of the other items in the budget, covers "gifts and contributions and irregular and infrequent outlays such as legal fees, bank charges, or fees for the maintenance of cemetery lots." [91]

Increased participation in community and family affairs is a concomitant of a rise in the standard of living. In all probability, expenditures related to such participation rise more than proportionately with increased income and relaxation of the pressure to channel all available funds into purchase of basic living essentials.

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[91] Federal Security Agency, Bureau Memorandum No. 67, supra, p. 9.

Nevertheless, the 3-percent factor in the BFEC was carried over into the revised budget. The increase in the dollar amount allowed for "gifts and contributions" is therefore proportionate to the increase in the cost of all the remaining components of the revised budget as compared with the BFEC. For the reasons stated, the allowance is probably less than what would be required by an American standard of living.

The total allowance for all items included in the "gifts and contributions" category is $60.86 per year in the revised budget.

Mr. REUTHER. Thank you.

Senator MILLIKIN. Proceed, please.

Mr. REUTHER. The question of providing adequate security for old people in America is, we believe, one of the most pressing problems on democracy's agenda of unfinished business. The question of security is not only a matter of justice to the old people themselves; it is a matter of, we think, economic necessity, if we are going to achieve the kind of economic balance we need in our economy.

The old people need a decent, adequate family budget to give them the security and the dignity to which they are entitled. Aside from the human considerations, you have a very practical economic consideration, as long as millions of American families who are well along in life are denied the purchasing power to sustain a decent standard of living, the money that they lack is not being pumped into the American economy. Therefore, giving old people in America a decent, adequate income to provide security and dignity in their old age is an important economic factor, if we are going to try to achieve and maintain a full employment, full production, and full distribution economy.

There is a third consideration which certainly is very compelling at this hour of democracy's greatest crisis. That is the fact that if we can demonstrate in America that we are prepared to step up to the obligation that we have to our old people, and give them the kind of security and dignity to which they are entitled in their old age, that will strengthen us greatly in our struggle against the forces of totalitarianism in the cold war.

I think we all realize that the cold war, essentially, is a struggle for men's minds and their hearts and their loyalties. We have the practical problem in America of meeting the challenge of the Cominform, not by pious slogans about democracy's virtues, but by proving in a practical and tangible way that American democracy does have the moral strength and the practical, economic, and political know-how to come to grips with, and solve, the basic problems of the great mass of people.

I just returned in December from a conference in London where I had the opportunity of sitting down for a period of 10 days with 250 delegates representing the Free Trade Union Movement throughout the world. They represented about 48,000,000 organized workers. I met with these people in conference, I met with them as individuals, had breakfast with them, talked with them in the evening. They said to me repeatedly, people from all over the world, that the hope of the world was America, that if democracy could be made to work and to meet these practical problems of life, America would have to find the way.

These people that I met with are the people who occupy the front line trenches in the cold war. Some of them are from behind the

iron curtain, because there were delegates there from Berlin. Some of them are right up against the iron curtain, and they know what the basic problem is in fighting the forces of totalitarianism. And they said to me repeatedly, "Our biggest problem is answering the propaganda of the Cominform, not at a high political level, at a conference of foreign ministers, but at the shop level and at the neighborhood level, where people talk as people. The Communists raise two basic questions, and it is the answers to these questions," they said, "that concern us most as to what is happening in America, and where you people are going in America."

They said, first, "We are worried about growing unemployment in America." They said that the Communists are carrying on a continuous barrage of propaganda to the effect that democracy does not have the will or the know-how to solve the problem of unemployment.

Senator MILLIKIN. What is your own organization's figure on unemployment, may I ask, at the present time?

Mr. REUTHER. Our figure is that it is somewhere around 4,800,000 at the moment, but when you add to that millions of workers who are partially employed, it is greater. In the city of Muskegon, which is a city in which we have a sizable membership—the basic industry is foundries—one in every four adults is completely unemployed, and 25 percent of the employed workers are only partially employed. They are working 3 and 4 days a week. So that to our figure of 4,800,000 of people who are completely unemployed, we must add millions of workers who are working only part time.

Senator MILLIKIN. Do you have a rough view on the relation of part-time unemployed to full-time unemployed? Would you say there are twice as many part-time workers?

Mr. REUTHER. I am only guessing on this, but based upon our industry, I would say that there are probably 20 percent of the workers in our industry who are partially employed, that is, they are working, but not on a full week's basis. Our industry is in a more favorable position. The auto industry is, of course, as you know, booming; we produced more than 6,000,000 cars last year, and at the present time we are going at a rate of almost 7,000,000 cars. If you get into other industries that are not as healthy economicwise as the auto industry, you would find a higher ratio.

In the electrical industry, in the appliance industry in particular, they are experiencing a great deal of partial unemployment, as they are in some of the other consumer goods industries.

These people I talked with in London said to me, "There are two problems that we have to answer, every day, in factories where the Communists are agitating and trying to win the loyalty of workers, in the neighborhoods, in the communities. After all, we know and the people of the world know that the two symbols of the kinds of ways of life that people have got to choose between is the thing that America symbolizes in the world, and on the other hand, the totalitarianism of Russian communism. These workers keep saying, 'What about unemployment in America?'

"And the other question is, 'What about the security of a worker in America, whether he works in the factory, or on a farm or in an office, or in a store, what about that worker's security in his old age? Sure, as long as he is working he is earning relatively high wages, he has

a fairly good standard of living, but what happens when he is no longer able to work?' "

These people said to us, "If you people in America could really do something with respect to unemployment, and with respect to questions like the security of workers in their old age, you would take away from the Communists their most potent weapons in the cold war, and we could win allies and we could build the kind of loyalties that democracy needs if it is going to win the cold war."

Senator MILLIKIN. We were talking about unemployment. I notice there is a statement on that in your text.

Mr. REUTHER. In the prepared statement, we say about 8.9 million are working less than full time. Two million of these were able and wanted to work full time.

These people that I met in London are the people who have been tested as to their loyalty to democratic values. A large percentage of these peope were in the concentration camps under Hitler because they fought against that kind of totalitarianism. And it is their kind of people where the iron curtain has moved in to cover a larger territory who go to jail and go to prison and stand before the firing squad. Because these men and women have proven that they believe in democracy and these values, I believe that their evaluation of the world situation and the forces at work in the cold war give us a true picture.

They said to us that the American economy in this cold war is freedom's greatest asset, and what we do with it can be the decisive factor as to whether we are going to win. And they said that, "The world is going to judge you people in America not by your technology—we know you can split the atom, we know you can make pursuit ships faster than sound, we know you have built the tallest buildings—we are going to judge America not by your technological progress, but by the ability of American democracy to translate technical progress into human progress, into human happiness and dignity."

Really, that is what we are talking about here when we talk about old-age security. We are talking about finding a way to take the tremendous progress that we have made in the physical sciences and to reflect that progress in terms of human progress, in terms of people.

Senator MILLIKIN. I think that is a very good way to put it.

Mr. REUTHER. You see, we in America—nobody questions, even the Communists do not question this—we know how to do things with materials. I spent a year in Russia; I worked there in an automobile factory. They made model A Fords there. So I went over there as a technician since I had worked as a technician at the Ford Motor Co.

Senator MYERS. When was that?

Mr. REUTHER. That was back in 1934. The Russians marveled at American technology. They said, "You people can do such wonderful things with materials."

We have to prove now that we cannot only do things with materials, but we can also do things in terms of people. That is the key to the whole question of the cold war.

And this question of old-age security brings into sharp focus this whole question. It is fundamentally a moral question: Do we have the moral strength to find a way to translate technical progress into human progress?

I say if we succeed, we will give our allies a potent weapon with which to fight the Communists. If we fail, we will give the Communists a potent weapon with which to fight against us. I think that, in the kind of cold war in which we are involved, psychological weapons are just as important as H-bombs.

Senator MYERS. It has been said by some folks that since we are spending so much on the Marshall plan to fight the cold war and to build military might here, in order to protect us from sudden attack, that while we are spending those sums, it is rather impossible to keep a stable economy and expend further moneys to increase benefits such as you have just addressed yourself to.

Mr. REUTHER. I am going to get into the question of the costs of these things later on. If it is agreeable I would like to hold that, but I think that is an unsound argument.

Senator MYERS. You will comment on that later?

Mr. REUTHER. I will comment on that in detail.

Senator MYERS. I will withhold the question.

Mr. REUTHER. I say that in the cold war we have got to mobilize moral forces in the world that are stronger than the H-bomb, or we cannot win. That means you have got to win people's loyalty, you have got to get people to fight your battle with you. And that is what the Marshall plan is all about, that is what we are really trying to do. We are trying to win democratic allies in the world, because we cannot win alone. We have to have these other people with us.

At the last convention of our union we had 2,300 delegates. Those 2,300 delegates voted unanimously that they were going to devote their time and their energy and their strength to the No. 1 fight in America, and that was to win a measure of security for workers when they are too old to work but too young to die. They pledged that that should be the No. 1 objective of our union during the next year or two.

They took the position that we make no distinction, we want security for all workers, whether in the factory or the mine or the mill or the farm or the store or the office. The worker on the farm who has worked hard all of his life is entitled to the same consideration, the same security, and the same dignity in his old age as a worker in a factory. And the delegates to our convention said, "We believe that when a worker has given the best years of his life to productive effort in the American economy, as an economic right and as a moral right he ought to be able to look forward to spending the last years of his old age on this good earth of ours with an element of security and happiness and dignity, and have a little bit of sunshine in his old age." They said that old age should not be looked forward to with fear and uncertainty, with a dark cloud over your life; it ought to be looked forward to as a period of sunshine in which you really are able to enjoy the good things of life, have a little bit of fun with your grandchildren—and always you have more fun with your grandchildren than you do your own, because you have all of the fun without the responsibility. I see that in my own family.

Senator MYERS. They are not your grandchildren?

Mr. REUTHER. No, they are not. My father-in-law and mother-in-law come over and they have a lot of fun with my children, and when all of the work is to be done, they go home and we have the

responsibility. That is what I mean. And that is as it should be.

I say that giving people these things is not a matter of charity; it is a matter of right, economic and moral, and we believe that America has got to step up to this problem with courage and without hesitation.

In our industry, as in many other industries, we had a situation that we called the double standard. We had a situation in American industry where corporation executives—and we do not begrudge what they get paid—were getting two and three and five hundred thousand dollars a year who had provisions for pensions when they were too old to work and too young to die that ranged from $25,000 up to $75,000 a year. We had in our industry a situation where one executive made $516,000 a year, and based upon a 40-hour week, a 50-week year, he made $258 per hour. When the board of directors of that company got together, they said that this fellow had been a loyal employee, he had worked hard, but they figured that he could not save anything out of $258 per hour, so they made provision to give him a $25,000 a year pension, when he was too old to work and too young to die.

That same company a couple of years ago when we talked about this problem would not agree to give a $1.50 an hour worker a pension because they said, "Let him save for his old age. Why should we take the responsibility of providing for his old age?"

We said, "Well, if you gave a $258 per hour executive $25,000, then certainly it is economically stupid and morally wrong to deny a worker who gets $1.50 per hour some pension security in his old age."

Well, they said to us, "Don't talk to us about pensions. Go down to Washington. Pensions are bigger than collective bargaining. They are bigger than the workers in our factory. They are bigger than the whole automobile industry. The problem of old-age security is as big as America."

And we said, "You know, we agree with that. We have no difference of opinion whatsoever."

They said, "Why don't you go to Washington and get some laws passed to broaden social security in its coverage, increase the benefits?"

We said, "Fine."

And we came down here, but unfortunately we found the same people down here a couple of years ago blocking the increase in Federal social security.

We said, "We prefer to do it in Washington because we are not interested in dividing America into those citizens who have security and those citizens who lack security."

We have a powerful union. We have the biggest union in America. We have more than a million dues-paying members. We have more strength to fight to get these things for our people than most people have. But we are not going to use that strength to fight just for our people. We take the position that we can solve our problems in America not if we say, "Let us get security for this small group at the expense of everybody else." We take the position that we can make progress only if the whole community makes progress. We can get security only if all of America gets security.

And so we said, "We will go to Washington, and we will fight to try to get an increase in Federal social security both with respect to benefits and the scope of the coverage."

As I say, they came down here and they blocked that.

As we all know, for 12 years there has been no real improvement in the Federal social-security laws.

So we came down here, and we found that we could get nowhere, and our workers said, "Well, if you can't make progress in Washington, progress that will reflect security for all of America, then we have got to work with the tools of collective bargaining."

So we began then to fight on the collective bargaining front for pension plans.

We fought for a noncontributory pension plan in industry because we knew that that was the key to getting action at the Federal Government level. We said, "If we can fight to establish pension plans in private industry through collective bargaining on the principle that the employer must pay the total cost of such private pension plans, then the employer will have an incentive to go down to Washington and fight with us to get the Government to meet this problem because in a Federal program the employee pays part of the cost."

In the Ford contract, which was the first major contract in which we established that principle, we were fortunate in getting that established without a strike. That is the way we prefer to settle collective bargaining matters. That is the way they ought to be settled. As we have been saying, settlements should be based upon economic facts, not upon economic power.

In the steel industry they had to fight a costly strike and that strike was over the question of the noncontributory principle; that is, that the industry would pay the total cost of the private plan.

And because we made that fight, almost overnight industry's basic attitude changed, and they began to say, "The Federal approach is the proper approach," although the same people opposed it in the past.

We think that they were converted not through the mind or the conscience. This was conversion through the pocketbook, because they realized that if we had to get the pension plan on the private plan basis, and they had to pay the toal cost, that would cost them more than if it was done through the Federal Government, where they had to pay only a portion of the total cost.

I want to make it very clear that, although we have been very successful in negotiating private pension plans, and we hope to continue our efforts in that respect, we are committed as an organization without qualification to fight with everything we have and to use all of our influence for the passage of an adequate Federal program, both with respect to benefits and coverage. We believe that that is the way it ought to be done. Then all of America can get the security that we think the American people are entitled to. We do not want security for our members alone: we want security for everyone in America.

Senator MYERS. Is that the issue in the Chrysler strike?

Mr. REUTHER. In the Chrysler strike we are fighting to apply the principles that we have negotiated in other contracts with Chrysler's competitors; to establish a sound pension fund on the basis of an actuarially sound trust fund. That is the basic question in the Chrysler strike.

We take the position that the Federal approach is the sound approach. It covers everyone, and it will cost less in the long run, and it also gives workers mobility. A private plan freezes workers to their jobs, and we in America are proud of the fact that we con-

sider America a land of opportunity, and we think a worker should not be compelled to sacrifice security in his old age if somewhere in his middle age or his youth he has a chance to shift to a better job. That shift should not penalize him in terms of loss of security in his old age. Only a Federal plan can provide security and maximum mobility, and therefore maximum job opportunity.

While we have been very successful in our private plans, we are willing to fight to get the Federal social security up because we consider our private plans as supplementary plans to the Federal program. To the extent that we can increase the Federal program and get it up to where it is adequate, to that extent we will deemphasize our private plans and minimize their importance, and ultimately wipe them out completely. If we can get security at the Federal level for everybody, including our own people, there will be no need for the private plans. I want to make that very clear. We are committed to fight for security for all of America, not just the people who pay dues into our organization.

Senator MYERS. Might I interrupt you again?

Mr. REUTHER. Yes.

Senator MYERS. I notice on the first page you are about to begin negotiations with the General Motors Corp. shortly.

Mr. REUTHER. That is right. There again we are asking for the establishment of the pension plan integrated with Federal social security. And we tie in with Federal social security because that gives the company an incentive to come down here and fight for increased Federal social security for all of the people of America, since the two plans are tied together.

Senator MYERS. Will that be one of the basic fundamental issues?

Mr. REUTHER. That is correct, that will be one of the basic issues there. In the Ford plan, for example, the present plan, the Ford Motor Co. will pay approximately from $68 to $70 in order to make the $100 monthly pension, and the balance will come out of Federal social security, $30 to $32, that the average Ford worker would be getting. When Federal social security goes up, it means the company will have to make a smaller payment toward the $100.

That is why the Ford Motor Co. is interested in seeing that Federal social security is increased. When that is done, Ford's can retire their obligation in terms of past service credits quicker, because they are paying less toward the total $100.

It was not just an incident of collective bargaining, we deliberately and willfully went in to fight to integrate our private plans with the Federal plans, because we are committed to fight for security for all of the people. We are willing to use the strength and the power that goes into our collective-bargaining negotiations to try to facilitate and expedite the achievement of security for all of the people of America, because we think security, like freedom in the world, is indivisible. You cannot have security for a million members of our union in an insecure world. We will get security to the extent that we, along with our fellow citizens, can get security for everybody. Justice and peace and security and freedom, all of these things are indivisible in the kind of world in which we live. So we are committed to that kind of program.

We believe that H. R. 6000, while it represents an improvement over the existing Federal legislation, does not meet, either with respect to coverage or benefits, the real needs of the American people. We endorse the amendments that have been proposed by the national CIO in the testimony that was given here earlier by Emil Rieve, president of the Textile Workers Union and chairman of the CIO social-security committee.

The Federal Security Agency in cooperation with the Bureau of Labor Statistics made an attempt to try to get together the statistical basis of what ought to constitute a family budget for an elderly couple. That was done some time back. Their budget is more than twice what payments under H. R. 6000 would be, and about 3½ times as high as the current Federal social-security payments. But even the standards of this budget are not adequate.

In Detroit, if you take this budget for an elderly couple as gotten up by the Federal Security Agency, based upon the living costs there, it would require $1,720 per year, or $143 per month to give an elderly couple the standards of living provided for in that budget. That budget, as I say, is inadequate, even though it is a little more than twice as much, as what H. R. 6000 provides, and 3½ times the current social-security benefits. That budget in our opinion is inadequate because the food allowance is at the level of public relief. We do not think an edlerly couple ought to get just what a family on relief gets. We think they are entitled to more than that.

The clothing allowance is below the clothing allowance given in public-relief budgets.

The medical-care allowance is wholly inadequate.

The budget as an over-all proposition is on a level 25 percent below the annual per capita average of consumption.

Obviously, a budget that is 25 percent below the average per capita consumption is not an adequate budget. We believe that old-age security is more than just material things, although material things are important. An aged couple in America ought to have enough of material well-being and security to enjoy the dignity and the spiritual values in their old age to which they are entitled. It is not just a matter of keeping body and soul together physically—I suppose that this budget will keep you alive—but we want people to be alive with dignity so that they can enjoy the spiritual values. That is the thing that makes us different from the common animals, in that we are spiritual beings in addition to physical beings.

Mr. C. E. Wilson—and it is not often that I quote him before senatorial committees in support of my arguments—had something to say on this. I am referring to C. E. Wilson who is president of General Motors Corp. There are a number of C. E. Wilsons in high executive positions in America. Mr. Wilson, of General Motors, said before the Executive Club of Chicago on January 6, 1950: "In our prosperous Nation men and women who have been gainfully employed and have had a standard of living much beyond a subsistence level are not satisfied in their old age to drop down to a mere subsistence level."

That is the thing. When a fellow retires, when he gets too old to work, too young to die, he should not suddenly have his standard of living drop down 25 or 30 percent. He ought to go on and he ought to enjoy those last years of his life in sunshine and dignity and security, and that is exactly why we think this budget is inadequate.

We are proposing in this long document that I have asked to be incorporated in the record the elements that would reflect a decent approach to an American standard of living for an aged couple. It is not everything that we think it ought to be, but we think it is an approach to that kind of standard of living. The budget that we propose would provide a $2,089 per year income, or $174 per month. I hope that the members of this committee and anyone else who reads the record will examine our full statement and the appendix in which we describe the assembly of the adjusted budget.

I would like just to hit a few of the high spots in this budget. When you look at a budget, you should not look at the total cost of it because you might think that it looks kind of high. People do not eat the money they get. The aged worker and his wife do not eat the $2,100. They live on the things that $2,100 will buy.

That is why we have been saying in our union for a long time that the number of dollars you take home is unimportant; it is what you can buy with the dollars you take home. When we fought for wage increases, we said we wanted those wage increases not out of higher prices; we wanted those out of the fact that industry was more efficient, and that the money was there to pay them without taking it out of the consumer's pocket. If you get a wage increase today and there is a higher price tomorrow, you do not make any progress at all. You just accelerate the speed of the economic merry-go-round where wages chase prices but never catch up.

So the important thing is not how much money does an aged couple get in a year; the important thing is what they can buy with the money they get. When you look at the items in this budget on that basis, you begin to see that this budget that we are proposing is a modest budget. These people will not move into a penthouse. There are no mink coats in this budget and there are no diamond rings. This is a simple budget to keep people in the kind of economic situation that we think they are entitled to.

I will just hit a couple of the items.

The budget allows one-eighth of a pound of butter per person per week. That is 6½ pounds per year, while last year 11.4 pounds of butter were produced for every man, woman, and child in the United States. When the farmers are worrying about oleomargarine, we ought to get their support, they ought to say, "Look, this budget is too low. You ought to give these people more butter than one-eighth of a pound per week, because that is going to leave tremendous butter surpluses. We are making 11.4 pounds per woman, man, and child in America every year."

The allowances for clothing and house furnishings are taken directly from the budget for an elderly couple. We took exactly what that budget proposed. The items in these two categories that are made of cotton are equivalent to 15 pounds of raw coton per person per year. This times 11,000,000 aged couples equals 165,000,000 pounds, or 330,000 bales.

I am sure that Senator George would agree that will not eat up the cotton surplus in America. If every family in America consumed only that much cotton, the cotton farmers would have a more serious problem than they now have, and they now have a serious cotton surplus.

The male member of the couple may have 2⅓ shirts per year, one of which must be a work shirt. He may buy 1⅓ union suits per year, plus two-fifths of each of an undershirt and a pair of underdrawers, which is an equivalent of less than two sets of underwear per year.

A housewife may have for housework one house dress every year and one apron every 2½ years. It is not going to take much cotton, Senator George, to produce those few house dresses, and one apron every 2½ years. They had better be pretty strong, because I am sure they will not last that long.

The man is allowed one overcoat every 8 years.

The wife is allowed eighty-five one-hundredths of a handkerchief a year, or one handkerchief every year and nine weeks.

The husband does slightly better. He gets ninety-two one-hundredths of a handkerchief every year, one handkerchief every year and five weeks. That is how fine this budget has been cut.

The man is allowed one wool suit every 4 years, and one cotton or tropical worsted every 16 years.

These items are typical of the budget that we are proposing as an approach to an American standard for an aged couple. No American—I do not care what his political affiliation might be, I do not care what his economic status might be—no American in 1950 can say that an American couple having worked productively all of their lives in the year of the H-bomb, in the year of the wonders of modern technology, are not entitled to that minimum budget of decency and dignity. We think that that represents the minimum of what we ought to have in terms of a family budget for an elderly couple.

The question always arises in America—it is true in government, it is true in industry, it is true in agriculture, it is true in life, when you talk about doing things, people always say—"How much is it going to cost?"

That is a perfectly logical, legitimate question that we have to ask ourselves. Since there is no economic Santa Claus, somebody somewhere, somehow, must pay for all of these things we are talking about.

According to the studies we have been able to find and work on ourselves—and we have worked at this thing for a long time, and I think we have competent technicians—H. R. 6000 as it now is proposed would cost in its first year of operation about 1.3 billion dollars.

Our program, the CIO program, the program that is reflected by this budget, discussed in detail in my prepared statement and highlighted verbally here today, would cost, not today, but in the year of 1955, 5 years from now, 6.3 billion dollars.

One of the problems, and one of the mistakes that are made too often, sometimes unknowingly, and I think sometimes knowingly, is that people attempt to measure the cost of old-age-security programs in terms of current production, in terms of current national income. In measuring the cost of old-age security, which is a long-range program, you have to measure the cost in 1955, not by the productivity in 1930, and not by the productivity of the American economy in 1950. You must measure the cost of the old-age-security program in 1955 by the productivity and the total national product of the American economy in 1955. Then you are measuring cost based upon the ability to pay that cost at the time the cost occurs.

I think that the Council of Economic Advisers made this point very clear when it stated:

> If enactment of legislation now involves the commitment that X number of people who will not be working 30 years from now receive Y number of dollars of old-age benefits per month, the real test of whether the Nation can afford such a program is not XY dollars per month measured against the current size of the economy, but XY dollars per month measured against the productivity of the economy 30 years from now.

That is the point that we have to keep in mind.

In 1955, the national productivity of the American economy, based upon the normal technological trends—and that does not get into the question of the application of atomic know-how to mass production, this is just measuring the normal trend of technological progress—in 1955 our national production will be more than $300,000,000,000.

Taking the cost of our proposed budgets in 1955, it represents less than 2 percent of the total wealth that will be created in that year. The cost of this budget would mean that we would be putting aside less than 2 percent of the total national production of our economy in 1955 to give people security in their old age. That represents approximately 10 percent of the increased wealth that we will create.

In other words, it is 10 percent of the wealth that will be produced in addition to the wealth that we are currently producing. That is what we are talking about.

There is another good way I think to measure this thing—and this again is related to the positive fight to save freedom and democracy in the world. Tragically, history shows we have done this many, many times over; when we are faced with the physical threat of war, we are willing to do anything to meet that threat. In the last war when we project the cost of the last war into the future, and after all veterans' benefits and all of the other things that go into the cost of war are part of the cost of war, let's see what it cost. Mr. Paul Hoffman, in testifying before the Senate Foreign Relations Committee, I think, spelled this thing out in very clear and dramatic terms. He said that when you project the cost of the last war into its ultimate cost in terms of material and money values—not to talk about the cost in human values, which cannot be measured in dollars and cents—"the last war cost us or will cost us when we finally pay for it in dollars and cents 1,300 billion dollars." It lasted 44 months. It cost us 29½ billion dollars a month; it cost us $985,000,000 per day; it cost us $41,000,000 per hour.

Now, taking our budget, this budget that gives a housewife a house dress every year, that budget would represent less than the cost of the war for 1 week.

Senator MILLIKIN. Is your budget based on one person or a couple?

Mr. REUTHER. A couple; it is for a couple.

Senator MILLIKIN. How much per month per couple?

Mr. REUTHER. $174, or approximately $2,100 a year. That would just give you these very minimum things that I have listed here. Pensions geared to that budget, as I say, would represent less than 1 week's cost of the war. And I just ask any American—I do not care whether he is a Senator or a corporation executive or a dirt farmer or a worker with grease under his fingernails—can America do less for its old people than to spend in the year 1955 an amount of money

for the total year to provide security and dignity for its old people in an amount less than the cost of 1 week of waging the war?

That is a very important political problem. It is a very important economic problem. It is a very important moral problem, because it gets right to the guts of what we are really fighting to try to do in America. We are trying to advance the basic morale and dignity of man, and this is how we have to do it.

We have the problem of finding a way in America to mobilize abundance for peace and for people. If we can spend billions for bombs and destruction in war, then we have to find a way to spend money for people in peace. That is the challenge. The trouble in America is that we have been dividing up economic scarcity so long we are afraid of abundance.

I have been saying for a long time that the trouble in America is that we need a fifth basic freedom, which I call freedom from the fear of abundance. We are afraid to let go in America, to create the abundance for peace and for people that we did in wartime. We are just afraid of abundance, because we have been dividing up scarcity so long. We are afraid that, if we get abundance, we will not know what to do with it. Yet it is the key. It is the key to our economic problems. If we have full employment, we can afford all of these things, because based upon the productivity of a full-employment economy in America, the cost of these things is relatively small. But if we keep figuring the cost in terms of scarcity, in terms of unemployment, in terms of our failure to utilize the productive potential of the American economy, then we get into trouble.

General Bradley, who I think is not only a great military leader but I think a great American and statesman, has a sense of understanding of the moral factors that are involved in the cold war and are just as important as are the political factors. He has pointed out that we cannot defeat the Russians by turning America into a kind of garrison state, and building up statistical supremacy in terms of bombs and airplanes and tanks and men under arms. He said we have got to do more than that in America. And I would like to quote what he said at the CIO convention in 1949, in the fall. I quote General Bradley:

> The difficulty of our decision—

talking about this whole question of the cold war—

> stems from the problem of distributing our abundance according to the needs of those sharing it. American resources are not unlimited. American production must be increased.

That is the idea. It is mobilizing abundance and increasing production in peace.

> American production must be increased if we and the world are to enjoy the full benefits. Throughout our struggle, however, decision must be in favor of expansion and sharing, rather than reduction and selfishness.

In other words, instead of getting into this old concept of dividing up economic scarcity so that one fellow can get his share only if the other fellow is denied his share, we have got to abandon that antiquated, obsolete concept, and we have to take this whole new bold concept of mobilizing our wealth.

Just look at the wealth that our 4½ million unemployed could create; if they were working, they could pay for all of these things. But they are unemployed. We are wasting their labor. We are wast-

ing the production that they could be creating if they were working. They were working in war. Why, we talk about how a fellow gets a job today. At the employment gates in Detroit, during the war, they would just feel them, if they were still warm they would hire them, anybody that came along.

We have got to make up our minds in America. Isn't there something wrong with a country and with a world that can mobilize people, get people working and sacrificing and fighting together for the negative end of war, and then fail to get them working together for the positive end of peace? If people can work and fight and sacrifice together because they share hatred and fear in war, why can't they get together and work together because they share hopes and aspirations in peace? It can be done. The people want to do it.

We have got to give them the leadership. We in positions of responsibility in government and industry and labor and agriculture, religion, and education, we have got to accept the challenge that peace presents us with. We have got to find and show a way to find full employment, to give people a chance to work just as hard for the good things of life as they work for the negative things in war.

The people want to do it, and that is what General Bradley is talking about—expanding our economy, creating abundance, and sharing that abundance based upon the needs of people.

Get the last census, taken in 1940. It is a little out of date, but not too much. You will find there that 21 percent of the American homes do not have electric lighting; 58 percent do not have central heating. Almost 50 percent do not have the kind of private bath facilities we need. Why, if America met these needs and we put every factory, every worker to work on the full-week basis, in 20 years we could not meet the needs—in 20 years. We do not have to go to Asia for markets. We do not have to worry about developing new spheres of economic influence in other parts of the world. We have got the biggest unfilled market in the world in our own back yard.

Senator MILLIKIN. Amen.

Mr. REUTHER. But the trouble is that we are trying to do this thing on the basis of scarcity, here and abroad, and every time we measure these cost factors in terms of scarcity, we get frightened. But measure them in terms of the abundance that we can create. Four and one-half million people back at work can pay for all of these things, and we are wasting that. That is the point that General Bradley was making.

Senator MILLIKIN. May I ask, Mr. Reuther, whether we are increasing our productivity per man?

Mr. REUTHER. Yes.

Senator MILLIKIN. Have you statistics on that? I have been trying to get that.

Mr. REUTHER. The figures on that are very hard to nail down. They are hard to measure. For example, in the General Motors contract, we had the escalator clause, and we still have it. The General Motors Corp. recognizes that there is a natural improvement in technology that is reflected in higher production and we have that in our wage agreement where every year there is a productivity-increase improvement in the wage structure.

Productivity varies by industry, depending upon the total impact of technology in a given industry. You might have a chemical plant

that has 500 workers and some new chemical process may come along, they build a new plant, and they will cut that down so that 50 workers can run that same plant and turn out the same production.

Yesterday I was in Boston. I had breakfast with a scientist, Prof. Norbert Wiener, of the Massachusetts Institute of Technology, and we talked. I have been in contact with him and working with him on the problem of where are we going with technology. He is the fellow working with another group of scientists on this machine that can think, play a game of chess or checkers, beat the average fellow. It can actually think through a movement on a chess board. The thing that is bothering him, bothering me, and the thing that ought to be bothering all of the people of America is that here are these new machines.

He says it is not beyond the realm of possibility in 10 or 20 years to have an automobile-assembly line completely mechanized, just with a fellow sitting in a nice little booth with a control panel pressing buttons. He says that, technically, we are capable now of doing that kind of a job. In the chemical industry it has moved much faster than in some other industries. But in terms of the auto industry, it is conceivable within 10 to 20 years to have a completely mechanized assembly line.

The question arises, Are these new machines, is this new technology, going to help us create security and dignity in the building of a brave new world for people, or is it going to dig our economic graves?

That depends upon what we do. If we have the courage to take the bold approach to the mobilization of abundance, then it will build that brave new world. If we continue to adhere to the old obsolete concepts of economic scarcity, it will dig our economic grave, because the machines will not buy cotton textile goods, for instance.

I want to read some figures about apples and I wish Senator Byrd were here. In 1931, you know we thought we could solve the problem of the American economy by everybody going into business for themselves. You recall one unemployed worker was trying to sell another one a bright shiny red apple. But it did not work. And the figures indicate what happened to the price of apples in 1931. They were 64 cents a bushel. In 1937, when the boys who got so worried about economizing—"we cannot afford this, we cannot afford that" – that they cut expenditures, we went back down that road toward economic scarcity. The price of apples went down to 64 cents a bushel again, because you cannot solve the problem that way.

Senator MARTIN. I would like to press Senator Millikin's question, because I think it means so much, and I think we have got a witness that is in a position to give us information on how the productivity of the individual has increased. We had the railroad expansion in the sixties, and it expanded until we had a break. Then we had the great steel expansion of the early 1900's, then the automobile. What I am getting at there is this. I think probably your organization and the industrial organizations meeting together can give us figures that we could depend upon, because I think it means a lot to us. What you are saying about these fine machines, I am not worried so much about that, because there has never yet been a machine made that you do not have to have an individual with the know-how to keep that machine operating. Take in my own State in the coal business. We

have made marvelous improvements there, you know, by machinery. It has increased production. I think it has been fine for everybody concerned. But we have to have men that know those complicated machines. That means that the workmen have to be more skilled, and I think that has greatly increased their productivity per hour, but I believe that you are in a position, through what I think would be good for our country, to have men like yourself sit with the president of General Motors and others, and then you delegate this job to somebody, because I feel this committee ought to have that information.

Mr. REUTHER. I would like nothing better, and I certainly would like to cooperate in every way possible in trying to achieve, in trying to achieve, I repeat, the facts on these basic questions, because I think certainly we cannot know where we are going unless we know what the facts on productivity are. I would be willing to participate with any group trying to get those facts.

Let me give you a specific example. In the steel industry, if you went through an old steel mill where they had the old processes of the doublers and rollers, and so forth, and then went through a modern continuous-strip mill, where the ingot goes in the first set of rolls and the sheet steel comes out and is sheared off at the other end, you would get the change. In the auto industry, you can get the change in terms of specific machines, where they bring in a machine that consolidates five or six operations, where they had five workers before, and with the new model, they have one worker. They stick in a casting and it comes out on the other end with five operations in one.

That sort of thing goes on every day in our industry. Every day in our industry there are new machines coming in that consolidate five and six operations.

Senator MARTIN. Does it not require a man with greater productivity per hour to keep that machine operating? You take a Joy coal-operating machine in soft coal that takes some real men to keep that thing in operation.

Mr. REUTHER. That is right.

Senator MARTIN. You know I could not do it, neither could you, because we do not have the know-how. It takes a very skilled workman. And to my mind that is going to mean production of more coal per hour, but I do think we ought to have the information as to how we stand in productivity now from we will say 20 years ago.

Mr. REUTHER. I think maybe the Government ought to try to initiate steps to get labor and industry and everybody else together who could throw some light on it and get out these facts.

Senator MARTIN. I would like to see you, and we will say the big men in the motor industry together, because I would feel better satisfied with the answers from you than I would from Government because you have been through the mill. You have got the responsibility for the employment of hundreds of thousands of people, and these men in Government do not have that.

Senator MILLIKIN. We should get these figures. Obviously in projecting costs, you have to project productivity and we have not had a dependable set of figures from anyone in this hearing.

Mr. REUTHER. That is right.

Senator MARTIN. That is why I was pressing that. You are in a position to give us wonderful information because you represent such a great industry.

Mr. REUTHER. Let me give you a specific example. In the Oldsmobile plant in Lansing, Mich., they have built a new plant there, and it is the last word in automobile-engine plants. They have got into that all of the new gadgets and the new plant lay-outs and so forth. We are told by the efficiency engineers and people who go into laying out plants and the like that the Oldsmobile plant is about five times as efficient in terms of manpower and production as is the normal prewar type of automobile-engine plant.

Senator MARTIN. What is their employment now? What proportion of the men in the old plant do they now employ in this new and most modern plant that they have?

Mr. REUTHER. In this situation on the actual production line, it would be a ratio of 5 to 1. They may have to increase slightly their maintenance crew where you get more mechanization, but on the whole what you find is that the number of maintenance men does not increase you merely get more highly skilled maintenance people. As it becomes more complicated, you get a higher skilled maintenance worker, not more workers, but a more skilled worker doing the maintenance work.

I personally think that you are absolutely correct in terms of trying to measure cost, you have to find out where you are going in terms of productivity. I would be willing to join with General Motors or any other company in a joint development of these basic productivity factors because, as I said earlier, you have to base economic decisions on facts, not power, and these are the basic facts.

Senator MYERS. Is it your view, then, that the cost to the consumer should come down, the automobiles produced in this more modern plant should cost less?

Mr. REUTHER. We have been advocating lower car prices for a long time. We have said that the car market would greatly expand in America and the steel industry and the textile industry and every other industry, the rubber industry, would get the benefit of expanded automobile production, if they brought the price of cars down. And they can afford to bring the price of cars down. They can afford it. Take General Motors, for example.

Senator MYERS. Before you get to that, you say in this new Oldsmobile plant that the personnel can be reduced, that it would take five men to run the assembly line in the old plant and that one now could take the place of those five in the new plant.

Mr. REUTHER. That is right.

Senator MYERS. Did I understand you to say that?

Mr. REUTHER. Five to one ratio, supposed to be. That is just on the engine operation, not the whole car.

Senator MYERS. The labor costs are materially reduced, which, of course, is reflected in the price of the car to the public?

Mr. REUTHER. You have to look at GM profits, and then you realize that they have reduced the cost of building the car and have made a number of token reductions in the prices. General Motors last year made almost $100,000,000 profit per month. They made over $1,100,000,000 for the year before taxes; and since the labor costs are figured before taxes, it comes out of that figure. There is no question about

it that they can afford to cut the price of cars, and they ought to cut the price of cars. Our philosophy is that the important thing is to get consumer prices down so that the people in America can buy the things they need.

Senator LUCAS. It seems to me as this mechanization develops, as you have developed it here, and told this committee, the real question is what to do with these four people we throw out of the jobs as a result of this ratio being increased from 5 to 1. Is that not really the basic thing that we have to consider?

Mr. REUTHER. That is the key. That is right. As technology increases the productivity per worker, one worker can then create as much as two workers formerly created. Then you have the problem of finding something else for that other worker to do.

Now, that is the whole key to the question. How do you find a balance between mass purchasing power and mass productive power? You have to create enough demand so that the other worker can be used in the same job where they can double production. There are many industries in America where we could double the production and still not meet the needs of the American people. And the other thing is that there are always new products coming into the market that people need that this other fellow could be employed in producing. That is why we got into very serious trouble in 1929. People were buying things on the installment plan. They were spending future income yet unearned. We kept our economy going in high gear because people were spending in 1929 money that they had not earned yet in 1930, and this whole thing got serious. People were doing that. This problem was pointed out by Mr. C. F. Hughes in the New York Times the other day. He pointed out that we were getting into serious trouble on what he calls deficit spending. Most of the discussion you hear about deficit spending involves the Government. Every time you say deficit spending they think of Washington. He points out the most serious part of the deficit spending. He says—and I quote:

> There is not only deficit financing by the Government, but also deficit financing by a major portion of the population of America.

What does that mean? That means that people are spending income not yet earned and paid, just as the Government spends money it has not collected when it has deficit financing.

That is what got us in trouble in 1929, because finally it got so inflated, this installment buying, the deficit financing on the individual's part, that they began to foreclose, people could not meet the payments, and then the thing snowballed. They laid people off, they curtailed production. Every time they laid off another thousand workers there was less purchasing power. They had to lay off some more, and we got the whole thing going downhill.

We propose to reverse that process on the upswing, instead of curtailing production, increase production. You absorb these 4½ million unemployed, get them to work, and they will earn wages, they will buy commodities, create markets for others, and it builds up.

It is that positive instead of the negative approach based on scarcity which is the question. If we could get the productivity figures, there is no question but that the productivity increase would be found to be greater than industry is willing to admit, because this is always a col-

lective-bargaining problem. If we go to General Motors and say, "Why, the increase in productivity has been 10 percent since the last contract, we want a slice of that, we want our slice, and the consumer ought to get his slice by lower prices, and the stockholder ought to get his fair return on his investment," "Oh," they say, "but the increase in productivity was not 10 percent; it was only 3 percent."

They minimize it because that strengthens their bargaining position. We would like to get the actual figures, because we do not want to be kidding ourselves. When we go in to argue for a bunch of workers, we do not kid them. We do not say, "Why, we are great labor leaders; we are going to pull a rabbit out of the hat for you." We tell them they will get exactly what the industry can support. There is no Santa Claus involved here.

We would like the figures, and we would be willing to cooperate with you, with anybody else. If we could get General Motors and Chrysler and Ford and all of the other companies to sit down publicly and discuss these things, we are prepared to meet tomorrow morning at 9 o'clock, any place. We have been trying to get them to do that for a long time, and if you can use your good influence to help get them to be willing to do that, why, we shall be forever grateful.

Deficit financing would not be so bad if you knew you were going to keep working. It is bad when you get laid off. Then it all piles up and comes home. Then your chickens come home to roost, because the fellow you bought the television set from, and the new washing machine, knocks on your door and says, "Your next installment is due," and you cannot say, "I am sorry; I got laid off. You put all of these installment payments in the deep freeze and keep them there until I go back to work. Will you do that?" He says, "If you do not have the payment by the end of the month, we will have to take this stuff back." And that is the thing we have to avoid getting back to.

That is the reverse. That is the downhill plunge. That is what we cannot afford.

The thing here, it seems to me, is that we have to avoid getting into the kind of psychological atmosphere, the kind of environment where we are afraid to do these things because we are afraid we cannot afford them. We could not make a greater contribution to the achievement of full employment in America than to raise the old-age security to the level of the budget we propose. I think it was Senator Millikin who coined a very good phrase, "dynamic spending"; that is the key to this thing. Dynamic spending means you have to keep money going into the economy, money that creates jobs, money that creates demand, that creates opportunity.

Every dollar paid to an old couple represents the highest velocity dollars in the economy. A young fellow may save, but the person who is getting down the road in his life will not save for his old age. He is spending in his old age. They will spend that money to live on then.

In other words, every dollar given to an aged couple will get right back into the economy in terms of consumer demand, in terms of creating a market for products, and creating employment opportunities for the younger people. So that this is the best way to do this job, and to do it effectively.

Senator LUCAS. In other words, what you are saying is that if we increase the budget for the aged couple to $174 as you are suggesting in the social security bill, it would mean that those people would spend that money, and therefore aid in keeping this economy of ours moving to the end that these four people that might lose a job in that plant that you were talking about a while ago might find a job some place else.

Mr. REUTHER. Exactly that.

Senator LUCAS. As a result of the money that these people would spend through the plan that you have outlined here. That is one factor that would help do it?

Mr. REUTHER. That is right. Every dollar given to an aged couple under the program that we are suggesting would be a high-velocity dollar, would reflect dynamic spending, would create demand for goods, pull into the labor market these 4½ million unemployed, and they would create more wealth, and this whole thing begins to supplement and build; and that is a key to the future of the American economy. The money spent on old-age security will give you more results quicker and more directly than money spent any place else, because the old couples are going to spend it. They will not save it for their old age.

Senator LUCAS. The velocity of the dollar turns over quicker in the old-age group than any other.

Mr. REUTHER. That is right.

The CHAIRMAN. You are suggesting, however, that the emphasis be placed on the old-age and survivors insurance in the act, rather than direct grants to the States?

Mr. REUTHER. I think that you have got to build this thing. I think that people are entitled to this as a right and you have to strengthen the old-age security coverage at this level and minimize the relief and assistance under the State regulations as much as possible, because I think that they are wrong, and I think that is the proper way to do it.

We think that in addition to the old people, you have the problem of people who are disabled permanently and totally or temporarily. They are really in the same kind of situation.

In the meantime you do have to give the States money to bridge the transition period until we get this kind of a program really going. But the emphasis has to be placed here, we believe, instead of at the State level.

The CHAIRMAN. On a universal coverage.

Mr. REUTHER. That is right.

Senator MILLIKIN. Might I pursue the chairman's question? You favor universal coverage in the sense of covering everyone, regardless of whether he is an employee or not, everyone?

Mr. REUTHER. That is right. I think you ought to cover every American and then you know that you have done the job.

Senator KERR. You mean in the OASI program?

Mr. REUTHER. That is right.

Now, history was not of our own choosing. I think America would have been very happy and contented to go along living its own life and not getting involved in all of the commitments and complications of this troubled world of ours. But history has made us the

custodian of freedom in the world. I mean if we do not make it secure, it will not be made secure any place.

It seems to me that we have the practical challenge of proving to the world that American democracy can mobilize its power in peacetime. The Communists offer not economic security, they offer the promise of economic security at the price of spiritual and political enslavement. We have to prove that it is possible for people to achieve economic security and material well being without sacrificing their political freedom or their spiritual freedom, and that is really what we are trying to do in America.

We have tools of abundance to work with. We have all of the material resources. We have the technology, we have the ability to produce industrial products, and our farmers know how to raise all of the things that we need. We have all of the material things. We have the human need to conquer poverty and insecurity. We have to prove to the world that we have the courage, the courage and the will and know-how to do this job in peacetime.

And I say that old-age security is on the top of the agenda of democracy's unfinished business. There is no other place where the gap is so large and so serious between what democracy promises and what it performs, what it preaches and what it practices, as in this field of old-age security.

I urge the members of your committee to give this every consideration as I know you will. Let us really answer the Cominform and the Politburo in the Kremlin not by slogans about democracy's virtues, but by tangible down-to-earth practical achievements, by saying "O. K. in the year 1950 America in its greatness accepts the moral and human responsibilities that go with that greatness, and we are going to take the steps to give every worker in America, whether he works in the farm or the factory, or the mine, or the mill, every American, every American couple when they are too old to work and too young to die, we are going to give them security and dignity in their old age, so that they can live as Americans ought to live, and have sunshine and happiness in the last years of their life."

Thank you.

The CHAIRMAN. Thank you very much, Mr. Reuther.

Are there any other questions from any member of the committee? Thank you very much.

Mr. REUTHER. I appreciate this opportunity to come here.

Senator MILLIKIN. At various times I have asked this question, and I am particularly anxious to get an observation from you, because I think you have the problem in the most intense form.

To get this productivity we are talking about, it seems to me that we ought to afford opportunities for elderly people, if they want to and are able to work, and without deduction of the benefits that you are talking about, the opportunity to work. You have young people pretty much in your business. What is the answer? How in the automobile business, for example, can you keep the elderly persons working who are able to work?

Mr. REUTHER. I have given that problem a great deal of thought because I think it is a real problem. I am opposed to compulsory retirement. I think that if a fellow is physically able to work, and he is able to perform a job, he ought to be given the opportunity of

making the decision when he quits his job. I think that labor and management ought to try to work out ways to facilitate meeting that kind of problem, and our attitude in our union has been one of complete willingness to cooperate on that sort of thing.

The other fact is that if you have a full employment economy, where the struggle and the competition for job opportunity is not so keen, then you will not have management so willing to squeeze the old fellow out of the plant, and there will not be the pressure there to squeeze him out.

But if there are five hundred young fellows loose and lined up who just graduated from the high-school football team with a gleam in their eye, waiting outside, and a fellow gets up there where he has not got the pep he used to have, then the company is going to try to squeeze him out to get that young fellow with the gleam in his eye in that older fellow's place. If everybody had a job, there would not be that pressure.

Senator MILLIKIN. Is it not the duty of industrial statesmanship among the larger outfits, anyhow, to give a lot of attention to that and see if they cannot keep people working as long as they are able and willing to work?

Mr. REUTHER. That is one of the many problems that ought to challenge industrial statesmanship. I quite agree on that. It is a real problem. All of these things are human problems. If a fellow is able to work and willing to work, I think that he gets a sense of satisfaction out of being able to work. You know, the average fellow—there are exceptions—but the average fellow wants an opportunity to earn a decent living, to live in security, have a little bit of fun, give his kids a little better chance than he had in life. He is not looking for something for nothing, and if he can work and he is able to work, he wants to work.

Senator MILLIKIN. Is there a field in the automobile business where a fellow could work on a slowed-down basis?

Mr. REUTHER. Only if you could isolate the job.

Senator MILLIKIN. Am I talking about something that is not practical?

Mr. REUTHER. In the automobile industry that is not practical unless you could isolate the job. In any plant that is synchronized, where you have a flow of production from one operation to the other, every worker regulates the speed of the next worker, because it is a flow of material operation. You cannot do the thing you are suggesting on that kind of an operation. You would have to get what we call an isolated free motion job. In other words, where the worker has no relationship to the flow of production to any other worker; he works out of a stock pile or something where he has nothing to do with what the next fellow does. Otherwise, if you had a fellow on the line who was only doing 80 percent, the whole line would have to do 80 percent, and that is not practical, obviously.

I think, however, there are many things that could be done that have not been done as yet.

Senator MILLIKIN. Would it be practical in that kind of a business to have, let us call it a subsidiary operation of some kind that would not directly affect the assembly line but create a business, if necessary, where you could put elderly people to work?

Mr. REUTHER. I am not in position to give you specific details, but I think that much could be done in that direction if there was a will to do it.

Senator MILLIKIN. The thing that touched me off on this is that I saw a picture of a plant in England where they built up a kind of subsidiary business where they provided the older fellows with opportunity to work and they worked 3 and 4 hours a day, worked as long as they wanted to. I do not suppose they made any great money out of it, either the worker or the employer, but at least it gave elderly people a chance to work who wanted to work. It has a great morale factor.

Mr. REUTHER. We have some jobs like that in our industry and they are now being done in many cases by the older people. In the olden days these fellows would already have been thrown on the industrial scrap heap, with no seniority in our industry, they would have thrown these fellows out at the end when they were 50 years of age, and hired the young fellows with the sparkle in their eye. But the seniority protections that we have now compel the company to keep them, and they have to find these other jobs. There are limits to the number of such jobs in the plant, but I believe that if there was a real will to find the answer to this problem, that much real progress could be made in solving the problem that concerns us.

Senator MILLIKIN. If we toss a man out at 50 or 55, and if we have a retirement age of 65, he may have a very bleak, dreary period of waiting for benefits.

Mr. REUTHER. That is right. I quite agree.

Senator MYERS. I have on brief question. You mentioned earlier, Mr. Reuther, that in conferences a few years back with the management of the automotive industry, you were told to come to Washington, that this was the place to consider pensions and old-age benefits.

Mr. REUTHER. That is right.

Senator MYERS. Did those of management indicate any opinion at that time that social-security benefits should be increased by the Congress?

Mr. REUTHER. Yes: in the discussion we had when we asked for pension plans through collective bargaining, they made it very clear that they thought this was a problem broader than just their own employees. It was as big as the community and the Nation, and they said, "You ought to go to Washington." We said, "The benefits down there are too small. Let us go down to Washington." They said, "Get the Congress to pass the law increasing the benefits."

Senator MYERS. Have they recently indicated any opinion as to whether we should increase the benefits?

Mr. REUTHER. Mr. C. E. Wilson has made a number of speeches in which he said that both the coverage and the benefits ought to be increased.

Senator MYERS. That is the president of General Motors?

Mr. REUTHER. Yes. Mr. Ernest Breech is the executive vice president of the Ford Motor Co. and has made public statements to the effect that old-age security legislation was the soundest approach, and the Government ought to increase the coverage and the benefits here. I do not know that either one of those have put a specific price on it, but both have indicated that the coverage and amounts of benefits ought to be increased.

Senator MYERS. I was going to borrow a phrase from Senator Millikin and congratulate Mr. Reuther, and say his testimony has been indeed dynamic here this morning.

Mr. REUTHER. Thank you, sir.

The CHAIRMAN. Before you could lift out of collective bargaining the demand for supplemental retirement benefits, we would have to lift the basic security very much higher than in the House bill, would we not?

Mr. REUTHER. That is correct.

The CHAIRMAN. And you have indicated what you think is an absolute minimum?

Mr. REUTHER. That budget we have outlined we consider absolutely the minimum for human decency.

Senator MILLIKIN. In our State we pay on a needs basis, we pay $150 per couple per month. Your figures are not particularly terrifying to me. The needs test does not quite meet all of the specifications for dignity.

Mr. REUTHER. I appreciate this opportunity, Mr. Chairman.

The CHAIRMAN. Thank you very much. We appreciate having you here.

Mr. REUTHER. Thank you.

The CHAIRMAN. Mr. Warren Irons. You may have a seat.

Will you identify yourself for the record.

STATEMENT OF WARREN B. IRONS, CHIEF, RETIREMENT DIVISION, UNITED STATES CIVIL SERVICE COMMISSION, WASHINGTON, D. C.

Mr. IRONS. Mr. Chairman, my name is Warren B. Irons. I am chief of the Retirement Division of the United States Civil Service Commission. I think, gentlemen, you will find my remarks rather prosaic after that inspirational testimony by Mr. Reuther.

I want to direct my testimony this morning to pages 37 and 38 of H. R. 6000, particularly clauses (c), (d), and (h). A part of the objective of section 210 (a) was to include under the coverage of social security those Federal employees who are not subject to a retirement system established by law. Primarily that means that temporary employees of the Federal Government would be included under the coverage of social security.

The Civil Service Commission concurs in this objective. This section 210 (a), however, contains important exclusions. It includes under the coverage of social security temporary employees of the Federal Government, except those employed in the field service of the Post Office Department, except those temporary employees in the Bureau of the Census and except those temporary employees who are appointed pending the establishment of a civil-service register.

By these exclusions that leaves for inclusion under social security only those temporary employees of short duration in all other Government agencies; normally the employee who is hired for 30, 60, or 90 days or less than a year. It creates a rather odd situation.

The general objective of section 210 is to include temporaries but by specific exclusions in that section the three largest groups of temporaries are not covered by social security.

The CHAIRMAN. How many, Mr. Irons, were estimated to be brough under this particular section?

Mr. IRONS. As I understand it, Mr. Chairman, there are 120,000 temporary employees of the field service of the Post Office to be excluded.

The CHAIRMAN. They would be excluded.

Mr. IRONS. Excluded.

The CHAIRMAN. They would be embraced in that excluded group.

Mr. IRONS. All of the temporary employees in the field service o the Post Office Department, carriers, clerks, acting postmasters, and what have you. There also would be excluded by this section 105,000 temporary employees who are employed by other agencies of government pending establishment of a civil-service register.

The CHAIRMAN. None of these are included under the Federal retirement system?

Mr. IRONS. None are included under the civil-service retirement system. They have no coverage whatsoever.

The CHAIRMAN. They are out unless they are taken in under social security?

Mr. IRONS. That is correct, sir. The exclusions of section 210 include the Bureau of the Census for those employees temporarily for taking of the census. I understand that it is anticipated that the Bureau of the Census will engage in the neighborhood of 150,000 people for short and long periods of time, and all of those people will be without the coverage of civil-service retirement, and they will be excluded under the terms of this act from the coverage of social security.

Senator MILLIKIN. That would be truly temporary employment and relatively short.

Mr. IRONS. Some would be employed for 30 days and some as long as possibly 3 or 4 or 5 years. The employees engaged in the tabulating and analytical operations would be there much longer than the enumerators.

Senator MILLIKIN. Would that exceed 10 percent of the total force?

Mr. IRONS. I do not know, but I would think probably less than that. It would be a very small proportion.

The net effect of it is that there are left for inclusion under social security, speaking now strictly of temporary employees, roughly thirty to thirty-five thousand short-term employees. Section 210 of this bill excludes specifically temporary employees of the Post Office Department, those in the field service of that Department, temporary employees of the Bureau of the Census, temporary employees engaged anywhere in the Federal Government, if they are temporary pending the establishment of a civil-service register. Those groups total probably in the neighborhood of 350,000 people.

Senator KERR. If and when there is any change in the status to that of a continuing employment, do they not automatically come under the other retirement?

Mr. IRONS. Those individuals who are hired pending the establishment of a civil-service register, that is quite correct. Undoubtedly a substantial portion of those will ultimately pass an examination, be appointed and automatically become subject to the civil service retirement system. That is not true of the other groups.

Senator KERR. Are not the others just as definitely moving toward an early separation from their employment?

Mr. IRONS. Moving toward an early separation from the Federal Government. They are not moving toward becoming permanent employees of the Federal Government, and therefore subject to civil-service retirement.

Senator KERR. What is the thesis of your recommendation to the committee?

Mr. IRONS. I think that the exclusions excluded in H. R. 6000, those having reference to the field service of the Post Office Department, and those with reference to the Bureau of the Census, those exclusions should be eliminated, and those temporary employees should be included under the coverage of social security retirement system. There seems to be no reason that I can see as to why they should be excluded.

Senator KERR. Do you have information as to their average age?

Mr. IRONS. I have not; but I would guess in the neighborhood of 27, 28.

Senator KERR. Do you have an estimate as to the average time they will be employed?

Mr. IRONS. No; again I would estimate on the average somewhere between 6 months and a year on the average. It is because of their short duration of employment that I do not recommend that they be included under civil-service retirement. But for these people, the very fact that it is short duration employment means that if they are employable people and we must presume a good portion of them are, that this work period for the Federal Government is merely a short period in a total-work history.

Senator KERR. Do you think that the group employed by the field division of the Census Bureau will average 27 or 26 years of age?

Mr. IRONS. Of age?

Senator KERR. Yes.

Mr. IRONS. I would think so.

Senator KERR. You do not think it would be nearer 47 or 46?

Mr. IRONS. I would not think so, sir; no. I see no reason why they should be of that age.

Senator MILLIKIN. Is it not likely that they were probably excluded because of the administrative difficulty of taking care of people for such short periods?

Mr. IRONS. That is the only logical reason I could think of as to why they would be excluded, the matter of administrative expediency, the fact that if they are included under social security, the management of the post office, Bureau of the Census, would have to arrange to see that those individuals had social-security account numbers, and wage records were established for them. They would have to collect the taxes and account for the taxes, report the wages to the Social Security Administration, and such matters as that. But in the whole consideration of social-security coverage, we have not thought of the administrative expediency with regard to an industrial unit. We require all industrial units that are covered by social security to include all employees of that industry, whether they happen to be employed for 1 day, 1 year, or a lifetime.

Senator MILLIKIN. I have a note here which suggests Ways and Means Committee excluded the post-office and census employees because of the great number employed at Christmastime in the post

offices, and for census taking, many of whom are not regular membe of the labor force. That was the reason the House Ways and Mea excluded them.

Mr. IRONS. I could understand that fully. At the same time, durin the Christmas rush period, Woodward & Lothrop hire extra peopl They are subject to social security if they are only hired for Christma Eve.

The CHAIRMAN. In other words, you cannot think of any good re son to tell this committee why they should be excluded any more tha temporary employees in any other thing.

Mr. IRONS. That is exactly it. It seems to me that they are in t same category.

The CHAIRMAN. Does the postmaster himself or someone in eac post office remit the social security for people who are not under t retirement system?

Mr. IRONS. There are no people of that nature employed at all i the Federal Government now.

The CHAIRMAN. At this time?

Mr. IRONS. At this time.

That concludes, Mr. Chairman, the only remarks I had to make thi morning, to urge the inclusion of these excluded groups, particular the temporary employees of the Bureau of the Census, and in the fiel service of the Post Office Department.

The CHAIRMAN. Presumably those temporary employees find othe employment when they leave the Government employ.

Mr. IRONS. I would think they would be individuals who have t work for a living.

The CHAIRMAN. And they ought not to have this enforced brea in their social-security history, should they?

Mr. IRONS. That is the position of the administration.

Senator MILLIKIN. I am under the impression that they hire a l of housewives that want to make a little extra money for a temporar period of time that have not had social-security coverage, and d not expect to have social-security coverage.

Mr. IRONS. That is true, undoubtedly, but by the same token, Wood ward & Lothrop does the same thing at Christmas time in employ ment of people.

The CHAIRMAN. Thank you very much.

Mr. IRONS. Thank you.

The CHAIRMAN. Mr. Clarence Mitchell. You may be seated. Yo are appearing for the National Association for the Advancement o Colored People?

STATEMENT OF CLARENCE MITCHELL, NATIONAL ASSOCIATIO FOR THE ADVANCEMENT OF COLORED PEOPLE, WASHINGTON D. C.

Mr. MITCHELL. Yes, sir. My name is Clarence Mitchell. I am appearing for the National Association for the Advancement o Colored People.

I want to thank you, Mr. Chairman, and members of the committee for hearing us, and I would like to have the committee's permissio to file our written statement.

I would also like briefly to comment on its contents.

The CHAIRMAN. You may put your statement in the record.

(The statement referred to follows:)

TESTIMONY OF CLARENCE MITCHELL, LABOR SECRETARY FOR THE NATIONAL ASSOCIATION FOR THE ADVANCEMENT OF COLORED PEOPLE

By convention action, the National Association for the Advancement of Colored People has consistently gone on record in favor of broadening the Social Security Act. The purpose of our appearance before this committee is to record our full support of the President's proposal to include additional workers under this act. However, we especially recommend the inclusion of domestic and agricultural wage earners who are excluded from the present law.

According to the figures of the Social Security Administration, approximately 4,000,000 persons are now excluded from coverage by the present definition of agricultural labor. Three million domestic workers are also excluded. Of the persons in these two occupational groups, over a million and a half are colored. Thus, more than 21 percent of all excluded workers in these categories are colored.

The citizens of the United States who work in agriculture have always been bypassed when Congress enacts broad social legislation. Today, we are paying a terrible price for this neglect in the form of chaotic conditions that prevail in agricultural employment. Those who work in the fields are absolutely necessary to the well-being of the Nation, but our Government gives better treatment and protection to foreign agricultural workers than to our own citizens.

We cannot expect to maintain a healthy and effective labor supply in agriculture if we continue to give those who plant and harvest the Nation's crops so little protection against exploitation and insecurity. The inclusion of agricultural wage earners in the Social Security Act would be the first of several steps our Government should take to assure the farm workers the same benefits from social legislation that are now enjoyed by individuals in other types of employment.

The Women's Bureau of the United States Department of Labor published material on household employment in 1948. This material discussed the general conditions which tend to decrease the labor supply in domestic employment. One of the reasons cited by the Bureau was the exclusion of household employment from the provisions of the social-security program. This group of workers has always had an average wage that was so low that savings were not possible except in rare cases.

Studies of wages paid to domestic employees show that even during the war years the average wage of a domestic worker was not very high. At our request, the Bureau of Old Age and Survivors Insurance has furnished figures which show that in 1940 the average annual wage of domestic workers was $513, in 1945 it was $646, in 1946 it was $724, and in 1947 it was $737. To expect that individuals who earn such meager wages would in any way be able to provide for security in their old age is, of course, ridiculous. It is unfair to consign such workers to relief rolls in their old age when we make every effort to protect workers in other occupations who receive more pay and labor under more favorable conditions.

There is another problem which affects the household employee that must be remedied. Some domestic workers left this field during the war and worked in occupations covered by the present law. A great many of these individuals are now being forced back into domestic employment. Because of this return to their former occupations, they may lose the benefits they accumulated when they worked in covered occupations. The Bureau of Old Age and Survivors Insurance explains how this happens as follows:

"The insurance protection obtained as a result of social-security contributions made while in covered employment will gradually be dissipated by their resumption of noncovered employment. Thus, an individual who has a sufficient number of 'quarters of coverage' (quarters in which he has been paid in covered employment wages amounting to $50 or more) to acquire fully insured or currently insured status will lose that status as the number of quarters in noncovered employment increases. Under the present law, an individual who has on a given date approximately half as many 'quarters of coverage' as have elapsed since January 1, 1937, or since attainment of age 21, is said to be 'fully insured.' An individual is said to be 'currently insured' if he has at least six quarters of coverage in the 3-year period immediately preceding the current calendar quarter.

Should he die while fully or currently insured, survivors' benefits are paid. F retirement benefits, he must be fully insured."

Many countries in Europe and South American have already included domest workers in their old-age-insurance systems. Apparently, these systems have be successful and they serve as a challenge to us in this field.

Mr. MITCHELL. I am appearing primarily to speak on behalf of tw groups of workers who are excluded from practically all of the soci legislation that the Congress passes from time to time. As an orga ization, of course, we have repeatedly gone on record in favor of t broad social legislation that the President has advocated, and t Congress has passed, but we have also urged repeatedly that domest and agricultural wage earners be included in this legislation. So f that has not happened with reference to agricultural workers where it is possible for the Congress to enact legislation to prote such people, individuals who work in domestic employment.

The old-age and survivors insurance agency has indicated that b the present definitions of agricultural workers and by the prese information they have on the number of people in domestic emplo ment, there are approximately 7,000,000 people in those two grou which are excluded from present coverage. Our figures which hav been shaved down to take into consideration individuals who have le agriculture or who have left domestic employment, because they hav been able to get more favorable types of work, would indicate th there are still a million and a half or more of colored people who a in those two occupational groups. They constitute 21 percent of a of the people who are excluded from coverage of the present socia security legislation.

We have appeared before various committees of Congress fro time to time to advocate the inclusion of agricultural workers in suc legislation as the minimum-wage law, the National Labor Relatio Act, and other benefits, but of course we have been unable to get a remedies for those people. I just wanted to say in passing that so f as agricultural workers are concerned, it is a stark and unhapp fact that foreign workers who come to this country from Mexico a from the British possessions, to work in agriculture, enjoy a greate degree of protection from our Government than do our own peopl that is, American citizens who work in agricultural pursuits.

So far as the domestic employees are concerned, I would like merel to cite some figures on their wages which have been given to us b the old-age and survivors insurance agency. There are a great man people who assumed during the war that domestic workers were havin a pretty lush time of it, that they were able to make great wages a that undoubtedly they were among the highest paid people who wer earning a living because they were so hard to get. I suppose ther were some domestic employees who managed to do very well b themselves because of their great skills and because of the demand

However, we have figures which would show that even in the lus days of war employment, the period running from 1940 up to 194 the average wage of domestic workers in this country ranged fro $513 to $737 a year. Under a wage structure of that kind, it is jus not possible for people who work for a living to put aside any sub stantial sum to take care of them in their old age.

I earnestly urge that you gentlemen of the committee include domes tic and agricultural workers in this present bill. Of course, domesti

workers have been included to a certain extent by the House, but agricultural workers have been left out entirely. We hope very much that the Senate will remedy that defect and put these people back in.

The CHAIRMAN. Do you think it practical to put agricultural workers under it? Are you familiar with agricultural practices?

Mr. MITCHELL. I am familiar with their problems, Mr. Chairman.

The CHAIRMAN. You never had any experience with the farm work?

Mr. MITCHELL. My whole family could be called farmers. They come from Montgomery County, Md., and for about six or eight generations we have had land there which we have lived on, and know the problem.

The CHAIRMAN. Do you think it would be practical to collect and remit the insurance cost of the benefits in the case of the average agricultural worker, particularly the part-time worker, the worker who is just casually employed?

Mr. MITCHELL. I would, sir, yield to the judgment of the old-age and survivors insurance on that matter. I have respect for the people who have studied this thing from a statistical and insurance standpoint. They believe that the stamp plan, which has been advocated for domestic employees, could be applicable in farm work. It is my judgment that from the way they have been able to administer the present social-security program, they know what they are talking about, and I would stand by their belief on it.

The CHAIRMAN. Any further questions?

Senator KERR. You say there are approximately 4,000,000 persons now excluded from coverage by the present definition of agricultural labor. How many of those are self-employed and how many of them are employees?

Mr. MITCHELL. It is my understanding that these people would all be wage earners; again those are the figures of old-age and survivors insurance agency.

Senator KERR. You say the average domestic today makes how much?

Mr. MITCHELL. The latest figures I have would be for 1947. That would be an average of $737 per year.

Senator KERR. You do not know where a fellow could get a good cook for twice that amount?

Mr. MITCHELL. That, sir, is an interesting question. It came up in the House.

Senator KERR. It comes up in nearly every house.

Mr. MITCHELL. It certainly does.

Senator KERR. It is up in my house right now.

Mr. MITCHELL. As a matter of fact, Mr. Doughton, the chairman of the House Ways and Means Committee, challenged some figures that I had on domestic employment, which I cited at the House hearing.

Senator KERR. I am not challenging the figures.

Mr. MITCHELL. I was merely explaining what the situation is. It does seem peculiar when an individual who has a personal problem of not being able to get a wage earner for a given wage is told that people are making much less than he is willing to pay. In the House hearings I cited some figures to show the average wage of domestic employees, which as I indicated at that time were based on statistical studies in Baltimore, Chicago and a few other cities, on a sample basis. Mr.

Doughton made the comment, "Well, I do not know where you g these domestics from, that get low wages like this, because the peop that I know get much more than that."

So because of that pointed inquiry, I made another request of tl old-age and survivors insurance agency for every possible bit material they had in this field. These figures offered by me tod represent everything that they have as a result of careful studies mad on a Nation-wide basis. So these are the averages.

Senator MILLIKIN. Do they include board and keep?

Mr. MITCHELL. They do not include that. If we included situatio in which people had the right to live on the place, and other pr requisites which normally go along with domestic employment, it estimated that in such cases the figure might be a couple of hundr dollars more, which perhaps would put it in the neighborhood of thousand to twelve hundred dollars for the upper bracket. Of cour the vast majority of domestic servants do not receive salaries an prerequisites of that kind.

The CHAIRMAN. Thank you very much for your appearance here.

Mr. MITCHELL. Thank you for the opportunity to state our case.

The CHAIRMAN. Mr. Hubert F. O'Brien, president of the A. Smith Manufacturing Co., East Orange, N. J. Identify yourse for the record.

STATEMENT OF HUBERT F. O'BRIEN, PRESIDENT, THE A. P. SMIT MANUFACTURING CO., EAST ORANGE, N. J.

Mr. O'BRIEN. My name is Hubert F. O'Brien. I am president the A. P. Smith Manufacturing Co., East Orange, N. J. We are small concern employing approximately 300 people in the manufactu of valves, fire hydrants, and special equipment for public and priva waterworks throughout the country.

I would like, as briefly as possible, to tell you of the approach of small company to the problems of old age among its employees. would then like to state my own beliefs as to the proper role of tl Federal Government in the problems of old age; and in the light that philosophy to offer some specific comments on H. R. 6000.

I may be presumptuous in seeking to appear before this committe since I make no pretension of expertness in this very complicated fiel However, I have observed a growing feeling in many quarters th private pensions have no continuing place in the over-all old-age s curity field—that the whole pension load should be assumed by tl Federal Government. I am definitely opposed to this view. One the stock arguments used to support this contention is that small com panies cannot, or will not, set up proper pension plans and that ther fore to assure fairly universal coverage, the Federal Governmer should do the whole job. I feel that our experience, by no mea unique, may help to refute this specious argument.

By all standards, we were not the sort of company to set up a vo untary pension plan. We were small—less than 300 employees. W were a part of the highly cylical capital goods industry and shou avoid, like the plague, heavy fixed annual commitments. We ha as our bargaining union the United Steelworkers of America, CI an eminently practical and hardheaded group, who, friends advis

us, would not be moved at the sight of "strangers bearing gifts." And lastly, we were a "closely held" corporation and traditionally should have been too grasping to part with any of our substance easily.

We had broken the ice in the direction of employee benefits as far back as 1925, when a group life insurance plan and a group health and accident plan were put into effect. We started gathering information on pension plans in late 1941. However, it was not until 1944 that a formal plan was actually introduced. The intervening period was spent in reviewing many different types of plans, none of which seemed to meet the rather stiff requirements of our operation. After long study we developed a plan which we feel is sound and can be carried by the company under all foreseeable business conditions.

The plan is, of course, geared to the Federal social security system. All employees, whether production workers or officers of the company, are eligibleafter 2 years' service. All are on the same basis and have the same scale of benefits. They receive, entitrely at company expense, a basic pension at age 65 based on their length of service with the company and their earnings.

I should mention that the company pays for all past service.

Senator MILLIKIN. I did not quite understand that.

Mr. O'BRIEN. I forgot to include in here the fact that all of the past service of any employee with the company is included in his pension and paid for entirely at company expense.

Employees who wish to, may contribute a fixed percentage of their earnings to secure life-insuran e coverage and at retirement a larger pany, are eligible after 2 years' service. All are on the same basis and pension. At the present time 97 percent of those in our plan have chosen to contribute and receive the insurance coverage and higher pension. The individual employee may always secure a refund of his total contributions upon leaving the company for any reason; and after a stipulated period of service is also fully vested as to the employer's contribution.

The plan is of the funded type and is a combination of insurance and a self-administered trust, with a New York bank as the corporate trustee. The level of benefits, including social security, compares favorably with plans recently enacted under union pressure. In addition, should social-security benefits be increased, such increase will accrue to our employees and not be used to reduce our liability.

I have described our experience in some detail because I feel that there is a distinct place for private pension plans as a supplement to the basic minimum underlying layer of security which Federal pensions should provide. Some twelve-thousand-odd private plans were in existence prior to the Supreme Court ruling on the Inland Steel case, making it mandatory to bargain collectively on pensions. I think this Supreme Court ruling was most unfortunate for the future growth of private pension plans.

Pensions are by their nature long-term commitments of a highly technical sort. The recent labor disturbances arising from the pension issue with their hastily conceived plans are a product of this decision. I feel that private plans are an important and necessary supplement to Federal benefits and that their growth will be sounder and as fast if removed from the turbulent arena of mandatory collective bargaining.

THE FEDERAL ROLE IN FINANCING OLD AGE

(*a*) *The economic problem—size of Federal pension*

Throughout the ages humanity has sought security of many type Today, in our complex industrial society, one of the most gener desires seems to be for economic security in old age. "Old ag which is admittedly a vague term in many of its meanings, has, f this specific discussion, been generally accepted as being age 6 Economic security cannot be guaranteed by the promise of a certa number of dollars at some future time unless we also are assured a degree of stability in the whole economic system. The problen of financing old age on a Federal basis are so great that extren care must be taken lest the very attempt to provide individual econom security does not in itself disturb the whole economic system. in a laudable and humanitarian effort we attempt to promise t much to those retiring we are liable, through heavy taxation, reduce incentives; and through inflation to reduce the value of t pension to those retiring.

It might be profitable for a moment to consider the load that w are imposing upon a future work force. For many years we hav been marching in a direction which has directly reduced both t proportion of the total population in the work force, and the numb of hours which each worker has worked. One of the first efforts this direction was the elimination of child labor, so that gradual we have cut out of the work force large numbers at the lower end the life scale.

Senator MILLIKIN. Was there not a large increase in the work for in the war years; was it not practically doubled?

Mr. O'BRIEN. Yes; I believe that is correct. I was speaking, thoug of a more normal progress.

Then, with the acceptance of the principle of retirement, we hav similarly removed many workers from the upper end of the life scal While these two processes were operating to limit those in the wor force, there was at the same time a steady reduction of the numb of hours worked by those still working. From a common 60- 70-hour workweek we have dropped to a rather general 40-ho week, and in some cases a 35-hour workweek. Simultaneousl through advances in the field of medicine and public health, avera life expectancy increased and the relative proportion of those a 65 and over to the total population increased steadily. All of the developments represent distinct advances in our way of life, and am very much in favor of them, but we should not lose sight the fact that they have an impact on the rate of productivity require of the remaining work force if our standard of living is not to decli

In essence, at any time the goods and services, i. e., the standar of living of the entire population, is dependent upon the produc tion of the work force. If we somewhat arbitrarily take the wor force as being those aged 20 to 64, the proportion of those abov age 65 to the work force has increased sharply. In 1900 the were 13 people in the work force as defined above for each perso over 65. Today there are 8 people in the work force for each perso over 65, and it is predicted that within the next 50 years this rati may drop to less than 5 to 1.

Obviously, the only way that this smaller work force working a shorter number of hours can produce the goods and services to maintain the standard of living for the entire population is to increase their unit productivity by means of better tools and equipment. This, of course, means greater investment per job. To stimulate such investmen there must be strong incentives. Such incentives disappear under too heavy a tax load.

It therefore seems obvious that if we are not to delude ourselves with false promises of security, we should be careful to see that the Federal Government limits itself to the provisions of a minimum layer of basic protection to as large a group of the work force as can be administratively covered, the whole to be supported by equal employer-employee pay-roll taxes. The Federal Government should confine itself to the problem of old-age benefits and not venture into other fields, such as total and permanent disability which can best be handled at the State and local level.

(b) The method, OASI versus OAA

When the original Social Security Act was enacted in 1935, it provided for two systems of old-age benefits; a contributory system for covered workers, which in 1939 was amended to include survivors and dependents—familiarly referred to as OASI; and a noncontributory system financed equally by the State and the Federal Government through grants-in-aid, and distributed on the basis of need—abbreviated to OAA.

It is clear from the Congressional Record that one of the main reasons for the enactment of the contributory system of old-age benefits was to relieve the Federal Government from the heavy burden of general relief. The OAA program was thought of as a temporary program to carry the load until such time as the contributory program could pick it up. Yet today there are 2.6 million aged receiving an average of $43.60 monthly from OAA. The OASI at the same time (June 1949) covers 1.8 million aged for an average monthly benefit of approximately $22.50.

Senator MILLIKIN. That figure represents combined Federal and State contributions, does it not, of $22.50?

Mr. O'BRIEN. Yes, sir, that is correct. I believe the Federal contribution averaged approximately $25.

It is evident from this experience that the grants-in-aid system is clearly out of hand and must be checked at once.

The grants-in-aid system is fundamentally wrong for most purposes. It creates the illusion that Federal funds are free. To a large degree, the responsibility of raising funds is removed from those at the State level who are authorizing the expenditure. It makes State and local governments subservient to the Federal Government and generally tends to break down our Federal principle.

The matching formulas used to determine the extent of Federal assistance have yielded to continuous pressure. Originally on an equal basis, they have now been "refined" to a point where, as Mr. Reinhard Hohaus, actuary of the Metropolitan Life Insurance Co., has recently pointed out (speech delivered before the Ohio Chamber of Commerce) a State may actually add many citizens to their old-age assistance rolls, thereby attracting considerable Federal sums into the State, while actually reducing the State expenditures for this same purpose.

Such political "manna from Washington" will no doubt be promptly picked up by political practitioners among the various States. As evidence of the widely varying standards of need adopted by the States, in June of 1949, 81.9 percent of the population over age 65 in Louisiana were receiving old-age assistance, while the comparable figure in New Jersey was 6½ percent.

Senator MILLIKIN. How do you account for that difference in the percentage of population over age 65 receiving old-age assistance in Louisiana and the 6½ percent receiving old-age assistance in New Jersey?

Mr. O'BRIEN. It seems to me, Senator, that that would be largely based upon the definition of need within the respective States.

Senator MILLIKIN. Being an industrial State, are you getting more money in New Jersey via the contributory insurance system?

Mr. O'BRIEN. I think undoubtedly that would have some bearing. I read with considerable interest the discussion between yourself and Mr. Altmeyer on this subject, and it seemed to me that while there was some partial explanation due to the higher industrial activitiy in New Jersey, I still think that the major portion results from the State administration.

From the foregoing it seems quite clear that the Federal Government should as quickly as possible withdraw from the old-age-assistance program and concentrate its efforts in the old-age field in OASI. Such a suggestion may seem somewhat naive in view of the practical pressures involved. However, if steps are not taken immediately to reverse the trend, it may later prove impossible. The only sound reason for Federal grants-in-aid is to cover situations of national interest which the State and local governments are not able to handle. However, before the argument of financial inability is accepted, it would be well for the Federal Government to return certain taxing areas to the States so that they may carry out what are properly State and local functions. The funds in the final analysis come from the same source.

Specific comments on provisions of H. R. 6000:

1. Coverage: I am in favor of extending coverage to all those gainfully employed if it can be shown that such coverage is administratively practicable. For instance, in the case of farm operators who would not be covered under provisions of H. R. 6000 it seems to me there would be great question as to when a farm operator actually retires. I notice, however, from Mr. Altmeyer's testimony that they feel these and other questions offer no barrier.

2. Level of benefits: I would favor an increase of benefits of the order suggested in the bill since they would restore the approximate purchasing power of the original benefits. However, as noted in more detail below, I believe the wage and benefit base should be retained at $3,000.

Third. Wage and benefit base: As stated above, I think the base upon which contributions are made and benefits calculated should be retained at $3,000 a year. Under our present schedule the benefits in relation to salaries taxed are much greater at the lower salary levels than at the higher. To raise this base would simply increase the discrimination against those in the higher wage brackets. Also, as stated earlier, it is my feeling that the Federal pension should be at a

minimum level. Use of a $3,000 base would amply cover a minimum pension.

Fourth. Federal grants in aid for old-age assistance: As stated earlier, I feel that the most constructive action which Congress could take in this important and complex field, would be one designed to withdraw the Federal Government as rapidly as possible from the grants-in-aid program for public assistance.

Fifth. Contribution schedule. If and when benefits are increased, I would favor an increase in the contribution rate to 2 percent from the present 1½ percent. I believe it is important psychologically to relate increases in benefits to increased taxation. In place of the balance of the rate schedule which would produce an estimated peak fund of $75,000,000,000 shortly after 1990, I would recommend a stepped rate designed to stabilize the fund at the peak which would be produced by the 2-percent rate, if this is actuarially and practically feasible.

I would like to interject I have no basis or bias for the 2-percent rate. If actuaries should find that 2½ or 2¾ produced a more proper fund in their opinion, I certainly would not quarrel with that.

This would avoid some of the questions inherent in a fund reaching $75,000,000,000 with its investment problems and their impact on the economy, as well as the strong temptation to demand higher benefits as the fund continued to grow. I realize that such a recommendation may involve a somewhat higher leveling off of rate than would result from the proposed schedule, but the benefits might offset such an increase.

Sixth. Appropriations from general revenues: I am in favor of the provision which would repeal the Murray amendment of 1943 permitting Congress to appropriate from general funds for the support of the OASI program.

Seventh. Lump-sum death-benefit payment: I would favor provision of the present law which would pay death benefits only where there is no survivor eligible for monthly benefits.

Senator MILLIKIN. May I ask the reason for your point 6?

Mr. O'BRIEN. The appropriations from general revenues?

Senator MILLIKIN. Yes.

Mr. O'BRIEN. It is my feeling, Senator, that this program should be kept, so far as possible, on a self-sustaining basis—that is, that the pay-roll taxes should support it—and I would be in favor of trying to set up a level of taxes that would do that.

Senator MILLIKIN. But if it did not, how would you cover it?

Mr. O'BRIEN. Well, perhaps I can answer that question this way. My reason for feeling that we should be on a self-supporting basis is that unless we are, I feel that the pressure to continuously increase the benefits will be almost irresistible; and if it is closely geared to the tax imposed, it will offer some restraint.

8. Permanent and total disability insurance: I do not believe that this coverage should be included in any Federal program. Private insurance companies have had most unsatisfactory experience insuring this contingency and if it is to be covered at all it should be financed and administered by State and local agencies who can properly check applicants and, most important, give them help toward rehabilitation.

9. Permitted earnings: I am in favor of the provision raising retirees' permitted earnings from $14.99 per month to $600 per year.

There are many in the retired-age group who can contribute substantial services to their communities and who may yet need this basic pension. I would favor any provision that would provide an incentive for these people to contribute, rather than to just sit. I am sure that the majority of the people in this category would want it that way.

In conclusion, the more a person reads on this subject, the less likely is he to become dogmatic in his opinions. The lessons to be learned from the experiences of Germany and other pioneers in this field should cause us to go slowly before undertaking commitments whose full cost won't mature for perhaps 50 years. Inherent in their experience is the emphatic testimony that these programs are never static. Welfare-conscious administrative staffs often in unknowing partnership with well-meaning but misinformed politicians, continuously strive to cover more and more people for an increasing number of risks, at an increasing benefit level. The ultimate collapse of such a system is obvious.

It therefore falls upon the Congress to protect the security system which has been set up, from continuing demands for unwarranted expansion. The responsibility in this case is peculiarly heavy on Congress since the subject is so complex that most people have little idea of the full scale of costs which seemingly small present changes will ultimately entail. As a citizen who has laboriously endeavored to inform himself on this difficult subject, I have been impressed with the painstaking and thorough investigation made by this committee, as revealed by the testimony which I have read. Regardless of the complicated nature of the subject, Congress must render a decision. I am confident that you gentlemen are fully aware of your responsibilities.

The CHAIRMAN. We thank you for your appearance.

Mr. O'BRIEN. Thank you.

The CHAIRMAN. Mr. M. M. Fowler, Gulf Oil Co., Durham, N. C.

You may be seated, and identify yourself for the record.

STATEMENT OF M. M. FOWLER, DISTRIBUTOR OF GULF OIL CORP. PRODUCTS, DURHAM, N. C.

Mr. FOWLER. Mr. Chairman and gentlemen, my name is M. M. Fowler. I am a distributor of Gulf Oil products at Durham, N. C. I am not only appearing here for my behalf but am also representing the North Carolina Oil Jobbers Association, which has a membership of 500 independent businessmen who are jobbers or distributors of petroleum products like myself.

I would like to read a letter from the secretary of that association, authorizing me to speak for it and confirming an earlier authorization for me to speak in behalf of the consignment distributive section of the association.

I would like to read this letter into the record, if I may. It is dated March 10, 1950.

Mr. M. M. FOWLER,
Durham, N. C.

DEAR MR. FOWLER: At a meeting of our board of directors held in Raleigh today you were named to represent this association at a hearing in Washington before the Senate committee, on H. R. 6000.

My understanding is that you have already been authorized to represent the consignment distributors section of the association, and this now authorizes you to represent the association as a whole.

Yours very truly,

W. A. PARKER, *Secretary.*

In addition, I am representing the North Carolina Service Station Association, which has a membership of nearly 1,500 independent gasoline retailers. I would like to read a letter from the association signed by its president and executive secretary.

DURHAM, N. C., *February 16, 1950.*

Mr. M. M. FOWLER,
Durham, N. C.

DEAR MR. FOWLER: The North Carolina Service Station Association, with a membership of 1,480 independent gasoline retailers, would like for you to represent the association in your appearance before the congressional committee regarding the pending social-security bill H. R. 6000.

The independent retail dealers of our State would like to retain their present status insofar as social-security legislation is concerned, and our organization will appreciate any efforts that you can make toward that end.

With kindest regards, we remain,

Yours very truly,

THE NORTH CAROLINA SERVICE STATION ASSOCIATION.
RUSSELL KING, *President,*
C. F. DORITY, *Executive Secretary.*

I will now proceed with my statement.

My name is M. M. Fowler and I am distributor of Gulf Oil Corp. products at Durham, N. C.

I became interested in House bill No. 6000, which I understood broadens the coverage for social security. I came to Washington in January and secured a copy of this bill. I studied it, but frankly I did not understand its language. It was my understanding that as a distributor of petroleum products, I would, in all probability, be covered as an employee of the Gulf Oil Corp. under this act, which I do not want. Since I did not understand the language used in this act I secured a copy of House Report No. 1300, which explains various terms of this act.

From the report prepared for the Committee on Ways and Means by the staff of the Joint Committee on Internal Revenue Taxation (July 22, 1949), however, I do understand what this committee had to say in regard to their interpretations of the term "employee" as used in this act, which is as follows and is shown beginning on page 189:

The proposed definition may result in defining employer-employee status to include a wide range of service relationships, in addition to those listed above, which have heretofore been considered independent contractor relationships. Among these are the following:

"Wholesale distributors of oil products may have quite extensive investments and may hire numerous employees, but they are subject to some regulations by the oil companies whose products they distribute. There is permanency in their relationship with the oil companies, and they are closely integrated in the business of the oil companies, since they perform the integral function of serving as outlets for oil-company products."

This is why I believe this act will bring me under the law and I will be considered an employee of my supplier, as well as many thousand other small-business men throughout the country.

On page 195 of House Report No. 1300, this Joint Committee on Internal Revenue Taxation has this to say:

> The Federal Security Agency states as its present opinion that the economic-dependence test would extend the definition of employees to include the following groups who are considered independent contractors under the common law.

This list included contract filling-station operators.

The committee then went on to say:

> It is highly probable that the economic-dependency test would also extend the definition of employee to include bulk-oil distributors.

I have heard that there is another bill, similar to this bill, pending before Congress, which would make my employees, and me, employees of my supplying oil company under the unemployment-insurance law, but I am not familiar with the details of this bill.

In my business I spend approximately 70 percent of my time selling Gulf Oil Corp. products. I am also engaged as a jobber of fuel oil, as jobber for the automobile tire and accessory line, in the retail grocery business, the transport business, the building-repair business, and the banking business. I have on my pay roll 13 employees. All of these employees are now covered by social security, unemployment compensation, hospital insurance, life insurance, and workmen's compensation insurance. I use these employees for these various businesses mentioned as it will pay me to use them.

The Gulf Oil Corp. does not have anything to do with how much time I put to my business. If I wish to take a vacation, I do not have to ask them. I fix the hours that my plant opens and closes. I receive the majority of the merchandise that I get from Gulf Oil Corp. on consignment. I purchase outright numerous items that I handle. I get a commission on all consigned products. At times in the past the Gulf Oil Corp. has not had the supply of various petroleum products that I needed to take care of my customers. In cases like this we distributors go out on the open market and buy this merchandise where we can get it in order to take care of our customers who are depending on us. My bulk plant is rented from Gulf Oil Corp. from year to year.

As stated in the beginning, I started this connection with my supplier, Gulf Oil Corp., between 13 and 14 years ago. At that time their volume of refined oil sales per month was approximately 150,000 gallons. Now my average sales volume of refined oils is approximately 550,000 gallons per month. I have spent 13 years of hard work and many thousands of dollars building up this business, and I want to keep it. I have also reinvested practically everything I have made in retail outlets of my own for the sale of petroleum products and other products, and my investment in these outlets, when I get them fully paid for, will be over $200,000. My supplier has left me free in the development of these service stations. Most all other oil distributors whom I am acquainted with have done the same thing to some extent.

Several years ago the Social Security Administration ruled that distributors, such as myself, were employees of the various oil companies. As a result of this it was necessary that certain reports be made to our suppliers, which reports included the number of employees, the salaries or wages paid them, the gross income and operating expenses and the net income and our supplier in turn had to make reports to the Government. It was only after numerous lawsuits over a period of several years that this was discontinued and only after the Federal courts

ruled that distributors of petroleum products, such as myself, were not employees of our supplying companies.

I pay the expenses of my operation, such as lights, water, telephone, heat, furnish trucks, license tags, and other expense of operating a bulk distributing plant and selling petroleum products. This includes all types of insurance, such as cargo insurance, mistaken delivery, workmen's compensation, public liability and property damage, fire and theft, collision. I pay social-security taxes on each and every one of my employees.

The people in my employ are satisfactory to me. I select them, set the salaries or wages they receive, fix the hours they work, am responsible for all the benefits they receive, including vacations, sick leave, life insurance, and hospitalization. The supplier whose products I handle has nothing whatever to do with any of these matters. These employees might not be satisfactory to my supplier if they are ruled employees and there may also be a tendency on the part of my supplier that all of these people whom I employ are designated as their employees to take over the operation for which I have spent 13 years of hard work and invested many thousands of dollars of my money. I want to urge you gentlemen to protect us as small independent businessmen, to allow our status to remain as it is at the present time. I enjoy such profits as I may make out of my business and at the same time, I am subject to take such losses as occur.

I would like to call your attention to an example shown in Report 1300 on page 87. This example has to do with bulk-oil-plant operator and would tend to show that under certain conditions a bulk-oil-plant distributor or jobber would not be considered an employee. In this example, it refers to the X Oil Co. entering into a contract with A who owns his own storage tanks and trucks. In the great majority of cases throughout the country, the storage tanks and plants are owned by oil companies, and leased to jobbers, distributors such as myself. I, therefore, would not come under this exception.

You gentlemen of the committee may wonder why I am afraid that I will be included as an employee under this definition, because of all of the things I have mentioned which show that I am an independent businessman. The following are some of the reason why I am afraid that I will be included as an employee if this definition in H. R. 6000 becomes a law:

1. I know that I was considered an employee at one time by the Administrator of the social-security law.
2. I know that it required several years in court to clear that up.
3. I know that I am not included as an employee under the law now.
4. I know that this bill changes the present definition of employee.
5. I know that the purpose of this definition is to include more people as employees.
6. I know that the reason this proposed change in definition was included in the bill was to include people as employees who are supposed to be economically dependent on a supplying company.
7. I know from reading the House committee report that there are many ways that I can be considered as a part of the business of Gulf Oil Corp. and that this will be considered as evidence that I am an employee of Gulf.

8. I know that I sell many products under the trade name of Gulf and that the committee report says on page 85 that this is evidence to show that I am an employee.

As a matter of fact, nearly all of the seven tests contained in paragraph (4) of the definition could be applied in such a way as to make me an employee, despite the fact that I am an independent businessman. So, you can see why I am worried. What I want the Congress to do is leave the present law alone as far as the employee definition is concerned, and in that way I will know that I will not be considered as an employee of the company whose products I distribute.

What I have said today is based on my own experiences and refers to my own business, but it can apply equally as far as the many other thousands of oil jobbers, distributors, and consignees are concerned throughout the entire country, who are in a similar position. I know that they also want to retain their status as independent businessmen On behalf of the North Carolina Oil Jobbers Association, the consignment distributors section of the association, the North Carolina Service Station Association, and myself, I would like to urge that you gentlemen help us all by changing the definition contained in this bill so that we will be allowed to continue our status as independent businessmen.

I wish to thank each of you gentlemen for the privilege of appearing before this committee.

The CHAIRMAN. We are very glad to have you.

Are there any questions? If not, we thank you for your appearance.

Mr. FOWLER. Thank you.

The CHAIRMAN. We have one other witness to complete our work today, Mr. Leon Gilbert Simon, Agents Association of the Equitable Life Assurance Society of New York City. Is Mr. Simon here?

Is anyone appearing for Mr. Simon?

(No response)

The CHAIRMAN. That completes the call of witnesses for the day. The committee will adjourn until tomorrow at 10 o'clock.

(The following resolution was submitted for the record:)

RESOLUTION UNANIMOUSLY APPROVED BY THE BOARD OF DIRECTORS OF NORTH CAROLINA OIL JOBBERS ASSOCIATION

Whereas the North Carolina Oil Jobbers Association, representing approximately 500 independent oil marketers from throughout the State of North Carolina, is interested in improving their position and preserving their independence as small-business men; and

Whereas the provisions of H. R. 6000, as now written, might impose many hardships upon, and threaten or destroy the very independence of these small-business men: Now, therefore, be it

Resolved, That the North Carolina Oil Jobbers Association petition the Congress to amend H. R. 6000 so as to more clearly define, or better still prohibit, the use of the word "employee" in the contractual relationships of supplies, consignees, jobbers, distributors, lessees, and/or dealers. The objectionable definition of the word "employee" as used in the bill can be changed without loss of social-security benefits. The bill provides coverage for self-employed businessmen; but to preserve the well established lessor-lessee relationship, and to safeguard their independence as small-business men, they should be classified as being self-employed; be it further

Resolved, That a copy of this resolution be sent to each Senator and Representative in the Congress from North Carolina.

(At 12:40 p. m., the committee recessed, to reconvene Thursday, March 16, 1950, at 10 a. m.

SOCIAL SECURITY REVISION

THURSDAY, MARCH 16, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George, chairman, presiding.

Present: Senators George, Myers, Millikin, Taft, Butler, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

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

Senator Schoeppel, we will be very glad to hear from you now on H. R. 6000.

STATEMENT OF HON. ANDREW F. SCHOEPPEL, A UNITED STATES SENATOR FROM THE STATE OF KANSAS

Senator SCHOEPPEL. Thank you very much, Mr. Chairman.

Chairman George and members of the committee, I have requested time to appear before this committee in order to speak briefly in connection with the proposed definition of "employee" contained in section 210 (k) of H. R. 6000, beginning on page 48 of the bill. There is a sincere and intense interest in this proposed legislation among a substantial number of small-business men in my State. It is on their behalf that I appear here.

These small-business men all over my State have been urging me to oppose the provisions of paragraphs (3) and (4) of the proposed definition of employee contained in this bill. I know that the committee has already heard much testimony and received many manuscripts describing the confusion and chaos which will surely result from the inclusion of this vague, indefinite, and ambiguous language in paragraphs (3) and (4) of the definition. I am against this not only because of its vagueness, but also because it will surely have a stifling effect on many thriving small businesses.

It would like to direct the attention of the committee to one class of independent businessmen in my State who are genuinely and understandably alarmed at the prospects of this definition becoming law. The effects this definition would have on this group is typical of many classes of independent entrepreneurs.

I refer to the thousands of men in my State who are wholesale distributors and retail marketers of gasoline and other petroleum products. As one time chairman of the corporation commission of my State, which is a public service commission, and as chairman of the

Interstate Oil Compact Commission, I am familiar with some of the business practices prevailing in the marketing of petroleum products.

These men generally are truly small and independent businessmen, yet, after reading the ambiguous language appearing on pages 85 and 86 of the report of the House Ways and Means Committee, I am convinced that nearly all of these independent businessmen would likely be termed "employees" of their supplying oil companies under this proposed definition.

When I first read it, I thought that the example given at the bottom of page 87 of the committee report might mean the exclusion of wholesale oil distributors from the definition. Let me read that to the committee:

> *Example (3), bulk oil-plant operator.*—The X oil company is engaged in the business of marketing petroleum products and enters into a contract with A under which A is to operate a distribution station. A provides his own tanks and trucks He operates the station as his own and employs assistants of his own choice. A pays all expenses arising from the operation of the station, and fixes the hours and days during which the plant shall be open.
>
> The combined effect of all the factors specified in paragraph (4) of the definition as applied on this case clearly shows * * * that A is engaged in a business of his own and is not an employee.

The committee will note that the distributor in the above example provides his own tanks and trucks. Under the marketing practices of the oil business, however, the supplying oil company usually owns the tanks and the property and leases them to the distributor. So, the example given offers no comfort to these oil distributors in view of the wording of the definition. There is no protection there against the possibility, yes, the probability, that the administrator of this law would classify as employees all of the several hundred thousand small businessmen engaged in this business of distributing and selling petroleum products.

Mr. Chairman and members of the committee, the gasoline filling station operator is a familiar figure to all members of this committee. He usually sells a well-known brand of gasoline and oil which normally comprises the preponderance of his business. But he also sells tires, batteries, and many automobile accessories. . Many of them sell soda pop, candy, and the like. Some of them wash and grease cars. They may even engage in other wholly different and separated businesses. Yet, there are certain factors in the contractual arrangement they have with the supplying oil company which would cause them to be called employees of the oil company under this definition.

Mr. Chairman, as support for that last statement, let me refer to the analysis prepared by the staff of the Joint Committee on Internal Revenue Taxation dated July 22, 1949. This analysis is attached to the minority report in House Report 1300, but it represents the opinion of unbiased experts—it is more than the opinion of the minority members of the House Ways and Means Committee. At the bottom of page 195 and the top of page 196 of the report these experts conclude that it is highly probable that bulk-oil distributors and gasoline-station operators would be included as employees under the economic-dependency test, which is the basis for this definition.

Let us look for a moment at the wholesaler oil and gasoline distributor. Like the filling-station operator, he usually leases from or uses rent free the tanks and buildings of the oil company whose products

he sells. Yet, he operates as and really is an independent businessman. He frequently engages in other kinds of business. Yet, this definition would make him an employee of the oil company just because the predominance of his business is from the oil company's products.

I have no hesitancy in saying that if these wholesale and retail distributors of gasoline and oil are classified as employees of the oil companies, it will cause a change in the present business practices in the industry which will in many cases destroy the independent merchants and place the distribution of products in the hands of salaried personnel.

Once again, I do not wish to burden the members of this committee with details which have already been presented to them, but I am most anxious to emphasize with all my powers, that the Congress would make a serious mistake to incorporate into the new social security law a provision which would permit the Treasury Department to exercise its uninhibited pleasure to capture small businessmen as employees.

Senator MILLIKIN. Mr. Chairman, may I interrupt the Senator?

The CHAIRMAN. Yes.

Senator MILLIKIN. In addition to those listed criteria, they also reserve to themselves this privilege, which was developed when we had the same subject before us on another occasion. I am quoting from a proposed regulation which they intended to put out but which we stopped:

> Just as the above list of factors cannot be taken as all-inclusive, so, too, the statement of facts or elements set forth * * * cannot be considered complete. The absence of mention of any fact or element in these regulations * * * should be given no significance.

So they can add any number of additional tests that they want to, to bring the thing out the way they want to bring it out.

Senator SCHOEPPEL. Senator Millikin, as you point out there, it does leave a great latitude of discretion there that, in my humble opinion, could cause considerable confusion and difficulty.

I, for one, am definitely opposed to this program of destruction of small businesses.

Mr. Chairman, I am not going to discuss the merits of the other phases of this bill, but I must lift my voice in opposition to this unsound method of increasing coverage of the law. "Self-employed" are covered by the provisions of the bill and if Congress, in its wisdom, decides to retain that provision, there is no reason for making employees out of independent contractors.

If the Congress should enact this needless definition of "employee" for social-security purposes, it will rock, if not destroy, the very foundation of American small business. The whole policy of Congress today is to encourage and foster the growth of small business. The exact opposite effect will be promoted by this new trend toward attempting to make employees out of independent businessmen. I say "trend" advisedly; already, there are three separate bills that I know about which have this same definition of employee proposed as an amendment to the unemployment insurance law—H. R. 5591, H. R. 6718, and H. R. 7331. If we enact this definition in this bill, I say to you, gentlemen, it will be only the beginning of the elimination of small business and the forcible change of a long-accepted method of

doing business. Why should Congress force an industry, such as petroleum to change its entire marketing procedure when there is no good reason for doing it?

Many of these small-business men in my State, who may be found to be employees under this elastic definition of employee now in H. R. 6000 simply because a predominance of their business comes from the sale of the products of one company, have requested me to urge upon you the retention of the present definition of "employee" instead of the one contained in H. R. 6000. It is only in that way that they may continue as independent businessmen and thus promote the economic growth of our country.

I would also like to discuss briefly the second sentence of paragraph (2) of this proposed definition. That sentence reads as follows:

> For purposes of this paragraph, if an individual (either alone or as a member of a group) performs service for any other person under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person).

I venture to say that a single reading of this sentence does not reveal the purpose of it. Also, only those who have studied the matter know who is behind this proposal.

My attention was directed to this sentence by petitions from several reputable businessmen in the State of Kansas who are owners and operators of places of entertainment. These constituents of mine vigorously protest the incorporation of this provision in the law. It is in the bill to satisfy the whims of Mr. James Petrillo, the president of the American Federation of Musicians. Therefore, I shall refer to the second sentence of paragraph (2) as the "Petrillo clause."

Upon receiving the protests from my State, I made some inquiry to determine the history of this "Petrillo clause." I referred to the report of the House Ways and Means Committee (H. Rept. No. 1300), and I found on page 80 of that report this statement:

> The second sentence of paragraph (2) is designed to change the effect of the United States Supreme Court's holding in *Bartels* v. *Birmingham* ((1947) 332 U. S. 126) * * *.

I thereupon investigated the Bartels case. This is a case, which was finally decided by the Supreme Court, growing out of a suit by operators of public dance halls to recover social security and unemployment taxes which they had paid under protest on musicians playing with orchestras at the dance halls. These orchestras were so-called name bands which had been engaged by the dance-hall owners under a contractual arrangement with the leader of the band.

According to the decision of the Court of Appeals for the Eighth Circuit in this case (157 F. 2d at p. 298), the American Federation of Musicians required all its members to use a contract known as Form B. This Form B contract, which was required by Mr. Petrillo's union to be executed by all persons who made a contractual arrangement with an orchestra, provided that the ballroom owner was the employer of the band leader and of the musicians. The court found,

as a fact, that this contract was adopted by Mr. Petrillo's union in order to shift the burden for payment of the musicians' social security taxes, from the leader of the band (who must also be a member of the union) to the owner of the hotel, ballroom, or club. The court also found that these contracts were not entered into "by fair negotiations," but were forced upon the businessmen who contracted with the orchestras.

The union's endeavor to shift the tax burden was unsuccessful, because in the Bartels case the Supreme Court concluded that it should not confine itself to the terms of a written contract between the parties in determining who is an employer and thus liable for payment of social-security taxes, but that it should consider all relevant facts and circumstances which tend to show the actual and true relationship. The Supreme Court ruled that when that test was applied the musicians were not employees of the owners of the entertainment houses, the written contract to the contrary notwithstanding.

Thus, we see that the admitted and avowed purpose of the Petrillo clause is to permit a labor union to create the employer-employee relationship in any case where that union has the monopolistic powers and control of the occupational group which it represents. Does Congress wish to abdicate to a union the power to determine who is an employee, simply because that union is powerful enough to compel the execution of a certain kind of contract? I submit, if the committee please, that this kind of legislation is pernicious in character and is class legislation of the worst sort.

I shall not burden the committee by indulging in speculation as to all the possible interpretations which the Treasury Department might place upon the Petrillo clause, but one needs only to read that sentence to realize that a literal interpretation of its words might result in the inclusion of many relationships within the scope of master and servant for purposes of social security.

If this should become law, it will constitute an open invitation to all labor unions to insist upon the inclusion of the appropriate provisions of the musicians' union's Form B in all contracts of employment.

In conclusion, Mr. Chairman and members of the committee, I strongly urge this committee to strike out of the definition of employee now in H. R. 6000, the second sentence of paragraph (2) and all of paragraphs (3) and (4). This definition as now written would (a) make employees out of independent contractors, (b) promote lawsuits, and (c) destroy small businesses.

On behalf of the many small-business men of Kansas, whose very existence, they think—and I share their views—is threatened by this legislation, I sincerely want to thank the members of the committee for the courtesy that you have extended to me to appear before you in their behalf and present some of these matters that I have just outlined.

The CHAIRMAN. We are very glad to have your views, Senator, and your appearance before the committee.

Senator SCHOEPPEL. I have left copies for the members of the committee and those who might desire them.

The CHAIRMAN. The next witness is the Honorable Carl T. Curtis, United States Congressman from the State of Nebraska.

STATEMENT OF HON. CARL T. CURTIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Representative CURTIS. Mr. Chairman, the distinguished Senator who just testified was an outstanding Cornhusker football player, and I can commend anything he might say to you.

The CHAIRMAN. He does not need any character witnesses before this committee.

Representative CURTIS. I am fully aware of that.

Mr. Chairman, I am opposed to our social security system. It is unsound. Furthermore, it does not meet the needs of today's aged.

My remarks will be directed primarily at the old age and survivors insurance usually referred to as OASI. The bill before you is a $12,000,000,000 a year program. It will cost that much when it matures before the close of this century, even if the benefits are never again increased. It is actuarily unsound and I know of no actuary who is not in the employ of the Social Security Administration who approves or endorses it. Improving it is not the answer. We need a new system.

It is not necessary to argue that our social security system is not taking care of this generation of old people. Although the program has been in force 13 years, we have 8,400,000 men and women over 65 who are ineligible for its benefits. Apologists for the program promptly assert this is because the program is new. This argument cannot stand when we consider the admission of the Social Security Administration's head actuary that under H. R. 6000, 10 years from now there will still be 7,200,000 men and women over 65 ineligible for its benefits. This results from certain basic defects in the program.

Our present social security law is not only unfair, it is harsh and cruel. The benefits that are now paid are not equitably distributed. Individuals who are already out of the labor market: widows, who were widows when the law went into effect; orphans, whose fathers were not in covered employment; as well as countless millions who make their contribution to society without earned income are not helped by mere extension of coverage to all the occupations. They are outside the so-called insurance part of the social security law. Yet, in a social program these are the groups that should have first claim on whatever the American taxpayers can pay out for these purposes.

The program is geared to give advantage to the high-salaried and to discriminate against the low-paid. For instance, the man retiring on an average wage of $250 a month draws $16 a month more in OASI benefits than the man whose average wage was $100. Yet, he has only paid for $2.47 more protection in his social security taxes.

The present program as well as H. R. 6000 fails most of our aged, but offers attractive windfalls to the privileged few. A banker or a corporation officer whose salary has been $3,000 or more, who retires at 65 this year can, with his wife draw about $100 a month. The man's life expectancy is 12 years; his wife's is 14 years. He has paid into the social security system a total of $390, or less than 4 months' benefits.

Across the street there may be an aged individuad who has toiled and produced for years, but if he were taken out of the labor market before he became fully insured, he either gets nothing or is subject to a needs-test for relief. This means that he has to declare himself a

personal bankrupt and turn his life over to a case worker. Social-security advocates attempt to point out that the corporation executive has paid for his retirement and the other man has not. Mr. Chairman, the people know more about social security than you realize. They know that the individuals drawing the benefits have not paid for them. They have made a very small token payment only.

Of the primary beneficiaries now on the rolls, virtually none has paid more than $400 in employee contributions; some have paid less than $10, and the average total employee contributions for these benefits have been less than $150. For this average contribution of $150, each beneficiary will receive retirement payments totalling $3,000. If allowance were made for the value of a wife's and other benefits, the value would be much greater.

Further, Mr. Chairman, I believe that if the American taxpayers are to help orphans they should treat all orphans alike. The survivor benefits under OASI are as discriminatory as the retirement benefits. A family of children of a deceased father who earned $50 a quarter in covered employment over a period of six quarters is eligible for the minimum benefits. This deceased father had paid in taxes for these benefits the total sum of $3. How can you say to another widow and her fatherless children that they are not entitled to anything and that the first-mentioned family paid for their benefits? This program constitutes neither sound insurance nor a fair social program.

Our system of social security lacks flexibility. Who can say that 65 will be the proper retirement age toward the end of this century? Benefits cannot be tied to past wage records and still do the job in any particular year. H. R. 6000 is an admission of this.

For 13 years our Government has been paying for the keeping of voluminous and detailed wage records allegedly because they were needed to figure benefits, yet in the bill before you benefits were revised to meet present-day need.

Flexibility in a program is desirable. The wage-record system prohibits flexibility besides being a costly procedure.

May I say there that as long as you try to tie a social-security system to a wage-record system, you will not only do a bad job in taking care of the people who never have a wage record but you will always have this troublesome question of who is an employee—all for nothing. It does not add to the soundness of the program.

Another objection to a program in which the number of beneficiaries is much smaller in early years than in later is that, regardless of what financing method is adopted, there will be an uncontrollable tendency toward undue liberalization of individual benefit amounts. With only relatively few beneficiaries on the rolls now and in the immediate future, it is too easy to propose individual benefit rates to be approximately doubled; that primary benefit amounts in excess of $100 a month be promised, as well as the combined husband-and-wife amounts of $150 a month. With a relatively small number of beneficiaries now and with present benefit disbursements far below contribution receipts, the ability to fulfill these promises over the next few years seems to be all that matters. The tremendous future cost that will result when there are many more to whom we have made these commitments is too easily ignored.

In our population over 65, only 1 out of 5 is now eligible for benefits. On this basis we are fixing benefits so high that when the time arrives

that 5 out of 5 become eligible the program will be an impossible financial burden.

I have repeatedly stated that H. R. 6000, 40 years from now, will cost $12,000,000,000. This is a very conservative estimate. Compared with the life of our Republic, that is not a long period of time.

Mr. Chairman, I feel very keenly about this. I have a son 10 years old. Adopting this program means that when he is 50, the taxpayers then must pay $12,000,000,000 a year for old-age and survivors insurance alone. The taxpayers of that day will have no voice in determining the amount of payment for it is in the nature of a contractual agreement. We have no right to force such a program upon our children. The workers today have no right to expect a retirement benefit for themselves that today they are unwilling to provide for their parents.

Someone may suggest that when these benefits are to be paid 40 or 50 years from now, they will be paid from an accumulated trust fund adequate to meet these benefits. This is a fantasy. It is a myth. In the first place, we have no assurance that the progressive tax rates will go into effect and that any such fund will be accumulated.

If the sum could be collected, how could it be managed? Should these many billions in the so-called trust fund be retained in cash by the Treasury? The effect of such a procedure on the economy is well known to you gentlemen.

Should these funds be invested in securities other than Government securities? If this were done, the Social Security Administrator would soon control all the Nation's major business enterprises.

That leaves only Government bonds as an investment. I maintain the Government cannot carry a trust fund in its own Government bonds.

When a recipient is to receive his benefits, this year or 40 years from now, he wants them in dollars. There are only three ways to get dollars. These ways are:

1. Current taxation;
2. Issue of more bonds to borrow the people's money;
3. Inflation through printing press money or devaluation.

It matters not, so far as our economy is concerned, whether there or three warehouses of Government bonds in the trust fund or 40 warehouses of Government bonds. The people have to provide the money when the benefits must be paid.

What is the answer? We should adopt a pay-as-you-go program. We should make these benefits available now for all our aged, and all our widows and orphans. We should collect the money now. I submit that in any given year, those individuals who are so blessed as to have a job and good health should carry the load for those unable to provide for themselves in that particular year. The full cost should be paid each year, and when that year closes nothing is owed and nothing is promised. That is the only way we can be fair and honest with our children.

If this basic change is impossible at this time, then I suggest that no legislation be passed or that a stop-gap measure be approved providing additional money for the country's needy.

Senator MILLIKIN. What sort of impossibility do you see?

Representative CURTIS. Largely political. Social security has been sold to the people as something that was untouchable, that people paid

for. There has never been any real searching investigation of it on a broad scale. And politically you might not be able to make such broad, sweeping changes without a little more build-up and perhaps an investigation, which I will come to in my closing paragraph, that is, selling the idea to the American people.

Senator MILLIKIN. In your judgment, what would it cost to put a pay-as-you-go system into effect, giving the amounts of benefits that you have in mind?

Representative CURTIS. Senator Millikin, I do not want the responsibility of saying how much of a payment should be made to our old people. If it is X dollars or Y dollars, I do not want my criticism of social security to be identified as a certain price pension proposal.

I can tell you this: That the only way we can preserve the long-time solvency of this country is to pay them all—all our old and all our orphans—now, and pay the bill and let the American people know that if they want to raise that 20 percent, there is a tax raised.

Senator MILLIKIN. I am very much taken with the notion of pay-as-you go, but I would like to know what mechanics and money are involved.

Representative CURTIS. I can give you some figures. I will start out with about four figures as to the present program as provided in H. R. 6000. The Federal Government at the present time is making in grants to the States in this program 1.2 billion dollars. We will collect in taxes in fiscal 1951—that is, social security taxes—3.5 billion dollars. That is a burden on the Federal taxpayers of 4.7 billion dollars.

Now, the States are spending, in matching that—and this is an old figure, the year ending July 1, 1949—eight-tenths of a billion dollars, or $800,000,000. That is a grand total cost of 5.5 billion dollars.

I want to be fair about this. This is the social-security tax plus what we are paying out in grants and what the States are paying out. It is not figured on the benefits paid out. It is the levy on the American people I am talking about.

Now, by way of illustration—and again, let me say I am not going to assume the responsibility to say whether each old person should get $30, $40, or $80——

Senator MILLIKIN. We have to have as much instruction as we can get on this subject.

Representative CURTIS. Yes. The cost of a flat payment of the Federal Government of $30 per month to each individual over 65, each widowed mother with a child under 18, and so forth—and there are 11.4 million individuals over 65, 3 million widows and orphans, a total of 14.4 million—and $360 a year takes 5.1 billion dollars.

Now, if all other Federal subsidized pensions, such as military, veterans, civil-service, and railroad retirement, are offset, and if the benefits under this plan are made taxable, and allowing for the refusal of benefits by a small portion of the potential recipients, I estimate that this can be reduced by eight-tenths of a billion dollars, or $800,000,000.

This would leave a net cost of 4.3 billion dollars as compared to my figure with regard to the present program of 5.5 billion dollars.

Now, the Federal savings would be four-tenths of a billion dollars. This is based upon the Federal Government ending its grants to the

States, which will end a lot of abuses and bureaucracy besides saving dollars. It will be a savings to the States of $800,000,000.

Now, my estimates are high on this; perhaps more people would refuse it than I have estimated. I do not want to be in the position of advancing something and then underestimating what it would cost.

Since you have asked the question—I do not want to take too much of your time—but I must point this out. In taking just and kindly care of our old people, there are some things that count besides dollars and our present method of doing takes the most dollars. If here is an old lady who has a modest sum of money coming in as a matter of right, without need tests, without a case worker going around, who can live where she wants to, grandma will be a welcome guest in somebody's home—a grandchild, a daughter, a niece, or somebody—because she can pay part of the way. Those good, honest people might not be able to take her in if she had no income whatever.

But under our OAA program, she must declare herself a bankrupt, usually maintain her own living quarters, have a case worker come in and make out a budget for heat and light and medicines, and all the rest, and if the family are honest and the case workers find out that some relative gave this dear old lady $3, they cut down her allowance that much.

They end up by spending a lot more money, and they still make life miserable for many of these old people.

Senator MILLIKIN. As I figure, Congressman, if you have 14,000,000 people 65 or older now, and you give them $75 a month each, you have an annual tax bill of 12.6 billion dollars.

Representative CURTIS. Senator Millikin, I am not suggesting any dollar amount. What I am pointing out here is the dishonesty of legislating a program that will eventually take in all our old people for our children to pay for, and we do the legislating now.

Now, if we cannot afford to do this, all right. I think I have a very conservative record in voting in Congress. I am concerned about the financial solvency of this country, not only now, but in the years to lie ahead. We are legislating day after day, adding to the cost of the Federal budget for the years to come, which is probably a greater sin right now than the amount of money we are appropriating, and I think we are appropriating far too much money.

Mr. Chairman, it would take a tax rate on the first $3,000 of net income of individuals after deductions and before personal exemptions and credits for dependents, to produce 4.4 billion dollars. That would carry your $30-a-month program. But you would free these old people. They could make a little money without violating the law. Relatives could help them. Others may turn it down. I do not think it would cost that much—and again, I am not saying that no one should have more than $30 a month. The States would still be in the picture. We would forever get rid of this terrible system of matching money with the States.

Now, I agree with you that we just cannot pay all these recipients $75 a month. All right; I submit that we have no right to legislate so that the children in the country have to make such payments in the years that lie ahead.

Senator MILLIKIN. I think you are rendering a very constructive service when you point that out. I do not think there is any question about that.

I am now taking the next step: What are we going to do about it in terms of today?

Representative CURTIS. Mr. Millikin, there are those who would come in and say, "Abolish this system and do nothing."

Senator MILLIKIN. That is not going to be done. You know it and I know it and everybody else knows it. So let us get down to what we can do now.

Representative CURTIS. Yes. Let us do for all of them now and see what it costs, and fix it so the American people can control that cost.

The people that I deal with, when I get back home, are smarter than a lot of folks in Washington think. If they say that a 4-percent rate of tax on their first $3,000 is not quite enough to pay these old people, and they want to raise it to 4 or to 6 and add $10 to each one of these checks, they can. But if the sentiment swings the other way and if they think these people are getting too much, they will say so.

Senator MILLIKIN. Do you favor the continuance of the so-called insurance contribution or would you pay out of general revenue?

Representative CURTIS. May I read my last paragraph?

Senator MILLIKIN. Yes; of course.

Representative CURTIS. This should be followed by a thorough and objective study of the program. With due regard to the high caliber and public spirit of the individuals comprising the various advisory councils on social security, I regret these councils have not been able to make a more thorough reexamination of the fundamentals. Each council has been composed of experts in their own fields, who, being extremely busy men in these outisde fields, could not take the necessary time to make such reexamination; consequently, acceptance of the proposals developed by the Social Security Administration staff members became an almost inevitable course.

I feel a study should be made by a group consisting largely of persons who can devote full time for several months to the work, who are largely technicians in this field, and who at the same time are fully independent of administration pressure. Only in this way can a wholly objective and thorough chart be laid for future development.

Senator MILLIKIN. When we were setting up the advisory council to the Senate Committee on Finance, I spent a lot of time trying to find those technicians. The cold fact of the matter is that the basic information is alone in the possession of the Social Security Agency. There is no private actuary for any insurance company, including the biggest, that can give you the complete picture on this subject.

Representative CURTIS. That is correct.

Senator MILLIKIN. I know what I am talking about because I tried to get that kind of people.

Representative CURTIS. Yes. I think those men who have the background that could adapt themselves to that work will have to be engaged for a longer period of time and not be called in as consultants or advisers, but be put to work with the information.

Senator MILLIKIN. Ironically, they would have to go over to the Social Security Agency and get their information. There is no place else to get it. The insurance companies do not have it.

Representative CURTIS. That is true.

Senator MILLIKIN. They have no source of information, roughly speaking, except the Social Security Agency.

Representative CURTIS. Understand, Senator, the criticism I made was neither at the resolution or legislation calling for these councils or the men who serve on them, but they sit in in an advisory capacity.

Senator MILLIKIN. I think you have an excellent point, Congressman, if you could do something about it. But the question is, What are you going to do about it?

Representative CURTIS. I think it can be done, Mr. Millikin. I think technicians who absolutely had no other responsibility, with no outside activity or responsibility at all, who, if necessary, had to go into the places where the information exists; but they would do their own tabulating, their own questioning of the figures and the conclusions to be drawn therefrom. I am not ready to admit, Mr. Millikin, that there is not anyone that can investigate this thing.

Senator MILLIKIN. I spent a whole summer working on that problem, sweating here in Washington when I did not have sense enough to stay in the Senate Office Building, trying to find those kinds of people, and I finally—by the admission of the people in private business—had to give up the job because those people were not available. They did not have them.

For example, with respect to a big insurance company, you would think offhand, "My goodness, they must have the skills in here, that is, the combined skills to deal with a problem of this kind." But they do not have them.

Representative CURTIS. Mr. Millikin, I think this situation is so grave that we have got to take off the gloves and call a spade a spade. There are certain individuals connected with large business who, for selfish reasons, like this sort of thing. They have built up a big staff within the corporation to advise the management on this tangled problem as to who is an employee and who is not; and the result is that they have a group that can be indispensable because of the web that is put around them by the Government. So you are going to have some people among so-called large business that are not going to make much of a contribution.

Senator MILLIKIN. May I make this suggestion to you, Congressman? You would probably be amazed if you knew how many of the big fellows in the insurance world in private conversation favor exactly what you are talking about.

Representative CURTIS. Yes. The Senator was faced with a difficult thing for a hurry-up job in a few months. It was an approach for someone to advise on social security. These councils end up with people who are extremely busy. They rush in here for a few hours and the result is, "This sounds agreeable" and they sign the report. I want an investigation committee which will not sign anybody's report but will make one.

Senator MILLIKIN. Congressman, you are a little in error, if I might respectfully suggest.

Representative CURTIS. I stand corrected, sir.

Senator MILLIKIN. I may say that Senator George and I kept the wires busy all the time in cooperating completely on this problem. Those members of the council came from all over the United States. They attended the meetings, and they came here repeatedly. They averaged a meeting every 2 months over a period of from 1947 to the end of 1948. Many of them were technically skilled in this business

but, as I say, they were trained in a limited sphere of interests. There is no denying that.

I want to emphasize again that they may have reached wrong conclusions. This committee has never adopted their conclusions, and I am not offended at all by what you say. I recognize the strength of most of what you say. I am simply trying to point out to you that there was a good-faith effort by top-flight citizens to reach conclusions, and they just did not sign something that was handed to them. I have seen them in session debating this thing all the way around the table point by point in numerous meetings held here in Washington where they dropped their business and had come here from all over the country. That is what I am trying to get over. I am not saying their conclusions are right. We have to decide that ultimately.

Representative CURTIS. I did not see your council in work, Senator. I have heard some of them testify and I have cross-examined them. Now, understand, I am not to do the questioning, but as a matter of information, Senator, when they met every 2 months, for how long did they meet?

Senator MILLIKIN. They stayed for 2 days.

Representative CURTIS. That is the point.

Senator MILLIKIN. They had a staff that was the best staff we could get. They had a staff that had the thing laid out for them. I have seen them take it, point by point.

Representative CURTIS. I want the responsibility not on people who will come to Washington a couple of days every 2 months. I want the responsibility for a study of this by people who will spend 48 hours a week for 52 or 104 weeks, if necessary.

Senator MILLIKIN. You will have to go over to a lamasery in Tibet to find that kind of people, because if you are going to have good people they have some other things to do.

Representative CURTIS. I realize that, Senator, and I hope that I have not been offensive in my criticism of these things. But I think the program is so big and so far reaching that that has got to be done.

Senator MILLIKIN. Now let me read you this membership. There was the late Edward R. Stettinius, Jr., who was on the original council that evolved the first Social Security Act. Then Sumner H. Slichter. I think if you search the whole United States, or if you had a convention of all economists in the United States, Sumner Slichter would get the top vote as the top fellow in the whole business.

Next, Frank Bane, executive director of the Council of State Governments. Now, there is a gentleman who has been working with the problems of State governments and the relation of State governments to the Federal Government, and this problem involves those relationships. You could not have gotten a better man, I suggest.

J. Douglas Brown, dean of the faculty, Princeton University, a college professor. Well, it is not necessarily a sin to be a college professor. Some of them are pretty wise gentlemen.

Here is Malcolm Bryan, vice chairman of board, Trust Co. of Georgia. There is a practical businessman with a background of interest in social security.

Then, Nelson H. Cruikshank, director of social-insurance activities, American Federation of Labor, an outstanding expert in the business. He may have his own particular viewpoints, and undoubtedly has, but he is smart and knows what he is talking about.

Then, Mary H. Donlon, chairman of the New York State Workmen's Compensation Board, a very outstanding lady in social-security matters.

Next, Adrien J. Falk, president of S. & W. Fine Foods, Inc., an outstanding western businessman and leader in public affairs.

Marion B. Folsom, treasurer of Eastman Kodak Co., who was on the first Advisory Council, a smart man especially skilled in social-security matters.

Then, M. Albert Linton, president of the Provident Mutual Life Insurance Co. He is not ignorant in this business.

Then you have John Miller, assistant director of the National Planning Association, and William I. Myers, dean of the New York State College of Agriculture. There are a lot of agricultural problems to be considered in this business.

Also, Emil Rieve, president of the Textile Workers' Union and vice president of the Congress of Industrial Organizations. If you ever had him on the stand and cross-examined him, you found out that he knows his way around.

Then there is Florence R. Sabin, of Colorado, I am glad to say, a great scientist.

You also have S. Abbot Smith, who had been head of a small business organization, and a New England manufacturer.

You have Delos Walker, vice president of R. H. Macy & Co., a great expert in personnel.

And also, Ernest C. Young, dean of the graduate school of Purdue University.

I run through all of that to disabuse your mind, I hope, of any thought that we picked up a bunch of stumblebums to work on this problem.

Representative CURTIS. Oh, no, Senator. I would pay the highest tribute to those men as citizens and as successful people in their fields.

I raise two objections: One is that their field has not been social security, and the other one is that they cannot do it in 2 days out of every 2 months. It is not that kind of a job.

Senator MILLIKIN. Now, I have a note here from a gentleman of our staff who reminds me that we had an interim committee made up of the members I read you about, who went over every proposal between the main meetings and they submitted their data in constant liaison with the main staff, so that when the main committee met they did not plunge coldly into these problems. There had been a preliminary sifting by this interim committee.

Representative CURTIS. I understand that.

Senator MILLIKIN. Where you are puzzling me is: Where are we going to get the kind of fellows you are talking about? I agree if it could be done it would be the perfect thing to do, but I am trying to get a little enlightenment on how to do it.

Representative CURTIS. I am not ready to name names, Mr. Millikin, but I think it could be done. I certainly would not want this record to close with anything that I said indicating that these were not outstanding citizens. They were. I cannot agree with their conclusions, and I do not think that if, as individuals, they would shut themselves off from the rest of the world and study the problem for 60 days alone, they would come up with the same conclusions.

Senator MILLIKIN. I am not agreeing with their conclusions. We are checking their conclusions in this hearing.

With respect to the question I asked you formerly, would you sustain your plan with so-called insurance contribution by worker and employer, or would you take it out of general revenues?

Representative CURTIS. No; I would have a tax. Whether or not you had that on both the employer and employee, you may want to study that a little bit. If so, it should be collected as other withholding taxes are collected. I definitely would not keep the wage-record system.

Senator MILLIKIN. What is bothering me is that if we are going to take every one in 65 years or older, we will be taking in the whole citizenry, so why have a special tax? Why not pay it out of general revenue. In other words, in order to get away from these phony insurance principles to which you refer.

Representative CURTIS. Yes. I think this, Senator: I think there would be some merit in having a tax identified for that purpose so that the people who are not recipients would understand what it was costing and how it was being paid, and the recipients themselves would know how this was being paid by their neighbors and their friends and relatives.

Senator TAFT. How can you grade the benefits for different people without having kept a wage record?

Representative CURTIS. Well, you do not do it now.

Senator TAFT. You are for uniform pensions, is that it?

Representative CURTIS. Well, yes. Here is the point. We have spent a lot of money keeping wage records during the last 13 years. H. R. 6000 disregards that. It revises the benefits and says that they are unrealistic in the light of present need, and Dr. Slichter said that we should periodically do that. Now, back in my law office in Nebraska I might hire a girl for 3 months and then she gets married and quits working. But we have paid a small amount of social-security tax. That account has to be maintained probably for 90 years. Then when it comes to a show-down, we know that the Congress is going to fix benefits at such economic and political level as is necessary.

Senator TAFT. But with some relation to what that person has earned during his or her life. It seems to me that is a principle I do not want to abandon.

Representative CURTIS. That is the thing I do want to abandon, Senator Taft, for this reason: At the present time, as I pointed out in my statement, you are paying the $250-a-month man a benefit of $16 a month more than the $100-a-month man. Actuarially, he has paid for $2 47——

Senator TAFT. I understand all of the inequalities, and I agree that the benefits have very little relation to what you earned during your life; but they have some relation, and that relation is one that I do not want to entirely abandon. I hate to go to a flat pension, let us put it that way. Otherwise, I more or less agree with you all the way through.

Senator MILLIKIN. I might suggest that the Congressman has cut through all the inequalities by suggesting a pay-as-you-go system and some flat pension. I would rather go your route, if it can be done, than to go through all of the jiggling around of wage records and

inequities that will inevitably follow that sort of thing. But we do not have yet the economic basis for going your route.

Representative CURTIS. What I want to do is to escape the future consequences of this so-called insurance program. It is the German system. It did not work there, and I know that if we go on with this we will get a burden that we cannot carry.

Senator MILLIKIN. It might be called the germ system.

Representative CURTIS. Yes. As long as we are fixing benefits on the basis that 1 out of 5 over 65 will get the benefits, then we do not need to worry how high they are. But there will come a time when our kids will pay on the same rate for 5 out of 5.

Senator MILLIKIN. What you are saying is, "Cut out making promises that we do not know we can keep, and probably will not, and pay as we go so we know the size of it and we know what it is costing."

Representative CURTIS. Yes, sir. It may be as we look into this that we cannot pay many of our aged anything if we are going to save ourselves from bankruptcy. But, for goodness sakes, let us stop making a contractual relationship where our future generations of taxpayers will have to pay that. I think my estimate of $12,000,000,000 a year for this program before this century closes, if we do not raise the benefits again, is very conservative.

Senator MILLIKIN. It would be $12,000,000,000 right now if you gave all those 65 or older $75 a month.

Senator TAFT. That would not be so big if you had a gross income of a trillion dollars, as suggested by the President, at the end of the century.

Representative CURTIS. You know, Senator Taft, a farmer in my district figured out that if taxes increase in the same rate they have in the first half of the twentieth century that by the time the income reaches a trillion dollars our tax will be 2.7 trillion.

Senator TAFT. I think that is probably right.

Senator MILLIKIN. Well, all you need is bigger and faster printing presses.

The CHAIRMAN. May I say, Congressman, supplementing what Senator Millikin has said, that since the House passed this bill—since you passed it over in the House—and sent it to us last October 6, I have been endeavoring to find, even in the rather restricted field of actuaries, some outside actuary of real ability, real character, who could help. I have been told by several men that I have consulted, that they could not be of real help beyond this—they would be compelled to go into the Social Security Agency for their basic data, and based upon that data, they would come out with the same conclusion that any ordinary actuary would probably reach.

Representative CURTIS. I am aware of the limitation on the sources of information and how few people there are who specialize in this field. But I hate to come to the conclusion that when we take our pencils and figure out something and it points to danger for us, to say that there is not anyone smart enough to figure it out and change it.

The CHAIRMAN. I can understand that you could see the danger all right. I agree with you on that point. These actuaries with whom I have conferred have stated beyond that basic assumption that they would have to make, the data they got out of social security

would permit them then only to proceed in a helpful way upon assumptions. They could take a given assumption and, of course, work out to some end result.

Representative CURTIS. Let us analyze that a little bit, Mr. Chairman.

The CHAIRMAN. But I do not know how that would be helpful.

Representative CURTIS. Do you not think that we could get accurate figures on population?

The CHAIRMAN. Yes.

Representative CURTIS. And also life expectancy, how many old people we are going to have 30, 40, and 50 years from now. The thing that has been overlooked by these advisory councils is certain basic questions about trust funds and other things that can be determined by competent men if they have enough time.

The CHAIRMAN. Undoubtedly they can be helpful. On your own figures of taking $30 per month pension for all of the aged and the widows and dependent children, I believe you figured that would cost about $4,300,000,000 at this time?

Representative CURTIS. Yes.

The CHAIRMAN. Now, projecting that for the remainder of the century, about 40 years, you think it would reach about $12,000,000,000?

Representative CURTIS. No, Mr. Chairman. I said the program proposed in H. R. 6000 will cost $12,000,000,000 a year.

The CHAIRMAN. Have you projected it on the basis of the $30 per month pension?

Representative CURTIS. That is the beauty of a pay-as-you-go system, Mr. Chairman. We let the taxpayers of 1960 and 1970 and the year 2000 decide how much they are going to pay for the aged in any given year, and we do not legislate now for them.

Again let me say, Senator, I am not here proposing $30 or any other figure.

The CHAIRMAN. I understand.

Representative CURTIS. I do not want to be identified with a price-tag-pension program. The people I represent want the solvency of this country maintained, and I am thoroughly convinced that it cannot be if you go on with this present social-security system.

The CHAIRMAN. I do not know where we are headed with this social-security system plus private pension systems.

Representative CURTIS. I think one other thing we should not lose sight of in this legislation is this: Among federally sponsored pensions, a man can draw four or five of them at the present time.

The CHAIRMAN. You can draw more than one. Yes, one could draw several; you are right.

Representative CURTIS. He can qualify for social security, railroad retirement, military, perhaps veterans, and civil service. There is no charge off. It is somewhat unfair to the 4 out of 5 over 65 who draw nothing. But I am not here with my first plea that you pay anybody a sum of money now for the sake of attracting attention of those people. I think the vast majority need some attention. But what I am devoted to, from the little I have studied this on the Committee on Ways and Means for the last 6 years, is that I think the so-called insurance program is basically unsound and it is not fair to the people who will follow us on the scene.

The CHAIRMAN. Thank you very, very much.

Representative CURTIS. I thank you, gentlemen.

The CHAIRMAN. Hon. N. M. Mason, will you come forward, please? We will be very glad to have your assistance in solving this difficult problem.

STATEMENT OF HON. NOAH M. MASON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Representative MASON. Mr. Chairman, to begin with, I want to say that I approve and subscribe to the constructive outline that Mr. Curtis, my colleague, has made. I also want to say that I am not an expert in the social-security field and so I want to present in very brief time what might be called a bird's-eye picture of the problem as I see it, because I have collaborated with Mr. Curtis in the report that was prepared by the Ways and Means Committee and subscribe to that. Mr. Curtis has gone into the ramifications of this problem much more completely than I have, and so he has treated it in detail, where I am expected to treat it only as a kind of general outline.

With that as a preliminary, Mr. Chairman and members of the committee, I want to read my short statement and then subject myself to questions.

The CHAIRMAN. We will be very glad to hear you, sir.

Representative MASON. Mr. Chairman and members of the committee, I am one of the three members of the Ways and Means Committee that voted against H. R. 6000 when it was approved in committee. I was alone 1 of the 14 Members in the House that voted "no" when the bill was up for final passage in the House.

And right here I want to interject this: that in my opinion if that had been a secret vote it never would have passed the House, because if one Member of the House came to me at least two or three dozen came to me and said: "Noah, I know that thing is unsound; I know it stinks, but I felt I had to vote for it because of the pressure that was brought upon me."

I feel, therefore, that it is my duty and responsibility to make a statement before the distinguished members of this committee giving very briefly my reasons for opposing the bill.

In my opinion the weight of the testimony during the 3½ months of open hearings before the Ways and Means Committee on our present social security set-up was to the effect that it was unsound and dishonest, a Ponzi-type shell game that has been sold to the American worker as a plan to provide security in his old age. It is a program which if practiced by a private insurance company would land every director and every officer of that company in jail for misappropriation and misuse of trust funds. The program is characterized by the Brookings Institute report on our present social-security set-up as a plan whereby "We (the present generation) do the promising; you (all future generations) do the paying."

The future burden of H. R. 6000 is described on pages 168 and 169 of that same report as an enlarged old-age insurance system that would ease the cash position of the Federal Government today because the excess of revenues collected today through the social-security tax goes to meet the ordinary expenses of the Government, and that means

that a substantial part of future social-security costs will have to be met out of future tax revenues. The report estimates that the cost of H. R. 6000 pus the veterans program will be between 19 and 25 billion dollars by the year 1970. Personally, I think that is probably a little high, but it will be somewhere in that position because of the $12,000,000,000 that is usually estimated, and the $5,000,000,000 that we are now paying out, would make it $17,000,000,000.

Senator MILLIKIN. It would be twice as much if the value of the dollar continued to slide.

Representative MASON. Yes.

Gentlemen, can our economy carry this tremendous additional burden?

Perhaps at this point a concrete illustration to demonstrate how unsound and dishonest our present social-security program is would be in order; therefore I offer the following hypothetical case:

John Smith decides to establish his own social-security program, so he meticulously deducts a certain percent of each pay check he receives and places the cash regularly in his safety deposit box. After doing this for several years and having thus set aside, say, $5,000, to insure security in his old age, John Smith starts to spend each month more than he earns—as Uncle Sam does now. Then John Smith hits upon the plan of taking so much cash out of his lock box to spend each month and placing in the box, in lieu of the cash extracted, promissory notes to himself. If John Smith keeps this up, when he retires he will have only promissory notes to himself to live on—which he has no way of changing into cash for groceries.

That, gentlemen, is exactly what Uncle Sam is doing with the social-security receipts—the only difference being that Uncle Sam has the taxing power to invoke in order to change his IOU's into cash to meet his future social-security obligations. But that involves new taxes, additional taxes, to meet obligations that are supposed to have been paid for already by the beneficiaries. I wonder if that scheme of taxing the children and grandchildren of the social-security beneficiary for something he and his employer are supposed to have paid for—but Uncle Sam has spent the receipts from the social-security tax for other things—can be called anything but dishonest and immoral, "a Ponzi-type shell game that has been sold to the American worker as a plan to provide security in his old age."

On page 176 of the Brookings Institute report the authors recommend that the present social-security set-up be abandoned entirely and a genuine pay-as-you-go system be established in its place. This would do away with all need for reserves, all need for level premiums, all need for costly and elaborate bookkeeping systems, et cetera. This would mean, as the authors of the report point out, "Our generation would care for its own and trust future generations to do likewise."

Senator MILLIKIN. Congressman, did you get the impression from their report that they would raise the pay-as-you-go money by general taxation?

Representative MASON. I did. A very sensible and practical and wise conclusion for them to reach, it seems to me.

Senator MILLIKIN. That is what it amounts to anyhow, because when you make good these bonds that you are talking about that are piling up under the swindle that you referred to, they will be paid out of general taxation.

Representative MASON. Yes, sir.

In discussing the social-security problem on the floor of the House, I said:

Mr. Speaker, the action of the House on H. R. 6000, the social-security bill, has impelled me to do something that I have steadfastly refused to do for over 12 years; namely, to sign the Townsend plan petition now at the Speaker's desk. I signed that petition because when I compare the two programs for social security—the one contained in H. R. 6000 and the one contained in the Townsend plan—I am convinced that the Townsend plan is to be preferred to H .R. 6000.

In my opinion, after careful consideration, the Townsend plan is more equitable, more practical, more just, much easier and cheaper to administer, and less costly in the long run.

The social-security plan contained in H. R. 6000 when fully matured will require the payment of something like $1,000,000,000 per year in interest alone, in addition to the hundreds of millions of dollars each year for administrative costs. The Townsend plan will do away with both the interest on the social-security fund and the heavy administrative costs.

The social-security plan contained in H. R. 6000 proposes that the Federal Government shall collect up to eight or ten billions of dollars per year and spend the same for current Government expenses. The Townsend plan proposes that the Federal Government shall collect six or eight billions of dollars per year and hand it out immediately on a monthly basis to the old people of the Nation for them to spend for the necessities of life. I ask, which is the better plan? Which will bring more happiness to more people? Which can spend the money to a better advantage, the Federal Government or our worthy old people?

In my opinion the social-security program as set up and amended in H. R 6000 is both unsound and dishonest. I shall do what I can hereafter to substitute the Townsend plan, or some modification of it, for the administration's social-security program.

That is all, Mr. Chairman.

The CHAIRMAN. Are there any questions?

If not, thank you very much, Congressman.

Representative MASON. Thank you, Mr. Chairman and gentlemen.

The CHAIRMAN. Is Congressman Clair Engle in the room?

I do not believe he is present. I shall call him later.

We will now hear from Mrs. Abraham Epstein, vice president of the American Association for Social Security, New York City.

STATEMENT OF MRS. ABRAHAM EPSTEIN, VICE PRESIDENT, AMERICAN ASSOCIATION FOR SOCIAL SECURITY, NEW YORK, N. Y.

Mrs. EPSTEIN. First I want to thank you, gentlemen, for wanting me to be here today. I have been for many years connected with the American Association for Social Security, and many of you probably remember my husband, Abraham Epstein.

Our association started in 1927, and we have done a good deal of work in the field of social security for many years.

I am also here to represent the League for Industrial Democracy of New York City, which is a national organization. Mr. Epstein used to come to hearings very often during his life, and I still remember that in 1939 when the amendments to the Social Security Act were being discussed, he said, "Being responsible for the term 'social security'—and, as you know, we really started this term going, way back in 1927—Mr. Epstein said, "I do not have to proclaim my faith in social security. I believe and I continue to believe in social security," and so do I, gentlemen. And not because social security is a good political slogan, and not because it is a cure-all

and can do everything, but I believe and I still believe that properly handled it can be the best method of alleviating our major industrial hazards.

Well, this was in 1939 and since then very little has been done to our Social Security Act. Of course, we have recommendations from your Advisory Council which, to my mind, are very good recommendations, and with which I do agree in the main. But my main definition of social security is that social security is not, as certain Americans believe, a new-fangled idea of government pampering of the individual. Is is not that. Social security rather stems from one of the most primitive instincts of self-preservation.

To my mind, three main reasons make social security imperative. One is the civilized desire, and one of the ideals of Christianity; that is, to do unto others as you would have them do unto you. And the other one is the claim that unless a means of economic security is established, the people of the country might become politically dangerous. I mean, if there is a good deal of unemployment and if we throw people out on relief when they are old and no longer able to work, that is a very bad and dangerous thing to do. Then the third reason for social security, is more modern. I would consider social security the best medium for underpinning the purchasing power of the workers, and this purchasing power is essential to the maintenance of production and to the stability of our national economy.

Now, as I said before, I agree with most of the recommendations of the Advisory Council.

Senator TAFT. If you will pardon the interruption, why is that? After all, far from increasing the purchasing power, you tax much more money than you give them back, so that you would decrease purchasing power. You take away from a large number of workers, through their pay-roll tax, a much larger sum than you are giving back at the present moment.

Mrs. EPSTEIN. At the present moment, perhaps.

Senator TAFT. And for 10 years to come.

Mrs. EPSTEIN. If we change our social-security legislation we will not be doing that. We will be doing exactly the opposite, Senator.

Senator TAFT. I do not see how you increase purchasing power by taking away from some and giving it to others.

Mrs. EPSTEIN. We have to increase the purchasing power of those who are too old to work. In other words, if you cannot make money when you are old, you still have to eat and pay your rent and buy your food.

Senator TAFT. I do not question the justice of it. I was questioning the economic argument that in some way this was going to increase the purchasing power of the Nation.

As a matter of fact, you take more away from the workers who are working and give it to the other people, but then you do not give it to the other people, you keep it in a fund.

Mrs. EPSTEIN. I do not think it should be kept in a fund, Senator, and I will come to that later.

Senator TAFT. It has been kept in the fund for 14 years, and even under H. R. 6000, you add about $1,000,000,000 a year to the fund, so you decrease the purchasing power. In other words, you decrease the purchasing power by $1,000,000,000, and you do not increase it.

Senator MILLIKIN. May I play devil's advocate and suggest to the witness that there is really no decrease in the purchasing power. There may be a difference in the dynamism of your spending, because what you take away in the way of contributions the Federal Government spends for pay rolls and also all sorts of nonsensical things, but the money circulates.

Mrs. EPSTEIN. And there is more purchasing power.

I am not supposed to say anything about unemployment, but if a man has no money coming in, how is he going to buy a coat or buy the children food or pay his rent?

Senator MILLIKIN. If I may suggest, also, if you put this money in the hands of the aged, they have to spend it and it makes perhaps the most dynamic form of spending that you can have in your economy; so I have done pretty well by you.

Mrs. EPSTEIN. Thank you very much.

Senator TAFT. I personally question that. I think money spent out of savings for reinvestment is more dynamic than that spent for food, as far as that is concerned.

Mrs. EPSTEIN. I do not agree with you, Senator.

Now, may I proceed, Mr. Chairman?

The CHAIRMAN. Yes.

Mrs. EPSTEIN. I wonder if I convinced the Senator that I would like to have the purchasing power increased.

Senator TAFT. I understand that you propose changes that will produce more purchasing power, even if we do not have it.

Mrs. EPSTEIN. As I said before, I agree with most of the recommendations of the Advisory Council, because I happen to know many of the people who served on the Council, such as Mr. Brown and Mr. Linton, and many of the people that had been appointed, and I do think they were very wonderful people, and they really did the very best that could be done. So I congratulate this committee on having such a wonderful Advisory Council.

I agree also with many of the changes in H. R. 6000. I am not criticizing H. R. 6000 except that I think it could stand a lot of improvements. The changes I would like to see in our social-security legislation—and I would like to have them listed insofar as I think they are more important, in my opinion—first. We have in our Social Security Act no provisions for disability insurance. Now, that is a missing link in the whole social-security over-all plan.

The second point is the fact that we have a very inadequate coverage, which leaves millions of Americans without the protection which they should be entitled to under our Social Security Act.

Third, I believe also that our benefits are very inadequate today. I have spoken to quite a number of people who are getting benefits, old-age insurance, widows' pensions, survivors' pensions, who really have a hard time getting along on their allowance.

There is one particular thing also. Most of the social-security plans in other countries permit women to retire at the age of 60. I am sorry we are not doing this yet in the United States.

I am listing the things now, Mr. Chairman, and I will go into a little more detail.

Senator MILLIKIN. I might suggest that we get in the habit of taking averages. These elderly people cannot eat averages. When you have an average of $30 a month, that means some are getting as

little as $10 per month and that others are getting more. However, the point is that some may only be getting $10.

Mrs. EPSTEIN. That is very little. I know, for instance, in New York City a widow with a child who is receiving $21 a month. In New York City you cannot live on $21 a month. You might be able to do it in other parts of the United States, but not in New York City.

The fourth point is the fact that the eligibility requirements are a little too stringent for all the workers. Then, of course, one of the most important points is the financing of social security, and there I do agree with the Advisory Council and not with H. R. 6000.

Now, I just wanted to tell a little more about the protection of the risks caused by permanent or temporary sickness. Most nations of the world have included sickness insurance in their social-security systems.

Senator MILLIKIN. Yes; but look at the shape they are in.

Mrs. EPSTEIN. No; they are not in such bad shape. I might mention the fact that I was in England, and I am not talking about the National Health Act. I am talking about the cash disability benefits, which is another thing.

Senator MILLIKIN. I understand.

Mrs. EPSTEIN. The National Health Act is another subject, and we can spend hours talking about that.

No; I think that in the United States illness remains the greatest cause of poverty today, except, of course, during the depression when we had so much unemployment.

I did get some figures that the Social Security Administration gave me, and I have all reasons to believe that their figures are correct.

There were 4.6 million persons between the ages of 14 and 64, I was told, at any given date who were unable to work; 2.5 million of those people were disabled for less than 6 months, and 2.1 million had been disabled for more than 6 months. This does not include people in institutions.

Of course, the poorer people have more disabilities as a rule because of their condition of life, and sickness means that while your wages stop, the savings become exhausted, and then additional expenses have to be paid. So what happens to the family? They have to apply for relief because we do not have any sickness insurance in our social security act. Well, I do not believe in public relief. I mean, of course, it has to be done when we can do nothing else. But under social insurance, the claim is founded upon the right to benefits, which is preexistent to the emergency. It comes as a matter of right. Public relief aims only to provide a bare minimum of subsistence for the indigent, but social insurance tries to establish a minimum of economic sustenance, below which no one shall fall. Public relief and charity perpetuate existing economic injustice, but social insurance endeavors to eradicate much of our poverty and destitution by prevention rather than by giving relief and alms. Social security substitutes self-help and social justice for the demoralization incident to relief and charity.

These sound like big words, gentlemen, but when you talk to the people who are getting relief they are not such big words, at that. I do believe it is very, very important that we should consider the

disability provisions that were advocated by the Advisory Council.

In New York City, where I come from, many people are complaining that it costs a lot of money to keep people on relief and that it is expensive to the taxpayer. But we do forget that many of our people on relief are too sick to work. For instance, there were 20,300 employable adults receiving home relief in January 1950, who were not available for work because of a health condition. Our old-age and survivors insurance program will only be complete when we add disability insurance to it.

There are two kinds of disability insurance programs; one is a program for long-term disability, which would become available after 6 months of disability when that disability is pretty well established as being of long duration. The Advisory Council suggested some objective medical tests to determine disability. But I would go a little further than that when it comes to giving disability benefits. I would advocate allowances for the wife and the dependent children of the person who is insured but unable to work. I would like to have such allowances because it costs more money to keep a wife and children than if you are single.

I believe I have said most of what I could say on permanent disability, because it is advocated by the Advisory Council.

The States have taken the initiative in enacting temporary disability insurance, which is something that is not covered in the Advisory Council recommendations. But, in that field, the recent trends, as enacted in the States, evidence a complete departure from the sound principles of social insurance. We should aim to provide a basic minimum of security for those who are sick and unable to work because of illness of a temporary nature as well as illness of a permanent nature. If the employers wish to build above the minimum that is provided by law, then so much the better. Like old-age and survivors insurance and unemployment insurance, temporary disability cash benefits should not be handled through contracting out with private insurance companies, or other private plans, as is done by some of the States; but through a country-wide governmental plan where all risks would be pooled and definite schedules of benefit would be paid.

Thus, a person who is insured and becomes ill would know that his or her rights are. They would not be penalized when they change jobs or when they move from one State to another. I am speaking now about temporary disability. There is an infinite variety of plans, private and public, which are being developed in the States today. These will be expensive to administer and they will cause a good deal of litigation. There is always danger of rate differentials against the firms which employ women or older persons. And I am very much concerned with what happens to the women, as you will see later.

Temporary disability should become part and parcel of our Social Security Act. If we decide to leave the administration to the States, then we should establish standards to guide the States regarding eligibility requirements, amounts, and duration of benefits and, of course, how to prevent malingering. We should also decide how to finance the program of temporary disability—how much the workers should contribute and how much the employer.

When the Social Security Act was enacted, we agreed that insurance against old age and unemployment was a governmental function.

Now we are committed to this principle, and I do not think we should abandon this principle in the case of temporary-sickness insurance.

So I would like to ask, gentlemen, that Congress study the issue of temporary disability insurance, as soon as possible so that at least some recommendations could be made for either a Federal-State participation program, or a Federal program, just as you will see fit to do.

Now, I go on next to the extension of coverage, and I believe the extension of coverage under old-age and survivors should be as wide as possible. I agree with the Advisory Council that farm workers and household workers, domestics, should be covered. When the Social Security Act was originally discussed in 1935, the American Association for Social Security was then very active. Mr. Epstein used to talk very often. We thought that it would be best at the time to have coverage restricted to workers employed in industry and commercial concerns. We felt that, as a Nation, in 1935 we were much too inexperienced in the field of social-security administration to attempt too much at one time. Also, we were very strongly of the opinion that the stamp system would have been a much better method of administration and a much simpler one that the social-security card. But to date we have had experience in administration for quite a long time. Many people who are working on farms or many people who are working as domestics in private homes were in factories during the war. They already have a social-security card. They may already have credits, but they may not have enough credits to qualify for benefits, and it is very unfair to these people because they usually are not too well paid.

So I was aware of the difficulties that would be involved in covering those groups because I understand that that is not very easy. When I was in England last summer, and when I was in France next, I went around to the various offices where they were administering social security and to the local offices. I asked them how they were doing this, and they showed me the cards. I asked what happened when either a farm laborer or a domestic has more than one employer. They say that the employers take turns in buying the stamps to put on the card. That was fairly easy.

Senator MILLIKIN. I am sorry, I do not follow that.

Mrs. EPSTEIN. For instance, there is a cleaning woman, or a domestic, who works for different employers during different days of the week.

Senator MILLIKIN. And changes every day?

Mrs. EPSTEIN. Yes, sir. Now, the person for whom she works Monday will buy the stamp one week, and the other will buy it the following week.

Senator MILLIKIN. How does she know who the others are?

Mrs. EPSTEIN. She knows for whom she works.

Senator MILLIKIN. I mean the employer. I thought you said the employer buys the stamp. How would the employer know the other employers, which constantly are shifting for this lady?

Mrs. EPSTEIN. No: that is not it. I buy the stamp 1 week, and Mrs. Smith will buy it the next week. Each one of us take turns. I do not know whether I make myself clear.

In other words, Senator, I buy the stamp Monday, Mrs. Smith next week buys it on Tuesday, and Mrs. Jones Wednesday of the next week. They take turns.

Senator MILLIKIN. I think I understand you.

Mrs. EPSTEIN. That is the procedure they follow. They claim they have no trouble whatsoever.

In France, I also asked the same question. Although they do not have the stamps in France, they have another system. But I inquired of quite a number of people as to how it was done, and they claim it was very easy.

So I do not believe the administration should frighten us insofar as the two groups are concerned, and I would like to have them brought in under H. R. 6000, because when these people get old they have nothing but public relief and charity to look forward to, and I do not think they should be made to feel that they are second-class citizens and not entitled to social-security insurance as the others are.

Next, I agree with the recommendations of the Advisory Council regarding other groups, such as employees of nonprofit organizations. With respect to those, I might say that in the American Association for Social Security we had coverage, although we were a nonprofit organization, as you know, under both old-age insurance and unemployment insurance. And it only meant one thing. We had to work harder to raise money for it because we paid the employer contribution. We thought it was better for the morale of our staff to have it that way, and I think we had much better work from the staff on that account.

I agree with the Advisory Council regarding all other groups.

As to the self-employed and the independent farmers, it would be a little harder, I realize, because the absence of the employee-employer relationship will leave the administration without the enforcing assistance which the workers usually provide. Therefore, I believe that we could accomplish coverage for the self-employed through collecting the social-security contributions along with the income tax. I do believe that professional people like doctors and lawyers should also be entitled to the protection of social insurance. I see they have been left out of H. R. 6000. I think they should be brought back in.

Senator MILLIKIN. May I ask: do you know if any polls have been taken on doctors and lawyers and architects and engineers as to whether they want to come in?

Mrs. EPSTEIN. No; I do not know. I have discussed it individually with some of the people in New York and they expressed a desire to be covered.

Senator MILLIKIN. Mr. Chairman, may I ask Mr. Cohen whether there is any information on that?

The CHAIRMAN. Yes.

Senator MILLIKIN. Do the professional people want to be brought under the system?

Mr. COHEN (Wilbur J. Cohen, Special Assistant to the Commissioner for Social Security). I do not remember anything specifically in the nature of a poll, Senator. There are organizations that have taken action pro or con. I do recollect, however, that there was some general public poll that broke down the vote by professional groups. I recall that occurred about 3 or 4 months ago. I can look that up for you. But I do recall that they broke it down by doctors and lawyers, and two or three of the other groups, that are excluded in H. R. 6000.

Mrs. EPSTEIN. I believe benefits should be increased, gentlemen.

First, I think the maximum base should be raised in order to take into account the increase in wage levels that occurred since 1935. This is advocated by your Advisory Council. It is also taken into consideration in H. R. 6000. But I would like that upper limit on wages to be raised to $4,800. I believe it would be more realistic, but I think it should be raised.

Now, the benefits, of course, are woefully inadequate.

For instance, I would like to tell you that when Mr. Epstein died I was entitled to the social-security card of Mr. Epstein. As you know, we were covered for old-age and survivors insurance. I was entitled to benefits under about $30 a month for myself as a widow's pension. My son, who was then under 18, was entitled to about $20 a month. This paid for both of us $50 a month. Now, we live in New York City and that was during the war, and I challenge anyone living in New York City and during the war years of being able to live on $50 a month, to buy food, to pay the rent, and to take good care of a child. I do not think that can be done. But there are people who are even getting much less than that. I believe I mentioned some of the widows I know who have children and who are getting $21 a month in New York City. I do not think anyone can live in New York City that way, I do not think we could possibly do it and, of course, very frequently those allowances have to be supplemented by relief, and it is not very, very pleasant. So I do believe the benefits should be raised to 50 percent on the first $100 on the average monthly wage, and I would say 15 percent on the remainder, which would be, of course, up to the $400-a-month wage limit.

Of course, the people who are today receiving old-age insurance, people who are retired, have told me that it would be very unfair not to have for them the same formula that we are using for the other groups. I think it is going to create a lot of discrimination, and I think it is going to be very unpleasant, because people are not responsible for the fact that when they were working wages were lower, the cost of living was lower too, and as a result their benefits today are lower. I think we should do something about raising the benefits in that respect and use the same formula for those who retire later and for those who are now on the rolls. I wonder if I make myself clear?

The CHAIRMAN. I understand.

Mrs. EPSTEIN. I have a statement, Mr. Chairman, which I should like to leave later on.

Of course, may I mention, too, that it is very important to raise the survivor's pension in order that the mother with young children should not leave home to work and should be able to devote sufficient time to care for the children. I think, of course, it is important for her not to be forced to apply for relief or charity, which would be very bad for the children. Therefore, I would follow the recommendations of the Advisory Council and increase the protection for workers' dependents. Survivor benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child, and one-half for each additional child, rather than one-half for all children as at present. The parent's benefit should also be increased from one-half to three-fourths, and the widow's benefit should remain at three-fourths of the primary benefit.

Then I would set a maximum family benefit of 80 percent of the average monthly wage. I would have a minimum of $40, but I do

not believe I would set any other maximum except the 80 percent of the average monthly wage.

As to the work clause, or the retirement test, the $14.99, which is in the present act, should be raised, in my mind, to $50 as provided in H. R. 6000. I believe that will help people who can do a little part-time work and who ought to be encouraged.

I believe also in the provisions of H. R. 6000 with regard to the limit of $600 permitted the self-employed. I also agree with several of the other Advisory Council recommendations regarding the protection given to the dependents of women.

This brings me to another thing. The Advisory Council advocated that the age requirement should be reduced from 65 to 60 for women beneficiaries. Unfortunately, H. R. 6000 does not follow this recommendation. In 1939, if I remember, we pleaded for benefits to dependents of the insured because the original Social Security Act did not have dependent benefits. Now we should continue to round out the job and make the protection more complete. It is very difficult for a retired couple to get along on the husband's benefit only until the wife reaches 65. It is very hard for them. And it is very hard for a woman of 60 to get a job if she has spent her years keeping house or raising a family, or if she has lost the skills of her youth or has not recently been employed. I believe the wives and widows and dependent mothers should be entitled to draw their benefits at 60. I believe that the women who have been working should also be permitted to retire at 60, if they wish. Of course, the women who have good jobs and can make more money out of their jobs will not retire. That is perfectly all right. But those who are getting old on the job and who are a burden to their employer, because the employer can only find light work for them—and I know many of these women in New York City who come to me and tell me their stories—it seems to me that these people should be permitted to retire at 60.

I am rather surprised that there has been so little understanding of this problem in the United States, because I would like to say that we American women are supposed to be very spoiled. We are supposed to have so much more than our foreign sisters. We participate more in the life of our community, and we also participate much more in the life of the country as a whole, but we have not been able to persuade Congress that we should be entitled to retire at 60 instead of waiting until 65. I hope that will go back into the provisions of H. R. 6000.

Now, I am also in favor of the death benefit provided in H. R. 6000 and advocated by the Advisory Council because, to my mind, that is very important. Many people cannot afford too much money for insurance. Even then, for instance, if you took out an insurance policy many years ago for $4,000 or $5,000, what is it worth now? It is not worth very much because the money has depreciated and the cost of living has gone up. I do believe also that there is great need of additional funds when death strikes the household. Illness and death are very expensive propositions in this country. Family ties are not as strong as they used to be, and when the breadwinner dies in a family, frequently the widow and children are quite helpless, with huge bills to pay to the doctor, the hospital, and all the other things that come along. Therefore the death benefits I would endorse would be four times the primary benefit as is advocated by the Advisory Council.

I also do believe that eligibility requirements under old-age and survivors' insurance should be made much easier because many people who have contributed for years are not eligible for benefits, and that is very unfair. I am thinking here of reducing the relief rolls because under relief the money comes from the taxpayer's pocket. Of course, many workers cannot understand why, after having contributed many years to a social-security system, they have not been able to achieve coverage because they did not work long enough in covered employment.

Now, I am coming to the financing of the social-security program. I would follow the recommendations of the Advisory Council. However, I would like to make the statement that I do not agree with the provisions of H. R. 6000 concerning the repeal of the clause permitting Congress to appropriate sums from general revenue that may be required to finance a social-security program. I believe that clause should certainly go back in and we should permit appropriations to finance social security, and we should not confuse a governmental insurance program with a program of private insurance.

I also believe that we should have a Social Security Advisory Council and a Social Security Legislative Advisory Committee, which were provided in H. R. 2398, because I do believe the public ought to participate and understand more the issues in the social-security program.

I believe that is all, Mr. Chairman.

The CHAIRMAN. We thank you very much, Mrs. Epstein, and you may insert any part of your statement that you desire in the record at this point.

Mrs. EPSTEIN. Thank you.

(The statement follows:)

STATEMENT OF MRS. ABRAHAM EPSTEIN

I am vice president of the American Association for Social Security. The association was founded in 1927 by Mr. Epstein and I. We have done a great deal of work in the field of social security. I also represent the League for Industrial Democracy national organization with headquarters in New York City. I am secretary of the New York chapter of the league.

At a hearing of the Ways and Means Committee of the House of Representatives on February 27, 1939, when the amendments to the Social Security Act were being discussed, Mr. Epstein said, "Being responsible for the term 'social security' perhaps more than anybody else in the country, I don't have to proclaim my faith in social security. I believe, and continue to believe, in social security, not because it is a good political slogan, not because it is a cure-all or panacea for all our social ills, but because I have believed and still believe that, properly handled, it is the best known method of alleviating our major industrial hazards." What has happened to our social-security legislation since that time? We have gone through a world war; we have become increasingly aware of our power and influence as a nation and of our responsibilities. Yet our Social Security Act has not kept pace with those tremendous developments.

Fascism and communism depend on force to uphold their way of life. But democracy must prove itself worth while if it is to be accepted as a way of life by other people of the world. In simple terms this means how can we convince other nations of our sincerity and high purpose if we should repeat the unfortunate spectacle of the years of the depression. Therefore, the basis of social-securtiy legislation does not lie, as certain American believe, in a new-fangled idea of Government pampering of the individual, brought to America by the New Deal or Fair Deal just as you like to call it. Rather, modern social-security programs stem from the most primitive instinct of self-preservation. Three main reasons make social-security legislation imperative: One is the civilized desire and one of the main ideals of Christianity to "do unto others as you would have them do unto you," to feed and shelter the destitute and

helpless in the least degrading manner. Another is the sound political instinct that, unless a minimum of economic security protection is established the suffering masses may become politically dangerous. The third reason is more modern. It considers social security the best medium for underpinning the purchasing power of the workers which is essential to the maintenance of production and the stability of the national economy.

I agree with most of the recommendations of the Advisory Council on Social Security and I also agree with many of the changes proposed by H. R. 6000. So my criticisms of H. R. 6000 are not criticisms at all, but I think that H. R. 6000 can stand improvements. What I particularly want to emphasize (and I am listing those changes and the improvements needed in order of their importance insofar as my own opinion is concerned): First, the provisions for disability insurance, the missing link and a very important one in our chain of social security measures. Second, the inadequate coverage which leaves millions of Americans without the protection to which they should be rightfully entitled. Third, the inadequacy of benefits and specially the fact that we are one of the few countries of the world having a social insurance plan which does not permit women to draw their benefits at the age of 60. Fourth, the too-stringent eligibility requirements for older workers. And, last but not least—and I think this point should perhaps have priority over all the others—the financing of social security.

The absence of protection against the risks caused by permanent or by temporary illness is particularly striking because most nations having social security systems have had sickness insurance for a long time; in many countries it even preceeded other forms of social insurance. We know that except for the high rate of unemployment during the depression years, illness remains the greatest cause of poverty in the United States. According to the most recent surveys conducted by the Bureau of the Census in 1949 for persons between the ages 14 to 64 (not in institutions) there were 4.6 millions persons incapacitated in any given day who would otherwise be able to work; 2.5 millions were disabled for less than 6 months and 2.1 million had been disabled for more than 6 months. Also numerous studies have shown that illness is more prevalent and more severe among the lower-income groups. And, of course, sickness means that while wages stop the family's savings must be used to pay all the additional expenses incurred. When savings are exhausted, the family has to receive help from relatives or has to face the prospect of asking for relief or charity.

An appeal for benefits under public relief can only be made in case of indigency. Under social insurance the claim is founded upon the right to benefits which is preexistent to the emergency. Public relief aims only to provide a bare minimum of subsistence for the indigent. Social insurance tries to establish a minimum of economic sustenance below which no one shall fall. Public relief and charity merely perpetuate existing economic injustices. Social insurance endeavors to eradicate much of our poverty and destitution by prevention rather than relief and alms. It strives to dam at their origin the springs feeding the sea of destitution. It attempts to substitute self-help and social justice for the demoralization incident on public relief and private charity. There are about 770,000 to 920,000 persons on the public assistance rolls who are there because of disability. Many persons, of course, do not ask for help; they manage the best way they can, but such a state of incertitude does not help a sick man to recover quickly. On the contrary. In New York City many persons are complaining that we have so many people on relief and that it is costly to the taxpayers. We forget that many of these people are too sick to work. There were 20,300 employable adults receiving home relief, as of January 1, 1950, who were not available for work because of a health condition which would continue for a period varying from 1 month to 1 year. Disability insurance for permanent and total disability should become part and complement of our old-age and survivors insurance program. The benefit amounts can be based on the same average wage and benefit formula. It should become available after 6 months of disability which by then can be pretty well established as of long duration. The insured person should be unable to engage in any substantially gainful activity, as shown by objective medical tests. However, we should go further than the recommendations of the Advisory Council and the provisions of H. R. 6000. I would advocate allowances for the wife and the dependent children of the insured person. Family expenses are higher than those of a single person. We should follow the recommendations of the Advisory Council regarding insured status and eligibility for permanent disability insurance. I would agree with H. R. 6000 in permitting income of $50 a month for employment, since we should encourage the disabled

person to try to improve his condition. I would recommend enactment of rehabilitation provisions of H. R. 2893.

Old-age and survivors insurance and permanent disability insurance should be financed as a single system (as advocated by the Advisory Council and as in H. R. 6000).

We are today paying the cost of the lack of disability insurance. It is more expensive to support sick people on relief than to grant them social insurance benefits.

The States have taken the initiative in enacting temporary disability insurance plans. In that field the recent trends evidence a complete departure from the principles of social insurance.

We should aim to provide a basic minimum of security for those who are sick and unable to work because of illness of a temporary nature. If the employers wish to build above the minimum provided by law, then so much the better. Like old-age and survivors insurance and unemployment insurance, temporary disability cash benefits should not be handled through "contracting out" with private insurance or with other private plans, but through a country-wide governmental plan, where all risks would be pooled and definite schedules of benefits paid. Thus an insured person upon becoming sick would know what his or her rights are; they would not be penalized when they change jobs or when they move from one State to another.

An infinite variety of plans, private and public, will be expensive to administer and will cause much litigation. There is also danger of rate differentials against the firms which employ women or older persons. Temporary disability insurance should become part and parcel of our Social Security Act. If we leave the administration to the States, then we should establish standards to guide them, as to eligibility requirements, amounts and duration of benefits, prevention of malingering. We should also decide how to finance the program, how much the employers and the workers should contribute. When the Social Security Act was enacted, we agreed that insurance against old age and unemployment was a Government function, and we are now committed to that principle. Then why should we abandon it in the case of temporary sickness insurance?

It would be best for Congress to study that issue as soon as possible.

Regarding the extension of coverage under OASI, I believe it should be as wide as possible. I agree with the Advisory Council that farm workers and household workers should be covered; they should be included in H. R. 6000. When the Social Security Act was originally discussed, in 1935, we of the American Association for Social Security preferred to have coverage restricted to workers employed in industry and commercial concerns. We felt that as a Nation we were too inexperienced in the field of social-security administration to attempt too much at one time. We also were strongly of the opinion that the stamp system would be a better method of administration and a much simpler one than the social-security card. Conditions are different today. Many workers on farms and in private homes were in factories during the war and have already a social-security card. In fact, they may already have accumulated wage credits, but they may not be sufficient to qualify for benefits. Being aware of the many difficulties involved in covering those groups, I inquired while in England last summer, when I visited the local offices of the Ministry of National Insurance, and also in France. I was shown the cards and told that when a household worker has more than one employer, they take turns in buying the stamps. England has flat rates of contributions, and while I do not advocate this I feel that we should, however, be able to devise a simple system of administration that will not prove too complicated for farmers and housewives. It is a great injustice not to include our farm laborers and domestics under OASI. Many of them have only public relief or charity to fall back upon when they can no longer work. They should not be treated as second-class citizens. Wages received in kind should also be counted, when they are substantial enough to make a difference in the calculation of benefits.

Employees of nonprofit organizations are entitled to the protection of old-age and survivors insurance and it should be compulsory upon the organization as well as the employee, excluding members of religious orders, according to the Advisory Council recommendations. The American Association for Social Security was covered under both OASI and unemployment insurance. Since we paid the employer's contribution for our staff, we simply had to work harder to raise funds from our membership.

I also agree with the advisory council recommendations concerning coverage of other excluded groups: Federal civilian employees, employees of State and

local governments, the members of the armed forces, and also recommendation for a study of "the most practicable and equitable method of making the railroad retirement system supplementary to the basic old-age and survivors insurance program."

Greater obstacles confront the proposal for coverage of the self-employed and the independent farmers. For these groups the absence of an employee-employer relationship leaves the administration without the enforcing assistance which workers usually provide. However, many of the self-employed may have at one time or another worked in covered employment and will want to continue being protected. Professional groups such as doctors and lawyers are entitled to coverage as well as the others. I agree with H. R. 6000 that coverage should apply if the annual income from self-employment is $400 and over. I believe that the self-employed should send their contributions when they file their income-tax return.

Benefits should be increased. First, the maximum wage base should be raised in order to take into account the increase in wage levels and cost of living, as advocated by the Advisory Council and as taken into consideration in H. R. 6000. It would be more realistic, however, to raise the upper limit on wages to $4,800 as recommended by the Social Security Administration. In 1939, 97 percent of all the workers in employment covered by the law earned less than the maximum wage base of $3,000 a year. Since that time the rise in wages has been such that to cover all the wages of even 95 percent of the workers in the system a wage base of $4,800 would be required, according to the Social Security Administration.

Today benefits are woefully inadequate. For instance, I was entitled to a widow's benefit under my husband's social-security card because I had a dependent child in my care. My monthly benefit was about $30 for myself and about $20 for my son. I challenge anyone of being able to live in New York City on $50 a month, paying rent, buying food, and taking good care of a child, especially during the war. I know many widows with a child to support getting $21 a month in New York.

Benefits should be raised to 50 percent of the first $100 of the average monthly wage and 15 percent of the remainder (up to the $400-a-month wage limit). Persons now on the rolls and receiving benefits are telling me how unfair it would be for them to be penalized because during their working years wages were lower. We ought to use the same formula to compute their benefits as in the case of those who will retire later on.

We should do away with the continuation factor. An insured person cannot be blamed for not having been able to work all the time in covered employment and of course if coverage is broadened more and more, why should we keep the continuation factor?

It is most important to raise the survivors' benefits in order that the mother with young children should not have to leave home to work and should be able to devote sufficient time to their care. She should not be forced to apply for relief or charity to supplement benefits and her children ought not to be denied a good start in life. We should follow the recommendations of the Advisory Council "to increase the protection for a worker's dependents, survivors' benefits for a family should be at the rate of three-fourths of the primary insurance benefit for one child and one-half for each additional child, rather than one half for all children as at present. The parents' benefits should also be increased from one-half to three-fourths. Widow's benefits should also remain at three fourths of the primary insurance benefit."

As advocated in H. R. 6000 and by the Advisory Council the maximum family benefit should be 80 percent of the average monthly wage, with a minimum of $40. I would advocate no other maximum than the 80 percent of the average monthly wage.

The work clause or retirement test of $14.99 in the present law is too stringent and should be raised to $50 as provided in H. R. 6000. Widows with growing children might be able to do part-time work and still spend enough time at home to take care of their family obligations, and the $35-a-month work clause advocated by the Advisory Council is not high enough. We should follow the provisions of H. R. 6000 regarding the limit of $600 a year permitted the self-employed. No retirement test should be imposed on persons 70 and over, as recommended by the Advisory Council.

I also agree with the Advisory Council that we should equalize the protection given to the dependents of women and men and pay benefits to the young children of any currently insured woman upon her death or upon her eligibility for primary benefits, but if the child was dependent on the mother and if she was both

currently and fully insured. Benefits should be also payable to the aged, dependent husband of a primary beneficiary, if she was fully insured and also currently insured when she became eligible for primary benefits and also to the aged, dependent widower of a woman both fully and currently insured when she died.

The Advisory Council advocated lowering the age requirements from 65 to 60 for women beneficiaries. Unfortunately this was not embodied in H. R. 6000. Before 1939 we pleaded for benefits to dependents. Now is the time to round out the job and make the protection more complete. It is difficult for a retired couple to get along on the husband's benefit only and more than half of the married men who attain 65 have a wife who has reached 60. It is almost impossible for a woman of 60 to get a job if she has spent her years keeping house or raising a family, especially if she has lost the skills of her youth and has not recently been employed. Not only wives, widows, and dependent mothers should be entitled to draw their benefits at 60, but it would be unfair not to permit the women workers to retire at 60 if they wish. Women who have good jobs and can make more money than they would receive from benefits will, of course, continue working, but those who are getting old on the job and are a burden to the employer who can only find lighter work for them, ought to be permitted to retire. It is surprising that this particular problem is so little understood in the United States. American women are constantly reminded that they have better clothes than their foreign sisters, better equipped homes, less housework, and that they are pampered and even spoiled by their husbands, fathers, and sons. We are told that we are more economically independent and more vocal and that we participate to a greater extent than our foreign sisters in the life of the community and of the country as a whole. Yet we have not been able to persuade Congress that we should be entitled to our social-insurance benefits at 60 instead of waiting till we reach 65.

The Advisory Council also advocates a death benefit, a lump sum to be paid at the death of every insured worker, even though monthly survivors' benefits are payable The maximum should be four times the primary benefit rather than six times as at present, or three times as in H. R. 6000. There is great need of additional funds when death strikes a household. Illness and death are very expensive propositions. Family ties nowadays are not as strong as they used to be, death of the breadwinner often leaves the widow and children quite helpless, with huge bills to pay to the doctor, the hospital, the specialist, the undertaker. There may also be payments to be made on a home or furniture and all kind of other expenses are needed to readjust the wife and orphans to their new family status.

Regarding eligibility for benefits, the new groups that will be brought into the program must have a chance to qualify for benefits. I am thinking mostly of reducing the relief rolls, because there the money comes entirely from the taxpayers' pockets. Besides many workers with a social-security card wonder why they do not achieve coverage and why requirements are so stringent.

It is most important to follow the recommendations of the Advisory Council in the financing of our social-security program, and this to my mind is entitled to priority. The Advisory Council recommended that the increase in rates from 1 percent on employer and employee alike to $1\frac{1}{2}$ percent on the employer and on the worker be imposed when benefits are liberalized and we have not yet done that. It advocated $1\frac{1}{2}$ times the employee rate for the self-employed. I also believe that "there should be no further increase in rates until the current receipts of the trust fund, including interest, no longer equal current benefit payments, plus administrative costs."

At that time rates for employer and employees would rise to 2 percent. Government contributions from general revenues should be considered when a 2-percent rate for employer and employee plus interest on the investment of the trust fund are insufficient to meet the current costs. Mr. Epstein was always strongly of the opinion that general taxation ought to share more or less equally with employer and employee contribution in the financing of benefits and administrative costs. He believed that the huge reserves contemplated in the 1935 Social Security Act were altogether unnecessary in a program of social insurance. I do not agree with the provision of H. R. 6000 concerning the repeal of the clause permitting Congress to appropriate such sums from general revenue that may be required to finance the program. It is a step backward. We are still confusing the fundamental conceptions and aims of social insurance with those of private insurance. It is quite natural that we should make such a mistake. The objectives of private insurance are to provide protection in accordance with the means

of the policyholder and it must adhere strictly to the principles of actuarial science. It must lay aside reserves in order to enable it to meet its obligations. The aims of social insurance are not the same: it seeks chiefly to establish a minimum of economic sustenance for all wage earners, regardless of the premiums they are able to pay. It is concerned mainly with social needs rather than strict equity among the insured. The rates should be dictated by intelligent social policy, by a statesmanlike function of financial expediency and social wisdom, rather than by cold and abstract actuarial computations.

Since a nation must in one way or another provide benefits adequate to meet need as long as that need exists, a governmental social-insurance plan does not require large reserves, because it does not rely solely on premiums but rather on its power of taxation. The building up of huge governmental social-insurance reserves is an empty gesture in terms of the future because of the changes in the value of money in future years.

In conclusion, I would like to support provisions for a Social Security Advisory Council and a Social Security Legislative Advisory Committee, which were in H. R. 2893.

The CHAIRMAN. Congressman Engle, you were called prior to this witness, but you did not respond.

STATEMENT OF HON. CLAIR ENGLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative ENGLE. I am very sorry, Mr. Chairman.

The subject matter of my presentation will be very brief. I know it has been explored before by other witnesses. My name is Clair Engle, and I represent the Second District of California, which is the old mother-lode gold producing area.

My attention has been called by the gold producers as well as by the lessees to the section of the bill which would classify lessees or licensees of space within a mine when substantially all of the product of such service is required to be sold or turned over to the lessor or licensor as an employee. There are other sections of the bill which lend the same import to the legislation, namely, that it is probably the intention to include these licensees and lessees as employees.

Now the mining people in my area indicate to me that the application of that definition to the licensees and the lessees in the mine would have the effect for all practical purposes of terminating that kind of an arrangement in the mines out in California because of the additional business administration of those people which would be required, and because of certain additional expenses which would be added onto them.

The communications I have had from my gold-mining area indicate that both the operators and the lessees and the licensees under the arrangement which is now operating are opposed to their inclusion as employees under this legislation. Certain amendments, I believe, have been suggested here by people representing the mining industry. I will not go into the particular amendments which have been proposed and placed before your committee, because I am sure you gentlemen are more familiar with them in all probability than I.

The CHAIRMAN. We had witnesses, I believe, from your State. I know we had witnesses from Colorado, Utah, and perhaps another State, or one of the other western mining States, on this point.

Representative ENGLE. I was asked by my constituents to appear and call this matter to the committee's attention and the reasons for their concern about it, and with your permission, Mr. Chairman, I would like to have the privilege of inserting in the record at least excerpts

from some of the communications I have received, both from the operators and from the lessees and licensees, who are opposed to being included in this bill as employees.

The CHAIRMAN. Yes: you may furnish them to the secretary of the committee or to the reporter, and they will be included in the record.

Representative ENGLE. Thank you very much for your attention and for giving me this time.

(The statements follow:)

COMMUNICATIONS AND EXCERPTS FROM COMMUNICATIONS RECEIVED IN OPPOSITION TO THIS SECTION OF THE BILL

Telegram from Neil O'Donnell, Idaho-Maryland Mines, Nevada City, Calif.: "Gold miners in this area are opposed to social-security provisions of H. R. 6000, which classifies mine leasers as company employees * * *."

Telegram from W. W. Esterly, Grass Valley, Calif.: "Advise immediately what can be done to prevent Senate passage H. R. 6000 which will place leasers in our mines under social security and involve our mines in such a way as to prevent the present leasing system from operating and resulting in considerable reduction of employment in local mines."

Letter from Downey C. Clinch, 210 Broad Street, Nevada City, Calif.: "* * * It is my belief that enactment of this proposed legislation would cause a great hardship on the mines of this country together with a decline in employment at these mines and in the commercial interests of the area surrounding them."

Letter from Robert M. Searles, attorney at law, San Francisco, Calif.: "This section would destroy both the leaser's independence and the lessor's freedom from the employer relationship and responsibility which has made the arrangement so attractive to both sides. The administration would be very difficult because the lessors have no record of what each lessee produces, the amounts vary from time to time and calculations of taxes, of overtime, and other accounting now required of employers would be almost impossible."

The CHAIRMAN. We will now hear from Mr. Walter P. Townsend, general secretary of the Children's Aid Society of Pennsylvania, Philadelphia, Pa.

STATEMENT OF WALTER P. TOWNSEND, GENERAL SECRETARY, CHILDREN'S AID SOCIETY OF PENNSYLVANIA, PHILADELPHIA, PA.

Mr. TOWNSEND. Mr. Chairman and gentlemen of the committee, I am the general secretary of the Children's Aid Society of Pennsylvania, which is a private society working in nine counties in eastern Pennsylvania. These are all urban counties, that is, with urban or semiurban centers.

I am interested in the provisions of this bill which provide for an expansion of the amount of money which is available for rural child welfare services. I would like to speak about the work the Pennsylvania State Department of Welfare accomplishes in Pennsylvania in the rural areas which is made possible by the present grant from the Children's Bureau.

In Pennsylvania, the grant of Federal funds is used to support the work of the rural child welfare services in the department of welfare, and for grants to the county commissioners in the counties which are eligible for them. The rural child welfare services division in the department is the administrative unit. The actual care of the children is given in the 15 counties which are affiliated with the rural child welfare division. I understand that one more county is on the point of affiliating, so that the total will be 16 counties. Together these State

and county units make up the services which we know in Pennsylvania as rural child welfare services.

Under this program, service is provided for more than 2,800 children at any one time. The figure of 2,832 was the number of children under care on December 31, 1949. The responsible public authorities in the counties are the county commissioners who make the basic decisions and policies about the care of children, employment of workers, the rate of board to be paid foster parents, the clothing for children, the medical and dental care to be provided, and the manifold other decisions that have to be made when children must be cared for away from home.

In each county there is an advisory committee to the county commissioners, which is made up of citizens concerned with the welfare of children. They study the work done and the unmet needs of children and make recommendations to the county commissioners and to the child welfare workers. Their work serves to give to the commissioners the support and the citizen interest which is so important in child care work in the communities in which it is given.

Children must be cared for in their own communities and the kind of atmosphere created by the attitude of the local citizenry and public officials is of utmost importance. It must be emphasized that the work of child welfare service in Pennsylvania serves territory which otherwise would be without any adequate child care. Thirteen of the fifteen counties are rural in character, coming within the definition of population which is rural. The other two, both of which are in the soft-coal-mining area, have been determined to be areas of special need, where there was neither public nor private child care service in adequate amount. There is no duplication of service, therefore, in these counties.

In developing this very important local service for children, the most important contribution of the Federal fund has been not the money which has been given to the counties—important as that is—but the leadership and stimulation which has been given to the county citizens and the public officials. A member of one of these advisory boards told me that in her opinion this service had been one of the finest possible demonstrations of the development of local responsibility. I said before that the most important thing was the leadership made possible by the Federal grant, but the grant has been indispensable. More money is needed because there is a considerable number of counties and communities that need such service and which do not have it at the present time. The number of children receiving this service otherwise unavailable is impressive. On December 31, 1949, there were 2,832 children in the care of these 15 county agencies. One thousand and thirty-nine of these were given service in their own homes. The nature of this service is protective or preventive and aims at the preservation or rehabilitation of their own homes. One thousand two hundred and sixty-six children could not be cared for in their own homes and were placed with foster parents where they could have the love and affectionate care which is so important for growing children. The rest, approximately 500 in number, were cared for in institutions or other facilities providing special services needed.

The smallest of these county units, Wayne County, which is a small rural county, has 65 children in care, and the largest, Washington County, has 354. Those figures are as of December 31, 1949.

It is interesting to note in the fiscal year ending June 30, 1949, that the county commissioners supplied a total of $599,953.48, almost $600,000, for direct care and service to children. In addition in the counties, $68,800 of Federal funds were spent. In other words, of the money expended in the counties, 90 percent came from local funds and 10 percent from the Federal funds. The balance of the Federal funds, approximately $90,000, was allocated to the rural child-welfare division in the department of welfare to supply the field service necessary to operate a tri-county child guidance clinic and to give other services for children. This, in our opinion, is an impressive example of the development of local responsibility through the use of Federal funds. I therefore recommend that the amount of money provided for child-welfare services be increased from $3,000,000 to $12,000,000.

The CHAIRMAN. Thank you, sir.

Are there any questions?

Senator MYERS. I have no questions, Mr. Chairman.

The CHAIRMAN. Thank you very much for your appearance here, sir.

Mr. TOWNSEND. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. George E. Immerwahr, who was unable to appear, has submitted his statement for the record in lieu of his appearance, and I would like to say that Mr. Immerwahr was formerly the actuary for the Bureau of Old Age and Survivors Insurance at Baltimore, Md.

This statement will go in the record.

(The statement referred to follows:)

SOCIAL SECURITY AND THE COOPERATIVE WELFARE STATE

(By George E. Immerwahr)

In a recent address before the National Consumers League, subsequently published in an alumni periodical, Dean J. Douglas Brown, of Princeton University, speaks out on the subject of the welfare state. There is nothing wrong or unconstitutional about the welfare state, Dean Brown points out, quoting the preamble of the Constitution of the United States as his authority. The real danger, he says, lies in which form of welfare state we choose, whether the "paternalistic welfare state made paternalistic by political pressure" or the "cooperative welfare state." Only the former of these is dangerous. "It would, in time, break down individual incentive and mutual responsibility. Its end is either stagnation or dictatorship. The Santa Claus state may become the Stalin state."

The cooperative welfare state, on the other hand, is what Dean Brown avers the American people want. It "is consistent," he holds, "with democratic capitalism. It supports mutual self-help, taxation with representation; it sustains justice among our people, and avoids a loss of freedom by the person whose way of life is assured. It seeks where dependency does occur to deal with it constructively. It is the effort of a free people, through the organization of the state, to help each other in areas where private enterprise alone is insufficient.

"There is no question," he continues, "but that private enterprise is the most efficient framework of activity in the vast, major areas of economic life. It assures incentive, flexibility and progress in providing the means for general welfare. But where private enterprise is not enough, and where public action is necessary in the area of general welfare, it is important to the survival of democratic capitalism that as much as possible be accomplished by cooperative action rather than ex parte paternalistic action."

After setting forth these principles, Dean Brown devotes the remainder of his address to their application to American social security. Referring to "a growing pressure toward a paternalistic welfare state" in the field of social security, he asks:

"Will the American people take the right road in the choice between the cooperative as opposed to the paternalistic welfare state? Will they through ignorance or a softening of our moral fibers take the primrose path to state paternalism? A decade or a century from now men may look back and say that the decision was made in the year 1950. The America of that time will be vastly different nation according to the decision we make in the months immediately ahead."

Going into further detail, Dean Brown sets forth the following as the three essential ingredients of a social-security program in the democratic and cooperative form of welfare state, namely "(1) individual incentive, (2) mutual responsibility, and (3) an effective framework against the corroding fear of insecurity." After explaining the third of these in terms of our present-day economic structure, he speaks of the first two ingredients as follows:

"The American system of social security must, therefore, be built around social insurance and not dependency relief or free benefits such as sought by those who favor Townsendism. To preserve incentive, social insurance benefits must be related to past productivity—employment and earnings with real differentials according to the degree to which the individual has contributed to the society to which he is a part. To preserve mutual responsibility, social insurance costs must be shared by the individual insured through a direct, immediate, and tangible charge upon his income. So far as is possible, protection must be an earned and individual right, a specific protection against dependency, not a sugar-coated form of paternalistic relief, whether provided on a retail or a wholesale basis. Dependency relief will still be needed in many cases, but we must build on an effective structure of contributory social insurances to reduce constantly the scope of dependency relief."

I think that there are few if any of us who would disagree with the principles of democratic cooperation for public welfare which I have only partially quoted from Dean Brown's address. Similarly, few would disagree with his dislike for "free benefits" provided as a "sugar-coated form of paternalistic relief," for welfare "made paternalistic by political pressure." Because some students of social security, however, entertain doubts that our present social-security program and the proposed liberalizations of it which Dean Brown has publicly supported really fit into the cooperative welfare picture and suspect that they suggest more nearly the paternalistic picture, this paper is presented to explain in part their reasons for doubt and suspicion.

The background of the current social-security situation

The story of the development of old-age and survivors benefits in the formulation of the Social Security Act of 1935 and since that time is a complicated and fairly interesting one, but I shall merely outline the following high lights:

1. The original legislation was developed in a background of resistance to the Townsend movement, whose demands then were more extreme than now. Its framers took the "contributory principle" as the keystone of its defense against this movement.

2. Adherence to this principle was so strict that under the original Federal old-age benefit system, even in the case of those getting old-age benefits in the comparatively early years of the program, a substantial part of the benefits received would actually have been purchased by the contributions paid by the individuals receiving these benefits and by their employers. This individual equity relationship was achieved at the expense of having very small benefits paid in the early years of the program, since the old-age benefits under the program were to be based on cumulative wages posted to the individual employees' accounts beginning with wages of the year 1937.

3. Only about 60 percent of the gainfully employed jobs in the country were covered, the main exclusions being on account of administrative problems in collecting accurate employment taxes.

4. Since no workers attaining age 65 before 1941 could possibly get old-age benefits, and since a large percentage of those even younger would also fail to get them (often for reasons quite apart from the 60-percent coverage situation), it was inevitable that several decades would elapse before the majority of the then aged would be eligible for benefits under the program. While the legislative planners realized this deferment of the program's effectiveness and planned a federally aided old-age assistance program as a stop-gap, it appears that they seriously underestimated the extent of this deferment.

5. As total pay-roll tax rates were to reach 6 percent by 1949 (3 percent each for employer and employee), while benefit disbursements were to be low for

many years due to few beneficiaries and small average-size benefits, a very large "reserve account" was expected to accumulate from annual excesses of income over disbursements.

6. The 1939 amendments, which probably resulted from opposition to the reserve more than from any other factor, reduced the annual reserve accumulations primarily by suspending tax-rate increases (this suspension process was continued by legislation after 1939) and by basing individual benefit amounts on average rather than cumulative wages; the latter had the effect of appreciably raising individual benefit amounts in the early years of the program. Survivor benefits were introduced, and the number of early year old-age beneficiaries was also increased by various technical changes, but the reduction of the extent of deferment was only relatively slight. Except for very minor changes, the exclusions from covered employment largely continued. Beginning with the 1939 amendments, the Federal program became officially known as an "insurance" program.

7. The fairly close relationship between the actuarial value of the benefits to be received and the pay-roll taxes actually paid by and on behalf of the worker no longer existed after the 1939 amendments. In the case of those now on the primary (i. e., retired worker) benefit rolls, the average contribution paid per individual has been roughly about $250 while the actuarial value of benefits received (including expectation value of wife's and widow's benefits) has probably averaged over $4,000. But even in the case of the younger workers now covered, it is very unlikely that their benefits will be paid for by their own and their employers' pay-roll taxes.

8. Rather than old-age assistance (and the corresponding assistance for dependent children) proving only a stop-gap of diminishing magnitude, the assistance rolls have grown and assistance recipients still outnumber the recipients of Federal old-age and survivor insurance benefits. Moreover, average amounts of assistance payments have far outstripped insurance benefit averages. The former depend only on fiscal capacity of the States, the Federal Government being committed automatically to put up a certain proportion of the amount allowed by the State. The latter, on the other hand, even in a period of rising wages, are held down by past wages, and in general previously awarded benefits are not revised.

These developments under the 1939 amendments and other shortcomings of the present program have been discussed in further detail in various publications, including my own paper in the Transactions of the Actuarial Society (vol. 46, p. 266). This paper also discusses various proposed solutions to these problems, and in the latter part of the paper is mentioned the possibility of approaching the problems through a complete revision of method, by the adoption of a "social budgeting" method under which benefits payable to persons of any category (such as that of the aged) would be independent of need and of previous earnings, both as to their availability and as to their amount.

Current legislative proposals

The legislative proposals now under consideration, however, do not embody any substantial revision of the concepts of the law now in effect. Instead, they are for the most part mere quantitative changes. H. R. 6000, passed last year by the House of Representatives, was described by Mr. Robert J. Myers at last fall's meeting of the Middle Atlantic Actuarial Club, but its main provisions are reviewed briefly here as follows:

1. Job coverage is extended to bring in several major employment groups now excluded, the nonfarm self-employed, commission salesmen, domestic servants, employees of State and local governments and nonprofit institutions (on a partially voluntary basis), and some others. Farm owners and employees would still be excluded.

2. The annual wage base, used for both pay-roll tax and benefit computation purposes, is increased from $3,000 to $3,600.

3. The primary benefit formula is liberalized, the basic portion of the monthly benefit to be 50 percent of the first $100 of average monthly wage plus 10 percent of the next $200 (the present formula is 40 percent of the first $50 plus 10 percent of the next $200). Persons now on the benefit rolls would have their benefits increased, in effect by having the new formula applied to their past wages.

4. Various technical provisions would be introduced designed to improve the qualification possibilities and the benefit amounts of the newly covered groups.

5. Disability benefits would be added.

6. The Federal share of public assistance costs would be increased.

This bill is less of a liberalization, both as to coverage and benefit formula, than the bills H. R. 2892 and 2893 originally introduced in 1949 and sponsored by the Social Security Administration, which is now seeking in the Senate Finance Committee hearings to bring H. R. 6000 in closer conformity to the bills it originally sponsored. The further liberalizations sought, as they affect the insurance program, would bring farm owners and farm employees into coverage, would increase the annual wage base to $4,800, and would increase benefit amounts in various other ways.

It should be mentioned that H. R. 6000 contains a schedule for future employer and employee pay-roll tax rate increases. Except for the increase to 2 percent scheduled for 1951, however, there was probably no serious contemplation on the part of the House Ways and Means Committee that the schedule would be adhered to or would constitute any sort of commitment on future Congresses.

In commenting on various features of the proposed legislation, I will concern myself with the bill H. R. 2893 introduced in the House last year, since it is approximately the provisions of that bill which the administration has now been advocating in the Senate hearings.

First, as to extension of employment coverage. The proponents of the legislation point out that about 86 percent of gainful jobs would be covered (as compared to about 60 percent at present). Although only partially referred to in the legislation (or in the report on H. R. 6000), administrative machinery is said to have been worked out for wage reporting and tax collection in those employments previously excluded for administrative reasons. It is of interest to note, however, that the testimony of the Commissioner of Internal Revenue indicate a cost of collection figure about four times as great as that for current coverage.

The deferment of the program's effectiveness would be somewhat ameliorated by the extension of employment coverage and by the various technical changes designed to aid the newly covered groups, but the improvement will be a limited one. The frequent inference from the 86-percent coverage figure is that within a very few years 86 percent of the aged population, 86 percent of the orphaned children and their mothers, and 86 percent of the chronically disabled will be eligible to receive benefits under the program. This inference should be challenged in the light of experience of the present program. After 13 years of the existing 60-percent coverage, we find only about 33 percent of the male population now 65 or over are fully insured and so actually receiving or eligible to receive primary benefits, and even a smaller percentage of women of this age group are receiving or eligible for benefits either in their own right or as wives or widows. Under continuation of present coverage, it will take probably another decade before these proportions reach even 50 percent. To be sure, some of the newly covered groups have higher average ages than the presently covered, and various other factors may hasten their qualification; yet even with this extension of coverage to 86 percent, it is doubtful that more than about two-thirds of the aged population of the year 1960 will be insured at that time. Of the millions now on the old-age assistance rolls, very few can possibly expect transfer to the insurance-benefit rolls because of the new legislation, while many will be alive and still on the assistance rolls in 1960.

Another factor, generally overlooked, is that among those of the aged who have qualified for primary benefits now or who can qualify soon after extension of coverage, a higher proportion are in comfortable circumstances than among those who cannot qualify. This is because those who qualify are largely either the recent or the continuing workers, whereas those who fail to qualify are very often those whose failure has been occasioned by long periods of invalidism, unemployment, or intermittent employment, or by long previous retirement. While about 33 percent of the total male population now 65 or over are qualified, it has been estimated that if the one-third of the total group having the highest incomes were excluded from consideration it would be found that only about 20 percent of the remaining two-thirds are qualified. Yet it would seem that it is this lower two-thirds with whom there should be primary concern, as it is from this group that the public assistance recipients come.

As to financing, it should be noted that while there is plainly no aim at anything approaching actuarial level premium financing, there is at the same time a large initial excess of income over outgo with the consequent accumulation of a large reserve. This course, which lies roughly halfway between pay-as-you-go

and reserve financing, may possess the disadvantages of both of those courses without the advantages of either. In particular, there is no actuarial balance whose maintenance could serve as a safeguard against unsound liberalizations of the program while at the same time the large reserve to be accumulated will serve as ample temptation for such liberalizations. In fact, it is very clear that the present liberalization proposals are implemented by the common illusion that social-security benefits are cheap, an illusion that is inevitable when a program of this nature has the great bulk of its costs long deferred and at the same time has no level premium reserve financing. This is not to argue for reserve financing, however, since the accumulation of a large reserve (regardless of any actuarial virtue) may have serious effects on the economy and may become largely useless in the face of marked or continuing inflation.

The proposed legislation would depart even further from any relationship between the value of the individual worker's benefit and the combined employee and employer taxes paid with respect to his earnings. Under H. R. 2893 average old-age and survivor benefit amounts would be roughly doubled immediately, yet immediate pay-roll tax rates (exclusive of those attributable to costs of permanent and temporary disability benefits) would hardly rise (though they would be applicable to a larger earnings base), and such increase as there would be would of course, not be retroactive. The result is that, for individuals becoming entitled to retirement benefits in 1955, for example (see the attached chart), the aggregate employee contributions paid, or even the aggregate combined employee and employer contributions, would bear a very negligible ratio to the value of benefits. Even in the case of workers now entering the program, the great political improbability of a substantial early rise in pay-roll tax rates almost certainly means that their benefits, too, will fail to be paid for by pay-roll taxes.

The proposed legislation would greatly increase the differential between benefit amounts of high-paid and low-paid individuals. The excess of the high-paid individual's benefits over the low-paid individual's cannot be justified on the basis of individual equity, assuming such equity is measured by employee taxes, except perhaps in the remote future and even then improbably. It is true that the higher-paid employee pays a higher proportion of the cost of his larger benefits than the lower-paid pays of the cost of his smaller benefits, but since the proportion will generally be negligible anyhow, the higher-paid employee will derive a much greater profit from public funds than the lower paid. (See the attached chart.) Those persons who support the general structure of the program but oppose the increase of the annual wage base from $3,000 to a higher figure (say $3,600 or $4,800) point out that the differential between the $3,000 employee's benefit and the higher-paid employee's benefit could not be justified on equity grounds; but they apparently overlook the fact that the same type of anomaly exists as between the $1,200 and the $3,000 employee, under both proposed and existing legislation.

The proposed increase in wage base and change in benefits formula under H. R. 2893 are designed primarily to take account of recent increases in wage levels. Since 1939 wage levels have almost doubled, an annual wage of $4,800 today may correspond to $2,400 in 1939. The benefit formula under H. R. 2893 is such that the ratio of the $4,800 individual's benefit to his earnings will be only moderately higher than the ratio of the $2,400 individual's benefit to his earnings under the 1939 formula.

There is no satisfactory machinery, however, to take satisfactory account of future changes in wage and price levels, either upward or downward. While any significant downward wage and price trend is admittedly improbable, it can be seen that were such trend to occur the ratio of benefits to earnings might increase to an unfavorable extent. The drafters of H. R. 2893 hoped to take care of the upward-trend situation by basing benefits on wages of the five highest consecutive earnings years, though presumably in case of a very marked trend they would seek further increase in the annual earnings base and revision of the benefit formula. This difficulty with the highest 5-year approach is that, while it is of encouragement to the individual who has not yet retired or died, it is of no help to him or his survivors in the very likely event of a continued upward trend after his retirement or death.

A remedy for this difficulty might be to have some special adjustment made periodically in the benefits of individuals already on the benefit rolls, an adjustment possibly reflecting the change between the purchasing power of the then current dollar and that of the dollars on which their benefits are based. But to do this, it would seem, would emphasize increasingly the absence of relationship between contributions and benefits and would seriously question the basing of benefits in any way on past earnings.

The social budgeting approach

Years ago the well-known actuary Miles M. Dawson pointed out that unde a compulsory social-insurance system the many rigidities and limitations private insurance need not be present. Thus, in a system where the existen of future generations of participants was assured through the State's taxin power, there was not only no need for a reserve, but more important it woul be both possible and preferable at the commencement of the compulsory progra to bring into benefit status all those who would have been receiving benefits ha the program started long before. Such a program would be truly contributory for though the individual would not be paying for the benefits he himself was t receive in the future, he would be paying an equivalent cost by paying for th benefits of those now aged or disabled or orphaned or widowed. In return fo his paying for the benefits of these others, he is assured that when in the futur he becomes aged or disabled or deceased, he or his survivors' benefit will b paid for by those then in their productive years. As Dawson says, such a approach would say to every man: "In consideration of a contribution e your full share of the cost of providing this indemnity for all other contributin members of society, society will cover the entire hazards of your having the re sponsibilities resting upon you which make the insurance requisite or desirable. (Proceedings, Eighth International Congress of Social Insurance (1908), p. 192

The adaptation of this approach, as many students of the subject visualize i would be (1) to determine each year the amount which could be raised throug some predetermined form of direct taxation specifically earmarked for socia security purposes, (2) to determine the number of persons eligible for socia security benefits and their respective proportionate shares, and (3) to divid (2) into (1) to obtain the amount of each share. As visualized, each of th aged would receive the same size share, not only because of the difficulty e devising variable shares on any pertinent basis but primarily because a uniform individual benefit would be considered socially preferable, for reasons partiall indicated below. On the other hand, it might be desirable to pay benefits t some other category, such as orphans, at some uniform level different fro the uniform level for the aged.

To illustrate, assume that the social-security tax method decided upon wa to yield a total of $8,700,000,000 in 1951. This amount, incidentally, is just one half of the mean of the high and low estimates of the cost (assuming preser earnings levels (in the year 2000 of H. R. 2893 plus public assistance, a cos to be paid by a population much less than twice the present population. Assum further for 1951 a total of 11,000,000 aged, to have one benefit unit apiece 2,000,000 under 65 but chronically disabled also to have one unit apiece, an 2,000,000 dependent children to have three-quarters units apiece. The numbe of benefit units would total 14,500,000, so that each benefit unit would be $6 annually, or $50 monthly.

Social budgeting is distinct from current Townsend proposals in that socia budgeting avoids any form of hidden tax and keeps costs fully in the open. Th Townsend form of tax, misnamed "gross income" tax, is really a gross-receipt tax, which could be included several times, and to an immeasurable extent, i the price of every commodity. An appropriate tax for social budgeting woul be a flat percentage added to the individual normal income tax rate.

A system of uniform benefits under the social budgeting approach may b compared with the present or proposed old-age and survivors insurance legisla tion, with respect to the various problems under consideration, in the followin way:

Present program (or proposed liberalizations thereof, retaining present basic structure)	*Suggested system of uniform benefi independent of previous wage histo ies*
1. COVERAGE OF PRESENTLY EXCLUDED GROUPS OF WORKERS	
Administrative problems relating to wage reporting make coverage of some new groups very difficult. Any new coverage that is effected necessitates elaborate and confusing "new start" provisions.	Wage-reporting and new-start pro lems are obviously absent, as no wa records would be maintained for an one under this system.

2. COVERAGE OF RISKS ALREADY MATERIALIZED

Majority of those currently in need of benefits became aged, disabled, orphaned, etc., before inception of program or before protection could be acquired, and are therefore dependent upon public assistance.

All those currently in need, as well as those in need in future, can derive benefits under suggested system. Role of public assistance, while relatively incidental, would be that of genuine supplementation rather than substitution.

3. INCIDENCE OF FINANCING

Because of its deferred cost structure, the program cannot be financed satisfactorily by either actuarial-reserve or current-cost technique. Former technique is politically dangerous and economically unsound; latter leads to popular under-evaluation of benefit costs and to resulting dangers.

Current-cost technique can be satisfactorily applied to suggested system since immediate rate of benefit expenditures will not be too far below probable ultimate rate.

4. ADAPTABILITY TO CHANGING CONDITIONS

Benefit amounts largely dependent on wages received in long-past years lack flexibility to meet changing price levels and other conditions. Adjustments of benefit formula designed to remedy this situation do not meet problems of all beneficiaries, provide only temporary solution, and result in increased complications.

Under suggested system there would be no wage-benefit relationship from which inflexibility could result, and benefits could be made to change automatically with economic and fiscal developments.

5. PROTECTION AGAINST UNDUE LIBERALIZATION

Deferment of major benefit load results in temptation to overliberalize present benefit rates. Future costs cannot be closely forecasted and would be ignored even if they could be foretold.

Fact that cost of any liberalization would have to be borne immediately by the public would be main bulwark against undue liberalization.

6. APPROPRIATENESS IN MEETING SOCIAL NEED

Differential treatment provided is not in accord with, but if anything in inverse relation to, the need to which social insurance is properly applicable (i. e., that need which cannot be provided for by individual effort or through the various forms of private insurance). Moreover, though ostensibly weighted relatively in favor of the lower-paid, the benefit formula now operates to give the greatest actual public subsidies to the higher paid.

Suggested system would give effect to "floor of protection" concept and avoid special subsidies. Uniform social security benefit would be supplemented by individual's own savings, private pensions, etc. Local public assistance supplementation, not federally subsidized, would also be available.

7. RELATION TO PUBLIC ASSISTANCE

Since the OASI recipient now often sees that public assistance has served to put both him and the nonrecipient (or noncontributor) in exactly the same position, and since public-assistance payments are more numerous than OASI benefits and of larger average amount (not having OASI's inflexibility), public assistance now has the function of adversely competing with the program.

To the limited extent to which public assistance would be needed to supplement the suggested system, it would constitute true supplementation.

5. ADMINISTRATIVE EFFICIENCY AND ECONOMY

Despite the efficiency with which wage reports are processed and wage records are maintained, the cost of these operations is appreciable, and relatively higher costs and less efficient operations may be expected with respect to some of the excluded groups whose coverage is now contemplated.

These operations would be eliminated and there would also be savings in other operations. The existing income-tax machinery would suffice for collecting contributions.

Which is the cooperative method?

If we are to accept as our aim cooperative welfare instead of paternalistic welfare, and if we seek to preserve the ingredients Dean Brown speaks of namely individual incentive and mutual responsibility, we should ask ourselves which of these two social-security methods is more nearly the cooperative method and which is more nearly the paternalistic. The following are some of the questions whose answers may guide us to a solution:

1. Which is the more paternalistic in its effect, a program under which for some decades to come a substantial proportion of those in need are left to the mercies of needs test public assistance, or a system under which each individual in the categories where need is presumed received a benefit which is his own to use as he sees fit?

2. Which is the more cooperative and which the more paternalistic, a virtually noncontributory program promising expensive benefits for token considerations hiding true costs and therefore stimulating the demand for even more expensive benefits, or a system under which the present worker in paying for the benefits of those who can no longer contribute is contributing an amount equivalent to the real value of his own benefits?

3. Which is the more paternalistic, a program whose benefits may be tied in unrealistically to economic conditions of years already past and can be revised only through congressional wrangling over complicated and discriminatory formulas, or a system under which both income sources and benefit levels can vary automatically with economic changes?

4. Which is the more paternalistic, a program which uses public funds to subsidize the continuance of the differential of the high-paid worker's income over that of the low-paid worker, or a system which recognizes that the high-paid worker is better able than the low-paid to supplement his flat social-security benefit through nonsubsidized thrift and insurance channels, thus maintaining his differential through his own efforts and the medium of private enterprise?

The above are some of the many questions which can and should be asked in choosing our pattern of social security. As Dean Brown points out, the decisions made in the year 1950 may have far-reaching effect.

The CHAIRMAN. The next witness is Mr. John D. Battle, vice president of the National Coal Association.

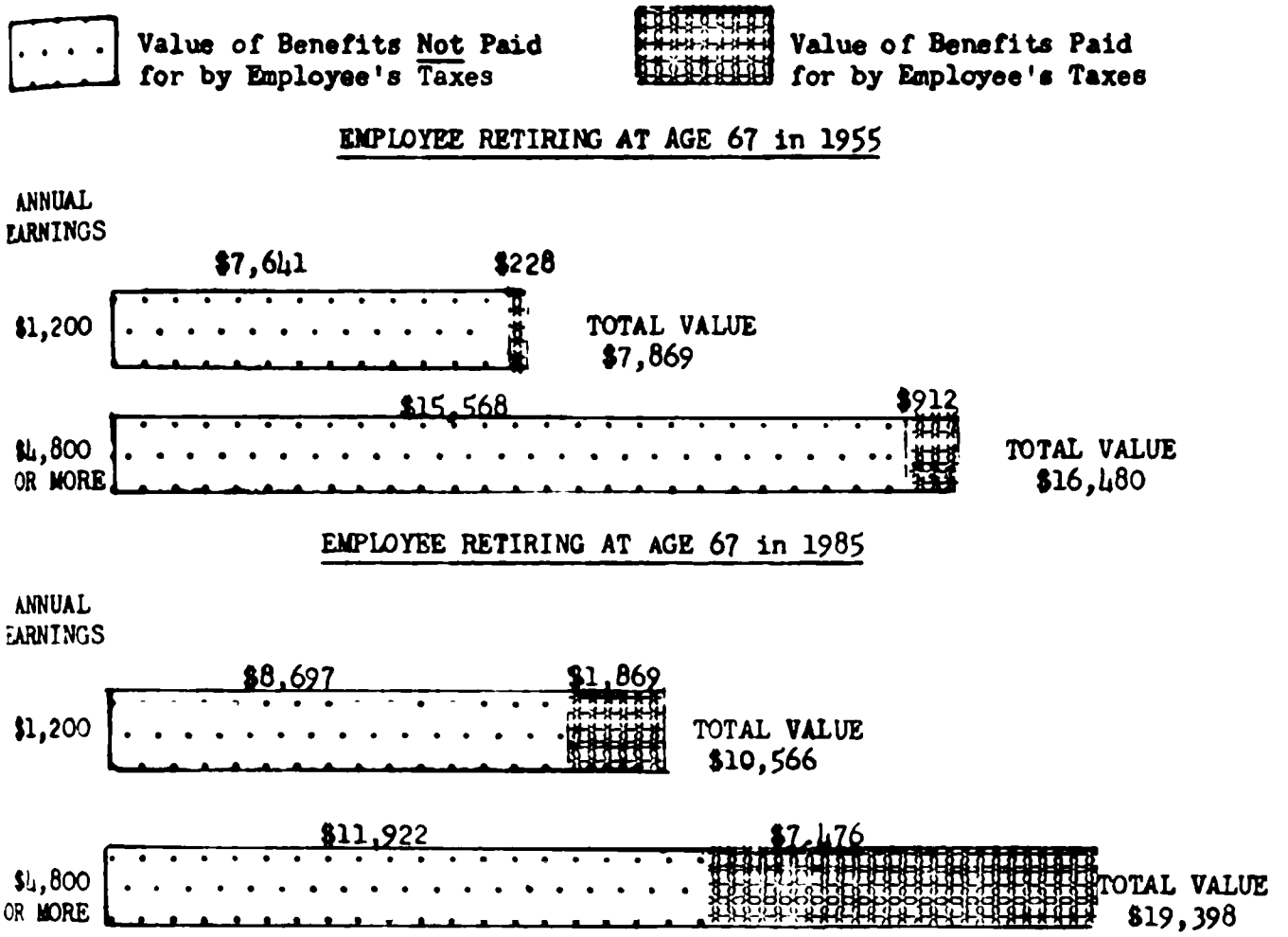
Mr. Battle?

STATEMENT OF JOHN D. BATTLE, EXECUTIVE VICE PRESIDENT, NATIONAL COAL ASSOCIATION

Mr. BATTLE. My name is John D. Battle. I appear here on behalf of the National Coal Association. The National Coal Association is the trade association of bituminous coal producers, with membership comprising about 75 percent of the commercial production of bituminous coal in the United States and with members in each of the major coal-producing States in the Nation.

As a representative of the bituminous coal-mining industry, I do not appear here today as a specially qualified social-security expert. I do appear for the purpose of explaining to the committee some of

VALUES OF INDIVIDUAL EMPLOYEE'S BENEFITS AND PAYROLL TAXES UNDER H. R. 2893



NOTE.- Values of benefits are actuarial values, as of retirement age, of employee's own (primary) benefits and of wife's and widow's benefits which may become payable after his retirement. Computation of wife's and widow's benefits makes allowance for probability of there being no wife or widow qualified to receive such benefits and also makes allowance for effect of benefit maximum.

Pay roll tax values are interest accumulations of net employee taxes to retirement age, the net tax after 1949 being one-half percent of pay roll less than the assumed total employee tax. Benefit of survivorship is ignored, and it is assumed that this saving plus one-half percent of pay roll is applied to the cost of survivor and disability claims incurred before retirement. Total employee tax rates assumed are 2 percent for 1950-59, 2½ percent for 1960-69, 3 percent for 1970-79, and 3½ percent for 1980-84, though H. R. 2893 provided no tax rate higher than 2 percent. Steady earnings of $1,200 a year for one employee and $4,800 (or more) for the other are assumed from 1950 on, while before 1950 the assumed earnings are $750 and $3,000 (or more), respectively. Fluctuating earnings could produce the same benefit values with lower tax values.

United States 1939-41 white population mortality and 2½ percent interest are assumed.

our industry's special problems under old-age and survivors' insurance, and also to express our position on the proposals of broadening the wage base, adding disability benefits, and sharply increasing benefits. The recommendations which we shall make are of vital importance to the coal industry.

You have before you a bill which in 1951 will impose old-age and survivors' insurance taxes at double the rate which has been in effect up to the beginning of this year. In addition, it would apply to $3,600 of an employee's annual wage instead of $3,000. The Social Security Commissioner has asked that the base be made $4,800, and some union representatives have demanded an even broader base.

You gentlemen will appreciate the difference between the $30 annual maximum per employee we have been paying, and the $72—over twice the old maximum—which we shall be paying next year if H. R. 6000 is enacted as presently written. You will understand the impact of the $96 maximum for next year proposed by Mr. Altmeyer—more than three times our maximum before this year.

Under Mr. Altmeyer's proposal, 15 years from now we would pay $144 per year tax on our high-wage employees—nearly five times the initial $30 maximum per employee. The withholding tax for social

security would also be $144. This would be for this one progra alone. You must also bear in mind that if the wage base for old-ag and survivors' insurance is broadened the same broadening for unem ployment compensation will be almost certain to follow. The unem ployment compensation tax the industry must also bear adds as muc as an additional 3 percent tax on wages.

The Commissioner has urged a benefit formula producing a prese benefit of around $123 per month for an old couple with maximu coverage of $250 per month since the system began, and $139 per mont 15 years from now. He has urged, however, that the $400-per-mont man should receive much higher benefits than the $250 man, and woul tax him and his employer and pay him benefits on an additional $1,8 per year in wages.

Old-age and survivors insurance was adopted as a measure to place floor of protection under persons who might otherwise prove to be relief problem in their old age. We do not subscribe to any theory tha the $400-per-month man needs more Government protection than th $250-per-month man, nor do we believe the proposal for imposing 6 percent more taxes on the $400 man and on his employer can be justifie

We accordingly urge you to retain the present $3,000 maximu annual wage base.

Under the proposed tax schedule, it is estimated in the report ac companying H. R. 6000 that OASI taxes will be 4.6 billion dollars pe year 5 years from now, 5.9 billion dollars per year 10 years from now and 8.3 billion dollars per year 20 years from now, and that a trus fund of over 60 billion dollars will have been accumulated by the These were intermediate estimates, and the possible range is so broad- depending on future economic conditions, longevity, employment prac tices, etc.—that the so-called reserve may be much lower, or greatl higher than 60 billion dollars.

It seems obvious to us that greatly increasing present tax burden to pile up this theoretical reserve may lead only to the size of the reserv being used as an argument for still further benefit liberalization. W are certain of only one thing—the proposed increase in the pay-ro tax from 1½ to 2 percent next year on top of the 50-percent increas which occurred last January 1, would be a tremendous burden on ou already precarious economy.

The inevitable effect of the impact of these additional regressiv taxes will be to reduce both corporate margins and take-home pay jus at a time when our economy is in need of encouragement. It woul be ironical to jeopardize our basic security—a sound economy—by taxe levied in the name of social security.

Our association is thus opposed to the proposed increase in the pay roll taxes.

H. R. 6000 proposed to add disability benefits to the present pro grams. Your committee has heard competent witnesses whose back grounds and actual experience entitle their opinions to great weight demonstrate why this pay-roll-tax-supported program of benefits pai "as a matter of right" should not be undertaken, and why the cost will be tremendous. No equally competent witness has denied the conclusions.

Our association opposes this tremendously expensive and question able program of disability benefits.

H. R. 6000 contains a definition of employee which would permit administrative and judicial determination that the employer-employee relationship exists merely on the basis of the adjudicator's views of the "combined effect" of broad and undefined "factors." These are in general the "factors" developed under the theory that social legislation was intended to protect "economic dependents" of a business, and hence that "employee" meant economic dependent. Even this flimsy theory, which you rejected 2 years ago, utterly fails under H. R. 6000, since the purpose of the bill is to cover self-employed as well as employees.

We can see no justification in twisting ordinary independent relationships into artificial employer-employee relationships for tax purposes, and can see a great deal of confusion and litigation if the proposed definition is adopted. Further, we believe that such action would have much broader implications than this particular tax. We are accordingly opposed to the proposed definition and earnestly request that it be stricken from the bill.

H. R. 6000 also proposes to sweep in a fortunate few of the present aged and pay them near-maximum benefits after 5 years' coverage, and, in contrast, do nothing at all about the present situation where millions of today's aged are left to the constantly expanding relief programs. The association recommends that OASI changes be presently limited to such modest increases in benefits as may be found essential to provide for those presently on the rolls or shortly to be on them. There needs to be a fundamental reappraisal of what should be done about our present crazy patchwork of old-age and survivors' insurance, public assistance, and the various and sundry other public and private approaches to the security of old people and orphans. This committee knows that the pending measure fails to do a defensible job, and that the time within which this committee has to act does not permit a realistic appraisal. It is also axiomatic that any unwise liberalization or expansion will be difficult—and, we believe politically impossible—to correct.

There is an increasing dissatisfaction with the actual results of the present social-security program. Its glowing promises for tomorrow are offset by its sorry current performance 15 years after its enactment. No one can defend the present distribution of Federal tax money by way of benefits—either from pay-roll taxes or general taxes—in meeting the actual problems of the destitute aged or destitute orphans. H. R. 6000 would both tremendously add to the tax burdens and increase the disparity between the actually needy aged and children off the rolls and the fortunate aged and children on the rolls, many of whom are unnecessarily receiving benefits. This is true in the Federal grant-in-aid public-assistance programs, where the State-to-State variance is from 10 percent of one State's aged on the rolls to 83 percent in another State, and where benefits average under $20 per recipient in one State and around $75 in another. The disparity in benefits is true under old-age and survivors insurance, where the present recipients have paid an average of only 3 or 4 percent of the costs of their benefits—6 or 8 percent if you count the employer tax—but those least likely to be needy receive by far the largest unpaid-for benefits.

Not only the benefit structure, standards, and conditions, but the financing requires a most thorough review, and reconsideration.

Old-age and survivors insurance is a contributor system, and ou association believes it to be a sound approach that cost of financin benefits should be to a substantial degree borne by prospective bene ficiaries. In that way, and in that way only can a system of check and balances be maintained between what people might like and wha they are willing to pay for.

But raising any supporting funds from sources other than the pros pective beneficiaries is a pure tax question, having no special signifi cance in the contributory theory of the system. Our organization be lieves that it should be an earmarked tax, but believes that it should b framed on principles of tax equity and sound public policy. It shoul not be a specific penalty for employing more people or paying mor wages. It should certainly not be the pay-roll tax imposed on em ployers, which does exactly these things, and which directly affect competition between products with high labor costs and those with lov labor costs.

The principal point which I wish to bring to the attention of th committee and the Congress is the fact that the bituminous coal-min ing industry has a very high, an unusually high, labor cost in relatio to total cost. Between 60 and 70 percent of the total cost of producin coal goes into pay rolls. The point we wish to stress is that our com petitors do not have such a high pay-roll cost factor and that an increase in the social-security tax, predicated on pay rolls, furthe accentuates an already serious discrimination against the bituminou coal-mining industry.

Our competitors are oil, natural gas, and hydroelectric power. I the production of a given unit of energy the labor factor involved i each of these three competitors of coal is only a small fraction of th labor cost involved in the coal industry.

In gross national product, the bituminous coal-mining industr represents slightly over 1 percent, but it would pay more than 5 per cent of total social-security taxes.

The social-security tax, predicated as it is on pay rolls, is alread seriously discriminatory against the bituminous coal-mining industry If we are to embark upon a greatly enlarged program involvin greatly increased costs, this discrimination will become all the mor serious. It is for this reason that the bituminous coal-mining industr today urges that your committee recommend changing the way i which the program is to be supported.

The proportion of the costs which the insured as a class should bea permits some discussion. However, it would appear manifestly ex pedient that at least half the costs should be raised by their direc contributions. I mean the contributions of the covered employees.

It is not similarly essential that the individual employer pay a amount equal to the aggregate paid by his particular employees. Th old-age and survivors insurance concept is more hurt than helped by theory that each individual employer is paying in on behalf of each o his employees an amount equal to what the individual himself pays It is perfectly apparent when measured against the benefits of a individual employee that the amount the employee has paid plus th amount the employer has paid with respect to his employment rep resents nothing like the cost of the particular benefit. For those retir

ing today the combined amount represents only a small fraction of the cost; for many retiring in the future the combination of employer and employee payments will represent perhaps double the actual costs of their benefits. As a matter of fact, as the benefit formula provides comparatively large benefits to short-time and low-income beneficiaries, it will be difficult enough to assure many employees who will retire in later years that they will get as much in benefits as their own contributions would purchase commercially.

As a matter of reality, the employer's pay-roll tax is not in any way earmarked for any individual employee. Its proceeds are used as part of a general fund to provide a floor of protection above that which could be purchased by contributions of low-wage individuals and by employees covered for relatively short times in the system. When this actual purpose and use of the employer excise taxes is recognized it is clear that this particular method of raising half the funds is not an essential part of the concept of social security.

Instead, the question of raising this half of the funds presents basically a question of tax equity.

Why should the bituminous-coal-mining industry be called upon to pay such a disproportionate part of the cost of the social-security program merely because it gives employment to a comparatively large number of workers? To apply a substantial part of the cost of this program on this basis seems to me to be completely unsound. What it amounts to is a conclusion that the only way to reduce or minimize social-security-tax liability is to have few workers and to pay them low wages. Certainly this is contrary to recent social thinking and national policy which suggest a desire to encourage employment and the highest wages consistent with business prudence.

Actually, the very fact that coal has such a high labor factor has already caused it to lose ground steadily in competition for the Nation's fuel markets. In 1929 bituminous coal contributed 55.1 percent to total fuel demands of the Nation. Since that time the trend has been steadily downward, bituminous coal's contribution in 1948 having fallen to 42.4 percent, the lowest in history. From this record it is apparent that coal is losing ground in competition with oil, natural gas, and hydro for the Nation's fuel markets. This loss is directly attributable to increased costs, primarily in the labor and related expense field.

Certainly to continue the present method of financing the social-security program on a greatly increased scale will seriously affect the competitive position of the bituminous-coal-mining industry and, in our judgment, is not only unnecessary but is wholly unjustified.

Mr. Altmeyer, Commissioner of the Social Security Administration, has indicated that the level premium cost of the enlarged social-security program, including OASI, disability, health insurance, etc., might run up to 15 percent of pay rolls. He indicates that on the present $140,000,000,000 taxable-income base the 15 percent would produce about $21,000,000,000 per year.

The committee has heard much from Mr. Altmeyer before, and, of course, his opinions and estimates are entitled to great weight. I think it only fair to say, however, that if Mr. Altmeyer says the enlarged pro-

gram will cost 15 percent of pay rolls, it is a fair assumption that it will not cost less than 15 percent.

If the bituminous-coal-mining industry is called upon to pay one-half of 15 percent of pay rolls, or even one-third of the 15-percent figure, as Mr. Altmeyer has indicated might be desirable, the discriminatory effect on the bituminous-coal-mining industry as against its competitors will be serious and, in many instances, fatal to the coal-mine owners.

The bituminous-coal-mining industry neither advocates nor opposes extending the coverage under the social-security laws. It does wish to emphasize that if there is to be any change in the program, we strongly urge elimination of the present excise tax on employers and supporting the program by a tax on the insured to carry about half the cost and the remaining 50 percent of total cost to be gained in one of three ways or a combination of the three: (1) From general revenues; (2) from earmarked income taxes; or (3) from a national sales tax earmarked for the purpose.

The social-security tax on employers is a sales tax. Of course, it is not labeled as such, but that is what it is. The only difference between this tax and the usual form of concealed sales tax is that instead of being applied to the sales price of the commodity it is applied only to that segment of the sales price representing labor costs.

It is much more inequitable than the manufacturers' sales tax which was defeated by the Congress in 1932. The manufacturers' sales tax was a concealed tax like the social-security tax on employers, but as it was imposed only on the manufacturers' sales price, wholesale and retail sales were not taxed, and pyramiding of the tax was avoided. There is nothing to prevent pyramiding in the case of the social-security tax on employers.

But there is another more serious inequity. A general sales tax applied to all sales does not affect the competitive situation. The social-security tax on employers does seriously affect the competitive situation. For example, the labor costs in the case of coal production are approximately 60 percent of the sales price, and a 2-percent tax on wages is equivalent to a 1.2 percent general sales tax. In the case of oil and natural gas production, principal competitors of bituminous coal, I understand the labor costs of production are not greater on the average than 15 percent of the sales price; and, therefore, a 2-percent tax on wages in this case is equivalent to only a 0.4 percent general sales tax.

In the case of company retirement plans, the employer gets something for his money. That is to say, turn-over is discouraged. Under a national social-security program, the employer gets nothing for his money, as the employee can shift his employment without loss.

In 1932 it was estimated that a manufacturers' sales tax at a rate of 2.25 percent would produce $595,000,000 of revenue. At that time, our national income was only $40,000,000,000. Now, it is in excess of $210,000,000,000, and such a tax would probably produce about $3,000,000,000. Such a tax would be more equitable than the present social-security tax on employers.

The social-security tax on employees is fair enough if we do not have further inflation and if future Congresses do not take away the

benefits now provided. If our economy remains in status quo, on the average a man will get what he pays for and oftentimes more, with some exceptions. Sometimes under the proposed bill he will pay in money, pay income tax on such money, and get nothing in return.

In conclusion, I feel strongly that there is no need for adopting the vast commitments of H. R. 6000 at this time, and that the whole matter needs further study.

The CHAIRMAN. Any questions? Thank you very much, Mr. Battle, for your appearance and the information you have given the committee.

The committee will stand in recess now until 10 o'clock tomorrow.

(Whereupon, at 12:15 p. m., the committee recessed to reconvene Friday, March 17, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

FRIDAY, MARCH 17, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George, Chairman, presiding.

Present: Senators George, Connally, Millikin, and Martin.

Also present, Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

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

Mr. Reporter, please insert in the record two letters addressed to me, as chairman of the committee, but in the nature of supplemental statements by Mrs. Nola E. Patterson, editor and representative of the Life Insurance Field Force of America. Mrs. Patterson appeared at an earlier date in the hearing, but she wished to extend her remarks to this extent.

(The letters are as follows:)

LIFE INSURANCE FIELD FORCE OF AMERICA,
Atlanta, Ga., March 14, 1950.

Re H. R. 6000

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SIR: Pursuant to my presentation before your committee on February 6, 1950, in behalf of life insurance salesmen compensated solely by commission, it will be greatly appreciated if you will enter the following remarks in the record.

As predicted in my first presentation, certain life insurance companies are making a desperate attempt to have the fourth definition of the term "employee" eliminated from H. R. 6000. If they succeed in that, we firmly believe they will immediately claim that commission compensated life insurance salesmen are not "full time" salesmen as described in the third definition and thus continue to deprive these people and their families of their coverage.

Mr William E. Jones, assistant general counsel of the Northwestern Mutual Life Insurance Co., even proposes a ridiculous amendment under which these salesmen would be included as "full-time independent contractors" for whom the companies would be willing to pay half the tax. The purpose here is two-fold Not only can the companies then claim that the salesmen are not "full time" salesmen, but it would bolster their defense against negotiating with them in regard to their working conditions if they are classed as "independent contractors."

In regard to Mr. Jones' preposterous suggestion, we add the following evidence of employee status, particularly in connection with the salesmen of the Northwestern Mutual Life Insurance Co.:

1. Would any company dare appropriate the premium money of policyowners to pay social-security taxes for people who were not employed by the company?

2. The Northwestern Mutual has provided a company pension for its salesmen to which the company contributes. Again, would the company dare use premium money of policyowners to buy pensions for people who were not employed by the company?

3 Like many other life-insurance companies, the Northwestern Mutual inserted a disavowal of employee-employer status in its salesmen's compensation contracts

upon the advent of social security. However, they contain much evidence of employee status even yet. For instance, a rule is laid down in the contract as to how the salesman must conduct himself. It provides financial penalties for salesmen who do not produce a certain amount of business within a given time.

4. Salesmen of the Northwestern Mutual and other life-insurance companies cannot sell anything. They can only persuade people to make application to the company for the issuance of a policy. It is the company which accepts, rejects, postpones, or rates the risk. These salesmen cannot close any transaction. A reinstatement of a lapsed policy, a change of beneficiary or settlement agreement, and so forth, is not binding until approved by the company.

5. The evidence of employee status set forth in my presentation of February 6, 1950, applies with full force to the salesmen of the Northwestern Mutual.

Mr. Jones pretends that the wages-and-hours and unemployment compensation laws might apply if these salesmen were included as employees. Although this is not a good argument for excluding anyone from coverage, these salesmen as outside salesmen are exempt from wages-and-hours laws and in most States are exempt from unemployment compensation if they are compensated solely by commission. (See p. 51 of the enclosed Georgia law.)

Mr. Jones also deplores the administrative difficulties which would be involved. Again this is not good argument for depriving the salesmen of their benefits. Other business concerns, all industrial-life-insurance companies and the following 10 ordinary-life-insurance companies have fuond it possible to administer the law without undue difficulty. The 10 ordinary-life-insurance companies listed below recognized the employee status of their commission-compensated salesmen and included them into coverage, thus proving that other such companies can do likewise:

Acacia Mutual Life Insurance Co. of Washington, D. C.
Home Life Insurance Co. of New York.
Monarch Life Insurance Co.
New World Life Insurance Co.
North Carolina Mutual Life Insurance Co.
Provident Life Insurance Co. of North Dakota.
Security Mutual life Insurance Co. of New York.
State Farm Life Insurance Co.
Sun Life Assurance Co. of Canada.
Connecticut General Life Insurance Co.

The above-listed life-insurance companies have proven that commission-compensated life-insurance salesmen can be included into coverage and the law can be administered.

Mr. Jones says that as independent contractors the business expenses of these salesmen are deductible under the income-tax law. The business expenses of employees are likewise deductible under "Miscellaneous" in the self-same income-tax law.

Mr. Jones referred to the rulings of the Internal Revenue Bureau in regard to the coverage of life-insurance salesmen. The Internal Revenue Bureau did not have access to information from the employees. It had only the biased and incomplete information which was furnished it by the life-insurance companies which were determined to exclude their field forces from the benefits of social-security coverage.

We implore you to retain the fourth definition of the term "employee" in H. R. 6000. It is the only definition which will assure the coverage of life-insurance salesmen who are compensated solely by commission as the employees which they are and have always been.

Respectfully yours,

(Mrs.) Nola E. Patterson,
Editor and Representative of the Life Insurance Field Force of America.

Life Insurance Field Force of America,
Atlanta, Ga., March 17, 1950.

Re H. R. 6000

Hon. Walter F. George,
Chairman, Senate Finance Committee,
Washington, D. C.

Dear Sir: Pursuant to my presentation before your committee on February 6, 1950, and my subsequent letter of March 14, 1950, it will be greatly appreciated if you will enter this letter in the record.

Following printed reports that the Equitable Life Assurance Society made representations to your committee to the effect that its life-insurance salesmen are "independent contractors," one of the Equitable's salesmen sent me the following evidence of employer-employee relationship between the Equitable and its salesmen. He requested that I forward it to you to be considered by your committee:

"It would be difficult for an unbiased inquirer to adjudge the full-time agents of the Equitable Life Assurance Society anything but 'employees' in fact and in law. Not 'self-employed.' Not 'independent contractors.' Not 'operating their own business.'

"Some cogent reasons, briefly stated:

"1. Under New York and other States' laws and under Equitable regulations, 'group life insurance' can be purchased only by an 'employer' who has the right to make premium-deductions from his 'employees.' Absolutely forbidden is group life insurance for 'independent contractors' or 'associates' of any category. But, all Equitable agents enjoy full 'group life insurance.' Lawfully so.

"2. Agents fill out an 'application for employment.' They must pay an annual fee for an 'employee's fidelity bond.'

5. Until a few years ago the agency-contracts were replete with such phrases as 'the employer,' 'the employee,' 'employment,' etc. These were called in and a new printed form substituted.

"4. Agents are subject to book Rules for Agents. No discretions. Rigid.

"5. All 'independent contractors' buy their own occupational licenses. Equitable buys all such occupational licenses for its agents.

"6. Equitable can and does change compensation at will. In some cases it pays its 'actual independent contractors' ('brokers' and 'one-case agents') more compensation than it pays its own agents.

"7. Equitable charges against an agent's previously earned compensation a cash penalty for terminating his employment under some cases.

"8 Legal papers served on Equitable agents are binding; the society has to accept and respond to such service.

"9. By its printed unilateral contract of employment, Equitable holds the right to intrude and defend its agent against all claims and suits for any cause whatsoever. And to deduct from his compensation and otherwise to recover whatever it deems to be expense in connection with any such claim. Hardly independent actions.

"10. Whoever heard of a firm's purchasing for its 'independent contractors' a 'retirement pension plan'? Such is unlawful, forbidden by law and by regulations of all companies. Yet, Equitable has purchased a pension plan for its agents."

This is copied verbatim from this Equitable agent's letter. His use of the word "agent" refers to life-insurance salesman, both terms being erroneous. These people are neither agents nor salesman. They are employees who are paid according to the result accomplished rather than by the hour.

Sincerely yours,

(Mrs.) NOLA E. PATTERSON,

Editor and Representative of the Life Insurance Field Force of America.

The CHAIRMAN. The committee will begin its work this morning. We hope that there will be other members of the committe present within a short time. We will proceed without delay since we have matters coming up on the floor of the Senate today that make it necessary for us to conclude around 12 o'clock, or shortly after 12.

Mr. Mosher, I believe that you are first on this list. Mr. Mosher, you may be seated, if you wish.

STATEMENT OF IRA MOSHER, CHAIRMAN OF THE NATIONAL ASSOCIATION OF MANUFACTURERS EMPLOYEE BENEFITS COMMITTEE, AND DIRECTOR, RUSSELL HARRINGTON CUTLERY CO.

Mr. MOSHER. Thank you, Mr. Chairman.

For the record, my name is Ira Mosher. I appear before you as chairman of the NAM Employee Benefits Committee, which deals

with the entire field of employee-benefit programs, including employee pension programs and Federal Social Security.

With your permission, I am not going to read the brief which we have presented to you, which is pretty lengthy and goes into considerable detail. Again, with your permission, I would like the privilege of high lighting the more important points in that brief.

The CHAIRMAN. Do you wish to have the brief entered in the record?

Mr. MOSHER. Yes, sir.

The CHAIRMAN. The brief will be entered in full in the record, and you may then proceed.

(The brief is as follows:)

STATEMENT OF IRA MOSHER, DIRECTOR, RUSSELL HARRINGTON CUTLERY CO., AND FORMER PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS

My name is Ira Mosher. I am a director of the Russell Harrington Cutlery Co. I am a former president of the NAM and appear before you today as chairman of the NAM employee benefits committee, which deals with such matters as employee-pension programs, other employee-benefit programs, and social security.

INDUSTRY'S CONCERN ABOUT THE OLDER WORKER

To us the question of retirement security for the older worker is both a human and economic problem.

While manufacturing industry provides employment for only approximately 25 percent of all those gainfully employed, nevertheless, as a representative of companies that produce something like 80 percent of the country's manufactured products, we are in intimate contact at all times with the employee in industry and with his problems. That includes employees of all ages, and in many cases the retired employee as well.

Our concern about the older employee and his problems is not of recent origin. The record shows that in 1929, in 1938, and in the past few years we have undertaken programs looking toward more equitable utilization of the older worker in industry. Repeatedly we have urged that arbitrary age limits be disregarded and that employees be hired and utilized on the basis of their capacity, experience, and ability rather than age or other arbitrary factors. In 1947 the NAM board urged industrialists to see that their employment policies gave full recognition to individual qualifications without discrimination of any kind.

Not only have companies taken pains to hire and retain older employees; they have also, in many cases, made voluntary provision for employee retirement benefits, without waiting for either Government or union to force the issue.

On the other hand, society must reckon with the fact that whereas today the ratio of aged to those in their productive years (age 20 to 64) is about 1 to 8, 10 years from now that ratio will become 1 to 5. Both from the viewpoint of the employee himself and from the viewpoint of society, we may have to change our views concerning the wisdom of retiring employees at age 65 and may want to encourage their being continually employed as long as they are able and willing to continue in useful employment.

It has been loosely stated that industry is reluctant to employ older workers. I think it only fair to point out the facts.

1. Nearly $4\frac{1}{2}$ million workers over 45 years of age have been added to the Nation's pay rolls during the past 8 years.

2. Whereas the proportion of people over 45 years old in productive employment in December 1941 was 31.9 percent, at the beginning of this year, the over-45-year-old group constituted 35.7 percent of the Nation's labor force.

Our intimate knowledge of the problem of the aged, together with our concern for the preservation and strengthening of our economic system makes us approach the problem of Federal old-age retirement security with a deep sense of responsibility. Recognizing that the Federal program of protection for the aged has now been in operation for a period of over 12 years, we have given careful consideration to the proposals before this committee, with the purpose of making a constructive contribution to the improvement and strengthening of the Federal program of old-age and survivors insurance.

Industry has an important stake in such improvements in that program as will provide a sound system which will insure a minimum basic layer of protection for the aged within the framework of a healthy economic system. Since old-age security, like all other security, depends upon the production of goods and services, any permanent system of old age security must be so planned and administered as to strengthen the system of private competitive enterprise. That system alone can provide the increasing flow of goods and services which means an ever higher standard of living for all of the people, including the retired.

CAN WE AFFORD RETIREMENT SECURITY FOR THE AGED?

This question of retirement security for the aged is so fraught with emotional reactions that, in our natural desire to provide for the aged, there is a danger that we might overlook the importance of preserving the economic system which makes security possible. The question has been raised whether or not our system can stand the tremendous load imposed by any program providing a basic layer of protection for the aged. Serious students have questioned whether our system can stand that load. Our reply to that viewpoint is this:

If any system can possibly support a program of retirement security for the aged, the system of private competitive enterprise offers the only hope of accomplishing it.

From many responsible quarters we hear the assertion made that the ultimate cost of the present type of old age and survivors insurance program is likely to be so great as to crush our economy. These statements cannot be dismissed lightly. Since a gradual system of this kind will not reach its peak costs until 50 years from the initiation of the program, and since the full cost at that time cannot be predicted with any degree of confidence, the question is very properly raised: How can we pledge to make our children pay more for our maintenance when we are old than we are now willing to contribute for the maintenance of our older people? It is even said that it is dishonest of us to undertake a program of provision for the aged on the basis of relatively slight contributions now when we know full well that the ultimate cost of the program is going to be a great deal higher.

The tremendous magnitude of the ultimate costs of a national old age pension program, and the effect of such costs upon the economy, make it imperative that, if such a program is to be made to work, we must provide very definite limits to the expenditures contemplated. Every additional item of cost must be weighed on the basis not only of social need, but also the capacity of the economy to support the cost.

It is far better to make financially sound provisions for the major aspects of the program of retirement security, rather than give way to the impulse to provide a definite answer for all of the social hazards of our society, and bankrupt our economy in the process.

Accordingly, our recommendations to you today are directed toward the twin goals of:

1. Providing a minimum basic layer of protection for the aged; and
2. Avoiding any program which endangers the system which makes maximum production of goods and services possible.

BASIS OF CONSIDERATION

The broad basis of our approach to the development of a Federal system of old-age and survivors insurance rests on the following assumptions:

1. The Nation has had a 12-year experience with a Federal program of protection for the aged and their dependents. An examination of the capacity of our system to bear this cost requires that we adhere to the concept of provision for the aged and their survivors at the level of a minimum basic layer of protection. That means an old-age pension at such a level as to provide necessary food, clothing, and shelter and avoid pauperism while encouraging our citizens to supplement such provision with their own savings and other types of annuity programs.

2 The problems of old-age security are many and varied. While the fundamental program of providing earned retirement security for the aged has been set up on a Federal level, the Federal program must be restricted to those functions which cannot be more effectively discharged at the State or local level.

3. The Federal program should be so set up as to provide a maximum degree of incentive for individual savings and for private pension programs. This im-

plies that the Federal program should be limited to provide the basic necessities, and furthermore, that the employer should be encouraged and should be free to develop sound pension programs for his employees.

4. A Federal pension program must always adhere to a basis of financing by equal contributions from employers and employees. The intent that the program be maintained on a full contributory system should be made clear.

5. The Federal OASI program is intended to provide protection against definite and determinable hazards such as old age and death. Expanding the program into other areas must necessarily mean we travel uncharted uncertainty rather than rely on the extensive experience we have had with life insurance and annuities. Adherence to the definite, known hazards of old age and death is essential in order that the program be retained within economically feasible bounds, and in order that those who gain by it should feel that they must make contributions having a definite relationship to the benefits they expect to derive.

DEFICIENCIES OF PRESENT OASI PROGRAM

The deficiencies of the present system of provision for the aged have become clearly apparent to most observers.

While the level of benefits originally afforded for a mature system was reasonable in view of the price level in those days, it is noted by most students that a rising level of prices and accompanying depreciation of the dollar, due in part to the rapid rate at which rising wages have outstripped increases in productivity, now makes the present system inadequate. Another factor which reduced the level of effective benefits was the limitation on the group covered by the law. At the same time, if steps are taken to increase benefits under the Federal program in order to overcome the depreciation of the dollar, let us remember that that does not solve the problem for those who have retired on private pensions or their own savings or of other groups living on fixed incomes. It is important that any contemplated liberalization of the old-age pension system must not go so far as further to depreciate the dollar and thereby reduce still more the purchasing power of the income of these other groups. The increase in Federal benefits, if carried out, would only be a partial solution.

Those who support and encourage higher price levels, whether that be through encouragement of higher labor costs, through toleration of inefficiency or through unwise national fiscal policies, in effect deprive the most frugal and the more productive portion of our population of the just rewards of their contribution and frugality in their old age.

It was reasonable perhaps that, when the Federal social security program was begun, Congress proceeded cautiously and covered only that part of our population that could be most quickly and easily brought within the program. However, millions of people remain outside the coverage of the system. If there is to be a Federal program at all, it should be applicable to all of the people, not only to selected or favored groups. The limited nature of coverage is a distinct handicap of the present program.

Closely connected with the Federal OASI program is the old-age-assistance program intended to provide basic necessities for those who are in need, and supported in large measure by grants-in-aid from the Federal Government. The old-age-assistance program, despite its laudable aims, offers a strong temptation to those who seek the support of special interest groups rather than the general welfare. Because the Federal Government now contributes as much as 75 percent of the old-age assistance at the lower levels, some States have lost all restraint and have even departed from any reasonable concept of determination of need in extending old-age-assistance benefits among those over 65 years of age. One of the glaring faults of our present program is its encouragement of pauperization of the aged. The Federal OASI program must be so designed as to cut down, rather than increase, the mushrooming series of federally financed State welfare programs.

These three, then—level of benefits, incomplete coverage, and apparently uncontrollable growth of old-age assistance—are properly receiving the careful consideration of Congress.

RECOMMENDATIONS FOR IMPROVEMENT

A. Coverage

Perhaps the major unique characteristic of our country is the absence of class stratification—in fact, the absence of classes. It is no oratorical flag waving to say that we are all Americans, for we have established a system providing for

the greatest degree of free movement among groups, regions, occupations, and economic levels that the world has ever known. It should be a major concern of Government to encourage that kind of fluidity, to prevent rather than encourage stratification into classes or determination of policies on the basis of group interests.

If it is intended to maintain and strengthen a Federal system of old-age and survivors insurance, that system should be applicable to all. Therefore, on the broad basis of national policy, coverage under the old-age and survivors insurance program should not only be expanded, as suggested in H. R. 6000, but should cover all those who are gainfully employed, whether working for others or whether self-employed, subject only to unavoidable constitutional exceptions.

Other more specific reasons have been suggested for effectuating universal coverage. Unless all gainful employment is covered, there will be discrimination between those who are under the system and those who are not.

Strangely, this discrimination operates against both those who are outside the system and those who are within the system. Most people work in employment which is covered by this program at least part of their lives. But because so many people also work part of their lives in uncovered employment, there are a great many people with partial coverage.

The narrow scope of the program discriminates against these people in that they will not receive in their old age pensions related in amount to their actual lifetime earnings. On the other hand, because the benefit schedule favors those with low-covered earnings (particularly in the case of minimum benefits) the taxes paid by the people with only partial coverage are much smaller in comparison with the pension they will receive than in the case of people who are fully covered. In this sense, payment of any benefits to people who have been only partially covered discriminates against the groups who have to pay these taxes in full throughout their lifetimes. This discrimination would be greatly reduced if coverage were extended so that practically all of those gainfully employed would be covered by the system throughout their employment.

H. R. 6000 does increase the present coverage to include an estimated 11,000,000 people not covered under the present law.

However, H. R. 6000 contains approximately nine pages of definitions and categories of employment which are excluded from coverage. There may be the most excellent reason for certain of these exclusions. In some cases the exclusions may possibly be required by constitutional reasons. To avoid repeated amendments, every one of these categories should be reexamined with a view to include them within the coverage of the system if it is practical from an administrative standpoint to cover them.

Probably the largest group excluded from coverage both under the present law and under H. R. 6000 consists of farmers and farm workers. At a time when all kinds of far-reaching programs for aid to the farmer are being given serious consideration, it is strange that the agricultural population should be denied the benefits of this basic provision. It is understood that there are now no insuperable administrative problems involved in extending this program to farm operators and farm labor. Therefore, in the interests of more complete coverage and equality of social responsibility, the coverage of the OASI program should be extended to the farmers and other groups not now covered.

Particular attention should be devoted to the mechanics for integrating with the Federal social-security program all of the other public-retirement programs such as those covering civil-service employees, State employees, teachers, firemen, policemen, etc. Furthermore, there seems to be no sound reason for exempting railroad employees from the operation of the Federal social-security program, although they, like other employees of private companies, could, of course, still be entitled to the benefits of special-pension programs to supplement the Federal program. A strengthened Federal program requires that all those gainfully employed be brought under a single Federal program, without necessarily depriving any group of any special benefits to which they may now be entitled.

The bill also contains a considerable number of exclusions from the category of the self-employed. Here again, the entire list of categories should be reviewed for the purpose of making coverage as complete as possible, allowing exclusions only for constitutional reasons or if problems of administration are insuperable.

A further reason for making coverage as extensive as possible now rather than waiting is the serious problem involved whenever a new group is brought under coverage of the system. Every time a new group is covered for the first time, there is bound to be discrimination between those who have just retired or are about ready to retire and those who are still young enough to earn the necessary

credits to make them eligible for benefits before they retire. This discrimination or inequity constitutes a serious problem. It can be minimized by making the ultimate increase in coverage at this time so that there will be no need to make special provisions for a new start for additional groups repeatedly later.

Those who are concerned with the development of a sound program of Federal old-age and survivors insurance have become convinced that substantially universal coverage is an integral part of a sound program.

B. Definition of employee

Closely related to the question of coverage is the definition of "employee" contained in H. R. 6000.

Industry strongly objects to the proposed definition of the term "employee." The proposed provision can have only one effect—arbitrarily to classify as employees people who are not employees according to common law. We can think of only three possible reasons for this proposal. First, to extend coverage of the old-age system to self-employed by indirection, by arbitrarily classifying some people as "employees" of other people. Second, to shift a certain portion of the tax burden of some individuals to other individuals. Third, to make it easier for the Treasury to collect the taxes payable by some individuals by making other individuals or corporations serve as tax collectors.

The first of these purposes—to extend coverage of the act—is already accomplished by other provisions of H. R. 6000 which apparently extend coverage to all of the people who would be brought in by the peculiar definition of "employee."

Direct extension of coverage to the self-employed is the right way to go at this problem, whereas bringing people under the act by defining them as something which they are not would be wholly inappropriate.

The second possible purpose—to shift the tax burden—does not appear to be an objective within the public interest. It is impossible for any layman, and I rather believe it would be difficult for any lawyer, to determine from the language of section 206 (a) of this bill who might finally be determined to be "employees." But I presume that this definition, particularly the fourth paragraph, is intended to bring under "employee" status not only the particular occupations specified in section 3, but also many individuals who buy merchandise from other individuals or companies for resale or who perform services under special contracts or subcontracts under circumstances which would not make them "employees" under common law rules. In effect, here there will be many cases where the actual relationship is that of wholesaler and retailer, manufacturers and seller, or prime contractor and subcontractor. We cannot see how, by any stretch of the imagination, it is in the public interest to shift any part of the burden of paying for the old-age pension of a retailer to the wholesaler or the manufacturer from whom he buys or from a subcontractor to a prime contractor.

As to the third possible purpose, it may be easier for the Treasury to collect the old-age tax by getting contractors to pay the taxes and submit the returns for the employees of their subcontractors, but that seems to be a poor justification for creating an arbitrary and synthetic employment relationship where none exists in fact.

The term "employee" has been established by the courts through cases arising out of many fields and going back over many years. When the Social Security Act was passed, we all pretty well knew what the word "employee" meant. Apparently, however, some administrative authorities thought the quickest way to extend the coverage of the law would be to change the interpretation of the word "employee." Efforts to place a strange and artificial interpretation on this word led to the reaffirmation by Congress a couple of years ago that "employee" meant "employee" and not a lot of self-employed people. It is our opinion that that reaffirmation should stand. I certainly do not know what is meant by all of the proposed new definition. I have asked a number of lawyers and they assure me that they do not know what is meant by it.

This entire attempt to change actual relationships and obligations by an artificial, synthetic definition of the word "employee" is unsound and should be eliminated. The attempt to solve such problems by indirection is likely to create much more serious problems than it solves.

C. Level of benefits

The ultimate level of benefits provided under the old age and survivors program would have been adequate to provide a basic minimum layer of protection today had there been no substantial increase in cost of living and had many

benefits not been minimized by incomplete coverage. However, partly as a result of increased wages outrunning increased productivity, partly as a result of Government fiscal policies, partly as a result of high taxes and increased costs of operation flowing from increasing Government intervention in the operations of business, prices have risen until there is serious doubt whether benefits which might have been considered satisfactory in terms of 1938 dollars can be considered adequate today.

Accordingly, it is probable that the level of benefits will be increased. However, in the interest of a sound and stable economy, we urge that any consideration of increased benefits follow the principle of adhering to the provision of no more than a basic minimum layer of protection. Departure from this point can only result in an ever-greater increase in prices, depriving security from the very people we are trying to help. The aged and their survivors are the first victims of inflation or of dollar depreciation.

The manner in which the increased benefits are to be made payable seriously affects the equity of the resulting benefits and our economy.

Both the amount of tax collected and the benefit formula are based upon the annual wage base which under the present law is the first $3,000 earned a year. H. R. 6000 proposes to extend that to $3,600 a year and there have been official proposals to raise it as high as $4,800 a year.

We believe it important that, accepting the concept that the Federal old age program should provide no more than a basic minimum layer of protection, the $3,000 base be retaind. If the purpose of the OASI program be to provide a minimum protection for all of the people, and if it is to be financed on a truly contributory basis, the contributory taxes certainly should not be applicable to the upper brackets of earnings of employees earning above the average.

To extend the tax base in effect impairs the contributory nature of the system since it taxes those who are earning more without giving them a proportional return, thereby emphasizing the discriminatory aspect of the program. On the other hand, if they were to receive benefits in proportion to their contribution, the range between those earning the minimum and those who are taxed on the basis of $3,600 or $4,800 annual earnings would be so great as to nullify the principle of providing no more than a basic layer of protection

In any Federal system of retirement pensions, in order to provide a minimum layer of protection for those in the lower wage levels, it is inevitable that the first bracket of monthly earnings should yield a higher benefit ratio than higher earnings brackets. For example, under the present law, the benefit formula calls for 40 percent of the first $50 and 10 percent of the next $200 Under H. R. 6000, the benefit formula calls for 50 percent of the first $100, plus 10 percent of the next $200. Accordingly, the higher the wage base for tax and benefit payments, the less benefits the employee attains for his additional payments. This disparity will become ever more onerous as the taxes are increased to pay for greater benefits. Accordingly, the higher the salary base, the farther the system departs from a true contributory principle. We strongly urge that the present tax base of $3,000 per year be retained.

Another consideration is that, the higher the wage base, the less liberal is the benefit for employees receiving between $100 per month and $250 per month. For example, assume that the benefit formula is designed to provide a given maximum benefit. If the wage base is $3,000, the $250 per month employee is entitled to that maximum. But if the wage base is $3,600 or $4,800, the $250 per month employee will receive considerably below the maximum. Therefore, a retention of the $3,000 base will result in more liberal benefits to those persons who most need it.

We can well take the position that those who average over $3,000 a year during their working life are in position to supplement Federal old-age security with their own savings or other programs.

We are also informed that the increase in the base to $3,600 would provide a windfall for some of the newly covered groups. I hardly think that should be any part of a Federal social-security program.

We strongly urge that, whatever benefit formula be adopted, it should retain the principle of variation in benefits with the work and earnings record of the insured. That is the only honest and equitable way in which a contributory system can be operated.

D Relationship between taxes and benefits

One of the most serious problems in undertaking a social-security program is that any program based on an earnings record is misleadingly easy to main-

tain in its early years but may become an unbearable burden when the program approaches maturity. This is especially true during a time when for various reasons there is a greatly increasing proportion of the aged among our population.

One way of relating benefits to costs is to increase the tax rate whenever benefits are increased or whenever payments from the security fund outrun income. In conformity with this principle, if Congress sees fit to pass legislation increasing the level of benefits, it should, at the same time, increase the tax rate. On the other hand, increasing the tax rate at this time is likely to raise the total amount in the OASI trust fund to an undesirable level. For that reason, we believe that the increase to 1½ percent of pay roll up to $3,000 a year which went into effect on January 1 of this year, should be considered as the increase in pay roll corresponding to whatever increase in benefits may result from current congressional considerations.

Except for the inevitable building up of the fund during the early years resulting from even the minimum tax rate of 1 percent and continuing at a greater rate in view of the present 1½-percent tax rate, it is our view that the OASI program should be financed on a pay-as-you-go basis, modified only by the accumulation of a moderate contingency reserve during the early years. For that reason, we believe that the Committee may well want to reconsider the ascending scale of taxes provided under title II of the bill before this committee.

I suggest that increase in tax rates beyond the present 1½-percent level be deferred until such time as the outgo from the OASI trust fund approaches the income resulting from the 1½-percent tax upon employer and employee. The problems involved in managing of huge Government trust funds, the questions being raised concerning the validity of such a fund, the effect such funds may have upon the economy, all dictate the desirability of refraining from the attempt to build a huge fund or to make the Federal pension program similar to the normal private funded pension plan.

We recognize that delays in increasing the pay-roll taxes will mean greater increases in the later years.

We feel, on the other hand, that current pay-roll tax collections provide the best means yet found for supporting this program. We do not believe that Congress should contemplate support of this program from any source other than this special tax.

By reason of the steadily climbing age of the American population, it is inevitable that future pension costs under this program be much larger than they are today. In view of this fact and to avoid piling up of future liability larger than necessary, we strongly urge that the annual increment feature be eliminated from the benefit formula.

At the present time this annual increment is 1 percent. The House bill, H. R 6000, reduces the increment to one-half of 1 percent. It is our recommendation that the increment be eliminated entirely.

Adjustments of benefits for each individual in accordance with the period over which contributions have been made, is a common feature of private pension plans. Here, the pension level reflects the number of years the individual has been employed by a particular company. Private pension plans also normally make substantial allowances for past services of older individuals during the time preceding the adoption of the plan. The Federal Government has no interest in the length of time an individual has spent with any one employer.

It is for these reasons that we believe that, while there may be some reason for increasing the level of benefits to those now retiring, no promise of still greater pensions should be made to those who will retire later.

This recommendation is related closely to others which we have made and results from examination of the principles we believe to be sound, such as the principle that this program should provide a minimum layer of protection to as many people as possible and that provision for people now retired should be weighed in the light of the effect of pension costs on the economy as a whole.

Starting with these premises, we urge that no pension be based upon any earnings in excess of $3,000 per year and that there be no promise of an increment to those retiring in the distant future.

E. Encouragement of individual thrift and private pension programs

The mainstay of our economy has been the system of incentives which it has always provided for increased efforts and increased contributions to society. The incentive and the opportunity to save is in part responsible for the ability and willingness to work among Americans in all walks of life. Important as it

may be to provide safeguards against the hazards of our economy, it is even more important that such provision shall not interfere with the incentive to save, and to make other voluntary provisions for old age.

PERSONAL THRIFT

Personal thrift and frugality should be encouraged and rewarded. Our recommendation that the tax and benefit base be limited to $3,000 per year is based in part upon this consideration. If a man's entire wage or salary is taxed to support the social-security program, there may be little incentive or opportunity to save. However, if the tax is based only on the first $3,000, then each individual is encouraged to put into savings some portion of anything he receives above that amount—and it must be remembered that today even the average employee in industry is approaching an income of $3,000 per year. Since the average hourly earnings in manufacturing industry are approximately $1.40 an hour, a fully employed individual would earn $2,912 in 52 weeks at 40 hours per week.

In addition, it is important that we adhere to the concept of a basic minimum lawyer of protection so far as old-age and survivors insurance is concerned so that those who want to provide more comforts for themselves in their old age will be encouraged to do so voluntarily.

In addition to such personal savings as each man is encouraged to make for himself, public policy should facilitate thrift plans of the type which exist in many companies. I refer to the type of plan in which the employer encourages his employees to set aside up to a certain proportion of his wage or salary in a fund to which the employer contributes. These funds are so set up as to make it difficult to withdraw from the fund except in case of emergency. In other words, the fund is intended to be a long-time project, to be available to the employee only at about the time when he retires. This committee might well give consideration to income-tax aspects for employee contributions when such thrift funds are set up to meet specified standards, to insure that the employee's contribution is not taxed twice.

Another factor that encourages people to provide for their own old age is their capacity to retain gainful employment. The committee might well give favorable consideration not only to the provision of H. R. 6000 which raises permissible monthly earnings to $50 (without jeopardizing OASI benefits) but also to the suggestion that the earnings of those over age 65 be relieved of OASI pay-roll taxes if the individual involved has earned full OASI coverage.

COMPANY PENSION PROGRAMS

Another type of voluntary provision for old age which should receive encouragement is that represented by voluntary employer-employee pension programs. As a result of recent labor disputes, serious question has been raised concerning the feasibility and the desirability of company pension programs. There have been those who urge that all private pension programs be discontinued and prohibited and that all provisions for old age be concentrated in a Federal old-age and survivors insurance program.

This proposal has come not only from among employers faced with extravagant union demands for pensions, but also from students, experts, and Government spokesmen. There is good reason for deep concern about the direction in which company pension programs are likely to go under the pressure of intemperate demands of unions backed by industry-wide strike or threat of strike. But the solution to these serious problems does not lie in the direction of prohibiting private pension plans altogether. Rather, it seems to us, we should concern ourselves with means for protecting and encouraging sound, private pension programs.

For 30 or 40 years, companies have voluntarily initiated pension programs demonstrating a sincere devotion to the philosophy of improved employer-employee relations. In some cases, these pension programs have resulted in the accumulation of large funds which are now available for the payment of pensions. One private pension plan alone, for example, has a pension fund which amounts to nearly a billion dollars. It would be a serious mistake to endanger pension programs which have been voluntarily established over a period of years, or to prevent companies from establishing similar programs in the future if they have the will and the means to do so. Prohibition or discouragement of private pension programs would eliminate a large area in which the employer may assist his employees in acquiring additional security for their old age.

There is a definite place for company pension programs, in those cases in which a company feels itself sufficiently well established, sufficiently confident of its future prospects, and convinced of the resulting benefits to itself and to its employees, to voluntarily establish a sound pension program. In order to provide additional incentives for the establishment of such voluntary programs, and in view of the advantages that result from the establishment of contributory pension programs, we suggest that careful consideration be given to providing such tax treatment for employee contributions to company pension programs meeting specified standards, as will insure that no double taxation is involved.

Assuming that an old-age and survivors insurance Federal program has general coverage, a company pension program does not necessarily or unalterably tie an employee to a particular company. Since an employee carries his Federal old-age benefits with him from one employer to another (assuming substantially universal coverage), he is free to move to another employer if he desires. On the other hand, the existence of a pension program can be considered as evidence of the company's interest in the welfare of its employees and may very well result in improved employer-employee relations. Moreover, some contributory private pension programs provide for limited vesting of benefits in employees who have been covered by the pension program for relatively few years.

It is said that the private company pension program is unfair or discriminatory, since all companies cannot be expected to provide such supplemental programs. The company pension program is not intended to be a matter of universal application. It is not intended to provide merely the bare necessities. That is the function of the Federal program. The company program is intended to add to the basic minimum layer provided by the Federal program so that the employee may make expenditures for costs other than strict necessities. We strongly urge that no steps be taken which would discourage or prohibit the voluntary establishment of company pension programs.

DANGERS IN BARGAINING ON PENSION PROGRAMS

However, we find that all company pension programs today are threatened by the recent interpretation of the law to require companies to bargain collectively with reference to pensions and other employee benefits. That interpretation of the law, supplemented by a very questionable recommendation of a Presidential fact-finding board, has completely changed the nature and effect of pension programs in industry. Today, a company pension program, instead of being an evidence of the company's unusual interest in its employees' welfare, has become the chief cause of violent dispute between organized labor and management.

We have had an extensive steel strike flowing out of that dispute. We have seen an off-and-on coal strike over the past 8 months largely centered about the same question. During the past month we have seen one of our great automobile companies closed down by a strike concerning pensions. Not only have pensions, therefore, become a source of extensive dispute, but what is even more important in the long run, bargaining about pensions may result in the adoption and imposition of pension programs of doubtful merit in many companies and industries. Stronger and stronger efforts are being made by unions to convert company pension programs into industry-wide programs, such as the bankrupt plan in the coal industry or the area-wide plan now being actively pushed in Toledo. Such programs can only serve to destroy private pension plans.

On the other hand, it would be a serious error to attempt to set up a Federal pension program at a high enough level to supplant private pension programs. Since the Federal program is of general application rather than selective, the cost to the economy would be of tremendous proportions. Only last month, Prof. Sumner Slichter of Harvard estimated that a Federal program which would replace existing private pension programs would require from 8 to 13 percent of the pay roll to finance it. This is a tremendous burden when we bear in mind the fact that the old-age and survivors insurance program takes care of only one of the many social hazards against which protection is sought.

In order that this committee may discharge its responsibility for considering a Federal program of old-age security, we believe it must also devote some attention to the preservation of supplemental old-age security contained in voluntarily adopted company pension programs. Accordingly, we urge that action be taken to remove pension programs and similar employee benefit programs from the area of mandatory collective bargaining.

SAFEGUARD AGAINST DOLLAR DEPRECIATION

Finally, one of the best ways of encouraging private savings and thrift is to take such measures as will prevent a further increase in the price level or a further depreciation of the dollar. The one thing that is more than anything else calculated to discourage people from making provision for their old age is the knowledge or the suspicion that a dollar saved will buy less 20 years from now than a dollar spent today. The constant depreciation of the dollar discourages not only personal savings, but makes inadequate company pension programs which were sound and adequate when set up. Any provisions that can be made today against the hazards of old age will be totally inadequate 20 years from now if we permit the dollar to depreciate as it has during the past 10 years. This is a matter that should particularly be borne in mind when considering over-all problems of Federal expenditures and Federal taxation, for deficit financing is one of the major factors in the depreciation of the dollar. And it is most pertinent to point out that any Federal pension program which saddles the economy with too heavy a burden of nonproductive expenditures is bound to bring about dollar depreciation.

F. Financing of old-age security

If minimum old-age protection be regarded as a matter of right, then it should be supported solely by a pay-roll tax with equal contributions from employer and employee (or larger contributions from the self-employed). The program should have as a fundamental principle support by such joint contributions and should not depend upon a contribution from general funds. For that reason, we strongly endorse that provision of H. R. 6000 which cancels the previous authorization for drawing on general revenues to supplement pay-roll taxes for this program.

Only where employer and employee contribute can the system be made consistent with the principle that each person contributes to his own security (even though in point of fact each individual is supporting the aged of his generation, and being supported by the working group of a later generation when he retires).

The widespread ownership of life insurance and annuities makes a system based on joint contribution widely acceptable, and avoids the danger inherent in any system supported out of general Federal revenues. This contributory program may not meet all the standards of an orthodox private insurance program. Nevertheless, the features of joint contribution, of paying for expected benefits, of a relationship between contributions made and benefits expected, make the program sufficiently similar to an insurance program to give it general acceptance.

Taxes which are collected to support the old-age and survivors insurance program should not be diverted for the payment of benefits under other programs. One of the greatest dangers in building up a trust fund resides in the great temptation to use it for the payment of benefits other than those for which it was originally designed. The funds collected to date under the old-age and survivors insurance program, plus the contributions which are contemplated in the pending legislation, should be carefully safeguarded against being used for anything other than the old-age and survivors insurance program.

G. Federal grants-in-aid for old-age assistance

When the Federal grants-in-aid program for old-age assistance was first established, it was agreed that it was to be a residual program, to be reduced after the OASI program began to make itself felt. It was considered that as more and more of the aged became eligible for old-age and survivors insurance benefits, the need for the old-age-assistance program, based as it is on the charity approach, would be reduced to the vanishing point.

Experience has demonstrated that the old-age-assistance program, rather than being a residual program of shrinking size, is a permanent program which has grown greater by leaps and bounds. In September 1949 2⅔ millions of the aged were receiving about 119 million dollars of old-age assistance from the States and the Federal Government, equal to an annual rate of over 1.4 billion dollars.[1] In the same month, 1,600,000 retired persons (and their dependents) were receiving OASI benefits amounting to nearly 37½ million dollars, or an annual rate of less than 450 million dollars.[2]

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[1] Social Security Bulletin, November 1949, table 18, p. 30.
[2] Social Security Bulletin, November 1949, table 1, p. 20.

In part, the growth of the program can be traced to the depreciation of the dollar since the old-age and survivors insurance program was established. The level of benefits will presumably substantially compensate for recent dollar depreciation when Congress takes appropriate action with respect to the proposals now before this committee.

Part of the growth of old-age assistance has been due to inadequacy of coverage of the OASI program (which has also reduced benefits). As a result, millions of the aged, being ineligible for benefits under the OASI program, are drawing their support from the old-age assistance program with an ever-increasing burden upon the Federal Government.

The Federal Government's share of welfare funds for all public-assistance purposes has increased from 17½ percent of total funds in 1932, to 28.8 percent in 1940, 38.8 percent in 1942, and 43.9 percent in 1948. It is obvious that more and more of the load is being carried by the Federal Government and less and less by the local and State governments.

Grants-in-aid to States are even now increasing at a tremendous rate. From about $733,000,000 in 1948, the expenditures reached $977,000,000 in 1949, and over a billion dollars has been appropriated for fiscal 1950.

We are here dealing with a problem of frightening proportions. Starting with the thesis that the Federal Government had an obligation to aid State government treasuries during the depths of a depression, we have increased the Federal contribution from dollar for dollar to the present when, at the lower levels, the Federal Government is contributing $3 for every dollar for State funds.

The need for assistance to the aged is recognized. However, recognition of the need for such assistance does not justify unwarranted expenditures, nor does it justify a program in which the Federal Government takes money from the States into the Federal Treasury and subsequently doles it out to the States as grants-in-aid. It is notorious that Federal money is considered as being "free." It comes from presumably unlimited funds available from Washington. The result is that some States have expanded their programs of old-age assistance, not for the purpose of filling actual needs, but for the purpose of attracting votes by promising more and more people more and more benefits at Federal expense.

A LOCAL PROBLEM REQUIRES LOCAL SOLUTION

Assistance to the needy is primarily and fundamentally a local problem. The determination of need is something that can only be done effectively at the local level. And even then, it will not be done properly at the local level unless the local administrators feel that they are spending their own money.

The direction in which we have been moving under the Federal-State old-age-assistance program can lead only to mass pauperization and unlimited drains upon the Federal Treasury. Already in some States as many as 80 percent of all citizens over 65 are receiving old-age assistance, presumably on the basis of need. It is obvious that the political attractiveness of dispensing Federal funds is too great for State politicians to withstand.

The bill passed by the House, instead of correcting the situation, only serves to make it worse. Instead of cutting down the ratio of Federal contribution at the lower level, the bill would make $20 of Federal money available for $5 of State and local funds. This can only serve to make a bad situation much worse.

THE RIGHT SOLUTION

In order that the problem of financing old-age assistance may be brought under control, the following provisions merit consideration for incorporation in the legislation under consideration:

1. Universal coverage. This will mean that practically all people, once they acquire eligibility for benefits, will be entitled to benefits under the OASI program after they reach 65.

2. Recipients of OASI benefits should be made ineligible for old-age assistance financed by Federal funds. If OASI benefits are increased along the lines of the proposals before this committee, recipients of those benefits will be getting a minimum of $25 per month and in most cases far beyond that. In those special cases in which supplemental funds are required, the States can be depended upon to supply the limited additional aid necessary.

3. There must be no increase in the proportion of Federal funds in the OAA program. On the contrary, steps should be taken to begin reducing Federal

grants-in-aid with the aim of eventually discontinuing Federal grants-in-aid for this purpose.

To quote President Roosevelt, in a speech to relief administrators on June 14, 1933: "The first responsibility of taking care of people out of work who are lacking housing, clothing, or food—the first charge is upon the locality; then if the locality has done everything that it possibly can do, it is the duty of the State to step in and do all the State can possibly do; and when the State can do no more, then it becomes the obligation of the Federal Government."

The problem is not to provide the individual States with the crutches of Federal grants-in-aid under the misconception that such money is free, but to provide the States with adequate tax sources to obtain the necessary funds with which to do efficiently and adequately the job of old-age assistance as well as other essential welfare activities.

There is far more involved here than merely shifting the burden from the Federal Government to the State governments. As the Hoover welfare task force made clear in its report, the operation of a welfare program can be conducted far more effectively at the local level:

"It may be contended that shifting a burden from the National Government to the States would not have any real effect on the over-all costs of Government. Four points deserve consideration in this connection: (1) The greater the distance between the spending agencies of Government and the people who have power to control them, the less effective are the brakes; (2) an opinion has gained wide acceptance that the resources of the National Government are inexhaustible; many people see no relationship between heavy Government expenditures, high taxes, and high prices; (3) as compared with most State and local governments, but not all, the Federal Government has high salary scales, related to high costs of living in metropolitan centers and control from Washington involves much travel; and (4) detailed Federal supervision results in substantial overhead costs."

Since, despite the desirability of such action, it appears impossible for the Federal Government to immediately get out of the business of Federal grants-in-aid for old-age assistance, it should at least make a start toward reducing the Federal contribution.

If old-age assistance goes in the direction in which it has been moving within the past decade, it imperils the entire system of security for the aged. We cannot emphasize too strongly the need to reverse the trend and to begin at once to reduce Federal grants-in-aid for old-age assistance purposes simultaneously with the proposed increase in coverage and benefits under the Federal OASI program.

H. A Federal program of permanent and total-disability benefits

We now come to a very important phase of the proposed legislation under consideration by this committee—incorporation in the Federal social-security program of a provision for benefits in case of permanent and total disability.

First, let me make it clear that the National Association of Manufacturers has for many years been vitally concerned about the problem of the handicapped and the disabled. We have been very active in the field of industrial health and safety and have, for many years, been carrying on a program among employers designed to prevent accidents and to encourage employers to provide adequate medical facilities in industry. As a part of this preventive program, we were instrumental in the establishment of the National Safety Council, which has been doing splendid work in the field of industrial safety.

Furthermore, we have been carrying on extensive programs to encourage employers to install and maintain sound safety programs. We have undertaken a program of considerable proportions to encourage the employment of the handicapped in industry, emphasizing the fundamental concept that if the handicapped individual and his job are properly mated, he is not handicapped on that job. As a matter of fact, only last month, on February 13, the president of the NAM was awarded a distinguished-service certificate by the President's Committee on the Employment of the Handicapped, for the results the NAM has achieved in encouraging the employmen tof the handicapped.

We are gratified that our efforts in the direction of increased safety in industry, together with the cooperation of all others involved, has been instrumental in reducing the accident rate in the United States. During 1949, fatilities due to work injuries decreased by 6 per ent over 1948, while permanent-total disabilities were reduced by 22 percent. Over-all work injuries in the United States decreased more than 7 percent from 1948 to 1949. Bureau of Labor Statistics states that the greatest reduction in volume of injury occurred in the railroad, mining,

and manufacturing industries, the drop in injuries being greater than the decline in employment. The record for the manufacturing industry is a reduction of 19 percent in injuries as compared with 1948.[1]

To us the problem of the handicapped and the disabled is not a vague social problem. Nearly every employer has at one time or another come into personal contact with the serious problems of the handicapped and the disabled. We speak about it from the depths of our experience.

In setting forth our opposition to this phase of the program, I want to make it perfectly clear that those who are permanently and totally disabled often do require assistance. I will go further and say that society has an obligation to assist these unfortunate people and their dependents.

However, we believe it to be extremely unwise to carry on that kind of a program on a Federal basis, whether it involves Federal administration or Federal financing.

In discussing the program of Federal pensions for the aged, we have clearly indicated our interest in the establishment of a sound system. We are convinced that at this stage in our social development it is not feasible to establish an insurance program for the disabled at the Federal level. Consequently, if a Federal program for total and permanent disability benefits is incorporated in the OASI program, it can only serve to endanger the soundness and stability of our program for the aged.

LACK OF OBJECTIVE CRITERIA

It is fundamental to any insurance system that we must be able to identify the hazards against which insurance is being sought. There are many cases of real or alleged disability in which it is impossible to set up objective criteria to determine whether or not the disability is real. The farther the administration of such a system is removed from the location in which the disability occurs, the greater the likelihood of improper or inadequate administration. Even where the program is administered on a local basis, there is plenty of room for difference of opinion, in many cases, whether or not there is total and permanent disability. That difference of opinion becomes greater the farther we get away from the point of application.

Since in some cases the sole basis for determination of disability is a subjective one, it is easy to envision the many abuses that are bound to result, particularly in case of widespread unemployment. It is quite clear that many people will take advantage of the opportunity to obtain benefits if they are unemployed and have exhausted their unemployment compensation, whether the alleged disability is real or not. Once an individual gets on the benefit rolls for a total disability, it would take exceedingly close local supervision to determine whether that disability actually continues. Tax-free disability payments would constitute a strong incentive to avoid active employment, once a person has become accustomed to receiving such disability benefits.

Another challenging aspect of the disability-benefit program is the presence of millions of women in the labor market. We know from past experience that many women do not remain in the labor market during their entire working lives. Complex as are the problems of administration of disability benefits for men, they become even more complex for women. Since many women normally leave the labor market anyway, there is bound to be a great temptation in such cases to claim total disability benefits, even though there may be no intention to return to the labor market. That temptation may be much too great for some people to resist.

The most important problem in the case of the totally disabled is the initiation of a sound rehabilitation program operating at the local level. A person receiving regular benefits under the total disability benefit provision is discouraged from undertaking the onerous and sometimes painful procedures which may be essential for rehabilitation. Local communities likewise would be discouraged from undertaking necessary rehabilitation programs, since they would feel that the problem has been taken care of by the Federal program of disability benefits. On the other hand, it would be next to impossible to administer a sound program of rehabilitation on a Federal level.

Even if the initial program of Federal disability benefits were hedged about by strict restrictions, those restrictions would gradually be eliminated, both by administration and by subsequent legislation. Every conceivable restriction

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[1] BLS release, February 1950.

could be proved to operate inequitably in certain cases. Local administrators would be inclined to resolve the benefit of the doubt in favor of the claimant. This is especially true if the benefits are paid out of Federal funds, in view of the widespread illusion that "Federal money is free." In almost every case, the administrator would have to weigh the interests of the individual unfortunate case before him as against the availability of an "inexhaustible" Federal fund to help him. Even where expert medical advice of the highest integrity is available, the final decision in every case must be made not by the doctor, but by the administrator.

Obviously, the opportunity for political machinations in the administration and liberalization of the program would be many and various.

DISABILITY BENEFIT COSTS

The cost of such a program can be tremendous. The minority report of the House committee indicates that the Federal Security Agency itself estimated the administrative cost of this program for the first year to be over $20,000,000, with the expectation that there would be at least 300,000 claimants under the program, and an additional staff of over 5,000 people, not including doctors, would be required. Within 15 years it is anticipated that the number of claimants would grow to 1½ million persons and the cost to a billion dollars a year. Additional expenditures of this order should not be engaged in without a thorough examination of the real scope of the problem and any other possible alternatives. No such independent examination has been made.

Underestimating the costs of total and permanent disability benefits is not new. Private insurance companies have had some rather disastrous experience in this field with the resulting loss of millions of dollars. It is hardly probable that Federal administrators, who are not equipped to handle the problem on the same personal basis as are the private insurance companies, could possibly have a more encouraging experience.

So far as we know, no one has ever outlined a practical, workable program for the administration of the total and permanent disability benefits provision. As one who has had some experience in the administration of relief at the local level, I know that the problems of administration will be legion and will multiply as time goes by.

If we look abroad, we find no program of total disability benefits that compares with the proposed program in the amount of benefits extended and which has been in effect for any appreciable period of time. If we undertake such a program in this country, we will be entering a completely uncharted field, with no other experience to guide us, and with plenty of opportunity to go wrong.

It has been suggested by some that the total disability benefit program is being proposed as one way of bringing about socialized medicine. Since, for the time being at least, the proposal for socialized medicine has met with so much opposition that it may not be advocated seriously for immediate enactment, its proponents are searching for an indirect method for accomplishing the same result. A Federal program for total-disability benefits would naturally lead to the provision of many medical services through the Federal Government, which could then be extended to cover other fields as well.

POSITIVE APPROACH THROUGH REHABILITATION

We repeat—the primary emphasis in total-disability cases should be on rehabilitation of those affected. That rehabilitation can best be carried on at the local level, and in that case would not require a huge Federal organization which could well develop into a tremendous bureaucracy with political implications.

Various States already have machinery for vocational rehabilitation and are, therefore, in a position to strengthen their programs of rehabilitation. Agencies operating at the local community level can be much more effective in determining the existence of total disability and are in a position to take effective measures for rehabilitation. Many employers have worked wonders in effectuating rehabilitation of those who have been injured in industry, or veterans, both in their own plants and as participants in community programs. Some casualty insurance companies have demonstrated the miracles that can be performed in rehabilitating people who might have been regarded as totally and permanently disabled.

The administration of rehabilitation can be much more effectively carried out at the community level, by participation of employers, citizens, volunteer agencies of various kinds, insurance companies, and State assistance, than is

possible in any Federal program. Even if the program be only financed at the Federal level and administered entirely at the local level, the best results of local administration and local assumption of responsibility cannot be expected because there is the familiar assumption that Federal money is free and does not require as careful administration and weighing of costs as does a locally financed program.

The record does not show either a sufficiently careful evaluation of the needs to be covered nor of the methods to be utilized to warrant Congress endangering the present OASI program by attaching to it a program as full of uncertainties and dangers as is the proposal for the incorporation of total and permanent disability in the Federal OASI program.

MISCELLANEOUS PROVISIONS

There are two other provisions of H. R. 6000 to which we respectfully direct your attention.

Lump-sum death payments

The broadening of the provisions for lump-sum death benefits so that such benefits can be paid in every case seems to us to be a completely unjustified invasion of the field of private insurance in the one country in the world in which private insurance already provides the most extensive coverage. It is just such provisions as these that make many people question whether it is possible to carry out any Federal program of benefits without constantly adding to it a vast collection of unnecessary, miscellaneous "special features."

Virgin Islands and Puerto Rico

Before the expanded program is applied to the Virgin Islands and Puerto Rico on the same basis in which it is intended to apply in the United States, and particularly if the program is to cover agricultural employees and farmers, we suggest that a careful survey be made as to the effect of such extension in these territories. It is quite probable that the impact upon the economy of these areas and upon the incentive for useful employment might be so great as to do more harm than good. It is quite probable that it might be best to apply the program to these areas on a modified basis, providing for lower benefit levels. We do not presume to speak for these areas but merely raise the question for your consideration.

SUMMARY

The Federal program of old-age and survivors insurance is at best a highly controversial program. It is our belief that if a sound program of Federal old-age and survivors insurance is to be provided, it can only be done within the framework of our free enterprise economy. We have demonstrated our desire to cooperate in constructive efforts to achieve such a sound program.

The establishment of a sound Federal program cannot be considered apart from the economic system in which it plays so important a part. Accordingly, the stability and soundness of the economic and fiscal system should receive our most careful consideration as we review the various aspects of the OASI program.

Specifically, we urge this committee to consider the following phases of the proposal before you:

1. Complete coverage of all those gainfully employed, including the self employed, farmers, agricultural employees, and those covered by existing public and semipublic pension plans. These plans should be integrated with the uniform Federal old-age and survivors insurance program.
2. If the level of benefits be made appreciably higher than that existing under present law, benefits should nevertheless be consistent with the concept of a basic minimum layer of protection for the aged.
3. Avoidance of lump-sum death benefits to all insured.
4. Revision of the definition of "employee" in order to avoid unnecessary complication in reporting earnings and collecting pay-roll taxes.
5. Retention of the present $3,000 base for purposes of taxation and benefit formula.
6. Adoption of a substantially pay-as-you-go system, withholding any further increases in the present 1½ percent tax on employers and employees until payments from the trust fund approach the level of income to the fund.
7. Encouragement of individual thrift and private pension programs by appropriate tax incentives, by elimination of pension programs from the area of man-

datory collective bargaining, and by fiscal measures which prevent continuing depreciation of the dollar.

8. Measures to prevent taxes collected for the old-age and survivors insurance program from being utilized for any other purpose, such as total and permanent disability benefits. Conversely, measures to avoid drawing on general Federal revenues for the support of the OASI program.

9. A specific program for reducing Federal grants in aid for old-age assistance (and other welfare programs) by making old-age and survivors insurance beneficiaries ineligible for federally supported old-age assistance programs and by instituting a program of reduced Federal grants in aid, with the eventual purpose of getting the Federal Government entirely out of this picture.

10. Avoidance of Federal participation in any permanent and total disability benefits program. Emphasis should be placed upon encouragement of rehabilitation activities at the local level, to be carried out by private and public agencies, insurance companies, with maximum participation from citizens at the local level.

11 Review of the increased level of benefits insofar as they may apply to the Virgin Islands and Puerto Rico.

In view of the serious questions that have been raised concerning the ability of any economy to support a national program of old-age and survivors insurance, it is important that, in building the structure of an adequate system of old-age and survivors insurance, we refrain from putting such burdens upon the system as are bound to make it fail when the program reaches maturity.

Our first obligation is to make sure that those parts of the social-security program which we undertake on a Federal basis are thoroughly sound and can be sustained indefinitely.

Our second obligation is to avoid unsound programs which would endanger the economy.

It is unworthy of the Government of the most powerful country in the world, to so direct its fiscal policies as to pay off its obligations in depreciated dollars. Those who were urged to buy Government bonds until it hurt are now chagrined to realize that as these bonds mature, instead of paying $4 at maturity for a $3 investment, as the United States Government in good faith promised to do, these bonds are paying less than 2½ 1940 dollars.

You gentlemen of the Committee on Finance deal with many aspects of the fiscal policy of the United States Government. At the risk of seeming elementary amongst this expert group, I beg to remind you of these axioms:

1. The standard of living of our people depends, not upon financial maneuvering, but upon the production and distribution of goods and services.

2. The Federal Government cannot render to the people anything it does not take from them in the form of taxes. Accordingly, Government expenditures lower the standard of living of those who are taxed.

3. General price increases mean dollar depreciation. Dollar depreciation cheats not only the owners of Government securities, but reduces the standard of living of those who live on fixed incomes. For most practical purposes this means the beneficiaries of insurance policies, annuities and pensions.

4. It follows that every time that the Government spends any more than it must to provide essential Government functions, every time Congress votes additional gifts or grants-in-aid to this group or that, it is reducing the effectiveness of any provision we can make for the aged. More than that, every time that the Government puts its weight behind the demands of any group that its income be increased faster than the general increase in productivity, these very aged for whom we are now trying to provide are the innocent victims. And let us bear in mind that, as a general matter, Government payments are only part of the income of the aged, though an important part.

Only after we have had adequate experience with a sound program of OASI—a program which includes substantially full coverage and adequate benefits—should we concern ourselves with the adoption of further programs. And even then, we want to be certain not to undertake, at the Federal level, those programs, such as permanent and total disability benefits, which can best be applied and most constructively carried on through more suitable mechanisms.

We sincerely believe that the recommendations which we have submitted for your consideration should be considered as an entity, for we believe that all of the various aspects are necessary if we are to have the kind of sound program which we can all support and which will provide a minimum layer of basic protection for the aged, while protecting the vigor and strength of a free competitive economy in a democratic society.

Mr. MOSHER. Our interest in the condition of the aged worker is more than a passing phase. Since we speak for employers that produce something like 80 percent of the country's manufactured products, we are in intimate contact at all times with the employee in industry and with his problems. That applies to employees of all ages.

Eleven years ago NAM conducted a special survey to determine employer practice with reference to the age factor in employment. In 1938 the NAM board passed a resolution opposing establishment of arbitrary upper-age limits in the hiring or employment of workers. In 1947 the NAM board urged industrialists to see that their employment policies gave full recognition to individual qualifications and called for the elimination of any conditions of employment which are not related directly to qualifications for satisfactory job performance, safety, and security.

Upper-age limits were fairly thoroughly broken down during wartime labor shortages, and it is interesting to note that the employment of the aged continued well ahead of prewar levels even after the wartime labor shortages had passed. Whereas in December 1941 only 31.9 percent of the labor force were over 45 years of age, by the beginning of this year the proportion of those above 45 years had increased to 35.7 percent of the labor force.

When we come to consider the situation of those who are over 65 years of age, we must recognize that we are not necessarily being kind to the aged by requiring them to cease productive and gainful employment. In many, many cases the aged individual needs the feeling of being useful just as much as the economy needs his contribution. The ratio of aged to those in their so-called productive years (20 to 64) is now about 1 to 8. In 10 years that ratio will become 1 to 5. It is obvious that if we are going to prevent the support of the aged from creating an intolerable burden upon those who are productively employed it will be necessary that we encourage older employees to remain in productive employment as long as possible.

Support for the aged must come out of the total quantity of goods and services produced by those who are gainfully employed. Accordingly, in setting up any program for the aged, we must take every precaution to insure that the program can operate effectively and efficiently within a private competitive enterprise economy. Furthermore, we must make sure that the program is so designed as not to affect that economy adversely, or convert it into a different and less-efficient economy.

While the long-range implications of a general program of retirement pensions for the aged is a heavy burden for any economy to bear, we are convinced that if any system can support a program of retirement security for the aged the system of private competitive enterprise offers the only hope of accomplishing it.

At the same time, it seems clear that even the private competitive enterprise system cannot possibly support such a burden unless we adhere to the concept that this program for support of the aged be limited to a minimum basic layer of protection.

Our approach to this entire question of retirement benefits for the aged is motivated by a desire to help in the achievement of a sound program which meets the social needs of today without unduly burdening the productive capacities of tomorrow.

Following the brief in part, on page 5 we go into the coverage in some considerable detail. We concur in the desirability of extending the coverage contained in the proposals before this committee.

For many years the NAM has taken the position that the OASI system can be strengthened by increasing its coverage wherever administratively feasible. On the broad basis of national policy, coverage under the OASI program should be expanded even beyond the provisions in H. R. 6000. That coverage should be expanded to include all who are gainfully employed, whether working for others or self-employed, subject only to unavoidable constitutional exceptions.

H. R. 6000 contains approximately nine pages of definitions and categories of employment which are excluded from coverage. Without going into each of these categories in detail, we urge that every one of these categories be reexamined with a view to including them within the coverage of the system, on the assumption that there are no insuperable administrative difficulties.

On page 6 of the brief we go into the matter of the definition of "employee" and we urge that the committee give careful consideration to the question of the definition of "employee" as contained in H. R. 6000.

There seems to be very little reason for doing violence to the common law definition of "employee" and inventing a purely synthetic definition which is bound to cast a great deal of doubt on existing employment relationships, upon tax liability and upon the amount of taxes which certain groups are required to pay, depending upon whether they can be regarded as self-employed or "employees," as defined in section 206 (a) in H. R. 6000.

The level of benefits start at page 8 in our brief.

We have taken the position that the amount of benefits provided by a general Federal pension program should be limited to the provision of a minimum basic layer of protection. That means a level of benefits which will provide food, clothing and shelter at a level of decency, but not necessarily all that the pensioner may desire.

The level of benefits provided in the original law was a fairly good measure of a minimum basic layer of protection in view of the price level at that time. Recognizing that prices have risen, that the dollar has depreciated, it is obvious that the level of benefits today is inadequate, even though we adhere to the concept of a basic minimum layer of protection. However, we are not recommending any specific formula.

However, we believe that the wage base for tax purposes and for purposes of a benefit formula should be retained at $3,000 per year. H. R. 6000 proposes that the wage base be expanded to $3,600, and official proposals have been made to raise it as high as $8,000.

Senator CONNALLY. If I may interrupt there, your printed copy says $4,800; you say $8,000.

Mr. MOSHER. I beg your pardon, Senator—I am guilty of a transposition of figures. The figure of $4,800 is correct.

The average employee in manufacturing industry today earns just under $3,000 a year. It seems to us that if the employee who receives more than the average has his entire wage or salary taxed for social-security purposes, he is thereby discouraged from making his own provision for old age or from contributing to such group-saving programs as company thrift or pension plans.

Senator MILLIKIN. What are the statistics of savings of people earning from $3,000 to $4,800 as distinguished from those having less than $3,000?

Mr. MOSHER. I cannot answer the question, Senator. I can only give the general impression that those savings do come mainly from the $3,000-up group.

Senator MILLIKIN. In other words, generally in the higher group?

Mr. MOSHER. Yes, sir. The element of savings, the thrift factor, of course, preponderates in that upper group.

There is another consideration relating to the age base which may not have been brought to the attention of this committee. If we assume a given maximum primary benefit, the higher the tax base above $3,000 the less is the pension received by the $250 a month employee. Retention of the $3,000 base therefore will result in more liberal benefits to those persons who most need it, while at the same time encouraging those who receive over the base amount per year to make provisions for their own old age. That is a very important factor in working out any formula.

Knowing that suggestions have been made from various sources for a flat uniform benefit for all, we urge that the OASI program adhere to a specific relationship betewen benefits paid and the work and earnings record of the insured.

Senator MILLIKIN. If you include all of the coverage that you previously recommended, who would be excluded?

Mr. MOSHER. We would intend—and so recommend—that we would exclude practically nobody. We recognize that there are certain constitutional limitations as to certain forms of Government employees, State and city, that may not and perhaps cannot be covered without too much change. By and large, we go to universal coverage.

At the same time, it is urged that the annual increment, which amounts to 1 percent under present law and is reduced to one-half of 1 percent under H. R. 6000, be eliminated entirely. If the program is designed so as to provide a minimum basic layer of protection, there is no justification for providing an annual increment over this basic amount. This results only in an additional burden of a billion dollars a year in 10 or 15 years, without any reasonable justification for this additional expenditure.

On page 9 of our brief we go into the relation of taxes and benefits: in other words, the financing of the program.

In order that the beneficiaries and contributnrs to the OASI program appreciate that every benefit requires a larger contribution, it is sound to increase the tax rate whenever the benefits are increased.

On the other hand, we believe that it is a mistake to build up a large trust fund because of the problems involved in managing such trust funds, the questions being raised concerning the validity of such a fund, and the effect such funds may have upon the economy.

Senator MILLIKIN. What has the trust fund got to do with strengthening the insurance system?

Mr. MOSHER. Ordinarily, Senator, under ordinary insurance calculations, a fund appears to be very necessary to back up the strength of the company granting the pension, so to speak.

Senator MILLIKIN. This money is spent currently for general purposes, and will have to be paid by the taxpayer in the future, so what

does it do to strengthen the insurance system, especially where you get into coverage?

Mr. MOSHER. You are asking what would the creation of a Government fund do to strengthen the insurance?

Senator MILLIKIN. No, I am asking you: What does the existing trust fund do to strengthening the Government insurance system?

Mr. MOSHER. From a practical standpoint, nothing, Senator.

Senator MILLIKIN. It is sort of general revenue?

Mr. MOSHER. No, sir.

Senator MILLIKIN. But it has to be paid by taxation in the future?

Mr. MOSHER. Yes.

It is suggested, therefore, that the recent increase in tax rate to 1½ percent of pay roll upon employer and employee be considered as the tax increase corresponding to the benefit liberalization which this committee now has under consideration. Since the addition to the trust fund even at the present total tax rate of 3 percent is greater than will be the expenditures from the fund during the next 5 years, it is recommended that the tax rate remain fixed until such time as the expenditures from the fund approaches the income to the fund.

Realizing that a delay in increasing the pay-roll tax will mean greater increases in later years, we nevertheless adhere to the recommendation that the OASI program be financed out of current pay-roll tax collections. The program should be permanently considered as a pay-as-you-go matter, without increasing the present trust fund any more than can be helped.

The present system of financing, namely, on the basis of a dollar-for-dollar pay-roll tax on employer and employee, should be retained.

The CHAIRMAN. In that connection, it has been suggested to the committee by at least one witness who appeared, that the increased benefits, the additional benefits over and above present law, be met currently out of general taxes.

Mr. MOSHER. When you say "out of general taxes," do you mean from the receipts now supposedly going into the so-called fund, Senator?

The CHAIRMAN. Yes, sir. That is, the increase is to be taken care of currently.

Mr. MOSHER. Yes.

The CHAIRMAN. I inferred from the witness that he thought that the fund should be retained for the purpose of taking care of benefits that are already provided under existing law, and only the increases cared for currently. That would not be a very practical program.

Mr. MOSHER. I should say not. I think they have in mind increased benefits which are not provided for in the present calculation. What we say is that the income of the fund, under the proposed rates, will be more than sufficient for a number of years, to carry the benefits proposed under the policy, and we cannot see the justice of increasing that fund any more than the relatively small amount that will go into it in the next few years.

The CHAIRMAN. I see.

Mr. MOSHER. As it goes along, it should be kept on a strictly pay-as-you-go basis. For any increases in benefits, if there are any, the rates should be increased to produce the extra dollars, independent of any general call on the Treasury.

Senator MILLIKIN. Do you favor the continuance of the contributory system as distinguished from financing by general taxation?

Mr. MOSHER. Yes, sir; we favor—as I shall say later—that the fund be kept wholly separate and that there be no call on the Treasury.

Senator MILLIKIN. You would regulate the contribution year by year, according to the expenses?

Mr. MOSHER. Yes, sir.

Senator MILLIKIN. Why? Since the coverage under your proposal is so large as to include everyone, why not handle it by general taxation?

Mr. MOSHER. That just puts another load on the Federal Treasury. If I follow your question, sir, what you mean is: Why do we ask for any contributions at all? Why not take it all out of general taxes?

Senator MILLIKIN. I would like to get an answer to that.

Mr. MOSHER. I think the people who are going to receive these benefits should pay for what they get, and pay for it directly. I recognize that the so-called past-service element is one that we face, and one that has to be taken care of in any general plan or any particular private plan. Under our present set-up, there seems to be no room to take care of the past service credit, and by the elimination of the fund, we can argue that you do not need to build up the provision for it. But we do say that those of us who are going to receive a benefit of this kind should pay for that benefit as we go along, and it is not a fair charge on the General Treasury.

Senator MILLIKIN. The point I was getting at is this: As you increase the coverage, so that you have universal coverage, why go through the hocus-pocus of these contributions, if it is hocus-pocus?

Mr. MOSHER. Let us assume it is not hocus-pocus, Senator.

Senator MILLIKIN. All right.

Mr. MOSHER. To that extent we should be made to pay as directly as we can for the benefits we are going to receive.

Senator MILLIKIN. Your basic point is that by having the contribution the taxpayer is constantly aware of what it is costing him.

Mr. MOSHER. That is right, sir.

Senator MILLIKIN. That is the great virtue of the contributory system.

Mr. MOSHER. That is one of the very definite virtues, Senator.

Senator MILLIKIN. If you do it out of general revenues, it is diluted with other contributions.

Mr. MOSHER. Senator we all realize that unless we pay for things—if we think they are just a general drain on a general and unlimited Treasury—there will be no limit to the demands that we as individuals will make, or we as special groups will make. Unless we think we are paying for it, I think our experience of the past few years has proved that pretty generally.

Senator CONNALLY. Would it not be unfair to take it out of general taxes when everybody is not covered?

A lot of people would not be covered at all.

Mr. MOSHER. I think if you start on the basis that a lot of people will not be covered, it is very definitely not fair.

Senator CONNALLY. You have to take it out to pay these other benefits, and they are not contributing anything.

Mr. MOSHER. That is true. But, on the other hand, we are urging as general coverage as we can have. At the same time, we say it should

be paid out of contributions that are currently received. In fact, our brief says specifically that the system of financing dollar for dollar by employer and employee should be continued and should be the sole source of financing the Federal program. There should be no contribution from general funds. Accordingly, we endorse that provision of H. R. 6000 which cancels the previous authorization for drawing on general revenues to supplement pay-roll taxes for this program.

Senator MILLIKIN. Assuming the coverage you have in mind, Mr. Mosher, how high would your pay-roll tax go, that is, the combined tax?

Mr. MOSHER. I have to go to the figures now, Senator, I cannot carry those in my mind. It is expected to reach a total of 8.1 percent under H. R. 6000 in the year 2000.

Senator MILLIKIN. That will be in 50 years. It will go to 8.1 percent.

Mr. MOSHER. That is right. It will go to 8.1 percent.

Senator MILLIKIN. Divided equally?

Mr. MOSHER. Yes, sir; 4 percent apiece under the proposed benefits.

The CHAIRMAN. That is assuming universal coverage?

Mr. MOSHER. Yes, sir; practically universal coverage, Mr. Chairman.

Senator MILLIKIN. And the benefits on the basis as you have testified?

Mr. MOSHER. On the basis of H. R. 6000 as proposed, Senator.

Beginning with page 11 in the brief, we go into considerable detail for several pages on the matter of personal thrift plans and company-pension programs, and we want to point out that one of the dangers of any Federal program of retirement benefits is that the very provision of such a program may discourage individuals from practicing thrift and self-denial.

The limitation of the tax base to $3,000 per year is one way of encouraging individual thrift. Those who receive over $3,000 will then be encouraged to make their own provision, by laying aside some portion of the excess on which there is no pay-roll tax.

Senator MILLIKIN. How do you reconcile the continuous campaign of business to get people to buy, if necessary, to buy on the installment plan, with thrift?

Mr. MOSHER. That depends, I think, on the nature of the purchases, Senator. I think, if I am buying a refrigerator, if I need a refrigerator—and I assume that unless I needed it I would not be buying it—at the same time giving due recognition to some high-pressure salesmanship, that even if I do not have the money with which to pay for that item I will get enough satisfaction out of the ownership and use of it so I can justify that as a future charge on my earnings.

Senator MILLIKIN. Yes; but when you get to the age of 65 you will not have the cash in the bank.

Mr. MOSHER. I do not want to be smart, Senator, but at 65 I do not think I ought to be buying a refrigerator, perhaps, if I do not have one by that time.

Senator MILLIKIN. That is a great dilemma which you business folks are not facing up to very much. I have been waiting for a good, clear exposition as to how we can encourage people to spend and at the same time encourage them to be thrifty. Our whole economy rests on vast sales—sell the goods, if necessary, sell it on the installment plan. The whole thing would collapse if we did not have it. So, how can we tie in the two?

Mr. MOSHER. At the same time, Senators, using the figure that is more or less currently used, but not agreed to by all, we need a capital-formation factor that approaches some 20 percent in this country. That money has got to be saved somewhere to be spent in turn on capital improvements and extension of industries, in order to keep more and more jobs rolling.

Senator MILLIKIN. Customarily it has been spent above these brackets that you are talking about; has it not?

Mr. MOSHER. Except as it might go into general types of insurance and savings banks, because the savings account and the insurance, in small amounts, true, is a huge amount, even in the low-earning groups.

As you well know, the insurance factor carries down to almost the lowest group, and to no small amount as a proportion.

Senator MILLIKIN. I suggest to you that our potential capital formation is here in overabundance in terms of savings, but it does not flow into capital formation, for tax reasons, and many other reasons which we might go into.

Mr. MOSHER. If I follow you, Senator, the factor is there, but it gets diluted by reason of the taxes that follow the saving of it.

Senator MILLIKIN. To state one reason, people are discouraged from putting money into risk ventures, because of the tax incidence.

Mr. MOSHER. Of course, the future tax incidence. You mean aside from the fact of the taxes that they may have to pay before they get at the net amount which they could invest?

Senator MILLIKIN. Sometimes, when you feel in a philosophical mood, will you send us a little memo as to how you reconcile all this pressure to spend with what you advocate as sound frugality and thrift?

The CHAIRMAN. I suppose you are assuming that every producer is selling something that really adds to the capital assets of the purchaser.

Mr. MOSHER. Mr. Chairman, let me go astray for a moment, as it is an interesting argument. I would like to have your time to continue it.

I have had some experience in trying to increase productivity in England under the Marshall plan. I happen to be a member of the Anglo-America Commission on productivity.

I am just going to venture one statement, if I may.

One of the reasons for the relatively lower standard of living in certain countries—and I am avoiding mentioning any names—is because business has not sold its product to the people. Now, one of the biggest reasons, in my own opinion, for our relatively high standard of living is that supersalesmanship that has caused you and me to buy something, caused us to want it, to the end that we were willing to work hard enough to make the money with which to buy it. That is the role of sales promotion. We have it in this country, whereas, in some of the countries—I have in mind one in particular—they tell me that it is not nice to sell, that it is not the nice thing to do, that you should not have to sell. I am even told in that country that people do not need automobiles and do not want them. Now, I leave it there.

Now, coming back to the encouraging of individual thrift and private pension programs, adherence to the concept of a basic minimum

layer of protection also encourages individual thrift, because individuals who want more than that basic minimum layer have to make some provision for additional benefits themselves.

A third factor in encouraging individual thrift is to take such fiscal measures as will encourage thrift plans, set up for their employees by many companies.

I urge that the committee give careful consideration to income-tax aspects of employee contributions to such thrift funds.

Senator MILLIKIN. This is a method for compulsory saving. That is what it amounts to; does it not?

Mr. MOSHER. An encouragement to saving, Senator, but not compulsion.

As to company pension programs—as manufacturers, we are very much concerned about the future of company pension programs. For many years, some of our best-known companies have voluntarily initiated pension programs, based on a sincere devotion to the philosophy of improved employer-employee relations. Over 13,000 such pension programs are now in effect. There is a definite place for such company pension programs in those cases in which a company feels itself sufficiently well established, sufficiently confident of its future prospects, and convinced of the resulting benefits to itself and to its employees, to voluntarily establish a sound pension program.

The tax treatment for employee contributions to company pension programs, meeting specified standards, and the tax treatment of the resulting pensions to employees, should be carefully considered to make sure that no double taxation is involved, and that such pension programs are not discouraged.

Senator MILLIKIN. Will you agree with me that the average so-called little-business man is always teetering on the brink? He does not work with big fancy margins in normal times; therefore, he is not in a position to set up pension programs which have real stability to them.

Mr. MOSHER. That is undoubtedly true for one reason, as well as a lot of others. I am a small-business man, currently, at least. We are trying to expand that business; we are putting every penny we can find back into the business to make more jobs for more people, and to make more money for us as well. The result is that the dollars set aside into funds for that sort of purpose are just lacking. They are just not there. I think that that is pretty generally true.

Senator MILLIKIN. The labor leaders say that the private pension plans have the defect of diminishing or eliminating mobility in your labor force; that in order to earn the pension the worker has to work for a single company. What is your reaction?

Mr. MOSHER. Without going to the statistics which I think are available, I think you will find in most of these funds that after a period of time, sometimes as little as 5 years—in others it is 10 and sometimes longer—those funds do vest in the employee to the end that it eliminates the factor of tying up the employee after that time. I mean the ordinary plan—and most of these plans are in what I call the good group, and have a vesting feature that is one of the biggest answers to that criticism.

Senator CONNALLY. In other words, he could withdraw it if he quit?

Mr. MOSHER. Yes; or he could take it over himself, in many cases.

Senator MILLIKIN. Our experts suggest to me that the new plans—the Big Steel and the automobile and other plans—do not have a vesting feature.

Mr. MOSHER. I hesitate to answer you, Senator. It is obvious why—because these have been the result of a type of collective bargaining, and I question that, too. It has been the result of collective bargaining. It has not been the result of a sound financially considered program. That is the reason. It is true that they do not vest.

As a matter of fact, I was just about to say—it is taken out of the brief—we realize that serious criticisms have been made of company programs in recent months, and I am referring directly to the criticism you have in mind. The answers to each of these criticisms start on page 12 in the brief. We have not tried to cover them all, but in general we have covered the principal criticisms, and I think there is an adequate answer in each case to that criticism.

We are convinced that voluntarily established company pension programs can make a tremendous contribution, both to employee security and to improved employer-employee relations. The chief danger to sound company pension programs today arises from the fact that such pensions have now been construed to come within the scope of mandatory collective bargaining. The result of this construction of the law means that today pension programs, instead of being an evidence of the company's unusual interest in its employees' welfare, have become a major cause of violent dispute between organized labor and management.

We are back on the same subject the question referred to, Senator George.

We need only recall the recent Nation-wide steel strike flowing out of pension negotiations; the recent paralyzing coal strike, and the current strike at Chrysler.

Even more dangerous are the proposals now being made for industry-wide pension programs and such area-wide plans as are now being actively demanded in Toledo.

We believe that the solution lies not in prohibiting private pension programs, nor in having the Government take them over. We believe that the solution lies in removing private pension programs from the area of mandatory collective bargaining.

In considering a Federal system of old-age security, this committee can hardly disregard the existence and future of private pension programs.

Accordingly, we urge that appropriate action be taken in connection with pending social-security legislation to remove company pension programs and similar employee-benefit programs from the area of mandatory collective bargaining.

On page 13 of the brief we briefly mention inflation.

Finally, one of the best ways of encouraging private savings and thrift is to take such measures as will prevent a further depreciation of the dollar. The very provisions we are making today against the hazards of old age will be totally inadequate 20 years from now if we permit the dollar to depreciate as it has during the past 10 years.

This is a matter that should particularly be borne in mind when we consider over-all problems of Federal expenditures and Federal tax-

ation, for deficit financing is one of the major factors in the depreciation of the dollar. And it is most pertinent to point out that any Federal pension program which saddles the economy with too heavy a burden of nonproductive expenditures is bound to bring about dollar depreciation.

Senator MILLIKIN. Does that mean that you are strongly for a pay-as-you-go system?

Mr. MOSHER. That is right.

Senator MILLIKIN. In other words, we cannot sit here today and say what a benefit should be 10 years from now?

Mr. MOSHER. Yes, sir. The fund should have receipts enough—increase the rates if you have to, if the benefits go up that much higher.

On page 14 of our brief we go into some considerable detail with regard to the matter of Federal grants-in-aid for old-age assistance.

We have clearly stated our position with reference to strengthening the OASI system to enable it to serve its intended function. We now come to a phase of the problem which may be considered supplemental, but is in some respects competitive with the OASI program.

The Federal grants-in-aid program for old-age assistance was originally intended to be a residual program, initiated at a time when States governments were in dire financial straits, and it was believed that as more and more of the aged became eligible for OASI benefits the old-age assistance program would become reduced and could be carried on without Federal assistance.

Quite the contrary has happened. The grants-in-aid program has grown at an alarming rate. While we have been spending at the annual rate of $450,000,000 per year for OASI, we are spending at the rate of 1.4 billion dollars a year for old-age assistance.

The availability and the apparently inexhaustible supply of Federal dollars is in no small measure responsible for the growth of the OAA system. If the old age assistance program is truly a program based on need, the determination of need can only be carried out effectively if the local administrators feel they are spending their own money, rather than unlimited Federal funds. We must prevent the temptation of dispensing Federal funds with a free hand. We must bring back the old age assistance program to a true needs basis.

To accomplish this end, we urge four things:

(1) Substantially universal coverage under the OASI program so that once all those gainfully employed acquire eligibility, they will be receiving earned benefits under the OASI program, rather than be candidates for old age assistance.

(2) Recipients of OASI benefits should be made ineligible for old age assistance financed by Federal funds.

(3) There should be no increase in the proportion of Federal funds in the OAA program. Steps should be taken to begin reducing Federal grants-in-aid with the aim of eventually discontinuing Federal grants-in-aid for old age assistance.

(4) If the reduction or elimination of Federal contributions for old age assistance places too heavy a burden upon the finances of the individual States, the States should be aided by such reallocation of tax sources as to make additional funds available directly to the States rather than resorting to the growing burden of Federal grants-in-aid.

Today, old age assistance is not a supplement to the old age and survivors insurance program. It menaces the very existence of that program. Any expansion of benefits under the OASI system and increase in its coverage should be accompanied by positive steps to reduce or eliminate Federal grants-in-aid for old age assistance.

On page 18 of the brief we take up the matter of permanent and total disability benefits.

The problem of the handicapped and the disabled is no impersonal social problem so far as American employers are concerned. Nearly every employer has at one time or another come into personal contact with the weighty problems of the handicapped and disabled.

We know that those who are unfortunate enough to become totally and permanently disabled often require assistance. We recognize that there is a social obligation to assist these people and their dependents.

But we are convinced that the basic problem in the case of the totally and permanently disabled is twofold. First, there must be an active and effective program of rehabilitation, and second, there must be an opportunity for employment for those who can be utilized in productive employment.

We recognize that employers have a particular responsibility with reference to the employment of the handicapped. For years we have been vitally concerned in this problem and have assumed the responsibility for active interest in the field of industrial health and safety.

Our program has been designed to encourage employers to prevent accidents and to provide adequate medical facilities in industry.

In connection with accident prevention, we were instrumental in the establishment of the National Safety Council, which has been doing splendid work in the field of industrial safety.

For years we have been carrying on a national program to encourage the employment of the handicapped in industry. This program received recognition only last month when the president of the NAM was awarded a distinguished service certificate by the President's Committee on the Employment of the Handicapped for the results the NAM has achieved in encouraging the employment of handicapped veterans and civilians.

We have recently made a survey of employment opportunities for the handicapped and the aged, and we would be very glad to make that available to you, sir, if you wish to see it. It is a new study.

The CHAIRMAN. Yes, sir. We will be very glad to have it if you will furnish it to us.

Mr. MOSHER. Yes, sir; we will be glad to furnish it for the record.

(The survey is as follows:)

NATIONAL ASSOCIATION OF MANUFACTURERS, INDUSTRIAL RELATIONS DEPARTMENT.
PRELIMINARY SURVEY ON EMPLOYMENT OF THE PHYSICALLY HANDICAPPED AND OLDER WORKERS

INTRODUCTION

There has been a very steady and substantial increase in the employment of physically handicapped people in recent years. The placement figures of the public employment offices indicate that in 1940, eight-tenths of 1 percent of the total jobs secured were filled by workers who were physically handicapped. Since 1940, the rate increased until in 1918 it was 4.2 percent.

Those who have become handicapped in service have been traditionally taken care of by the employer. More than 40 years ago, in view of the general dissatis

faction of employers with the workings of the then existent employers' liability laws, the NAM, through its committee on industrial indemnity insurance, gave special attention to the problem of improving the conditions of wage earners in connection with industrial accidents, sickness and old-age relief. Members of this NAM committee indicated their desire to cooperate with State lawmakers in promoting sound industrial indemnity insurance. To the credit of both labor and management, the subject of workmen's compensation was pursued throughout the country and studies were undertaken by leaders of both groups in a spirit of fairness and understanding.

Recently employers, recognizing that benefits under workmen's compensation have not kept pace with wage rates, in many instances, have announced plans to provide additional benefits to employees suffering occupational injuries. Death benefits have been increased proportionately and frequently in instances where the employee is still incapacitated at the expiration of the legal period, the case is reopened and appropriate action taken by the employer.

Along with the gradual liberalization of the workmen's compensation laws, there arose a growing feeling that all employers in commerce, the professions, and industry had a responsibility to provide greater opportunity for the employment of physically substandard people who could render useful service.

WAR EXPERIENCE

The war gave this movement great impetus. The widespread effort of industry to hire the handicapped caused employers to go to unusual lengths to fit them into production. Many adjustments were made by management as it abandoned the normal tendency to place the handicapped in clerical or sedentary work and placed them in actual manufacturing and production jobs.

This development gave the handicapped the opportunity to demonstrate the contribution they could make as useful competent performers on the job. Great progress was made in matching the qualifications of the physically handicapped to existing jobs.

Very much the same condition prevailed with the unemployed overage worker during this period as a result of the war. His performance was generally lauded by management and his contribution toward winning the war was stressed on every hand.

Actually, industry has long recognized its responsibility to the overage worker. Going back many years, it has been traditional policy for employers to retain in employment its experienced workers. That development along with the recognition of seniority has brought the percentage of older workers to the highest point yet.

Never before has this group been so thoroughly protected against the security risks which are part of the life of free men. Aside from seniority policies, the employer is following his natural wishes and tendencies when he places more and more value on the mature employee with his store of experience, knowledge, and skill. Actually the employer, in the long run, must rely heavily upon the older, experienced worker to get out the work.

BACKGROUND OF NAM APPROACH

Nevertheless, the problem of the overage worker who seeks employment and faces obstacles in finding suitable work is a real and serious one not only for him, but for the rest of us. To the individual affected, there is no comfort in the fact that over-all statistics indicate that age, as such, is not a factor in finding a job. As far as he is concerned, it doesn't matter what the over-all picture is. The fact remains that the American system of initiative and enterprise is not working for him if he fails to find a niche in which he can provide for himself and those dependent upon him.

For this reason, American industry has long been concerned with this problem and has been deeply conscious of the fact that all possible job opportunities must be provided for those qualified for available jobs.

Back in 1938, the following statement of policy on age as a factor in employment was adopted by the NAM board of directors:

"The National Association of Manufacturers is opposed to the employment in industry of children under 16 years of age, and to the establishment of arbitrary upper age limits in the hiring or employment of workers below any which might be fixed for permanent retirement. It urges its members to carefully review their employment policies to see that no such arbitrary age limits are practiced

in their companies, and instruct their respective employment officers to employ persons according to their qualifications without regard to any maximum age."

In the decade since that declaration of policy, much progress has been made in industry and the employment record of thousands of companies reveals that older workers are placed and kept on the work force. However, recognizing that that problem reached far beyond industry and that there are three jobs in commerce, Government, and the professions for every one in manufacturing, NAM, last fall, joined with the Chamber of Commerce of the United States in a year-round campaign to assist the physically handicapped and older worker in his search for gainful employment.

WAR ACTIVITIES

Throughout the war, NAM recognized the obligation we all owed the veterans and began to prepare for their return to civilian employment. As eary as 1943, NAM published Rehabilitation and Training for Postwar Employment and again in 1945 Readjustment to Civilian Jobs was prepared by the country's leading psychiatrists and doctors serving as a subcommittee of the NAM medical advisory committee. In 1944 a standing committee on veterans' employment problems was established.

NAM presidents have served on the President's Committee on National Employ the Physically Handicapped Week each year since its formation. Employers were asked to examine their job requirements and take steps to admit the physically handicapped to gainful employment. Special NAM supplements, radio features, and press releases kept this issue alive year round and within 3 years of VJ-day, industry had placed 425,000 disable veterans in jobs. During the same period, handicapped civilians were given job opportunities.

In appealing to NAM members to survey their plants for additional job opportunities for the handicapped, Earl Bunting, managing director, said: "There are few things as basic as the individual's desire to take his proper place in society as a productive and self-supporting citizen. This is, in fact, at the very root of our democratic society. There is no longer any question as to the competence of workers who are physically handicapped because we have seen that when placed in jobs for which they are properly trained they become satisfactory and valued employees."

Maj. Gen. Graves B. Erskine, United States Marine Corps, who headed up the Rehabilitation and Reemployment Administration after the war and was chairman of the President's Committee on National Employ the Physically Handicapped Week, said: "Outstanding among private groups have been the Disabled American Veterans and the National Association of Manufacturers, to name 2 of the more than 100 that made up a working cooperating committee during the recent observance of National Employ the Physically Handicapped Week."

John Kratz, Associate Director, Office of Vocational Rehabilitation, Federal Security Administration, said: "I am pleased to learn of the fine cooperation of the NAM in prompting among its membership not only National Employ the Physically Handicapped Week but also stimulation of further efforts of understanding in providing suitable employment of qualified disabled persons."

During the war the scarcity of manpower coupled with the urgency for maximum production stimulated employers to find ways and means of utilizing most effectively the capacities of handicapped workers who had been considered, in many instances, unfit for industry. From this experience there emerged the important fact that, through proper evaluation of his physical limitations and his qualifications, it was possible to place the handicapped person on a job that was suitable.

SHELTERED WORKSHOPS

While it is possible to fit the great majority of the physically handicapped into work occupations whether in commerce, business, or industry, there is still a small percentage who are employable only under sheltered conditions or special workshops. Great numbers of such plants have been set up under private auspices throughout the country. Goodwill Industries of America with operations in 99 cities is an example of one of these organizations which operates sheltered workshops for the severely handicapped. Their business is based on household discards which are collected and turned into time cards, according to the statement of this organization.

According to the Baruch Committee on Physical Medicine, there are 150 communities in the United States which have community rehabilitation centers. Insurance companies in some instances have seen fit to supply such rehabilitation

service, as in the instance of the Liberty Mutual Insurance Co. in Boston, Mass., where we are told "Rehabilitation, like prevention, reduces insurance costs and thus benefits the people who buy and sell insurance."

MAN-JOB MATCHING

As a result of wartime experience with the handicapped in industry, it became apparent that in order to match a man with a job in which his health and safety would be protected and in which he could render a performance equal to that of the able-bodied person, these factors had to be met:

1. Health—the job must not agravate his disability;
2. Ability—the worker must have the qualifications required to perform the job;
3. Safety—he must not be placed in a position where his disability would represent a safety hazard to himself or others.

As more and more physically handicapped took their places in the factories alongside of the able-bodied and asked for no special treatment or consideration, it became evident that there was less need to treat the handicapped worker as a special problem. Today sound employment procedures based on matching the abilities and skills of the applicant with the demands of the job for the most part meet the problem. Fears which were sometimes justified when adequate provision was not made for proper placement prove groundless when the sound employment procedures of man-job matching were practiced.

PRINCIPLES EMERGING FROM EXPERIENCE WITH THE HANDICAPPED

As a result of industry's experience with the physically handicapped, especially since the beginning of the war, it would seem reasonable to indicate some principles which now guide employers in the employment of these people:

1. Contrary to belief in some quarters, the physically handicapped do not constitute a separate segment of the population with peculiar attributes of their own;
2. Jobs vary in their physical demands as much as individuals vary in their abilities and skills;
3. Matching the capacities of the individual with the physical demands of the job constitutes sound employment placement;
4. Lists of occupations for certain types of handicapped individuals emphasizes disabilities rather than abilities and is pretty well outmoded as means of assisting the physically handicapped in their search for gainful employment.
5. Every job can be considered suitable for an applicant with some degree of handicap.
6. Sound employment procedure involves a job analysis of all jobs in the plant and an appraisal of applicants in like terms.

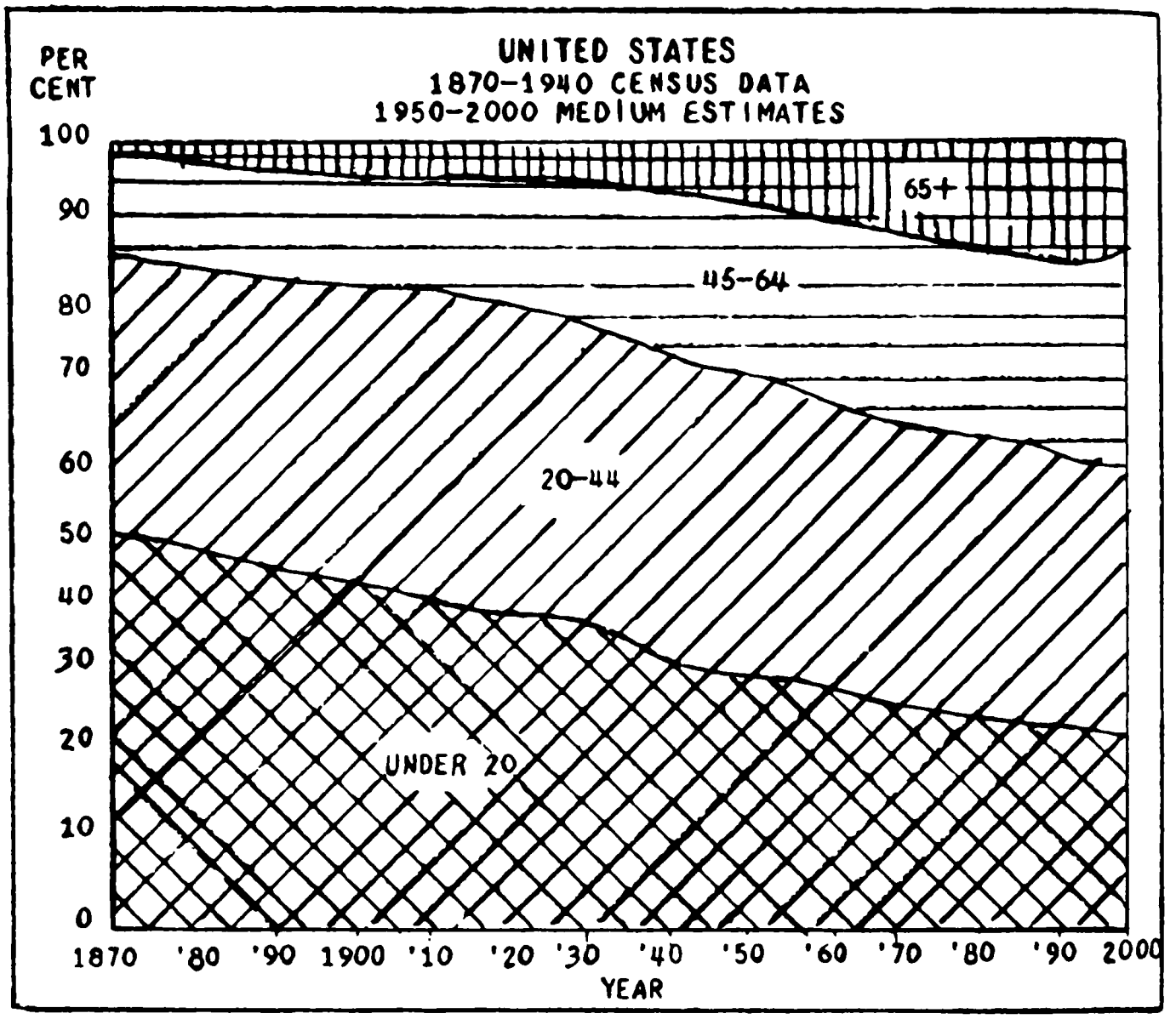
WHY JOBS FOR THE HANDICAPPED

Some of the reasons for industry's interest in the employment of the physically handicapped can be summarized as follows:

1. Experience has overwhelmingly demonstrated that handicapped workers, when properly placed in jobs they can do, make productive, steady, and capable employees.
2. Simple justice demands that the handicapped be given an equal opportunity with able-bodied workers for jobs they are qualified to fill.
3. Our economy needs the contribution of the handicapped to maintain and improve our high standard of living.
4. The handicapped individual needs the sense of satisfaction that goes with making his contribution to the general welfare.
5. It is good business to hire the physically handicapped and older workers where they fit into your operation.

OLDER WORKER PROBLEM

In this country there has been a decline in both birth and death rates which has resulted in a higher proportion of aged in the population. The proportion of the population 65 years and over, for instance, more than doubled in this country between 1870 and 1940. The accompanying chart indicates that while these aged persons constituted only 3 percent of the population in 1870, by 1940 they had grown to 6.8 percent. Past trends and future projections indicate little change in the size of the younger work force (20–44), but rather substantial increase in the percentage for the older work force (45–64 years).



It is rather interesting to figure that if financial support for the aged (65 and over) was supplied by direct taxation, each man and woman from 20 to 64 would pay $12 for each $100 provided for the aged person in 1940. By 1980 the tax would be $19. At the same time, we might take heed that in 1940, persons 50 and over (the group most interested in old-age income) comprised about 32 percent of the voting population, and in the projected population of 1980, this group rises to 42 percent.

When we bear in mind that someone must support those who are retired to idleness, the need for gainful employment of all persons willing and able to work becomes obvious. To use the age factor as such as a barrier to the employment of a qualified person is not only unfair, it is economically unsound.

JOINT CAMPAIGN

Recognizing that manufacturing industry—which is NAM's immediate interest—is responsible for only some 25 percent of the available jobs in this country and that most job opportunities lie outside industry, last fall NAM joined forces with the Chamber of Commerce of the United States in a business, commerce, and industry program to deal with the problem of employment of the physically handicapped and older workers. It was felt that working together both organizations would reach the majority of employers in the country.

SUCCESSFUL EXPERIENCE WITH HANDICAPPED

The progress made with the employment of the physically handicapped during and since the war pointed out a rather practical approach to the older-worker situation.

The reports each year of the President's Committee for National Employ the Physically Handicapped Week bear eloquent testimony to the increasing acceptance by employers of the physically handicapped as individuals who, when properly placed in jobs, are equal in every respect to their able-bodied associates. The social myth that the physically handicapped did not fit into modern industry

has been pretty well exploded and gradually the roadblocks that have stood in the way of the handicapped at the employment office are being removed. The discrimination and prejudice against the physically handicapped is being rapidly overcome by education. The dissemination of the facts concerning the physically handicapped as a worker is doing more than any other thing to gain for these individuals their rightful place in the work force.

The slogan of the President's campaign, "Hire the Physically Handicapped, It's Good Business," indicates pretty well the soundness of this approach. Repeatedly the NAM has called upon manufacturers throughout the land to review their job requirements in light of the physically handicapped and then place the physically handicapped in suitable occupations. Results confirmed the practicality of this plan because it put to more effective use the skills and abilities of this group and, at the same time, provided individuals with the satisfaction of doing their share. All this contributes to a higher standard of living for everyone.

JOB SURVEY FOR PHYSICALLY HANDICAPPED AND OLDER WORKERS

It was through such leadership and education by industry and individual employers that the long-standing prejudice against the handicapped gave way. And it is the same approach—education and leadership—that NAM is using to root out any prejudice that may still remain on the score of the overage worker.

Getting under way with this combined program involving the physically handicapped and older workers, the NAM and the Chamber of Commerce of the United States undertook a spot check of their memberships during the last few months. The purpose of this survey was to get a quick cross section of management thinking and prevailing practices. The NAM covered the manufacturing industries, while the United States Chamber of Commerce confined its inquiries to merchants, banks, insurance companies, utilities, railroads, and service groups.

The questions were directed first at the company's practice with reference to hiring physically handicapped and overage workers and then at the experience of the employer with this group. The large percentage of replies (roughly 50 percent) and the attending remarks indicated the interest in this problem on the part of the American employer.

FINDINGS

The answers to the first question, "Does your company follow a practice of hiring physically handicapped and/or older workers (over 45 years of age)," indicated that an overwhelming majority of employers have no arbitrary age or physical restrictions on employment. Fitness to do the job is the test generally applied in filling job vacancies. Those companies answering "No" indicated that they had no established policy but did, on occasion, hire physically handicapped and older workers.

While one might expect conditions for the employment of physically handicapped and older workers to be more favorable in the nonmanufacturing groups than in industry, it is interesting to note that a slightly higher percentage of manufacturing employers accept the idea of employing physically handicapped and older workers than is the case in the service organizations.

Here are some of the comments we received:

A life-insurance company said: "I believe we are fully alert to the contributions which physically handicapped and older workers can make to the productive effort of our company and the Nation, and we are endeavoring to translate this belief into action whenever the opportunity arises."

An electric-power company said: "It seems most important that every available source be utilized to enable our economy to stand the strain of more and more social-security and retirement benefits."

A utility company said: "The employment of physically impaired and older workers is, of course, of great importance to the individuals themselves and our experience has demonstrated that the contribution of those workers compares favorably with the contribution made by any other groups in the business."

As evidence of change in thinking, let us look to an air-line company: "Until some time in the recent past, we did have maximum age limits for some jobs, but we have, with rare exception, been able to eliminate age limits as we do not feel that, except on specialized jobs, we should adhere to some specific age

limit. We feel that many people at one age would be suitable for a job whereas others of the same age, or even younger, would not be suitable."

Where employers are experiencing difficulty in fitting physically handicapped and older workers into the work force, the major obstacle is the inability of the applicant to meet the requirements of the job. This indicates a real need to clear up the confusion in distinguishing between age and lack of qualifications as job barriers. Even so, the fact that the majority are experiencing no difficulty in placing the physically handicapped and older workers in productive occupations indicates what can be done in this field.

A railroad company said: "You realize, of course, that the physical and mental qualifications of our employees directly responsible for public safety, must be rigid."

A national bank said: "Approximately 25 percent of our employees are over 50 years of age and we found during the late war that they were the backbone of our organization."

In asking about the effect of physically handicapped and older workers on workmen's compensation costs, we were told (by a ratio of more than 10 to 1) that their presence had no serious adverse effect.

One of the objections frequently voiced to hiring the physically handicapped or older workers was the effect it had on workmen-compensation costs. The experience of the majority of these employers indicate that this objection is of questionable validity.

The figures indicate that the employment of the physically handicapped and older workers is not inconsistent with operating pension plans. While some companies seem to feel that it is necessary to limit hiring age in order that all employees meet retirement with a full pension, there is an overwhelming tendency to make the necessary adjustments to hire the older worker.

A public service corporation said: "We do not let old age interfere with our pension plan. So long as anyone is able to continue to work, we permit him to do so. In some instances, however, this brings criticism from younger people seeking employment."

An insurance company said: "If the potential employee is of such an age that he will not be insurable under our pension plan, he is hired on a temporary basis. We have a number of fine older employees who have been hired since 1940."

With few exceptions, the presence of physically handicapped and older workers has virtually no effect on prevailing employer practice and benefit programs. For example, in the case of group insurance, the increased cost of the older worker is small when combined with that of a balanced work force.

Collective-bargaining agreements presented no serious difficulties according to the survey. This was even more pronounced in the nonmanufacturing group where only 5 of 131 answers indicated any difficulty from this source.

GENERAL COMMENTS

There was every indication from the answers that there now exists a new and general awareness on the part of employers of the need for utilizing the skills, experience, and judgment of the physically handicapped and older workers. Employers generally recognize their responsibility to do everything in their power to remove whatever roadblocks have traditionally stood in the way of qualified people getting jobs. For instance, a large steel company says: "Furthermore, we are presently engaged in studies looking toward broader employment policies involving handicapped individuals generally. Our experience with veterans indicates that many such individuals may be employed without sacrifice to productive efficiency and with a high degree of satisfaction to the individual involved."

A machine-tool company says: "We have a very high percentage of employees over 45 years of age. Our products must have a high degree of accuracy and our older employees are the ones we depend upon for this."

Certain advantages found generally with physically handicapped and older workers were emphasized in the replies:

1. *Reliability.*—Less absenteeism and steadier work were indicated for both the physically handicapped and older workers.

2. *Better work habits.*—A manufacturing company in New Jersey stated: "Generally our handicapped and older workers are more loyal and have better work habits than younger, able-bodied men with less seniority."

3. *Less turn-over.*—Both physically handicapped and older workers tended to remain on the job and have a stabilizing influence on the younger workers. A

railroad company said: "We have noticed in employing physically handicapped or older workers that these individuals are extremely appreciative of the opportunity given them. They have a greater desire to please and labor turn-over among these workers is lower than among other workers."

4. *Good quality and output.*—The older worker was particularly singled out for mature judgment resulting from experience which tends to keep operations on a satisfactory level. A chemical company reported: "As we continue to improve physical labor-saving devices, steadiness, maturity, care, and experience become more important than physical strength in an industrial organization."

The success found by employers in placing physically handicapped and older workers in gainful employment is based, we were told, on proper job-placement methods.

A steel company said: "In order to derive the full benefits of the superior work attitude of older and handicapped workers, it is necessary to properly place them on jobs which will not aggravate their disabilities."

A chemical company said: "Any successful program must have as its premise the fact that the job assignment must be made on a sound economic basis both from the standpoint of output to the company and the monetary return to the individual. Therefore, in the job to which he is assigned, the disabled person should be able to produce as much as able-bodied persons performing the same job after an adequate learning period. This means matching the requirements of the job and the physical abilities of the individual. When a handicapped person is able to perform the duties of a job, he is no longer handicapped so far as that job is concerned."

Companies which indicated a reluctance to hire physically handicapped and older workers gave as the major reason their policy of promotion from within the organization. This involved, first of all, taking care of employees who became disabled while employed in the company as well as transferring older employees who for one reason or another find themselves unable to do their usual work.

A food-products-manufacturing company said: "At present we have about 6,500 in that group (over 45), which is approximately 22 percent of our entire personnel. Most of these people have long service records, and we feel morally obligated to keep them on the active pay roll to normal retirement age, if possible. With such a large group, this requires a considerable amount of adjustment in the way of job changes, etc. It is, therefore, our intent to hire at age 45 or over only those persons who we can absorb in our organization without prejudicing the future of our own 'older workers.'"

An electric-power company said: "The policy of this company is to employ on a career basis, usually starting employees in the early twenties. Thirty-five percent of our regular employees are 45 years of age or over. Our most valuable employees are within the age group of 45 years or over."

Success with the campaign to place physically handicapped workers in employment since the war stems almost entirely from the fact that they were fitted into existing situations and matched to existing jobs instead of attempting any segregation by creating special jobs for them. The survey indicates the wisdom of a similar approach with respect to older workers. They also must be fitted into existing jobs, exept in unusual circumstances.

NAM PILOT CLINICS

The NAM has been holding pilot clinics in New York, where groups of manufacturers consider ways and means of implementing this campaign for the employment of the over-age worker. This clinic approach to industrial-relations problems has been most effective in such fields as employment stabilization, employer-employee communications, management teamwork, and other aspects of personnel administration.

Through this technique it has been possible to explore a problem in all its ramifications and to find some practical solutions. To exercise industrial leadership and point the way to constructive action, we have gathered together manufacturers in small groups, first in New York and then in clinics or small round-table discussion groups sponsored by local or State employer associations affiliated with the National Industrial Council. Here employers come to grips with the problem and in frank discussion exchange their experiences. Interestingly enough, it is quickly apparent, regardless of the subject under discussion, that there is no one single or simple answer to the problem at hand. Conditions vary between sections of the country between different industries and frequently

between plants of the same company making the same products to such an extent that no one formula or solution can be applied universally.

Best results are secured where the individual employer examines his own situation and develops his own program. His intimate knowledge of the facts at hand puts him in the best position to apply the sound corrective.

These clinic discussions give employers an opportunity to learn what other employers are doing. They are encouraged by the successful experiences in other plants and stimulated to go back to their plants and do something about the problem. This is the next step in the NAM leadership and education campaign to open up additional opportunities for older workers.

SIGNIFICANT DEVELOPMENTS

In each instance we found a genuine interest in the subject and a willingness to inquire into its implications.

It was generally agreed—

1. That age or physical handicap of itself should not be a factor in employment.

2. That job applicants should be judged solely on their qualifications in light of the job to be filled.

3. That companies require employment interviewers to recognize that industry needs and must utilize the reservoir of skill, experiene, and knowledge of the physically handicapped and older workers.

4. That employment policies should be reviewed and where necessary revised with a view to giving the physically handicapped and over-age workers suitable job opportunities.

There is virtually no problem where employees have grown old or have been handicapped in service. Employers make such adjustments and transfers as may be found neecssary in these cases. The problem seems to be with the physically handicapped or overage person who is seeking employment. It was generally agreed by employers represented at these clinics that a specific skill is the applicant's greatest asset. Where a high order of skill is required in the plant, we found ready acceptance of physically handicapped and older applicants.

An official of one of the large rubber companies mentioned that their tendency to venerate the quarter century group made the older applicant more acceptable to their supervisory force. He held that ability to do the job should be the basis of selection. In this company a retired worker with short service is given a separation allowance in lieu of a pension.

A number of companies with compulsory retirement plans have found some of their workers separated from employment but with pensions which are inadequate because of inflation. In some cases, the retired worker secured employment elsewhere or became a dependent. Realizing this loss to the company and the economy in general in the case of a retired worker who is willing and able to work, some companies question the advisability of compulsory retirement because of age.

The president of one industry in the East stated: "We choose and select when we hire and I see no reason why we can't do the same thing when we retire workers."

And he went on to say that the most important thing from his point of view was to treat people as individuals whether they were young or old. He pointed out that the task in this problem seems to be that of breaking down prejudice and encouraging employers to treat physically handicapped and older applicants as individuals with varying skills and aptitudes rather than as members of a superannuated group.

The growing longevity of our people raises the serious problem of how our economy can handle the overwhelming cost involved in supporting a constantly increasing aged segment of the population. To take care of some in this group, the employer must be encouraged to study his job requirements and find out which positions in his plant or shop or office can be filled by those in the higher age bracket. However, this is not intended to limit opportunity of the physically handicapped or older applicant to certain types of jobs. What he needs from an employer is consideration of what he has to offer and the chance to show what he can do.

Fortunately, the performance of so-called overage workers during the war has gone a long way toward reducing the reluctance of employers to select workers

from this group. Industry is employing a greater number of older workers than ever before and is actively searching out ways to open new job opportunities for both the physically handicapped and older workers.

CONCLUSIONS

Even at this early date in the combined program of the NAM and the Chamber of Commerce of the United States, these reassuring trends appear in the hiring policy of American employers:

1. More and more employers are hiring on the basis of ability to fill the job without regard to physical handicaps or age or any other qualification which does not bear on the job to be done.
2. More and more companies are selecting applicants for employment with the idea of having the employee make the company his career.
3. More and more of industry is following the sound principle of promotion from within the organization.
4. Employers are taking care of those who become physically handicapped or grow old in service by training and transfers where necessary.
5. An increasing number of employers provide security for employees grown old in service.

RESPONSIBILITY OF INDIVIDUAL

This is the employer's side of the picture and his responsibilities in this area. There is, however, another side which can't be ignored—that of the worker and his own responsibility on this score. Experience proves that the employee with something to offer is generally acceptable. This reemphasizes the fundamental concept in a free society that an individual must do everything possible to fit himself most advantageously into our economy. Therefore, it follows that each person has to protect himself:

1. By acquiring the training necessary to develop abilities and skills.
2. By approaching a new job as he would a career, conscious of the fact that he must keep abreast of the requirements of the job.
3. By taking advantage of every educational opportunity in connection with his work with a view to promotion in line with his qualifications.

It would be most unfortunate if our attempts to provide the older worker with security should encourage the false assumption that the individual no longer need look after himself. Whatever is done must be based on the fact that the individual still has the problem of fitting himself into the work force on the highest level that his training and qualifications will permit.

The problem fundamentally is to encourage the full play of individual opportunity and initiative so that men with ideas can strike out into new fields and thereby provide more and more goods and services for more and more people. Full utilization of the abilities and skills of all our people depends upon an expanding economy. Any effort to provide gainful employment for the older group at the expense of younger or middle-aged people would be unrealistic and fraught with danger.

Any move in the direction of discouraging business from taking the risks that make for an expanding economy will tend to lessen job opportunities for everyone.

AREAS FOR FUTURE ACTIVITIES

Several universities have undertaken studies and conferences on the problem of the physically handicapped and the older people in our population. Research work with controlled groups has been started in some communities and plants. Industry welcomes the assistance of universities and is offering every aid to the projects.

There is more or less general recognition that the physically handicapped and older worker problem is one for Government, employers, and the individuals concerned. Each has a most important part to play in the solution of this problem.

Employers will continue to take an active interest in this program to make the best possible use of qualified people. The individual needs the satisfaction that goes with adequate employment and the economy needs the contribution he has to make if this Nation is to enjoy a constantly improving standard of living.

Physically handicapped and older worker spot-check survey of employment practices—National Association of Manufacturers and Chamber of Commerce of the United States

	Handicapped			Older worker		
	Yes	No	No answer	Yes	No	No answer
Question I Does your company follow a practice of hiring physically handicapped and/or older workers (over 45 years of age)?:						
National Association of Manufacturers	103	[1] 42	3	114	[2] 30	4
Chamber of Commerce of the United States	85	45	1	84	[3] 43	4
Total	188	87	4	198	73	8
Question II: Have you experienced difficulties on the job with physically handicapped or older workers such as—						
1. Inability to meet job requirements?:						
National Association of Manufacturers	37	86	24	44	76	27
Chamber of Commerce of the United States	34	57	40	28	71	32
Total	71	143	64	72	147	59
2. High workmen compensation costs?:						
National Association of Manufacturers	10	103	34	17	98	32
Chamber of Commerce of the United States	4	76	51	10	83	38
Total	14	179	85	27	181	70
3. Conflict with pension plan?:						
National Association of Manufacturers	3	89	45	17	79	44
Chamber of Commerce of the United States	11	76	44	27	73	31
Total	14	165	89	44	152	75
4. Conflict with other employee-benefit plans?:						
National Association of Manufacturers	5	103	36	15	97	32
Chamber of Commerce of the United States	9	75	47	15	77	39
Total	14	178	83	30	174	41
5. Collective bargaining agreements?:						
National Association of Manufacturers	10	89	42	10	94	37
Chamber of Commerce of the United States	5	75	51	5	81	45
Total	15	164	93	15	175	82

[1] 9 companies said that the nature of their work prevents them from hiring the physically handicapped; 8 companies said they have no formal policy but have no objection to hiring handicapped persons when qualified.

[2] 2 companies said that the nature of their work prevents them from hiring older workers; 5 companies said they have no formal policy but hire older workers when qualified; 3 companies said their policy calls for promotion from within the organization and that they hire older workers only when they cannot fill the vacancy from within the organization.

[3] There were 16 companies which stated that they follow a policy of grooming employees for careers.

Senator MILLIKIN. Did I understand you to say that that included a provision for the continued employment of the aged?

Mr. MOSHER. Yes. It goes into the question of employment opportunities for the handicapped and aged.

Senator MILLIKIN. Can you tell us briefly what you are going to do about the aged?

Mr. MOSHER. It is a question of keeping them on the jobs that they can do, and those jobs that are within their mental and physical capacities at those ages.

Senator MILLIKIN. Do you feel there is progress in that?

Mr. MOSHER. I think there has been tremendous progress made in that respect, Senator. We learned a lot in the war about the employment of the aged. We found a lot of them were pretty good on the jobs.

Senator MILLIKIN. Is it a subject that is really alive with the employers?

Mr. MOSHER. It is very much alive, Senator. It has been kept alive. NAM, as I indicated at the beginning of my talk, actively engaged in the matter for over 15 years. I cannot go back of that. I know we have kept the subject alive and it has received a great deal of interest. This [March 18 issue of NAM News] is an article as to just what the activities are at the moment, around the country.

Of course, NAM's job consists of stirring up the activity of our own members to do these jobs and to get them done. This happens to be a current article that came out this week as to what is going on.

May I continue, sir?

The CHAIRMAN. Yes.

Mr. MOSHER. This voluntary action on the part of the industry has resulted not only in a considerable employment of the handicapped, thereby encouraging their rehabilitation, but has also resulted in increased safety in industry.

I might add that I am a little disturbed at the way the Senator's questions anticipated just what I have in front of me to say.

While over-all work injuries in the United States decreased more than 7 percent from 1948 to 1949, the record in manufacturing industries is a reduction of 19 percent. That is just between those 2 years, 1948 and 1949.

When, however, we approach the problem of total and permanent disability benefits, we cannot avoid the conviction that such a program at the Federal level would be subject to so much abuse and inevitable difficulties in administration, that it might well endanger the entire old-age and survivors insurance program.

There are many cases of real or alleged disability in which objective criteria are lacking. It is hard enough to administer that kind of a program at the local level with all of the personal interest that can be demonstrated only at the local level. But the difference of opinion as to whether or not total or permanent disability exists becomes ever greater the further we get away from the point of application of the program. Since the sole basis of determination of disability is often a subjective one, many abuses are bound to result. Such abuses will increase in case of unemployment, and the more widespread the unemployment situation becomes, the more difficult will be the problem of administration of the total and permanent disability benefits.

In addition, since most women do not remain in the labor market during their entire working lives, there is bound to be a great temptation to claim disability benefits after retirement from the labor market, even though there may be no intention to return.

There has not been adequate experience or adequate planning of a workable program to justify the Federal Government going into the field of total and permanent disability benefits. The primary emphasis should be on rehabilitation. We know that rehabilitation can best be carried on at the local level. No huge Federal organization is required for effective rehabilitation programs at the local level.

Senator MILLIKIN. Would you favor any Federal contribution in that program?

Mr. MOSHER. I do not know that I feel myself qualified to answer that question either "Yes" or "No," Senator. I think, from a dollar standpoint, "Yes, encourage." But, as I said, "No quantity of money from the Federal standpoint," It is a local job, to be carried on locally.

Senator MILLIKIN. You said something awhile ago that led me to believe that perhaps you might think it a good idea that a certain proportion of Federal revenues be returned to the States for a series of social and welfare purposes, under some sort of standard, but without having the Federal Government take a directing hand in the details.

Mr. MOSHER. It is fundamental in our thinking that many of the undertakings that the Federal Government has gone into in recent years can best be handled by the States, or by the communities within those States. Now, we recognize that there is a financial problem involved in that, and in recommending that all of the activities that can be better handled Statewise and localwise, and in recommending that definitely, we say that, of course, there must go along with it some reallocation of taxing sources. In other words, we have to give back to the States in the one case and the States have to give back to the communities in the other case, on the basis of taxing.

Senator MILLIKIN. It is perfectly obvious that if we keep on taking the money out of the States for the Federal Government, we cannot at the same time ask them to assume all these responsibilities.

Mr. MOSHER. We cannot spend it but once, Senator, and I might suggest that in the process of going that route—that is, that we can spend it but once—we lose some of the "once" in the administration and collection. If we put it back Statewise and locally, I think we will get a lot more for our money, as well as have the job handled a lot better.

Senator MILLIKIN. Would you say that it comes down to either reducing the taxes or sending a part of the "take" back to the States?

Mr. MOSHER. I think the Federal tax should be reduced. I think the taxing source should be sent back. I frankly do not like the idea of a central body collecting taxes and handing the proceeds back. Let us put the tax source back and let them collect it.

Senator MILLIKIN. The way you put the tax source back is to lower the Federal tax, and for that reason you leave more money in the States for local purposes?

Mr. MOSHER. Yes, sir.

Senator MILLIKIN. But assuming that will not happen, then you come up against the suggestion made awhile ago of returning part of it back. It has to be one or the other, or maybe both.

Mr. MOSHER. It may be both, I hope, and I shall do everything I can to go the first route, namely, that we reduce the Federal load and put all of the load that we can back at the source and let the source raise the money, with the Federal Government keeping out of certain tax areas, or reducing their activities.

Senator MILLIKIN. In my State the State government spends about $80,000,000 a year and it sends $340,000,000 to Washington.

Mr. MOSHER. In our State, I cannot give you the figures in Massachusetts, but it is on a similar plan. But, in addition to that, our State undertakes to collect a great deal of the revenue, which it turns back to the cities and towns. That is why I am somewhat adamant in my position, that is, that having the State collect the money and returning it to the local communities results in a waste of money.

Senator MILLIKIN. There is a brokerage fee there.

Mr. MOSHER. Yes, sir. And the last one, I believe, is 2 percent—a small amount—on one of the State tax bills, but it means some hundreds of jobs.

The CHAIRMAN. The return of the sources of tax to the States and from the States to the municipalities has been a matter under study for some time, and sporadically for a long time.

Mr. MOSHER. It has been one of your particular studies, if I remember correctly, Mr. Chairman.

The CHAIRMAN. But the tendency is the other way.

Mr. MOSHER. It is easier, may I say, politically, to do it the other way. I mean, it is much easier to tax at a distance. We just do not see it and just do not think so much of it.

The CHAIRMAN. But the tendency now is frightful to duplicate your tax systems, even down to the municipalities.

Mr. MOSHER. Yes, sir; I recognize that.

The CHAIRMAN. That is, the Federal, States, and then communities.

Mr. MOSHER. We are even getting city income taxes now.

The CHAIRMAN. Yes, sir. So the whole drift is the other way, notwithstanding the logic of what you say and the desirability of what you say.

Mr. MOSHER. Might I venture to remark that gets the responsibility so far away, or tends to get it so far away, so you cannot pin the responsibility for the spending on the people who raise the money.

The CHAIRMAN. That is true.

Mr. MOSHER. I agree with you 100 percent it is the easiest way out; it is the hard way out, but I think it is the only way to get results.

The CHAIRMAN. It is not only the easy way out, it is the necessary way out, if we are going to spend so much all the time. Unless you have some idea of cutting back on expenditures, it is very difficult to give up a source of taxation.

Mr. MOSHER. I would agree, of course, without any question of doubt, that we have to reduce the volume of spending. There is not the slightest doubt in my mind as to that.

The CHAIRMAN. You may proceed.

Mr. MOSHER. We are just throwing it away, Mr. Chairman.

Our first obligation is to build an adequate, sound program of old-age and survivors' insurance, and we must not endanger that program by advancing into uncharted fields full of hidden dangers for a Federal program, such as the one we have been discussing.

NAM is so impressed with the importance of this entire subject that the major assignment given the committee, of which I am chairman, is to make a long-range study involving an entirely fresh look at this whole problem of employment retirement security, comprising not only the Federal program, but all forms of retirement security, and may I say, saving. Before this committee has occasion to consider the subject again, we hope to be able to present to you a comprehensive recommendation, not limited to the field to which this committee is immediately concerned, but I am just simply saying that we have started a study of the whole field to see the impact of all of the movements, and OASI is simply one factor in the situation. It is a long-time job and long-time basis. At this moment I do not know what we are going to get out of it, but I have every confidence it will be a real contribution to our thinking. I am not suggesting we delay action here, but I am just simply noting it as being in the process, and that it will be available to the public in due course.

Summarizing my remarks, Mr. Chairman and gentlemen, we urge this committee to give favorable consideration to 10 points:

(1) Make the coverage as complete as possible at this time, rather than engage in a series of half-way steps.

(2) In any contemplated increase in benefits to any appreciably higher level than that existing under present law, adherence to the concept of limiting the benefits to a basic minimum layer of protection for the aged, and avoiding any annual increment.

(3) Eliminate the provision for lump-sum death benefits to all those covered by the OASI program.

(4) Revise the definition of "employee" to return it to its normal meaning.

(5) Retain the present $3,000 tax and benefit base.

(6) Adopt a substantially pay-as-you-go system of financing, withholding any further increases beyond the present 1½-percent tax until payments from the trust fund approach income to the fund.

(7) Encourage individual thrift and private pension programs by appropriate tax incentives, by elimination of pension programs from the area of mandatory collective bargaining, and by preventing the continuing depreciation of the dollar.

(8) Prevent taxes collected for the OASI program from being utilized for any other purpose, such as disability benefits.

(9) Reduce Federal grants-in-aid for old-age assistance (and other welfare programs) by making OASI beneficiaries ineligible for federally financed old-age assistance and by reducing Federal grants-in aid with the eventual purpose of eliminating them.

(10) Avoid any Federal program of permanent and total disability benefits.

It seems to me that one final thought is in order. Recognizing our obligation to put the OASI program on a sound basis, we must devote more attention to an even higher obligation—that of avoiding programs which would endanger the economy or which would further depreciate the dollar.

Let us make sure that we can operate a sound program of old-age and survivors' insurance—a program which includes substantially full coverage and minimum benefits corresponding to the present level—before we undertake more hazardous and uncertain programs.

That is all, Mr. Chairman.

Senator MILLIKIN. Mr. Chairman, I want to state that I take issue with the statement that the Federal Government now provides $20,000,000 a year to the States for rehabilitation services under the Vocational Rehabilitation Act.

The CHAIRMAN. Thank you very much for your appearance here, Mr. Mosher.

Mr. MOSHER. Thank you, Mr. Chairman.

The CHAIRMAN. Our next witness will be Mr. Bates. Please identify yourself for the record. We know you, anyhow, but we have to get you identified in the record. You may be seated, if you prefer.

STATEMENT OF SANFORD BATES, COMMISSIONER OF NEW JERSEY STATE DEPARTMENT OF INSTITUTIONS AND AGENCIES

Mr. BATES. Thank you, sir.

My name is Sanford Bates, and I am the commissioner of institutions and agencies for the State of New Jersey, which is in reality

the welfare department of that State, and I have the honor to appear before you representing the State of New Jersey.

I have consulted with Governor Driscoll, and I have submitted to him a draft of what I propose to say but, of course, any statements I make are my own responsibility.

The CHAIRMAN. Your full statement may appear in the record at this point, if you wish.

Mr. BATES. Thank you, sir.

(The statement is as follows:)

STATEMENT OF SANFORD BATES, COMMISSIONER OF NEW JERSEY STATE DEPARTMENT OF INSTITUTIONS AND AGENCIES

I have the honor to appear before your honorable committee in my capacity as commissioner of the department of institutions and agencies, which is in reality the Welfare Department of the State of New Jersey.

I have consulted with Gov. Alfred E. Driscoll and submitted to him a draft of what I propose to say and it has his general approval; although any statements which I make are on my own responsibility.

The State of New Jersey, which is a thickly populated and rather highly industrialized State, must of necessity take a somewhat different viewpoint than some of the States whose representatives have appeared before you. New Jersey might be referred to as a creditor State and it would be inevitable that our people would have their attention directed to the question of taxes, especially at the Federal level.

And while we as welfare administrators agree on one fundamental policy expressed by many of your witnesses that the expansion of the insurance features of the Social Security Act are long overdue, nevertheless, we deplore the continued necessity to increase and expand the relief or assistance features.

Our main thesis can be stated in a few general propositions:

(1) It is our conception that the original purpose of the social-security legislation enacted in the depth of the depression was to set up a fair permanent method of providing for the needy aged through a system which has evolved in America and typifies the spirit of American industry and independence, namely, the insurance method.

The long-continued delay in increasing the amount of withdrawals and the continued limitation of coverage of the insurance provisions has been a matter of concern not only to welfare workers but to businessmen and others who realize the tremendous necessity of maintaining in our country the system of free enterprise, which made it the great and powerful country that it is today.

The result of this delay has been to engender a belief in the minds of many of our fellow citizens that they may neglect to provide for their own future and that the Government will do it. The surest way to defeat the principal purposes of the social security legislation and perhaps insure the adoption of the socialistic pension system is to fail to expand under OASI and yet permit the relief payments to increase and accumulate.

OASI must be placed on a sound footing by (a) increasing its coverage to include not only those included in H. R. 6000 but also the farm groups and the self-employed; (b) to follow through with the program began as of January 1 to raise the amount of benefit payments upon attaining eligibility.

To the extent that H. R. 6000 tends in the direction of the above, the State of New Jersey wishes to be recorded in its favor. We strongly urge that the farm workers be included and that a plan for enrolling self-employed persons be developed.

In New Jersey we consider it a matter for congratulation that we have upward of 90,000 recipients under the OASI as compared with 24,000 enrolled under old-age assistance.

Can there be any justice in a situation such as now exists whereby the man who is thrifty and saving and provides, with the help of his employer, for his own future, receives just about half as much in benefits per month as does the man who neglects to make such provision?

(2) It follows from the above that we cannot believe that the continual broadening and expansion of the assistance and relief parts of social security, which in the beginning were recognized as temporary, is in the interest of all of our people.

The State of New Jersey believes that one of the fundamental purposes of government, as stated in the preamble to our national Constitution, is to "promote the general welfare," but we call attention to the fact that this phrase "general welfare" connotes welfare for everybody, not only in the present and the near future but in the distant future, and that it includes the welfare not only of those who cannot or do not work but those without whose effort and contribution there would be no government. It seems incredible that in the midst of an era of great prosperity and high wages there should be such a long-sustained demand for increased assistance payments.

There has been a recognized and a continuing responsibility on the part of local and State government for meeting the needs of the unfortunate—the crippled, the diseased, the insane, the dependent children and the blind, and, latterly, those helpless victims of industrial cataclysms over which they had no control.

It is one thing to recognize this obligation toward our fellow men: it is another thing to say that the Government should go in for the noncontributory payment of benefits. Most of these hazards in our modern society can be surmounted or ameliorated through the use of insurance. Sickness benefits, such as we have in New Jersey (and we are one of only four States in the country to enact this advanced legislation) workmen's compensation, insurance against accidents, Blue Cross membership, and just plain thrift and industry would do much to reduce the terrific and mounting public obligation. It does not indicate any lack of concern for the temporarily unfortunate or unemployed to say that that minimal phase of welfare can and should be left to the locality.

The statement may sound more like that coming from the chamber of commerce than from a welfare department, but if the welfare of all is our concern, we cannot but point out that we live and succeed through the operation of incentives, and if the time should ever come when the incentives are toward shiftlessness and to dependence on the Government rather than on thrift and self-support, we should indeed be well on the way toward a complete departure from our American traditions.

One cannot emphasize the rights of the needy and unfortunate except as correlative to the ability and the willingness of those more fortunately placed to meet the obligations thus entailed upon them. It seems difficult to envisage a government that can provide for the needy and unfortunate without at the same time having in mind the needs of the industrious, the thrifty, and those who hold high their personal responsibility for their fellow men.

What incentives are being provided for by the Government to a young man or woman to save, to take out insurance, or to provide for their own old age or misfortune?

Some speakers before you have emphasized the need for preventive activity in the field of dependency as it has been so successfluly practiced in the fields of disease. However, it does no good to talk about preventing dependency unless we are willing to divert a small fraction of the constantly mounting sums which we pay on account of the lack of such effort. It would seem to us to be important to clearly write into H. R. 6000 a provision setting up a "bureau of prevention" in the social security authority, which can continually confront the conditions which make for dependency in our body politic and direct their efforts toward the eradication of the industrial, social, and economic inequalities which foster dependency.

(3) With this situation obtaining in New Jersey, we cannot help but point out that there are amendments in H. R. 6000 which will intensify our difficulties.

The Governor of New Jersey has publicly stated that New Jersey will not ask for any more Federal matching; that we cannot afford it. We cannot afford it because it now costs us between 5 and 6 times as much as through the payment of Federal taxes to provide for the welfare of our own taxpayers. This makes it inevitable that New Jersey is interested in what Louisiana, Colorado, California, and the other States of the Union do.

I need only say that the average number of persons over 65 on relief in New Jersey is 6.7 percent, whereas in Louisiana it is 81.2 percent, and throughout the country it is about 25 percent, to indicate the somewhat different approach which we are obliged to make to this problem. In fact, it might well be asked of the social-security system, Can an administration which allows of such wide divergencies be accurately referred to as a system?

These divergencies will be increased if the principle of variable grants, which has been suggested in connection with social-security matchings, and which has been enacted into law with reference to other Federal welfare legislation, is adopted. The devious contrivance written into this social-security legislation

a few years ago, whereby a larger amount of contribution from the Federal Government is made in small grants than in large, however, does bring about a situation which is tantamount to a variable grant. In other words, the low-income States, where the cost of living is correspondingly lower, receive as high as 80 percent of their grant from the Federal Government, whereas the high-income States who maintain their own industrial systems of welfare, and where their citizens still practice thrift and a high degree of responsibility for the welfare of their dependent relatives, receive, at most, 50 or 55 percent, and where the grants run higher, a correspondingly lower amount.

Thus does New Jersey not only pay for 14 times as many dependent people in Louisiana as in New Jersey but contributes to the Federal Government's larger contribution than certain of the other States where the grants average below. We naturally oppose any further legislation in the direction of discrimination of this sort between the States of the Union.

(4) We wish to record our approval of that part of H. R. 6000 which proposes matching funds for the relief of the permanently disabled. In our State the term "general assistance" includes provision at the municipal level, with State subsidies where requested (1) for this group of permanently disabled, and (2) transient relief for the temporarily unemployed.

We think it is quite possible that the municipalities may adequately care for the second group, but a proper and sympathetic understanding of the needs of the chronic sick requires a far better financed program and more intelligent handling. On the whole, we are pleased that the reported bill does not include matching for general or transient assistance (in this we differ from some of our colleagues), but sets up a fourth category for the benefit of persons whose claims are equally worthy with those of the blind, the dependent children, and the indigent aged.

(5) Because it definitely affects the welfare of all of our people we cannot at this point refrain saying a word about the tax situation. The war is over and yet Federal taxes are rising. Deficit spending is being tolerated. Rumors are adrift about amendments to the Federal income-tax law at some particularly uncomfortable points. Let me only mention two:

(*a*) Those persons who are giving their lives and a large measure of liberty to the care of our unfortunate physically and mentally sick neighbors and who, like the sick people that they serve, are forced to live in close proximity to their job are, so it is rumored, to be taxed on the "value of their maintenance."

(*b*) Throughout the country child-welfare departments have been saving for future citizenship thousands of unfortunate youngsters who have been removed by court action from degrading and evil surroundings and placed with foster parents. Again rumor has it that these foster parents are now to be classed as wage earners. And although the love and devotion which they expend upon the orphans whom they shelter cannot be taxed, the mere pittance which they receive as guardian for and on behalf of the child they must share with the Government to help pay the constantly rising costs thereof.

We have just adopted our State budget in New Jersey, which represents a total expenditure, including grants to counties and municipalities, of $164,000,000. As compared with this, the citizens of New Jersey will this year pay taxes to the Federal Government of $1,375,000,000. According to the figures, our average income is higher than some other States and yet it is not the highest, and it surely bears no such relation to other States as the relationship between State and Federal taxation.

Much has been said, and of a somewhat patronizing nature, about the help which the Federal Government has been to the States through the so-called grants-in-aid, which apply to highways, health work, school lunches, rehabilitation, hospitals, and so forth. But, after all, the biggest "grants-in-aid" is that which the States, or the taxpayers in the State, turn over to the Federal Government.

(6) We are unable to approve that amendment in H. R. 6000 which provides for matching for the expense of persons in public and private institutions, for the reason that this will open a new door of Federal expenditure; and, while it may contribute to the temporary advantage of New Jersey, in the long run it will add to the tax bills paid by New Jersey citizens.

Implicit in the provisions of the social-security legislation was obviously a resolution on the part of its authors, which resolution we heartily approve, to get people out of institutions and away from the abnormal influence of the orphanage and the poor farm, and the categorical assistances were undoubtedly to be regarded as in effect a premium on keeping these needy individuals in

their own homes and to make such possible. In fact, the laws of New Jersey specifically limit the payment of old-age assistance to those in their own or some family home. We fear the consequences of a country-wide reversal of this process. If the incentive is removed to obtain foster-home placements for either the aged or our dependent children and it becomes progressively easier to revert to the old idea of almshouse care, even the carefully worded safeguards in the bill may not be able to counteract this tendency.

In pursuance of the policy of our Governor that New Jersey will not ask for any new sources of Federal revenue, we cannot go along with many of our colleagues on this issue.

(7) We are strongly in favor of the amendments with reference to direct payment of medical care.

(8) A provision for a more careful and inclusive definition as to the persons to whom payments may be made in the case of aid to dependent children we can likewise agree on.

(9) We believe that the provision in H. R. 6000, which seems to discriminate in favor of optometrists against the ophthalmologists, should receive careful attention of your committee.

To summarize, so far as New Jersey is concerned, so important do we regard the expansion and implementation of the OASI part of the act that we would put up with whatever deprivation or loss of revenue that might come from your failure to enact any of the amendments that have to do with assistance.

In closing, I can only say that we believe the Government has come to a decisive turning point in this matter of welfare. We must all resolve to follow the course which will encourage self-help and self-reliance, and, without turning our backs upon the unfortunate of this generation who merit our sympathetic support, extend to those hard-working, industrious, long-suffering individuals in our community who make the sacrifices, which permit assistance payments to be made, the assurance that the Government does not forget them. Shall we not thus be more likely to "promote the general welfare" prophesied by our Constitution?

Mr. BATES. Mr. Chairman and gentlemen of the committee, the State of New Jersey, which is a thickly populated and rather highly industrialized State, must of necessity take a somewhat different viewpoint than some of the States whose representatives have appeared before you. New Jersey might be referred to as a creditor State, and it would be inevitable that our people would have their attention directed to the question of taxes, especially at the Federal level.

While we as welfare administrators agree on one fundamental policy expressed by many of your witnesses that the expansion of the insurance features of the Social Security Act are long overdue, nevertheless we deplore the continued necessity to increase and expand the relief or assistance features. In fact, I am a little disconcerted to the degree that I agree with the representative of the NAM with many of the things they said this morning.

The CHAIRMAN. Well, they might be right.

Mr. BATES. I think they were right on a good many things here this morning.

The CHAIRMAN. I mean, almost any segment of our economy and our society can, of course, have very helpful views on this broad question.

Mr. BATES. Our main thesis can be stated in a few general propositions:

(1) It is our contention that the original purpose of the social-security legislation enacted in the depths of the depression was to set up a fair permanent method of providing for the needy aged through a system which has evolved in America and typifies the spirit of American industry and independence; namely, the insurance method.

The long-continued delay in increasing the amount of withdrawals—for 13 years we have postponed the taking effect of these grade changes—and the continued limitation of coverage of the insurance provisions, has been a matter of concern, not only to welfare workers but to businessmen and others, who realize the tremendous necessity of maintaining in our country the system of free enterprise, which made it the great and powerful country that it is today.

The result of this delay has been to engender a belief in the minds of many of our fellow citizens that they may neglect to provide for their own future and that the Government will do it. The surest way to defeat the principal purposes of the social-security legislation and perhaps insure the adoption of the socialistic pension system is to forbear to expand under OASI and yet permit the relief payments to increase and accumulate.

OASI must be placed on a sound footing by (*a*) increasing its coverage to embrace not only those included in H. R. 6000 but also the farm groups and the self-employed; (*b*) to follow through with the program begun as of January 1, to raise the amount of benefit payments due recipients upon attaining eligibility.

I would like to make one interpolation here. As a Government employee, and speaking for the 6,000 employees in my own department, I very much hope that some provision will be made permitting an option to stay out of OASI to State employees that have a sound, adequate retirement system, such as we have in New Jersey.

I think you heard my colleague, Mr. Wood, some weeks ago, who voiced that opinion before you.

To the extent that H. R. 6000 tends in the direction of the above, the State of New Jersey wishes to be recorded in its favor.

We strongly urge that the farm worker be included, and that a plan for enrolling self-employed persons will be developed.

In New Jersey we consider it a matter for congratulation that we have upward of 90,000 recipients under the OASI as compared with 24,000 enrolled under old-age assistance.

We are one of the six States in the country where the number of persons under OASI exceeds those receiving relief.

I would like, if I might at this point, interpolate a comment on what Mr. Mosher has said in answer to a question by Senator Millikin.

I believe, as a welfare official, that there are values in the contributory system far beyond the question of financing. I come from New England, Senator, where we have some pretty stout ideas about thrift and self-reliance—at least we used to—and I think we are all looking forward to the time when a man, having worked his stint and contributed to his old-age allowance, can walk up to a Government officer with self-respect and say: "I will now take back what I have contributed." He has a right to that.

I sometimes argue with my friends as to what they mean by "the right to assistance". What gives an individual the right to assistance? True, he has the right to apply for assistance and we have the obligation to assist him, but when we speak of rights and duties I get a little bit confused as to what we mean by the right to be taken care of. That right would be an empty one if it was not matched on the other side by somebody's obligation to do it.

I am no economist, and I cannot argue the matter of how OASI should be financed. Personally, I do not care much what the Govern-

ment does with the money I contribute under OASI. If we can get i back from anybody, we can get it back when it is due us from th Government. I do feel that there is a psychological value in expandin this particular type, and I do not think it vitiates this principle, Senato Millikin, whether it is universal or not. If everybody in the countr had life insurance, the value of life insurance would be just as grea

Senator MILLIKIN. There is this difference. In the end there i first, an employer contribution which may be theoretical. If th employer did not directly contribute, he would have to pay the bil anyhow, as a matter of bargaining. But there is an employer contribu tion which is available to those who are in the system, which is no available for other methods of insuring ones future—those who ar not in the system. Then there is some contemplation under som theories that under any system you will ultimately have a genera Federal contribution to the system, which would not be available t those who are not in it. So, I am simply raising the point that ther might be some charges of discrimination and favoritism if you do no make the coverage as wide as possible.

Mr. BATES. I certainly think you should. Then I think again, witl reference to the method of withholding, it makes the discharge o that obligation very much easier. I do not know where we woul all be now if we had to pay Federal income taxes in a lump sum. I comes easier to pay the money if we never get it. It comes out i the same way in the matter of OASI. If it is taken out of you pay, thereby it does not seem to be as bad as it really is.

Can there be any justice in a situation such as now exists, whereb the man who is thrifty and saving and provides, with the help of hi employer, for his own future, receives just about half as much i benefits per month as does the man who neglects to make such provi sion? You have been told the average old-age assistance grant pe man is between $14 and $15; and it averages about $25 in OASI.

(2) Now, to us, it seems to follow from the above that we canno believe that the continual broadening and expansion of the assistanc or relief parts of social security, which in the beginning were recog nized as temporary, is in the interests of all of our people.

The State of New Jersey, I think, believes that one of the fundu mental purposes of government, as stated in the preamble to our Na tional Constitution, is to "promote the general welfare," but I cal attention to the fact that this phrase "general welfare" connotes wel fare for everybody, not only in the present and the near future bu in the distant future, and that it includes the welfare not only of thos who cannot or do not work but those without whose effort and con tribution there would be no government.

It seems incredible that in the midst of an era of great prosperit and high wages there should be such a long-sustained demand for in creased assistance payments.

There has been a recognized and a continuing responsibility on th part of local and State governments for meeting the needs of the un fortunate; the crippled, the diseased, the insane, the dependent chil dren and the blind, and, latterly those helpless victims of industria cataclysms over which they had no control.

The Federal Government, of course, came to the rescue when in solvency threatened our local units, and they could not discharge thes obligations.

It is one thing for us to recognize this obligation toward our fellow men; it is another thing to say that the Government should go in for the noncontributory payment of benefits. Most of these hazards in our modern society can be surmounted or ameliorated through the use of insurance. Sickness benefits, such as we have in New Jersey—and we are one of only four States in the country to enact this advanced legislation, unless there are some new ones lately—workmen's compensation, insurance against accidents, Blue Cross membership, insistence on the responsibility of relations and the disclosure of assets, and just plain thrift and industry would do much to reduce the terrific and mounting public obligations. It does not indicate any lack of concern for the temporarily unfortunate or unemployed to say that that minimal or residual phase of welfare can and should be left to the locality.

I admit this statement may sound more like that coming from the chamber of commerce than from a welfare department; but, if the welfare of all is our concern, we cannot but point out that we live and succeed through the operation of incentives, and if the time should ever come when the incentives are toward shiftlessness and toward dependence on the Government rather than on thrift and self-support we should indeed be well on the way toward a complete departure from our American traditions.

It seems difficult to envisage a government that will provide for the needy and unfortunate without at the same time having regard for the industrious, the thrifty, and those who hold high their personal responsibility for their fellow men.

What incentives are being provided for by the Government to the young man or woman to save, to take out insurance or to provide for their own old age or misfortune?

I spoke to a Congressman in a rather jocose vein once, and asked him what kind of bonus Congress was giving to men who did provide for their future and who did save. His reply was to ask me if I really meant that. What incentive is there for people to provide for their old age or misfortune?

Some speakers before you have emphasized the need for preventive activity in the field of dependency as it has been so successfully practiced in the fields of disease. We would not be so greatly disturbed about the increasing old-age problem, Mr. Chairman, if it had not been for the tremendous progress in the field of disease prevention. We have kept people alive 11 years longer in the last two generations, and, having kept them alive, we have now many more to take care of.

Senator MARTIN. This is very interesting. How has that largely been accomplished?

Mr. BATES. I think by the conquest of acute diseases, by the use of these new miraculous drugs, by insistence upon sanitary measures——

Senator MARTIN. Has it been pretty largely done by the incentive of the individual? Has it been done by the hard work in the laboratories and by individuals? It has been done by the hard work of physicians and surgeons who desired to succeed in their various professions. Has it not been largely done by that way?

Mr. BATES. I would say to some extent. But primarily I would say that it was done by intelligent conscious leadership. We did not stop drinking out of the old tin dipper because we thought it was wrong.

We had a picture of germs in our mind, and people dying, and therefore, we used the paper cup. So I think the greatest influence for the prolongation of life has come from preventive measures, that is, preventive health measures.

Senator MARTIN. What I am getting at is this: Has that not been largely done through the private-enterprise system, whereby the individual wanted to work out something, and not particularly for profit?

You take a man like Mr. Acheson, while he succeeded well financially, nevertheless that never seemed to be his incentive.

Mr. BATES. That is right.

Senator MARTIN. Of course, I am very much for preventive medicine and precautions, but I am just wondering if it has not been largely done as a result of the work of the individual rather than governmental agencies?

Mr. BATES. I think that is true. The individual and the private organizations and the foundations-supported organizations, and so forth.

However, it does no good to talk about preventing dependency unless we are willing to divert a small fraction of the constantly mounting sums which we pay on account of the lack of such effort. It would seem to us to be important to clearly write into H. R. 6000 a provision setting up a Bureau of Prevention in the Social Security Authority, which can continually confront the conditions which make for dependency in our body politic, and direct their efforts toward the eradication of the industrial, social, and economic inequalities which foster dependency.

(3) With this situation obtaining in New Jersey, we cannot help but point out that there are amendments in H. R. 6000 which will intensify our difficulties.

The Governor of New Jersey has stated that New Jersey will not ask for any more Federal matching; that we cannot affoad it.

Senator MARTIN. I think it might be well to insert here, Mr. Chairman, that the Governor in New Jersey has been one of the foremost men in our country fighting grants from the Federal Government because in many cases it is putting obligations on the States that they canot really afford.

I was going to ask the preceding witnesses—but I was called away to the telephone—about this matter of allocation of taxes to the three levels of Government. Governor Driscoll made an address, and I have quoted from it, in which he gave the high cost of collecting of Federal taxes, and then the administration of them going back to the States. It is just too high a brokerage fee. I forget now what it is. It is an enormous percentage and, of course, that costs the taxpayer of the United States, because all our taxes come out of the same pocket.

Mr. BATES. We cannot afford it because we have figured—and I do not say that New Jersey is getting ready to secede—that if we were off by ourselves, it would cost us about one-fifth to maintain our present welfare systems in terms of tax money of what it costs us today.

Senator MARTIN. Mr. Chairman, I might interject this: As Governor of Pennsylvania, I am not so sure but I would have refused

some of the Federal aid, because I could have done it much more economically if it had not looked as if it was done for political purposes—and I wanted to make the headlines—because I was of the opposite political party. But we went into the Federal supervision, the very expensive Federal supervision, although we could probably have done a lot of it cheaper without the Federal help. I have talked to Governor Driscoll, and I think he has a great deal of the same opinion.

Mr. BATES. I suppose it does not do us much good to talk about it because whether we take the Federal money or not, we have to pay the taxes.

The CHAIRMAN. Yes.

Mr. BATES. It makes it, however, inevitable that we in New Jersey are interested in the national scene and what Louisiana, Colorado, California, and the other States of the Union do.

I need only say that the average number of persons over 65 on relief in New Jersey is 6.7 percent, whereas in Louisiana it is 81.2 percent, and throughout the country it is about 25 percent, to indicate the somewhat different approach which we are obliged to make to this problem.

I do not know what the social-security authority regards as its function in the problem, but it does seem as though there was something the matter with the system whereby one State can draw Federal money to provide for 81 percent of its aged cases and another State can get along with 6.7 percent.

Senator MARTIN. I would like to ask this: Suppose all States could be kept down to 6.7 percent, as you have in New Jersey, what would that save the Federal Government? Have you figures on that?

Mr. BATES. I think if that impossible situation could be brought about, the average rate being about 25 percent, if they were all brought down to 6 percent it would cost about one-quarter of what it cost now.

The CHAIRMAN. That comes about, Mr. Bates, as you know, from the basic fact that the population of many States is largely rural. They are not covered by social security. They are not under the old-age and survivors insurance. The higher percentage of the rural population naturally would find whatever relief it did get through the aid and assistance programs.

Mr. BATES. I realize that, Mr. Chairman.

The CHAIRMAN. It also comes about from the further fact that we have made it possible for a State to spend less money and get more from the Federal Treasury under the Old Age Assistance Act than the State could, under the old-age and survivors insurance.

Mr. BATES. I have no quarrel with that policy, except to point it out and to interpret why the government of New Jersey feels the way we do.

The CHAIRMAN. I can see that; yes.

Mr. BATES. I then point out that these divergencies will be increased if the principle of variable grants, which has been suggested in connection with social-security matchings, and which has been enacted into law with reference to other Federal legislation, is adopted.

A substitute for the grants-in-aid has already been written into social-security legislation whereby in effect the lower the grant, the higher the percentage that is given. There is not only a stimulation to keep the amounts down, but it fosters a lack of responsibility in the

State administering a grant which may be as high as 80 percen Federal contribution—and I suspect possibly 100 percent of th grant—whereas, in the higher-income States, so-called, which are in variably not only higher-income States, but higher-cost-of-livin States, the percentage of grant is less.

Again I am not quarreling with that situation, but I merely poin out that it leaves us in the position where we are willing to tolerat the situation as it is, but we do not want to get any worse.

As the man said, speaking of death and taxes, "One thing abou death, it cannot get any worse."

(4) I would like to record our approval of that part of H. R. 600 which proposes matching funds for the relief of the permanently dis abled. In our State the term "general assistance" includes provisio at the municipal level, with State subsidies where requested (1) fo this group of permanently disabled, and (2) transient relief for th temporarily unemployed, who do not come under unemployment com pensation.

We think it is quite possible that the municipalities may adequatel care for the second group, but a proper and sympathetic understand ing of the needs of the chronic sick requires a far better financin program and more intelligent handling than can be given to it in th average small town or village. On the whole, we are pleased that th reported bill does not include matching for general or transient assist ance—and in this we differ from some of our colleagues—but sets u a fourth category for the benefit of persons whose claims are equall worthy with those of the blind, the dependent children, and the indi gent aged.

(5) Next, because it definitely affects the welfare of all of our peopl we cannot at this point refrain saying another word about the tax sit uation.

The war is over, and yet Federal taxes are rising. Deficit spend ing is being tolerated; rumors are adrift about amendments to th Federal income-tax law at some particularly uncomfortable point Although it may be of collateral interest, may I point out, Mr. Chair man, two instances of this, which are especially applicable to thos of us in the welfare administration?

(*a*) Those persons who are giving their lives, and a large measure o liberty to the care of our unfortunate physically and mentally sic neighbors, and who, like the sick people that they serve, are forced t live in institutions so that they may be in close proximity to their jo are, so it is rumored, to be taxed on the "value of their maintenance. That is, they are to be taxed for making that sacrifice in our insan hospitals and other institutions.

(*b*) Another example: Throughout the country child-welfare de partments have been saving for future citizenship thousands of un fortunate youngsters who have been removed by court action fro degrading and evil surroundings, and placed with foster parent Again rumor has it that these foster parents are now to be classed a wage earners. And, although the love and devotion which they ex pend on the orphans whom they shelter cannot be taxed, the mer pittance which they receive as guardians for and on behalf of th child they must share with the Government to help pay the constantl rising costs thereof.

I cite these only to show that when the only way out is more taxes, things like this are inevitable.

We have just adopted our State budget in New Jersey, which represents a total expenditure, including grants to counties and municipalities, of $164,000,000. That is $35 per inhabitant.

Senator MARTIN. That is per annum?

Mr. BATES. Yes, sir. We have the annual system. That is $35 per inhabitant, as against $60 per inhabitant in New York. Yours in Pennsylvania is almost identical with ours. I think it is about $34 per inhabitant.

As compared with this, the citizens of New Jersey will this year pay taxes to the Federal Government of $1,375,000,000 or $8.50 to the Federal Government for every $1 for the support of our own State government.

Much has been said about the help which the Federal Government has been to the States through the so-called grants-in-aid, as was stated here a few moments ago. That has become inevitable, and with the Government's superior taxing power, which not only takes our dollars but takes from us certain tax powers or functions which we might otherwise exercise——

Senator MILLIKIN. It also takes away your liberties.

Mr. BATES. But, after all, the biggest grant-in-aid is that which the States, or the taxpayers in the State, turn over to the Federal Government.

(6) Next—and I am nearly through, Mr. Chairman—we are unable to approve that amendment in H. R. 6000 which provides for matching for the expense of persons in public and private institutions for the reason that this will open a new door of Federal expenditure—and while it may contribute to the temporary advantage of New Jersey, in the long run it will add to the tax bills paid by New Jersey citizens.

It seems to me that implicit in the provisions of the social-security legislation was obviously a resolution on the part of its authors, which resolution we heartily approve, to get people out of institutions and away from the abnormal influence of the orphanage and the poor farm, and the categorical assistances were undoubtedly to be regarded as in effect a premium on keeping these needy individuals in their own homes and to make such possible. In fact, the laws of New Jersey specifically limit the payment of old-age assistance to those in their own or some family home. And this may be one reason why we are down to 6.7 percent. We fear the consequences of a country-wide reversal of this process. If the incentive is removed to obtain foster-home placements for either the aged or dependent children and it becomes progressively easier to revert to the old idea of almshouse care, even the carefully worded safeguards in the bill may not be able to counteract this tendency.

So, in pursuance of the policy of our Governor, to which I have adverted, that New Jersey will not ask for any new sources of Federal revenue, we cannot go along with many of our colleagues on this issue.

(7) We are strongly in favor of the amendments with reference to direct payment of medical care. It is possible with us that may be arranged for if the matching can be done on the basis of averaging grants, but in any event, we think it is entirely necessary to permit us to pay directly for this important service.

(8) A provision for a more careful and inclusive definition as to the persons to whom payments may be made in the case of aid to dependent children we can likewise agree on.

Senator MILLIKIN. How would you define that? Can you elaborate on that just a little bit?

Mr. BATES. Well, with us, of course, the definition is limited. I do not know that I can give you all the relationships, but it is limited to a child whose father is either dead or in prison or has deserted. Now, we find instance of deserving cases of dependents and deserted children where that more or less restrictive definition would deprive them of aid, and we would like to see that broadened. I would leave it to experts, like Mr. Fauri, to provide that language. I just want to record us in favor of the belief that certain of our children are being neglected because of the restrictive character of that definition.

We believe that the provision in H. R. 6000, which seems to discriminate in favor of optometrists, should receive the careful attention of your committee.

With your permission, Mr. Chairman, I would like to file a very short letter from the executive director of our commission for the blind on this subject.

The CHAIRMAN. Very well. It may be inserted in the record at this point.

(The letter is as follows:)

STATE OF NEW JERSEY, COMMISSION FOR THE BLIND,
Newark, January 27, 1950.

Hon. SANFORD BATES,
Commissioner, Department Institutions and Agencies,
Trenton, N. J.

DEAR COMMISSIONER BATES: On September 22, 1949, I wrote you concerning certain clauses in H. R. 6000 which I feel very strongly should be considered for elimination if and when the bill reaches the Senate. These two items had reference to the provision for legalizing eye examinations of applicants for assistance by optometrists and the definition of blindness for total disability which differed from that used to determine eligibility for financial assistance.

As you know, H. R. 6000 is now before the Senate Finance Committee. I feel that we should make every possible representation to that committee urging the changes in question. I trust that you may be in agreement with this and that you may take such steps as to make our influence in this connection as effective as possible.

Thanking you for your consideration in the foregoing, I remain

Very truly yours,

COMMISSION FOR THE BLIND,
GEORGE F. MYER, *Executive Director.*

Mr. BATES. To summarize, so far as New Jersey is concerned, so important do we regard the expansion and implementation of the OASI part of the act that we would put up with whatever deprivation or loss of revenue that might come from your failure to enact any of the amendments that have to do with assistance.

I join with others in believing that we are coming to a crisis in this matter of welfare. While we should not turn our backs upon the unfortunate of this generation who merit our support, we must resolve to follow the course which will encourage self-help and self-reliance and the reduction of dependency through preventive measures.

Thank you very much.

The CHAIRMAN. Thank you very much. We are very glad to have your appearance.

Mr. BATES. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Mr. Lewis H. Fisher. You may have a seat if you wish, sir.

STATEMENT OF LEWIS H. FISHER, FIRST VICE PRESIDENT AND GENERAL COUNSEL OF THE NATIONAL ASSOCIATION OF RETIRED CIVIL EMPLOYEES

Mr. FISHER. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Lewis H. Fisher, and I appear here as the representative of the National Association of Retired Civil Employees, whose office is 1246 Twentieth Street NW., Washington, D. C.

The association was originally organized on February 19, 1921 (shortly after the passage of the original Civil Service Retirement Act), but became incorporated on February 27, 1947, under the laws of the District of Columbia as a nonprofit welfare corporation, and at the present time there is a membership of over 50,000 individuals. Nearly the entire membership is composed of Federal civil annuitants, but there are a few still in active service who compose the associate membership of our organization.

Objectives: Among the general objectives of the National Association of Retired Civil Employees are the following:

To sponsor and support legislation, rules, and regulations beneficial to annuitants and potential annuitants of the civilian public service.

To oppose legislation, rules, and regulations inimical to the interests of annuitants and potential annuitants.

To promote the general welfare of the annuitants and potential annuitants of the civilian public service.

To serve and advise retired officers and employees with respect to their rights under civil retirement law.

To cooperate with other organizations and associations in furtherance of the general objectives of this corporation.

We wish to emphasize our objection to the placing of public employees, Federal, State, county, and municipal, within the coverage of the Social Security Act, where such employes have their own retirement systems.

Our organization is cooperating with the National Conference on Public Employee Retirement Systems, the Joint Committee of Public Employee Retirement Systems, the National Education Association, as well as with policemen, firemen, and other public-employee groups in opposition to social-security coverage for public employees. Generally, we concur in the recommendations made by the representatives of the foregoing groups before this committee during the week of February 7 to 10, 1950.

Social security not needed for Federal employees: Simply stated, our objection is based on the fact that the public retirement systems are generally superior to the benefits of the purely social system. As the greater includes the less, the civil-service retirement system, to which most of our members belong, is amply sufficient for superannuation and disability benefits without the floor of protection so often asserted as the basis of social-security benefits.

As a matter of fact, the Civil Service Retirement Act is adequate both in terms of coverage and benefits to protect all retirement interests of Federal employees. That act grants retirement benefits to all officers and employees of the United States and District of Columbia Governments who are otherwise without retirement coverage. The text of this law on general retirement coverage begins:

> This Act shall apply to all officers and employees in or under the Executive, Judicial, and Legislative Branches of the United States Government and all officers and employees of the Municipal Government of the District of Columbia, except elective officers in the Executive Branch of the Government * * * (5 U. S. Code, sec. 693).

Senator MILLIKIN. How much does a Federal employee contribute toward the Federal employee annuity system?

Mr. FISHER. At the present time 6 percent of basic pay.

As Congress has already provided an adequate retirement system for all officers and employees "in or under" the United States Government, there seems no valid reason for imposing another system of record keeping, and so forth, for the same officers and employees.

Voluntary compacts: We join wholeheartedly in the recommendations previously made before this committee by the large numbers and groups whose representatives have asked for an amendment of section 218 (d), as follows:

> Strike out section 218 (d) (beginning with line 10, p. 82, to and including line 17, p. 83) and substitute therefor the following paragraph:
> (7) Such agreement shall exclude all public employees in positions covered by a retirement system, as previously defined in subsection (b) (4) of this section.

Accordingly, we favor the bills embodying the proposed amendment already introduced in the Senate to carry out the above recommendations.

Civil Service Commission comment: As I was with the Civil Service Commission for a number of years, I would like to quote from the Fifty-sixth Annual Report of the Civil Service Commission.

On pages 53 and 54 of the Fifty-sixth Annual Report of the Civil Service Commission, for the year ended June 30, 1939, the Commission renews its recommendations for the vesting of annuity benefits after at least 5 years of service for the Government and points out that under such a provision any former employee would have available a vested right to an old-age benefit based on service rendered, in addition to any benefit to which he might be entitled under the Social Security Act by reason of industrial employment. The Commission's report on this subject concludes:

> He would, therefore, have credit toward retirement security for his complete working period while at the same time the proposed method would avoid the application of excessive administrative costs involved if credits for service were made interchangeable between the Government and industrial retirement systems. The Commission cannot state too emphatically that the two systems should be kept separate.

Conclusions: It is a fact that public employees now contribute their share of the taxes used to pay some of the benefits of the social-security system, but there appears to be no question but that they would much rather continue the present practice than run the risk of having their benefits reduced to the industrial system level.

And there are practical reasons why Government employees should not be placed under the social-security system. In the first place it

would reduce the present level of benefits for public employees to that of the social-security system, or raise a great clamor to increase the industry benefit level to that of Government benefits.

Therefore, the real issue is why consider a lower benefit retirement for public employees when the present systems of retirement adequately care for such employees?

We greatly fear that if the social-security camel gets his nose in the Government employee tent, it will not be long before the whole body of the Social Security Act will be forced on the entire Government service.

Consequently, we urge that if temporaries and other presently exempted Federal employees are to be given retirement benefits they should be granted under the better benefit plan of the Civil Service Retirement Act as now written and not under the Social Security Act. In other words, why do an unnecessary thing?

The CHAIRMAN. Sir, we thank you very much for your appearance.

Mr. FISHER. Thank you, Mr. Chairman, and gentlemen of the committee.

The CHAIRMAN. Our next witness will be Mr. Garey, civil-service counsel of the American Federation of State, County, and Municipal Employees.

STATEMENT OF A. E. GAREY, CIVIL-SERVICE COUNSEL OF THE AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES, MADISON, WIS.

Mr. GAREY. Mr. Chairman and gentlemen of the committee, my name is A. E. Garey, and, as you have stated, I am the civil-service counsel of the American Federation of State, County, and Municipal Employees, which is an affiliate of the American Federation of Labor.

My appearance here is at the request of the American Federation of Labor, because we, in our union, represent the States and the counties and municipalities, so far as public employees are concerned, exclusive, however, of teachers and fire fighters.

We agree, of course, with the position taken by the Federation of Labor in its appearance made here by President Green and Mr. Cruikshank, on March 1; but, because of our peculiar position in the States and counties and municipalities, this paper, which I hope each member has a copy of, is confined to a discussion of the extension of old-age and survivors insurance benefits to the public employees in the States and counties and municipalities, whether or not they are covered by existing retirement systems.

There has been a great deal of propaganda spread about the country against this extension of which we are talking and which we favor. We believe that the campaign has been engineered largely by the administrators of existing retirement systems, not all of them by any means, but by a few of them, and by some others. We think it is irresponsible, and we believe it is founded on the theory that if you frighten the people you can get them to besiege their Senators and their Congressmen in large numbers.

Because of my position, it has been necessary for me to do a great deal of work, a lifetime's work, in civil-service and retirement systems. As an attorney, I have had to draft many of these acts, and I think

I speak with some acquaintance with them when I say without condemning them that we must keep in mind that the State-wide systems, whether for State employees or for State and county and municipal employees, are investment systems, if they are good ones. And, because of the narrow base, they cannot do the things that are provided in social security. In other words, persons under those systems in the main must earn first what they can get out of them. What does that mean? It means, as you will see from my paper here, that it takes long years of service before members can get those benefits about which the committee must have heard a great deal.

So, I take the time for just a moment, without reading my paper, to call your attention to the inadequacies of those systems. On page 3, I touch upon the death benefits. What are the death benefits under most of the systems, exclusive of the systems for the uniformed forces? Fifty-three percent of all of them return the contributions made by the deceased with interest, and that is all. Another large percentage of them return those contributions without interest. A smaller percentage of them have the provision that the contributions shall be returned, or that there shall be a grant to the widow or dependents of $500, whichever is the greater. Only 8.11 percent of them contain provisions for some kind of insurance benefits to the dependents of the deceased.

Another great weakness, of course, of any of the local systems, or of nearly all of them, is that there is no means of transferring credits. A person under one system may have to leave that system, but he or she cannot transfer credits. Hence, without the over-all coverage of social security, that person has lost the security that he or she has earned up to such time.

Much has been said in these hearings about the fine benefits, the rich benefits, that are earnable under these systems, but little has been said about the fact that most of the employees never work long enough under these various systems to earn those benefits.

In a report by the Legislature of Kentucky, made in 1949, it is shown that the average service period of all persons in the Kentucky service working for $200 or less per month is but 5 years. The inadequacies there, or the rapid turn-over indicated in that State, are matched, I believe—and I am pretty well acquainted with the States—in all of the States which do not have civil-service systems. In the States that do have civil-service systems the tenure is a little longer. But I will show you in a moment how inadequate the tenure is even in other States. But, first, I want to touch on another weakness shown by an investigating committee of the Legislature of Illinois. That report, too, was rendered last fall.

Studying the systems in the State of Illinois, the report was made that, as of that date, those systems, so far as the contributions by the employers were concerned, were $272,000,000 deficient. In other words, if you are talking about an actuarial system and fund building—and that is the only system we can use on the State level and the lower units—you have got to build and maintain funds. Yet, in that rich State they are short now, according to the legislative committee, $272,000,000.

Another weakness which, to some extent is a weakness in social security itself—because under it it takes 5 years to earn coverage sufficient to acquire benefits in case of total disability incurred not

in line of duty—is that in most of the State systems it takes 10 years as a minimum to earn protection; 20 years in the State of Virginia, and Pennsylvania has no provisions for that kind of disability, which is true also of several other States.

So with respect to all these large numbers of people working in these systems, if they happen to be injured not in line of duty, they get nothing except probably the return of their contributions.

If you have time to turn to pages 5, 6, and 7, and then to the summary on page 9 of my report, you will see the results which we have obtained from a questionnaire which we developed and which we used within the past 6 weeks. We got responses from 35 of the States and State systems. You will be surprised, I think, if you will turn to page 5 and take the State of Alabama, a very fine retirement system. You notice there that of the persons retired, 51 in the past 5 years—it is a new program—that 31 draw between $2.92 and $25 a month. Of the remaining 20 persons, 14 receive allowances of $26 to $50, and above that level there are only 6.

Let us look at a larger State system. Take Louisiana for instance. The people there have a very liberal State system. You will notice that of those drawing $25 or less per month, there were 25. Of those drawing between $26 and $50, there were 116.

Now, let us turn to the State of North Carolina. North Carolina has a new system. Sixty-four persons were retired and 30 of the 64 draw $25 a month or less, and 20 additional ones draw only between $26 and $50 a month.

Turn now to the State of Illinois—both systems are good. In the municipal system of the State of Illinois, see page 5, during the past 5 years there were 850 people retired, and 324 of those draw from $10 to $25 a month as a total; 260 draw from $26 to $50 a month.

We shall have to skip most of the States. Let's refer to just one more, the State of Wisconsin. One thousand two hundred and twenty-four people have been retired during the past 5 years; 363 of them have been retired at $25 or less and 394 at $26 to $50 per month.

Without reading more of these data, if you will turn to page 9 you will find the summary. The median point of all of those persons that have been retired during the past 5 years under these State-wide State and municipal systems is $46.43. The average for all of the groups is but $50.05. Look at the next figure—22 percent of all of the retirants in the past 5 years draw but $25 per month.

Senator MARTIN. Does that include public school teachers?

Mr. GAREY. No.

Senator MARTIN. It does not?

Mr. GAREY. No, sir. Unless, Senator, they happen to be included in the State-wide systems; there are some systems that do include them. We tried to get an answer out of Ohio, and my friend, the administrator there, who has appeared before this committee on the other side, said that he was too busy to get me the facts from his State. There are two or three other States that have taken such position. But by and large the States responded very nicely to our questionnaire.

I do not want to take your time to remind you of the type of campaign that has been carried on and of the suggestions which have been made obviously to make extension impossible, but I would like to point out that one of those who made suggestions, a very able actuary, said

that if they—the suggestions—are adopted they will be equivalent to total exclusion.

We take the position, and we represent 100,000 dues-paying people who are interested enough in what we are doing to continue their memberships—heavy memberships in the States of Pennsylvania, Colorado, and Georgia, among others—that if the covered members in a State system feel unsafe because the conditions precedent to acceptance by a State now provided in H. R. 6000 are inadequate, resort should be made by such persons to their State legislatures which will have to act anyway in every instance before the OASI provisions can become effective. Our position is that the Federal Government should not place its requirements so high that it will shut out the covered employees as a class from accepting the benefits of OASI. And you all know that there is a not a single system of covered employees in this country that could automatically come under this Federal plan. You all know that since those acts stem from the legislature that the people back home will have to go to their legislatures to obtain acts to provide for the vote that we hear so much about, to provide money for it, and to take other necessary steps. We know, too, that if a legislature takes no action the OASI features cannot become effective in such States. So why draw the strings so tight on the Federal level that the States—and I think they are sovereign States—cannot exercise reasonable authority to guard their own people. Surely, the State legislatures are closer to the people than the Congress can be.

One of the so-called suggestions made to prevent acceptance by the States is that the two-thirds vote requirement in H. R. 6000 should be stepped up to become a requirement that two-thirds of all of those eligible must vote. In other words, those that do not vote would be counted against the proposition. Senators, I submit that such goal cannot be achieved in a democratic country. It seems to take a foreign country to get out 99.7 of the vote. We cannot do it here. Rarely could we hope to get out more than a majority vote. We wish it were a majority requirement, and if the legislatures of the States wanted to make it three-fourths or five-fifths, let the legislatures do it. If a legislature provided for a study period of a year, let the legislature do it. Whatever the legislature wants to add in addition to what you put in here, for goodness sakes, let the legislature do that thing.

If those people with their campaign—which as I have said is unfair and a scare campaign—want to continue the campaign on the State level, very well. Many of our own members have been frightened by such campaign talk as this: "If the social security becomes available, our system is jeopardized immediately." Some of them go home crying, thinking they have lost everything they have gained under their own systems. Anybody who will sit down with them for 5 minutes can point out all of the safeguards and show them that they cannot by acceptance lose anything. We can prove, and have proved time after time in this campaign, that there is not a system in this country that would not be benefited by integration. If social security were integrated with any system, such system would be improved. There would be no deterioration; there would be a stepping up of the benefits and allowances and protection all along the line.

In conference last night and this morning with Mr. Cruikshank, whom you all know, we have agreed as representatives of the American Federation of Labor to submit another amendment. Surely, gentlemen, if all the protection that you have in the bill now cannot stop these people—the opposition—and if you feel that the hue and cry they have set up will not be abated by a little time and calm judgment after the bill becomes law, and if you want to go still further without taking out democratic processes that we think ought to be kept in the bill, and without taking away from the legislature any more of its powers, then we suggest this amendment. It is this:

On page 83, line 2, strike out the period and insert a comma, and add the following:

and (D) the benefit rights and protection afforded any coverage group as defined in section (b) (5) and those individuals who at the time the referendum was taken, were receiving periodic benefits under a retirement system covering such group will not be reduced or impaired as a result of the agreement or as a result of legislative enactment in anticipation of the agreement, and (E) the benefit rights and protection afforded under the terms of such agreement separately or in combination with those provided under the retirement system shall be for all individuals who may be thereafter employed in positions covered by such retirement system at the time the referendum was held at least equal to those under the retirement system.

We hope that amendment, Senators, will remove the last element of fear. Thank you very much.

The CHAIRMAN. Thank you, Mr. Garey.

Mr. GAREY. Thank you, Mr. Chairman.

(Mr. Garey's prepared statement is as follows:)

To: The Senate Finance Committee, United States Congress.

Subject: Reasons for the enactment of H. R. 6000 without restrictive amendments so that employees of States, counties, and municipalities whether or not covered by local retirement systems may obtain old-age and survivors insurance benefits.

From: American Federation of State, County, and Municipal Employees, American Federation of Labor, by A. E. Garey, civil-service counsel.

Mr. Chairman and members of the committee, as the representative of the largest affiliated public employee group composed exclusively of State, county, and municipal employees, we endorse fully without further comment the position of the American Federation of Labor on H. R. 6000 as it was expressed at the St. Paul convention and presented to your committee on March 1 by President Green and Nelson H. Cruikshank. Because of our obligations exclusively to State, county, and municipal employees, we shall confine our remarks to the provisions of H. R. 6000 which make possible the use of the old-age and survivors insurance benefits by the States and local governments.

It is assumed that there is general agreement that the goal toward which we all are working is social-security coverage for the largest possible number of the people of America. The report of the Advisory Council on Social Security to the Senate Committee on Finance, Document No. 208 of the second session of the Eightieth Congress, contained the well-known recommendation that coverage be extended by the compact method so that the more than four million State, county, and municipal employees might be covered. The Ways and Means Committee of this Congress in its recommendation of H. R. 6000 took similar position, and added that employees already covered by a State or local government retirement system would have to express their wish for OASI coverage by a two-thirds vote.

Nelson H. Cruikshank of the American Federation of Labor, suggested in his statement to the committee March 1 that some clarification could be effected by including in the draft of the bill the statement of the purpose of the subsection as contained in the report of the House Ways and Means Committee. The statement carries so much meaning that I repeat here one sentence which should be brought to the attention of every State and local employee who has

been frightened by the false propaganda of the opponents of extension. I quote: "The provision for a referendum is included so as to assure those covered by adequate existing systems—that adequate safeguards are present so that their present pension plans will not be destroyed."

In a second recommendation the Federation of Labor took position that it would offer no objections if the bill were further amended to exclude from the OASI benefits, the uniformed fire and police forces. If your committee should consider this recommendation, we hope that great caution will be exercised so that only the members of such uniformed forces who are in retirement systems made up exclusively of firemen and policemen will be excluded. The fact should be kept in mind that there are a number of systems in which portions of the total covered membership are in the uniformed services. Surely it would be essential to so draft any amendment that thousands of covered employees who might wish by a two-thirds vote to obtain the OASI features would not be precluded from doing so merely because there are in their systems limited numbers of uniformed employees.

However, for purposes of emphasis, we make clear at this point that it is our position that the old-age and survivors insurance benefits should be made available to State, county, and municipal employees whether or not they are covered by State or local systems; provided, of course, that the State legislature by enactment accepts such benefits and that other requirements of the bill are met. Because only a few extremists have allowed themselves to forget so far the goals of social security that they recommend the exclusion of all public employees, it seems unnecessary for us to take the time of the committee to discuss in this paper the State, county, and municipal employees who have no coverage. It is assumed that these employees, probably 2,000,000, will be eligible for OASI coverage as provided presently in H. R. 6000. Accordingly, we shall give our attention to the more than 2,000,000 State, county, and municipal employees who have some kind of retirement benefits at the present time. It is the members of these latter groups, the covered groups, who are being besieged by some of the administrators of existing retirement systems to wire, write, call by telephone, or interview personally their United States Senators to urge total exclusion. Unfortunately, the representations have been made rather recklessly; the campaign that has been waged has been more or less irresponsible and appears to be motivated by the fear of such administrators that the benefits of the old-age and survivors insurance system will in some manner affect adversely their positions of leadership in their several localities. The campaign has been one of scare and it has been carried so far that thousands of public employees have come to fear that their total retirement whatever it may be will be jeopardized by the provisions of H. R. 6000. The unfair campaign has been so devoid of factual information and so motivated by frightening tactics that many public employees believe the hard-working Congressmen of the Ways and Means Committee who labored tirelessly for many long months somehow betrayed their trust to their own constituents. Only the experience of covered employees who may elect to accept the benefits of social security will undo the damage which has been done by the false propaganda.

The administrators of State and local systems should be frightened by the deficiencies of their own laws. Without exception every public employee retirement system would be improved by integration with or supplementation of the OASI features of H. R. 6000. An estimate of the American Municipal Association presented to this committee February 8 is that 75 percent of State, county, and municipal retirement systems lack survivorship benefit provisions. A very common provision is contained in most laws that the widow or other dependent survivor of a currently covered member shall be permitted to withdraw from the fund the contributions theretofore made by the deceased with or without interest. From a total of 35 State and State and municipal systems studied, exclusive of systems with fire and police coverage only, it was found that the percentage of covered employees whose beneficiaries receive only a refund of the member's contributions without interest is 6.4 percent; the percentage whose beneficiaries receive only a refund of the member's contributions with interest is 53.18 percent; the percentage whose beneficiaries receive a refund of the member's contributions plus a maximum of 6 months' pay is 27.15 percent; the percentage whose beneficiaries receive monthly pensions was 8.11 percent. The remaining 5.16 percent receive other allowances such as refund of contributions with interest or $500, whichever is the greater, or lump-sum allowances.

Another great weakness of local retirement systems is inherent in all investment systems constructed to provide for actuarial funding; namely, that the benefits must in the main go to those who continue in the service until they reach

the advanced service retirement ages. The most common retirement age is 65 after 30 to 35 years of service. Unfortunately only a relatively few attain these goals. In view of this fact very interestingly a survey made last year in Kentucky by a legislative research committee shows that the average service period of all employees in that State service who receive salaries up to $200 per month is less than 5 years. No one has reason to believe that this record of turn-over is greater than it is in any 1 of the other 25 non-civil-service States. Nor is the record much better in the so-called tenure States.

Carl H. Chatters, executive director of the American Municipal Association, on page 6 of his report to this committee under date of February 8 was well within the limits of conservative statement when he said that "perhaps nine-tenths of all who leave the service before retirement age normally forfeit all their rights to old-age benefits." These persons, all but a relatively few in most of the States and a very large percentage even in the civil-service States, who for one reason or another must leave the State, county, or municipal services, forfeit every type of earned security for themselves and their dependents. Earned credits cannot be transferred. Integrated or supplemental OASI benefits would help to stabilize coverage security for millions of State, county, and municipal employees.

Before we give attention to statistics to show how woefully inadequate are the allowances of most retirants, let's consider for just a moment the financial insecurity of probably 90 percent of all local systems. On January 11, 1949, the Illinois Public Employees Pension Laws Commission which had been created by the General Assembly of Illinois August 8, 1947, reported that "pension obligations and accrued deficiencies have practically doubled, and deficiencies are still rising." It went on to state that the reserve funds of the various systems in Illinois were at that time short as much as $272,899,188, which would be required as of that date to make the funds sound. Similar, even much greater, weaknesses in local systems are common over America.

I'll take time to refer to just one more weakness of State and local systems. In nearly all of the general employee retirement plans there are no protective provisions for employees who may, because of sickness or injury not in line of duty, become totally and permanently disabled during the first 10 years of covered service. Generally only those and their dependents are protected who during the first 10 or more years of service are disabled in line of duty. Required years of service for benefits for total disability not in line of duty in several of the better systems are: Colorado, 5 to 15 years; Michigan, 15 years; Minnesota, no provision; New Jersey, 10 years; New York, 15 years; North Carolina, 10 years; Ohio, 10 years; Pennsylvania, no provisions; Rhode Island, 10 years; Texas, 10 years; Virginia, 20 years. See Book of the States 1948–49.

From a questionnaire prepared in our offices which was answered in February and March of this year by the administrators of retirement systems, the following revealing data are obtained:

Retirement system	Employees covered	Number of persons retired during past 5 years	Monthly retirement allowance, not including disability allowance	Number of persons receiving such allowance
Alabama employees retirement system.	State employees, and employees of counties, cities, towns, and subordinate units which elect to participate.	51	$2.92 to $25	31
			$26 to $50	14
			$51 to $75	5
			$76 to $100	1
			In excess of $100	None
Public Employees Retirement Association of Colorado.	State, municipal, city and county, and school district employees.	139	$11.63 to $25	9
			$26 to $50	20
			$51 to $75	47
			$76 to $100	38
			In excess of $100	25
Illinois municipal retirement fund.	Employees of school districts, of municipalities with greater than 10,000 population, and of other municipalities which elect to participate [1]	[2] 850	$10 to $25	324
			$26 to $50	260
			$51 to $75	121
			$76 to $100	67
			In excess of $100	56
State employees retirement system of Illinois.[3]	State employees	660	$10 to $25	6
			$26 to $50	187
			$51 to $75	201
			$76 to $100	122
			In excess of $100	144

See footnotes at end of table, p. 2061.

Retirement system	Employees covered	Number of persons retired during past 5 years	Monthly retirement allowance, not including disability allowance	Number of persons receiving such allowance
Public employees retirement system of Indiana.	State employees and employees of counties, cities, towns, townships, school corporations, public libraries, and publicly operated utilities which elect to participate.	725	[4]	[4]
Louisiana State employees retirement system.	State employees	[5] 278	$7.85 to $25	25
			$26 to $50	116
			$51 to $75	49
			$76 to $100	26
			In excess of $100	42
Maine State retirement system.	State employees, and employees of counties, cities, towns, water districts or quasi-municipal corporations of the State which elect to participate.	[6] 926	$5 to $25	137
			$26 to $50	252
			$51 to $75	229
			$76 to $100	170
			In excess of $100	138
Michigan municipal employees retirement system.	Employees of municipalities which elect to enter.[7]	256	$25	[8] 19
			$26 to $50	93
			$51 to $75	72
			$76 to $100	42
			In excess of $100	30
Michigan State employees retirement system.	State employees	1,470	$25	[9] 562
			$26 to $50	[10] 561
			$51 to $75	217
			$76 to $100	93
			In excess of $100	37
Minnesota State employees retirement system.	do	[11] 1,074	$6.54 to $25	[12] 70
			$26 to $50	152
			$51 to $75	200
			$76 to $100	123
			In excess of $100	81
Montana public employees retirement system.	State employees, and employees of cities, counties, and public agencies which elect to participate.	[13] 327	$5 to $25	17
			$26 to $50	162
			$51 to $75	64
			$76 to $100	44
			In excess of $100	40
Nebraska municipal retirement system.	Employees of participating municipalities.	[14] 16	$5.36 to $25	7
			$26 to $50	3
			$51 to $75	4
			$76 to $100	2
			In excess of $100	None
New Hampshire employees retirement system.	State employees, and employees of counties, cities, towns, school districts, or other political subdivisions which elect to participate.	[15] 185	$25	40
			$26 to $50	49
			$51 to $75	42
			$76 to 100	30
			In excess of $100	24
New Jersey State employees retirement system.	State employees, and employees of counties and municipalities which elect to participate.	858	$67.66 [16]	
			$69.14 [17]	
Public employees retirement system of New Mexico.	State, municipal, city and county employees.	[18] 12	$3.85 to $25	2
			$26 to $50	3
			$51 to $75	3
			$76 to $100	3
			In excess of $100	1
North Carolina local governmental employees retirement system.	Employees of participating local governments.	64	$25	30
			$26 to $50	20
			$51 to $75	8
			$76 to $100	3
			In excess of $100	3
North Dakota old-age and survivor insurance system.	State and local government employees.	[19] 18	$10 to $25	1
			$26 to $50	14
			$51 to $75	3
			$76 to $100	None
			In excess of $100	None
Tennessee State retirement system.	State employees and employees of political subdivisions which elect to participate.	161	$25	7
			$26 to $50	18
			$51 to $75	36
			$76 to $100	9
			In excess of $100	11
Texas municipal retirement system.	Employees of participating cities and towns.	14	$25	None
			$26 to $50	[20] 6
			$51 to $75	2
			$75 to $100	4
			In excess of $100	2
Texas State employees retirement system.	State employees	[21] 297	$25	29
			$26 to $50	125
			$51 to $75	82
			$76 to $100	33
			In excess of $100	28

See footnotes at end of table, p. 2061.

Retirement system	Employees covered	Number of persons retired during past 5 years	Monthly retirement allowance, not including disability allowance	Number of persons receiving such allowance
Public employees retirement system of State of Utah.	State employees and employees of counties, cities, towns, libraries and special districts which elect to participate.	[22] 90	$25	None
			$26 to $50	9
			$51 to $75	32
			$75 to $100	49
			In excess of $100	None
Vermont employees retirement system.	State employees and employees of political subdivisions which elect to participate.	103	$25	35
			$26 to $50	25
			$51 to $75	20
			$76 to $100	10
			In excess of $100	13
Employees retirement system of the State of Washington.	State employees and employees of political subdivisions which elect to participate.	[23] 883	$9.26 to $25	258
			$26 to $50	192
			$51 to $75	275
			$76 to $100	86
			In excess of 100	72
Wisconsin [24] State employees retirement system.	State employees	[25] 348	$25	207
			$26 to $50	140
			$51 to $75	1
			$76 to $100	None
			In excess of $100	None
Wisconsin retirement fund	State employees, and employees of counties, cities, villages, school districts, and towns which elect to participate.	1,224	$25	363
			$26 to $50	394
			$51 to $75	252
			$76 to $100	113
			In excess of $100	102
Wyoming State employees Retirement Association.	State employees	[26] 9	$25	2
			$26 to $50	4
			$51 to $75	None
			$76 to $100	2
			In excess of $100	1

[1] The term "municipality" includes employees of cities, villages, incorporated towns, counties, townships and school, park, sanitary, road, forest preserve, water, fire protection, public health, river conservancy, mosquito abatement, tuberculosis sanitarium or other local districts. The following described municipalities are specifically excluded from participation:

(a) Cities having a population exceeding 200,000.
(b) Counties having a population exceeding 500,000.
(c) Sanitary districts including in territorial limits two or more cities, villages, or towns having a total population exceeding 1,000,000.
(d) Park districts lying either wholly or in part within the territorial limits of any city having a population exceeding 200,000.
(e) Forest preserve districts, the boundaries of which are coextensive with the boundaries of any county having a population exceeding 500,000.
(f) School districts, the boundaries of which are coextensive with the boundaries of any city having a population exceeding 500,000.

[2] Approximately 850 retirement annuities granted since inception of fund, Jan. 1, 1941. Most of these have been in the last 5 years.
[3] Received too late to consider in determining the percentages.
[4] No break-down of data supplies. Statement made: "All retirees under law receive an allowance at normal retirement age of not less than $50 nor more than $100 per month."
[5] Retired from July 1, 1948, through Feb. 1, 1950.
[6] Retired since July 1, 1942.
[7] The term "municipality" includes counties, cities, villages, townships, and municipal corporations.
[8] Act permits retirement with as little as 10 years' service credit. Lower bracket pensions are being paid to employees with small amount of service credit.
[9] 545 of these have had less than 9 years' service, some even less than 1 year, since act made original members who had reached age 60 eligible for retirement regardless of length of service.
[10] All in this group have less than 20 years, some less than 10 years.
[11] Number retired for superannuation from July 1, 1929, to Feb. 1, 1950.
[12] Many of these members had from 5 to 10 years' service.
[13] Retired from July 1, 1947, to date.
[14] Only 7 cities have participated since inception of system in 1949.
[15] Retired since July 1, 1945.
[16] Average of all service retirement allowances including options I, II, and III.
[17] Average of all maximum service retirement allowances.
[18] Retired during past year.
[19] First retirement benefits became payable January 1950. In addition there were 16 active survivors' claims, widows with children. Benefits range from $33 to $79 in these cases.
[20] Range from $40 to $50. These are elderly employees with short periods of service in lower paid wage classifications.
[21] System established Sept. 1, 1947. Number of retirements effective as of Dec. 31, 1949.
[22] Retired from July 1, 1947, to Dec. 31, 1949.
[23] Retired since Apr. 1, 1949, through Jan. 31, 1950.
[24] This is a liquidating system. Effective Jan. 1, 1948, State employees were covered by the Wisconsin retirement fund, a State-wide system covering State and municipal employees.
[25] Retired through year 1947.
[26] System created Apr. 1, 1949.

From the above data it will be observed that the median or midpoint retirement allowance is but $46.43, and that the mean or average retirement allowance is but $50.05. It will be observed too that 22 percent of all the retirants draw but $25 or less per month, and that 53 percent draw $50 or less per month.

It becomes necessary for me in concluding this paper to invite the attention of the members of the committee to some extremely damaging amending proposals which have been suggested by powerful forces whose main objective is to defeat extension of OASI features to the State and local fields. We agree with one suggestion that the bill should be amended to exclude from those who are eligible to vote in a referendum persons already on retirement. Such people can, under the terms of the draft, obtain no benefits from extension to their field. Hence to extend to such people, old people in the main, the right and the invitation to take the trouble to vote is, in our opinion, little short of an insult.

We must take determined opposition to a suggestion offered by the opponents of extension that eligibility to vote in the proposed referendum be limited to persons who have had 10 or more years of service. I have pointed out all through this paper that in most jurisdictions public employees do not average 10 years of service and since from the statistics shown above more than 50 percent of all of those on retirement are drawing $50 or less which indicates generally short service periods, it will be seen that the 10-year limiting amendment would have the effect of reducing the eligible voters largely to those who have been in the service for fairly long periods and who because of acquired vested interests are less likely to want either integration or supplementation with or from social security. We hope such amendments will not be incorporated.

A further suggestion is made by the opponents that the two-thirds vote requirement be changed to mean that two-thirds of all of those eligible to vote be required to vote in a given referendum, and some of the opponents add to this fine dish of impossible ingredients the requirements that the majority be stepped up to three-fourths and that there be obtained a petition containing a majority of the names of the eligibles. It is submitted that if we are to maintain a democratic form of government in this country we cannot resort to the totalitarian tactics so common abroad. It is needless for me to remind the members of this committee that it is a very difficult thing to interest enough people in their own government, local, State, and Federal so that a majority of all of those eligible will participate in an election. In the 1940 Presidential contest in which two of the greatest vote getters in the history of America headed the respective major party tickets, only 59 percent of the total eligible voters took the trouble to vote. In the 1944 election the percenage of those exercising their franchise dropped to 56 and by 1948 the number interested enough to cast ballots was but 51 percent. To incorporate in H. R. 6000 additional restrictive amendments similar to those to which attention has been given above, would in our opinion be tantamount to total exclusion.

The OASI provisions of H. R. 6000, if enacted into law, will constitute an offer to the States, the counties and the municipalities to take advantage of such provisions. There will be certain over-all conditions which must be met. Such conditions are in the nature of prerequisite conditions but they do not preclude the States and subordinate units of government from making additional restrictions before acceptance of the proposition becomes possible.

I conclude this paper by mentioning what I think are the necessary actions to be taken before social security can be extended to any of the employees of the sovereign States or the subdivisions thereof who are presently covered by retirement systems. Such actions are:

I. Persuade the legislature which created the State or local public employee retirement system or systems that it should amend the act in question so that its members, if they chose to do so by a two-thirds vote, can take advantage of the Federal offer. Because such matters are most properly State, not Federal in their nature, the State legislature in order to make effective the Federal offer will find it necessary to amend the State or local retirement act to permit the covered members to vote. It will find it necessary to provide election machinery to determine the period of notice of election, and to appropriate funds for the election or in some manner make available moneys for such purposes. If in such legislative action the State chooses to step up the two-thirds vote requirement in the Federal act to two-thirds of all of those eligible to vote and even to a three-fourths majority, such action will be the business of the sovereign State. Why in view of the rights of the States to make conditions in addition to the existing conditions in the Federal act, but not in contravention thereof, should the Congress make more difficult the provisions already in the act? Can't

we leave such matters to our States? Surely few among us have reached that point in our thinking that would lead us to take position that only the Federal Government is interested in protecting the citizens of the several States of the Union. We believe that all such additional requirements if they are to be added should be permitted to be added by the States and not forced upon the States contrary to what we believe will be the wishes of most of the States of the Union. The fact should not be overlooked at this point that one has no reason to assume that State legislative bodies will proceed with the legislation outlined herein unless and until a very large demand is made for such thing by the people concerned. In other words, there can be no change in the present situation of covered members in any system until they and a great number of people in their State go to their own legislative bodies and make importunities for action.

II. If all of the requirements to which I have referred under I above have been met, then and only then will it be possible for the members of a State or local retirement system to proceed with an educational campaign and ultimately take a vote on the proposition of extension. Before a vote is taken clearly there will have to be agreement on the type of extension which is sought. Will it be integration or will it be supplementation? Under the provisions touched upon in I above the legislature may conceivably limit the choices to be exercised so that either integration or supplementation will have to be chosen if action is to be taken at all. Finally, of course, whatever proposition is submitted will have to be carried by the two-thirds vote of the members of a retirement system unless the legislature, as I have said above, requires that in its particular State a three-fourths vote or some higher requirement shall be met.

III. Finally, when all of the other conditions outlined in I and II above have been met, then there will have to be entered into between the Social Security Administrator for the Federal Government and the Governor of the State with respect to any one or more coverage groups designated by the State, the compact provided for in the act. Verily, the Government gold in the bullion depositories at Fort Knox is not more securely protected than are the covered employees by the present provisions of H. R. 6000. I am advised that there appeared recently in one of the New York papers comment on the campaign being waged by the administrators against extension of social security. The remark was to the effect that never had the writer seen so many people work so hard against their own best interests. Unfortunately, many of those who are participating have never had opportunity to study the proposition about which they wire and write their Senators. In contrast with the campaign which has been so viciously built up and without sufficient study by those who participate in it, I close with a quotation from a progress report made public in January 1950, by the committee on insurance and annuities of the American Association of University Professors. "This committee believes strongly that employees of colleges should be included under the old-age and survivorship provisions of the Federal Social Security Act."

A. E. GAREY.

The CHAIRMAN. We have one other witness this morning—Mr. Silberstein. Will you identify yourself for the record, please, sir.

STATEMENT OF ROBERT J. SILBERSTEIN FOR THE NATIONAL LAWYERS GUILD

Mr. SILBERSTEIN. Mr. Chairman and gentlemen of the committee, my name is Robert J. Silberstein. I am the executive secretary of the National Lawyers Guild, a national bar association which aims, among other things, "to aid in the adoption of laws for the economic and social welfare of the people."

In furtherance of that objective it has always taken an active interest in the proposed social-welfare legislation and especially in the development and improvement of our social-security system.

At our 1949 convention, as on previous occasions, we examined the condition of the existing social-security system and found it wanting

in many respects. Our delegates assembled in Detroit were substantially unanimous in agreeing to a resolution which urged "extension of (old-age and survivors' insurance) coverage to (all) those now excluded," emphasizing their view that "coverage to the self-employed is especially important to the legal and other professions, whose need for security in their old age and for their survivors is substantially as great as the need of employed persons."

This resolution also urged "a substantial increase in benefits to take into acount increased living costs and minimum living standards."

With regard to disability insurance the delegates urged "the establishment of a disability insurance program which would pay benefits for temporary disability on the same basis as unemployment insurance and for permanent disability on the same basis as old-age and survivors insurance."

The very detailed analysis of all of the provisions of H. R. 6000 and their evaluation in relation to the policies of the guild to which I just referred, as prepared for our national committee on social legislation, has already been distributed to all of the members of this committee. I do not intend to here repeat the content of that document. However, if it is possible, I should like very much to have the document included in the record of this hearing.

The CHAIRMAN. What is the length of the document?

Mr. SILBERSTEIN. The document is 12½ pages long.

The CHAIRMAN. Yes, sir; you may do so.

(The document referred to follows:)

CONGRESSIONAL PROPOSALS FOR IMPROVEMENT OF OLD-AGE AND SURVIVORS' INSURANCE AND FOR A NEW DISABILITY INSURANCE SYSTEM—H. R. 6000 *

(By Lazaar Henkin, chairman, committee on social legislation, New York chapter, National Lawyers Guild)

On October 5, 1949, the House of Representatives passed the Social Security Act Amendments of 1949, H. R. 6000. The bill now awaits action by the Senate; it has been referred to the Senate Committee on Finance. The bill has been widely hailed as legislation which would confer tremendous social-security benefits upon the American people. The fact is that the bill fails to meet the basic social-security needs of our people as these have been determined by the Ways and Means Committee of the House itself. The bill would impose additional heavy taxes upon the people and provide in exchange inadequate benefits. It is urgent that the Senate radically revise H. R. 6000.

I. THE BACKGROUND

The foundation for our social-security system was laid in 1935 with enactment of the Social Security Act.[1] The provisions of the act relating to old-age insurance were substantially revised and improved in 1939.

Notwithstanding such revision, it has long been apparent that our system of social security fails to provide protection in the fields in which an adequate social-security system should function. We still lack health and disability insurance, maternity and children's allowances. In those fields in which the system functions, its protection is deficient because it does not cover all who need protection, and the benefits provided are inadequate to assure a decent minimum standard of living.

Efforts were made in 1943 and 1945 to remedy these grievous faults by the establishment of a comprehensive Federal social-security system embracing health

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*A report prepared for the national committee on social legislation of the National Lawyers Guild. This report deals solely with matters relating to old age, survivors, and disability benefits. That part of the bill which relates to public assistance will be the subject of a separate report.

[1] 42 U. S. C. secs. 301 et seq.; 40 Stat. 620 et seq. (1935) (hereinafter referred to as "SSA").

and disability insurance, a unified improved system of unemployment insurance and necessary extension and improvement of old-age and survivors' insurance. They failed.[2] These proposals were supported by the National Lawyers Guild (1943); S. 1050, H. R. 3293, 79th Cong. (1945).
after a careful study and analysis by its national committee on social legislation.[3]

The need for immediate action for extension and improvement of our social security system can no longer be questioned. It is established by the annual messages of President Truman in 1948 and 1949, the annual reports of the Federal Security Administration, the Report of the Advisory Council on Social Security to the Senate Finance Committee (80th Cong.), the report of the social security technical staff of the Ways and Means Committee of the House of Representatives (79th Cong.), and the report of the Commitee on Ways and Means submitted to the House of Representatives in support of H. R. 6000.[4] In 1948 the Presidential platforms of all parties pledge the immediate liberalization of our social securtiy laws.

In February 1949, Representative Doughton, chairman of the Committee on Ways and Means, introduced in the first session of the Eighty-first Congress, a bill, H. R. 2893, which sought in substantial measure to remedy the defects in the Social Security Act as regards old-age and survivors insurance and to provide new disability benefits for those unable to work because of illness or disease. Thereafter the Ways and Means Committee conducted extensive hearings. H. R. 2893 was abandoned and in its stead a new bill was introduced, H. R. 6000, which as regards old-age, survivors and disability benefits is more restricted than the superseded H. R. 2893. As noted above H. R. 6000 has passed the House and is now before the Senate.

To understand clearly the social security needs involved and the extent to which they would be met by this bill, it is necessary to examine the provisions of the existing law as well as the changes proposed by H. R. 6000.

II. Old-Age and Survivors Insurance

A. PRESENT LAW

1. *Coverage under present law.*—At the end of 1948 approximately 90,000,000 persons in the United States held social security numbers and accounts under the old-age and survivors insurance system of the Social Security Act. Of these, about 80,000,000 living workers had some wage credits in their account. About 2,577,000 persons were receiving payments each month under the program as of July 1949.[5]

Although 90 million persons had social securit accounts at the end of 1948, and as many as 80 million workers earned old-age and survivors insurance credits in the first 10 years of the existence of the law, only 44 million had some kind of insured status, and of these, only 13.2 million workers had a permanently insured status as the beginning of 1949.[6]

At the present time about 46 percent of all gainfully employed persons (including self-employed) are excluded in whole or in part from the old-age and survivors insurance program. It was estimated that of a civilian labor force of 63,815,000 in July 1949, 59,720,000 persons were gainfully employed; of these 34,300,000, or only 54 percent of the working population were covered by the old-age and survivors insurance system.[7]

In 1947, the over 25 million people excluded were classified as follows:

Self-employed—urban	6,000,000
Self-employed—farmers	5,000,000
Agricultural labor	3,500,000
Domestic workers	2,500,000
Employees of nonprofit institutions	1,000,000
State and local government employees	4,000,000
Federal Government employees	[8] 2,000,000

[2] The Wagner-Murray-Dingell bills of 1943 and 1945 (S. 1161, H. R. 2861, 78th Cong.
[3] 3 Lawyers Guild Review (1943) 1.
[4] H. Rept. No. 1300, 81st Cong., 1st sess. (1949).
[5] Social Security Bull., September 1949, p. 2. (Hereinafter referred as "SSB.")
[6] SSB, April 1949, p. 5; and January 1949, p. 24.
[7] SSB, September 1949, p. 2.
[8] Report From the Advisory Council on Social Security to the Senate Finance Committee, S. Doc. No. 149, 80th Cong. (1948), 15–27. While the Committee on Ways and Means fixes the number presently excluded from coverage at the same figure of 25,000,000 (H. Rep. No. 1300, p. 9), the Federal Security Agency indicates it to be as high as 30,000,000 (annual report, 1948, 91–100).

Some 1½ million railroad workers were covered under a separate system.

The limitations on coverage seriously affect the adequacy of the entire system. Workers constantly shift from covered to noncovered employment. As a result, millions of workers eventually lose the credits acquired by them under the law while employed in covered employment. Some of these credits are lost forever. Furthermore, the constant shifting from covered to noncovered employment or vice versa, also greatly impairs the amount of the benefits, because the average wage, which is the basis for the computation of the benefits, is thereby reduced.

2. *Classes of beneficiaries under present law.*—Under the present law the following benefits are provided:

(*a*) Old-age insurance benefits for persons attaining age 65;

(*b*) Benefits for the 65-year-old wife of an old-age beneficiary;

(*c*) Benefits for children under 18 years of an old-age beneficiary and also benefits for such children in case of a deceased insured worker;

(*d*) Widow's benefits for widows aged 65, or widows under 65 having children under 18 in their care;

(*e*) Parent's benefits for dependent parents 65 years of age or older of a deceased wage earner who leaves no widow or young child entitled to benefits;

(*f*) A lump sum death payment to designated relatives in the event no survivor benefits are immediately payable.[9]

3. *Benefits under present law.*—Under the present system, benefits are computed on the basis of the average monthly wage of the wage earner, earned in covered employment. In computing the average monthly wage, nonworking periods, as well as working periods are counted. Employment in an occupation not covered by the law is deemed a nonworking period. The primary benefit is equal to 40 percent of the first $50 of the average monthly wage, plus 10 percent of the next $200 plus an increment of 1 percent for each year in which wages of $200 or more are paid to the individual. This primary insurance benefit is the benefit to the aged beneficiary wage earner. Survivor's and dependent's benefits are either three-quarters or one-half of the primary benefit. The maximum benefits payable on the basis of an individual's wages is the least of the following: $85 per month, or twice the primary benefit, or 80 percent of the average monthly wage. The minimum primary benefit is $10.[10]

Under this formula a retiring worker applying for benefits during the current 1949 year is entitled to a primary insurance benefit of about 45 percent of an average monthly wage of $50 and 22 percent of an average monthly wage of $250. The actual benefits are pitifully low. Indeed they are so low that frequently they are less than the relief allowances under other Federal public-assistance programs although such allowances are admittedly also below subsistence standards.

The average primary benefit for a retired worker of the age of 65 or over was $25.77 in July 1949.[11] At the end of 1946 a man's average primary benefit was $24.90 and that of a couple, $39. In 1943, the respective figures were $24.50 and $39.01.[12] Compared to this, the average payment under the old-age public assistance program was $43.69 in July 1949, ranging from $70.68 in California to $18.80 in Mississippi.[13]

It is noteworthy that public old age assistance is a form of pauper relief, financed by Government, usually out of general revenues, while benefits under the old age and survivors insurance provisions of the Social Security Act are paid for directly by the beneficiaries and their employers.

At the end of July, 1949, the assets of the old age and survivors insurance fund amounted to $11,310,285,000.[14]

4. *Eligibility requirements under present law.*—Under the present law, an individual is deemed to be insured for purposes of retirement, survivors and lump-sum death benefits, if

(*a*) He had not less that one quarter of coverage for each two of the quarters elapsing after 1936, or after the quarter in which he attained the age of 21, whichever quarter is later, and up to but excluding the quarter in which he attained the age of 65, or died, whichever first occurred, and in no case less than 6 quarters of coverage: or

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[9] SSA sec. 202 (g).
[10] SSA secs. 209; 203 and 202.
[11] SSB, September 1949, p. 2.
[12] Senate Finance Committee report (note 4), p. 62, table 13, and Social Security Board, Ninth Annual Report, 47.
[13] SSB, September 1949, p. 26, table 17.
[14] SSB, September 1949, p. 20, table 5.

(*b*) He had at least 40 quarters of coverage.

An individual is deemed to be insured for purposes of survivor and lump-sum benefits only if had not less than 6 quarters of coverage during the 12 quarters immediately preceding the quarter in which he dies.[15]

B. CHANGES PROPOSED BY H. R. 6000

1. *Proposed coverage.*—The proposed bill would, with exceptions, to be noted, bring some additional 11,000,000 gainfully employed persons within the protection of the law. It would extend coverage to a small segment of agricultural labor and to domestic workers, to various type of salesmen, taxicab drivers, licensees, etc., to employees of charitable, educational, religious and similar institutions, to a substantial portion of employees of the United States and of its instrumentalities and to most of the urban self-employed, irrespective of citizenship or residence.[16]

The exceptions would still be:

(*a*) Agricultural labor, including domestics and other labor employed on the farm.

(*b*) Employees of the United States or of an instrumentality of the United States covered by a retirement system established pursuant to law; persons in military service; the President, the Vice President and members and employees of the legislative branch of the United States; employees of any instrumentality of the United States if exempt from the tax imposed by section 1410 of the Internal Revenue Code by specific provision of law, temporary post office and Census Bureau employees; relief workers, etc.

(*c*) Employees of State and local governments (except certain transit workers).

(*d*) Services performed by a minister of a church or a member of a religious order; persons in the employ of a foreign government, the UNO, and several other minor groups.

(*e*) Self-employed physicians, lawyers, dentists, osteopaths, veterinarians, Christian Science practitioners, engineers, and clergymen.

(*f*) Services performed in connection with the catching, taking, cultivating, etc., of any kind of fish, shell fish, crustacea, etc., except services aboard ship of 10 tons or more or in connection with the taking and catching of salmon and halibut for commercial purposes.

(*g*) Services performed by newsboys under 18, newspaper vendors, spouses and minor children, students in colleges or hospitals, employees of foreign governments, and many other minor groups.[17]

State and local government employes could be brought into the system by means of a voluntary agreement between a State and the Social Security Administration. The agreement could cover all or some of the State employees, or any subdivision thereof. State or local employees covered by a pension system could be brought under the law only if so elected by the employees after a referendum. The agreement would have to be for at least 5 years and could only be terminated thereafter upon 2 years' notice.[18]

Puerto Rico and the Virgin Islands, presently excluded,[19] would be brought under the law. Puerto Rico, however, would be included only if its legislature so elected.[20]

The rights of veterans of World War II as presently fixed by the law [21] are not only preserved but are enlarged. The period of time served in the armed forces would be considered as covered employment for the purposes of the law.[22]

The bill would also repeal Public Law 642, enacted by the Eightieth Congress, June 14, 1948, over the President's veto, which deprived commission salesmen, newspaper vendors, and similar persons numbering some 750,000 people of coverage under the law.[23]

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[15] SSA secs. 209 (g), (h).
[16] H. R. 6000 sec. 104 (a), 81st Cong., 1st sess. (1949).
[17] Id., secs. 104 (a); 205.
[18] Id., sec. 106.
[19] Internal Revenue Code, sec. 1426 (e).
[20] H. R. 6000, secs. 104 (a), 108.
[21] SSA sec. 210
[22] H. R. 6000, sec. 105.
[23] Id., sec. 104 (a).

The Committee on Ways and Means estimates that H. R. 6000 when enacted into law would ultimately cover the following categories in addition to those already covered:

Self-employed, urban	4,500,000
State and local employees	3,800,000
Domestics	950,000
Employees of nonprofit institutions	600,000
Farm laborers—processing, etc	200,000
Federal employees	100,000
American employees, employed outside the United States	150,000
Virgin Islands	5,000
Puerto Rico	250,000
Salesmen, taxicab drivers, etc	[24] 500,000 to 750,000

This, according to the committee, would still exclude some 14,000,000 gainfully employed consisting of self-employed farmers, farm laborers, professionals, domestics, Federal, State, and local employees, and miscellaneous groups. According to the Federal Security Agency, the number excluded would amount to 19,000,000.[25]

2. *Proposed eligibility requirements.*—An individual would be deemed to be insured for purposes of retirement, survivors and lump-sum death benefits, if he has:

(*a*) Not less than one quarter of coverage for each two quarters elapsing after 1936 or after the quarter in which he attains 21, whichever is later up to but excluding the quarter in which he attains 65 or dies, whichever occurs first, but in no case less than six quarters of coverage, or

(*b*) Twenty quarters of coverage within the 40-quarter period ending with the quarter of retirement or of death, or

(*c*) At least 40 quarters of coverage.[26]

For purposes of lump-sum death benefits and benefits to widows under 65 having children under 18 in their care, and benefits to such children, an individual would be deemed to be insured if he has not less than six quarters of coverage in the period consisting of the quarter in which he died and the 12 calendar quarters immediately preceding the quarter during which he died, and excluding from such period any quarter of extended disability.[27] A quarter of coverage means a calendar quarter in which an individual has been paid wages of not less than $50 (if prior to 1950) and of not less than $100 (if after 1949). A self-employed person would be credited with one quarter of coverage if he had an income of $200 that is credited to such quarter.[28]

3. *Proposed classes of beneficiaries.*—An insured individual upon attaining age 65 would be entitled to a primary benefit.

The wife, at age 65, would be entitled to a wife's benefit equal to half of the primary benefit (as under existing law).

A child under 18 would be entitled to a child's benefit equal to half of the primary benefit (as under existing law). A widow upon attaining the age of 65 would be entitled to a benefit equal to three-fourths of the primary benefit (as under existing law). A parent at age 65, if there be no widow or widower or child qualified for benefit, and if one-half of income of parent came from insured, would be entitled to a benefit equal to three-fourths of primary benefit, instead of one-half as under present law.

A wife under 65 having children in her care under 18 would be entitled to a "mother's insurance benefit" (now known as "widow's current insurance benefit") equal to three-fourths of the primary benefit. The first child would be entitled to a child's benefit equal to three-fourths of the primary benefit instead of one-half as under the present law. Each additional child would get one-half of the primary benefit.

A divorced wife who is the mother of the deceased's child or has adopted a child of the deceased while married to him, or is the mother of a child legally adopted by her and the deceased during coverture and was receiving from him at least one-half of her support would be entitled to a mother's insurance benefit. (This would be a new benefit class.) [29]

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[24] Committee on Ways and Means, Rept. No. 1300, 81st Cong., 1st sess., pp. 11–15.
[25] Supra, note 8.
[26] H. R. 6000, sec. 104 (a).
[27] Ibid.
[28] Ibid.
[29] Ibid., secs. 101 (a); 104 (a).

A lump-sum death benefit equal to three times the primary benefit would be payable to widow or widower. If there be none, it would be payable to one who incurred burial expenses. (Under existing law a lump-sum payment equal to six times primary benefit is payable only if there is no person surviving who qualifies for benefits.) [30]

4. *Proposed benefits.*—Significant changes relating to the amount of benefits are proposed in the bill.

Under present provisions of the Social Security Act, the primary insurance benefit is 40 percent of the first $50 of average monthly wages, and 10 percent of the next $200, plus a premium of 1 percent of the total basic benefit for each year of coverage (i. e., a year in which the beneficiary had $200 or more of taxable earnings).[31]

Under the proposed formula of the bill the primary benefit would be 50 percent of the first $100, plus 10 percent for the next $200 of the average monthly wage, plus a premium of one-half of 1 percent of the total for each year of coverage (i. e., a year in which the beneficiary had $200 or more of taxable earnings prior to 1950 and of $400 beginning January 1, 1950. For self-employed the required earnings would $400 of net income or more per year). Earnings above $3,600 a year are excluded. This benefit formula is modified by the introduction of an additional factor, called the continuation factor which can never be higher than 1. This factor is the quotient obtained by dividing the number of years of coverage after starting date (1936 or 1949, whichever results in higher benefits), by the number of calendar years elapsing from starting date (or the date of attaining age 21), to year of retirement or of death or, in case of permanent disability, year when disability occurs. For those who die or retire before 1950, or die before reaching 28, the continuation factor is always 1.[32] As a general proposition, this factor results in the reduction of the amount of benefits. Thus, an individual with an average wage of $200 per month is entitled to receive under the present law a primary benefit of $38 per month if covered for 10 years continuously when single, and $58 with wife of age 65; up to $42 and $63, respectively, if covered for 20 years continuously and up to $49 and $74, respectively, if covered for 40 years continously. Under the proposed bill the same individual would receive $63 and $94, $66 and $99, and $72 and $108, respectively.[32a] However, very few wage earners work for 10, let alone for 20 or 40 years without interruption. Over such periods of time, a wage earner might expect to suffer long spells of unemployment or noncovered employment.

Assuming then that he would have only one-half of his employment period covered, the individual taken in the above example would receive under the present law $26 and $39, $28 and $42, and $30 and $45 as compared with $32 and $48, $33 and $49.50, and $36 and $54 under the proposed bill.[33]

The proposed formula is weighted to favor the lower-paid wage earner as it should be if the system is to serve its purpose.

The bill proposes to increase the maximum benefit from $85 to $150 per month or 80 percent of average monthly wage, whichever is less.[34] The minimum is raised from $10 to $25.[35]

The amount which may be earned in employment by a beneficiary without deduction of benefit is increased from $15 to $50.[36] After beneficiary reaches age 75, benefits are payable regardless of earnings.[37]

5. *Proposed increase of benefits to current beneficiaries.*—The benefits payable to insured persons and their dependents under existing law are very low. This is due to the present formula and to the fact that the benefits are based on low prewar wages. To remedy this injustice to some extent the bill proposes to increase the benefits to current beneficiaries as of January 1, 1950, in accordance with a table incorporated into the bill.[38] Under this table, the present primary insurance beneficiaries are divided into 37 categories according to the amount of benefits presently payable to them from $10, the minimum, to $46, the maximum primary benefit possible under existing law upon covered earnings to date, with a $1 differential between each category. The minimum primary benefit is then

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[30] Id., sec. 101 (a).
[31] SSA, secs. 209 (e), (f).
[32] H. R. 6000, sec. 104a.
[32a] House Rept. No. 1300, p. 17.
[33] Id., at p. 17.
[34] H. R. 6000, sec. 102 (a).
[35] Id., sec. 104 (a).
[36] Id., sec. 103 (a).
[37] Ibid.
[38] Id., sec. 111 (a).

raised from $10 to $25 and the maximum primary benefit is raised from $46 to $64.40. In case of dependents, additional benefits would be payable in accordance with the basic provisions of the law.

C. COMMENT

1. *Coverage.*—The exclusion of a large segment of the gainfully employed from coverage at the time of the enactment of the Social Security Act was sought to be justified because of lack of experience in this country with compulsory old-age insurance and because of fear that such a program could not at the outset be administered on such a large scale.

We have now had 14 years of experience, which has shown us that these exclusions are unwarranted, are harmful to the welfare of the people and result in a system which fails to protect those who need it most. Millions of wage-earners are discriminated against. A heavier burden for the support of the indigent aged is cast upon localities and communities which can least afford it Incomplete coverage results in lower benefits. In many instances, wage earners are taxed without securing any benefits in return. This weakens the entire system. Partial coverage also affects the administration of the law. Universal coverage under a single administration would be financially sounder, more efficient, and could provide adequate benefits. All of the most recent studies made by Congress and the Federal Security Administration attest to the desirability of a unified all-inclusive old-age and survivors insurance system.[39]

The Ways and Means Committee in its report accompanying H. R. 6000 makes the following findings:

"The Congress is faced with a vital decision which cannot long be postponed. Inadequacies in the old-age and survivors insurance program have resulted in trends which seriously threaten our economic well-being. The assistance program, instead of being reduced to a secondary position as was anticipated, still cares for a much larger number of people than the insurance program. Furthermore, the average payments under assistance have more than doubled in amount since 1939 while benefits under insurance have scarcely risen at all. There are indications that if the insurance program is not strengthened and expanded, the old-age assistance program may develop into a very costly and ill-advised system of noncontributory pensions, payable not only to the needy but to all individuals at or above retirement age who are no longer employed. Moreover, there are increasing pressures for special pensions for particular groups and particular hazards. Without an adequate and universally applicable basic social insurance system, the demands for security by segments of the population threaten to result in unbalanced, overlapping and competing programs. The financing of such plans may become chaotic, their economic effects dangerous. There is a pressing need to strengthen the basic system at once before it is undermined by these forces. Once the basic system is firmly established, any remaining special needs of particular groups can be assessed and met in an orderly fashion." [40]

In the light of these conclusions reached by the committe after extensive hearings it is difficult to comprehend the proposals of the committee as contained in its bill, H. R. 6000. As regards coverage it still results in the exclusion of some 14,000,000 people from protection of the law. Why, for instance, should 600,000 lawyers, physicians, and other professionals be excluded? The exclusion cannot be justified upon the basis of their vocation, because those pursuing these professions in the employ of others are covered. Nor can it be justified by reason of self-employment when millions of other self-employed are to be covered. This exclusion is arbitrary, capricious and without any merit or justification.

The exclusion of farm laborers and of farmers is even less excusable. The Treasury Department and the numerous congressional and other committees which have studied the problem had time and again found that there would be no administrative difficulties in bringing the farm group into the social-security system. The earnings of the average farmers are below those of the average self-employed businessman or manufacturer, and the wages of agricultural laborers are among the lowest in the country. The need of these people for social security is as great as that of those groups already covered.[41] The exclusion of these groups is unpardonable.

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[39] See, e. g., Annual Report of the Federal Security Agency, 1948, and testimony of A. J Altmeyer, Commissioner for Social Security, before the House Ways and Means Commission, March 23, 1949, SSB, April 1949.

[40] H. Rept. No. 1300.

[41] See Federal Security Agency, Annual Report (1948), 91 et seq.; report to the Senate Committee on Finance, S Doc. No. 149, 80th Cong., p. 17.

The proposals regarding coverage do not even go as far as those contained in the prior bill H. R. 2893. Under the terms of that bill it has been estimated [42] that as of June 1950, if enacted into law, it would add 19,000,000 persons to those presently covered and would cover the following:

Those employed in employment presently covered	37,100,000
Agricultural self-employed (new)	3,800,000
Agricultural hired workers (new)	2,300,000
Urban self-employed (new)	5,100,000
Federal employees (new)	200,000
State and local government employees (new)	3,300,000
Employees of nonprofit organizations (new)	600,000
Domestics (new)	1,700,000
Armed forces	2,000,000
Total	50,100,000

The following groups would then still be excluded:

Agricultural (family workers)	3,100,000
Federal, State, and local employees	2,200,000
Clergymen and members of religious orders	300,000
All others	1,300,000
Total	6,900,000

Some 1,500,000 railroad employees are covered by a separate system.

The failure to cover the entire gainfully employed population constitutes not only unfair discrimination, but it is economically unsound. Sooner or later, these groups will have to be brought within the system. But by that time a number of years will have elapsed during which these groups will have made no contributions to the system. Moreover, allowances will have to be made to the older people within these groups, to enable them to qualify for basic minimum benefits. Why, then not include them now and thus have them share the burden imposed upon the rest of the working population?

To the extent that the proposed bill fails to include farmers (self-employed) and agricultural laborers, the professionals, all domestic, all Federal employees, including those covered by a retirement system, railroad employees, and others similarly situated, it is deficient. It should be amended to include all these groups at least to the extent originally provided for in H. R. 2893 and the existing retirement systems should be maintained as supplementary to the benefits provided by the social-security system.

2. *Proposed benefits.*—Existing benefits are woefully inadequate. In many instances many beneficiaries are compelled to apply for and accept supplementary public assistance. The average primary benefit for old-age and survivor beneficiaries in July 1949 was equal to only about 58 percent of the average payment to aged recipients under public assistance.

The utter inadequacy of the present benefit formula will become manifest if it is borne in mind that a worker who has worked steadily for the past 13 years, and earned $3,000 per year throughout the entire period, is entitled upon retirement to a primary benefit of $45.20 and $22.60 additional if he has a wife, a total of $67.80 per month or about $815 a year for a couple. The present cost of living is 70 to 75 percent above that of 1939. Studies made by the Social Security Board in 1946, 1947, and 1948 in 13 cities show that an elderly couple needs not less than $1,400 per annum in Houston, Tex., $1,780 in New York, N. Y., and $1,830 in Washington, D. C., for a decent minimum standard of living. The present highest possible benefit for a couple is thus less than 60 percent for Houston and about 45 percent for New York and Washington.

The benefit formula in the proposed bill would still provide much less than these minimum requirements for elderly couples. To be truly adequate the law should provide for such benefits. Although the proposed formula would constitute a noticeable step forward toward achieving the goal, it falls far short even of the basic purposes set by the Ways and Means Committee, i. e., make the benefits large enough and thus the system sound enough to eliminate trends "which seriously threaten our economic well-being." The formula should be modified at least to the extent of eliminating from the computation formula of the continuation factor. The Ways and Means Committee justifies the use of

[42] Testimony of A. J. Altmeyer, Commissioner for Social Security before House Ways and Means Committee, SSB, April 1949, p. 3.

the factor by the necessity of giving some recognition to the differences in the length of time spent by people in the labor market. But this can be accomplished just as well by retaining the 1-percent premium for each year of covered employment instead of cutting it down to one-half of 1 percent, as the committee has done in H. R. 6000. The premium should be restored to 1 percent.

3. *Qualifying groups—Newly covered.*—Under the proposed qualifying formula, all newly covered groups could not qualify for retirement benefits until they were continuously employed for a period of 5 years from January 1949. This would be less than half the time required to qualify under the existing law. Nevertheless, the proposed qualifying requirements would be inequitable as regards the elderly workers in the newly covered groups. For the proposed formula would mean that newly covered persons age 60 would have to be continuously employed for 5 years until they reached the age of retirement. Under present economic conditions, it is not to be expected that persons of this age group could achieve such continuous employment. We believe that this heavy handicap should not be placed on such workers who were not heretofore covered because of inadequacies in the law and the failure of Congress to remedy the defects much earlier. In 1939, when the law was amended and date for the payment of benefits was advanced by 2 years, elderly workers were permitted to qualify for benefits after six quarters of coverage. We believe no greater qualifying period of coverage should be required from such elderly workers now.

4. *Reduction in qualifying age for women.*—The reduction of the qualifying age from 65 to 60 for women has been found to be necessary in view of the fact that, as a rule, the wife is that much younger than the husband and that a woman wage earner must retire at an earlier age than a man.

At the present time only about one-fifth of the wives of married primary beneficiaries are eligible for wife's benefits at the time their husbands attain age 65. If the wife's benefits were payable at 60, about three-fifths of the wives of insured men would be eligible for wife's benefits when their husbands reach the retirement age of 65. In 1947 only about one out of four widows without children qualified for a widow's benefits. Had the age been 60, about 40 percent would have qualified. How many women can find or keep a job at the age of 60?[43]

Under the circumstances, failure to provide for the lowering of the eligibility age for women to 60 years constitutes a gross miscarriage of justice, which should be rectified. H. R. 2893 provided for such lowering of the qualifying age.

II. Disability Insurance

The compelling need for security against sickness has generally been recognized.[44]

In its report to the Senate Committee on Finance, the Advisory Council on Social Security, in speaking of insurance against losses from permanent and total disability, said:

"There can be no question concerning the need for such protection. On an average day the number of persons kept from gainful work by disabilities which have continued for more than 6 months is about 2,000,000. The economic hardship resulting from permanent and total disability is frequently even greater than that created by old age or death. The family must not only face the loss of the breadwinner's earnings, but must meet the costs of medical care. As a rule, savings and other personal resources are soon exhausted. The problem of the disabled younger worker is particularly difficult since he is likely to have young children and not to have had an opportunity to acquire any significant savings." [45]

The House Ways and Means Committee itself has declared: "The addition of permanent and total disability benefits will inject more realism into the retirement concept, and will effectively counteract pressures for a reduction in the age of normal retirement."[46]

A. Permanent and Total Disability Benefits

1. *Nature of benefits.*—Medical care and hospitalization benefits do not meet the entire problem of the sick and disabled worker. Payment of cash disability

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[43] S. Doc. No. 149 (supra, note 4), at p. 43, Social Security Agency Report (1948), 107.
[44] See Social Security Board, Ninth Annual Report (1944), 23, and subsequent annual reports; President Truman's messages to Congress, 1948 and 1949.
[45] Permanent and Total Disability Insurance, S. Doc. No. 162 (1948), 1.
[46] H. Rept. No. 1300, supra, note 9, at 27.

benefits is necessary for a sound social-security system. Such benefits provide partial continuity of income to the disabled worker whose need and whose family's need continues throughout his disability. In the case of a permanently disabled worker who must be deemed permanently retired, the need is similar to that of one retired by reason of old age. The needs of a temporarily disabled worker are similar to those of one temporarily unemployed.

The bill would provide benefits for persons under 65 who are permanently and totally disabled, i. e., suffering from a disability continuing for more than 6 months, which benefits are similar to the benefits under the old-age and survivors insurance provisions.

The term "permanent and total disability" is defined to mean: "(A) Inability to engage in any substantially gainful activity by reason of any medically demonstrable physical or mental impairment which is permanent, or (B) blindness."[46a]

The first 6 months of such disability would be in the nature of a waiting period and would not be compensable under the provisions relating to permanent disability. Benefits under the proposed law would begin with the seventh month of disability, and would terminate upon the person's death, recovery, or when he becomes entitled to benefits under the provisions of the law for old-age and survivors insurance.[47]

2. *Proposed beneficiary classes.*—The bill proposes to have only one beneficiary class; namely, disabled insured persons to whom a primary insurance benefit in an amount similar to the one payable under the old-age and survivors insurance would be paid. No provision whatever is made for the payment of benefits to wife, child, or other dependent.[48]

3. *Proposed coverage.*—Coverage would be for the same type of employment as under the old-age and survivors insurance provisions discussed above.

To qualify for primary benefits, one would have to have:

(*a*) Not less than six quarters of coverage during the 3-year period (12 calendar quarters) preceding the quarter in which disability began; and, in addition,

(*b*) Not less than 20 quarters of coverage during the 10-year period (40 calendar quarters) which ends with the quarter in which his disability began.[49]

A "quarter of coverage" means a "calendar quarter" in which an individual has been paid not less than $50 in wages prior to 1950 and not less than $100 after January 1, 1950, and if self-employed, not less than $200 a quarter.[50]

3. *Administrative provisions relating to disability benefits.*—Weekly disability benefits would be reduced with respect to disability for which one may claim or receive workmen's compensation benefits. The Administrator may allow payment of weekly benefits after taking necessary steps to assure reimbursement to the trust fund upon award of compensation benefits to claimants.[51]

The Administrator is authorized to promulgate regulations and establish the procedure to be followed for:

(*a*) Registration for disability benefits;

(*b*) Examination and reexamination of claimants; and

(*c*) Ascertainment of the right to benefit payments.[52]

The Administrator would be authorized to disqualify a claimant if he refused to submit to a physical examination or reexamination, or if, without good cause, he refused to accept rehabilitation services. The Administrator would also have the power to disqualify a claimant who resides outside the United States, if the Administrator finds that there are not adequate available means for determining a claimant's disability or for his rehabilitation.[53]

4. *Comment.*—Our country, the mightiest and greatest industrial country in the world, is the only industrially developed country without a law which provides for insurance against the hazards of sickness. The proposal in the bill for cash benefits to those permanently or totally disabled is, therefore, an important and necessary step in lessening the hardships resulting from inability to work because of sickness.

Studies made by Congress and the Federal Security Agency have established beyond doubt the vital need for this type of protection. The benefit to those

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[46a] H. R. 6000, sec. 107.
[47] H. R. 6000, sec. 107.
[48] Id., secs. 104 (a), 107.
[49] Id., sec. 107.
[50] Id., sec. 104 (a).
[51] Id., sec. 107.
[52] Ibid.
[53] Ibid.

qualifying and to the community would be substantial. Indeed, it would greatly relieve the local communities who are now forced to support the indigent sick.

The Federal Security Agency has found that: "Another factor contributing to the number of persons on public assistance is the fact that there is no Nation-wide plan of insurance against wage loss due to illness or disability nor is there an adequate program for rehabilitation or training for the handicapped. In addition, the need for a plan to help people meet the costs of medical care has been made increasingly clear in recent years. Many persons are unable to finance more than the costs of minor illnesses. For this reason, many people must look to public assistance for help in meeting their medical bills unless the medical facilities of the State are adequate to provide free health care to them. Among the people now receiving assistance are many who are dependent as a result of their own illness or that of the breadwinner. Programs to help people meet the cost of medical care and to provide compensation for wage loss are sorely needed. While the lengthening life span means that people live longer, the period of dependency is increasing for many people. Among old people there is a high incidence of chronic diseases, which are costly and of long duration." [54]

We believe that the bill should be amended in several respects in order that the protection it would afford be more adequate to meet the needs.

Qualification.—The qualifying requirement of the bill for workers employed in employment not heretofore covered by the old-age and survivors insurance provisions of the Social Security Act is harsh and inequitable. A worker would have to have 20 (out of 40) quarters of coverage preceding the quarter in which he becomes disabled. As the newly covered groups would have no such coverage, it means that the wage earners in the newly covered groups would have to work constantly for at least 5 years before qualifying for disability benefits under the law. To expect such continuous employment, especially from persons age 60 or over, is almost to expect the impossible. We believe that this is unjust, inequitable, and unsound. The qualifying period of quarters covered should be reduced to 6 quarters out of 12 preceding disability.

Amount of benefits.—The proposed primary benefits are identical with those provided for under the old-age and survivors insurance provisions. As noted above, these do not assure decent minimum living standards. These benefits should be increased.

Dependent allowances.—As proposed in H. R. 6000, neither the wife of a totally disabled worker nor his minor children would receive any benefits. A totally disabled person necessarily requires constant care and his expenses definitely increase. It seems clear, therefore, that the primary benefit to be received by the husband would be insufficient for the family needs of the disabled worker. Hence the wife if not gainfully employed and attending the husband should receive a supplemental benefit equal to one-half of the primary and additional benefits for dependent children. H. R. 2893 provided for benefits to aged wives, wives with children, and so forth, similar to those under the old-age and survivors insurance provisions of the law. This should be incorporated in the present bill.

Temporary disability benefits and maternity benefits.—In contrast to the proposals contained in H. R. 2893, the present bill fails to make any provision for temporary disability and maternity benefits. This, notwithstanding the urgent need for security against economic losses due to temporary illness.

On the average day, illness prevents about 2 to 2½ million persons recently in the labor forces from working or seeking work. In a year wages amounting to 5 or 6 billion dollars are lost due to illness lasting up to 6 months. The economic hardship caused by disability may be an even more serious hazard to workers than a wage loss because illness entails a more serious problem.[55]

Students of the problem had always visualized the solution to this problem as part of a comprehensive health insurance system where both medical care as well as cash benefits would be provided for. Unfortunately, Congress failed in its duty to the people, and several proposals made during the last 6 years for a comprehensive health insurance system, including medical care and cash disability benefits have met their death in committees. The next best solution was deemed a single cash disability payment scheme integrated as part of the social-security system.

Until quite recently no protection whatsoever was afforded workers against loss of earnings due to temporary nonindustrial disability. A few years ago

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[54] Public Assistance Goals, 1949 (Federal Security Agency, December 1948), 3.
[55] Unemployment Insurance, S. Doc. No. 206, 80th Cong., p. 45.

Rhode Island began to pay benefits for unemployment due to temporary disability as part of the unemployment insurance system of the State. Since then California, New Jersey, New York, and Washington enacted temporary disability insurance laws. (In the State of Washington, the law has to be approved by referendum in the 1950 elections.) In California, New Jersey, and New York private insurance companies are permitted to underwrite the risk, and in New York it is administered as part of the workmen's compensation system.

The groups covered under these State disability laws are even more limited than those under the old-age and survivors insurance provisions of the Social Security Act.

We believe that there should be no exclusion from coverage for purposes of temporary disability of any gainfully employed persons. Discrimination as regards employment coverage should be barred once and for all from our system of social security. Wider coverage will lead to lower costs and more efficient administration.

Unless Congress acts now and establishes a uniform national system of temporary cash disability benefits, we are headed for State systems which will create even more conflicts than the present unemployment insurance system. Additional complications and conflicts must necessarily result from the fact that private insurance companies are permitted to underwrite the risk. This latter element will lead to restricted benefits in order to permit large profits which insurance companies will seek. Furthermore, many States may not pass disability compensation laws for some time with a resulting competitive disadvantage to business and industries in the States where such laws exist.

H. R. 2893 contained many acceptably sound provisions for the payment of benefits in case of temporary disability and the proposals contained therein should be incorporated in the present bill, except that the benefits to be provided should be equal to two-thirds of the claimant's average weekly wages, plus pro rata allowances for dependents, with an over-all limitation of 80 percent of former earnings.

III. Pay-Roll Taxes and Fiscal Policy Involved

Under the present law, both employers and employees are taxed 1 percent each upon the first $3,000 of the employee's annual wages; during 1950 and 1951 they will be taxed 1½ percent each and thereafter 2 percent each.[55a]

The bill proposes to raise the tax base from $3,000 to $3,600 beginning January 1950[56] and would raise the tax rate payable by the employees and employers as follows: For the year 1950, 1½ percent each; for 1951 to 1959 inclusive, 2 percent each; for 1960 to 1964 inclusive, 2½ percent each; for 1965 to 1969 inclusive, 3 percent each; after January 1, 1969, 3¼ percent each.[57]

With respect to self-employed, the tax rate also on the first $3,600 of annual net income would be 2¼ percent for the year 1950; 3 percent for 1950 to 1959 inclusive; 3¾ percent for 1960 to 1964 inclusive; 4½ percent for 1965 to 1969 inclusive, and 4⅞ percent after January 1, 1970.[58]

A nonprofit organization could elect not to pay the employer's tax. If it elected not to pay the tax, only one-half of the wages paid its employees would be credited in determining their insured status and amount of benefit.[59] A nonprofit organization could waive this tax exemption by filing a waiver. Thereafter it could not terminate its liability under the law except upon 2 years' prior notice in writing after the waiver has been in effect for not less than 5 years.

The Commissioner might terminate the liability of a nonprofit employer who has waived exemption from taxation if he finds that such employer has failed to comply substantially with the requirement of the law or is no longer able to comply therewith. This could be done only with the prior consent of the Federal Security Administrator.[60]

The clue to many of the fundamental shortcomings of the bill are to be found in its tax proposals. These violate sound principles of social security and are contrary to the basic conceptions underlying the Social Security Act as originally enacted.

[55a] Int. Rev. Code, secs. 1400 and 1410, as amended.
[56] H. R. 600, secs. 104 (a), 207 (a).
[57] Id., sec. 201 (a).
[58] Id., sec. 207 (a).
[59] Id., sec 109
[60] Id., sec. 202 (a).

To be sound, our social-security system must provide adequate insurance against the hazards of economic insecurity; it should assure a continuous flow of basic income and purchasing power to the population and thereby add to the stability of the national economy. To the extent that we tax the low income groups more than we return to them by way of benefits, we are cutting down their purchasing power and, hence, are lowering still more their already low standard of living. The objective of social security is thus defeated.

The above objective can best be achieved by a system financed on a pay-as-you-go basis with all current expenditures met out of general revenues, raised by a tax system based on ability to pay.

H. R. 6000 runs counter to all of these fundamentals. Its theory is that the full cost of the entire program of old-age retirement, survivors and permanent disability benefits is to be paid for by those covered under the law. The bill, therefore, provides for a tax rate that will, by 1970, amount to 6½ percent of the pay roll for wage earners and 4⅞ percent of net income for self-employed and is expected to accumulate the astronomical reserve of about $90,000,000,000 by 1990 and the sum of about $100,000,000,000 several years thereafter.[61] The committee estimates that the interest on this fund plus the then current taxes of 6½ percent on the pay roll and 4⅞ percent on covered self-employed net income would yield $12,000,000,000 annually, the estimated amount required to pay the proposed benefits. The committee estimates that for the next 30 years contributions to the fund will exced benefits to be paid and that under the most unfavorable possible circumstances, benefit payments would not exceed tax contributions for the next 15 years.

The National Lawyers Guild has always advocated the principle that social security should be financed out of general revenues on a pay-as-you-go basis. On such a basis the pay-roll tax required to provide the benefits proposed in H. R. 6000 during the next 20 years would in the years stated below be as follows:

	Percent of payroll	
	Cost on basis of pay-as-you-go	Tax fixed by H. R. 6000
1950	1.1	3
1955	2.2	4
1960	3.2	5
1970	4.8	6½

When the Social Security Act was first proposed, the Committee on Economic Security, appointed by President Roosevelt, recommended the pay-roll tax as the most feasible means of financing the system. It also recommended that the maximum joint employee-employer tax be fixed at 5 percent, which it estimated would suffice to finance the program for 25 years, after which the Federal Government would have to contribute toward the cost of benefits.[62]

The Social Security Act contains a blanket appropriation of such "sums as may be required to finance the benefits and payments" under the old-age and survivors provisions of the law.[63] This means Government participation in financing the program when the benefits exceed the contributions and the reserve is exhausted.

The Advisory Council to the Senate Finance Committee recommended in 1948 that Government contributions to the fund should begin when the employer-employee pay-roll tax of 4 percent plus interest on the reserve becomes insufficient to meet the costs of current benefit payments.

Said the Council: "The Council believes that old-age and survivors insurance should be planned on the assumption that general taxation will eventually share more or less equally with employer and employee contributions in financing future benefit outlays and administrative costs. Under our recommendations, the full rate of benefits will be paid to those who retire during the first two or three decades of operation even though they pay only a fraction of the cost of

[61] Unless otherwise indicated, these figures as well as other statistical data used hereafter are taken from the H. Rept. No. 1300, pp. 17–24, 31–38.
[62] Social Security in America, Social Security Board Publication No. 20 (1937), 204–207
[63] Social Security Act, sec. 201 (a).

their benefits. In a social-insurance system, it would be inequitable to ask either employers or employees to finance the entire cost of liabilities arising primarily because the act had not been passed earlier than it was. Hence, it is desirable for the Federal Government, as sponsor of the program, to assume at least part of these accrued liabilities based on the prior service of early retirants. A Government contribution would be a recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children. Such a contribution is particularly appropriate in view of the relief to the general taxpayer which should result from the substitution of social insurance for part of public assistance." [64]

The Council also stated that "there are compelling reasons for an eventual Government contribution to the system."

The attempt to finance the social security entirely by a pay-roll tax and to accumulate the immense reserves must be condemned upon the following grounds: Such a reserve creates grave problems affecting the national economy.[65] In addition to his own tax contribution, the employee is indirectly taxed with a substantial part of the employer contributions. This results from the fact that the employer necessarily shifts the tax to the consumer by increasing the cost price of his product. The employee is thus taxed to an extent which is equivalent to a substantial wage cut and thus undermines his purchasing power as a consumer in the current market.

In Great Britain as in most other countries the Government contributes to the financing of social security out of general revenues. The placing of the entire financial burden upon the employees and employers is injurious to the general welfare.

The taxes proposed would take away from the public for the next 30 years more than they would get during the same period. According to the estimates of the Ways and Means Committee, the income and outgo would be as follows:

Year	Taxes collected	Benefits paid out
	Billions	*Billions*
1950	3.3	1.3
1955	4.6	2.6
1960	5.9	3.8
1970	8.3	6.2
1980	8.6	8.4

We recommend that these tax provisions of the bill be completely repudiated, that the tax proposals contained in H. R. 2893 (fixing the maximum contribution rate at 2 percent on employees, 2 percent on employers and 2¼ percent on self-employed) be adopted instead and that the present provision of the Social Security Act appropriating from the general treasury funds sufficient to pay the required benefits be retained. The latter would mean that once the benefit payments exceed the current contributions and exhaust the accumulated reserve, the Federal Government would begin to participate in financing the program.

In its report to Congress on H. R. 6000 the committee stated that it believed "that it is not necessary in such a long range matter to attempt to be *unduly conservative* and provide an intentional overcharge especially when it is considered that it will be many, many years before any deficit or excess in the ultimate rate will be determined and even at that time it will probably be of only a small amount." [66]

The proposals contained in the bill would seem to indicate that the committee overlooked its own admonition against being "unduly conservative" and has made proposals for financing the program which are not only conservative but definitely unjust and burdensome and contrary to the basic principles of a sound social-security program.

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[64] S. Doc. No. 149, supra, note 4, at 13.

[65] Id., at 45: "Some people fear that additions to the trust fund will have adverse effects on the economy. Whether the economic effects of additions to the trust fund are good or bad will depend on the general economic situation and on the fiscal policies of the Government." For the latest discussion of the problem, see letter of W. L. Mitchell, Acting Commissioner of the Social Security Administration, to the New York Times, Oct. 30, 1949, sec. 4, editorial page; and Nelson, Investment Issue in Social Security, Id., sec. 3, p. 1.

[66] At p. 35. [Italics supplied.]

By proposing to keep the benefits within the expected income over a period of 50 years, the committee has imposed a straitjacket upon the entire social-security system. The result is a proposed benefit formula which fails to provide the insured person benefits sufficient to maintain him in a decent minimum standard of living. Thus, assuming a wage earner who had had 2 years of covered employment out of every 3 in the labor market and who had earned $150 per month, his average monthly wage for the purposes of computing his benefit would be about $100 and his benefit would be about one-third of his former wages. The worker whose average wage was $300 would, according to the committee formula, receive only about 23 percent of his former average wage in benefits and even less when compared with his actual wage.

The result is that the bill fails to remedy in many important respects the existing shortcomings of the present social-security system and thus fails to assure adequate social security to the American people.

The proposal to limit the taxable earnings to $3,600 is unrealistic. In view of the general increase in the average wages since the enactment of the Social Securtiy Act, the taxable base, whether from wages or self-employment, should be fixed at $4,800. This would enable wage earners and self-employed people to receive higher benefits. Furthermore, as the committee itself has established such increase in the taxable base would result in the over-all reduction of the cost of the program.

The proposal to exempt non-profit organizations from contributing to the fund should be eliminated. Failure of a non-profit organization to contribute would reduce by one-half the "average wages" of their employees for purposes of computation of benefits with a resultant reduction in the benefit payable to them to the extent of about 20 to 25 percent. There is no reason for discrimination against employees of these organizations. When these employees become aged, sick, or disabled, their needs are as great as those of employees in other employment. The deficiencies which the bill would to some extent remedy, would unjustifiably be continued for these employees. Furthermore, some of these employees may work part of the covered period for an employer who had paid contributions and the benefits of such employees would have to be computed at various fractions creating unnecessary administrative problems. The provision permitting the Social Security Commissioner to exempt a defaulting nonprofit organization from coverage puts a premium on nonpayment of the contribution. It permits the Commissioner to punish the victims—the employees.

These provisions should be eliminated from the bill.

IV. Advisory Council

The administration of such a vast program of social welfare as the social-security system requires constant examination of its functioning and effectiveness as well as a continuous search for its improvement. For that reason H. R. 2893 provided for the creation of an Advisory Council which would function as a consultant to the Social Security Administrator, would study the efficiency of administrative operations, would suggest needed changes, and insure impartial solution of problems free from political influences.

H. R. 2893 also provided for the creation of a National Legislative Committee, to be appointed every 6 years by Congress, to study and reevaluate the social-security program and advise Congress regarding the same.

H. R. 6000 makes provision for such Advisory Council and Legislative Committee. We believe they are necessary and desirable for adequate and effective administration of the law. Accordingly, we suggest that the provisions of H. R. 2893, sections 1110 and 1111, pages 136 to 141 be incorporated in H. R. 6000.

V. Conclusions

One of our goals in the last war was the achievement of freedom from want. We have learned that economic insecurity throughout the world affects our own security. Because of that, we have made it our national policy to assist other countries to regain economic stability and to assist other people in finding a modicum of economic security, and thus, to establish peace and prosperity throughout the world. Surely we cannot do less for our own people. A sound and adequate system of social security would strengthen our own economic stability upon which the stability of the world so much depends.

We have urged Congress repeatedly to revise our social-security system so as to remedy admitted inadequacies and deficiencies. H. R. 6000 which has passed the House and now awaits action by the Senate does not meet the social needs of the American people; its fiscal provisions are based on fallacious reasoning and unsound principles; its benefit provisions are still grievously deficient; its coverage provisions, though expanded, are still excluding some 15 to 20 million gainfully employed persons who are entitled to the minimum protection against the hazards covered by the law; while it provides new additional protection against total permanent disability, it fails to recognize the needs of dependents and completely disregards the problems of temporary disability. We urge the Senate thoroughly to revise H. R. 6000 and amend it in the manner indicated in this analysis; we urge the House to reconsider the bill and jointly with the Senate to remedy the indicated shortcomings.

Congress has now the opportunity to enact the reforms in our social-security system so long overdue. The time to make it applicable to the entire gainfully employed population, fiscally sound, and to provide benefits that would assure a minimum decent standard of living, is now.

We strongly urge that the bill H. R. 6000, amended, as proposed herein, be enacted during the present session of Congress.

Mr. SILBERSTEIN. I want to confine my remarks to brief arguments supporting our general policy with regard to the main and most essential requirements of a sound social-security system.

1. Coverage should extend to all of the gainfully employed population: The original exclusion of a large segment of the gainfully employed from coverage at the time of the enactment of the Social Security Act was sought to be justified because of lack of experience in this country with compulsory old-age insurance and because of fear that such a program could not at the outset be administered on such a large scale.

We have now had 14 years of experience, which has shown us that these exclusions are unwarranted, are harmful to the welfare of the people and result in a system which fails to protect those who most need it. Millions of wage earners are discriminated against. A heavier burden for the support of the indigent aged is cast upon localities and communities which can least afford it. Incomplete coverage results in lower benefits. In many instances, wage earners are taxed without security any benefits in return. This weakens the entire system. Partial coverage also affects the administration of the law. Universal coverage under a single administration would be financially sounder, more efficient, and could provide adequate benefits. All of the most recent studies made by the Federal Security Administration attest to the desirability of a unified all-inclusive old-age and survivors insurance system.

The Ways and Means Committee in its report accompanying H. R. 6000 makes the following statement:

> Without an adequate and universally applicable basic social-insurance system, the demands for security by segments of the population threatens to result in unbalanced, overlapping, and competing programs. The financing of such plans may become chaotic, their economic effects dangerous.

Why for instance should 600,000 lawyers, physicians, and other professionals, be excluded? The exclusion cannot be justified upon the basis of their vocation, because those pursuing these professions in the employ of others are covered. This exclusion is arbitrary, capricious, and without any merit or justification.

The conception which may prevail in some quarters that self-employed lawyers are in general so well off as to be able to provide for their own needs in old age and disability is without foundation.

Surveys made by the Department of Commerce of the net incomes of lawyers in the United States show that 50 percent of the lawyers received annual net incomes of less than $2,760 in any year from 1933 to 1939. In 1941 which is, I believe, a normal year, if there is such a thing for the profession, the median annual net income was only $2,960. While in 1947 the figures in the Commerce Department indicate a rise in annual median net income to nearly $5,200, a large part of this rise was attributable to the inflation of costs and prices. Most of the lawyers even in that abnormal year could not have managed to set aside the funds required to provide for their old age, especially as they had to "keep up appearances" with all that implies. And the ability of a group to provide for itself must be judged on the basis of earnings over a long period of time—not for this or that peak year.

Viewed from that perspective it seems clear to us that the need of the legal profession for coverage is genuine and urgent.

We are convinced that there is no less need for coverage for the professional self-employed than for other self-employed groups who are to be covered if H. R. 6000 is enacted in its present form.

Senator MILLIKIN. Do you have any statistics on the number of aged lawyers who are receiving public assistance?

Mr. SILBERSTEIN. We do not have that.

The exclusion of farm laborers and of farmers is even less excusable. The Treasury Department and the numerous congressional and other committees which have studied the problem had time and again found that there would be no administrative difficulties in bringing the farm group into the social security system. The earnings of the average farmers are below those of the average self-employed businessman or manufacturer, and the wages of agricultural laborers are among the lowest in the country. The need of these people for social security is as great as that of those groups already covered. The exclusion of these groups is unpardonable.

The failure to cover the entire gainfully employed population constitutes not only unfair discrimination, but it is economically unsound in our opinion. Sooner or later these groups will have to be brought within the system. But by that time a number of years will have elapsed during which these groups will have made no contributions to the system. Moreover, allowances will have to be made to the older people within these groups, to enable them to qualify for basic minimum benefits. Why then not include them now and thus have them share the burden imposed upon the rest of the working population?

Senator MILLIKIN. Do you believe in the pay-as-you-go system?

Mr. SILBERSTEIN. We do.

The bill should be amended to extend coverage to the millions now excluded.

2. The benefits should be increased to provide a minimum living standard.

Existing benefits are woefully inadequate. In many instances many beneficiaries are compelled to apply for and accept supplementary public assistance.

Studies made by the Social Security Board in 1946, 1947, and 1948 in 13 cities show that an elderly couple needs not less than $1,400 per annum in Houston, Tex.; $1,780 in New York City, N. Y.; and, $1,830 in Washington, D. C., for a decent minimum standard of living. The

present highest possible benefit for a couple is thus less than 60 percent for Houston and about 45 percent for New York and Washington.

The benefit formula in the proposed bill, H. R. 6000, would still provide much less than these minimum requirements for elderly couples.

Thus, an individual with an average wage of $200 a month would be entitled to receive under the law, as revised by H. R. 6000, $63 per month if covered for 10 years continuously when single, and $94 with a wife 65 years old (H. Rept. No. 1300, p. 17). But most workers are not likely to have 10 years of continuous covered employment, and in most cases it will be years after the wage earner reaches 65 that his wife will reach the same age.

To be adequate the benefits under the law should be revised to provide allowances approximating the findings of the cost of living surveys made by the Social Security Board.

The question will be no doubt raised in connection with this point and with my later remarks on coverage for temporary disability that the proposed pay-roll taxes might have to be prohibitively high to bear the cost. In anticipation of that question, I would say, in the first place, that the House Ways and Means Committee estimated that contributions to the fund under H. R. 6000 would exceed the benefits to be paid for the next 30 years, and that the reserve should reach 90 billions within 40 years (Rept. No. 1300, pp. 17–24, 31–38). Such a reserve creates grave problems affecting the national economy, by reducing purchasing power and hence the domestic market within our country.

It is also in our view a basically unsound and improper method of financing the program. The viewpoint recently expressed by the Brookings Institution in Washington is in our opinion deserving of serious consideration. They said:

> The OASI trust fund is invested in Federal Government securities. Since the money is used by the Government in meeting its regular expenditure requirements, no real reserve is created. The obligations of the Government (liabilities) deposited in a trust account do not represent assets; they merely record future obligations which can be fulfilled only through the levy of future taxes on the economy in general. * * * The way to avoid the dilemma of the current pattern of old-age and survivors insurance with its pseudo resemblance to private insurance is to abandon it entirely.

But if the present system is to be adhered to in its general plan we suggest the appropriateness of contributions from the general funds of the National Treasury raised on the basis of ability to pay at such time as the contributions from pay-roll taxes prove to be inadequate.

Senator MILLIKIN. That is from income taxes?

Mr. SILBERSTEIN. General revenues, Senator. Specifically, in the printed full statement of our position, we recommend that the pay-roll taxes be not permitted to rise above 4 percent for employed persons; that is, 2 percent to the employee and employer, or above 2¼ percent for self-employed. At such time as the contributions by pay-roll taxes are inadequate, there should be a contribution from general revenues.

We agree with the view expressed by the Advisory Council to the Senate Finance Committee in 1948 that "there are compelling reasons for an eventual Government contribution to the system."

3. Disability coverage and benefits: The disability benefits under H. R. 6000 would begin only with the seventh month of disability,

and no provision whatever is made for the payments of benefits to a wife, child, or other dependent—section 104 (a) 107. The benefits are grossly inadequate in our opinion. A totally disabled person necessarily requires constant care. His expenses increase. The benefits would clearly be insufficient for the family needs. The wife, if not gainfully employed, should receive a supplemental benefit equal to one-half of the primary benefits, and additional benefits for dependents. H. R. 2893 provided such additional benefits, and the provisions of that bill should be adopted.

In a single year wages amounting to 5 or 6 billion dollars are lost due to illness lasting up to 6 months. The economic hardship caused by disability is usually more serious than a wage loss from unemployment due to the added expense of medical care (Unemployment Insurance, S. Doc. No. 206, 80th Cong., p. 45.)

We believe that coverage of temporary disability up to 6 months is essential to alleviate grave hardship, and for the well-being of our economy: That there should be no exclusion from coverage for purposes of temporay disability of any gainfuly employed persons; that the waiting period should be reduced to an absolute minimum.

Congress has now the opportunity to enact the reforms in our social-security system which are so long overdue. The time to make the system applicable to the entire gainfully employed population and to provide benefits that would assure a minimum decent standard of living is now.

We strongly urge that H. R. 6000 be enacted at this session of Congress with the amendment we have urged.

I thank you for your kind consideration, gentlemen.

The Chairman. We thank you for your appearance.

That completes the hearing for today, and the committee will recess until Monday morning at 10 o'clock.

(Whereupon, at 12:20 p. m. the committee was recessed to reconvene at 10 a. m. Monday, March 20, 1950.)

SOCIAL SECURITY REVISION

MONDAY, MARCH 20, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George, chairman, presiding.

Present: Senators George, Byrd, Hoey, Millikin, Taft, and Brewster.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Dr. Slichter, we are very glad to have you on H. R. 6000, the social-security bill, which we are studying, and we shall be very glad to hear from you. Do you wish to submit a general statement before we question you, if any questions arise, or would it interfere with you to be interrupted at any time?

STATEMENT OF DR. SUMNER H. SLICHTER, LAMONT PROFESSOR, HARVARD UNIVERSITY, CAMBRIDGE, MASS., ASSOCIATE CHAIRMAN OF THE ADVISORY COUNCIL ON SOCIAL SECURITY TO THE SENATE COMMITTEE ON FINANCE

Dr. SLICHTER. Mr. Chairman, I have a prepared statement which I can read in part if you care to have me do so. I also welcome questions at any time.

The CHAIRMAN. We are very glad to have you because you have your work on the Advisory Council, of course. We are familiar with the studies made by the council, and we recognize your peculiar fitness for this particular assignment that you have been good enough to assume this morning to come down here and talk to us about this bill. We have as the basis, of course, H. R. 6000 on which the hearings are proceeding.

Dr. SLICHTER. Mr. Chairman, I have assumed that the members of the committee were familiar with the recommendations of the Advisory Council. Consequently, the statement which I have prepared does not go into detail but undertakes to underline some of the main features of the conclusions which the council reached.

Suppose I read this rapidly and perhaps with a little skipping here and there, and then as I go along the members may see fit to interrupt with questions or if they prefer to defer the questions until the end, all well and good. I am particularly interested of course in the questions.

Perhaps I should remind the committee that Mr. Stettinius was the Chairman of the Advisory Council, and naturally we all regret that he cannot be here to do what I am doing this morning.

The 17 members of the council were from various walks of life. Four of them, I think, might be regarded as technical experts in this field: Dean Brown, who was chairman of the preceding council; Mr. Folsom; Mr. Linton of the Provident Mutual; and Mr. Cruikshank, the social-security expert of the A. F. of L.

As you are aware, it was a hard-working Council. It reached three basic conclusions concerning the problem of old-age security.

1. That the foundation of the country's system of old-age security ought to be a Federal system of contributory social insurance with benefits related to prior earnings and awarded without a means test.

2. That the present old-age and survivor's insurance act is not performing adequately the job that it was expected to do.

3. That the present act is sound in principle, and that its failure to do the job expected of it is attributable to three principal defects, all of them easily remedied.

The Council made 22 recommendations to remedy these defects. On 20 of these the Council was unanimous.

I wish to explain briefly to the members of the Finance Committee why the Advisory Council reached the conclusion that contributory social insurance related to prior earnings ought to be the foundation of the country's system of social security, and then I would like to explain briefly why the Council believes that the present act is not doing the job expected of it. Third, I would like to explain why the Council believes that improvements in the act will enable it to do the job. Then I should like to close by a few brief remarks on the problem of premature retirement of workers and the bearing of that on the cost of old-age security. I have a few remarks under one other heading, namely, the topic of insurance for total and so-called permanent disability, on which the Council made a second report.

The Council was unanimous in believing that contributory social insurance should be the foundation of the country's system of old-age security. This same conclusion, may I remind the committee, was reached by the Advisory Council to the Committee on Economic Security which helped draft the act of 1935 and by the Advisory Council of 1937–38. Our conclusion on this point that contributory social insurance should be the foundation of the country's scheme of old-age security rested upon several reasons.

In the first place, the pensions provided by contributory insurance are not charity. No means test is used, but pensions are awarded as a matter of right. Furthermore, the cost is met from the worker's own production in the form of a tax on pay rolls paid immediately by the employer and a tax on wages paid immediately by the worker. Hence the dignity and self-respect of the worker are shown consideration. After a lifetime of work, it is not right that men should be dependent upon charity.

In the second place, old-age insurance encourages self-reliance and thrift instead of discouraging them. A man by being thrifty does not diminish the amount of the pension that he receives. He simply assures himself of a better standard of living in his old age. This is in contrast to old-age relief based upon a means test. When a means

test is used, the man who has been thrifty and who has provided for himself adequately gets nothing. The man who has partly provided for himself gets small benefits. The man who has made no provision for himself gets the largest grant.

Senator BREWSTER. That makes it a penalty on thrift.

Dr. SLICHTER. That is right. If you want to reward people for not being thrifty, that is the way to do it.

In the third place, old-age insurance, which relates benefits in some measure to the prior earnings of workers, helps protect men from too drastic a drop in their standard of living on retirement. Naturally the standard of living of people tends to vary with their earnings. Since the purpose of old-age insurance is to protect men against having too drastic cuts in their standard of living when they retire, pensions should vary in some measure with past earnings. Flat benefits, which are not related to earnings but are the same for every one, would assure that there would be only an arbitrary relationship between men's standards of living before retirement and their standards of living after retirement. Under a system of flat benefits, the benefits that would be about right for some workers would be too small for many others and possibly too large for a third group.

Senator TAFT. That is a substantial difference between our plan and the English.

Dr. SLICHTER. Yes; one of the differences.

In the fourth place, a Federal system of old-age pensions should be the foundation of the country's system of old-age security, because it can be applied to all members of the labor force and can be made as broad, therefore, as the problem with which it is expected to deal. This method of meeting the problem does not depend upon the willingness of an employer to grant pensions or upon the bargaining power of unions and their ability to compel employers to grant pensions.

Furthermore, a system of old-age insurance can be applied to the self-employed as well as to the employees. Since about one out of five workers in the United States is self-employed, it is necessary that the scheme of old-age security be applicable to the self-employed as well as to the employees.

Senator MILLIKIN. Professor Slichter, we have tried during this hearing to get some statistics on the number of self-employed who after reaching the age of 65 are needy and must take recourse to public assistance. Have you developed any statistics on that?

Dr. SLICHTER. No, Senator Millikin; I am afraid I cannot give you a break-down between the self-employed and the employees on that.

Senator MILLIKIN. We have been trying to get at the need for insuring self-employed, and obviously one aspect of that is what the later history of the self-employed so far as indigency is concerned.

Dr. SLICHTER. There may be some figures in the report on low-income families, but I have not had a chance to go over that in detail. That came out only several months ago, and I am sorry I can't help you out. I have one or two remarks on that point which bear somewhat indirectly on your question but I am afraid do not meet it head-on.

Why did the Advisory Council reach the unanimous conclusion that the present act is not doing the job expected of it?

There were three principal reasons for this conclusion. One reason is that, even after 13 years, only about 39 percent of the male workers who become 65 years of age would be eligible for benefits if they were to retire. Hence, it is plain that many people who need to receive protection are not getting it. The principal reason why they are not receiving protection is that the act applies to only three out of five jobs. Another reason is that eligibility to receive benefits is determined by the proportion of time that a man spends in covered employment, not by the proportion of time that he is at work. He may be quite steadily employed and still not qualify if he is one of the many workers who move back and forth between manufacturing, which is covered, and agriculture, which is not. For example, of the 6,600,000 farm operators, about 1 out of 4 has made contributions to the old-age insurance scheme but is not insured.

Senator MILLIKIN. Doctor, are you referring to the proprietor or the farm worker?

Dr. SLICHTER. I am referring to the proprietor. In the case of the farm worker the percentage is a little more than 30. About 30 percent of the farm workers have made contributions because they have worked at some time or other in manufacturing or some other covered industry, but they haven't worked a sufficient proportion of the time to be eligible for benefits.

Senator MILLIKIN. In the case of a farm worker, does not experience show that a farm is able to carry an elderly worker further along than industry is?

Dr. SLICHTER. It shows that they do. I shall have a few remarks toward the end of this statement on what I call premature retirements. I think industry has been a little arbitrary in retiring everyone at age 65 as if there were some magic about 65, as if everyone above 65 was unfit to hold a job. In agriculture that is not true, and I doubt whether it is true in industry, but there is a difference in practice between agriculture and industry. I will give you in a few moments a comparison between the rural and the nonrural parts of the community with respect to the proportion of the male population above 65 years of age at work.

A second reason for believing that the Insurance Act is not doing the job expected of it is that the average pension is too small and is considerably less than the average payment for old-age assistance. The average pension for a single person averages about $26 a month and for a retired person with one dependent about $40 a month. The average payment under old-age assistance is about $44.50. Although the recipients of old-age assistance are half again as numerous as recipients of old-ge pensions, total payments for assistance are nearly 2½ times as large as total payments for pensions. The principal reason why pensions are small is that the benefit formula is too low even for workers steadily employed in covered industries. It provides 40 percent of the first $50 and 10 percent of the next $200 of average monthly earnings, plus additional allowances for dependents, plus a 1-percent increment for each year of service in covered industries.

The CHAIRMAN. Do you deal with the increment problem, Doctor?

Dr. SLICHTER. No; not in this statement; but I shall be glad to answer questions about it.

Senator MILLIKIN. Would you give us your viewpoint on that, Doctor?

The CHAIRMAN. Would you care to comment on that now? If so, we would be glad to hear you.

Dr. SLICHTER. I see no reason why I should not. The view in the Council was that it would be preferable to pay more adequate pensions now rather than to get up to some standard of adequacy 20 or 30 years from now by the method of an increment. If you put an increment into the formula and you say this formula, including the increment, will give an adequate pension, you are really saying—are you not?—that adequate pensions according to your standards, whatever the standard may be, will not be attained until 30 or 40 years from now, until the average person drawing a pension has had the benefit of the increment over a lifetime of employment in industry? If we assume that a lifetime of employment in industry is in the neighborhood of 40 years, that would mean that adequate pensions by whatever standard you accept will not be attained until 40 years hence.

That was the dominant thinking in the Council, and I shared it.

I think one can make this kind of case in favor of the increment. One can say, on the basis of past experience, that pensions have been slow to move up as rates of pay have moved up. For example, since 1940, as I shall point out in just a moment, although earnings per hour and earnings per week have more than doubled and per capita income has more than doubled, the average pension has risen only 14 percent. One can say, in a progressive economy such as ours, that the course of earnings is bound to be upward, and it is desirable to have in the formula some kind of automatic arrangement to keep pensions moving. That wasn't the original philosophy of the increment, and it is not a philosophy which I have heard expressed until very recently.

Senator BREWSTER. That apparently is based on the assumption that we are going to go on expanding indefinitely.

Dr. SLICHTER. That is right.

Senator BREWSTER. Do you have any historic record that would indicate that we have now entered that happier era?

Dr. SLICHTER. If we don't go on expanding, a lot of people who have been studying engineering and chemistry and physics have been wasting their time, and a lot of money which is being spent today on industrial research is being wasted. We have more time and effort and knowledge being expended today on raising the productivity of industry than ever before, and I think it would be very unrealistic to assume that that vast effort will be a complete fizzle.

Senator BREWSTER. I am speaking now in terms of dollars rather than in terms of product.

Dr. SLICHTER. Suppose productivity goes up and prices remain about the same, then wages will go up.

Senator BREWSTER. Just a moment. On what do you base the idea that the value of the dollar is not going to change after what has happened in the last 20 or 30 years? How do you assume that the dollar is going to go on indefinitely being depreciated instead of being possibly appreciated?

Dr. SLICHTER. I am not assuming that. I am willing to argue that if you want me to.

Senator BREWSTER. That is the answer. This whole thing is based on dollars.

Dr. SLICHTER. Oh, no; all that I am assuming is that the dollar does not necessarily depreciate in value, but that wages go up.

Senator BREWSTER. What has been the story of the last 30 or 40 years on the dollar?

Dr. SLICHTER. The story with respect to the value of money for centuries in all countries has been that it has gone down. I don't think it is relevant to this particular point, but if you want me to make an observation I should say that it will continue to go down. That is more of an argument than ever in favor of the increment.

Senator BREWSTER. Then you do assume that the dollar is going to continue to depreciate in its value?

Dr. SLICHTER. No. I believe it, but I don't assume it. It is not a necessary assumption. You may argue quite logically for the increment even though you believe something which I do not happen to believe: namely, that the value of the dollar will hold steady.

Senator BREWSTER. I did not indicate any of my belief at all. I was asking for yours.

Dr. SLICHTER. Yes.

Dr. BREWSTER. As I understand, you believe that the dollar will continue to go down.

Dr. SLICHTER. That is right, but that is not why I think there might be a case for the increment. As a matter of fact, I am not a pro-increment person. I am trying to set forth to the committee the latest thinking on the subject of the increment, and I have indicated where I stand, but I thought I ought also to present the view in favor of the increment. I would prefer a less mechanical way of dealing with the problem of keeping the size of pensions related to the size of earnings. I think that every 10 years or so enough will have happened so that the Congress will find it important to review the old-age insurance and survivors plan, and those reviews would seem to me to be the best occasion for adjusting pensions to whatever change in earnings may have occurred. The increment method is a method, but you can see that it is a rather rigid and mechanical method.

Senator BREWSTER. You do assume, then, then necessity of that review which does depart from your insurance philosophy; does it not?

Dr. SLICHTER. No.

Senator BREWSTER. It does not?

Dr. SLICHTER. No.

Senator BREWSTER. Do you mean that the relation of a man's payments to his pension is not at all the essential and integral part of your plan?

Dr. SLICHTER. Oh, yes, but that does not mean that in a changing world one should not take a look at the pension plan about every decade.

Senator BREWSTER. The Government then absorbs the depreciation of the dollar.

Dr. SLICHTER. I do not know what the Government does. It just takes a look, and it reaches such conclusions as the facts seem to call for. It may decide, "All right, we have taken this look, and no changes are needed." It may decide, "We have taken this look, and we think we had better do this or that to the benefit formula."

Senator BREWSTER. How do you relate that to any insurance philosophy? Can any private insurance company do what you propose?

Dr. SLICHTER. When they have sold annuities they certainly have had to revive their annuity contracts with the decline in the rate of interest.

Senator BREWSTER. Is that not an integral part of their contract?

Dr. SLICHTER. That is, but they are not charging the same price for annuities today that they charged 15 or 20 years ago. If you were fortunate enough to have purchased an annuity from an insurance company 15 or 20 years ago, you got it at a price far below the price that you would have to pay today.

Senator BREWSTER. I am sure, Dr. Slichter, you realize the difference between what one pays for a contract and what one receives under it. Insurance companies are still paying what they agreed to pay. You are proposing that the Government shall pay not what it agreed to pay, but some other figure which results from the depreciation of the dollar. Is not that the fact?

Dr. SLICHTER. I certainly should expect the Government to protect the recipients of pensions against a depreciation of the dollar.

Senator BREWSTER. And no private insurance company can possibly do that; can they?

Dr. SLICHTER. No. That is one reason for preferring the Government scheme.

Senator BREWSTER. Yes. So, the Government can automatically take care of the changing value of the dollar. Now suppose the dollar should go up in value, which you do not anticipate. Would you protect the Government in that event against the resulting advantage?

Dr. SLICHTER. I might.

Senator BREWSTER. Can you contemplate that the Government might sometime reduce its payments to a degree?

Dr. SLICHTER. Oh, I don't suppose it would reduce any past payments; no.

Senator BREWSTER. Not past payments, but future payments.

Dr. SLICHTER. No; I don't suppose the Government would.

Senator BREWSTER. I should think that is a warranted conclusion.

Dr. SLICHTER. I don't think you need worry about the dollars appreciating in value.

Senator BREWSTER. That is what I thought you said you expected.

Dr. SLICHTER. I said I expected money to depreciate in value. It has in all countries of the world for centuries.

Senator BREWSTER. Was your word "depreciate" then or did you mean to say "appreciate"? I thought you just said you did not anticipate any depreciation in the dollar.

Dr. SLICHTER. I said I did not expect any appreciation of the dollar over the long-term.

Senator BREWSTER. I am sorry, I misunderstood you.

Senator MILLIKIN. Mr. Chairman, if I may suggest, I think we get into terrific confusion all through this subject by semantics. We refer to this as an insurance system. I suggest that the relation between this and insurance as we know it in private companies is a very tenuous relation. We are using the word "insurance" where perhaps some other word might be a happier thing.

Dr. SLICHTER. I think that is a very wise remark, Senator Millikin. Of course, the act uses the word "insurance," and it is convenient therefore in talking about the act, in order to designate what I am talking about, to use that term. I think, without taking the time of the committee on this particular point, which I think is one of semantics, as you say, I would be willing to defend and I feel pretty sure

I could successfully defend the position that there is a very substantial element of insurance in this scheme. You have insurance regardless of who pays for it or regardless of how it is paid for. If you are assured by a responsible agency of protection against a certain definitely described contingency, as a mater of right, not on the basis of a means test, that is insurance. It is just as much insurance whether you get it free or whether you pay for it yourself. This is called social insurance because the method of payment is a mixed method of payment, but the method of payment does not alter the reality of the protection, and it is a reality of the protection which determines whether or not people have been assured against something.

Senator MILLIKIN. I think that would be a free-wheeling use of the word "insurance." I still think there is a vast difference between that definition of insurance and the definition that we associate with private companies. For example, we are sitting here taking a 50-cent dollar or a 40-cent dollar, whatever it is, from the so-called insured, and we are saying to him that when you reach the age of 65 we will give you so much money back. The reality of insurance may disappear completely if the toboggan of the dollar continues. So unless the Congress comes back every few years to readjust the system as you have suggested, and I think it is going to have to, there is no reality in our future assurances because we cannot sit here and anticipate what the dollar will be worth.

Dr. SLICHTER. Of course, by that same test, Senator Millikin, the Metropolitan Life Insurance Co. is not selling insurance. The Government has a better chance of giving protection to the people who come under its scheme than any private insurance company.

Senator MILLIKIN. The Government has a chance to revise. The obligation of an insurance company is to take in a certain number of dollars and to pay out a fixed number of dollars, which, as Senator Brewster points out, may have complete unreality in it or on the basis of the value of the dollar put in and the value of the dollar taken out, and the insurance companies, as you point out, have a certain rigidity in their way of doing business, a necessary rigidity, which makes it beyond, at least to a considerable degree, their power to keep the money they take in and the money they pay out adjusted to the strict realities of the cost of living.

Dr. SLICHTER. Right. In other words, the insurance companies are very handicapped in selling real protection.

Senator MILLIKIN. That is right.

Dr. SLICHTER. And the Government is in a better position than any private insurance company to give protection which takes into account the depreciation of the dollar, if that were to occur.

Senator MILLIKIN. That rests on the assumption that we will meet, and I think we will have to, just as we are meeting here. The reason we are meeting here now is because the dollar of 1934 and 1935 is an entirely different kind of dollar from the dollar of 1950.

Dr. SLICHTER. You are quite correct.

Senator BREWSTER. And the assumption would be that we should put the private insurance companies entirely out of business and the Government should take it all over. That is the only way that any measurable degree of justice can be achieved. Is that not correct?

Dr. SLICHTER. No; I do not think that is correct. No one has to patronize a private insurance company if he does not care to. If he

considers the probable trend of prices and decides that what the private insurance companies have to sell is worth buying, that is up to him. I have some insurance and annuities, but at my age I do not have to take a very long-run point of view because I can soon begin using mine. The dollar will have to drop pretty fast in order for me not to get pretty good value for my annuity. The private insurance company has a real place in the world.

Senator BREWSTER. You would not make a very good insurance salesman on the basis of what you have said.

Dr. SLICHTER. I wouldn't make a good salesman for any product because I have been trained to be skeptical of everything, you know.

Senator BREWSTER. Would you apply this same principle to the billions of dollars of the bonds which we have sold to our people in the last 10 years? Would you apply the same principle?

Dr. SLICHTER. I have suggested in public several times that the Government would do well to offer something close to the E bond, which is payable in a fixed amount of purchasing power. I bought E bonds, not because I thought they were the kind of security which I needed but because I thought it was the least I could do by way of making a sacrifice when young men were going into the service and giving some years of their lives, but if the people who for patriotic reasons bought E bonds a few years ago had been looking at things from just a narrow selfish investment point of view, they would have been much wiser to have purchased second-hand automobiles.

Senator MILLIKIN. Mr. Chairman, may I take the liberty, Doctor, of pointing up what you touched very briefly. The holder of a private insurance policy can get out any time he wants to, and in many policies he has a vested value which is available for other types of investment; whereas this is a compulsory system, he cannot get out, and therefore he is in the hands of Congress, which determines what he puts in in relation to what he takes out.

Dr. SLICHTER. That is right; and he also comes in not by his own option.

Senator MILLIKIN. I say it is compulsory as far as this system we are discussing now is concerned.

Dr. SLICHTER. That is right.

There is a third reason for believing the act is not doing the job. It is that the average monthly pensions have not kept pace with the rise in the cost of living or the rise in per capita income. We have covered that in part. The average monthly payments have increased 14 percent since 1940, during which time the cost of living has risen 69 percent, average weekly wages have risen 117 percent, and per capita income has risen 132 percent. So you see there has been a marked change in the relationship between pensions on the one hand and people's earnings on the other.

I think everyone will agree that pensions ought to bear a more or less constant ratio to the average earnings of persons through time. Otherwise, they do not give people the required help in maintaining their customary standards of living.

Senator MILLIKIN. I wish to refer to something which you cannot compel by law, and I wish we could compel it by law. Is it not a corollary of what you have said that all those interested in pensions should be equally interested in preserving the solvency of this Government? That is what will keep the value of the dollar up.

Dr. SLICHTER. Yes; you might compare a broad Government pension scheme with Alexander Hamilton's idea. He thought it was wise to have the public debt widely held. A comprehensive scheme of old-age pensions would do exactly the same sort of thing that Alexander Hamilton hoped to obtain by getting a large part of the community interested in the financial condition of the Government through owning the obligations of the Government.

Senator MILLIKIN. Is it overly hopeful to suggest that if we do increase this coverage to almost a universal scale and if we do educate the beneficiaries on what causes a depreciation of the value of the dollar that we might build up a rather strong public support for keeping the Government solvent?

Dr. SLICHTER. I wouldn't care to be overly optimistic on that. I think the influence would be in the right direction. I don't think it would be a negligible influence, but I wouldn't be candid if I said this is the panacea, this is the cure-all. This would be a help, but the demands that the Government undertake things which cost money come from a great many different directions, and many of those things have great merit. The same is true of each one of us individually. I can think of a great many meritorious ways of spending my income, and I would not be at a loss to get rid of my income if it were considably larger than it is. The Government is bound to be in that position; all governments are. So a universal pension plan would help. But let us not be grasping for panaceas. We should not be realistic if we did.

The third part of these remarks deals with why the Advisory Council believes that improvement of the act along the lines of its recommendations would enable the act to do the job expected of it and to become the foundation of the country's system of social security.

Senator TAFT. Professor Slichter, you haven't considered the adoption of an automatic formula of some sort, an index number that would go up every 5 years or down every 5 years according to some level of wages, which would require an automatic adjustment? It is a little easier thing to defend if we do not have to change it a little every 5 years. We are less likely to go wrong if there is a formula.

Dr. SLICHTER. Yes; I think we have considered that sort of thing in the Council, and in fact one of the final references toward the close of the Council's report is on this particular point. I think it may be said fairly that we reached the conclusion that the adjustment to changing conditions, including the changing price level, should probably not be made in an automatic mechanical way, that about every decade you would need to take a look at the total situation, and that an advisory council would be needed. You cannot foresee all of the problems which may come up in the course of about 10 years. That was our thinking on the matter.

Senator TAFT. You might consider the provision of an automatic council, or at least set up something to start an investigation every 10 years, something of that kind in the bill.

Dr. SLICHTER. That could be done, if the Eighty-first Congress could bind the Eighty-sixth. I do not know whether the Eighty-sixth would pay any attention to the Eighty-first or not.

Senator BREWSTER. The Eighty-first has not listened to the Eighieth.

Dr. SLICHTER. We have crowded a terrific amount of history into the last decade and I suspect we shall crowd a tremendous amount of history in the next decade. Consequently, 10 years may be too long to wait. If we were to set up an automatic 10-year arrangement that might or might not fit the facts.

Senator MILLIKIN. If we have a decline in the value of the dollar in the next 10 years that we have had in the past 10 years, we would be handing out ciphers instead of checks that had dollar signs on them.

Dr. SLICHTER. We probably shall not have the problems which go with a shooting war, but we shall make a terrific amount of history, and I don't know what will be needed.

In the first place, under this heading of modifying the act so that it will do the job expected of it, the council was unanimous in recommending that protection of the act be extended to virtually all of the 25,000,000 jobs not now covered, because obviously one cannot expect a program to give protection to people whom it does not cover. So it seemed to us that extension of coverage was of basic importance. Coverage was originally limited because of administrative difficulties. As Mr. Folsom, a member of our council and also a member of the original Advisory Council to the Committee on Economic Security, pointed out in these hearings, it was not the intention permanently to exclude the self-employed and the domestic servants and the farm laborers. They were excluded because of the administrative difficulties. Both the Bureau of Internal Revenue and the Social Security Administration believe that they are now prepared to handle the administrative problems that would be entailed in fairly complete extension of coverage.

H. R. 6000 is an important step toward more complete coverage, but, after all, it would bring in less than half of the uncovered jobs.

The incomplete coverage proposed in H. R. 6000, it seems to me, raises basic questions as to where and how uncovered groups would get security for their years of retirement. Nearly all of the groups left uncovered by H. R. 6000 are groups that cannot be expected to be covered by private insurance initiated by employers or negotiated by trade-unions. Most of them are self-employed. Apparently the philosophy of H. R. 6000 is that the uncovered groups should either be able to take care of themselves or should be expected to rely upon charity. Is it realistic to assume that all members of the uncovered groups would be able to take care of themselves? For those who are not, is it fair to expect them to rely upon charity? Have we a right to assume that farmers and professional people do not need the protection? Is farming so free from economic hazards that farmers should be left to take their chances with old-age assistance? Likewise, are the professions such secure callings that architects, engineers, lawyers, doctors, and dentists do not need the protection which old-age and survivors insurance would give them? Can every lawyer, every architect, every engineer count on reaching the age of 65 or 70 with adequate savings to provide for the years of his retirement? Certainly the people cannot expect old-age and survivors insurance scheme to be the foundation of the country's system of old-age security if large parts of the population are excluded from the plan.

Senator MILLIKIN. Mr. Chairman, may I ask a question of the witness.

The CHAIRMAN. Yes, Senator Millikin.

Senator MILLIKIN. I think that represents some deviation, Doctor, from the original philosophy of the system. As I recall it, the original philosophy of our security insurance system was to cover the fact that the worker in our modern industrial economy is subject to hazards, as is every one, which he cannot control. Now we move in to cover the self-employed, doctors, dentists, proprietors, the corner grocery store man, who had deliberately chosen a way of life which they hoped would yield to them larger profits than the ordinary worker has. The theory of course is that if he makes that choice, he also takes the losses of the business. That does not meet the problem of need when you are 65, for a fellow who has misjudged those risks can be just as needy as an industrial worker. Let us concede that at the outset. But isn't there a difference in theory between covering an industrial worker and covering a self-employed person?

Dr. SLICHTER. No; I don't think so, Senator Millikin. I don't think it is the fact that a chap works for an employer which gives him such imperfect control over his fate. The man who goes into self-employment may make a spectacular success and may be quite independent of any insurance scheme and quite beyond the need of charity. But the man who starts a little business which may or may not become a big one is really taking greater risks than the chap who goes to work for someone else and who has the protection of the resources of that someone else for whom he goes to work so long as the contract of employment continues.

Senator MILLIKIN. Also, according to the statistics of private enterprise, there are greater chances of failure than there are perhaps of inability to keep on the pay roll.

Dr. SLICHTER. We know the mortality of new business concerns is quite high. I am sure the members of the committee are familiar with that.

Senator MILLIKIN. I am coming back, though, to my original thesis that we are somewhat changing our theory. The private enterprise fellow is supposed to get his profit, after the Government gets through with him, and he is supposed to take his risk, and that all goes to his final expectancy in life, what he expects when he gets to be an old man. That is why I have been pressing all through this hearing to try to get some reliable statistics on the old-age history of self-employed to find out to what extent that problem exists, but so far we haven't had very much information on that.

Dr. SLICHTER. I think we have some pretty good circumstantial evidence to the effect that the age of retirement is higher among the self-employed than among the employees. In fact, the actual point of retirement among self-employed people is difficult to define. It is true that a self-employed person can protect himself by continuing to work to a greater extent than can an employee. An employee who comes under one of these retirement plants, where every one quits at 65 or 68 or 70, can do nothing about it except to look for work elsewhere. He is penalized pretty severely under the present old-age pension plan if he tries to get work elsewhere because that act says if you earn $15 or more per month in covered industries, you don't get any pension, a peculiarily vicious provision of law, it seems to me. I don't think the financial history of agriculture or the financial history of

retailing or even the financial history of such professions as architecture or engineering or law indicate that there is not a problem of appreciable magnitude for these people when they reach the usual ages of retirement. What we are saying if we exclude them is that: "We know there are going to be an appreciable number of you who will be without resources. We can't pick the individuals, but we know that the number will be appreciable. We are saying to you that though you have done the thing that is particularly important in our economy, you have tried to go to work for yourself, you have been your own job maker, you have tried to give jobs to others, when you reach the age of retirement without resources, you are going to be dependent upon charity."

That, it seems to me, is the wrong philosophy. You say we are changing our philosophy. Perhaps we are. My interpretation would be different. My interpretation would be that——

Senator MILLIKIN. I am asking you whether we would be changing our philosophy.

Dr. SLICHTER. I am giving you my opinion, which corresponds to that which Mr. Folsom presented. His impression of the deliberations of the original Council in 1935 was that considerations of administration rather than considerations of principle led to the exclusion of the self-employed.

The CHAIRMAN. The coverage of self-employed, Doctor, could more nearly and accurately be described as a system of compulsory savings, could it not? Any part of the social-security program partakes of that in a way, it seems to me.

Dr. SLICHTER. You do not have individual accounts. You have contributions. You become a member of the scheme, and you are assured certain protection. The amount of protection, according to the view of the Council, should have some relationship to earnings, and in that sense it partakes of the nature of compulsory saving, whether it be an employee or a self-employed person who is involved.

The CHAIRMAN. I don't believe that there was a great deal of worry about applying the system to the self-employed person in 1937. Undoubtedly that did enter into certain groups like domestics and farm laborers. I was here at the time. It also entered into the question of the self-employed, but it was rather a different philosophy that controlled the decision of the committee at that time.

Dr. SLICHTER. It seems to me that we have reached the time today when we must decide whether the self-employed who have reached the age of retirement without resources, and there will be a considerable proportion of them—it is in the very nature of the competitive economy that there are failures as well as successes—we must decide today whether those self-employed who have reached the age of retirement without resources are going to have something better than charity.

The CHAIRMAN. I do not think there would be any disagreement on that point, Doctor, and the need will be present among the self-employed as in other cases, but the self-employed man has not any fixed time for retirement. The employed person has in a system of economy such as ours a period beyond which he cannot remain employed. He simply goes out at the other man's say-so.

Dr. SLICHTER. That is right. We recognize in our recommendations the problem of defining the point of retirement. We say in the

case of self-employed that they shall be deemed to have retired at age 70, and they are given the opportunity of qualifying before age 70 if they report earnings of a negligible amount.

Senator TAFT. Dr. Slichter, taking specifically the question of self-employed farmers, I wonder if anybody has gone to the State of Ohio, say, and found out whether there are any people who were self-employed farmers who are now on charity to any extent.

Of course there would be a few cases, but is it enough to justify taxing the whole crowd? As far as I can see, the Farm Bureau and the Grange when they were here were not so much concerned about taking care of somebody who needed it as they were about the fact that they thought the farmers were paying for everybody else, so they ought to come in on the distribution. In Ohio, 70 percent of the farms are owned by the farmers. Those people own those farms, and certainly when they reach 65 they can make some disposition of that farm which will give them a living for the rest of their lives if their children are not running it for them. The old theory of the children supporting the parents works much more on the farm than it does now in the industrial community.

Dr. SLICHTER. That is true.

Senator TAFT. I wondered whether any real investigation had been made to see whether there was any need for this. I do not object to the principle of extending it. In fact, I think I am in favor of it. But it does seem to me it is a little bit more theory and not much evidence behind it.

Dr. SLICHTER. I do not suppose that you would find a time when there would be a smaller proportion of the farmers in need than today. This would be a better time than most to dispose of farms. There have been years when disposing of a farm in competition with quite a number of insurance companies that had farms to dispose of, as well as other creditors, could not be done very advantageously.

Senator TAFT. What I meant by disposing of it was that when a farmer gets to be 65 and he owns the farm——

Dr. SLICHTER. He can run it on shares.

Senator TAFT. He can get his son or nephew to run it. I think, as a matter of fact, more than half of the farms in Ohio represent farms leased or tenanted by relatives of a man who has retired. So he can cash in on that ownership somehow to preserve his living.

Dr. SLICHTER. I do not know who these people are who are drawing old-age assistance in some of the States. I wish I did. We do know that in some of the agricultural States, rightly or wrongly, a very high proportion of the population is drawing old-age assistance; three out of five of the population of 65 years of age or more in Oklahoma, and in several other States, Texas, Georgia, Mississippi, it is around half. In Louisiana it is up to four out of five. Those are predominantly agricultural States, but the precise occupational history of the people drawing old-age assistance I don't know. I did have computed a coefficient of rank correlation of the States and the District of Columbia, that is 49 in all, ranking the States (1) by the proportion of the population covered by the insurance scheme and (2) by the proportion of those aged 65 or more drawing old-age assistance. If the States are ranked with those having the largest proportion of OASI recipients per 1,000 of aged population at the top and those with the

smallest proportion of old-age assistance recipients at the top, the coefficient of rank correlation is about 0.49. If there were no correlation, it would be zero; if there were perfect correlation, it would be one. So it was an intermediate value. We found a high relationship between old-age assistance and the absence of protection from insurance. Since the absence of protection from insurance is associated with a high proportion of agriculture in the State, I suppose there is circumstantial evidence to the effect that where the State is predominantly agricutlural, the proportion of the older population drawing assistance today is for some reason or other, high.

Senator TAFT. The self-employed farmers are people who usually have been employed most of their lives.

Dr. SLICHTER. I don't know who they are, but they would have to be connected with agriculture in those States in some form or other.

Senator TAFT. I was only raising the question of the self-employed farmer. I see no reason, except administrative difficulties, which would exclude farm workmen, the man who has been drawing wages all the time.

Dr. SLICHTER. I do not think you can assume that there is any category of people who will reach the age of retirement without an appreciable proportion, for one reason or another, lacking in resources. That means if you do not have an insurance scheme, you will have to have charity.

Senator MILLIKIN. Mr. Chairman, may I ask the witness a question?

The CHAIRMAN. Yes; Senator Millikin.

Saentor MILLIKIN. This is a political institution. Therefore, we have to have regard for what people want. The evidence we have accumulated so far is in my judgment insufficient to determine whether the farm workers and the farm proprietors and professional people want this kind of system. Query: In the absence of evidence of that kind, assuming that my analysis of the evidence is correct, should we, as persons who are a part of the political system, force it on them prior to the time that we get more clear-cut evidence of desire for the system? We have had some recommendations by three farm organizations. One of them is genuinely in favor of it, and I am quite sure that its members are genuinely in favor of it, but as to the other two, one of which is much larger than the one that I referred to as being genuinely in favor of it, there is little evidence of polls taken or of grass roots examination as to whether the members do or do not want it. The board of directors think they want it, but it is unsupported and even the board of directors shows no enthusiasm. So I am especially wondering about the self-employed, the professional men who, theoretically at least, want to preserve their independence. I am wondering whether we have a political right in the absence of further evidence to impose this system on them. Do you have any observations on that?

Dr. SLICHTER. I think your judgment on that would be worth more than mine, because I speak here as an economist and am pointing to an economic problem which may or may not be appreciated by every one in the country. I do not think the farmers and the self-employed have given a great deal of attention to this problem. As a matter of fact, I do not think the employees in industry gave a great deal of attention to it. You begin to worry about this problem when it is too late. You begin to worry about it after the age of 45 or 50.

These 12,000 plans, roughly, that employers initiated did not represent a demand for pensions from most of the employees. They represented a recognition by management that here was a problem that management could not dodge, and management was stimulated to act by the tax situation which existed during the war, and we had what seemed to be a stampede toward pensions, but it wasn't. The unions did not get interested in demanding pension until it became harder to make a case across the board. I did see a poll taken a little while ago by Wallaces' Farmer which pertained, I believe, to farmers in Iowa, and it indicated that a very large proportion did not know about this legislation, and of those who did know about it, there was a substantial number who did not have an opinion, there was a minority who were opposed, and a large plurality, but nevertheless a plurality, not a majority, who were in favor. I do not think you would be forcing on people something that they would be opposed to. I think that you would be applying to them something that they have not given very much attention to, in exactly the same way that employers were doing when they instituted pension plans between 1940 and 1946. The popular interest in old-age security begins somewhere, I should say, about 45 years of age. It shouldn't, but it does.

Senator MILLIKIN. Doctor, may I make this further observation. I think your position for wider coverage is entirely consistent with the theory of the Council that at a later point the Government will have to supplement the insurance system by direct contribution. Obviously when you have reached that point, unless you take everyone in there will be a rank discrimination between those who are in and those who are out.

Senator TAFT. Dr. Slichter, is it not clear from the economic standpoint that the present 1½ percent pay-roll tax on employers is necessarily passed on as part of the cost?

Dr. SLICHTER. Yes; I do not know in which direction it is passed on. There is a dispute among economists on that. It is probably passed on in part to the consumer and in part it probably represents a limit on the employer's demand for labor. One of the questions that always arises in connection with the incidence of taxation is how long does it take to pass on a tax, and that depends. In a period of expansion you pass on taxes very quickly, and in a period of contraction, taxes tend to stick where they are first placed.

Senator TAFT. It has been the theory that the 1½ percent tax on every employer in the same industry necessarily becomes a cost of the industry and affects the competitive price or the fixed price either way.

Dr. SLICHTER. Yes.

Senator TAFT. What about the 1½ percent paid by the workman? Do you think under the present conditions, with the strength of the labor unions and the centering of attention on take-home pay, that that is passed on to any extent or not? What do you think about that?

Dr. SLICHTER. That might make unions press a little bit harder for wage demands, but I think what unions go after is determined pretty largely by their view of the immediate business outlook or what is in the cards this year. They will decide what they think is in the cards, and then they will advance their arguments in support of it. So I doubt whether the tax on employees would alter their view of what is in the cards.

Senator TAFT. Even in the case of salaries, even in the case of congressional salaries, I hear the argument made that those salaries must be higher because the tax is higher. That just results in passing on the cost.

Dr. SLICHTER. They might be justifying the same demand by another reason if a given reason were not handy. There is always a good case for higher wages or higher salaries.

Senator TAFT. Is there not at least an argument that a portion of the income tax paid by employees is to a certain extent passed on, perhaps, under some conditions to the consumer in the price of the product?

Dr. SLICHTER. I think some of it is passed on to the consumer. You are raising a very technical question——

Senator TAFT. I know it.

Dr. SLICHTER. About the incidence of taxation. I am sure you do not want me to go into the details of that. Some of it, I think, the worker probably bears, but you must remember that he does not come out at the short end. He is getting pension rights for that, which are worth more than whatever part of the tax may ultimately fall on him.

Senator TAFT. Well, I am only suggesting that, after all, in the last analysis, a very considerable part of this is paid by the dear old consumer, regardless of how we set up the pay-roll tax, and that therefore it is a general tax calling on all the population.

Dr. SLICHTER. Yes; but, you see, you put a tax on labor costs, and it can go both ways, and it depends upon the elasticities of supply and the elasticities of demand and a lot of technical things that we argue about in economics that I am sure will not interest the committee. I think, if you will accept the rough statement that it probably goes both ways, that the extent to which it goes both ways depends upon a number of conditions, that the precise extent to which it goes both ways is something that economists are not agreed upon, you will, I think, if you will accept all of that, have an accurate statement of our state of ignorance or knowledge, whatever you care to call it.

Senator TAFT. I know one theory was, when I studied economics in college, which was a long time ago, that all taxes were diffused. There seemed to be one school of thought that went to what I thought was an extreme point, that no matter where you levied them they all ended up at the same place.

Dr. SLICHTER. Henry George thought that he had a tax that would stick where you put it.

The CHAIRMAN. You have been discussing the extension of coverage, and I presume you will come to the question of increasing benefits.

Dr. SLICHTER. I was just about to go into that. Do you have a question before I do?

The CHAIRMAN. I had this question. Would you care to offer any comment on whether increased benefits would lessen the pressure for greater benefits under private insurance retirement plans? That has been discussed before the committee by some of the witnesses.

Dr. SLICHTER. I think so, because, if men have pretty adequate pensions, they become interested in other things, and the demands of their labor organizations will take a different direction. They didn't go after pensions until quite a late date.

The CHAIRMAN. That is true.

Dr. SLICHTER. And I think they would, in most cases, prefer to bargain about immediate things, such as wages. And there are some unions even today which say, "'No'; we are simply going to talk wages. We are not going to talk pensions."

I should think that unions would welcome the opportunity to bargain about something of more general immediate interest to their members than pensions. After all, they began to talk about pensions in 1948 and 1949, when the arguments for across-the-board wage increases were a little less persuasive than those arguments had been during the previous year or two.

I think the union representatives would probably have a more worthwhile opinion on this point than I have. It would be presumptuous for me to undertake to tell you how I think trade-unions would behave on this, but that is my opinion.

The CHAIRMAN. Thank you very much, Doctor, for your opinion.

Senator MILLIKIN. Doctor, if I might suggest this: Of course, when you bargain for pensions you are bargaining for wages. There is a per-hour cost and a per-day cost.

Dr. SLICHTER. But the chap who is 25 or 30 years of age is much more interested in that than the chap who is 55 or 60.

Senator MILLIKIN. I agree. But you also have the sons and daughters of the older fellows, who are also interested in seeing that daddy gets a pension, either from the private company or out of public funds.

What I started to suggest was that you also have the competitive situation among the unions themselves. As long as it is in the fair field of bargaining, if one union increases pension rights of its members, the other unions are compelled to do as well. And, personally, I don't see how, as long as that is in the fair field of bargaining, you will ever get rid of it as a competitive factor in bargaining. In other words, whatever we do here seems to me to be merely a floor against further bargaining by the unions, despite the fact that we have been told that that might not be the case.

Dr. SLICHTER. I don't see it that way. If I were planning the proposals for a union, if I were a business agent and I were planning those proposals and studying what my members would be most interested in, and if I found that my members had pretty adequate pensions, I would hesitate, I think, to make still new pension demands. I would expect some of those members to say, "Well, can't Slichter play a new record? Doesn't he realize that we have got pensions? We want something else now. He is behind the times. He is not an up-and-coming business agent. He is still talking about this ancient pension stuff."

I think the business agents are sensitive to what their members would most like to have; and, when the edge is taken off some things by the need being met, they will look in other directions.

Of course, the unions are always going to be imaginative and enterprising in thinking up things to ask. And if your question is, "Will they quit asking for things simply because they have adequate pensions?" my answer is "Obviously they will not." And I think it is a good thing for the economy that they keep prodding us for more production. That is one of the things that make us go ahead.

But I do not think they will play that old record again and again and again simply because they talked pensions in 1948 or 1949.

Senator TAFT. Fifteen hundred dollars is pretty small to fellows averaging $3,600 a year. It seems to me we have not begun to arrive at the point yet where they are going to be satisfied with pensions.

Senator BREWSTER. Mr. Reuther just came out for $200 a month.

Dr. SLICHTER. They may want more than a 50-percent ratio between earnings and pensions. That is quite possible. But there are a lot of people in a union who are not steamed up as much as they ought to be about their own problems of old-age security.

Senator BREWSTER. Doctor, I went through your statement, which covered the matter of increase in benefits and coverage. You do not give a figure as to the cost.

Have you arrived at any estimates or figures on that, as to what the over-all cost would be to the Government?

Dr. SLICHTER. Yes. I will give you that in just a few moments, if you will permit me.

Senator BREWSTER. It does not appear in your statement, does it?

Dr. SLICHTER. I think you will find it on page 14.

I would like to do a little skipping.

Senator BREWSTER. Well, I do not want to anticipate that, if you have it.

Dr. SLICHTER. I appreciate your bringing that up, and I shall be glad to cover that later.

Well, the Council made the second general recommendation that the eligibility requirements be liberalized so that a larger proportion of the workers who reach the age of 65 will be immediately eligible for pensions. I shall not go into that; but the effect of our recommendations, combined with the extension of coverage, would be to raise, by about the year 1955, the percentage of males reaching the age of 65 who would be immediately eligible for pensions up to somewhere in the neighborhood of 7 out of 10. And that is not as high a proportion as one might like to see, but we were pretty liberal in our recommendations for changes in eligibility requirements, and that is the estimated result.

Then, in the third place, the Council recommended changes in the benefit formula and other conditions of benefits which would have the total effect of doubling the benefits.

There were three types of recommendations: First, one pertaining immediately to the benefit formula and, second, some pertaining to dependents' benefits, the principal one of these being that wives' benefits begin at the age of 60 rather than 65. That would greatly increase the proportion of cases where, when a man reaches the age of 65, his wife will be able to draw a benefit, because the wife is usually a little bit younger than her husband. During 1948, only 196 of every 1,000 married men who claimed benefits at age 65 had wives who were 65 or over and entitled, therefore, to dependents' benefits under the present law. On the other hand, 565 out of every 1,000 married men claiming benefits at age 65 had wives who were at least 60 years of age and who would receive dependents' benefits if the recommendations of the Council were adopted. In other words, the recommendations of the Council would increase by nearly three times the number of cases in which wife's benefits are paid when the husband retires at age of 65.

The third type of recommendation pertaining to benefits was that the benefit base and the tax base be raised from $3,000 to $4,200.

Our benefit formula has these contrasts with the one in H. R. 6000. I think in some respects theirs is better than ours, and in some respects ours is better than theirs. We recommended that the benefits be 50 percent of the first $75 of wages. They recommended that it be 50 percent of the first $100 of wages. And you will perhaps recall that several members of the Council—Mr. Folsom, Mr. Cruikshank, and Mr. Rieve—told this committee that they preferred H. R. 6000 on that particular point. And I do also.

But H. R. 6000 keeps the 10 percent of additional wages; and that differs from the Council's recommendation, which was that it be 15 percent up to $350 a month. Our thought was that, since you are trying to protect a standard of living from dropping too much on retirement, the higher-paid worker should not receive too closely the same pensions as a lower-paid worker.

Two members of our Council, Mr. Rieve and Mr. Cruikshank, recommended that the rise in pensions above the basic amount be 20 percent of additional earnings. Well, I would favor at least 20 percent. I think I would go beyond that. I see no reason why it should not be 25 percent. I think that, if you are trying to protect against a drop in the standard of living at retirement, the chap who earns $100 more a month than another chap is entitled to at least $25 a month difference in his monthly pension. The Advisory Council's formula would give him $15 more. Mr. Cruikshank and Mr. Rieve would give him $20 more. H. R. 6000 would give him only $10 more.

I was one of those who thought that the limit of $4,200 on the benefit base and the tax base recommended by the Council is too low and is unfair to many skilled workers and to foremen and to others in the lower ranks of supervision. The upper limit of $4,200 in the benefit base means that no earnings of more than $4,200 count in producing an increase in the worker's pension. He may earn more, but you don't count it. And there are many skilled workers, straw bosses, foremen, assistant foremen, who earn $5,000, $5,500, or $6,000, and under the recommendations of the Council these men would receive no greater pensions than men earning only $4,200.

Senator MILLIKIN. They are in better position to accumulate some savings against the time of retirement than are the lower-paid workers.

Dr. SLICHTER. That is correct. But if you will note the figures on resources of persons earning $5,000 or more a year, there are about 22 percent who last year had liquid assets of less than $500. This is from the survey of the Board of Governors of the Reserve System. And 45 percent had liquid assets of less than $2,000.

I call the committee's attention to the fact that business enterprises themselves do not expect these men to depend on individual savings. They establish generous pension plans for executives. Harvard University does not trust its professors to provide for their old age. We have a compulsory pension plan, and it is quite a bit stiffer than the Federal one. The professor puts up 5 percent of his salary, and the university puts up 5 percent. That does not abolish the need for thrift, incidentally.

But these company plans tie men to one company, and they penalize men who move from one employment to another. They foster a kind of industrial serfdom. When one considers the serious deficiencies of the company pension plans——

Senator BYRD. Mr. Chairman, may I ask a question at this point?

Doctor, I would like to ask you: Have you given any thought to coordinating the private pension systems with this national social-security system?

Dr. SLICHTER. I think that should be done by the business enterprises themselves and not the Government, because you have a different problem in the case of each plan. It is important that it be done, but I don't think the Government can do it.

Senator BYRD. Do you anticipate that that will ever be done?

Dr. SLICHTER. Yes; I am sure most companies would be glad to do it.

Senator BYRD. Will the workers agree to it?

Dr. SLICHTER. I believe so. Some of their agreements provide for it now.

Senator BYRD. Is it not true, though, that the pensions given by the private companies are a good deal higher than the social-security system provides?

Dr. SLICHER. That is true.

Senator BYRD. I mean that will have the result, then, that before the worker will agree to it he will naturally want to be raised from the social-security level to the industrial level.

Dr. SLICHTER. He will want to keep what he has. There is no doubt about that.

Senator BYRD. I just wanted your opinion, so far as you have thought it out, as to whether that will ever come about. Because in some cases, as you know, the workers pay two costs. They pay one to the industry and one to the Government.

Dr. SLICHTER. That is true in some cases, but a good many of these private plans are noncontributory. Some of them are contributory. That is one reason why the problem of coordinating them with the Federal plan is one that has to be handled in a plant-by-plant fashion.

Senator BYRD. That is the point I am making.

Dr. SLICHTER. What the worker gets out of these private plans depends so much upon whether he turns down opportunities to better himself by going elsewhere. He usually loses whatever rights he has accumulated if he leaves one employer and goes to work for another.

Senator TAFT. What do you think, however, Dr. Slichter, about the question of whether we should limit or regulate plans which involve an industry? The present coal pension is based upon what is in all essentials a tax. I see why, employer-by-employer, we might well say that we should leave it alone entirely and let them fix it as they wish to. But when you have an industry plan, have you not got to a point where the Government has a direct interest? Is not the effect of an agreement by the coal operators with Mr. Lewis, for instance, to pay 30 cents a ton for a general industry plan exactly the same effect as if we set up a special Government fund, like the Railroad Retirement Act?

Dr. SLICHTER. Well, it has very much the same consequences.

I did not mean to imply in my answer to Senator Byrd's question that I favored no standards for private plans to meet the requirements of the Bureau of Internal Revenue. For a plan to qualify as a deductible expense, it should meet certain requirements. It should be nondiscriminatory, for example.

I would go beyond some of the present requirements, but I wouldn't try to take over on behalf of the Government a job which I think must in the main be a plant-by-plant job.

Senator TAFT. Well, now, we have a proposal in Toledo at the present moment to have a regional compulsory pension deduction, so that every employer in the Toledo region—and this has been urged very strenuously by the heads of the labor unions—shall pay a tax, and that every employee of every concern in that region shall participate in a joint fund.

Do you not think that goes beyond what we could well permit to run unregulated?

Dr. SLICHTER. I do not know. I would want to see the problems that develop.

I am very much interested in this particular question, and I am not sure that I have reached an opinion on it, because I keep switching back and forth.

It seems to me very doubtful to permit contributions to these private plans to qualify as deductions to expenses under the income tax, when they give no vesting rights whatsoever. And I sometimes reach the conclusion, and then abandon it, because I am still pondering that, that perhaps we ought to add to the standard that the plan does not qualify unless, after 5 years or 10 years of service, the rights vest, Johnson & Johnson, for example, have a plan in which rights vest after 15 years of service. That is very unusual. Fifteen years of service is a fairly long time, at that.

Senator TAFT. But what do you think of the advisability of permitting a deduction or a contribution to a fund which does not even cover your employees, like the petroleum fund, or the contributions made to a fund for unemployed musicians, where that particular employer may have never seen the recipients and may have no interest in them.

Do you think that is a proper investment for a company to be forced to make?

Dr. SLICHTER. Well, I agree that if you are going to set up something which is supposed to protect someone it is elementary that the boundary line between the people who are protected and those who are not should be sharply defined, and defined in such a way that anyone knows at any given time whether he is under it or out of it. And the trustees of the fund surely have the obligation to see that that boundary line is sharply observed. I do not think they should have the right, for example, to dilute the protection which people already covered have by going out and saying, "Well, you come in, too."

Senator TAFT. Do you think that we ought, at this time, to revise the internal-revenue provisions regarding deductibility as to the proper type of pension funds?

Dr. SLICHTER. I think that is a separate problem, and a very important problem.

Senator TAFT. You know the section to which I am referring.

Dr. SLICHTER. Yes. And I believe it would be very wise to take a look at it. Another thing which comes under that general heading, and I would not want it to be confused with the problem which the committee has before it, in considering H. R. 6000, but it is a closely related one: If the employer's contribution is a deductible expense,

should not the employee's contribution be a deductible expense? Why stack the cards, as we do today, against contributory plans?

Senator MILLIKIN. I think you could make a partial argument against it. I am not arguing against it, but I think you could make a partial argument against it, on the ground, Doctor, that the employee's obligations are personalized. The employer, as such, is usually an entity, and you cannot relate the big boss of this entity to the worker and have an exact analogy that would carry clear across the boards.

But I think that there is certainly a lot of surface argument in favor of what you have just said.

Does not this question of convertibility of private plans raised by Senator Byrd, come down to this: that you cannot have convertibility as a practical matter unless you have first a sound plan which promises solvency, and, as you have pointed out, have a vested right of the worker as he works along? Otherwise you have nothing to exchange. If I am a worker with a company that has a plan that promises solvency, I would resent very much having someone come into that same business from a plan that did not promise solvency, made by someone, let us say, who was not capable of guaranteeing the future assurance, and, as you pointed out, diluting the protection that I have paid for in a solvent plan. Does that not bring you to some judgment by someone on what is a solvent plan and what are the vested rights of the workers as they work along?

Dr. SLICHTER. The problem of the fellow who wants to come in from some other employer—that is the toughest of all.

Senator MILLIKIN. Yes.

Dr. SLICHTER. And I am not in favor of saying that these rights which have vested can be withdrawn and the funds repooled. Probably the best way to handle that is to just let the amount that a man has accumulated on leaving one employer to work for another employer be an installment on the purchase of an annuity payable at a certain time, say when he reaches 65.

But you can see the complications to that. If there were an adequate Federal pension plan, the employer and union might decide that, with respect to employees covered by a private plan, the plan would be continued for the employees above a certain age and the plan would be allowed to run out in 20 years or 15 years. With respect to all of the other employees in the plant, the discontinuance of the private plan might be offset by a wage increase. The decision would be a very individual decision in different plants. You might have one plant with a high average age in the work force, where the employees and employer would want to keep the plan and simply add it completely to the Federal old-age and survivors insurance scheme.

Senator MILLIKIN. You adhere to your conclusion that there is nothing that the Federal Government can do about it unless through indirect methods having to do with taxation or something of that kind?

Dr. SLICHTER. That is correct.

Senator BYRD. Doctor, the reason I raised that point is because it seems to me that in a few years there is going to be a serious problem to meet. And I don't agree with you on this point where you state that the emphasis is not going to be placed on pensions by the industrial bargaining in private industry.

In the last few months there has been emphasis placed on pensions both in the coal industry and the steel industry. Now, naturally when the corporation pays it, whatever it may be, that is added to the cost of whatever that corporation produces, insofar as they are able to do it. If you have a depressed business situation, perhaps they cannot add it. But in times of prosperity they are going to add it, and the consumer will pay it. The people of this country will pay it, just as they pay now, I imagine, this 30 cents a ton on coal. And it seems to me, as time goes on, unless there is some coordination—and I do not advocate it, because I have not brought it out sufficiently to do so—we are going to meet a situation somewhere along the line where, if we continue to increase these private pensions and increase them without any relation from one industry to another, somewhere along the line there has got to be a coordination with the national social security. Because, after all, whatever is paid by the corporation or whatever is paid by the Government is ultimately coming out of the pockets of the people of this country as a mass. Am I correct about that?

Dr. SLICHTER. Yes; I think there would be no dispute about that them without any relation from one industry to another, somewhere tion between the two, I can agree with you if you are not thinking of just uniform across-the-board coordination.

I think the managements and the unions in different industries will vary in their ideas of how they wish the private plans related to the Federal plan. And, if the Federal plan is pretty inadequate, they will lean much more heavily upon the private plans. If the Federal plan is more adequate, they will lean much less heavily upon the private plans. But different employers and unions in different industries and within the same industry will have different preferences as to the amount of emphasis they want to put on private pensions.

Senator BYRD. You have not come to my point yet that I have tried to make. I contend that these pensions that are paid for by the companies, by the private companies, and in taxation from the Government come out of the pockets of the American people sooner or later. There is no other place for them to come from. And the 30 cents a ton on coal, for example, when coal is one of the necessities of our existence is like taxing the people from the Federal Treasury. It has just the same effect. They have got to pay it.

The point I am making is that this thing may become so colossal if these private pensions are continued, with such payments as are made to the welfare funds of these unions, plus this, which I can see by your record is going to cost practically 10 percent of the pay rolls, though I do not know what they will mean in dollars and cents, that the whole cost of it may be simply fantastic and overwhelming unless there is some coordination between all these different plans. Do I make it clear? I am speaking of the money that comes from the corporation, the cost of which is passed on to the consumer.

Dr. SLICHTER. Yes. I would not single out the cost of pensions.

Senator BYRD. I mean the whole social-security program.

Dr. SLICHTER. You say the cost of pensions comes out of the people of the country. Well, the cost of wages does, too. And an industry may, in a sense, tax the country, for example, by maintaining a high wage scale, or it may tax the country by maintaining a lower wage

scale and a pension plan. We do not eliminate the taxing of the country by just focusing attention on the pension.

Senator BYRD. No; you do not understand me. I do not mean to tax them. I mean that if the corporations are compelled to increase their costs, or business anywhere increases its cost, that has either to be passed along to the consumer or taken out of the profits of the corporation or paid in some way. It does not come out of the thin air.

Dr. SLICHTER. Well, suppose all the employers in an industry agree to raise wages by a certain amount. Are they imposing a tax on the rest of the country?

Senator BYRD. Well, in a sense they are.

Dr. SLICHTER. Surely. And it does not make any difference what it is, whether it is wages or contributions to a pension plan.

Senator TAFT. But wages supposedly may be reduced under economic conditions. The pensions never can. You are saddling that onto something in the future. Wages are paid today. Pensions are paid sometime 50 years to come. It seems to me a very different kind of an obligation on the people of the country.

Senator BYRD. And it all depends, too, on the competitive situation. If we would have a depression in the country, maybe these corporations or business generally could not pass it along. Then it would have to come from some other source, naturally.

But as a general principle you will agree that if the costs of a corporation or an industry, an operating business, are increased, then the effort is made, of course, to pass that along to the consumer unless they are making an inordinate profit as of that time.

They will be governed, will they not, by the competitive status? If they are able to pass it on, they will pass it on. Is that not correct?

Dr. SLICHTER. That is correct.

Senator BYRD. Or they will pass as much of it along as they can.

I thought maybe you had given some study as to what these industries will be. I do not think they are going to be confined to the 12,000 you mentioned. I believe a year from now there will be many more than 12,000 that have these industry bargaining arrangements for pensions and different kinds of disabilities, and so forth.

Dr. SLICHTER. Well, as far as that is concerned, there are a great many enterprises in the United States which cannot afford adequate pension plans. And a good many of these pension plans that have been put into effect in the last couple of years have been put into effect only because they are so inadequate that they do not cost very much. The way you keep the costs down is by rigging them so that very few people ever draw pensions under them. They give an illusion of security rather than real security. That is one of my great quarrels with them. The employees are led to think they have something when they do not have it. Of the young employees who go to work for the United States Steel Corp., for example, I doubt whether 1 out of 20 will every qualify for protection under that plan.

Senator HOEY. I was just going to say, Doctor: What proportion of these private pension plans represent the joint contribution of the employees and the employers? What proportion is paid directly by the employer, and what proportion, if you know, represents the joint contributions of both?

Dr. SLICHTER. I have forgotten the figures on that. It is not far from 50–50. In proportion to the number of employees covered, the noncontributory plans are greatly in the predominance.

Senator BYRD. In other words, a majority of the employees do not contribute?

Dr. SLICHTER. That is right.

Senator BYRD. And you say, of course, it does not cost much. The welfare fund for coal costs $150,000,000 a year.

Dr. SLICHTER. It is a big industry.

Senator BYRD. And that is added to the cost of coal and is paid for by the people of America. It is not paid for by the coal companies

Dr. SLICHTER. There are some companies which could not even afford the inadequate pension plans that have been put into effect in the last couple of years. These plans look much more adequate than they are, because what is played up is the amount of pension which people will get; not the proportion of people who will get the pension. And the flaw in the plan is that something is offered which is pretty good—$100 a month is not to be sneezed at—but how many people will ever meet the 25-year-service requirement or the 30-year-service requirement that must be met in order to draw that pension? And the plans put a premium upon sticking for a lifetime with one employer. In a progressive and dynamic economy, we need to have a mobile labor force. We need to have people who move around, go into new parts of the country, go into new industries, go into new enterprises in new industries.

Some way or other, that I cannot understand, the notion has grown up that there is some special merit in sticking with an employer for a long, long time. Any they give buttons, gold buttons, and silver buttons, and bronze buttons. Ten years' service and you get your bronze button. Twenty-five years and you get your silver button, and 50 years brings you a gold button. Well, it is just as meritorious to be willing to go west and help develop the country. If we had stuck on the seaboard, here, for the last 200 years, this would not be much of a country.

So the philosophy of the private pension plan is inadequate.

Senator TAFT. My suggestion is that when an employer is asked to contribute to something other than a fund for his own employees, either an industry-wide fund or a regional fund or a fund for unemployed musicians, then it seems to me you get into a field where the Government ought to regulate it in some way.

I would not say that it should be prohibited, by any means, but it does seem to me you have gotten then into what is almost a tax field, so similar to a tax that we are interested in seeing that it does not get too big, as an industry fund. That was my suggestion, you see, that that should be regulated, and not that it should be forbidden in any way.

Dr. SLICHTER. I think these funds are affected with a public interest. I would like to see a minimum of regulation in all directions. I think the Government has plenty of things to do. And I am not prepared to suggest to the committee the details of regulation that would be needed. But if the Government concerns itself with the solvency of insurance companies, as it has done for a long, long time, then surely it is appropriate for the Government to concern itself with the solvency

of industry pension funds which really partake of the nature of insurance companies. That is, as people are counting upon security to come from these private pension plans, I think that is a fairly helpful analogy.

I do not want to presume on the committee by taking too much of your time, but I have a few observations here on costs and on the problem of the age of retirement, which I should like to make, quite quickly.

We concerned ourselves, in the council, at quite some length with what a system of old-age and survivors' insurance would cost. And it is plain that a great many different things affect the cost. How many people are going to reach the age of retirement? How many are going to be leigible for benefits when they do reach the age of retirement? How many of them are going to retire? How long are they going to live, and how long will the benefits be paid? And then, of course, how much will be paid? What will be the average rate of monthly benefit payment?

Well, since so many different things affect the cost, we had two series of estimates made. A low-cost estimate was made, that was deliberately intended to be on the low side, and a series of high-cost estimates that were deliberately intended to be on the high side. What we were trying to do—we cannot be sure that we did it—was to bracket the truth. And we don't know just where, within those limits, the truth is; but we tried to make the assumptions a little bit extreme in each case, so that we felt pretty sure that the low estimates would be too low and the high estimates would be too high.

Then we said, "It does not promote clear thinking to put these costs in absolute terms. They need to be put in relative terms. We do not know whether the price level will rise, or, if it does rise, at what rate it will rise. We do not even know at what rate productivity will increase. We do not know at what rate wages might rise without prices rising. But we are going to make this assumption. We are going to assume that if incomes go us, either real incomes or money incomes, or both, without too much of a lag pensions will go up at the same rate. And therefore, if pensions are liberalized from time to time to maintain a certain ratio between customary earnings and pensions we are interested in what the percentage of pay-roll cost is that would be necessary."

Now, unless you do that, some of these estimates, for example, that seem very huge in absolute dollar amounts may or may not be huge in relative amounts. It all depends upon what happens to pay rolls.

Well, we undertook, as I say, to bracket the truth, on the assumption that our recommendations were put into effect. And we reached the conclusion, or rather our actuarial consultant reached the conclusion, that somewhere between a little less than 6 percent and a little less than 10 percent of pay rolls, the ultimate cost would fall.

Senator BYRD. Doctor, could you put that in dollars?

Dr. SLICHTER. No.

Senator BYRD. What will be the pay roll, do you think, in the year 2000?

Dr. SLICHTER. Well, that would depend upon what happens to the price level.

Senator BYRD. I do not think, of course, any estimate made as to 50 years from now would be of any value at all.

Dr. SLICHTER. We gave estimates 10 years apart, for 1955, 1960, 1970, 1980, 1990, and 2000. We also gave level-premium costs.

Senator BYRD. Have you an estimate for the cost immediately, and then the cost 10 years from now? That is within the realm of what we can look forward to. Fifty years from now we do not know what is going to be the situation.

Dr. SLICHTER. The reason I referred to 50 years is that I wanted to give you the maximum figures. That is what it rises to.

I have a copy of that report, here, I think.

Senator TAFT. That is page 56 of the report.

Senator BYRD. I understand these are the recommendations of the Council.

Dr. SLICHTER. That is page 56, table 4.

Senator BYRD. One second, here, Doctor. Is this the recommendation of the Council, or is this the bill as passed by the House?

Dr. SLICHTER. This is the recommendation of the Council.

This is the cost under our recommendations.

Senator TAFT. Does this assume a gross income of a trillion dollars in the year 2000?

Dr. SLICHTER. It does not assume any amount of gross income. That is what we are trying to get away from. All it assumes is a given ratio between whatever gross income is and the amount of pensions.

Senator BYRD. The net cost, then, of the new plan as proposed by your Council would be $3,189,000,000?

Dr. SLICHTER. You are looking at table 5?

Senator BYRD. Yes.

Dr. SLICHTER. Well, that is the low-cost estimate for 1955.

Senator BYRD. That is in addition to what is being paid now?

Dr. SLICHTER. No, that is the total cost.

Senator BYRD. Well, how much additional cost will there be in 1955? That is a pretty good year to take, because we think we shall be living then.

Dr. SLICHTER. Well, if you look at the left-hand column in that same table, you will see that the cost of the present program is slightly oveh $1,000,000,000.

Senator BYRD. It would add, then, to about $2,000,000,000?

Dr. SLICHTER. That is right. You will notice that we raise the cost more in the near years than in the ultimate years, because we are trying to increase the proportion of people now near the age of retirement who qualify for pensions.

Senator BYRD. And that is the cost out of the Treasury?

Dr. SLICHTER. No; none of that is the cost out of the Treasury. That cost is more than met from the pay-roll tax.

Senator BYRD. This all comes from the pay-roll tax?

Dr. SLICHTER. Yes. As a matter of fact, the so-called reserve, which we do not regard as a reserve at all, which is just a sort of a residual, the trust fund—that would be increasing still in 1955.

Senator BYRD. What would be the additional cost of this legislation if it is passed, out of the Treasury?

Dr. SLICHTER. That would depend upon the decision of Congress, perhaps 10, 15, or 20 years from now. In other words, it might be zero. The answer to that question depends upon whether the Con-

gress at some time in the future decides to contribute to the scheme by general revenues rather than by continuing to raise the pay-roll tax. In other words, the present 1½-percent pay-roll tax will have to go up to 2 percent sometime before the decade of the fifties is over. That 2 percent will be more than adequate for a few years more. Then the Congress will have to decide whether to raise that to 2½ or whether to freeze it at 2 and say, "Any additional costs come from the Treasury."

Senator BYRD. If H. R. 6000 is enacted then, there will be no additional cost from the Treasury?

Dr. SLICHTER. That is right.

Senator BYRD. Then there is nothing in this bill that would compel the Congress, unless it desired to change it, to make any contributions in the future further than they are making now?

Dr. SLICHTER. That is right. On the other hand, there is nothing to prevent the Congress from deciding that there should be three-way contributions—from the employees, the employers, and the Government.

Senator BYRD. I fully understand. The Congress can spend as much as they can get hold of. That is what they do.

Dr. SLICHTER. Sometimes more.

Senator MILLIKIN. Mr. Chairman, is this not correct: That to the extent that we continue the trust-fund operation and the trust funds reflect more income than outgo, and while that situation continues there will be a cost to the Treasury because we will have to meet the costs of those bonds out of taxes?

Dr. SLICHTER. No. If you were to abolish the trust fund, you would not save the Government a cent, because the bonds which are in the trust fund would have to be sold to someone else, and the Government would have to continue to pay interest on them. In other words, the fact that the old-age and survivors' insurance scheme has run a surplus up to now, and, indeed, the fact that the cost estimates have run considerably below the original estimates made for the plan has not represented 1 cent additional cost to the Government. It has simply meant that a smaller part of the debt of the United States is owned by you and me and banks and insurance companies, and a larger part is owned by this trust fund. The amount that the people must pay to meet interest on the public debt is determined by the size of that debt, not by who owns it. And the fact that a trust fund, for example, happens to be running a surplus does not change the size of the debt and, therefore, does not change the interest burden of the Government.

Senator MILLIKIN. I suggest to you, Dr. Slichter, that this easy source of a couple of billion dollars of tax revenue every year which people are generally entirely unaware of tempts expenditures which might not be made. I suggest to you, secondly, that it is not a true trust fund at all; that the money is not used to strengthen the insurance system. It differs completely, I suggest, from the reserves of a private insurance company. I suggest to you also that as we enlarge the coverage in the future those covered will be the taxpayers, and so they will not only have contributed for their insurance but they will have to pay it again when they have to pay the bonds.

Senator BYRD. The total of the trust fund now, of all kinds, is $35,000,000,000.

Senator MILLIKIN. What have we in the trust fund at the present time, Mr. Cohen?

Mr. COHEN (Wilbur J. Cohen, Special Assistant to Commissioner for Social Security). About twelve and a half billion.

Senator MILLIKIN. We have about twelve and a half billion dollars in there now?

Senator BYRD. This particular trust fund, yes. The total is $35,000,000,000.

Dr. SLICHTER. May I suggest, with all due respect, that Senator Millikin's arithmetic is a little bit erroneous. I do not happen to be a friend of the trust fund. I am not in favor of abolishing it. But our appendix on pages 48 and 49, I think, is the best explanation of the real nature of this so-called trust fund that one can find.

The trust fund is not a necessary part of the insurance scheme. The scheme could be operated in a perfectly satisfactory manner from the narrow economic point of view without a trust fund. It does not make the scheme any more solvent, and you do not need it to assure future payments of pensions. It is the power of the Government to tax that assures the scheme of income.

Well, now, that being true, from the narrow economic point of view, the plan could have been started out with taxes just enough to provide revenue for current outgo only. You could have started out with taxes somewhere around one-tenth of 1 percent, and by the present time those taxes would be around three-tenths of 1 percent, and there would be no trust fund. You would have a balance roughly each year, the amount coming in and the amount going out being pretty much the same.

That policy, which is quite defensible from the narrow economic point of view, would have a serious defect. It would have given a large number of workers near the age of retirement pensions with virtually no contribution.

Now, we are pretty generous as it is, and this is just a question of judgment as to how far you want to go. You may decide, "We do not want to go that far. We are going to make these people contribute maybe 1 percent, and we are going to make the employer contribute 1 percent." You are not making those decisions for the purpose of creating a trust fund. You do not need the trust fund; you do not care about the trust fund. You are just trying to be less extreme in giving people pensions in return for virtually no contribution.

If you decide, "Well, these people are getting a pretty good break. One percent is only a small part of what they will be drawing, because they will not be contributing many years," then you have a trust fund. And the purpose is not to create a reserve. The purpose is not to do anything about the solvency of the system. You have not done anything about the solvency of the system. You have got to call it a trust fund, because you have got to have some trustees to see that the money is not mishandled. But what you are doing was just to control the size of the windfall that goes to the people who are near the age of retirement when the pension plan started.

Now, you might have gone further than we did. You might have said, "We are going to make it 1½ percent from the very beginning," and you would have had a larger trust fund. But you would not have improved the solvency of the system.

Senator BYRD. You would depend upon the ability of the Congress to tax the people for the system.

Dr. SLICHTER. And the ability of the people to pay the taxes.

Senator BYRD. That is the point I am getting at. Suppose you bring the taxes so high that you reach the point of diminishing returns.

Dr. SLICHTER. Then you don't have security.

Senator BYRD. But I understood you a little while ago that you would depend upon the right to tax for the solvency of this particular fund.

Dr. SLICHTER. It is not a matter of what I prefer, Senator Byrd. You do not have any other foundation, in the immediate sense. Of course, in the ultimate sense, what you are doing is asking the people in the productive-age groups to support the people in the non-productive-age groups. We have at the present time in this country about 60,000,000 people who are supporting 150,000,000 people, including the 60,000,000 people themselves. And, of course, the largest age group of the nonworkers whom they are supporting are young people. You have about 38,000,000 of them. And the problem of supporting the young people is many, many times the economic magnitude of the problem of supporting the old people. Even in 1980 we shall have more than twice as many people between 10 and 20 years of age in this country as we shall have above 65. But the ultimate questions are how many nonworkers there will be and at what standard of living the nonworkers are going to be supported. And the way we get this support is by taxes.

But, as for the trust, you don't try to create it. It is a result of some other decisions that you make. I think it is very important for people to understand that. I wish we could have a name for the thing which would prevent confusion, because some people who should be smart enough not to be confused by it have been badly mixed up.

If I may come back to the double-taxation point: Suppose we were to decide at the present time to get rid of the trust fund, either by reducing the rate of taxation or by liberalizing pensions, or both; and suppose that the scheme ran in the red at such a rate that the present trust fund was dissipated in the course of a couple of years. It would be necessary to pay interest on those bonds. We would not get rid of that obligation. Consequently, the necessity of paying interest on the bonds must not be charged as a cost against the scheme of old-age security.

Senator MILLIKIN. I do not see exactly, after following you closely and I hope intelligently, the function of the trust fund. Why do we not charge enough to pay for the thing as it goes? Why have a trust fund?

Dr. SLICHTER. We charge more than enough.

Senator MILLIKIN. Yes.

Dr. SLICHTER. And the result of doing that is the trust fund.

Senator MILLIKIN. And that has some defects in theory just in and of itself. That is No. 1.

But what we are doing is running a trust fund to provide general revenue for the Government instead of running a trust fund to buttress the system of insurance.

Dr. SLICHTER. I do not think that is correct, Senator Millikin, because regardless of whether the Government was running a surplus or running a deficit, this trust fund was building up. This trust fund

was building up in fiscal 1947 and 1948 when the Government was running a surplus in the neighborhood of $8,000,000,000.

Senator BYRD. Well, the trust fund gets the benefit, too, of the interest paid on the bonds. That is added to the income of the trust fund.

Dr. SLICHTER. That is right.

Senator MILLIKIN. But the taxpayer has to pay the interest on the bonds.

Dr. SLICHTER. But he would have to pay the interest on the bonds whether there were a trust fund or not.

Senator BYRD. Not on those particular bonds, in my judgment.

Dr. SLICHTER. You can charge to the additional cost of the old-age and survivors insurance scheme the difference between the rate of interest on the special issue bonds, 3½ percent, I think, or 2½ percent perhaps—I have forgotten—and the rate at which the Government might borrow under the present arrangements by which it rigs the market to borrow for next to nothing.

Senator BYRD. Is it not 3 percent that the Government pays on the trust fund?

Dr. SLICHTER. I think 3 percent on the special issues, and I think the average interest on the national debt is in the neighborhood of 2 percent. Now, that would be a legitimate charge. Or you might say: "We are not going to subsidize this by any special issues. We are going to tell the trust fund, 'You get only the average rate of interest on the public debt'." I would not quarrel with that.

Senator MILLIKIN. Doctor, I suggest that the interest factor aggravates your problem because the interest does not go into the insurance system. It again is covered by bonds, which have to be paid by the general taxpayer.

Now, if we were reducing our national debt by the amount of money that we are taking in, then we would be tending to keep things in balance. But I repeat most respectfully that what we are doing is providing a method of putting debt against the general taxpayer and of financing the general revenues of the Government. And I suggest that in its main essentials it has no relation to our insurance system. I suggest also that it tempts expenditures which might not be made if this money were not so easily available.

Dr. SLICHTER. Well, you have two points there, and let me comment separately on them.

You are not, by virtue of the trust fund, creating any debt which would not otherwise be created. Any time the Congress sees fit to cut the expenditures of the Government to such a point that the revenues equal those expenditures, it is free to do so, and it will not interfere in the slightest with the operation of the trust fund. The public debt will not increase, although the quantity of Government obligations held by the trust fund will increase.

What determines whether the public debt increases or not, and solely this, is whether the Congress spends more than the taxes yield. And, if the Congress spends more than the taxes yield, the public debt will go up, and it will go up by that amount and no more and no less, regardless of whether or not a trust fund is in existence. And likewise you can have this trust fund in existence while the public debt is rap-

idly going down, if the Congress happens to spend so little and tax so much that the public debt is going down.

Now, as to your second point———

Senator MILLIKIN. May I try to rebut your first answer?

I agree to everything that you have said; and it reinforces my point, I suggest, that this trust fund is a system for creating indebtedness and for raising funds for the general revenues which have no necessary relation to social security, our contributory system of insurance.

Dr. SLICHTER. Well, I will agree that you can have a social-security system without it, but you will have a different distribution of cost and benefits in point of time, and it is a question of what distribution in point of time you prefer to have.

Senator MILLIKIN. Doctor, could that not be solved by your rate of contribution and by your rates of benefits, thus tying directly to your insurance system rather than tying it to this method of getting money for general expenditure?

Dr. SLICHTER. The rate of contribution and the rate of benefit were determined not for the purpose of creating a trust fund. That is just an incidental result.

Senator MILLIKIN. Yes; but I do not see the point of the result when we are adding a general indebtedness of the taxpayer.

Dr. SLICHTER. The only way in which you could avoid the result would be to say, "We are going to give you a bigger windfall than even the very generous windfall which you are now being given." And that is a value judgment. We might decide, "All right; we will raise the windfall."

I happen to be one of those who think that we are being pretty generous as it is to the people who become eligible for pensions after only several years of contributions. I think we are a little too strict in who becomes eligible, but for those who do become eligible we are being pretty generous. And the only way in which you can avoid a trust fund is by being even more generous.

Senator MILLIKIN. It seems to me, Doctor, that we should have a contributory system that will pay the expense of the system. Under the way we are handling this trust fund, you have anticipated that at some point in the future we will have to have general revenue to supplement this system. These bonds already represent a future claim that amounts to a contribution by the general taxpayer.

Dr. SLICHTER. Senator Millikin, we don't have to have anything as definite as that in 1970. We shall have to supplement in 1970 the revenues of the old-age insurance and survivors plan, but we shall be perfectly free in 1970—that is probably about the time when it will become an issue, but it might be 5 years sooner or later—we shall be perfectly free to decide, "No: we will not do it out of general revenues," or, "Yes; we will do it out of general revenues." We can put another 1 percent on the pay-roll tax if we prefer.

Senator MILLIKIN. I suggest there is a limitation on that freedom; because if, under the rates prevailing, the system runs into a deficit, then that is the time when the trust fund under its proper functions comes to the rescue.

Well, how does the trust fund come to the rescue? It comes to the rescue by the general taxpayers' taking up the bonds or by a refinancing process which comes to the same thing. The Government might not

necessarily have to dig out and get $2,000,000,000 in silver dollars and pass them around. The Government might put out another type of bond to take the place of those called in under the trust fund. But in the end the system, the contributory system, is not meeting that deficit. The general taxpayer is meeting the deficit.

Dr. SLICHTER. Well, this alternative is a possibility now: Our children who will be in Congress here about 20 years from now are going to do about as they please. They are not going to take orders from us, but they might decide, around 1970, "Instead of raising the rate of contribution, let us go on for 10 or 15 years and liquidate this trust fund." That might or might not be a wise decision. They could decide that to liquidate the trust fund rather than raise the pay-roll tax at the time or to make an immediate contribution from general revenues.

Senator MILLIKIN. The general taxpayer would then be paying that and would be paying the liquidation of the trust fund.

Dr. SLICHTER. It would not affect the amount that the general taxpayer pays with respect to the bonds in the trust fund one particle. What the general taxpayer must pay is determined by the size of the public debt and the rate of interest on it. It does not make any difference whether that debt is owned by insurance companies or by individuals or by the trust fund of the old-age and survivors plan. You do not diminish what the general taxpayer must pay by selling the obligations from the trust fund. You do not increase it by the trust fund's increasing its holdings of obligations.

Senator MILLIKIN. Doctor, that all comes down to your basic assumption that if we were not piling up the bonds for this purpose, in connection with this purpose, we would be piling them up in order to cover our general-revenue expenditures.

Let us assume that that is correct. But what has that to do with the contributory insurance system? I mean, what is its necessary relationship?

Dr. SLICHTER. Let me ask you this: You are making this assumption, which I think is open to question; namely, that because the contributory insurance system happens to be running a surplus the Congress is more extravagant, and the deficit is larger, and the public debt grows more rapidly.

Senator MILLIKIN. That is one of my assumptions.

Dr. SLICHTER. And I do not think that the willingness of Congress to spend money, on the one hand, or the willingness of the Congress to tax, on the other hand, would be affected one iota by abolishing the trust fund.

Senator MILLIKIN. That is one of my assumptions. My other assumption is that it is not the function of an insurance system to raise money for general-revenue purposes. If we have to raise it, I am perfectly willing that it be raised by general taxation—to wit, through the issuance of bonds—which all of the people have to pay. I have no objection to that. But I object to using the contributory insurance system as a means of covering the general-revenue expenditures of the country.

Dr. SLICHTER. Well, all you have to do, Senator Millikin, is to balance the budget, and then the insurance system will not be used in that way. It cannot.

Senator MILLIKIN. That is right. Well, that is not a safe assumption, Doctor.

Dr. SLICHTER. But, so long as you are in the red on the budget, you are going to borrow from some place.

Senator MILLIKIN. I agree to that completely, but I am suggesting that I see no point in using the contributory insurance system as a vehicle for meeting that problem.

Let us meet it frontally, with a direct issuance of bonds to cover the debts. Why tie it up with this contributory social insurance, where it perform no real insurance function? The interest that you mention simply adds to the debt. They issue bonds to cover the interest, which then has to be paid by the general taxpayer.

Dr. SLICHTER. But the quantity of bonds issued is not affected by the trust fund one iota. There is no objection in principle to saying that the funds of the insurance scheme shall be invested in non-Federal Government securities, but I think that would be a mistake, myself.

Senator MILLIKIN. I think so, too.

Dr. SLICHTER. You would aggravate the investment problem. You would be putting the trust fund into a lot of private industries. It might be embarrassing to the Government to be the part owner of many industries or even a large creditor of private industries.

Senator MILLIKIN. I agree.

Dr. SLICHTER. And into the obligations of States and municipalities, and so on.

Senator MILLIKIN. But I do not think that there would be available a sufficient number of investments of that kind, considering the magnitude of this. That is No. 1.

But, No. 2, it would certainly be a mistake, from my philosophy, to be injecting the Government as an equity holder in all the corporations of the country.

Dr. SLICHTER. Whether it is an equity holder or a bondholder, I think it would be unfortunate for the Government to be a large equity or bond holder.

Senator MILLIKIN. But that is what takes the guts out of the trust fund as an instrument for strengthening your contributory insurance fund.

Dr. SLICHTER. That is not its purpose. It is not its purpose. The trust fund, you might say, does not have a purpose. It is residual. It is the result of some decisions independently made. And I think they were wise decisions. And the fact that they resulted in the creation of a trust fund is not an argument against those decisions. Nor do I think that it is realistic to say that, of the many pressures making for large expenditures by the Federal Government, the fact that money can be borrowed from this trust fund has any effect on the reaction of Congress to any of those pressures.

One thing the Government has no problem in doing, whether there be a trust fund or not, is borrowing money. It has gone to great extremes to refuse to submit its credit to general appraisal, and it has rigged the money market. I do not quarrel with rigging the money market in time of war, but so long as the Government borrows in a rigged money market its credit will not be tested, and the fact that there are a couple of billions a year in the trust fund which might be put into Government obligations is unimportant.

Senator MILLIKIN. Doctor, it uses the trust fund in part to rig the money market, because a part of the trust fund is not covered by the special bond but consists of going out into the market and buying bonds.

Dr. SLICHTER. All it has to do is to keep the banks well supplied with more reserves than they need, and it has perpetual ease in the money market.

Senator MILLIKIN. My point there, doctor, is that it is not the function of anything resembling an insurance system to put it in the power of the Treasury to rig the money market.

Dr. SLICHTER. The Treasury does not need the old-age and survivors insurance scheme to effect the terms on which it borrows the money.

Senator MILLIKIN. Well, but it does precisely that thing.

Because how much of the trust fund, Mr. Cohen, is in the general bonds of the Government? I mean, not covered by the special bond.

Mr. COHEN. That were purchased in the open market?

Senator MILLIKIN. Yes, purchased in the open market.

Mr. COHEN. I do not remember the exact amount. It is a large amount.

Senator MILLIKIN. The precise purpose of making that amount of investment was, to use a phrase that may be a little harsh, to rig the money market. And I suggest it is not the function of an insurance system to be rigging the money market.

Dr. SLICHTER. We have a public debt, if we exclude the nonnegotiable types, the E-bond type, approximating $150,000,000,000, I believe. The fraction of the special issues and the nonspecial issues in the trust fund to that negotiable public debt is very small. And the proportion of the negotiable public debt owned by the commercial banks is many, many times the proportion held in the trust fund.

Senator MILLIKIN. I understand that.

Senator Byrd, could I ask one more question?

Senator BYRD. Yes. At this point, though, I wanted to ask of Mr. Cohen what is the interest rate?

Mr. COHEN. The interest rate on the special issues is the average rate for all of the interest-bearing public debt, which is around 2 percent at the present time. The special issues which were purchased, I believe, about a year ago, were bought at somewhere around 2½ percent.

Senator BYRD. Well, are there not some trust funds that the Governments pays 3 percent on?

Mr. COHEN. Yes, sir.

Senator BYRD. Which ones are those?

Mr. COHEN. The railroad retirement program, I remember particularly, has a statutory rate of 3 percent.

Senator BYRD. And what are the others? Do you know? The unemployment insurance?

Mr. COHEN. The unemployment insurance is at the average rate, the 2 percent. But there are different rates. These $35,000,000,000 worth of bonds held by trust funds, I think, go all the way from 2 percent to 4 percent, Senator Byrd.

Senator BYRD. That was my understanding, that there were statutory rates established whereby the Government had to pay these certain rates; which is equivalent to taking a contribution out of the Treasury, if they are above the public rate.

Dr. SLICHTER. Of course, to the extent that the Government pays, on special issues, more than it would need to pay in the open market, the trust fund can hardly be accused of contributing to artificial ease.

Senator MILLIKIN. I will agree with that, but it gives you an enormous fund of money to manipulate the public value of bonds, in other words, rigging the market. And I do not say that that is not a legitimate function. It depends on how it is exercised.

My point is that it has no logical place in an insurance system.

Dr. SLICHTER. Well, I will agree with you, if you will allow me to change one word.

Senator MILLIKIN. We ought to be able to compromise on one word.

Dr. SLICHTER. I will agree that it has no necessary place. You could operate the plan without it. But if you did, you would be giving a bigger windfall to people coming on pension in the early years of the plan. You would be giving a bigger windfall to those people than I think they are entitled to.

Senator MILLIKIN. I might counter that with the suggestion that the higher rate prescribed by the special bond simply adds to the debt which the general taxpayer will have to meet in the future.

Dr. SLICHTER. I don't defend a special rate, except that it might be a wise thing to make borrowing from this fund slightly unattractive to the Treasury. In other words, there would be a subsidy to the extent that the special issues paid more than the Government could get in the open market. But you could easily defend that subsidy on the ground that it would be wise to prevent there being any particular attraction to the Government in borrowing from the trust fund.

Senator MILLIKIN. I was going to ask you this after the conclusion of your talk, but I think this is the logical place for it: Why not a pay-as-you-go system?

Dr. SLICHTER. Well, we have gone much further in the direction of a 100 percent pay-as-you-go system than we have gone in the direction of a level-premium system. Between those two possible extremes, for example, we are much closer to a pay-as-you-go than we are to a level premium. And your question is a good one, but I think that a pay-as-you-go system goes to an extreme, an unreasonable extreme, in giving people who draw pensions in the early years a windfall for which they make virtually no contribution. The pay-as-you-go system would start out at about one-tenth of 1 percent; and, as I said a few moments ago, the rate would be at the present time up to around three-tenths of 1 percent. I do not think that a pay-as-you-go system is fair in respect to the community and the people who go on pension in the early years of the scheme.

Senator MILLIKIN. If it were decided as a matter of social policy that X amount should be given to all people who come under the system at the age of 65, it that should be decided as a matter of social policy, then why not put the thing on a pay-as-you-go basis, even though there may be some discriminations? There are discriminations under the present system. There are certain discriminations as between the amount of money that the earner earns and the relation of that to the benefits which he gets. There are possibly discriminations between the new fellow entering into the system and the fellows who are closer to retirement. The present system is loaded with discriminations. I doubt whether you can bring any important new innova-

tion into Government without having some discrimination. But assuming, and I do not ask you to agree that it should be done, that the Congress should decide that as a matter of social policy every person covered by the system, every person who reaches the age of 65, should have a certain amount of pension, why not put it on a pay-as-you-go system, which we are going to come to anyhow?

Dr. SLICHTER. Well, the main objection to that kind of a scheme, I suppose, is that there would be too many people receiving pensions for which they contributed little or nothing. Why go to such an extreme and say, "Well, now, you are not going to pay anything, but you are 65," or "you are 70," and "therefore you are going to start getting something"? Why is it not fair to be somewhat less extreme?

Now, you cannot initiate this kind of a plan, any kind of a plan, whether a contributory plan or a plan financed out of general taxes, without that windfall element. And the essential question is, To what extremes do you want to go in giving windfalls?

Senator MILLIKIN. Doctor, I have no fixed conclusions on this. I am, as they say in the oil business, "putting the swab on you," for information. If you do not have that windfall in this system, I suggest that you have to get it out of public assistance. Now, it is one windfall or the other. Is it better to do it on at least a theory of a contributory system, or is it better to meet these discriminations that you are speaking of by general public assistance? That is what it comes to in the last analysis.

Dr. SLICHTER. I think that our recommendations show clearly that we believe that the plan should be made immediately more liberal, that the eligibility requirement should be temporarily relaxed to give the newly covered people "a new start" with respect to eligibility requirements, to get a lot of people under the plan; that the necessity of relying on public assistance should be drastically reduced. I think that we have presented a fairly comprehensive series of aggressive recommendations to accomplish those purposes.

But we did say this: "We think it is all right to collect about 1½ percent from the employer and about 1½ percent from the employee." We recommended that when these liberalizations accur, the contribution rate go up to 1½ percent. And that means accumulating a few billion dollars, which we have to put in something we call a trust fund, just to see that it is properly managed. And that trust fund is a sort of measure of the extent to which we just do not go all out for hand-outs, with nothing collected from the people who are going to get those hand-outs.

Senator MILLIKIN. Under the recommendations of the Council, and under H. R. 6000, there will be an inadequate level for a great deal of people of benefits under the insurance system. And I am merely suggesting, as a practical matter, that if the insurance system does not make up that gap it is going to be made up by the continuance of public assistance; which is precisely what is happening.

Dr. SLICHTER. I agree with you. And I think that result should be averted to a substantial extent, and it can be. And I call your attention to the fact that Mr. Folsom, Mr. Cruikshank, and Mr. Rieve, and I, all members of the Council, who have testified here, have suggested that the formula be 50 percent of the first $100 of earnings instead of 50 percent of the first $75. And I call your attention to the fact

that Mr. Cruikshank and Mr. Rieve suggested that it be 20 percent of additional earnings. I have suggested 20 percent as the minimum. And I call your attention to the fact that Mr. Cruikshank, Mr. Rieve, and I have all expressed the view that the $4,200 limit on benefit base is too low.

You know that $4,200 limit affects the man who does not earn $4,200 very much of the time. Whenever he does earn at that rate, it is not counted, no matter how little he may earn at some other time.

So I am quite in accord with your remark that we must have a plan which is adequate, if public assistance is to be of secondary importance. And one of the greatest objections to public assistance, aside from the fact that it is not fair that people after a lifetime of work should be dependent on charity, is that the less adequately a man has provided for himself, the clearer is his case for public assistance. And the chap who has partly provided for himself gets a little assistance. The chap who made no provision gets more. The chap who made adequate provision gets nothing. I do not think that is the kind of plan that we wish to have in the United States. Its influence upon the community is not the kind of influence which we, I think, should welcome.

Gentlemen, it is almost 1 o'clock. I do not know whether I ought to continue.

Senator MILLIKIN. I would like very much to hear, and I have been largely responsible for your not getting to it sooner, a discussion from you of premature retirement from the labor force of people.

Dr. SLICHTER. Well, I will make this quite brief. Many people have been in the habit of regarding old-age security as simply a result of the aging of the population. That is only partly true. It is as much a problem of earlier retirement as it is a problem of the aging of the population.

If you go back to 1890, you will discover that more than two-thirds of the white males of 65 years or more were members of the labor force, and practically all of them at work. By 1930 this percentage had fallen. We have the figures for each census. It had fallen to 54 percent. And then the depression hit us, and it was very dramatic in its effect upon retirements. By 1940, only 42.2 percent of all white males above 65 years of age were in the labor force.

Then came the war. That helped undo some of the trend. By 1945 the proportion of white males of that age group in the labor force had reached 49.9 percent, say 50 percent.

Now, this drop in the proportion of white males of 65 and over in the labor force has not been the result of voluntary retirements. It is the result of lay-offs by employers: many of these lay-offs made, of course, under pressure of depression.

But if you look at a break-down of the figures: Among rural farm population, even in 1940 nearly 70 percent of the males between 65 and 74 years of age were in the labor force; and even 31 percent of the males above 75 years of age as late as 1940 in the rural region were in the labor force. Among urban groups, on the other hand, only 47 percent of white males between 65 and 74 were in the labor force.

And, as I think you know, many large concerns have adopted the rigid rule: Everyone retires at 65.

Now, this practice of earlier and earlier retirements is bad for the individual worker in most cases. It is bad for the country, and it

greatly increases the costs of old-age insurance. It is bad for the worker in most cases, where his health is good—which it usually is—not mainly because it reduces his income, though that is often tragic, but because it cuts him off from the contact with his fellows that his job gives him. It makes him feel that he is a has-been, that he is now on the shelf. He is unhappy, he is maladjusted, and often his health suffers. These earlier retirements are bad for the country because they deprive the community of the output that retired workers might produce.

At present, for example, there are about 2.8 million workers of 65 years of age or more holding jobs, producing goods, and they produce between 10 billion and 11 billion dollars worth of goods a year. If we were to do what some of the large companies have recently been doing and say, "Everyone retires at 65," we would be at once cutting ourselves off from an annual product of between 10 and 11 billions.

We talk about the cost of old-age security reaching 10 or 11 billions maybe 30 or 40 years from now, but the universal institution of retirement at 65 would inflict that cost on us at once, at the present level of national income and not at some greater level of national income a generation hence. And, of course, earlier retirements greatly increase the cost of pensions. Let us suppose that pensions were to begin usually at 70 instead of 65. They would be paid on the average 3 years less, and contributions would be made 5 years more, and interest on any accumulations would be paid for 5 years more. So that the contribution rate which would buy a given pension beginning at the age of 65 would purchase a much larger pension beginning at the age of 70. And it seems to me that the time has come to challenge this notion that there is something magical about the age of 65. It is all right for professors and executives to retire at 65, because they are supposed to be imaginative and creative, and they may get in a rut as they get on in years, and perhaps they ought to be succeeded by younger men who have a new slant on things. But the great majority of the people, who are doing more or less routine jobs, who do not have to be imaginative and creative, and whose health is good—there is no reason for pushing them out simply because that age of 65 has been reached. And certainly the tendency to move the retirement age down is out of place in a community where health is improving and longevity is increasing. It is squarely in conflict with the advances which we are making in public health and in medical science.

You would think that we were going backward in those respects and that we had to drop people earlier, because we were growing sicker and losing out in the battle against disease; when, as a matter of fact, we are winning spectacular battles against disease.

Well, the Advisory Council pointed out that the great majority of retirements are involuntary, and it recommended that the Federal Government establish a commission to study the broad problem of the aged in the community and the adjustment of the aged to retirement.

I believe that some limited steps should be considered to help workers between the ages of 65 and 70 who are in good health to continue in employment, instead of being forced to retire. And I think that employers might be given an incentive not to retire physically fit workers before the age of 70.

What form might this incentive take? I think it should be a reward and not a penalty, because if you make it a penalty, employers will shy away from hiring people who are approaching the age of 65. On the other hand, suppose you make it a reward. And just to be definite, I would like to throw out a tentative suggestion, which probably can be improved upon. Let's assume, for the sake of illustration, that the average pension is $75 a month or $900 a year. That would mean that an employer who kept a man until he was 70, instead of retiring him at the age of 65, would be saving the pension system $4,500 in pensions. And suppose we say to the employer, "We are going to give you a rebate on this. You have saved us $4,500. We will give you a rebate of one-third for every year you keep the man on above 65, one-third of the saving." In the example I have given, one-third would be $1,500. If the employer had kept the man only until 68, he would have saved the pension fund $2,700, at a rate of $900 a year, and the rebate of one-third would have been $900.

Well, certainly this would give management an incentive to find ways of keeping men beyond the age of 65. And furthermore, instead of being a deterrent to the hiring of older workers by management, the rebate would be an incentive. If an employer hired a man, say of the age of 62, and kept him beyond the age of 65, say until the age of 70, the employer would be given a rebate for the saving made possible in the pension payments to the plan. So, naturally, the employers would be interested in hiring older workers who gave promise of being efficient after the age of 65. The older worker who had been put on the market by his employer going out of business or by a lay-off would find his employment opportunities greatly improved.

Now, I do not assert that this arrangement would completely solve the employment problem of the older worker, but certainly it would greatly reduce the seriousness of this particular problem. We would be, so to speak, killing two birds with one stone. We would be halting, on the one hand, the dangerous tendency for earlier and earlier retirements, and in addition we would be improving the employment opportunities for older workers.

We have talked a lot about better employment opportunities for older workers for some years, but we have not done anything about it. Here I think is a simple way of really doing something about it. It would not be a panacea, of course.

Senator MILLIKIN. Mr. Chairman, I would like to say to the witness that all through this hearing we have been probing this question. And all the responses of the witnesses confirm fully what has been said. There is a lot of talk and there has been a lot of talk and a lot of committees have been appointed, but practically nothing so far has been accomplished.

Dr. SLICHTER. Well, you see, if a chap is in good health at 62 years of age and loog for a job, at the present time the employer usually does not want him. But if the employer knows that, if he keeps that man until he is 67 or 68, he wins a rebate, that man becomes an attractive prospective employee. The employer realizes that he has got to adapt this older worker to his work force, and that may occasion a little more supervision than would be necessary in the case of a younger man, but I think we ought to get beyond the stage of talk and begin to experiment at least in a modest way with simple arrangements to do this. And certainly if we are going to improve public

health and advance the science of private medicine, we are going to have people reaching the age of 65 in better and better physical shape, and with their life expectancy at 65 going up, we have got to adjust our managerial practices to the trends of the time. We cannot buck the trends of the time with these managerial practices as we have been doing.

Senator BYRD. As I understand your proposition, if the employer decides that he wants a certain employee to continue above 65 he can do so. Of course, he can do so anyway, but in that event he would get one-third of the savings; the employer would?

Dr. SLICHTER. Yes.

Senator BYRD. That is a very good suggestion, I think.

Dr. SLICHTER. Now, the employee might say, "No, I don't want to do it." Then he would not have to. But I do not think you would find very many employees who, given the option of taking a pension and going on the shelf or continuing to go down to the shop, meeting their cronies, eating lunch with the same people, kidding with the same people, and drawing regular wages, would choose the pension, if health permitted their continuing work.

Senator BYRD. There is, I imagine, a great difference of physical vigor of people at a certain age. Some may be vigorous at that age and others may not be. This gives discretion.

Dr. SLICHTER. Well, there is evidence that the disabilities grow rapidly above the age of 55. But as to the proportion of people who are unable to work, I have some figures here from Mr. Durant's book, from the Bureau of the Census, on the labor force in the United States, 1890 to 1960. In his analysis of the white males as of April 1940, of those between 60 and 64 years of age, only 14.3 percent were unable to work.

Senator BYRD. To do any work?

Dr. SLICHTER. I do not say they could do no work around the house, but they were not able to compete in the labor market for jobs.

When you get up to the age group 65 to 74, that percentage is only 30.

Senator MILLIKIN. 65 to 74?

Dr. SLICHTER. Yes.

Senator BYRD. So 70 percent are not incapacitated.

Dr. SLICHTER. And if 70 percent are not incapacitated, where does this age of 65 that we just pulled out of the atmosphere come from? It is certainly not the result of research, certainly not the result of study. No one consulted any physiologists or physicians to discover that 65 was the right age. I think the insurance companies came along and said, "If you move some of these older chaps who are slowing up a bit out of your force, you can speed up the younger ones." And back about 30 years ago, we began getting pension plans sold on the basis that people above 65 might advantageously be moved out. Well, that is a narrow managerial point of view. That is not a national interest point of view. And it certainly is not a point of view which reflects the psychological needs and preferences of the man himself.

Well, gentlemen, I have taken more of your time than I should have. I was going to make some observations on the problem of permanent and total disability, on which our committee made some recommendations. I wonder whether Dean Brown, who is down here to testify, could not cover that. He was chairman of the preceding advisory

council, and he knows far more about this subject of social security than I pretend to know. I wonder whether you might not let him cover that instead of hearing from me on it.

The CHAIRMAN. We would be very glad to, Doctor, if you wish.

Dr. Brown, will you cover that point?

Dr. BROWN. Yes, sir.

The CHAIRMAN. Did you intend to cover it?

Dr. BROWN. Only very briefly.

The CHAIRMAN. Would you mind telling us what your position is, Dr. Schlichter?

Dr. SLICHTER. Well, I am glad to tell you. The old-age and survivors insurance plan, as you know, provides benefits in the case of the death of the wage earner. But suppose he is in an accident and does not get killed. From the narrow economic point of view, it would perhaps have been better for his family hed he been killed. They would have had protection to a limited extent under the system, and they would not have had the cost of taking care of him.

The worse thing that can happen, from the narrow economic point of view, is for a man to become completely incapacitated and yet live. He is no able to provide for his family, and yet he lives. Now, we thought, in the advisory council, that a beginning should be made to provide for this problem. There are a lot of people—the rough estimate is around 2,000,000 at any one time—who are unfit for work because of disabilities that have lasted 6 months or more. Only about 1 out of 20 of these disabilities is from industrial accidents. The rest are from getting hit by automobiles, and in many cases from degenerative disabilities. A man's heart gives out when he is 55, or something of that sort.

So we thought that a beginning should be made, and we proposed that after a waiting period of 6 months, disability benefits be paid to persons who met certain conditions. In the first place, the disability should be medically demonstrable by objective tests. You have got to be able to demonstrate to a doctor that he has a disability.

In the second place, he must have covered 40 quarters, 10 years, under the plan.

In the third place, this coverage record must be 1 out of 2 quarters, either from the time the plan goes into effect, if it were to go into effect in 1951 or 1952, until the date of the disability, or from age 21, whichever was later.

In the fourth place, he must have worked in covered employment for 6 quarters within the 12 preceding quarters.

And finally, he must have worked in covered employment for 2 quarters within the preceding 4. There is quite a series of requirements. And the idea was to start out on a limited scale, learn how to administer the plan, make whatever mistakes are made on a small scale, and, on the basis of experience, broaden the plan.

Now, our estimates were that by 1960, the number of persons drawing benefits would not be very large. They might be as low as 157,000, which would be somewhere around 10 percent of the total cases, or might be as high as around 450,000, or roughly 1 out of 4. That is obviously just a bite at a big and important problem.

But we thought that it would be better to undertake too little than to undertake too much, and to work out the method of administering

this kind of protection on a small scale, because a great deal of personal attention is obviously necessary in these cases. You wish to discover the cases where people can be trained either to do the old job or to do another job; and the rehabilitation service thinks that quite a high proportion of cases can be rehabilitated. Though I have not seen a break-down by age groups, I suspect that the proportion is very high for people, oh, below 45 or 50 years of age, particularly those with the kind of disabilities which come from accidents. There, probably the percentage of cases where rehabilitation is possible is quite high. I don't believe we know very much about it, and it may be quite a different story when you get into high age groups where disabilities are not due to the loss of a hand or a finger or a leg, but due to the development of degenerative conditions of one kind or another. There maye be nothing you can do about that.

But we think that the problem is a very big one. We think that it is not particularly well understood. We think that a small beginning should be promptly made in attacking it. And we think that we have recommended something which is workable, which undertakes, as I said a few moments ago, too little rather than too much. And we would hope that from the experience gained by the adoption of this recommendation, it would be possible gradually to relax the eligibility requirements. I do not like this requirement of 10 years coverage, but I think at the beginning that is a wise restriction.

Some of the other restrictions probably would have to be kept indefinitely. You want a very recent connection with the labor market, I am sure. You do not want people coming back who were in the labor market a year or two ago, saying, "Oh, I can't do any work any more. Therefore, I am entitled to an income under this disability program." So we have recommended that two out of the last four quarters must have been active quarters of employment.

I think that feature is not found in H. R. 6000, and I would recommend that it be included. I think it is not fair to the scheme to permit people to come under it who cannot demonstrate a fairly recent connection with the labor market.

That is all I have, gentlemen, on this particular point.

The CHAIRMAN. Doctor, we greatly appreciate your courtesy and your contribution.

Senator BYRD. It was very interesting, Doctor.

The CHAIRMAN. It was most interesting, and we are glad to have had you.

Dr. SLICHTER. I was very glad to be here.

(The prepared statement of Dr. Slichter follows:)

THE PROBLEM OF OLD-AGE SECURITY

(Testimony of Sumner H. Slichter, Associate Chairman of the Advisory Council on Social Security)

I

My purpose in appearing before you is to report to you on the work of the Advisory Council on Social Security, appointed by the Committee on Finance of the United States Senate, Eightieth Congress, under authority of Senate Resolution 141, and to answer your questions about the recommendations of the Council.

The Advisory Council consisted of 17 members from various walks of life and from different parts of the country. The first full meeting of the Council was held in Washington on December 4 and 5, 1947. Its recommendations on old-age and survivors' insurance were sent to Senator Millikin, the then chairman of the Committee on Finance, on April 8, 1948. Between December 1947 and April 1948, the Council met for two full days each month and an interim committee of the Council met for one full day between Council meetings. Between meetings the members of the Council did a large amount of home work analyzing memoranda prepared by the staff and the interim committee. On the average, 15 of the 17 members attended each meeting of the Council.

The Advisory Council reached three basic conclusions concerning the problem of old-age security:

1. That the foundation of the country's system of old-age security ought to be a Federal system of contributory soical insurance with benefits related to prior earnings and awarded without a means test.

2. That the present Old-Age and Survivors' Insurance Act is failing to perform adequately the job that it was expected to do.

3. That the present Old-Age and Survivors' Insurance Act is sound in principle, and that its failure to do the job expected of it is attributable to three principal defects in the act, all of them easily remedied.

In order to remedy the defects in the old-age and survivors' insurance plan, the Advisory Council made 22 recommendations for changes in the act. On 20 of these recommendations the Council was unanimous.

My remarks will be divided into four principal parts. First of all, I wish to explain to the members of the Finance Committee why the Advisory Council believes that contributory social insurance related to prior earnings ought to be the foundation of the country's system for old-age security. In the second place, I wish to explain why the Council believes that the present Old-Age and Survivors' Insurance Act is not doing the job expected of it. In the third place, I should like to explain why the Council believes that improvements in the act along the lines indicated by its 22 recommendations would enable the act to become the foundation of the country's system of social security. Finally, I wish to discuss briefly the problem of preventing the premature retirement of workers and to show the bearing of this problem on the cost of old-age security.

II

Why should Federal contributory social insurance related to prior earnings be the foundation of the country's system of old-age security?

The 17 members of the Council—employer members, labor members, and public members—were unanimous in believing that contributory social insurance should be the foundation of the country's system of old-age security. Furthermore, the same conclusion was reached by each of the two previous advisory councils—the Advisory Council to the Committee on Economic Security which helped draft the original law of 1935 and the Advisory Council of 1937–38. There are four principal reasons why the Advisory Council of 1947–48 reached the conclusion that a contributory system of old-age pensions should be the foundation of the Nation's system for old-age security.

In the first place, the pensions provided by a contributory insurance system are not charity. No means test is used, but pensions are awarded as a matter of right. Furthermore, the cost is met from the worker's own production in the form of a tax on pay rolls paid by the employer and a tax on wages paid by the worker. Hence the dignity and the self-respect of the worker are shown consideration. After a lifetime of work, it is not right that men should be dependent upon charity for income.

In the second place, old-age insurance encourages self-reliance and thrift instead of discouraging them. A man by being thrifty does not diminish the amount of the pension that he receives—he simply assures himself of a better standard of living in his old age. This is in contrast to old-age relief based upon a means test. When a means test is used, the man who has been thrifty and who has provided for himself gets nothing; the man who has partly provided for himself gets small benefits; the man who has made no provision for himself gets the largest grant. Such a system is equivalent to a series of rewards for not being thirfty and self-reliant. Old-age insurance, by avoiding the use of a means test, avoids discouraging thrift.

In the third place, old-age insurance which relates benefits in some measure to the prior earnings of workers helps protect men from too drastic a drop in their

standard of living on retirement. The standard of living of workers obviously tends to vary with their earnings. Since the purpose of old-age security is to protect men against having to make too drastic cuts in their standard of living when they retire, pensions should vary in some measure with past earnings. Flat benefits, which are not related to earnings but are the same for everyone, would assure that there would be only an arbitrary relationship between men's standards of living before retirement and their standards after retirement. Under a scheme of flat benefits, the benefits that would be about right for some workers would be too small for many others and possibly too large for a third group.

In the fourth place, a Federal system of old-age pensions should be the foundation of the country's system of old-age security because it can be applied to all members of the labor force and can be made as broad; therefore, as the problem with which it is supposed to deal. This method of meeting the problem does not depend upon the willingness of an employer to grant pensions or upon the bargaining power of unions and their ability to compel employers to grant pensions. Furthermore, a system of old-age insurance can be applied to the self-employed as well as to employees. Since about one out of five workers in the United States is self-employed, it is necessary that the scheme of old-age security be applicable to the self-employed as well as to employees.

III

What are the reasons for believing that the present Old-Age and Survivors Insurance Act is not doing the job expected of it?

The members of the Advisory Council were unanimous in believing that the present Old-Age and Survivors Insurance Act is not doing the job expected of it. There were three principal reasons for this conclusion.

One reason was that, even after 13 years, only about 39 percent of the male workers who reach 65 years of age would receive benefits if retired. Hence, if is plain that many people who need to receive protection from the system are not getting it. The principal reason why they are not receiving protection is that the Old-Age and Survivors Insurance Act applies to only about 3 out 5 jobs. Another reason is that eligibility to receive benefits is determined by the proportion of time that a man spends in covered employment, not by the proportion of time that he is at work. A man may be quite steadily employed and still not qualify for a pension if he is one of the many workers who move back and forth between manufacturing, which is covered, and agriculture which is not. At the present time, half again as many people are drawing old-age assistance as are drawing old-age pensions— 2.7 million are receiving old-age assistance and about 1.9 million, old-age pensions.

A second reason for believing that the Old-Age and Survivors Insurance Act is not doing the job expected of it was that the average pension is too small and is considerably less than the average payment for old-age assistance. The average pension for a single person averages about $26 a month and the average pension of a retired person with one dependent less than $40 a month. The average monthly payment under old-age assistance is about $44.50. Although the recipients of old-age assistance are half again as numerous as recipients of old-age pensions, total payments for assistance are nearly 2½ times as large as payments for pensions. The principal reason why pensions are small is that the benefit formula is too low even for workers steadily employed in covered industries. It provides a pension of only 40 percent of the first $50 of monthly earnings plus 10 percent of the next $200 of monthly earnings, plus 1 percent of this sum for each year of covered employment, plus additional allowances for dependents. In addition, the benefit formula provides that, in computing average monthly lifetime earnings, time worked in uncovered industries shall be counted, but makes no provision for counting the money earned in uncovered industries.

A third reason for believing that the Old-Age and Survivors Insurance Act has not done the job expected of it was that the average monthly pensions under it have not kept pace with the rise in the cost of living or the rise in per capita income. Average monthly pensions have increased 14 percent since 1940 while the cost of living has risen over 68 percent, average weekly wages in manufacturing have risen 117 percent, and the average per capita income of the country has increased 132 percent. During the period that average monthly pensions were increasing 14 percent, average monthly old-age assistance payments more than doubled. The purchasing power of pensions is 32 percent less today than it was 10 years ago.

Pensions ought to bear a more or less constant ratio to the average earnings of persons. Otherwise they do not give people the required help in maintaining their customary standards of living. Part of the explanation of why the increase in the average pension has been far less than the increase in the average wage is that, as monthly earnings rise from $50 a month to $250 a month, the primary pension increases only $10 for each $100 increase in earnings. Thus a man whose average lifetime earnings had risen from $150 a month in 1940 to $250 a month at present would have been entitled to a primary pension of $30 a month then and to a pension of $40 a month now (exclusive of the increment)—an increase of only 33 percent in his pension though his earnings had increased by 67 percent. Another part of the explanation why the increase in pensions has lagged behind the increase in wages is that only wages up to $3,000 a year count in computing the average earnings on which pensions are figured. As wages have gone up, more and more workers earn more than $3,000 a year. In 1948, about one out of four among all workers regularly in covered employment earned more than $3,000. Still another part of the explanation why pensions have increased more slowly than wages is that pensions are computed on the average monthly wages of each worker over his lifetime. Although the average worker is earning more than twice as much today as he was earning 10 years ago, his lower earnings of 10 years ago help bring down the monthly average of earnings on which his pension is computed. All in all, the present methods of computing pensions assure that pensions will be slow to rise whenever wages increase.

IV

Why does the Advisory Council believe that improvement of the act along the lines indicated by its 22 recommendations would enable the Old-Age and Survivors Insurance Act to do the job expected of it and to become the foundation of the country's system of social security?

In the first place, the recommendations of the Council would extend the protection of the act to virtually all of the 25,000,000 jobs not now covered. Obviously, one cannot expect a program to give protection to people whom it does not cover. Consequently, expansion of coverage of the old-age and survivors insurance scheme is of basic importance. Coverage was originally limited because of the administrative difficulties in applying the scheme to such groups as the self-employed and to some kinds of workers, such as domestic workers and farm laborers. As Mr. Folsom, a member of the original Advisory Council in 1935 has pointed out, it was not the intention to exclude permanently the uncovered workers from the protection of the scheme. Both the Bureau of Internal Revenue and the Social Security Agency have studied carefully the administrative problems of extending coverage. Both agencies have had the benefit of 13 years' experience administering the present act. Both believe that there are today no insurmountable administrative obstacles to extending the insurance scheme to the 25,000,000 jobs not now covered.

H. R. 6000 proposes that about 11,000,000 additional jobs be brought under the old-age and survivors insurance plan. This is a step in the right direction, but it would bring under the act substantially less than half of the jobs that are not now covered. Large and important categories, such as farmers, farm laborers, and a number of professional groups, would still be deprived of protection of the scheme.

The incomplete coverage proposed in H. R. 6000 raises basic questions as to where and how uncovered groups would get security for their years of retirement. Nearly all of the groups left uncovered by H. R. 6000 are groups that cannot be expected to be covered by private pension plans, initiated by employers or negotiated by trade-unions. Apparently the philosophy of H. R. 6000, therefore, is that the uncovered groups should either be able to take care of themselves or should be expected to rely upon charity. Is it realistic to assume that all members of the uncovered groups will be able to take care of themselves? For those who are not, is it fair to expect them to rely upon charity? Have we a right to assume that farmers and the professional people do not need the protection given by the old-age and survivors insurance plan? Is farming so free from economic hazards that farmers should be left to take their chances with old-age assistance? Likewise, are the professions such secure callings that architects, engineers, lawyers, doctors, and dentists do not need the protection which old-age and survivors insurance would give them? Can every lawyer, every architect, every engineer count on reaching the age of 65 or 70 with adequate savings to provide for the years of his retirement? Certainly the people cannot expect old-age and sur-

vivors insurance to be the foundation of the country's system of old-age security if large parts of the population are excluded from the plan.

In the second place, the recommendations of the Council would liberalize the eligibility requirements for pensions so that older workers who are newly covered by extension of the Old-Age and Survivors Insurance Act to new industries will soon become eligible for pensions. Unless the present provisions for eligibility are modified, all persons covered for the first time in January 1951, who attained age 59 after 1950, would have to have 10 years of coverage before they would be eligible for pensions. Even newly covered persons who reach 65 years of age in their first year of coverage would need seven more years to steady employment (28 quarters) before they could receive pensions. It would obviously do little immediate good to extend the act to the 25,000,000 uncovered workers if the eligibility requirements for new workers remain as strict as at present. H. R. 6000 makes a little improvement over the present law, but even H. R. 6000 would require 20 quarters of coverage, or 5 years, for newly covered employees to become eligible for pensions.

The Council recommends that the extension of coverage to new industries be accompanied by a "new start" in eligibility requirements that will require the same qualifying periods for older workers as was required for persons who were the same age when the system began operation in 1937. The Council believes that a minimum of six quarters of coverage should be required. It recommends that requirements for fully insured status should be one quarter of coverage for every two calendar quarters elapsing after the year in which coverage is extended and before the quarter in which a man attains the age of 65 (60 for women) or dies. This would mean that persons who had reached the age of 62 before coverage was extended could be fully insured by working half the time in the next 3 years. This eligibility requirement, combined with the extension of old-age and survivors insurance to the 25,000,000 jobs now not covered, would raise substantially the proportion of males who are fully insured on reaching the age of 65. By 1955 this proportion would be approximately 66 to 74 percent. Unless a very high percentage of persons who reach the retirement age are eligible for pensions, the Old-Age and Survivors Insurance Act obviously cannot do the job expected of it.

In the third place, the recommendations of the Advisory Council would substantially raise the average monthly benefits. It is plain that the Old-Age and Survivors Insurance Act cannot be expected to do an adequate job if the pensions received are less than the average old-age assistance benefit granted after a means test. Nor can the act do an adequate job if the pensions payable under it are so small in relation to average earnings that they fail to prevent a very drastic drop in the standard of living of retired workers. The primary insurance benefit for a worker with 10 years of coverage under the present act and with average monthly wages of $200 is less than one-fifth of his monthly wage and, if he has one dependent, his total benefits are less than 30 percent of his average monthly wage. Obviously such pensions are far too small.

The Advisory Council has made three types of recommendations designed to raise the average benefit. One recommendation is that the benefit formula be liberalized—that benefits be 50 percent of the first $75 of monthly wages instead of 40 percent of the first $50, and 15 percent of additional wages up to the amount of the tax base instead of 10 percent as at present. Another recommendation is that the benefit base and the tax base be raised from $3,000 a year to $4,200. Still other recommendations pertain to liberalizations in the benefits payable to dependents. The most important of these recommendations is that women may qualify for old-age benefits (either primary or supplementary) at the age of 60 instead of 65. During 1948 only 196 of every 1,000 married men who claimed benefits at age 65 had wives who were 65 or over and entitled, therefore, to dependents' benefits under the present law. On the other hand, 565 out of every 1,000 married men claiming benefits at age 65 had wives who were at least 60 years of age and who would receive dependents' benefits if the recommendations of the Council were adopted. In other words, the recommendations of the Council would increase by nearly three times the number of cases in which wives' benefits are paid when the husband retires at the age of 65.

The total effect of the recommendations of the Advisory Council would be to increase the average pension paid under the old-age and survivors' insurance scheme by about 100 percent. This would be an important improvement. Nevertheless, I do not believe that the recommendations of the Council go far enough. To begin with, the formula proposed by the Council is not sufficiently liberal, particularly for the workers earning above $75 a month. The Council recom-

mends, as I have pointed out, that pensions be 50 percent of the first $75 of average monthly earnings plus only 15 percent of the next $275 of monthly earnings. This formula would give a primary pension of $37.50 for workers earning $75, of $48.75 for workers earning $150 a month, and of $63.75 a month for workers earning $250 a month.

H. R. 6000 proposes that the primary pension be $50 for the first $100 of earnings. Several members of the Advisory Council—Mr. Folsom, of the Eastman Kodak Co.; Mr. Rieve, of the Textile Workers' Union, CIO; and Mr. Cruikshank, the social-security expert of the A. F. of L.—have expressed agreement with this feature of H. R. 6000, and I share their views. The benefit formula of 15 percent of wages between $75 and $350 a month does not provide a large enough spread between the pensions received by persons with low earnings and persons with higher earnings, though the council provides a greater spread than the formula in the present law or that proposed by H. R. 6000.[1] If pensions are to protect the standard of living of workers who retire, they must be fairly closely related to previous earnnigs. Certainly a rise of only $10 or $15 in pensions as average monthly earnings increase $100 does not provide a very close relationship between earnings and pensions, and is not fair to the skilled workers. The primary pension recommended by the council is about one-third of the earnings of a man making $150 a month, a little more than one-fourth of the earnings of a man making $250 a month, and only 22.5 percent of the earnings of a man making $350 a month. Two members of the council, Mr. Rieve and Mr. Cruikshank, have recommended that the rise in pensions above the basic amount be 20 percent of additional earnings. I am in favor of at least a 20-percent increase in pensions for each rise in average monthly earnings above the basic amount, but I believe that a 25-percent rise would be preferable. Such a rise would give a man with average monthly earnings of $200 a month a primary pension of $75 (assuming the formula provides for a pension of 50 percent of the first $100, as in H. R. 6000) and a man with average monthly wages of $300 a month a primary pension of $100. Certainly such a spread in the pension received by men with a difference of $100 in monthly earnings is not too large.

Finally, I believe that the limit of $4,200 on the benefit base and the tax base recommended by the council is too low and is unfair to many skilled workers and to foremen and others in the lower ranks of supervision. The upper limit of $4,200 in the benefit base means that no earnings of more than $4,200 a year produce an increase in a worker's pension. There are many skilled workers, straw bosses, foremen, assistant foremen who earn from $5,000, $5,500, to $6,000 a year but under the recommendations of the council these men would receive no greater pensions than men earning only $4,200 a year. Indeed, in the year 1948, 17 percent of the male workers who earned wages in covered industries in all four quarters earned more than $4,200. Why refuse to count any of these earnings over $4,200 in computing the pension that the man receives?

The primary pension for a worker earning $5,000 a year, if the pension were 50 percent of the first $100 and 15 percent of the additional earnings up to $4,200 a year, would be only $87.50 a month. It is not satisfactory to expect all men who receive more than $4,200 a year to depend on individual savings or on company pension plans. About 22 percent of persons with incomes of $5,000 or more in 1949 had liquid assets (bank deposits, Government savings bonds, and stocks and bonds of private corporations of less than $500 and 45 percent had liquid assets of less that $2,000. Business enterprises themselves do not expect these men to depend on individual savings because they establish generous pension plans for executives. But almost all of these company pension plans tie a man to one company and penalize the man who moves from one employer to another. When one considers the serious deficiencies of company pension plans, one reaches the conclusion that skilled workmen and foremen should not be dependent to any considerable extent upon them.

I am not in favor of increasing the tax base and the benefit base for the purpose of increasing the income of the pension fund. Nevertheless, if the benefit base is increased, the tax base should be correspondingly increased because the two should be the same. As a matter of fact, the increase in the tax base above $4,200 would not product much new tax revenue.

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[1] The present law provides that primary pensions shall be 40 percent of the first $50 of monthly wages and 10 percent of wages from $50 to $250; H. R. 6000, that primary pensions shall be 50 percent of the first $100 of monthly wages and 10 percent of wages between $100 and $300 a month.

V

When the present Federal old-age pension plan was drawn up about 15 years ago, the prevailing opinion was that it should be inadequate—that it should provide only a bare minimum of security and that it should be supplemented in various ways. It is understandable that back in 1935, when the idea of a Federal old-age insurance plan was new, many people wished to avoid placing too much reliance on it. At that time, the serious disadvantages of private pension plans as devices for providing old-age security were not clearly seen. Nor were all of the developments and problems of old-age assistance clearly seen.

The time has come, I believe, for a change in our thinking about these matters. It is high time to adopt the view that the Federal pension plan should be so close to adequate that only moderate supplementation by private pension plans or public assistance will be necessary. Of course, substantial supplementation by individual thrift will always be necessary. For example, if one accepts as a rough, but modest, standard that an adequate pension for a worker and one dependent is about half of his average earnings, his standard of living will take a terrific fall on the day when he retires, unless he has accumulated at least a moderate amount of savings to supplement his pension.

If the Old-Age and Survivors Insurance Act were improved along the lines recommended by the Advisory Council with respect to coverage and eligibility requirements, and if the benefit formula were somewhat more liberal than that recommended by the council, the plan would really become the foundation of the country's arrangement for old-age security. Within 3 years after the effective date of these changes the number of recipients of old-age pensions would exceed the number of recipients of old-age assistance, total pension payments would be larger than payments for old-age assistance, and the Federal Government would be able to make substantial reductions in its expenditures for old-age assistance. As a matter of fact, the number of old-age insurance beneficiaries actually drawing benefits has increased during the last several years considerably faster than the number of old-age assistance recipients. Between December 1946 and January 1950, the number of old-age insurance beneficiaries increased by 932,000 in comparison with somewhat over 500,000 for old-age assistance recipients. It is illuminating, however, that the increase in the monthly amount of old-age assistance payments during the same period was more than twice as large as the increase in the total monthly old-age benefit payments under the old-age and survivors' insurance today—vivid evidence of the inadequate benefit formula in the Pension Act.

VI

What would a more adequate system of old-age and survivors insurance cost? The answer to this question depends upon many conditions—how many persons reach the age of retirement, how many become eligible for benefits, how many retire, how long benefits are paid, how much is paid as retirement benefits.

The best way to estimate the costs of an old-age insurance program is as a percentage of pay rolls and of the income of the self-employed, in case the insurance plan extends to the self-employed. In the next 20 or 30 years there will be a very large rise in pay rolls, partly due to the increase in the labor force and partly due to the rise in wages which must be expected to continue in the future as in the past. In another 30 years, for example, the labor force will increase by over 10,000,000, and if wages rise as rapidly as in the past, hourly earnings will increase between 80 and 90 percent. One must expect that the benefits paid under the old-age insurance plan will bear a more or less constant relationship to average monthly earnings. As wage rates rise benefits will be liberalized from time to time in order to maintain a more or less constant relationship between earnings and pensions. That is why the most realistic and conservative way of estimating costs is in terms of percentage of pay rolls and the income of the self-employed.

The actuarial consultant of the Advisory Council on Social Security prepared a low-cost estimate and a high-cost estimate of the recommendations of the council. He estimated that by the year 2000 the expanded program recommended by the Advisory Council would cost from 5.87 percent to 9.70 percent of pay rolls. The range in his estimates of level premium rose from 4.90 percent to 7.27 percent. The more liberal benefit formula which I had suggested would cost somewhat more.

VII

Fortunately the cost of old-age pensions can be substantially reduced by encouraging employers not to retire workers who are physically fit to perform their work. It is a cruel fiction that men on attaining the age of 65 suddenly become unfit to continue in their jobs. Let me conclude these remarks by calling to your attention an aspect of the problem of old-age security that has received all too little attention—namely, the problem of premature retirements.

Many people conceive the problem of old-age security as mainly a result of the aging of the population—that is, the increase in the proportion of the population of 65 years of age or more. As a matter of fact, the problem of old-age security is as much a problem of earlier retirement as a problem of the aging of the population. Back in 1890, 68.2 percent of all white males aged 65 and over were members of the labor force. By 1930, this percentage had fallen to 54. By 1940, only 42.2 percent of all white males of that age group were in the labor force.

The drop in the proportion of the population of 65 years of age or more in the labor force is not the result of voluntary retirements. It is the result of lay-offs by employers. For example, among rural farm population, 69.3 percent of males 65 to 74 years of age were in the labor force in 1940, and even 31.5 percent of males over 75 were in the labor force. Among urban groups, on the other hand, only 46.9 percent of white males between 65 and 74 years of age were in the labor force, and only 15 percent of those 75 years of age or more. Many large companies have adopted the rule that everyone must retire at the age of 65.

The practice of earlier and earlier retirements is bad for the individual worker in most cases, it is bad for the country, and it greatly increases the problem of an old-age insurance plan. Retirement is bad for the worker partly because it reduces his income, but even more because it cuts him off from the contact of his fellows that his job gives him, and makes him feel that he is a "has been" and is now on the shelf. He is unhappy and maladjusted. Often his health suffers. Earlier retirements are bad for the country because they deprive the community of the output that the retired workers might produce. At the present time, for example, there are about 2,800,000 workers of 65 years of age or more at work. They produce about $10,000,000,000 of goods. If the practice of universal retirement at 65 were made general, the country would be deprived of the output of these 2,800,000 men. In other words, general retirement at the age of 65 would cost the country about $10,000,000,000 a year. Finally, earlier retirements greatly increase the cost of pensions. Life expectancy at age 70 is about 3 years less than at age 65. If most men retired at 70, therefore, the number of years pensions would be paid in the average case would be about three less than if most men retired at 65. Furthermore, contributions would be paid for more years. Consequently, the contribution rate that will buy a given pension beginning at age 65 will purchase much larger pensions beginning at age 70.

The time has come to halt the tendency for employers to retire men at an earlier and earlier age. This tendency is quite out of place in a community where health is improving, longevity is increasing, and the remaining years of usefulness of workers at the age of 65 are growing. The advisory council on social security pointed out that the great majority of retirements are involuntary, and it recommended that the Federal Government establish a commission to study the broad problem of the aged in the community and the adjustment of aged to retirement. I believe that immediate steps should be taken, however, to help workers between the ages of 65 and 70 continue in employment instead of being forced to retire. The best way to do this is to give employers an incentive not to retire physically fit workers before the age of 70.

What form might this incentive take? It might be either a penalty or a reward. I believe that a reward is preferable than a penalty. If the employer were penalized for retiring men below the age of 70, he would be discouraged from hiring older workers—men of 60 or near 60, whom the employer might be willing to hire under ordinary circumstances. If the employer had doubts these men would be physically fit to work until they were 70 years of age, he would refuse to hire them.

The method of rewards, however, has great possibility. In order that I may be definite and concrete, let me venture a tentative suggestion. Let us assume for sake of illustration that the average pension were $75 a month, or $900 a year. An employer who kept a man until the man was 70 years of age instead of

retiring him at the age of 65 would be saving the pension system $4,500 in pensions. The employer might be rewarded for keeping men above 65 by being given a rebate of one-third of the resulting saving to the pension fund. In the example I have given, one-third of the saving would be $1,500. If the employer had kept the man until only age 68, the pension fund would have been saved $2,700, and the rebate of one-third would have given the employer $900.

This rebate would give managements an incentive to find ways of keeping men beyond the age of 65. Furthermore, instead of being a deterrent to managements' hiring older workers, the rebate would be an incentive. If an employer hired a man at age 62 and kept him until the age of 70, the employer would be given a rebate for the saving made possible in pension payments to the man. Naturally employers would be interested in hiring older workers who showed promise of being efficient after the age 65. The older workers who are now thrown on the market by firms going out of business and by lay-offs would find their employment opportunities greatly improved.

I do not assert that this arrangement would completely solve the employment problem of the older worker. Nevertheless, it would greatly reduce the seriousness of this particular problem. Thus, we would be killing two birds with one stone. We would be halting the dangerous tendency for earlier and earlier retirements. In addition, we would be improving the employment opportunities of older workers. An incorporation into the Old Age and Survivors Insurance Act of an incentive for employers to keep workers beyond the age of 65 would be a major improvement in the country's arrangements for old-age security. If would open new hope and opportunity for millions of older workers. It would greatly reduce the cost of pensions and it would make it possible to give much more liberal pensions than are now available with only a moderate increase in the cost of pensions. It would increase the productivity of the economy. This increase in productivity would alone go far to pay the total cost of old-age security.

Senator BYRD. Before we leave, Mr. Chairman, I would like to ask the Treasury Department to furnish a list of the bonds under the trust fund and the rate of interest paid on each.

The CHAIRMAN. Is there a representative of the Treasury Department here?

If not, Mr. Cohen, will you make a memorandum to ask the Treasury to supply that?

That possibly is in the report of the trustees of these several funds.

(When supplied, this information will be placed in the files for the information of the committee.)

The CHAIRMAN. Dr. Brown, it is now past 1 o'clock, and I suppose the committee would like to recess, if it is convenient for you to come back after a reasonable period of recess.

Dr. BROWN. Yes, sir.

The CHAIRMAN. I hand to the reporter for insertion in the record at this point a letter dated March 15, 1950, from the Honorable Morris F. de Castro, Acting Governor of the Virgin Islands, with respect to the proposals to include the islands in the Federal social-security program and particularly the amendments to H. R. 6000 in that regard recommended in the report to the Committee on Ways and Means from its Subcommittee on Extension of Social Security to Puerto Rico and the Virgin Islands, dated February 6, 1950.

(The letter referred to follows:)

GOVERNMENT OF THE VIRGIN ISLANDS
OF THE UNITED STATES,
Charlotte Amalie, St. Thomas, March 15, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Committee on Finance,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR GEORGE: In behalf of the people of the Virgin Islands, I write to ask for your earnest and active support for the proposals now before your committee to include our islands in the Federal social-security program,

as provided in H. R. 6000, and particularly for the amendments to H. R. 6000 recommended in the report to the Committee on Ways and Means from its Subcommittee on Extension of Social Security to Puerto Rico and the Virgin Islands, dated February 6, 1950.

Extension of the social-security program to the Virgin Islands is long overdue. Fifteen years have passed since the act first went into effect in continental United States. Unfortunately, the islands were omitted from the act then, and for 15 long years, partly, I believe, because of preoccupation with the prosecution of the great war, the omission has not been corrected. Except for child-welfare services, our people are still without Federal help under this great program.

Virgin Islanders are citizens of the United States, and they are as loyal as those to be found anywhere under the American flag. We share proudly with all other United States citizens the responsibilities that such citizenship imposes. Virgin Islanders volunteered and were drafted into the United States armed forces for the great war. Virgin Islanders fought and died for our country to preserve the human rights and liberties so dear to every American. In the paths of peace also, Virgin Islanders have earnestly espoused the American way of life, and, after 33 years under the American flag, have developed our social and governmental institutions in the full democratic American pattern.

We must wrestle in the islands with the same ills that face our brothers on the mainland. We must deal with the familiar but distressing problems of old age and dependency, of people handicapped by blindness and other crippling afflictions, of widows and orphaned children. Alone and unaided, we are battling these problems with finances totally inadequate for the task. We are putting 56.4 percent of our entire budget into health, education, and welfare services. But, with the poor economy of our islands and their poor per capita income, even that high percentage of our budget produces pitiful results. Assistance grants average only $5.90 per person per month, or 19½ cents a day, to provide food, clothing, and shelter—all the necessities of life.

To change this picture of want and privation, we are asking Congress to treat us as it treats other American citizens. We are asking no special privileges under this program, no special benefits, no special exemptions just to be placed in the same status thereunder as other Americans. We should be and we want to be included in the social insurances, the public assistance, child-welfare and medical programs, and we should be and we want to be included thereunder on the same general basis as other Americans living under the American flag. H. R. 6000 does include our islands in all phases of the program, both the contributory retirement system and the public-assistance titles, for which we are happy. But in the public-assistance titles, H. R. 6000 provides for the islands only straight dollar-for-dollar matching of Federal and local funds instead of the much more favorable matching formula provided for the States. Actually, with our poor economy, we are in greater need of this favorable matching formula than almost any other part of the Nation.

The Report of the Subcommittee of Ways and Means, issued February 6, 1950, recommends very strongly that H. R. 6000 be amended to remove this unfavorable treatment of the islands in regard to the public-assistance program. It recommends (as originally provided in H. R. 6000) that the maximum monthly grants in the islands for adults be $30 per person instead of the $50 per person provided in the United States, and to this we do not object. Particularly, it urges that the matching ratios and ranges within this $30 maximum be placed, proportionately, on the same basis as in the United States. Similar amendments are provided in the programs for aid to children. For our Government, I vigorously and heartily endorse these recommendations. Sound programs could be organized in our islands thereunder. The total cost to the United States would be insignificant, less than a quarter of a million dollars a year. To our people, it would mean security—that security which is the prized heritage of Americans throughout the rest of the Nation.

In testimony before your committee on February 13, our director of social welfare, Mr. Roy W. Bornn, gave a full picture of our situation. We should be happy to supply any additional information you need. Senator George, we are counting upon your effective support of our cause in this matter. We urge that your committee make earnest recommendations to the Senate for speedy and favorable action.

With thanks in advance and with best wishes from the people of our islands and from me personally,

Sincerely,

MORRIS F. DE CASTRO,
Acting Governor.

The CHAIRMAN. There will also be placed in the record a statement submitted by the National Association of Insurance Agents expressing the desire that property insurance agents definitely not be included under any construction that may be placed on the definition of "employee" in any legislation growing out of the proposed bill.

(The statement referred to follows:)

STATEMENT BY THE NATIONAL ASSOCIATION OF INSURANCE AGENTS

With reference to developments before the Finance Committee of the United States Senate looking toward the revision of the Federal social-security laws; and particularly with reference to that section in a proposed bill, H. R. 6000, covering the definition of an "employee," the following statement is submitted in the hope that it may be of some benefit to a better understanding of the status of a large segment of the insurance business constituting the local property-insurance agents of the United States. These men, who are local agents of fire, casualty, surety, and bonding-insurance companies, have long claimed to and in fact do occupy the status of independent businessmen.

In dealing with the definition of "employee" in the proposed bill, it is the desire of the proponents of this statement that property-insurance agents be definitely understood to be not employees under any construction that may be placed on the definition of "employee" contained in the new law.

The business of property insurance in the United States is very largely produced through what is known as the American Agency System. That is a system by which insurance companies secure business through the medium of local insurance men, called agents. Because of the universal practice which prevails in this country, a property-insurance agent is vested with certain property rights, which include the ownership of the expirations of the business which he has produced and placed upon the company's books, together with other assets. This is all the agent's property. It is his plant. He is by virtue thereof established in the business. He is engaged in a distinct occupation. He is not under the direction of any insurance company. He has his own office, for which he pays the rent. He owns all his office equipment, hires and pays all his employees, and operates entirely as an independent contractor, without any supervision from any insurance company. His compensation is a given percentage of the insurance business written by him. Before he can operate as an insurance agent he must be licensed by the State so to act. He goes forth to the public seeking to secure and care for certain insurable interests. He proposes to give a certain, definite and distinct service in exchange for this trust. To be sure the service he is able to give is nearly always measured by his skill and knowledge.

While developing this business he is not acting as the agent of any particular insurance company because he represents many. He is acting for himself as an independent contractor. He is about to assume a distinct obligation to his clients to provide adequate indemnity for them in reliable companies at proper rates and in accordance with certain laws, established rules and customs. All of this has nothing to do with any relations between himself and any given insurance company. He is under no obligation to give the business to any certain company because the disposition of it belongs to him. After securing the business from the client he then determines in what company or companies to place the risk. He could if he so desired place the business in companies which he did not represent as agent, under a brokerage arrangement with some other agent. It cannot be said that in the soliciting and securing of insurance the agent is either a common-law agent of any particular insurance company or the employee of any company.

Upon the determination of an agent to place a line in a given company, he thereupon begins to exercise the agency power vested in him by the company to create extensive company liabilities. He then becomes charged with the duty of protecting the interest of both the company and the assured. This dual representation is a service that is highly beneficial and is in proportion to the knowledge, skill, ability, and industry of the agent himself. The development of this service to the highest point of efficiency is one of the things that stamps his business with a vested interest. The agent instinctively sees that in rendering a highly acceptable service to both the companies and the assureds he is building up for himself a stable and permanent business which has a recognized salable value.

Among the many court decisions supporting the foregoing statement are the following:

National Fire Insurance Co. v. *Sullard* (89 N. Y. S. 934; 97 App. Div. 233).
F. B. Miller Agency v. *Home Insurance Co.* (1934) (276 Ill. App. 418).
Rippberger, Bankrupt (No. 35559, January 2, 1926, opinion by Federal Judge Cliffe (N. D. Illinois).
Chapman Insurance Agency (50 F. (2d) 252).
Alliance Insurance Co. v. *City Realty* (52 (2d) 371).
Kelly v. *American Mine Owners Casualty Co.* (170 S. E. 580; 161 Va. 206).
Kerr & Elliott v. *Green Mountain Mutual Fire Insurance Co.* (111 Vt. 502).

The House Ways and Means Committee fully understood the legal relationship between property insurance agents and their companies as shown in the Congressional Record of Tuesday, October 4, 1949, page 14041, to which this committee is respectfully referred.

Reference is also made to the published hearings before the Committee on Finance, United States Senate, Eightieth Congress, second session, on House Joint Resolution 296, April 1 and 2, 1948, pages 61, 62, testimony of witness John F. Neville, associate counsel, National Association of Insurance Agents.

To summarize, it is hoped that this committee will consider the local property-insurance agent as an independent contractor, which is his true legal relationship with his companies. This would allow the property-insurance agent to enter the social-security system, if such be necessary under the law, not as an employee but as a self-employed businessman.

All of which is respectfully submitted.

NATIONAL ASSOCIATION OF INSURANCE AGENTS,
By JOHN F. NEVILLE, *Associate Counsel.*

SUPPLEMENTARY STATEMENT

Because of certain developments before the Senate Finance Committee, which is presently conducting hearings on the definition of "employee" in H. R. 6000, it is thought necessary and proper to repeat again and summarize the legal position occupied by the local property-insurance agent in relation to the companies he represents.

These insurance agents, representing fire, casualty, fidelity, and surety insurance companies, own their own business, which they may sell at will and are under no degree of control by the companies which they represent.

The independent contractor status of the local property-insurance agent has been and is now recognized by their companies, the courts, and by the agents themselves. Their independent status was understood and confirmed by the Ways and Means Committee of the House of Representatives in its deliveration of H. R. 6000, as shown by the Congressional Record of Tuesday, October 4, 1949, on page 14041.

It is hoped that the Senate Finance Committee presently considering the definition of "employee" in H. R. 6000 will recognize the local property agent's relationship with his companies and thereby allow these agents, if such a course of action is made necessary by law, to enter the social-security system not as employees but as independent, self-employed businessmen.

This short statement is amplified by a memorandum which is being submitted to the committee by the National Association of Insurance Agents, an unincorporated association of approximately 27,000 property-insurance agencies located in every State in the Union.

Respectfully submitted,

NATIONAL ASSOCIATION OF INSURANCE AGENTS,
By MAURICE G. HERNDON,
Washington Representative.

The CHAIRMAN. Then, if it is agreeable to the Senators, we will recess until 3 o'clock.

(Whereupon, at 1:20 p. m., a recess was taken until 3 p. m. this same day.)

AFTERNOON SESSION

(The committee reconvened at 3 p. m. pursuant to the noon recess.)

The CHAIRMAN. The committee will come to order.

Dr. BROWN. Dr. J. Douglas Brown, dean of the faculty, Princeton University. That is correct, is it not?

Dr. BROWN. That is correct, sir.

The CHAIRMAN. We will be very glad to hear from you, doctor.

STATEMENT OF DR. J. DOUGLAS BROWN, DEAN OF THE FACULTY, DIRECTOR OF THE INDUSTRIAL RELATIONS SECTION, AND PROFESSOR OF ECONOMICS, PRINCETON UNIVERSITY, PRINCETON, N. J.

Dr. BROWN. Mr. Chairman, I thought I might mention my previous connection with the old-age and survivors insurance because there may be questions you might care to ask me on that account.

The CHAIRMAN. You were on the advisory council on social security to the committee in 1948.

Dr. BROWN. Yes, sir.

The CHAIRMAN. And you also contributed a great deal in an advisory capacity in 1935 in connection with the so-called Calhoun report.

Dr. BROWN. Yes, sir. I was on the staff of the Committee on Economic Security, and then, in fact, sat in on the executive sessions of this committee at the time the bill was being considered and also I was chairman of the advisory council in 1937–38.

I would like to say that my interest as an economist arises out of the whole question of the preservation and enhancement of the dignity and the effectiveness of our human resources, and I come into the problem from the point of view of industrial relations and economics, not being an actuary.

To my mind it has always been the basic purpose of the Old-Age-Insurance Act to provide a self-reliant means of preventing old-age dependency, and at the same time as a very practical fact, to prevent this constant rise in the cost of needs-test assistance. In the early planning of the act the assumption was, of course, that the social-insurance side would by this time, certainly by 1950, have taken over the major burden of the protection of our aged people otherwise dependent on assistance. I don't know whether you would like to ask me questions or have me proceed with a relatively brief statement.

The CHAIRMAN. You may proceed and if it will not trouble you, we will interrupt you with questions if they arise.

Dr. BROWN. Not at all, sir.

The CHAIRMAN. Proceed, doctor.

Dr. BROWN. The failure of the old-age-insurance system to fulfill its expectations, it seems to me, has not been due to a failure in the essential mechanism of the program. It has been, rather, a failure in the relative dimensions of that mechanism in terms of the increasing problem. Since 1938 the essential mechanism has been practical and workable.

The CHAIRMAN. May I ask you now, did we do very much talking about covering the self-employed people in 1935?

Dr. BROWN. In 1935, sir, I believe most persons discussing it felt that administratively the self-employed would prove difficult to cover. As far as I can remember that was the situation. I was trying to recall this morning, during Professor Slichter's testimony, whether any dis-

cussion on principle had come before either of the committees of the Congress. I do not recall any discussion in hearings of the question of the principle of such coverage but the practicality was raised.

The CHAIRMAN. I know from time to time something was said about bringing in the self-employed, but I do not recall that we gave serious consideration at that time.

Dr. BROWN. It was recommended in the 1938 advisory council.

The CHAIRMAN. Yes; I know it was then, but I am now speaking of it initially.

Dr. BROWN. I think the feeling at that time, sir, was that there were sufficient administrative problems in dealing with the ordinary industrial employee, that those needed to be licked before additional coverages, especially in this case farm labor, domestic servants, and the self-employed as a finel step, should be taken up.

The CHAIRMAN. That is quite true. We were still in the depression in 1935, in that period, and we had just been at its depth in about 1932 and 1933, you know. The country was passing through some quite bitter experiences. I do not recall that we gave any serious consideration to the self-employed because I rather think that we were thinking of the workers, the man who was working for somebody else, who stopped working when somebody else decided rather than himself.

Dr. BROWN. Sir, I feel that a great deal of thinking has been done since that time and that——

The CHAIRMAN. Oh, yes, I know a great deal of thinking has been done here and abroad and around over the earth, but I just wonder if we are not coming into a confusion of a compulsory savings program for all people with social security. Of course, they might be said to be very closely akin, and one may partake of the nature and character of others. I was inquiring about your recollection because I know you were here with us.

Dr. BROWN. It seems to me, then, that the failure in the present system is not so much in the mechanism but in its dimensions and that we have tried to put a heavier and heavier burden upon it with a structure that is relatively, because of the depreciating dollar, getting smaller and smaller. So that meanwhile the great shift has been from the old-age insurance to the old-age assistance, because the pressure of circumstances has been such that some means of protection had to be afforded.

Summarizing very briefly, I would say, then, that the three principal means of enlargement are, first, the benefit structure should be enlarged in terms of present-day dollars and also in terms of present-day wage differentials, that is, the present-day differentials in normal wage income, which have been greatly enlarged since 1935. Then the coverage should be enlarged to cover all persons exposed to the risk of dependent old age. That would be my philosophy and approach to the self-employed. If they are exposed to the risk of dependent old age, then I would say it is an opportunity, a very desirable opportunity, for the Government to provide a contributory means of protection so that the individual can contribute to protect himself against dependent old age and against the need of depending on old-age assistance on a means-test basis.

The CHAIRMAN. I wonder how far our economic principles have departed from our political theories, at least?

Dr. BROWN. I recall in 1938, at the time of the revision, receiving from one Midwestern community a sort of petition. It was in a small community. This man wrote me and said, "All the shopkeepers and other self-employed people in my village feel we should be covered." It was quite a long list of individuals. He knew that I was interested in this problem. I think, as I will say later here, that in 1935 the great majority of the industrial workers did not realize fully the difference between insurance and assistance, but the Congress decided that the long-run policy of Government was that of insurance, even though the assistance needed to be provided in the immediate circumstance.

We face the same problem today, that a great many self-employed persons, a great many teachers, professional people, shopkeepers, do not fully realize the difference between assistance and insurance. But the Congress interpreting their desire for future protection decides that the long-run policy of Government is to have the contributory insurance available to them because it is a better public policy than to have them rely 20, 30, or 40 years later on the assistance. I feel that was a factor in the original passage of the Social Security Act. The great demand was for old-age assistance. The Townsend movement and various other movements were accumulating tremendous political pressure for some form of assistance, but Congress in its wisdom, seeing the long-run problem, said if we have assistance we must also have insurance so that there will be this contributory device to give people certain protection in old age and also to control the future costs of assistance.

The CHAIRMAN. Yes; I do not think there is any question about your premise here. That is the way we approached it in 1935. Undoubtedly the problem of old-age dependency was at the bottom of the whole of it. It is equally true, of course, that we were trying to take care of the workers, but recognize the necessity for State-aid programs and the emphasis upon State-aid programs has not yet died out in this country.

Dr. BROWN. In fact, one of my concerns is that there is bound to be a growth of assistance, because it is an easier way.

The CHAIRMAN. It is an easier way if there were any way to control it. I think most anybody would agree that a free pension system would be much easier administered.

Dr. BROWN. It would certainly cost a tremendous deal.

The CHAIRMAN. Yes; the cost will be tremendous, but that is not the point with me. The point with me is how you are going to control the cost at all. You might start out by controlling it, but how can you ultimately control it?

Dr. BROWN. I feel that the great majority of the American people realize that adequate old-age protection costs money and that they are willing to join in a 50–50 contributory scheme, and that the education of having to pay one's own way for a benefit that comes as a matter of right is our best means of education.

Senator TAFT. Anybody can go out and prove that they are not getting their money's worth, that it is really for the benefit of the low-income people under $1,200. It is all a fake to a large extent. That is my point. I am for that system; I am for the idea of a contributory system in a way, but it is so remotely related to what you have, it seems to me you are just fooling the people. You are saying we want to fool them into thinking that they are paying this themselves when, as a matter of fact, they are not.

Dr. BROWN. Senator, any system of old-age insurance, for that matter any system of contributory industrial pensions, has to start somewhere. I think the great problem that we have been going through in the last 10 or 15 years is that we had to start in the middle of the stream. In the first draft of the bill we started very thin in the middle of the stream. It was to take a long while before the benefits were to get up to any level at all. Then in 1938 the Congress decided that the benefits should be enhanced in the early years. I think even then, in order for the American people to become educated as to a contributory insurance scheme, we did not put benefits high enough. But as this thing gets going in the periods of time that countries are concerned about, in 30 or 40 years, there will be the balancing factor of contributions of the individual and those of his employer.

Senator TAFT. Not if you increase it. Here is this increase in pension which nobody has paid for at all. It will be paid for by the future worker, perfectly properly so, only it just disputes and contradicts the whole idea that this is insurance or anything like insurance. It does not have any relation practically, what you paid to what you get back.

Dr. BROWN. Let's avoid the word "insurance" except in one basic premise, and that is the use of the law of averages. That is that we are——

Senator TAFT. That is a tax system, the law of averages, not insurance.

Dr. BROWN. No, in the sense that the risks are averaged as to mortality, as to the contribution, as to diverse people working at various wages and so on. The important element where the words "social insurance" has come in is that there be contributions by reason of which, over time, benefits are paid at standard rates relative to past wages.

Senator TAFT. And then you give them three times what those rights are in many cases and in some cases you do not give them what they are worth.

Dr. BROWN. The important thing there, Senator, is that he did produce in the productive stream of the country but in those earlier times there was not available any system for contributing to an insurance scheme. As time passes from now on there will be a system available.

Senator TAFT. There are other inequalities. Take the man at $1,200 he gets 50 percent back. For the next $1,200 the fellow gets only 10 percent back. He is paying for the fellow in the lower group, is he not? It has no real relation. You get back something with no real relation to what you pay, just a kind of vague similarity.

Dr. BROWN. As far as differentials are concerned, Senator, I would certainly recommend that they be strengthened, that is, at least 15 percent above the base amount.

Senator TAFT. I am not concerned with that. I am just disputing the basic idea that this is insurance or anything like it, and the whole idea that you are paying in your youth for what you get back in your old age is complete fallacy. What you are doing is that the people who are working in 1960 are going to pay in their pay-roll taxes the old-age pensions of the people who are over 65 in 1960. That is the

fundamental characteristic of this system and will remain so no matter what we do about it. Is that not the fact? Is that not the real truth, that is a pay-as-you-go system in the long run?

Dr. BROWN. Certainly as to productive flows, it is pay-as-you-go. I think, Senator, where we get at odds is in the semantics of the word "insurance." Perhaps the word insurance should not have been used in the expression "social insurance." It got to be used. But the word "social" in "social insurance" is highly important because some of the very features that you mentioned come in when you say the words "social insurance." That is, for example, the graduation of benefits. Every social insurance scheme that I know of in foreign countries or here involves graduated benefits because it is social insurance.

Senator TAFT. Except in England where it is a flat payment.

Dr. BROWN. Yes, sir.

Senator TAFT. There is no graduation in England, is there?

Dr. BROWN. You are correct, but there are graduations in their other social insurances. For example, in unemployment insurance, young men and young women get a different benefit than fully mature men and women. Those graduations or differences in rate are based on social determinants, not precise contractual relationships. That is the point I want to make.

Senator TAFT. It seems to me there is no difference. I understand we are going to tax everybody and pay the people over 65, and we are going to pay them this pension in some relation to the work that they have done for the community during their lives. You are going to give those who have done better work presumably because they got more money, worked longer or something, a little better break than those who did not work so long. But I do not see any principle of insurance about that, social insurance or otherwise. It is just a determination of policy of what kind of old-age pension you are going to pay.

Dr. BROWN. May I suggest this, Senator, leaving out for the purpose of our discussion the word "insurance," this is a method of paying old-age benefits for which, during the period a man is able to, before retirement, he contributes. If he is a young man he contributes all his life.

Senator MILLIKIN. Toward which he contributes.

Dr. BROWN. Toward which he contributes. If he is a young man he contributes all his life. If he is a man about to retire, he contributes for only a short period.

Senator TAFT. I suggest he does not contribute at all, that his contributions are used to pay current old-age pensions and there is nothing left, and all he does is build up for himself, by reason of having worked, a more favorable treatment when he gets to be 65. There is not much relation, but some.

Dr. BROWN. I would agree entirely with you that the flows are current, and in fact one of the early arguments, you will remember, Mr. Chairman, was about the large reserve.

The CHAIRMAN. Yes. I quite clearly remember that.

Dr. BROWN. Some of us recommended strongly at the beginning one-half percent as to the original contributory rate. At one time it was to be one-half percent for 5 years, then 1 percent for 5 years, moving up very slowly so that the so-called reserve, which is a con-

tingency fund, would accumulate very slowly. But there was a tendency at that time because of the fear of what you say is not so, and which I agree is not possible, to accumulate funds against the future. Then the rate was put up to 1 percent and accumulated a very considerable contingency fund. I agree heartily with you, Senator, that it is on a pay-as-you-go basis, basically.

Senator TAFT. We come out with the same general conclusion except in one respect, and that is what interests me. That is whether since if the system is philosophically what I conceive of, then I see no reason why we should not include everybody at a minimum sum whether they have contributed anything or not. That is the tendency that we are getting toward, to a substitution of some minimum old-age insurance, so-called, in place of a needs test. Old-age assistance as far as the Federal Government is concerned, at least.

Dr. BROWN. I think it is highly important still that the economic, the financial, and the psychological, all these factors, have to come together. I think from the psychological point of view and the whole matter of incentives, which I would like to go into here, it is highly important that all contribute. I think it affects very deeply——

Senator TAFT. What about the people who cannot contribute?

Dr. BROWN. You mean who are already too old to?

Senator TAFT. Yes, either too old or the people who never worked, because they are sick, or something, are unable to work during their lives and accumulate any wage credits, or who are married to other people and are suddenly thrown on the labor market and are unable to work.

Dr. BROWN. I feel that wherever the family unit is the factor, that is, the wife dependent on the husband, the protection should arise out of the status of the wage earner, or the child in relation to the father. Where a person has never been in the labor market, I think that is another category that may well be handled by assistance. This is in a sense related to the productive effort of the head of the family, let us say. We have a tremendous problem of sustaining in a country as prosperous as ours, the incentive for productive effort.

I would like to read just a passage, Mr. Chairman——

Senator TAFT. I would always give advantage to them. I was not suggesting a flat sum. I do not think that this year we are going to be able to do this sort of thing. It seems to me the ultimate result of the system is to pay a minimum to everybody and get out of the old-age assistance altogether and let the States handle whatever supplemental assistance you may need.

Dr. BROWN. May I continue, Mr. Chairman?

The CHAIRMAN. Yes, Doctor.

Dr. BROWN. I would especially like, in respect to benefits, to emphasize the great importance of maintaining a full spread of differentials in an old-age and survivors insurance structure. A contributory social insurance system should strengthen, rather than weaken, the incentives so necessary in a free-enterprise system. In our efforts to support our least fortunate citizens it is easy to break down incentives by lessening the differential rewards for steady employment, higher earnings, and self-improvement. It is far harder to reestablish incentives once they are lost. Even America, with its great resources of materials and manpower, cannot afford to weaken the incentives of its people to produce more for a better standard of life.

I feel very strongly on this next point.

This country is on the brink of a long and steady descent into a condition of flattened differentials and comfortable averages. To make things easy and to avoid the trouble of differentiating talent, effort, or character, we are tempted to concede flat insurance benefits, flat assistance grants, flat rates of pay, flat levels of education, and a tragic averaging toward a single norm in scores of aspects of life. This is one of America's greatest dangers. It is a sympton of a declining conviction in the value of competition, incentive, free enterprise, and free opportunity to prove one's self a more productive and an economically more valuable person than one's neighbor. Our great heritage of free opportunity to excel is in no way inconsistent with our great heritage of equal dignity of every person before the law. We have begun to confuse equal political rights with equal economic attainment. If this confusion persists——

Senator MILLIKIN. On the question of equal dignity of every person before the law, the question still remains whether everyone has equal dignity under it at the time it operates. I am playing devil's advocate for the moment. I think there is much to what you have said, but we have to explore all the aspects of this thing. You insist now upon retention of the word "social." The sociological aspects of the thing are high lighted when a man gets to be 65 and you say that he has equal dignity before the law and you say he has equal dignity with people who are similarly situated in point of ability to work. If John Doe gets, let us say, $75 as a result of this benefit system, and his neighbor, Richard Roe, gets $25, is there equal dignity before the law under that kind of system?

Dr. BROWN. I would say that both have had an equal opportunity under the law to carry on an occupation, to exercise their minds and physiques the best they know how. If at the close of life one has been unable himself——

Senator MILLIKIN. Or make it unwilling.

Dr. BROWN. We will not let him suffer distress. We will have an assistance program for which there will be a needs test, where it will be determined whether he shall get so many dollars or so many dollars to support him and his wife. But here is another man who through his effort, through self-improvement, through learning to be a skilled mechanic, and there are many other ways, has been able to put himself on the average of $200 a month, that there be some means of self-protection on his part with the aid of Government so he does not have to go around and ask for needs-test relief. That is what I mean.

Senator MILLIKIN. You are talking now about two persons who are 65. Let us say that those two persons are not able to work any more. The point from the sociological standpoint is, are both those citizens dignified citizens, and to be a dignified citizen can either of the two labor under a sense of inferiority or discrimination because the other gets larger benefits? Speculating still further, when it comes to the question of need, when it comes to the question of food, it is not a civilized attitude to say that you are going to punish a citizen because he has not been frugal or because he has been wasteful or because he has been a loafer. You cannot run a government on differentiations of that kind if you are talking about sociological matters.

Dr. BROWN. Yes, but, Senator, I may say that during the depression I was on a relief committee in the town of Princeton, N. J., and

we never were punishing anyone. We were aiding those who through their own ability were unable to sustain themselves, but we did it with two great ideas. His essential dignity, that is, his being a person, was sustained. He had enough for himself and his wife to live, but as representatives of the taxpayer we could not sustain a differential for him that he would have liked and which he might have attained, if he had been able to, through his own efforts, at earlier times.

Senator MILLIKIN. As te representative of the taxpayer it all comes to the same thing because if he does not live out of—I have got to call it the insurance system so that we are using the same term even though the term is inadequate—if he does not get enough out of the insurance system, he supplements it with a humiliating addition which makes him confess that he has been a failure in the economic sense and puts him under a sense of feeling of inferiority.

Dr. BROWN. I would like to avoid that.

Senator MILLIKIN. You wind up giving them the same amount of money, both of them. One part comes out of a contributory benefit system and another part comes out of public assistance. The money is the same but to get it one citizen has to expose his failure in life and the other does not.

Dr. BROWN. The thing I want to see us avoid is the condition where the insurance benefit is not sufficiently adequate so that a man does have to apply also for assistance; rather that the man, who through continued effort, self-improvement, the learning of a skill—taking all advantages of his opportunities—is able through insurance to assure a level of life in his old age that he does not have to apply for assistance.

Senator MILLIKIN. Of course, I believe in maintaining incentives, but I am also looking at the cold fact that when he gets to be 65, if he is needy, either the need has to be satisfied out of the contribution side or it has to be satisfied out of public assistance, and the taxpayer pays the bill in either event.

Dr. BROWN. I would hope certainly, sir, that as time passes, the contributory—we will call it contributory social-security benefits, let's call it that, sir——

Senator MILLIKIN. I am not so sure that I could not demonstrate very simply that there is no security in it—because we cannot sit here today and say that 20 years from now anything we have devised has the slightest security in it.

Senator TAFT. I fully agree with your statement here about incentive, and all that I think is a very good statement, but does this system give anything like it? After all, there is an incentive to earn $1,200 a year. Everybody has that in order to live. After $1,200 a year under this system you get 15 percent of your benefits. After that you pay more than that; you pay probably 3 percent. Is there any incentive to earn more particularly? You can go out and get an insurance policy more satisfactorily than paying 3 percent and getting 15 percent back.

Dr. BROWN. I am leading here to my support of a very much sharper differential. I would like to see us put the maximum at least at $4,200, at least at $4,200, and that the ratio of increase above the base be at least 15 percent, preferably the 20 percent that Professor Slichter and the others mentioned, because I feel that we have come to a time in this country when we must respect differentials. All during the war—and

I was with the War Department where we were dealing with labor and wages—we were lifting the bottom in the structure of wages, we were very seldom raising the differentials. We were always raising from the bottom. It runs all through it.

Senator TAFT. I agree with your general principle. I am just questioning whether this system has very much relation to it. You add to that the fact that this thing is deducted from pay roll. I have a constant flow of correspondence saying people do not know they are paying income taxes because it is deducted from pay roll. They never see the money, so it does not mean anything to them anyway. It is a harmless method of taxation that they do not understand.

Dr. BROWN. I think, sir, you will find that an increasing proportion understand. The education can be constantly improved. Let me be devil's advocate, Senator, and say if we make all these things flat, do we help the incentive structure of the country?

Senator MILLIKIN. I would not say so.

Senator TAFT. No. I am just saying I do not think it does very much toward helping the incentive system.

Dr. BROWN. Maybe I am a little more desperate. Being a college professor observing the long-run situation, I may be a little more desperate about this loss in differentials because I feel it is extremely important that in every aspect of life, sound personnel administration, sound Government personnel administration, and in every other way, we relate benefit to effort. So long as a man is able, willing, in his right mind and right spirit, that the reward be related to his effort. Then if he gets in trouble, if he is in desperate condition, then you give him the needs-test relief that is necessary. If he is sick you take him to a hospital regardless of his ability. But so long as he is an able, gainful employee at any level, the benefit, of any kind, should be related to his effort. We are tending to average down all the time, to make it all even because it is so much easier. In universities they move over to a passed or failed mark, that you pass a man or fail him. Why? Because it is hard to give him a differential grade, a percent grade. It is just a part of the whole trend.

May I go on, Mr. Chairman?

Senator MILLIKIN. On Senator Taft's point there is really not sufficient knowledge that there is a deduction. When we lowered taxes a couple of years ago, that required an enormous flow of refunds to those who were on the pay rolls and had deductions. You would be absolutely dumbfounded how many of the recipients of those refunds were under the delusion that Harry was sending them that with his personal compliments out of his own pocket. I do not mean Harry Byrd; I mean President Truman.

There are one or two points in relation to this differential that I would like to add.

Senator TAFT. You are going to favor a greater differential than the Advisory Council, which only gave 50 percent on the first $75 and 15 percent after that?

Dr. BROWN. I would certainly go along on the $100 base which is in H. R. 6000. Then I would certainly favor the 15 percent addition which the Advisory Council favored, as a minimum, preferably 20 percent, because the more one studies this over the last 15 years, the more one realizes that the tremendous drive toward flattening out in-

centives through assistance grants must be offset by differential benefits under old-age insurance.

Senator TAFT. On your principle why would it not be more consistent to have 50 percent of the whole business? You have 50 percent of the $1,200 man. Why not 50 percent of the $2,400 man?

Dr. BROWN. The word "social" is still in there..

Senator TAFT. You mean it is too expensive? Is that not the reason?

Dr. BROWN. No, you can't do everything you would like to do.

I would like to add that if this confusion that I mentioned between political equality and economic equality is permitted to go on, we will drift into a sort of comfortable mediocrity and it will certainly lessen our drives and our leadership for young men to forge their way up to become a toolmaker rather than a machine operator, rather than an assembler, and so on.

It seems to me that those who demand a retreat to flat benefits have failed to see contributory social benefits, shall I call it, social insurance as an integral part of American social and economic policy. We have accepted it. It has been 15 years with us. Among those in this group are some actuaries and accountants who think of social insurance narrowly as a cash transaction carried on in a social vacuum and want to simplify bookkeeping at the expense of pouring out the baby with the bath. The incentives lost would tragically outweigh the slight savings in record keeping. They include insurance salesmen who do not want old-age insurance to interfere with their business interests, even though in the past it has been a great educational force to increase their business. To retain, untouched, their business with a few, they would let the many continue with inadequate protection. Finally, they include well-meaning supporters of the relief approach to social security who, in their zeal to spread equal charity to all, forget that the vast majority of the American wage earners prefer self-reliant and self-determined protection to State charity.

I feel very definitely there are these various approaches where one is tempted to take, say, the cash approach: let us make it simple. Another approach is to take the relief approach. Let's give everyone the same and assume that that will meet their needs. Concretely, I strongly support the recommendation that the differential factor in the old-age insurance benefit formula be at least 15 percent of average wages above the base amount, and not 10 percent. The 15 percent more adequately rewards the incentive to earn a higher average wage. Further, I strongly support a maximum in covered wages of at least $4,200, the maximum recommended by the Advisory Council. Any lower maximum will bunch far too many benefits at an arbitrary upper limit, regardless of differentials in incentive shown. Also, any lower maximum would continue a sharply reduced spread of covered wages and benefits in terms of the wages now being paid in cheaper dollars compared to those paid in 1935 when the $3,000 maximum was set. In other words, holding to $3,000 or even holding to $3,600 reduces the spread because meanwhile automatically the value of the dollar declines. To hold to that absolute maximum reduces the spread. Further, as long as universal coverage is not attained, I would favor the continuance in the benefit formula of a percentage per annum increment to reward those who have contributed longer and more steadily under old-age insurance coverage.

Senator MILLIKIN. Will you give your reasons for that last?

Dr. BROWN. Yes, sir. Because so long as coverage is not universal there will be some who have contributed the 1, the 1½ percent, and so on, they and their employers. As a matter of equity, you might say, those who have contributed longer or have contributed for a full life over against part of their life should receive an advantage. That was put in there in 1938.

The argument against it was basically an argument that, if all persons were covered, then it was merely a postponement of an adequate scale of benefits. Professor Slichter mentioned that this morning. If there is not universal coverage, if I were to assume that universal coverage was to be passed by the present Congress, I would withdraw——

Senator TAFT. What is universal coverage in your opinion? Do you mean everybody who has contributed? You do not include people who have not contributed?

Dr. BROWN. Only people who have contributed. It would be also the self-employed and a considerable proportion of Federal and State government personnel, for example, the in-and-out group especially. It is when a group has contributed and another not that there should be some factor of additional benefit to those who have contributed steadily throughout a considerable part of their lives.

Senator MILLIKIN. Take an in-and-out fellow. Take a fellow who has worked continuously throughout his life, but the necessities that confronted him required him to be on an in-and-out basis. He has contributed as much economically as the fellow who has been in covered employment throughout his life.

Dr. BROWN. But he hasn't had a withdrawal from his wages.

Senator MILLIKIN. He has not contributed as much money to the insurance system, but he has contributed as much to our productive system.

Dr. BROWN. I agree, but even that differential, sir, I think warrants a per-annum increment on his benefit.

Senator MILLIKIN. I understand your point, but I am just wondering about the social equity of taking the fellow who has been equally diligent, who under force of circumstances had to take work where he could find it and has kept working and has made an equal contribution to the productivity of the Nation but not to the insurance system. How much should we penalize him for that lack of contribution?

Dr. BROWN. Sir, I am in exactly that position as a college professor. I do feel that a man who has contributed since 1937 should have a bit of an advantage over me, say, if I were covered next year, because he has withdrawn from his pay year by year and month by month a certain small amount which warrants some difference, not a great difference, but this added increment is a matter of equity. I think the great majority of American wage earners would accept that. Shall I proceed?

The CHAIRMAN. Yes.

Senator MILLIKIN. At some point in your presentation, you may have it in here, Dean, I wish you would give us an answer why we should not go right into a pay-as-you-go business without any flubdub or delay, pay as you go right now.

Senator TAFT. I would observe the fact that I would accept the principle of graded payments, of payments in relation to wage credits.

Senator MILLIKIN. I do not care what conditions you put on it; all I am talking about is getting away from some of the phony features of this business and getting on a pay-as-you-go basis, meet the bill as we go along, and stop making promises that we have no way whatever to assure in the future.

Dr. BROWN. I would like to speak of coverage, and then I will get to contributions.

Senator MILLIKIN. Whenever it fits in.

Dr. BROWN. With respect to coverage, I am convinced after more than 15 years of study that it should be the universal privilege of American citizenship to participate in an automatic means of self-protection against dependency in old age. Theorists talk confidently about the sufficiency of the many private means of securing protection against dependency in one's declining years. But any of us who have served in responsible positions during the depression of the 1930's know that the best-laid plans of voluntary savings, home ownership, farm ownership, business investment, or private employer coverage can go sour in times of widespread business depression. I was on President Hoover's emergency committee for employment in 1930–31 and we found vast numbers of cases of farmers, businessmen, and many others who normally would have had sufficient savings to protect themselves who lost out in the general decline of values throughout the system. Even more likely is the heavy drain of illness of the wage earner and of members of his family upon the savings set aside for old age. The great majority of Americans do not want hand-outs in their old age. Most of all, they do not want to look forward to State charity when by small and regular contributions they can build up self-reliant protection.

In 1935 the Congress of the United States correctly, I believe, interpreted a widespread demand for old-age protection to be a demand for old-age insurance as the long-run policy of this country. That demand remains fundamental to the thinking of our people today regardless of current prosperity. It is in the mind of the farm worker, the domestic employee, the school teacher, the shopkeeper, and the filling-station operator. They do not fully understand. You can talk to them, as I have talked to any number of them just to get their state of mind on this, and they do not fully understand the techniques of old-age insurance as compared to assistance or relief, but I am convinced that they want the self-reliant, certain protection which contributory insurance provides. I sincerely hope that this Congress will interpret the fundamental desire of the now-uncovered groups as accurately and with the same foresight with which the Congress in 1935 interpreted the desires of the industrial employees.

Senator MILLIKIN. Let me break that down a little bit and carry it to the reductio ad absurdum, possibly. The worker under the contributory system is at best paying for only half of what he gets. We start out on the premise that everybody wants to be self-reliant, everyone wants to pay for what he gets. It gives him a sense of pride to be able to do that, and it does. In time under the Council's theory the Government itself will be contributing to maintain that insurance. By virtue of the nature of the system, by virtue of the fact that the employer contributes half and ultimately the Government will contribute probably a third, aren't you really arguing that a 33⅓-percent contribution will give a feeling of full respect?

Dr. BROWN. It will give a far greater feeling of self-respect. I do not think the point is that the man feels he is doing it all, no more than any of us feel that we are doing all of a lot of things we do. We are doing it in cooperation with others.

Senator MILLIKIN. You feel he can accept two-thirds with self respect, whereas he could not accept 100 percent with self-respect?

Dr. BROWN. No: I say the reverse, that for the 100 percent he has done nothing, he has gone bankrupt, he has depended upon a paternalistic state. If he has done a third, maybe a tenth, if he has done what he can and what the law calls for, and increasingly as he earns more he provides more and as the system matures and this problem that you worry about where the balance comes so that it is permissible without accumulating too much funds to charge 2 percent and $2\frac{1}{2}$ or 3, then he will certainly feel that he is contributing. I think it would be wonderful if an old-age insurance system could have started on a 3 percent contributory basis, pay as you go.

Senator MILLIKIN. I agree with that.

Dr. BROWN. It would have been far more wholesome. But we started in the middle of the stream. It was like a vast funnel. We had everybody paying and only one year group, age 65, taking benefits. Then 65 and 66, a very small outstream. The great question was, how low could you put the contribution rate and have it administratively reasonable? One-tenth of a percent? It was recommended at one time one-half percent, and that was considered too low. But the minute you have this vast stream contributing and only a small stream going out, then comes this problem of some kind of contingency fund, or the other one, that a man doesn't feel he is contributing as much as he should.

Senator MILLIKIN. Quite seriously, I agree that any contribution probably gives a better feeling in receiving the result than no contribution at all, of course. What I was really aiming at was, while we are putting out honest information, let's make it clear that the beneficiary is not paying the full cost of this.

Dr. BROWN. I quite agree.

Senator MILLIKIN. Let us make clear what discriminations are involved in that.

Dr. BROWN. Yes, sir.

Senator TAFT. Would it not be very difficult and does not the problem arise in a way as far as escaping from private care for this proposition, that it would be very difficult for the average workman to pay enough to buy an annuity at age 65? Would not such an annuity be so expensive that it is almost impossible to expect him to do it? Even then, if dollars depreciate, when he gets it, he gets very much less than he thought he was going to get. It is an almost impossible thing. The justification for Government action, I take it, is that it is almost an impossible thing for private people to do it anyway, even if you are going to dismiss those who carelessly do not do it. It seems to me you can set off old-age pensions from other fields of so-called social insurance because of the tremendous expense of the proposition.

Dr. BROWN. And the counterpressures, I might say, not only illness but the raising of a family. We have come to expect our people not only to send all children through high school but increasingly through

college, and even if it is a State-supported college there are many incidental expenses. By the time the last child is through college, the time intervening between then and retirement is so short that a great many people cannot save sufficiently for old age if they are on an ordinary income. So this means planning longer ahead.

I might say the Advisory Council on Social Security of 1937 38 strongly supported the coverage of nonprofit employees, farm and domestic employees, Government employees, and the self-employed under the act. Any administrative obstacles to such coverage have long since been resolved. As Chairman of your Council 12 years ago, I feel that I should repeat the recommendations of that Council, now reaffirmed after further study by another Advisory Council.

I would like to go into contributions, Mr. Chairman, if that is agreeable.

The CHAIRMAN. Yes, sir. I wanted to ask you one further question about the self-employed provision of H. R. 6000. Do you approve of that?

Dr. BROWN. I do not approve, sir, the limited coverage. I feel, in attacking the problem, we can move in just as easily on the rest of the group; and I feel, sir, that the farm group over this period of time have come to a stage where, if ever, they will accept the old-age insurance type of protection. I know that it will become increasingly acceptable and feel that now is the time to bring them in, sir.

The CHAIRMAN. I understand you want broader coverage, but just take a real look at the self-employed fellow who goes in. He does not get in under H. R. 6000 unless his earnings less his cost of doing business amounts to $400. You have let out the very group that are most in need of any help, have you not?

Dr. BROWN. As a necessary lower limit it may cut out a considerable number, but I do feel, if the net is that low, the chances are that he will need assistance as he approaches age 65.

The CHAIRMAN. What are you going to do for him, put him under State-aid system?

Dr. BROWN. I think, sir, if that net income is that low, it is just like a person on wages——

The CHAIRMAN. There are plenty of business people who do not make $400 over and above business costs. They think they are in business for themselves, but of course they are doing a very small business. They are the very ones in the community who need help most.

Dr. BROWN. I am not well enough informed to say exactly $400. I do feel their needs to be a separating point.

The CHAIRMAN. H. R. 6000 provides $400 net, I believe, and by net is meant the gross less the business expense.

Dr. BROWN. I believe the Advisory Council recommended a lower figure. As I recall, it was $200 net.

The CHAIRMAN. I am worried about that myself. Every time I look at the self-employed group, I see some more bugs in it.

Senator MILLIKIN. After you have the full coverage which you recommend, what categories of citizens would remain who are uncovered?

Dr. BROWN. It would be largely in the field of persons under other sovereign or semisovereign bodies; that is, if States did not see fit

under comity through contractual arrangements with the Federal Government to bring in their people. The Advisory Council felt that the old-age insurance scheme should be an understructure for even our civil-service pensions and also the railroad retirement program because a good many people move in and out of Federal service or in and out of railroad service. It should be the universal basic structure for protection in old age. Then various differential schemes, the private-employer schemes, the teacher schemes, the Government schemes for school teachers, policemen, firemen, and so on, could be built upon it. So a man who tried out to be a policeman for a year or two or tried out to be a school teacher or tried out in Government service could always fall back on the basic contributory scheme so he would not be left in the lurch in his old age.

Senator MILLIKIN. The testimony as to the teachers, policemen, and firemen was that the in-and-out rate, especially as to policemen and firemen, is very, very low, which brings me to the question, Would you compel admittance under this plan of those pension systems which teachers, policemen, and firemen have, with which they are satisfied?

Dr. BROWN. I feel it is important that they be educated to understand their advantages, and remove the great suspicion that in some way by loss of the existing plan they would only get the social security. I find that teachers' groups are continually worried about any disturbance of the existing plan. If the existing plan is to be made supplemental to the old-age insurance plan, they say, "Yes, but the legislature will reopen the plan." We have fought hard to get this particular plan. It is a good liberal plan, or at least more liberal than it would be.

The CHAIRMAN. Would not the legislature be inclined to do precisely that, Doctor, when tax dollars get tight?

Dr. BROWN. The basic hope is that they would get at least as good a benefit. Under the old-age insurance they will get certain additional advantages like survivorship benefits, which the existing plans do not always provide.

The CHAIRMAN. Then you run into this other thing. Many of the plans for teachers, policemen, firemen, and so forth, are pretty costly, but they pay big benefits.

Dr. BROWN. I know they do.

The CHAIRMAN. Then you have the question of whether you can superimpose upon that group an additional tax, though small.

Dr. BROWN. Sir, I think the basic arrangement would be just as it was with private plans when the original act was passed. That is, as if you took a pile of bricks say four or five high. The social-security structure replaces, say, the lowest brick. The structure remains the same height, but that part of the private element is taken out and the social-security protection is put in.

Senator BYRD. It would be credited in social security.

Dr. BROWN. That is right. That is our plan. For example, at Princeton University, I am on the pension board, and we have a plan that should the social-security legislation cover our teachers, if we could not afford to add it, we would take the 2 percent, whatever it came to, out of our present contribution and allow that to go to Government and have the teacher get a combination of the social-security benefit and our own teachers' insurance and annuity benefit.

Senator MILLIKIN. These witnesses on these three types of plans

we are now discussing—teachers, policemen, and firemen—made a pretty good case about what they are getting and what they are putting in. We are talking about teachers. If the teachers cannot understand this thing, who in the devil can understand it.

Dr. BROWN. Teachers teach certain subjects, sir.

Senator MILLIKIN. If they come in here and say, as they have said preponderantly, we do not want any part of this, we just want our own plan to go on, should we adopt techniques to force them in?

Dr. BROWN. I don't think, sir, that you can. I think what you can do is provide the opportunity for the State as a whole or such segments of State personnel, so long as the group comes in, to come in as a group. That is, for example, if the State of West Virginia decides that all its general legislative employees and executive branch employees should be covered, that might be the element, or if the city of Baltimore decides, under an arrangement with the State of Maryland, that they would like to come under, certain arrangements of that sort would be made.

I know there is a very strong feeling on the part of policemen and firemen, next to that, of course, on the part of teachers. One of the factors, of course, that time will tell is that the old-age insurance benefits, if improved, will become attractive not only in themselves as a part of the protection but also in the survivorship protection which is unusually advantageous.

Senator MILLIKIN. If these teacher pension funds, for example, have an election and two-thirds of the folks present at a meeting decide they want to come under, we are proposing that they may come under. Suppose 99 percent of them favor it, but suppose one teacher says, "No, sir; I have a vested right in this system for which I paid." Should we allow the 99 to overrule the 1?

Dr. BROWN. I think, sir, that is of course in the realm of political philosophy. At Princeton, we have compulsion. If they wish to work for us, they come under our teachers' insurance and annuity plan. I think that, since I have been dean, there have been but two men who have come to see me about their individual rights. My argument is that this is a team job. We are helping each other. Do you not want to come along? In 15 minutes they came along.

Senator MILLIKIN. You have a pretty big club there, Dean.

Dr. BROWN. I have, perhaps——

Senator MILLIKIN. As was said in the Senate onetime, you point your rapier with a rose, but nevertheless it is a rapier.

Dr. BROWN. I think they wish to cooperate on a team job, though, Senator.

Senator TAFT. The policemen and firemen are particularly interested in the features that permit them to retire at an earlier age because 65 is too old for firemen. They feel they would lose that benefit. There would be 10 years where they would be left flat. The only thing I see in the report is that when coverage is extended to State and local employees, or members of staff retirement systems, those systems can be adjusted to supplemental basic old-age and survisors insurance benefits. But you would have to tear them to pieces pretty much and rewrite the whole business and have a supplemental fee. There could not just be a credit, because it is much more complicated than that.

Dr. BROWN. You could run two entirely independent schemes if there were sufficient funds for both. In other words, if the rate of contribution under the Federal scheme remained at, say, 1 percent, there might be a good many schemes where benefits are not quite high enough and they might decide: "We will pay the 1 percent and we will pay all that we are paying now." But as soon as the rates got a bit higher, 1½ or 2 or 2½, as you say, Senator, the older scheme would probably have to be revised so that the total contribution over against the total benefit would fit that situation.

Senator TAFT. It might be higher or it might be lower. You could not tell in advance.

Dr. BROWN. According to what that particular organization or management felt, it could afford over against what its workers might ask for.

Senator MILLIKIN. That is precisely what they are afraid of, the reopening of those contracts that they have now.

Dr. BROWN. Yes.

Senator TAFT. I do not know; maybe education is desirable, but I would think there is nothing as universal as the desire on the part of every teacher, every farmer, and everyone to stay out as far as my concern in the State of Ohio. I do not think there is any dissent. They may not understand it, but they do not want to go in, I am sure.

Dr. BROWN. May I say one thing there, Senator, that the present benefit structure has not been what you would call a tremendously appealing one, and if that benefit structure were raised I think you would find a shifting in the balance. In the early stages, the nonprofit people, as you know, strongly opposed it, and had a good many of us in consultation, in various meetings and so on. Now, you find the nonprofit people in very large measure wanting to come in even with the low benefits.

Senator TAFT. That may be so of the next provision, but in this provision I do not think we can educate them fast enough.

Dr. BROWN. Would you care to have me discuss contributions?

The CHAIRMAN. Yes.

Dr. BROWN. In respect to contributions, I would urge that, following an immediate increase in rates to support and justify a sharp improvement in benefits, future rates be established in the light of developing experience. An old-age insurance system needs but a small contingency reserve to compensate for short-run variations in collections and disbursements. This reserve should not be a major element in the financing of the system nor in the fiscal policy of Government. Its investment in Government bonds involves no exciting mystery. Since a small faction of the collections in the old-age insurance system may accrue before the funds are needed for benefits, the General Treasury by borrowing the funds can postpone for a time an equivalent amount of general tax collections. When the old-age insurance system requires the return of the loan, the General Treasury may secure the funds through the general tax collections equivalent to those previously postponed. The sole difference is that the General Treasury pays interest meanwhile to the old-age insurance trust fund rather than to outside lenders.

Senator MILLIKIN. As was developed this morning, you agree that the taxpayer also pays for the interest.

Dr. BROWN. Yes, sir. I might say, Senator Millikin, from the very first I have opposed large reserves; and, as Professor Slichter said this morning, the so-called reserve is merely a sort of till money, a til-money adjustment factor. It is awfully big till money, I admit; but when you are dealing with this funnel condition of a great many people paying in, you come to a point where you cannot reduce the tax rate below a reasonably understandable fraction of a percent.

Senator MILLIKIN. It probably should more properly be called tap the till money.

Dr. BROWN. So there is a mechanism problem within the old-age insurance that you want to have contributions from a large number at the time that you are paying out relatively few in benefits. So there is that adjustment factor.

There is another adjustment factor that was not discussed this morning, and that is between times of good business and times of depression. In times of good business the contributions are likely to be high relative to benefits because many of your people carry on through age 66, 67, 68, and so on. Then along comes a sharp recession and a depression. Suddenly your benefit load rises and your contribution load declines, both because more men are out of work, the wage structure may have declined, and more people have quit early. So, in a sense, this is a contingency reserve to allow for slack times.

Senator MILLIKIN. Do we not already have a law permitting appropriation of Federal funds to cover that situation? Even if we did not have that law, that is exactly what you would have to do, and in that kind of situation you probably would be on a deficit-financing basis anyhow. So, the way you would get your money would be to sell bonds.

Dr. BROWN. I agree that that is entirely feasible, Senator, but there is one factor that led some of us to say we would rather see the variation on the plus side rather than in deficit financing, because here again you are dealing with psychology, and a great majority of the people, not knowing about Federal finance, will say, well, they had to get a special appropriation or they had to go to Congress and get a readjustment in contribution rates. We felt—those of us who were working with it—that it would be safer to have the play above zero rather than across the zero line. In fact, in 1935 it was far more of a worry because the Federal debt was much smaller. We can worry now about size of debt, but the relative part of the debt absorbed by the old-age insurance reserve is so much smaller than it was in 1935 that from that point of view it is to me of less concern.

I would like to repeat on the double taxation: The hobgoblin of double taxation has been raised by some who have failed to note that in the transaction just outlined there are two complete cycles of collection and disbursement. The insurance contributions are collected and, after being loaned to the Treasury, are disbursed as bond proceeds by the Treasury for value received by the Government. The question of whether value is received is itself a fiscal and political question. I am not saying that value was received, but I am saying the basic assumption is that there was value received. Later, general taxes are collected and, through loan repayment, the funds are disbursed as old-age benefits. These are the same two complete cycles which occur whenever a bank puts its depositors' money into Govern-

ment securities and later repays the depositor from the proceeds of such securities.

Senator MILLIKIN. I suggest there are a lot of differences there. As we widen this coverage under your recommendation it will accrue to everybody except certain governmental institution employees. The beneficiary under the system is the taxpayer. The beneficiary under the system has already contributed what is supposed to be his part to this system. He has not contributed on the theory that he is putting money in for general expenditure purposes. He has contributed it on the theory that he has contributed his part to an insurance system. When we take his money and spend it for general purposes—they may be excellent purposes—let us assume they are so good that we would cover them with bonds anyhow. Assume that if you wish. That is not the reason for making his contribution. He is making his contribution to protect his insurance system in which he has a stake, toward which he has contributed. In a few years, as soon as we get this thing to the point of universal coverage, the taxpayer, who is also a contributor, has to pay again. He has paid twice thinking that one payment completed the job, whereas it takes two payments, the last of which, it has been suggested, might have to be paid anyhow as a taxpayer if the Government had not gotten the money from this source. To me that is a fallacious argument so far as the insurance system is concerned, because you are collecting and disbursing money that is not necessarily related to your insurance system.

Dr. BROWN. Sir, I would put it this way: That basically the insurance should be financed on a pay-as-you-go basis. Let us say that, of the income in a relatively mature situation, of the total collections, 5 percent happens to be, in a time of good business, more than was needed to pay current benefits; 95 percent would be used to pay current benefits, but the 5 percent for mechanical reasons is set aside. The only place you can put it is in Government securities.

Senator MILLIKIN. I have no objection to a small regulating till, a small regulating till.

Dr. BROWN. In fact, sir, you and I are in agreement on that.

I would like to speak briefly on permanent- and total-disability insurance.

Finally, I would like to urge as strongly as I can the enactment of a program of contributory total- and permanent-disability insurance. This is a logical and greatly needed adjunct to old-age and survivors insurance. Many wage earners are not lucky enough to remain in good health until age 65. Certainly disability tends to increase toward 65. A great majority of the cases that cannot be rehabilitated do fall in the later years. At present, if they become disabled they not only risk early dependency but the loss of their old-age insurance benefits as well.

Your advisory council in 1938 recommended as follows:

The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the council is in unanimous agreement.

That was employer, labor, and public.

There is a difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the council favor the immediate inauguration of such benefits. Other members believe that, on account of additional costs and administrative difficulties, the problem should receive further study.

The program has received a vast deal of further study. Such a program has operated efficiently for decades in other leading industrial nations. Our social-insurance administration is as efficient as any in the world.

Senator MILLIKIN. As you know, there has been a lot of controversy about this. There is much approval of the rigorous objective tests that you propose in the Advisory Council's report, but as a political matter it also has been suggested that, no matter with what rigor you may start your system, politically you will be constantly relaxing that vigor. We have had a lot of experience with that. What do you think about that?

Dr. BROWN. I think we should relax to some degree, Senator. That is, these restrictions placed in the recommendations of the Advisory Council are extremely severe. As time passes we should relax on the eligibility qualifications. In terms of the requirements as to the physical or mental state of the individual, we must rely of course on the medical diagnosis that there is a medically demonstrable disability. I think there is bound to be reviews, and perhaps in the course of a year, or 2 or 3, many of the persons early determined as totally disabled would be given revised status as not being totally disabled.

Senator TAFT. The New York union, the Ladies Garment Workers' Union, testified to the fact that there was a practical distinction. It developed that their system did not apply until a man or woman was 60 years old. It seems to me that a possible compromise, if there is debate on this thing, might be simply to say we will make this retirement at age 65 or down to 60 or 55 if the permanent and total disability is one which then occurs and will continue indefinitely to age 65, where it is an appendency to old age, somebody getting old sooner. As a matter of fact, as I understand it, the great bulk of the permanent-disability cases strictly fall within that last 5 or 10 years before 65.

Dr. BROWN. They do, sir.

Senator TAFT. Is that not a little different thing? Say a fellow is injured. Say a man of 25 is in an automobile accident. He is in the same group as old age. It seems to me, it is an entirely different problem and something for which an entirely different provision of insurance ought to be undertaken.

Dr. BROWN. For some time I did favor the 55-year rule, but the convincing argument away from it is the tremendous need of the head of a family with wife and three or four children who is injured in an accident at age 28. It is the intensity of the need in those early cases. The volume of protection afforded under this program will come at age 50, 55, and 60, and the determinations will be much easier then, but there are still those early cases that do accumulate. A man is in good standing in his old-age and survivors insurance, and suddenly he is struck down.

Senator TAFT. We have now workmen's compensation laws that will fairly well take care of that. In fact, there is a man in Cincinnati now on whom the State has spent $99,000 up to this time. Of course, there are exceptional cases, and it must be within the capacity of the State fund. That was industrial accident, of course. It would not apply to an automobile accident.

Dr. BROWN. I think our hope in the Advisory Council was tha while these cases may not be so numerous they still cost so much tha even State workmen's compensation has not covered them adequatel in many cases, and certainly there is very seldom any privat protection.

Senator TAFT. It is not within the capacity of the States? Afte all, our only excuse for coming in here is the fact that the States prob ably cannot handle old-age insurance. Could they not handle tha type of case, and is it not their function to engage in rehabilitatio and to judge whether a man can be rehabilitated or not? Are they not far better able to handle that whole thing on a local basis tha the Federal Government to step in and try to make a Federal func out of it? That is more my doubt, not the wisdom of the system, bu whether it is not something that can be left entirely to the States

Dr. BROWN. Sir, on the whole economic side, the averaging of risk and the adequacy of benefits and so on, I think the Government can d that more effectively. I think, when it comes to the individual discre tion of servicing the rehabilitation case, then it can be done locally But I think you have the advantage of both here. That is, the Fed eral Government does the part it can do best, which is the averaging of the cases throughout the country. There is an already established mechanism of administration. The rehabilitation is itself an indi vidual treatment proposition. That does need to be done in the locality.

Senator TAFT. Are the benefits again to be based on wages or not?

Dr. BROWN. Yes, sir. It would be a part of the same basic struc ture of average wages and so on.

Senator TAFT. Is that a very good basis for people who are injured at age 25?

Dr. BROWN. It is the best you have.

Senator TAFT. Some who may be well started and others not started at all. It seems to me a much less defensible basis for giving bene fits that it is when a man has worked his whole life to age 60 or 65.

Dr. BROWN. You see in the Advisory Council recommendation, probably thinking of that, there is virtually a 10-year requirement, you see, 40 quarters. So, you would have at least the establishment of gainful employment at a given rate of wages for at least 10 years.

Senator TAFT. If he has worked 5 years, you leave him to the State. Why do you not leave them all to the State? It is not a tremendous field anymore.

Dr. BROWN. I think we looked upon it as an entering program.

Senator TAFT. That is what I object to, by the way. That is ex actly my objection to it. I think the extension of this social insurance, as in England, to every contingency of life is the greatest fear I have of it. It is the entering-wedge feature of this that concerns me most. I cannot quite see, therefore, why it is not something we can say, this is for the State to handle.

Dr. BROWN. Senator, could I counter with my greatest fear? That is that there will be an assistance arrangement for every possibility, that there will be old-age assistance and disability assistance, etc.

Senator TAFT. The question here is whether you take the social insurance system and apply it to something different. I can see, apply ing it down to 60 or 65, where it is really part of just a man's growing

old faster, almost, you might say, but when you begin to get into all sorts of other contingencies that might happen, automobile accidents, falling down in bathtubs, every kind of industrial accident, it seems to me you have got into an entirely new field of operation from which you might just as well go on and pay for every time you have a baby, the way they do in England, and pay a worker every time he is sick or has a temporary disability. I see no limit to the kind of things you can pay for if you go beyond it.

On old-age retirement, I think the State cannot afford to do it; I think the individuals cannot afford to do it, and I think we must do it; but I hesitate to go into some other field that could be handled in some other way.

Dr. BROWN. If I were sure, sir, that there were other ways. I know of one large industrial company that was talking to me about a man who had gone deaf. He was a buffer and a skilled man. They tried every way to use him in this plant and finally had to retire him at the expense of $27,000 for a deferred annuity. Even this company, a large company, found that a very sudden and heavy cost. If that were averaged over a large number, that cost could be handled. There aren't many people going deaf at a specific date so that they cannot be used. It is this question of other ways that worries me.

Senator TAFT. But you created the problem. You say we have no concern for a man who is permanently disabled in an automobile accident until he has worked for 10 years.

Dr. BROWN. I would like to make it 5.

Senator TAFT. If he has worked less than that, you are going to throw him on the street. I say it is just as important to provide for him as for the fellow who is injured after 10 years of work. I do not see the difference. If there is a system to take care of them, let us take care of the 10-year man under the same system. Let us encourage the development of State action on the subject.

Dr. BROWN. Quite frankly, if we thought the Ways and Means Committee and the Senate Finance Committee would go along, I think the advisory council would have recommended a shorter limitation. But we felt that probaly the committees of Congress and Congress would like to experiment— —

Senator TAFT. What about before he goes to work? There are plenty of those permanently disabled. You are not solving the problem at all by this thing. You are just getting us into another field, a small portion of which we cover. We will not cover more than a third, I would think, under this 10-year limitation of all the permanent-disability cases. Why get us in at all? Why not have them all handled the same way?

Dr. BROWN. What I am afraid of is that you may not get into it because to me it is an extremely important field, and I am sure it is a field where there are great resistances. At the close of my testimony here, I don't like to say unkind things but I feel called upon to mention the fact that the hard core of the opposition in this field is the insurance carriers. To me they have assumed a role—maybe as a college professor I should not attempt to be one of the neutral group, for maybe we are all affected—but it seems to me they have assumed the role of impartial advisors to save the Government from the foolish mistakes the carriers have made in competitive underwriting at an early stage when it was a highly competitive field of business. As

they were probably bound to do, they made many mistakes. The benefit proposal is not in the field of competitive underwriting. It is a type of protection afforded by the Government, buttressed on either side by unemployment insurance, by old-age insurance. It is a different thing. It seems to me that if the Congress of the United States takes the advice of the insurance companies we will have no permanent and total disability insurance in 1950 or in 1970 or in the year 2000. Meanwhile, the contributory old-age and survivors insurance program would be whittled down further and further until, as a minimum flat-rate benefit, it would not interfere in the slightest with such business as the carriers care to canvass.

Senator TAFT. Do you not think it inevitable if you put in this 10-year rate, again, it is not going to be insurance. Just as we probably will spend old-age insurance to cover everybody before we get through, so you will just extend the disability insurance to cover everybody, too. So, is not that the position you are going to get into? This idea that it is insurance, is it not just as much a fake in the case of disability as it is in the case of old age?

Dr. BROWN. Of course, fundamentally, sir, I do not agree that it is a fake at all.

Senator TAFT. You talked about spreading the risk again. You got back to an insurance justification for this. That is the only reason I bring it up again, because I do not think it is insurance.

Dr. BROWN. Would you agree, Senator, that there is an averaging of risk when you take the number of cases falling in the whole country and that, therefore, it can be done on a more manageable basis and on the basis of estimated cost?

Senator TAFT. I do not think there is any more averaging of risk in 150,000,000 people than there is in 8,000,000 people in Ohio: no.

Dr. BROWN. You have different occupations.

Senator TAFT. We have just as good risks in 8,000,000. That is a far larger proportion than any insurance company averages. The smallest State is around 300,000. If they can average 300,000 risks, they will be satisfied with that average. I do not think that average business justifies doing a Federal job instead of a State job. No: I do not think so. The more I think of it, the less I think it does.

Dr. BROWN. I feel, sir, as a citizen of New Jersey, that we should pay our fair share of the average for the coal industry, the steel industry, and some of the industries for which we use the product.

Senator TAFT. You pay in the price of coal, don't worry. You pay it in the price of coal today.

Dr. BROWN. Senator, I would like to see it attached to the price of coal if it is a necessary cost to protect the individual adequately throughout life.

Senator TAFT. I am only arguing how it should be done. It is not a question of whether it should be done or should not be done. It is a question of whether the Federal Government is the place to do it. That is the problem.

Senator MILLIKIN. Dean Brown, the thing that Senator Taft is talking about is graphically illustrated by aid to crippled children. Do the advocates of that kind of Federal aid come in here and present some overwhelming problem that cannot be met by the State? No: they come in here for $14,000,000 to cover the whole United States. Is it conceivable that in our own towns and in our own States we can-

not handle a $14,000,000 appropriation to aid crippled children? Yet, just through the tendencies that Senator Taft is talking about, we have pushed into that, and I voted for it because if people in the States will not take care of it I shall vote to use Federal money. But it is a crying outrage; it is an affront to the self-respecting people at the home level.

Dr. BROWN. Sir, I think the important factor in this is that the disability insurance is so closely related to old-age insurance. In other words, when does a man retire?

Senator MILLIKIN. The testimony indicates that it is not. Your testimony indicates it is something that can happen very young.

Dr. BROWN. Yes; but let us take a great many of the cases, from 55 on, the question of whether a man retires at 55, 65, or 75 is itself in considerable measure physiological. It is whether the rheumatism caught up with him or whether his eyesight did not fail or whether he had certain degenerative factors that aged him. If it is true, as Professor Slichter very ably presented this morning, that we should not think of 65 as absolute as to the older side, that many men can go on to 70 or 75, it is certainly true that many can't go even to 65. The employer can see that. Therefore, these two are very closely related.

Senator MILLIKIN. I think it is very true, as Dr. Slichter said, if you are permanently and totally disabled, you may be worse than dead, and you can be in that condition at age 5 or 15 or 30 or any other age. But that does not meet Senator Taft's suggestion of who shall assume the responsibility.

Dr. BROWN. In closing, in regard to the attitude of the carriers, it seems to me that it is high time that the positive needs of the workers, the employers, and the public of this country be placed above the negative convenience of a small but clever interest group.

I feel that the insurance carriers of this country have done a remarkable job in many fields, but I do not think that there is sufficient evidence presented by them why the Government of the United States could not proceed and proceed effectively in the field of permanent and total disability insurance.

It has been an honor and pleasure to serve on two occasions on advisory councils appointed by your committee. I know that you have wanted my frank comments as an independent student of social insurance. I am deeply grateful for this opportunity.

Senator TAFT. Dean Brown, what is your position on the temporary disability? Do you approve?

Dr. BROWN. I have not gone into it sufficiently, sir, to feel that I am ready to make specific recommendations as to temporary disability by Federal action. I have strongly supported cash sickness benefits in the State of New Jersey, which we now have. That is related to the unemployment insurance. I think we should proceed to study constantly the whole question of meeting medical costs and meeting the loss of wages in time of illness, but personally I am not in a position now to make specific recommendations.

Senator TAFT. What did the Advisory Council feel about it?

Dr. BROWN. We did not go into that.

Senator TAFT. It did not recommend that. There were two dissents from the permanent disability?

Dr. BROWN. Yes; as I recall. We had such unanimity of opinion, it is hard for me to remember when we had dissents, sir.

Senator MILLIKIN. I would like to express my own appreciation for the fine work that you did on the Council, Dean Brown.

Dr. BROWN. Thank you, sir.

The CHAIRMAN. Thank you very much for coming down today, Dean Brown.

Dr. BROWN. I appreciate the opportunity, sir.

The CHAIRMAN. We are very glad to have heard you.

(The prepared statement of Dr. Brown follows:)

STATEMENT BY J. DOUGLAS BROWN, PRINCETON UNIVERSITY

I am J. Douglas Brown, dean of the faculty, director of the industrial relations section, and professor of economics at Princeton University. My connection with the Federal program of old age and survivors insurance began as a member of the staff of the the Committee on Economic Security, 1934-35, when I assisted in the development of the program. Since then, in addition to continued university study of the subject, I served in 1937-38 as Chairman of the Advisory Council on Social Security which recommended changes in the act; in 1939 as special adviser on social security to the Secretary of the Treasury; and more recently, in 1947-48, as a public member of the Advisory Council on Social Security appointed by your committee. As an economist specializing in industrial relations, I have been particularly concerned in the operation of the program in the preservation and enhancement of the dignity and effectiveness of the human resources of our country.

The basic purpose of contributory old-age insurance has always been to provide a self-reliant means of preventing old-age dependency to an ever-increasing proportion of our people and to control and reduce the heavy costs of old-age assistance granted on a needs-test basis. It was hoped in 1935 that most certainly by 1950 the larger share of the old age protection of our people would be carried by the insurance system.

The failure of the old-age insurance system to fulfill the expectations of its early supporters has not been due to a failure in the essential mechanism of the program. As revised in 1939, this has proved effective and workable. The failure has been one arising from the limited dimensions of the system in terms of the job to be done. We have tried to carry a constantly heavier load on a smaller and smaller vehicle. The critical task today is to enlarge the vehicle before more millions of our citizens are forced to rely on needs-test assistance in their old age.

The old-age insurance system needs enlargement in three major dimensions:

(1) The benefit structure should be enlarged in terms of present-day dollars and in relation to present-day differentials in normal wage income.

(2) The coverage of the system should be enlarged to cover all persons exposed to the risk of dependent old age for which the Federal Government can legislate contributory protection.

(3) The contributions to the system should be increased in rate to provide an adequate justification and source for an enhanced benefit structure.

That such revisions should be necessary in the face of the dynamic changes in our country since 1939 requires little argument. Our Advisory Council on Social Security prepared a carefully reasoned justification of its conclusions on these three major points. I heartily support the conclusions of the Advisory Council. My comments will but supplement the Council's recommendations, more particularly in the light of H. R. 6000.

I would especially like to emphasize the great importance of maintaining a full spread of differentials in an old-age and survivors benefit structure. A contributory social-insurance system should strengthen, rather than weaken, the incentives so necessary under a free-enterprise economic system. In our efforts to support our less fortunate citizens it is easy to break down incentives by lessening the differential rewards for steady employment, higher earnings, and self-improvement. It is far harder to reestablish inventives once they are lost. Even America, with its great resources of materials and manpower, cannot afford to weaken the incentives of its people to produce more for a better standard of life.

This country is on the brink of a long, steady descent into a condition of flattened differentials and comfortable averages. To make things easy and to avoid the trouble of differentiating talent, effort, or character, we are tempted to concede flat insurance benefits, flat assistance grants, flat rates of pay, flat levels of education, and a tragic averaging toward a single norm in scores of aspects

of life. This is one of America's greatest dangers. It is a symptom of a declining conviction in the value of competition, incentive, free enterprise, and free opportunity to prove oneself a more productive and an economically more valuable person than one's neighbor. Our great heritage of free opportunity to excel is in no way inconsistent with our great heritage of equal dignity of every person before the law. We have begun to confuse equal political rights with equal economic attainment. If this confusion persists, we shall become a country of comfortable mediocrity, without sufficient drive or leadership to safeguard the precious heritage of western civilization.

Those who demand a retreat to flat benefits have failed to see contributory social insurance as an integral part of American social and economic policy. (1) They include some actuaries and accountants who think of social insurance narrowly as a cash transaction carried on in a social vacuum and who want to simplify bookkeeping at the expense of pouring out the baby with the bath. The incentives lost would tragically outweigh the slight savings in record keeping. (2) They include insurance salesmen who do not want old-age insurance to interfere with their business interests, even though in the past it has been a great educational force to increase their business. To retain, untouched, their business with a few, they would let the many continue with inadequate protection. (3) They include well-meaning supporters of the relief approach to social security who, in their zeal to spread equal charity to all, forget that the vast majority of American wage earners prefer self-reliant and self-determined protection to state charity.

Concretely, I strongly support the recommendation that the differential factor in the old-age insurance benefit formula be 15 percent of average wages above the base amount and not 10 percent. The 15 percent factor more adequately rewards the incentive to earn a higher average wage. Further, I strongly support a minimum in covered wages of at least $1,200, the maximum recommended by the Advisory Council. Any lower maximum will bunch far too many benefits at an arbitrary upper limit, regardless of differentials in incentive shown. Also, any lower maximum would continue a sharply reduced spread of covered wages and benefits in terms of the wages now being paid in cheaper dollars compared to those paid in 1935 when the $3,000 maximum was set. Further, so long as universal coverage is not attained, I would favor the continuance in the benefit formula of a percentage per annum increment to reward those who have contributed longer and more steadily under old-age insurance coverage.

(2) COVERAGE

In respect to coverage I am convinced after more than 15 years of study that it should be the universal privilege of American citizenship to participate in an automatic means of self-protection against dependency in old age. Theorists can talk confidently about the sufficiency of the many private means of securing protection against dependency in one's declining years, but any of us who served in responsible positions during the depression of the 1930's know that the best-laid plans of voluntary savings, home ownership, farm ownership, business investment, or private employer coverage can go sour in times of widespread business depression. Even more likely is the heavy drain of illness of the wage earner and of members of his family upon the savings set aside for old age. The great majority of Americans do not want hand-outs in their old age. Most of all, they do not want to look forward to State charity when by small and regular contributions they can build up self-reliant protection.

In 1935 the Congress of the United States correctly interpreted a widespread demand for old-age protection to be a demand for old-age insurance as the long-run policy of this country. That demand remains fundamental to the thinking of our people today, regardless of current prosperity. It is in the mind of the farm worker, the domestic employee, the school teacher, the shopkeeper, and the filling-station operator. They do not fully understand the techniques of old-age insurance as compared to assistance or relief, but I am convinced that they want the self-reliant, certain protection which contributory insurance provides. I sincerely hope that this Congress will interpret the fundamental desire of the now uncovered groups as accurately and with the same foresight with which the Congress in 1935 interpreted the desires of the industrial employee.

The Advisory Council on Social Security of 1937-38 strongly supported the coverage of nonprofit employees, farm and domestic employees, Government employees, and the self-employed under the act. Any administrative obstacles to such coverage have long since been resolved. As Chairman of your Council

12 years ago I feel that I should repeat the recommendations of that council, now reaffirmed after further study by another Advisory Council.

(3) CONTRIBUTIONS

In respect to contribution rates I would urge that, following an immediate increase in rates to support and justify a sharp improvement in benefits, future rates be established in the light of developing experience. An old-age insurance system needs but a small contingency reserve to compensate for short-run variations in collections and disbursements. This reserve should not be a major element in the financing of the system nor in the fiscal policy of government. Its investment in Government bonds involves no exciting mystery. Since a small fraction of the collections in the old-age insurance system may accrue before the funds are needed for benefits, the General Treasury by borrowing the funds can postpone for a time an equivalent amount of general tax collections. When the old-age insurance system requires the return of the loan the General Treasury may secure the funds through general tax collections equivalent to those previously postponed. The sole difference is that the General Treasury pays interest meanwhile to the old-age insurance trust fund rather than to outside lenders.

The hobgoblin of double taxation has been raised by some who have failed to note that in the transaction just outlined there are two complete cycles of collection and disbursement. The insurance contributions are collected and, after being loaned to the Treasury, are disbursed as bond proceeds by the Treasury for value received by the Government. Later, general taxes are collected and, through loan repayment, the funds are disbursed as old-age benefits. These are the same two complete cycles which occur whenever a bank puts its depositors' money into Government securities and later repays the depositor from the proceeds of such securities.

(4) PERMANENT AND TOTAL DISABILITY INSURANCE

Finally, I would like to urge as strongly as I can the enactment of a program of contributory total and permanent disability insurance. This is a logical and greatly needed adjunct to old-age and survivors insurance. Many wage-earners are not lucky enough to remain in good health until age 65. At present, if they become disabled, they not only risk early dependency, but the loss of their old-age insurance benefits as well.

Your Advisory Council in 1938 recommended as follows:

"The provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. On this point the Council is in unanimous agreement. There is difference of opinion, however, as to the timing of the introduction of these benefits. Some members of the Council favor the immediate inauguration of such benefits. Other members believe that, on acount of additional costs and administrative difficulties, the problem should receive further study."

The program has received a vast deal of further study. Such a program has operated efficiently for decades in other leading industrial nations. Our social-insurance administration is as efficient as any in the world.

The hard core of opposition to permanent and total disability insurance in this country are the insurance carriers, which have assumed the role of impartial advisers to Government to save Government from the foolish mistakes the carriers have made in competitive underwriting in this area of insurance. If the Congress of the United States takes the advice of the insurance companies, we will have no permanent and total disability insurance in 1950 or 1970 or in the year 2000. Meanwhile, the contributory old-age and survivors insurance program would be whittled down further and further until, as a minimum flat-rate benefit, it would not interfere in the slightest with such business as these carriers cared to canvass. It is high time that the positive needs of the workers, employers, and public of this country be placed above the negative convenience of a small but clever interest group.

It has been an honor and pleasure to serve on two occasions on Advisory Councils appointed by your committee. I know that you have wanted my frank comments as an independent student of social insurance. I am deeply grateful for this opportunity.

The CHAIRMAN. That winds up the hearing for today. We will recess until tomorrow morning at 10 o'clock.

(Whereupon, at 4:45 p. m., the committee recessed until 10 a. m. Tuesday, March 21, 1950.)

SOCIAL SECURITY REVISION

TUESDAY, MARCH 21, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Hon. Walter F. George (chairman), presiding.

Present: Senators George and Millikin.

Also present: Mrs. Elizabeth B. Springer, Chief Clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order. I wish to place into the record at this point a statement which I have just received from Secretary Maurice J. Tobin giving the views of the Department of Labor on the pending legislation, H. R. 6000.

(The statement is as follows:)

STATEMENT OF SECRETARY OF LABOR MAURICE J. TOBIN TO THE SENATE COMMITTEE ON FINANCE ON H. R. 6000, THE "SOCIAL SECURITY ACT AMENDMENTS OF 1949"

I appreciate the opportunity to submit my views on H. R. 6000, the "Social Security Act Amendments of 1949" which your committee is studying at this time. The improvement of the existing Social Security System of our Federal Government is of deep and urgent significance to our Nation. I realize that the problems to be solved in revising the Social Security Act are varied and complex but, as the House Committee on Ways and Means concluded in its report on H. R. 6000, "a sound and effective social insurance program is essential to the smooth functioning of our democratic society"

OLD-AGE AND SURVIVORS' INSURANCE

I am a strong advocate of social security because I believe it reinforces the worker's incentive toward greater productivity and better citizenship by giving him the prospect of dignified retirement. I believe it spreads, more evenly, certain financial burdens arising out of inevitable emergency circumstances which most individuals are called upon to meet. The payment of contributory insurance benefits curtails the need for public assistance—a need which grows with the increase in the life expectancy of persons in the United States and with rises in the cost of living. I believe also that the monetary benefits derived by employees and their survivors under a social security system serve to support the national purchasing power and are an added stabilization factor in our economy.

A basic measure of economic protection against the common hazards of old age, sickness, and death should be afforded to the peoples of our country on as broad a basis as practicable. The existing old-age and survivors' insurance system of our Federal Government is a notable start toward this objective. Since benefits under the system are related to average earnings and length of service, the insured in a measure earns and pays for his future benefits and those of his survivors.

There is general accord at this time that the present coverage of the Federal old-age and survivors insurance system is unduly limited in scope, and that the benefits thereunder are grossly inadequate in terms of today's cost of living. Facts substantiating this view are ably set forth in detail in the report of the

House Committee on Ways and Means on H. R. 6000 and in the reports of the advisory Council on Social Security to your committee. In my opinion, the Federal social insurance program should be expanded on a comprehensive basis and all gainfully employed persons, wherever possible and practical, allowed to participate. Old-age security, under Federal law, should not depend, as it does now, upon the kind of work an employee performs.

The current emphasis upon pensions in collective bargaining grows out of and illustrates the insufficiency of the present system. It also demonstrates the widespread acceptance of the idea that the changing requirements of our dynamic economy make the attainment of economically secure old age through individual planning extremely difficult to achieve. One of the essential fruits of sustained, productive labor should be comfortable and honorable retirement. The Government has a definite role in this matter, I believe—the role of establishing a method of securing such retirement. Private pension plans may provide valuable supplements to a public system, but it would be a serious error to think that industry pensions can take the place of a comprehensive and basic system of Federal old-age and survivors' insurance. Only a very small percentage of workers are presently covered by private pension plans and protection is generally available to workers only if they remain with the same company or industry until they reach the age of 65.

I am mindful of the careful thought and study that went into the drafting of H. R. 6000 as it was passed by the House of Representatives. The revisions which it would effect in the existing Social Security Act, however, while praiseworthy as far as they go, in my opinion stop short of accomplishing many desirable changes. I would like to refer briefly to some of the changes in the existing law not provided for in H. R. 6000, which, in my opinion, an adequate social-security program geared to present high levels of economic activity and need requires.

Coverage

The expansion of coverage would be a partial offset against the risks of modern industrial life, which, with its pressing production requirements, militates against the hiring and retention of older workers. The problem of the unemployed older worker does not arise primarily because such workers desire to retire or because they are unable to work. As a matter of fact, 50 percent of the men in this country who are more than 65 years of age, many of whom would be eligible for old-age benefits upon retirement, are now working. Some of these persons are undoubtedly forced to remain in employment by reason of economic necessity, which is a regrettable circumstance and one which an adequate social-insurance system would help to overcome. It is important in any event that older workers be able to obtain employment when it is needed and desired. The Department of Labor takes an active interest in promoting job opportunities for older workers for we consider this task of the highest human, as well as economic, importance. Promotional programs, however, cannot modify essentially the pattern of industrial hiring.

The present fragmentary coverage of the Federal system results in geographic, as well as individual inequities, in that more workers are covered in industrialized States than in States where agricultural activities predominate. In the latter States, with small per capita incomes, the public assistance rolls are disproportionately heavy.

Broader coverage and liberalization of eligibility requirements would reduce the number of workers who, because of shifts between covered and noncovered employment, fail to retain or benefit by an insured status, despite the intermittent contributions they make to the social insurance system when in covered employment.

When the social security law was passed in 1935 certain groups, such as farm and domestic labor, were excluded, by reason of administrative difficulties which it was thought their coverage would entail. The Federal Security Agency now states, and the statement is corroborated by other experts who have studied the problem, that workable plans have been evolved to apply to these groups. H. R. 6000 indicates a recognition of the feasibility of such coverage by providing for extension of the system to some of these groups on a limited basis.

H. R. 6000 would extend old-age and survivors' insurance to some 11,000,000 additional persons. This is a step in the right direction which I heartily endorse. I am convinced that we must constantly move forward in this field with a view to including under our social insurance system the major portion of our labor force. Extension of coverage on a comprehensive, rather than a piecemeal basis is highly desirable and, considering its long-range effects, wholly justified.

The widest gap in coverage which remains under H. R. 6000 is that which should be filled by the self-employed farmers. Farmers, some 5,000,000 in number, are under this bill—the largest single group remaining without the protection of social security. I feel that this is a grave omission.

Agricultural workers, approximately 3,500,000, are only partically included under H. R. 6000. These more or less irregularly employed groups frequently occupy the lower rungs of the economic ladder and are, therefore, imperatively in need of social insurance.

Again, I think the coverage of domestic workers proposed by H. R. 6000 is too narrow. Only about one-third of the approximately 2,000,000 household workers are covered by reason of the fact that coverage is conditioned on 26 days of employment for one employer during a 3-month period. Yet domestic workers comprise 5 percent of our labor force.

The condition for coverage of a minimum number of days of employment by a single individual excludes that large number of domestic workers who work for different households on a day-to-day basis. Actually, a daily worker with scattered employments on the basis of 5 or 6 days a week would tend to make greater contributions to the insurance fund than a worker who would be able to qualify under H. R. 6000 on the basis of 26 days employment in one household during a period of 3 months.

The domestic service occupation, in addition to having scant protection from any social legislation, is characterized by low pay. The bulk of its employees are women, most of whom support dependents, as well as themselves. The occupation has a greater proportion of older workers than almost any other, since it provides openings for those who cannot work in more demanding employments.

Household employment is an essential occupation, not only as a means of livelihood to a significant number of the labor force, but as an adjunct to the proper maintenance of many homes. Competent workers should be encouraged in this occupation through the fostering of old-age insurance protection. I have filed as an exhibit Bulletin 220 of the Women's Bureau of the Department which demonstrates certain facts concerning the subject of old-age insurance for household workers.

H. R. 6000 extends the Federal old-age and survivors' insurance system of the Federal Government to approximately 100,000 employees not now covered by the civil service retirement system, but excludes, among other groups, certain temporary employees. I would like to see included in the legislation, provisions which would bring within the protection of the system substantially all Federal employees, except legislative employees, not covered by the civil service retirement system benefits

If the guaranty of economic security under a social-insurance program is to be valid, the benefits provided thereunder must be geared to a decent standard of living. The benefits of the present Federal old-age insurance law are grossly inadequate. A visit to any corner grocery store will serve to furnish ample proof. These benefits did not meet the needs of retired persons even in 1939 when the benefits were established. Since that time the cost of living has risen 70 percent. The national income since 1939 has risen from $72,500,000,000 to approximately $225,000,000,000 in 1949. It is a tragic irony that those receiving old-age assistance are now receiving on an average almost twice as much in relief as retired workers receive in insurance benefits under the social-insurance program. It is true also that 10 percent of those now receiving old-age and survivors' insurance also receive old-age assistance. It seems clear to me that in the light of the fact that during the period since the old-age and survivors' insurance law was enacted, our national income has been more than trebled, benefit amounts could and should be increased in an amount substantially greater than the increase in the cost of living which has occurred during that period.

Further increase in the contribution rate would be in order in connection with increased benefits, as recommended by the President in his recent budget message, as would an increase in the maximum-wage base to $4,800. The rise in wage levels since 1939, when the $3,000 maximum wage base was established, has resulted in the exclusion from taxation and use in benefit computations of part of the wages of a substantial proportion of our workers. I recommend that the broader wage base be utilized to liberalize benefits further. In the event that costs of the system go higher at a later date, there is the possibility of the participation of the Federal Government in the program, as recommended by the Advisory Council on Social Security, "in recognition of the interest of the Nation as a whole in the welfare of the aged and of widows and children."

Eligibility qualifications

I am in favor of the provisions of H. R. 6000 which would establish a thir alternative of qualification regarding quarters of coverage inuring especially t the advantage of newly covered workers and of other liberalizing changes suc as relate to survivor benefits in connection with dependent children. I ar also very much in favor of the provision which would increase the income lim tation of a beneficiary in covered employment from $14.99 to $50 a month. Th proposed exemption is realistically related to real wage levels.

Disability insurance

Disability, which is one of the major causes of dependency, is in essence i voluntary, premature retirement. The recognition of this factor is essentia to an adequate social insurance program. It has been shown, for example, tha the disability of one or more parents is an element in almost one-third of th cases requiring public assistance aid to dependent children. Public protectio now available to workers generally in connection with disability and illness i confined, for the most part, to benefits payable under the various workmen' compensation laws for work-connected disability or disease. Although I d not believe that completely accurate figures are available on the point, it i estimated that only a small number of cases of disability are work-connecte or compensable under applicable laws. Disabilities appear to be more prevalen in lower income families by reason of generally unfavorable economic circum stances and such families can ill afford to meet the combined misfortune of los of income and heavy medical expense. Such emergencies must often be me through relief or public institutional care. The Railroad Retirement Act alread provides benefits for workers who are totally or permanently disabled for regula employment if they have reached the age of 60 or have rendered the minimum required years of service in the railroad industry. In addition, sickness bene fits, including maternity benefits, are available under the Railroad Retiremen Act in certain circumstances. I am in favor, therefore, of the provisions o H. R. 6000 which would establish insurance benefits, related as are retiremen benefits to wage, for incapacitated workers. H. R. 6000 does not provide for an benefits for the dependents of incapacitated workers. I feel that the economi plight of the dependents of wage earners is as serious when the income of suc wage earners ceases by reason of incapacity as by reason of retirement, and tha similar benefits should be provided for such dependents in both contingencies.

DEFINITION OF "WAGES" FOR FEDERAL UNEMPLOYMENT TAX ACT

Section 208 of H. R. 6000 would amend the definition of "wages" in the Federa Unemployment Tax Act to bring the definition into substantial accord with th definition of "wages" in the Federal Insurance Contributions Act. The principa difference is in the wage base upon which taxes are collected in the respectiv acts. The wage base proposed for old-age and related benefits would be $3,600 whereas the wage base under the Federal Unemployment Tax Act would con tinue to be, when amended by H. R. 6000, $3,000.

As I have indicated in this statement, I think the realistic wage base for con tributions toward old-age and survivors' insurance and related benefits is $4,800 My comments regarding this subject are equally applicable with respect to th wage base which I think is feasible under the Federal Unemployment Tax Act

I sincerely hope that early and favorable action will be taken by your commit tee to improve, expand, and liberalize our social insurance system as I have indicated.

The CHAIRMAN. The first witness is Mr. George F. Kohn.

Will you have a seat, sir? You are president of the Precision Grinding Wheel Co. of Philadelphia?

STATEMENT OF GEORGE F. KOHN, PRESIDENT, PRECISION GRINDING WHEEL CO., INC., PHILADELPHIA, PA.

Mr. KOHN. That is correct, sir.

The CHAIRMAN. All right, sir. We will be glad to hear you on this social-security bill.

Mr. KOHN. What I have here, Senator, is not a very long statement but I did not know whether you would prefer that I should read this

or whether I should speak a little more extemporaneously and give an opportunity for you and others to question me. I will do whichever you prefer.

The CHAIRMAN. You may proceed as you prefer. If you wish to put your statement in the record and speak to it, so to speak, we should be happy to have you do that.

Mr. KOHN. Perhaps I should do that; because there has been so much said by those who have preceded me, here, and I feel that most of the statements that I have to make have been pretty fully covered. So I will sort of high-point this and put the rest of it in the record through giving you a copy of the statement afterward.

The CHAIRMAN. Yes, sir.

Mr. KOHN. The principal things which I think I would like to touch upon here orally are coverage, cost, and benefits; and I would also like to take up the matter of total and permanent disability insurance and say a few words on what I think should be done with regard to the retirement age.

I feel, as do most of the people, I believe, who have already testified, here, that the coverage which is proposed under H. R. 6000, while it is a big step forward from what we have had heretofore under our law, is still insufficient. The present program covers about three out of every five jobs. Your H. R. 6000 contemplates an increase in coverage of about 11,000,000. But if my figures are correct—and I am not an expert in this—it still leaves about 14,000,000 who are not covered.

Now, I don't know how practical it is to cover all of those, but I do feel that it is rather important that our farm group be included. I recognize that there are certain administrative difficulties to be overcome to effect that properly, but I believe that you people who work out our salvations, with others to help you, probably can find some way to do that.

My great fear with regard to not having as full coverage as is possible is that sometime later it will be found necessary to include these people, and that your burden then to the participants is going to increase tremendously, and you are going to have additional burden upon those who are covered previously for the benefit of those who come into the over-all insurance picture later. I feel that we are going to have some of those problems as you increase now, if you take in only the 11,000,000. But I think the best way we can meet the situation is to do it forthwith, rather than to do it piecemeal some time in the future, which, as I said before, I feel is going to be necessary.

I am very much in favor of having as little participation as was the intent of the original social-security law by the Federal Government in our old-age assistance program. I have covered that somewhat in my brief, but I do want to make note of it here in talking to you.

I realize that it has been completely necessary presently, because the benefits under our old-age and survivors insurance law have been insufficient, with the devaluation of our money, to properly take care of those who require care in later life. But I think that if we do increase the benefits we should, as soon as possible, remove as much as possible our national Government from the old-age assistance in our various States. To me that is primarily a State and local problem, and I would like to see, if possible, over a period of years, the gradual diminution of the Federal aid in those States and local communities.

Now, as far as the benefits are concerned, I am in complete accord with the requirements, as you see them, or as they have been envisaged, for increase of approximately 70 percent. That is roughly in line with the change in the purchasing power of the dollar since the program was initiated. However, I am not in favor of an increase, at this time, from $3,000 to $3,600 or $4,200 or even $4,800, as has been at times suggested.

I would like to see the permanent and total disability insurance provisions removed from this statute. I feel that it is not in keeping with old-age benefits. To me, one is a different kind of an insurance or benefits program than the other. And I feel that your permanent and total disability problem is one that needs close investigation on a local level and should therefore rest not in a Federal law, but should be part and parcel of the problems of the individual localities in which these disabilities occur.

One of the things that is disturbing to me is the tendency which we apparently have in this country to feel that at 65 years of age we have reached the time at which people should retire from active work. We have in our company, which is not a large company but employs between 250 and 350 employees, depending upon the industrial situation of the moment, a great many older employees working, and we have been able to find ways and means for them to continue. If we have, in the years to come, as it seems we will, quite a change in the relationship of people under 65 and over 65 from the 1 to 8 ratio which exists today to the 1 to 5 ratio which is envisaged in 1980, unless we are able to keep these people at work for a longer time we are going to find to few productive workers supporting too many nonproductive workers. I am afraid it will throw a burden upon our funds for social security which will be so severe that the dollars required for the success of the program will require much greater taxation, and, of course, on that basis, further inflation. This will decrease the value of the funds which people will have available for them.

The main reason now, of course, as I see it, that it is necessary to recommend an increase in the amounts to be paid out is because of the devaluation of the dollar as far as its purchasing power is concerned.

I think it is important that we do not have our benefits at any time sufficiently attractive that it is almost as pleasant to retire as it is to work. I think that is very important to us. I think there should be a minimum layer of protection and that people should, from there on, particularly those who are in a position to so afford, build up such supplementary insurance as they can for themselves.

I want you to understand that in approving of an increase in the amounts to be paid I have no selfish motive. My own company has a pension plan with its union which is completely divorced from the provisions of social security, and any changes or liberalization of the bill will place a greater burden upon us than we have had heretofore; so I think I can say that I am not motivated by any selfish consideration in this.

Those are the main points, briefly given to you, that I have placed in this short brief. As I say, if I had come down here early in the days of this hearing, I might have carried it forward in a little more detail, but there have been so many people who have made these presentations, experts in this field, who have expressed the same opinions and thoughts

that I have, that I think with those few remarks, supplemented by the brief, I will have said all that has really marked bearing on the subject.

The CHAIRMAN. Thank you, sir. You may put your brief in the record by handing it to the reporter.

Are there any questions?

Senator MILLIKIN. I would like to ask what kind of operations you have in your business that are of a nature that permits you to keep the older fellows on? Do you have a mass-production line, or is it a hand-operation business?

Mr. KOHN. Well, we have very little assembly-line operations. The grinding wheel business is a type of industry in which that is not particularly practical. But we do have some continuous operations, such as watching ovens, in which the manual labor is minimum. It is more or less a question of watching instruments to be sure that they are operating properly, to push a few trucks into a dryer, which are on an overhead trolley, a monorail system, which makes it quite easy to do. We have some jobs in our shipping department, such as putting blotters onto our product, jobs of that kind, where the amount of time one is on one's feet, or the manual effort required, is a minimum.

Senator MILLIKIN. Do you think there is a large field of that kind over the country that could be exploited to keep at work the elderly people?

Mr. KOHN. I feel that there is. I travel a great deal for my company, and I am in the field in all types of plants about 20 or 21 weeks a year. And I would say not only are there quite a few opportunities for that, but it is my observation, though I can't speak as to all types of businesses, that basically in American industry they are making a good deal of effort to continue older people in employment.

Of course, there has been recently a tendency in private pension agreements to make the age of 70 about a maximum for compulsory retirement, even though there has been some encouragement to continue past 65.

Senator MILLIKIN. The larger companies that operate under mass production feel that it takes the alertness and agility of youth to run these assembly lines, and I can see how possibly that is true. One fellow that is to slow on the line spoils the performance of the line. And so you find pretty early human junking in businesses of that kind.

I have often wondered whether, as a matter of industry statesmanship, those concerns should not, if necessary, have some little subsidiary businesses where they could give room for the play of hand operations where the elderly could work as long as they want to work and perhaps during the period of the day that they can work effectively.

Mr. KOHN. As a matter of fact, Senator, your large corporations today are engaged in, I would say, multifold activities. I mean, I would think, if your philosophy is right, it answers its own question. Because you take the United States Steel Corp., for instance. They have ever so many subsidiaries, which are doing all different types of work. Now, whether or not, from the manipulative standpoint, it is practical to move workers from one plant into another plant and from one geographical area into another I don't know, but from the standpoint of the potential of jobs which might be done by older people, I would think that was a fact.

Senator MILLIKIN. It seems to me we have had quite a little testimony that there is a lot of thinking going on about it and a lot of committees working on it, but in the aggregate the net result of all their thinking so far appears not to have produced great results. Maybe they are just getting ready to produce great results. I hope that is true.

Mr. KOHN. I think that your small business, which never gets into the forefront of the public eye as much as your large corporations, where you don't have as much mass production, probably does a great deal more presently toward taking care of its older employees than do these large corporations.

Senator MILLIKIN. I was born and raised in a manufacturing town, and I can remember very clearly that there were many hand-operation jobs where men worked until they were very, very old, and wanted to, and did a good job. They perhaps were a little slower than they were when they were young, but they kept working, and their bosses seemed to be content with the economic aspects of the thing.

Mr. KOHN. Well, in Philadelphia, where my plant is, we have a couple of very large companies; not massive, but large in the general sense. I have been in them, and, of course, they are traditionally old-fashioned, I guess, in more ways than one. And I always used to think in these places where I went that it looked like the old-folks' home.

Senator MILLIKIN. Thank you very much.

The CHAIRMAN. Thank you, Mr. Kohn.

(The prepared statement of Mr. Kohn follows:)

STATEMENT OF GEORGE F. KOHN

MARCH 21, 1950.

My name is George F. Kohn. I am president of the Precision Grinding Wheel Co. of Philadelphia, a relatively small enterprise, employing between 200 and 350 people, depending on business conditions.

Many of the earlier witnesses before your committee have been qualified by training and experience to give expert testimony in the field of social security. I do not profess to such a background. With your indulgence, my remarks will be limited to a few fundamental considerations from the viewpoint of a citizen, a taxpayer, and a small employer.

We have had some 15 years of experience with Federal attempts to provide protection against the economic hazards of old age. It is appropriate at this time to reexamine the problem in the light of the additional facts now available to us and to bring into harmony our objectives, our approach, our methods, and our capacities.

Our present course is unrealistic and dangerous. The original intent of Congress was to establish a basic benefit system which would be supplemented temporarily by Federal participation in the public-assistance programs of the States. It was conceived that the benefit program eventually would embrace most of the workning population, resulting in a decline in the need for an assistance program and the withdrawal of Federal participation therefrom.

There was, and still is, substantial agreement that this approach is sound. Nevertheless, we have departed from this path and have shown remarkably little disposition to return to it. We are in the unhealthy position wherein the number of recipients and the amount of benefits under public assistance bear a very distorted relationship to the number of recipients and the amount of benefits under OASI.

For example, in February 1949, in my own State of Pennsylvania 221,884 people received $4,591,000 in old-age and survivors insurance benefits ($20.69 each). In the same period, 87,058 people received $3,470,000 in old-age assistance ($39.86 each). The tremendous sums being paid out as old-age assistance constitute a serious threat to our contributory old-age-benefit program.

The proportion of assistance costs net from the Federal Treasury continues to grow. At the same time we hear many proposals to increase Federal participation to an even greater degree. We can place our primary reliance on benefit plans or on the charity assistance approach, but to combine them is, in my opinion, impractical and philosophically wrong. It is time we decided which course we are going to follow.

I am personally convinced that a contributory Federal old-age and survivors benefit program is the most satisfactory approach to the economic problems of the aged in a competitive-enterprise economy. It is the only approach consistent with democratic principles. It engenders a self-reliance in contrast to the advice of false prophets that the people can and should depend on the questionable wisdom and paternalism of a highly centralized government.

If we reward citizens during their working years on the basis of their contribution to our national productivity, we should apply this some principle to their years of retirement. Old-age benefits should be based primarily on the worker's wage and employment records. Any general program for the aged based on "needs" is inconsistent with our program of individual initiative during working years. Indeed it puts a premium upon failure rather than upon success. This is a broad generalization based on principles and does not attempt to consider special cases which will inevitably arise.

I think everyone today recognizes that a Federal program on a noncontributory basis would be disastrous to morale and would encourage the kind of crackpot plans that are suggested from time to time and which could easily strain our finances to the breaking point. Benefits could become a political football and could destroy our competitive-enterprise system.

The relationship between benefits and costs is more likely to be understood and accepted when beneficiaries are required to pay a fair share of the cost. This relationship is of little significance to recipients of charity assistance or flat, noncontributory pensions.

Despite the general acceptance of the theory of OASI, we have failed up to this time to follow a logical course in relating the program to the economic system which makes it possible. The Social Security Administration has not carried on a program of basic education to inform citizens of the nature and costs of benefits and the ability of our economy to bear this burden. We have thought so hard with our hearts and so little with our heads that we have succumbed to the pressure to liberalize benefits without knowing how much they will cost, who will bear the cost, and how much cost our total economy can bear.

In framing legislation consistent with the objectives of a contributory-benefit program, certain fundamental considerations should be thoroughly evaluated. I respectfully commend your attention to the succeeding points.

COVERAGE

The present program covers only about three out of every five jobs. This is an unfortunate discrimination because the requirements of the aged have little relationship to the type of employment in which the bread-winner has been engaged. If our benefit program is to fulfill its purpose of providing a basic minimum layer of protection for all gainfully employed citizens, it cannot be done without substantially universal coverage.

The bill before you would add approximately 11 million new wage earners but would exclude approximately 14 million. I urge that you reexamine the case of each group which comprises these 14 million. I particularly urge reconsideration of the exclusion of farmers and those employed on farms. So long as such a large and influential group remains excluded, our program will be socially insufficient. Not closing this gap in a manner satisfactory to all citizens may oblige us sometime later to extend special consideration at a time when we can least afford it.

I am aware that it has been necessary in the past to exclude many from coverage because of administrative difficulties and because of uncertainties surrounding the taxation of various groups. Informed students contend that many of these difficulties can now be overcome. Your attention is respectfully directed toward the consideration of proposals for stamp-book plans and other simplified methods of accounting and administration.

A substantial saving in terms of ultimate cost will be achieved under universal coverage. By spreading the risk we will more than offset the cost of additional benefits. Losses to individuals who today shift from covered to uncovered employment will cease and the general objectives of a benefit program will be more effectively realized.

One of the most beneficial aspects of extended coverage would be the opportunity it will give us to gradually withdraw Federal grants to the States for public-assistance purposes. As the beneficiary rolls of the OASI program expand, the need for assistance should decline, until the costs of such assistance as is needed can be borne by the States and communities, where the burden properly belongs.

At this time we should reaffirm the principle expressed in the original social-security legislation: that the role of Federal participation in public assistance is a temporary expedient. We should not at this time succumb to current proposals which would enlarge and make permanent the use of Federal funds in this area.

As insurance coverage is extended and benefits are liberalized, we should provide for an orderly withdrawal of Federal participation in public-assistance programs. I recommend that the legislation you adopt contain a formula to reduce systematically the proportion of Federal funds granted for assistance purposes, aiming for complete Federal withdrawal in perhaps 20 years.

COST

We cannot prudently afford to overlook the role of our aging population in the ultimate cost of the benefits we legislate today. It is estimated that by 1980, those age 65 or over will exceed 20,000,000, or about one-fifth of the working population. This is double the number of aged living today.

The consequences of the growth of this group, a large proportion of which may be substantially nonproductive, may be judged somewhat by examining the conditions we face today. As the present time, not including taxes for Federal pensions, our governments—Federal, State, and local—extract some 51 billion dollars in taxes from our economy—about 23 percent of our national income.

Even in this period of robust economic activity, our annual budget is several billion dollars out of balance, despite the fact that citizens today are working the equivalent of 8 to 10 hours every week to carry the tax load we now have.

This unhappy situation prevails when the ratio of persons 65 and over to those under 65 is 1 to 8. In 1980 fewer young will have to support more old as the ratio changes to 1 to 5, or more older people will have to continue productive activities. This latter contradicts present trends toward public acceptance of retirement at 65.

It is unreasonable to expect that the various claims upon the revenues of Government in 1980 will be any less extensive than they are today. Will continued deficit financing over the years result in economic security for the aged? Is it reasonable to legislate substantial benefits for ourselves and pass the cost on to succeeding generations and saddle them with a perhaps unbearable load?

The issue today, it seems to me, is not how liberal a scale of benefits many of might like, but rather what ultimate costs we can afford. We all would like to be supported in the manner to which we would like to be accustomed. It seems to me the problem boils down to this decision we must make: to what degree shall the living standards of our productive citizens and their children at any time be reduced so that the living standards of our nonproductive citizens can be increased.

In the 1939 recommendations of the Social Security Board, the following significant paragraph appeared:

"The cost of any system of benefits will mount rapidly with the passage of time as a larger proportion of the population reaches retirement age. Consequently, a scale of benefits, the cost of which would be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential to keep the ultimate cost in mind."

BENEFITS

I am not in favor of substantial benefits which would make it as attractive or more so to retire than to work, where a continuation of work is practical and possible. If old-age benefits are to be realistic they must not be based on what the individual wants or needs but on what the economy is capable of providing. The idea of "wants" or "needs" is too close to the assistance concept for me. That is why I favor benefits on the principle of a basic minimum layer of protection.

Benefits at present are below an acceptable minimum and should be brought into line with present-day costs of living. Public-assistance benefits have increased more than the cost of living but benefits under OASI have changed little. Many OASI beneficiaries have been forced to depend on public assistance for supplemental support. This is inconsistent with the principles of a sound benefit program.

I am not qualified to deal with the intricacies of the various benefit formulae which have been presented to you. It is my understanding, however, that the benefit formula contained in H. R. 6000 would increase benefits by approximately 70 percent. I find that a realistic answer in the light of increases in the cost of living since 1935.

I would like to emphasize that in endorsing an increase in benefit levels I am not doing so with the thought that it would act to reduce my own contributions to the pension program for my employees. Our plan provides benefits which are independent of social-security benefits. On the contrary, I know that a higher level of Federal old-age-retirement pensions will cost my company more money, since the company must match every cent of employee contributions in supporting higher expenditures.

In consideration of expended OASI benefits at the level mentioned above, I recommend that those covered under this program be ineligible to receive additional benefits under the federally supported old-age-assistance program. If benefits reflect the concept of a basic minimum layer of protection, no supplementation should be necessary in the usual case. If there need be exceptions, they can be financed out of State, local, or private funds without Federal support.

I recommend that the present $3,000 wage base be retained at the present time. As the program now exists there are already inequities. Those beneficiaries who have contributed a short time only before reaching 65 and retiring are and will be largely supported on their base benefits by the younger group who will continue to contribute over a protracted period. Raising the present $3,000 base to $3,600 or higher will only serve to increase this inequity. Later, when all the beneficiaries who began their contributions late in life are out of the picture, it will be time enough to discuss the raising of the wage base.

PERMANENT- AND TOTAL-DISABILITY INSURANCE

Proposals contained in H. R. 6000 to establish a compulsory system of permanent- and total-disability insurance should not be enacted into any law covering retirement benefits. Funds calculated to provide retirement benefits should not be endangered by the completely different problems covering disability insurance. The two problems are in no way related and should be kept separate in all legislative enactments.

As a matter of fact, while it is sound and desirable to administer old-age benefits on the Federal level, it is impractical to attempt Federal action on a problem which is essentially local in character. The evaluation of disability involves the investigation of individual cases and the making of subjective judgments which can better be done by local agencies trained in case-work techniques and aware of local realities.

Further, a Federal system, supported by the seemingly limitless funds of the Federal treasury, would engender little incentive for the sound administration of claims.

Involved in proposals for disability insurance is the provision for the diversion of OASI trust fund moneys to underwrite much of the cost of these benefits. The money in this fund has always been a target for those who would extend Federal services in a variety of directions. As presently constituted, it can meet only a very small portion of the pension liability which is steadily accruing and which will snowball in the years to come. To reduce this fund would be a dishonest and disastrous practice. It was collected for the purpose of insuring the pension promises which we have made; it was not intended as an enticing melon which could be cut for another party entirely.

It is absurd to offer the thesis that trust-fund moneys used for rehabilitation and other purposes would be replaced. Experience should tell us that it will never be replaced and that the old-age-benefit system would have to depend heavily on the support of additional taxation to make good its pension promises.

RETIREMENT AGE

With the greater vitality which succeeding generations are carrying into old age, there may be less desire to retire at 65. The more self-sufficient the aged

are, the lesser is the burden on the younger generation and the more productive is our economy. It must be our policy to encourage the producing power of the Nation, rather than to shackle it with obligations and practices which will lower our general standard of living.

As a move in that direction, it would be constructive to encourage our older citizens to remain in productive employment as long as they are capable and desire to, rather than to provide penalties for their continuing in employment. In my own company, for example, retirement is not compulsory at 65. It has long been my practice to encourage older employees to stay on the job. Although the size of my operation necessarily restricts the number of jobs available, I have been able to make adjustments which permitted the productive employment of many who wanted to work but whose productive efficiency had diminished. In this, our union, unlike many others, has been very cooperative.

It is up to industry to provide employment opportunities for the older worker and much progress is being made in that direction. However, I suggest that some inducement be incorporated into the OASI program to halt the trend toward earlier retirement and send it back in the other direction. This would help keep down the cost of old-age pensions and would enable the older citizen to remain productive and useful.

Old-age security depends in a great measure on the buying power of the pension dollar. The capacity of that dollar is largely governed by the general fiscal policies of the Federal Government. If prices and wages mount in an inflationary spiral, if the economy is subject to abnormal strains induced by unwise fiscal policies, the aged will be unable to resist this impact. High taxes, low interest rates, and the burden of a high public debt cannot contribute to old-age security. The recent capitulation of the operators in the coal dispute is an example of further inflationary trends leading to greater spiraling.

I recommend that consideration be given to a plan of tax incentives designed for citizens who wish to make additional provisions for old-age security.

Thank you for your consideration and attention.

The CHAIRMAN. Mr. Dinsmore?

You are the manager of the Blind Industrial Workers' Association of New York State?

STATEMENT OF RAYMOND J. DINSMORE, MANAGER, BLIND INDUSTRIAL WORKERS' ASSOCIATION OF NEW YORK STATE, INC., BROOKLYN, N. Y.

Mr. DINSMORE. Yes, sir.

The CHAIRMAN. And you are appearing here on the social-security bill.

Mr. DINSMORE. Yes, sir. I would like to make a few remarks, Mr. Chairman and gentlemen of the committee, regarding that part of H. R. 6000 on page 180 which deals with the proposed exemption on earnings of those blind people who are in receipt of public assistance and also who are employable enough to work.

We feel that, although in H. R. 6000 that provision has gone a long step forward, the conditions under which it is proposed to give these exemptions are such that it will be so confusing that its effects on the ultimate recipient will be virtually nullified. In other words, it is proposed to have these people certified by the rehabilitation agency of the State.

Now, in a great many States, that would mean a recipient would have to go to two or three different agencies; which is confusing and bewildering even to a person with normal vision, and it is exceedingly much more so for a person who is unable to get around, perhaps, without the help of a cane.

In New York State at the present time needs certification must come from the welfare division, and visual-acuity certification must come

from a State agency dealing directly with the blind. If this provision goes through as now written into H. R. 6000, it will mean another agency will be added to those two. Now, as I say, that is in New York State, but the same thing would be applicable perhaps in other States.

We feel that certification on a person's eligibility for need could be taken care of by one public agency. And also the provision as now inserted into H. R. 6000 makes it more or less a matter of opinion or policy as to whether the exemption will be granted at all, and also it can be left up to the agency as to how much.

The workers in the field of the blind have hit upon a figure of $50 a month that should be granted as an exemption on blind earnings. Having worked in this field for many years, we think the thing should be mandatory and incorporated into law if its effects are ever to be felt by the blind people. Left to a matter of policy, the thing can be kicked around here and there, and it can be reversed, or they can even cut it out when they want to. And, from what I am able to gather in the various States, the rehabilitation agency does not want the responsibility anyway. There is no particular point in having another agency brought into the field.

Now, the fact that exemption on earnings was considered at all, I think, is a good step forward, as I said before.

Despite the various Federal, State, and local laws governing assistance to the blind throughout the country, there is still mass poverty and privation existing among the blind. In the peak of wartime employment in New York State, a survey was made which brought focus upon this matter and showed that even during the peak of wartime employment less than 10 percent of the employable blind were gainfully employed. Well, it doesn't take any stretch of the imagination to see what would happen under normal circumstances.

Now, I know that speakers before me have covered this point pretty well on an over-all basis, and I would like to point out just two individual instances of how the thing is working today, why we feel an exemption should be granted.

I have 22 workers in our shop who are blind, working for us. We have a lot of homeworkers, people who are home-bound. I have, as an example, one blind woman, totally blind, 87 years of age, partly deaf, and crippled. The only way she is able to work and make any money at all is sitting up in bed. She is able to earn about $7 to $8 a month. Every nickel, gentlemen, of what that old lady earns is taken away from her at the present time—every nickel. Well, what has she got to live for? That is just an example of what is happening all over the country.

I have one caner, who makes his way to the shop every day; has to change busses; ride two busses. He is partly crippled, besides being blind. He is around 55 years of age. He is able to earn about $30 to $35 a month working 8 hours a day. Every nickel of what he makes is taken away. Of course, $30 a month isn't sufficient to keep him.

Now, what is happening in those two cases is just an example of what is happening all over the country. And you must remember that blind people, at least at the present time, are not covered by unemployment insurance. When a blind person is out of a job, he is just out of a job. As a usual thing, he does not have very much saved up,

because blind people as a class are poor. He can mortgage what little furniture he has, or he can go to the relief agency, and the relief agency tells him he must sell his insurance policy and give that up before he can get any relief. Before he even got insurance, he had to have his age "rated" 7 years. You know, the insurance companies, before they will issue a policy, must rate your age 7 years in advance, making the premium higher. That is why we feel it is vitally important that, in considering a revision of title X in H. R. 6000, an exemption should be granted, and that it be made mandatory, and that it not be confined strictly to earned income. Because there are relatives and friends of blind people who would like in some way to contribute to their well-being. They cannot do so under present conditions, because it would be penalized. If a dollar is given by a relative, that dollar is taken off. If $5 is given by a brother or sister or mother or father, that $5 is taken off. It doesn't enable relatives to help.

Now, limiting this to earned income would not enable these people to perform that little everyday human act.

We would like to have inserted in the bill, if it would seem practicable to you gentlemen, that part of S. 2066 which states: "Resources from any source"; which would broaden the scope. It would be practically the same thing, but it would be much easier to administer.

I think that is about all I can say on that subject. I did want to mention one point about the provision on page 95 of H. R. 6000, which defines blindness as 5/200ths. This is quite at variance with most recognized State standards of 20/200ths, which, broken down, in average layman's terms, means a person can see an article at 20 feet which he should be able to see at 200 feet.

If the definition is brought down to 5/200ths, it is going to mean an awful lot of border-line cases. Industrialists simply will not hire—in most States the compensation companies wouldn't permit hiring—people with less than 20/200ths. That means that these people can neither qualify for any type of assistance nor could they qualify for employment. Their lot would be pretty sad. And we ask that the definition of "blindness" be left as it has been in previous years as 20/200ths, and we feel that that will simplify the matter. It would cause a lot of confusion and chaos in the States otherwise.

Now, I have a written brief that I would like to leave, gentlemen, if I may. I believe that is all I can say on the subject.

The CHAIRMAN. Yes, sir.

You wish to leave your brief and have it inserted in the record? Is that what your request is?

Mr. DINSMORE. Yes, sir.

The CHAIRMAN. We will be glad to have you hand it to the reporter, and he will insert the brief in the record.

Mr. DINSMORE. I want to thank you, gentlemen, for the privilege of appearing here this morning.

The CHAIRMAN. Thank you, sir. We were very glad to have had you.

(The prepared statement of Mr. Dinsmore follows:)

STATEMENT OF R. J. DINSMORE

Eliminating all of the known vocations in which the use of eyesight is an absolute essential, plus the well-known fact that even the employable blind are slower in the performance of most industrial operations, it is an accepted fact that the vocations which are left open to the blind are the very cheapest in

pay to the blind worker. When you consider that the blind cannot be railroad workers, policemen, firemen, farm hands, bus drivers, aircraft pilots, medical doctors, or dentists, and so on down the line, it is easily understandable why, except in isolated instances, the average employable blind person cannot find job opportunities outside the sheltered workshop. Here again we find that the sheltered workshop, in order to compete in the open market, must pay a wage commensurate with the amount of work completed. This, in comparison to a sighted worker, is so much less in general that the wage is necessarily much lower and in most instances so substandard that some sort of subsidy is necessary, either through supplementation from the agency hiring him or through some sort of public assistance granted through a public agency.

Our lawmakers in the past have shied away from the word "subsidy" in connection with public assistance and wages, though subsidy is a generally accepted factor to farmers, shipping companies, aircraft companies, etc. In all of the aforementioned enterprises, the earning of a livelihood is the ultimate goal. Even where the employable blind people can find employment, substandard wages are the inevitable result and so generally recognized that loopholes were left open in the recently enacted minimum-wage law which will permit employers of blind persons to circumvent that law by characterizing said workers as "trainees" or "clients" and you may well rest assured that many of these "trainees" will be training for the next 20 years. The blind as a class are poor; that's why many of them are blind, inability to procure adequate medical care when it was most needed.

Despite Federal, State, and local public-assistance laws, despite the existence of hundreds of sheltered workshops throughout the Nation, there is mass poverty and privation among the blind. Direct focus was brought to bear on the magnitude of this situation when, during the peak of wartime employment, a survey was made in New York State which disclosed that less than 10 percent of the blind were gainfully employed, including those persons who were listed as self-employed, newsstand operators, free-lance musicians, and door-to-door salesmen. It is no strain on the imagination to determine what the job opportunities might be under general normal conditions.

Direct focus was again brought to bear on this situation during hearings on the National Rehabilitation Act in 1942. With the realization that private charity had borne all the burden of employment of the blind, the Government (Federal, that is) assumed its share of the burden in passing the National Rehabilitation Act, which is in operation in most States today, but even with this act in force over 7 years there is no indication at this time that the problem is anywhere near solved because of the number of unemployable blind, or those persons considered bad risks by the various State rehabilitation agencies. Also, in a majority of those placements made, some sort of subsidy is still necessary to enable the average blind worker to earn a living compatible with decency and health.

All workers in the field of blindness are generally agreed that in the administration of public assistance there should be disregarded a certain percent of a blind person's earnings. Recognition of this fact is incorporated in H. R. 6000, page 180. However, the scope of this recognition is so narrowed down and so worded that, unless certain mandatory provisions are included, it is highly doubtful that the ultimate recipient will ever feel its intended benefits. It is our experience that, where such matters are left to policy, that policy becomes a football to be kicked around in any manner administrators may feel inclined to indulge. If an exemption on earnings of blind assistance is to be granted, the amount should be stipulated and made mandatory on the administration; otherwise, manuals intended to implement the law will be written. It is our experience that manuals sometimes use language which narrows down the intent of the law, and indeed in some instances even reverses the intent of that law. Keep in mind that when a blind person is being interviewed for assistance he does not know what is being written about him. Questions are sometimes asked in such manner that the investigator gets the answer he wants; the client becomes confused and flustered, and in many many instances the report on a public-assistance client in the relief office falls far short in reflecting the need at the recipient level, though it looks good on paper.

Many States would like to enact their programs for blind assistance on a sound and realistic basis but have been prevented from doing so by the constant interference from the Federal Security Administration, which has consistently required the most literal and narrowest version of interpretation. We believe that those parts of S. 2066 which makes mandatory a floor, and requires a flat

exemption of $50 a month in considering earnings of the blind worker, is sound and imperative if industrial initiative is ever to be encouraged by the blind worker. We feel that, although present provisions in H. R. 6000 go a long way toward solving the problem, it should not be confined to "earned" income but should include income from any source, this to enable relative or friend or well-wisher of a blind recipient to aid a blind man or woman without having that amount taken away from him later by the State. There is a humane factor involved here that should not be overlooked.

The definition of blindness as now contained in H. R. 6000, being 5/200, if left at that latitude will be most unfortunate for it is at such variance with most accepted State standards that confusion and chaos will be the result, industrialists simply will not hire persons with less than 20/200 vision, and very few will consider their employment with even that much eyesight, with the ever-increasing machine age and use of highly mechanized implements of industry, physical examinations with rigid emphasis on eyesight, what is to become of the borderline case, that difference between 5/200 and 20/200? He can qualify neither for employment nor public assistance, left out in the cold on both ends of the five senses, sight, hearing, smell, taste, and touch. It is estimated that usage of eyesight absorbs 87 percent. It is understandable why such emphasis is placed on sight, especially in the industrial field. We cannot, however, evaluate eyesight in dollars and cents value alone, the inability to see the light of day, to see the faces of your loved ones, to see the beautiful sky, the flowers, and the beautiful pictures of nature are a drastic penalty on the life of man. It is dreadful to be blind. It is tough to be poor, but when you are both blind and poor, your lot is not an easy one to bear. The blind ask that their fellow countrymen and lawmakers help them to help themselves with an understanding of their problem and if he has the courage to try to overcome the rigors of his plight by honest effort at self-support, he be not penalized by having his initiative snatched away on his next relief check.

The CHAIRMAN. Mr. George Nelson?

Mr. Nelson, you are representing the International Association of Machinists?

STATEMENT OF GEORGE R. NELSON, GRAND LODGE REPRESENTATIVE, INDUSTRIAL ASSOCIATION OF MACHINISTS, WASHINGTON, D. C.

Mr. NELSON. Yes, Mr. Chairman.

The CHAIRMAN. You may be seated, if you wish.

Mr. NELSON. Mr. Chairman, my name is George R. Nelson. I am a grand lodge representative for the International Association of Machinists. I am appearing here today in behalf of President A. J. Hayes. Our address is Machinists' Building, Ninth Street and Mount Vernon Place, NW., Washington 1, D. C.

Mr. Chairman and members of the committee, I appreciate this opportunity to express our views on the proposed amendments before your committee to improve the social security program. Your consideration of amendments to this act and the final determination made by this Congress represents an important subject to our membership of over 500,000 and their families. Your decisions can also affect the economy and the welfare of thousands of manufacturers and business organizations in this country. These statements are not made without foundation. Let us take the actual example of the International Association of Machinists and the jurisdiction it covers. We embrace some 250 different types of industry and have collective bargaining agreements with 11,396 firms in this country.

Principally, because our present system of social security has become outmoded since Congress has failed, to date, to modernize the system since it was amended in 1939, we now have a definite problem of old-

age security. The first problem is that of the people who are attempting to exist on present payments which are totally inadequate for subsistence.

The second major problem is that of today's wage earner and his plans for future security. He is well aware of the fact that under today's payments, a single retired worker averages only $25.93 per month. He knows that the framework of our Social Security Act is sound, yet the discrepancies in the benefits and coverage of the present act leaves him fearful of future economic insecurity and dependency. This inadequacy of benefits and coverage has caused the recent demands for negotiation of private pension plans with employers even though it is recognized that such private plans are an extreme risk to both the employee and the employer. It must be remembered that most of the private plans negotiated as a supplement to the Federal system have been in large basic industries where the complex problems of application and administration can be absorbed without undue hardship. The exact opposite effect will be encountered if the many thousands of local union members must also press for additional protection in the event Congress fails to act this year. Today, in our union alone, many of our local lodges are preparing to bargain with their employers for private plans if further delay is encountered in modernizing our basic social security structure. There is no question but what this will place an extreme strain on peaceful labor relations. At best, these private plans can only provide piecemeal security and make normal retirement a hazardous risk.

The principle of a sound Federal system for old-age, survivors, and disability insurance has long since been accepted by our people. Years of study have now been given to the need for modernization of the present act. Both the Ways and Means Committee of the House of Representatives and your advisory council on social security have pointed to the urgent need for liberalization of the present social-security program. In keeping with the needs of our membership, we have also studied this situation. As the result of our studies we are convinced that the establishment of private pension plans in industry will not accomplish desirable results. As a labor organization, we believe that old-age retirement benefits should be provided by the accepted Federal systems such as the Social Security and the Railroad Retirement Acts.

There are significant features of the public system which a private pension scheme, by the very nature of things, cannot in any circumstance provide. I will mention only a few of them. The factors which are involved in setting up a private pension plan are so complex that even well-trained trade union negotiators cannot easily understand them.

A thorough understanding of complicated mathematical formulas, familiar only to acturial experts in the annuity and insurance fields is a basic requirement, and the average union shop committee cannot be expected to take the time to acquire such knowledge.

Considering the jurisdiction of our union as a whole and considering the fact that each company within an industrial class has problems peculiar to it, the size of the private old-age pension negotiating problem is overwhelming. Let me emphasize but just a few of the barriers and problems on which there are long and tedious arguments:

Shall the employees contribute to the pension fund? If so, how much, and on what basis?

Should the employee have vested rights in the fund if and when he leaves the covered plant?

Does his vested right entitle him to cash when he moves or to a certificate of equity in the fund? If so, and his next employer does not operate a pension system, what does the employee do with it?

At what age should a worker be entitled to a pension? Should retirement at that age be voluntary or forced? Suppose a worker dies before retirement age, what happens to his family? And, in any case, what assurance has the worker that the pension fund is safe? Or that his employer will be in business when he reaches retirement age?

To what extent will the operation of private pensions endanger the employment of older men in industries throughout the country? Or is there to be no minimum length of service to receive a pension?

From these questions, plus the size and scope of our organization, you can understand why it is impossible for us to prepare a model private pension plan to assist our local lodges in their negotiations.

Senator MILLIKIN. How are your members distributed according to size of the business? To use a very rough generality, how many of your folks are in big business, like steel or automobile companies, and how many work in smaller establishments? Do you have any way to put that into categories and give us an estimate of some kind?

Mr. NELSON. I can explain it broadly, and then we can furnish you with other specific information on it if that would be your desire.

Senator MILLIKIN. What I am getting at is that I am fully conscious of the difficulties of private pension plans, especially with little companies. I mean, they cannot assure the permanent solvency of their fund. And so I was curious to see how many were working with big outfits, that might have a presumption of continuance, as against little outfits, where the presumption of long continuance, according to the odds of business, is rather against them.

Mr. NELSON. To answer that, Senator Millikin, I would say that in the large majority we cover the so-called smaller plants; that is, the small machine shops, your garages, your smaller industrial plants. Now, by "smaller," I mean 500 and less employees.

Senator MILLIKIN. That is what I wanted to get at.

Mr. NELSON. We do have membership, in fact we do represent the membership, in such large industries as, for example, Boeing Aircraft, Consolidated Vultee Aircraft. We have some membership in Nash Kelvinator. Usually there, though, in the last ones I referred to, such as Nash Kelvinator, we represent the tool room because we are a semicraft organization, and in some cases we have to cover a whole plant because of NLRB regulations, but in the man we take our unit, the unit of the skilled mechanics in that particular plant. In the majority of all of the plants we cover, those 11,396 agreements that I mentioned, the majority of those are small companies, most of them with two to three hundred employees.

Senator MILLIKIN. Thank you very much.

Mr. NELSON. Another tragic result of private pensions will be to freeze the fluidity of the labor force. The free movement of our labor forces has been one of the important reasons for our success as a manufacturing Nation. No one would dare to contend that without the mobility of the labor force America could have produced

the staggering record in arming the arsenals of our allies during the last war which was established. Private pensions would seriously retard movements from job to job. To evaluate this harm in dollars and cents is, of course, impossible, but we know it will cause irreparable harm to the employees' retirement benefits.

Senator MILLIKIN. Mr. Chairman, may I ask the witness another question?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. Under this private pension business, do you not build up a discrimination between workers doing the same kind of work, those working for a big company that can sustain a private pension plan, and those working for the little companies that you are talking about that may not be able to sustain them? In other words, you and I start out at the same age learning to be machinists. We both operate a lathe, let us say. Time passes on, and we both get to be 65. Let us say I have worked for Big Steel, and I have a pension now of $100 a month. You have worked for a smaller fellow, and you have no pension at all, except what you may get out of social security. And unless the social security is, roughly, equal to what you are getting under your private plan, you have a lot of dispossessed citizens that will feel distinctly a sense of discrimination. I mean you and I both have done the same kind of work. You have worked for a little fellow across the street, and you wind up without a private pension. I work for the big fellow on the other side of the street, and I wind up with a private pension. And I am not so sure that that is good for social feelings in this country.

Mr. NELSON. Senator Millikin, you have said in a few words what we have been trying to say here in a good many words. I mean, that is just exactly the way we feel about it. It is discrimination. But even going beyond that, you see, in most of your skilled trades you will find that the craftsmen there, because of the make-up of the companies themselves, will change jobs as work progresses and as natural changes take place in industry. So as a result some of them might work for a large company for years and then find that that type of work that they are doing there is completed or is in such a position that it can be reduced in force; that is, in number of employees; and then they just naturally transfer and go on to other jobs, and they are constantly building up. And in changing from one job to another there is going to be discrimination, very much so; and there definitely is discrimination between the man who is a good skilled mechanic and can afford to step from job to job and the fellow who remains with the one big basic company.

Senator MILLIKIN. I am not going to leave Big Steel. You are going to try to get into Big Steel. But everybody cannot get into Big Steel.

Mr. NELSON. That is right.

Senator MILLIKIN. So you are going to have a sense of frustration and discrimination.

Mr. NELSON. That is correct.

During the last war we encountered some difficulties in transferring employees to different companies and locations because they did not have adequate workers' compensation and other protection in the States in which the new plants were located. We have already been advised that in the event of another emergency, it will be necessary

to recruit mobile teams of workers to guarantee full production. These mobile teams will have to be the best mechanics we are able to secure so naturally this means workers who are in the upper age bracket. To a large extent, it will be these workers who have built up the highest pension benefits under the private pension plan and therefore the most reluctant to leave his regular employer.

These are some of the reasons why we believe in a pension system on an over-all basis administered by the Federal Government:

1. That Federal pensions can be provided at a lower cost.

2. If economic conditions warrant, a Federal pension program can be more easily amended to provide sufficient annuities.

3. Employees will be continuously covered when they change from company to company. Here we want to emphasize that private pensions have a detrimental effect upon an employee's freedom in choice of where he wants to work, and the more general private pensions become, the harder it will be for employees over 45 years of age to obtain employment.

The problem will become increasingly aggravating as more and more people are covered by pension plans. It will be less difficult to solve if all workers are covered by one plan such as a Federal system.

Try to imagine the mess we will be in if we have our old-age pensions being paid by thousands of private companies, trust funds, banks, and insurance companies, not to mention the problem created by having a substantial block of our aged population who weren't fortunate enough to work for a company which provided a private pension plan.

One final word about private pensions. We must realize that not all employers can provide liberal pension plans. In order for a plan to be economical many persons must be covered so the administrative cost can be spread over the entire group.

There is another basic reason why we believe that improvement of our established social-security system is of paramount importance today. Recent studies indicate that the population of those over 65 years of age is steadily increasing at a moderate rate. In 1948 there were 10,000,000; in 1960, it is estimated that there will be 18,000,000 persons over the age of 65 years.

From our experience we know that many workers over 65 years of age are today continuing on the job because present old-age benefits are not sufficient to guarantee them against dependency. In our organized plants these men are protected by seniority and with but few exceptions, they have a contractual right to remain at their job as long as their health allows. These men weigh their old-age security very closely before leaving their job. These men are proud, hard-working human beings; they do not want charity or the indignity of a means test; they do want lawful insured security which will allow them the dignity of retirement. That is why we do earnestly appeal for early enactment of a sound, expanded system of social security.

Today we are confronted with the fact that unemployment is steadily on the increase. According to census takers there are at present 4,700,000 unemployed in this country and it is estimated that another 1,750,000 college and high-school graduates will join the labor force this spring and summer. We believe that many jobs could be found for these people if it were possible for those who are employed

and over 65 years of age today to receive dignified retirement pensions.

This partially explains why I appear here today to ask for enactment of H. R. 6000 which would extend and improve the present social-security system.

We commend this bill because it particularly extends protection to cover the risk of total, permanent disability. It extends coverage to millions of new workers. It increases monthly benefits about 70 percent to those persons currently receiving benefits. It adheres to sound principles of contributory insurance by providing increased contribution rates by both the employer and employees. These improvements, as well as the additional provisions, enacted by the House of Representatives last session, are timely and reasonable. There are, however, certain recommendations which we wish to propose to the perfection of H. R. 6000.

The first relates to the benefit provision and the annual wage base. Examination of the benefit provisions of the present act shows how outdated our social-security system has become. The limit of $3,000 set in 1935 when the act was passed covered almost all wages earned in covered employment. While the bill you are now considering raises that amount to $3,600 it still falls far short of including the proportionate wage today. To correct this ratio in the annual wage base, this figure should be set at least on a $5,000 base. At present the average yearly rate for toolmakers in our organization is $4,264. With a wage base of at least $5,000, we believe that the benefit formula can provide a sound base of retirement insurance which can guarantee an adequate base of security.

Senator MILLIKIN. On that figure you gave us: Is that the average of a man who remained fully employed during the year?

Mr. NELSON. Yes, sir.

On this formula of setting benefits in relation to past earnings we believe that the benefits provided by the present Social Security Act should be increased so that an employee who reaches retirement age is entitled to receive a monthly annuity equivalent to at least one-half of the average monthly salary that he earned during the 10 years immediately prior to his retirement. If the act holds us to a $3,600 figure then those with the higher rate must still negotiate the added percentage of their wages and we will still be faced with the same complex problem.

The second recommendation, which we wish to propose for the improvement of H. R. 6000, relates to the retirement age of a worker's wife or a retired woman worker. As the act is presently constituted, many men who are eligible for retirement benefits find that the average 3-year difference between his age and that of his wife, prevents her from receiving her rightful benefits until she reaches the age of 65. To alleviate this situation, we propose that the age requirement for a wife to participate in her husband's retirement benefits should be lowered to 60 years. This same age of 60 years should also be applied to a woman who retires from employment. The correction of this discrepancy has been recognized for a considerable period of time; in fact, it is one of the recommendations contained in the study made by the Senate Advisory Council on Social Security in their report published in 1948.

In conclusion, we recommend that your committee give utmost consideration to extending protection to the veterans of World War II,

the employees of Puerto Rico and the Virgin Islands, and aid to dependent children. The disability insurance provision as contained in H. R. 6000 should be enacted as an important part of this measure. Our members employed by the railroads are protected by disability insurance and we know from experience that this is a workable, worthwhile program.

To summarize, we are now at the crucial point of a sound, comprehensive system of social security without discrimination to any segment of our working population, or a system of local private plans with their recognized risks and danger. We believe that your committee and the Congress can render a distinct service to the people and welfare of this great country by enacting constructive amendments to our present, accepted Social Security Act. We know our people have been patiently waiting for many years now to have this done. This system gives them the opportunity that they desire, to be common stockholders in Corporation America. It is, therefore, our plea that these amendments will receive your respectful attention and enacted without further delay.

The CHAIRMAN. Thank you, Mr. Nelson.

Mr. NELSON. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. W. D. Dobbins?

STATEMENT OF W. D. DOBBINS, W. D. DOBBINS & SONS DEVELOPMENT CO., BIRMINGHAM, ALA.

Mr. DOBBINS. Senator George and Senator Millikin, there is something I have in my brief that I would like to hand you, and then I have a speech that it will take me just a few minutes to deliver.

But first I would like to tell you my business.

The CHAIRMAN. Yes, sir?

Mr. DOBBINS. I am a businessman, and a hard-headed one at that. And I venture to say that you haven't had many businessmen before this meeting. As a general rule, our businessmen are interested in one thing, and that is their business.

I am reminded of what our Sunday-school teacher said. He said, "What would a burglar be interested in? Just being let alone." That is what the businessman wants, just to be left alone.

But I am afraid if we don't pay more attention to our form of government we will all want to be left alone.

My line is real estate. These are my sons [displaying photographs], and we built over a thousand houses last year. Just let me show you these, briefly.

The CHAIRMAN. Prefabricated houses? Or the conventional type?

Mr. DOBBINS. Well, we built them with machinery, you understand; heavy machinery. Everything is being built with heavy machinery now. When we talk today about employing people on roads, you know, we don't build roads with people any more. We build roads with machines and not with people. I just want to show you this, and I want to leave it with you. There is just one little paragraph, right there. I wish the Senators would read that, because that's what we depend on in this country. You see right here in this paragraph?

Now, without people employed, you understand, my property is not worth the paper it takes to write the deeds. And now it resolves itself down to a question of "How can we employ those people?" That

is the reason I have come before you. This is by Livingston, here, on How Efficiency Hits Employment in the United States. There are 4,700,000 unemployed now. We have poverty from one end of this land to another.

Now, here is a man right here, in Look magazine. He says, "Don't kid yourself about pensions. None of them will work." And he is right—if we are going to set our pension system up like a private insurance company. Because the private insurance companies today own $55,000,000 in bonds of the United States Government.

Senator MILLIKIN. You must mean 55 billions.

Mr. DOBBINS. Billions. It is easy to get those millions and billions mixed.

We are lending them against $13,000,000,000. And that should be collected this month, in my judgment, and it is distributed back to our people next month.

Right here is something about Senator Margaret Chase Smith. She came before you and she says:

> If we are as great a nation as we are, if we possess the genius to build an atomic bomb or hydrogen bomb that can threaten the very existence of the world, surely we must possess the will to provide the means of security for ourselves and for our fellow Americans after they have given the best years of their lives to the development of the country.
>
> Insecurity breeds war. A happy and secure people is the best guaranty against it. Adequate social security can make a great contribution to the realization of permanent peace.

And right here in America is the place to start.

Now, there is one other thing, right here, in Life magazine. It just appeared last week. It speaks of the Great Glut—all this farm stuff that we have got. I have been a farmer myself, farmed until I was 35, and was considered one of the best farmers in Jefferson County. Look at the potatoes piled up. And that is cottonseed. And I have sold milk for as little as a nickel a gallon, 60 cents a hundred pounds, to the Kraft Cheese Co. And see our precious little children starving to death because they didn't get it, couldn't get it.

Now, I am not here to talk pensions. I am talking distribution. That is what we have got to have if we live. You take this room, here. If we didn't have distribution of air in this room, we would soon perish. If a fan didn't turn, with one inlet coming out and one going in, I wouldn't give a nickel for it. Everything depends upon the circulation system.

Now, they sent me this stuff before, and I read what Senator Millikin and Senator Taft and all of you said. I have kept this right by my bed, and I have read it, and I have gone right through this book right here. I have put lots of time in it. In fact, I have developed a plan myself that would employ 10,000,000 people, that wouldn't cost a dime. This bill will not cost a dime. So if you will bear with me just a few minutes, we will go over this together. I hope you have a copy of this. I had these passed around.

The CHAIRMAN. Yes, sir. We have them.

Mr. DOBBINS. Gentlemen, Senators, and renowned statesmen, now this is imaginative thinking, our problem is not production, our problem is distribution, our problem today is not pensions or social security, but how can we give employment, profitable employment, to our great masses of unemployed and our great masses of youngsters who are

finishing high school and college by the millions. How can we give them good government and profitable employment? No unemployed person can pay tax or living expenses; therefore he is headed for trouble, jails or penitentiaries, and we are forced to care for him.

In Alabama since the war ended our prison population has risen from 3,500 to 7,000, mostly because of unemployment.

We can best do this by passing Senate bill 2181, by Senator Claude Pepper, cosponsored by Senator Langer, Senator Elmer Thomas, Senator Glenn Taylor, and Senator Sheridan Downey. How can this bill take care of the unemployed? By skimming cream off of all people who make more than $250 per month at 3 percent, collecting this money monthly, and putting it back in circulation at the very lowest ebb of humanity to all people past 60 years of ago who will retire and spend money in 30 days. It is estimated that this bill will bring in about $2,000,000,000 per month. If this money is put back in circulation at once, it will create such a demand for goods, food, medicines, and services until it will take care of all unemployed for a long time.

We holler inflation; then we holler depression. Let's define these two. Inflation means when there is more money than goods to buy. Depression means simply when there is more commodities than money to buy with. Money is very simple, but the simple things are what nobody understands. There are two ways to have more money. The Government can print it, or print bonds, which is the same thing, with the exception that the bonds pay a small return, or you can make money circulate. By retiring our senior citizens, say, at $100 per month, with the above sales tax as suggested, you can circulate our money so fast that by taking care of our senior citizens, we can also take care of ourselves. We have money in a healthy way, like the blood in your body circulates through your heart, 14 tons a day, although we only have 5 quarts of blood, making $1 do the work of $20, or 5 gallons of water in an automobile engine circulating millions of times.

We can never save ourselves from communism by the atom or hydrogen bombs. The only way we can save ourselves is by giving our people a better form of government, by giving our people real security by profitable work.

Now we used to work 12 hours a day 6 days a week, and we work now 8 hours and 5 days, or 40 hours. Why? To spread employment. When a man works from 20 years to 60 years, or 40 years, retire him. Why try to work the aged or let them starve or live off their sons and daughters? We can retire them at the age of 60, which will not cost us one penny, because the money in circulation will employ so many people and buy so much goods that it will boost our national income to $400,000,000,000. Make us prosperous, and make them happy. Then, by doing so, we can have a bunch of youngsters profitably employed who can pay for their homes, can raise a happy family. There is only one suggestion or change that I would make in the above bill. I would pay a flat $100 per month to all above 60. All money above that collected would go to retiring our national debt. We must retire our national debt. We must retire our national debt and live within our budget.

This bill offers the only solution to full profitable employment and paying off our national debt. The only way we can possibly help our

foreign neighbors is by making our Government work here at home and by setting an example for them to go by.

Devaluing the currency did not help Great Britain. What they needed was a market. They have it right at home in their millions of people, who need buying power. If they had this plan in Great Britain instead of the starvation plan, the Beveridge plan, with $7 per week, they would not need our help. They have not learned the secret of making money circulate. The reason we did not have a depression after this last war was that we paid $20 per week plus other benefits to our soldiers. This brought into my State $80,000,000 per year. Multiply this by 10, the money in circulation, and you have $800,000,000 purchasing power to keep the wheels of industry moving.

We have $12,000,000,000 in our social-security fund. We have millions unemployed. It reminds me of a rich man who has worlds of food but is constipated. What the man needs is a compound cathartic pill. What we need is a sales tax paid by all people, collected monthly, and distributed back monthly to all people past 60. The sales tax and distribution will work on our economic body the same as the cathartic pill did on the rich man.

Today the money taken out of social security and hoarded would be spent in industry if left in the pay check of the worker. As it works today, it takes money from our people, our people who need it most, and hoards it in social-security funds. If we could only think of the needs of our Nation today, instead of crossing all the bridges 50 years hence!

In conclusion, we only need three taxes: sales tax, income tax, and inheritance tax. We need our tax laws simplified. All taxes should be collected monthly, instead of yearly. It would be a great deal more simple to keep up with taxes each 30 days. It would keep money circulating on a more healthy basis and would give employment to a great many more people. Our whole democratic form of government revolves around profitably employed people. Unless we can give profitable employment to our people, we will go communistic. Our people must work and must eat.

Our problem is not production. Our problem is distribution.

The CHAIRMAN. Thank you very much, Mr. Dobbins.

Mr. DOBBINS. I appreciate very much coming before you fellows, and this is something that I have given much thought and time to.

And there are lots of suggestions I could make in passing this bill, from a sales-tax standpoint.

The CHAIRMAN. Thank you very much.

Mr. DOBBINS. Thank you.

The CHAIRMAN. Mr. Altekruse?

STATEMENT OF NEIL ALTEKRUSE, ARTIST, FORT WAYNE, IND.

Mr. ALTEKRUSE. Mr. Chairman and members of the committee, I am Neil Altekruse, an artist from Fort Wayne, Ind. The letter I wrote to Senator George is the first letter I have ever addressed to any Member of Congress. I was astounded when I received his invitation to appear before this group. You are probably just as surprised that I accepted.

I want to tell you right at the start that I am not a social-security expert. I am not an insurance expert. I am not a student of economics. There are some people who even think I am not a good artist—in other words, I am in no way technically qualified to argue about this law.

I am nothing more than an average American citizen with average intelligence. I am here only because I am very much worried about the future of my country and its solvency. I am violently opposed to continued deficit financing and to increasing our national debt. I am fighting-mad about the general type of legislation being proposed in Congress when I think of the real problems facing the country and the world today.

I am here to protest any bill which proposes to increase coverage, benefits, and tax rates in the name of social security, because I think the original law is, to put it simply, no damned good. Why? Simply because money being collected in the name of social security is providing none of the things it is claimed are being provided. The money is being spent on the general cost of government and is being charged back to the taxpayers in other forms.

Here, to my simple and unsocial mind, is what is happening. You have here an ordinary worker who earns, say, $2,500 a year, and his employer. Together they invest at today's 1½ percent rate, a total of $75 in what they believe to be insurance for the worker's old age when he is no longer productive. This $75 is credited to the worker's account by your Social Security Administration, and is immediately turned over to the Government for general spending. A bond is placed in the offing. This bond, which in private hands would be labeled an asset of the future, is, in Government hands nothing more than a debt liability. At the present time you have more than $11 billion worth of such debt liabilities in the social-security account. You know as well as I do that there is no assurance that the Government will be able to collect enough taxes to retire these bonds when they come due. And I don't need to remind you that they have only one source from which to collect taxes and that is the taxpayers of the United States. Why, in Fort Wayne recently, a group of men from the Treasury Department were in town trying to raise money to promote a big bond sale in order to get enough money to take care of the bonds that are due in 1950 and in 1951. And these bonds, mind you, were issued before the war or at its very inception and are mere peanuts in terms of the ones that will be coming due in the next few years.

So, you see, in this 10-year cycle the taxpayer is obligated for a total of $175; $75 in direct taxes on him and his employer, and $100 in a Government bond which the taxpayers money must retire. But that isn't all. Because all the money collected for social security trust funds—and also from postal savings, veterans insurance, and bank deposit insurance trust funds—has been spent, the national debt has been increased to a point where annual interest charges alone are $5.6 billion a year today. With a total of approximately 56 million employed people in the country, kindergarten mathematics shows you that the average wage earner gets another bill for $100 just to meet his year's interest payments. I, of course, realize that the proportionate share for each taxpayer may not be equal, but I am sure you get my point. This means, roughly speaking, that under the present social security law and with present administration policies, the average Joe Blow who earns $2,500 a year is getting a bill of $275 in taxes. You may argue that this is not the direct cost of social security. But it is the cost to the taxpayer because of the social security law. If the Government spenders never had access to the $11 billion in the first

place, it seems reasonable to assume that they might not have been so willing and anxious to spend it.

Let's examine briefly the reasons for H. R. 6000.

1. It proposes to increase benefits. Why? Because the cost of living has increased so much that the purchasing power of the dollar can no longer meet the cost of subsistence for the beneficiaries of this legislation.

And why has the cost of living increased? Because of Government spending which includes all the money collected in the name of social security. Government itself has caused most of the inflation in the country. But what of the other people in the country who are faced with the same situation? I dare say none of you have received anywhere near the number of letters from social security recipients that you have from property owners protesting the rent freeze which places them in a relatively much worse position, or from others living on fixed incomes from private investments who have been discriminated against in wholesale fashion by the same leaders who protest on behalf of the social security beneficiaries. To say nothing of the millions of E bond holders whose $25 will in terms of purchasing power be much less than $18.75 they invested originally.

2. It proposes to increase coverage to take in millions of more people. What better proof do you need that the law is discriminatory in the first place?

3. It proposes to increase the tax base from $3,000 to $3,600 to raise more money.

I charge that the only reason the Social Security Administration is so anxious to increase coverage and rates under this crazy law is to have available now more money to spend now on more wild-eyed schemes to control more activities and more votes and increase the debt still further, thereby further reducing the purchasing power of the dollar. If you pass this bill, you can be sure that within another 2 years you will be asked to consider another similar bill to increase benefits again for exactly the same reasons you are being asked to increase them today. Even you must wonder where it will all end.

Now let's have a look at who is pushing this legislation. How many old people and dependents have been clamoring at your doorsteps for this bill? It is my guess that this bill was drafted by the legal staff of the Social Security Administration to meet an imaginary need proved by a lot of assembled statistics. It is being pushed by Government employees who are anxious to increase the size and scope of their own influence, add more people to their department pay rolls, and probably make necessary new and enlarged quarters for an army of statisticians to paw through twenty or thirty thousand additional so-called active accounts, and make up some more pretty charts and graphs and pies like are contained in this testimony here which Walter George sent me—to waste your valuable time on a later date.

Book: I tried to read this stuff. Honest I did. All I have to say is that if this is the kind of stuff you are asked to listen to day after day, I wonder that any of you are still in your right minds! Costs in dollars and cents are very adroitly covered up by pecentage figures, but from this very testimony I have been able to figure out the following: There are now 35,000,000 people covered by the old-age and survivors insurance programs. But there are 80,000,000 so-called active accounts or 235 percent of the actual beneficiaries. These cards cost

12 cents apiece to handle, or a total carrying charge of some $9,600,000. But actual payments, actual benefits, are being made to only 2,700,000 people. In other words we are today spending close to $10,000,000 to make small hand-outs each month to 2.7 million people. What kind of business do you call that? When you look at what would happen under the bright and shiny new proposal, using the same ratios, you will increase your annual covering charge by more than $3,000,000 every year. In addition, you know, of course, that it will mean adding thousands more people to the already overstaffed Social Security Administration and probably make necessary tremendous investments in additional equipment and new and larger quarters to operate. It is all like a fantastic nightmare.

O. K. then. Just what is the real problem? And what is the real answer to that problem?

I will agree that we have a moral obligation to take care of our old people, and others who for some reason or other are unable to provide for themselves. But I will never agree that the social-security law is the right answer. It is discriminatory—it only helps 2.7 million of over 11 million old people in this category. It is expensive—so expensive from an administrative standpoint that it is incredible. It is dishonest—no Government insurance program can be operated on the same basis as a private insurance program, because the Government cannot be both debtor and creditor. It is inflationary—it is providing vast sums of money for the Government to spend at a time when the purchasing power of the dollor is taking a gigantic tailspin. It is immoral—it bilks taxpayers of billions of dollars for one alleged purpose and spends the billions for other purposes. It is hopelessly involved—it is impossible to administer any program of this magnitude at a Federal level with any degree of efficiency or cost-consciousness. It is cheating future generations by binding our children and grandchildren to commitments which nobody in Congress or in the country has the right to do, because none of us can possibly know what conditions will be at that time.

Why in the name of common sense don't we chuck the whole fool business and charge it off as a stupid error, which is what it is. Why in the name of reason don't we assume the responsibility for taking care of the aged and needy of our own generation and let future generations do likewise? And why in the name of heaven don't we do this now while the opportunity still presents itself? And why in the world don't we handle it at a State or local level which could compensate for varying economic conditions in terms of what we can afford to spend?

When are we going to stop spending money we don't have for things we don't want and can't afford? When are we going to stop cheating future generations by making long-term commitments with respect to future payments that cannot be met? When are we going to stop worrying about the small number of people on social security and start worrying about the 150,000,000 people who must—under any laws or circumstances—work to support those who cannot support themselves? Above all, when are we going to stop all this fuss about the exception to the rule in this country whose importance has been magnified a thousandfold by pressure groups and bureaucrats and start spending our time helping the people who are America to help themselves to whatever kind of a tomorrow they may choose?

It is past time that we said "No" to all the thousands-and-one cockeyed schemes which are bankrupting the country and destroying the moral fiber of the people through trying to do for them what every American should have the right and choice to do or not to do for himself. It is past time that the Members of Congress said "No" and spent all of their time trying to settle the country's real problems.

With Russia possessing the atom and hydrogen bombs and daily winning the cold war, with John L. Lewis paralyzing the entire country through his abuse of power, which is still not curbed legislatively, why in the world Members of Congress are wasting their time on the type of nonsense which is making the headlines today is simply beyond the comprehension of the man on the street.

On the solvency of the United States rests the hope of the people not only in this country but in the world. The average American is asking this question: "How long can this continue?" Not only are we going in debt $15,000,000 more every time the sun sets, gentlemen, but almost without exception every so-called piece of major legislation being considered today, is hastening the day when our economic structure can no longer support the political structure, and they will both collapse. You know that. I know that. Everybody knows that. We are all looking to the Members of Congress to stem the tide. The time is short, gentlemen. The time is now.

Senator MILLIKIN (presiding). A very interesting presentation. Thank you very much for coming.

Mr. ALTEKRUSE. Thank you, sir.

Senator MILLIKIN. The next witness is Mr. J. B. Robinson of the National Association of Magazine Publishers.

STATEMENT OF JESSE BAY ROBINSON, REPRESENTING THE NATIONAL ASSOCIATION OF MAGAZINE PUBLISHERS, INC.

Mr. ROBINSON. If the committee please, I represent the National Association of Magazine Publishers, Inc. This is the trade association of the magazine industry in this country.

The members of this association publish upward of 300 magazines. They consist of the general magazines that you see on the newsstands and in your home. They also publish a great many trade papers, agricultural publications, some religious publications, and others.

The publishing industry is very much concerned with the employee definition in H. R. 6000, and I desire to get on record for the association an opposition to that definition. The reason that the publishers are so concerned about this definition is because of the large number of subscriptions which are obtained by individual solicitation.

As you know, magazines are distributed over the newsstands. They are distributed in fulfillment of subscriptions; some subscriptions are obtained by mail; others are obtained by personal solicitation.

Over the years, on the average, about 55 percent of the subscriptions, all subscriptions, which the magazines receive are taken by personal solicitation. This involves a great many people. Those people are not employees under ordinary common law tests. They have been shot at by the Treasury Department at times and have successfully defended themselves under employee-employer tests as they are now understood.

I have prepared a statement analyzes the "employee" definition in this bill in relation to the magazine-soliciting business.

I am going to ask not to read it. It covers the technical side of the definition and the problems which will arise for the industry if this bill is passed with this definition.

What I would like to do, if it is satisfactory to the committee, is to submit this statement for the record and introduce Mr. Morris, of Sandusky, Ohio, who is in the subscription business. He runs a subscription agency. He has been in the subscription business all of his life. He will be able to tell the committee the facts as to how subscriptions are taken in this country by personal solicitation, and he will be able to tell you how he and others in the magazine industry think this employee definition will hit them.

Senator MILLIKIN. Your formal statement will be entered into the record.

(The statement referred to follows:)

STATEMENT BY JESSE BAY ROBINSON ON BEHALF OF THE NATIONAL ASSOCIATION OF MAGAZINE PUBLISHERS, INC.

This statement is submitted on behalf of the National Association of Magazine Publishers, Inc., in opposition to the definitions of the term "employee" contained in sections 101 (a) and 206 (a) of H. R. 6000, with particular reference to the third and fourth paragraphs thereof, which, in each instance, are identical and appear on pages 49–51 and 150–152 of the bill. These paragraphs purport by the process of statutory enactment to make individuals "employees" for purposes of the Federal old-age and survivors insurance system and Federal Insurance Contributions Act, who would not be "employees" under the usual common law rules.

The National Association of Magazine Publishers, Inc., is a trade association of the publishers of approximately 315 nationally known and distributed magazines, having a combined circulation of approximately 120,000,000 copies per issue. The magazines published by the association's members include general magazines, trade and business papers, agricultural publications and others.

The concern of the magazine industry with the employee definitions in H. R. 6000 is based on the fact that magazines supplied to the reading public in large part are supplied in fulfillment of subscriptions which are obtained through personal solicitation conducted by individuals. It is estimated that approximately 55 percent of all subscriptions received by magazine publishers over the last 20-odd years have been obtained by such personal solicitation. This is an overall figure, based on the best available records. In the case of some individual publishers, however, particularly a number of the smaller ones who do not have substantial newsstand distribution, their circulation is almost entirely dependent upon personal subscription solicitation.

The problems which will face the magazine publishing industry if H. R. 6000 is enacted with the present employee definitions, will arise because of the many individuals who solicit magazine subscriptions and the many different ways in which they carry on solicitation. Arrangements for magazine subscription soliciting are made with individuals by publishers directly and by subscription agencies of various kinds. Virtually anyone who does not have a known record or reputation for dishonesty or fraud can obtain magazine subscription blanks and engage in soliciting under the long-established practices in the industry. Because of the general informality of the arrangements, the lack of regular reporting requirements and the fact that the arrangements are seldom formally terminated, it is impossible to be exact as to the number of individuals involved. It has been estimated, however, by persons familiar with subscription operations, that if the paragraphs of the employee definitions referred to are enacted, question will be raised as to the status of 150,000, or more, individuals.

CHARACTERISTICS OF MAGAZINE SOLICITATION

Both men and women solicit magazine subscriptions. A relatively few solicit with some degree of regularity and, for a time or from time to time, engage in

soliciting as a full-time occupation. Many more solicit sporadically or as part-time activities in connection with other occupations, as in the case of school teachers and housewives or of students who solicit during vacation periods. Many solicit as a means of supplementing other income or filling in times of unemployment in their regular occupations.

The operations of magazine solicitors are carried on all over the United States, at places removed from the offices or places of business of the publishers or subscription agencies to which they send the subscriptions obtained. Some magazine solicitors go from door to door. Others solicit in business establishments of their own or where they may be employed. Still others use the telephone or personal correspondence. Such individuals generally pursue their activities in the manner and to the extent which they themselves determine and at such times and at such places as may suit their own conveniences and purposes. Many solicit subscriptions for several different magazines of different publishers at the same time. Their income is entirely dependent on their individual efforts and persistence, exercised independently in their own way to such extent as they may choose.

Actually, magazine soliciting calls for a marked degree of individual initiative and enterprise without the helping hand of the publisher or the subscription agency. In the nature of things, except in a very few instances where publishers and subscription agencies deliberately endeavor to secure magazine subscriptions through employees, the assistance and control which publishers or subscription agencies can render or exercise over the means and methods of the operations of the magazine solicitors are extremely limited or impossible.

The relationship between publishers or subscription agencies and solicitors of magazine subscriptions, with the few exceptions mentioned, is clearly not that of employer and employee, as those terms have heretofore been understood and defined. However, since social security and unemployment insurance legislation was first enacted, a number of publishers have had to defend themselves by proceedings in the Bureau of Internal Revenue and the courts. Although these proceedings have generally resulted in the determination that no relationship of employer-employee exists, there can be no question but that it is the desire and purpose of the administrators of the social security and corresponding contributions and taxing acts to extend the scope of the employee definitions, as they presently stand, to cover magazine solicitors and many others engaged in outside selling occupations. There can also be no question but that the fourth paragraphs, especially, of the employee de initions in H. R. 6000 would place in the hands of these administrators a tool with which they could effect such extension, in the exercise of uncontrolled discretion, to unknown and unpredictable limits.

PRACTICAL EFFECTS OF THE PROPOSED EMPLOYEE DEFINITIONS

The practical effects of the enactment of the third and fourth paragraphs of the employee definitions in H. R. 6000, if the administrative authorities succeed in applying them to magazine solicitors, will be serious. Publishers and subscription agencies will be faced with two problems of the utmost difficulty in connection with the withholding requirements of the Federal Insurance Contributions Act and the keeping of records and reporting.

(*a*) Withholding: Most magazine solicitors retain for themselves a percentage of the subscription price out of the payments which the subscribers make to such solicitors, for or on account of their subscriptions. Publishers and subscription agencies simply are not in a position in such instances to comply with the withholding requirements of the Federal Insurance Contributions Act. They will be faced with an impossible situation involving the risk of penalties, if they are required to withhold contributions in respect to these magazine solicitors.

(*b*) Records and reports: The burden of keeping records and reporting in respect of magazine solicitors is quite as serious as withholding, although harder to demonstrate. It is at this point, because of the expense involved, that the impact of the proposed definitions will be most severely felt. Quite conceivably, the financial burden of setting up and maintaining pay-roll records and preparing and filing returns for magazine solicitors would amount to more than the taxes which would have to be paid by publishers and subscription agencies. There is real apprehension in the industry that some publishers, particularly smaller ones who rely largely on subscriptions for circulation, could not survive the event.

The reasons for such apprehension arise out of the facts. It is a matter of fact that a very large proportion of the individuals who obtain authority to

solicit magazine subscriptions turn in subscriptions for no more than a couple of weeks and only a few do so for more than a period of a year. In addition to this short-term activity, there is a great deal of irregularity. It is not at all uncommon for a publisher or subscription agency to receive subscriptions from an individual more or less regularly for a period of time and then, after several weeks, during which he may be inactive or engaged in some other activity, about which the publisher or agency does not know, the individual may again send in further subscriptions.

The burden and expense of record keeping and reporting in connection with various taxes is, of course, a subject of some complaint in industry generally. In the publishing industry, however, by reason of the foregoing short-term activity and irregularity among magazine solicitors, these burdens and expenses would be unreasonably heavy, if such solicitors should be held to be covered by the withholding requirements of the Federal Insurance Contributions Act.

It is not irrelevant to note here the burden on the Treasury Department which would also result from an application of the proposed employee definitions to magazine solicitors. It is a characteristic of magazine soliciting that solicitors frequently shift from one publisher or agency to another. Also, there are many instances where solicitors solicit subscribtions to magazines of more than one publisher. Many solicit as a part-time occupation in addition to being engaged as an employee in some other occupation. In such a changing and involved situation there is bound to be a high incidence of excess withholding by the various employers or so-called employers, and, consequently, an unusually large number of adjustments and refund claims. This is surely a factor to be considered, particularly as it wouldn't arise, where a self-employment benefit and tax plan is provided, if only the well-recognized, common-law test of employer-employee is adopted.

THE PROPOSED EMPLOYEE DEFINITIONS ARE UNCERTAIN AND UNSOUND

The application of the proposed employee definitions in H. R. 6000 to magazine solicitors which has thus far been assumed is based on the well-known attitude or desire of the administrators of the social security and related taxing acts to extend coverage. Actually, such application is not conceded. The part of paragraphs (3) of the definitions which refers to house-to-house salesmen (subdivisions (G)) is a cause of concern, not because its provisions appear on their face to fit magazine solicitors, but because, by going beyond the common law tests of the relationship of employer and employee, it will no doubt cause the administrative agencies to raise questions, which will involve publishers and agencies in unnecessary explanations and, possibly, litigation, with the costs and expenses involved. The fourth paragraphs of the definitions are more serious and require more extended discussion. By picking out some of the common law tests of the employer-employee relationship to set up a separate category of statutory employees, but failing to specify, beyond referring to their "combined effect," how they are to be applied, the paragraphs are so uncertain and elusive that uncontrolled administrative discretion and determination of their application in individual instances appear as the only way in which the many questions which arise under the tests can be resolved.

Certainly, under the language of the fourth paragraphs, neither publishers and subscription agencies nor even the magazine solicitors themselves will be able to tell at the outset whether solicitors are employees or not. On the face of the paragraphs, an individual becomes an employee who has the "status of an employee," as determined by the "combined effect" of seven tests, namely:

"* * * (a) control over the individual, (b) permanency of the relationship, (c) regularity and frequency of performance of the service, (d) integration of the individual's work in the business to which he renders service, (e) lack of skill required of the individual, (f) lack of investment by the individual in facilities for work, and (g) lack of opportunities of the individual for profit or loss."

The use of the term "employee" in defining an individual's status as an employee is plainly not conducive to understanding and it is certainly not clear how the seven tests are to be weighed and applied to produce a "combined effect" in determining if an individual has such a status. It seems obvious that the administrators of the acts will have to promulgate regulations to make the fourth paragraphs workable, and this raises the fundamental issue of who is to make the law.

The attempt by the administrators to establish these seven tests or something closely resembling them is of recent history and need not be detailed to this committee. For present purposes it is sufficient to note that, in connection with the regulations proposed some 2 years ago by the Treasury Department, on the basis of some obscure language in the Supreme Court opinion in *United States* v. *Silk* (331 U. S. 704), the report of the House Ways and Means Committee on House Joint Resolution 296 (80th Cong.) observed that:

"The issue involved in the proposed regulations is whether the scope of social-security coverage should be determined by the Congress or by other branches of the Government. * * *

"* * * under the proposed regulations, the question of coverage will be determined not by the Congress, but by the Social Security Agency, the Treasury, and the courts."

In the unfortunate event that this issue should be resolved in favor of the administrative authorities writing the law as to coverage, the solution is not likely to result in relieving the magazine or any other industry, or the individuals performing selling services for it, of the risks and uncertainties inherent in the proposed paragraphs. At any rate, the regulations which were proposed by the Treasury Department, to which House Joint Resolution 296 (80th Cong.) was directed, listed six factors for the determination of the employee status, which, in their essentials, corresponded to the factors of the fourth paragraphs of the employee definitions in H. R. 6000, except the factor which has been added of regularity and frequency of service. These regulations then went on to provide that:

"* * * their listing is neither complete nor in order of importance); * * * The absence of mention of any factor, fact, or element in these regulations * * * should be given no significance, * * *.

"Each of the factors is to be examined and applied in a particular case for its significance in determining in that case whether, as a matter of economic reality, the individual is dependent upon, or independent of, the business to which he renders service. * * *

"No one factor is controlling. The mere number of factors pointing to a particular conclusion does not determine the result. All the factors are to be weighed for their composite effect. It is the total situation in the case that governs in the determination."

It is submitted that a regulation such as the foregoing (and what other is conceivable given the language of the fourth paragraphs and the known attitude of the Treasury Department), proposes an administrative determination in each individual case, without any fixed or definite standards which would serve as a guide either to persons who desire to abide by the law or to employees of the Bureau of Internal Revenue who are supposed to administer the law fairly and evenly throughout the country; in short, the proposal is government by men and not by law.

Once again, it is the practical effect of the vagaries of the proposed paragraphs and the probable regulations which give rise to protest. Every publisher and subscription agency which receives subscriptions from individual solicitors will be compelled to reassess its situation in the light of possible contentions by taxing officials. Publishers and agencies in many instances will find it necessary to litigate in order properly to determine their liabilities and duties. In the meantime, they will be under the necessity of paying such taxes as are assessed and attempt to obtain refunds or be subject to the risks and contingent liabilities of such taxes and of interest and penalties for failure to pay. They will also be subject to the risk of penalties for failure to withhold employee contributions.

All this can and should be avoided by simply allowing the present common-law tests to stand.

THE PROPOSED EMPLOYEE DEFINITIONS PRESENT RISKS TO THE INDIVIDUALS INVOLVED

The proposed employee definitions in H. R. 6000 are also a serious matter to the many individuals concerned. The proposed act in section 207 contains a new tax on self-employment income. Under this tax individuals rendering services to others will have to determine whether they are employees or not by the same definitions that are here discussed, and they will have to make such determination at the peril of penalties as provided by proposed new section 1646 of the Internal Revenue Code at page 161 of the pending bill.

H. R. 6000 proposes to extend social-security benefits to the self-employed. This is an altogether worthy purpose. But why should a large number of the

persons, who might otherwise benefit from the plan, be saddled with the uncertainties and risks of trying to make determinations as to whether or not they are employees or self-employed individuals under new tests, particularly the vague tests of the fourth paragraphs of the proposed definitions of the term "employee"?

Surely the common-law tests of the employer-employee relationship provide the soundest and best understood tests and are most likely to render the plan of providing social-security coverage for the self-employed workable.

THE PROPOSED EMPLOYEE DEFINITIONS ARE UNNECESSARY

The proposed employee definitions in H. R. 6000 are entirely unnecessary if the plan for coverage of the self-employed is adopted. When the Treasury Department proposed the regulations referred to above, social-security coverage of the self-employed had not reached its present advanced stage. However laudable may have been the desire of the Treasury Department to extend coverage, that objective is now by way of being achieved by orderly legislative processes. In order to achieve the social reform, there is no need to place in the hands of administrative officials a power to extend coverage by administrative fiat. There is no need to subject publishers or individuals to harassments and risks.

CONCLUSION

In conclusion, it is submitted:

1. That the proposed fourth paragraphs of the employee definitions in H. R. 6000, so far as they go beyond the common-law tests, are entirely unnecessary and confusing, in relation to the plan to provide social-security coverage for and require taxes from the self-employed;

2. In any event, the fourth paragraph of the proposed definitions is entirely unintelligible and unworkable and can only result, whether intended or not, at best, in an unwarranted delegation of power to administrative authorities to make rules of law without the guidance of any proper standards or safeguards for the protection of those who must abide by them or, at worst, in uncontrolled and varying applications of the provisions by the administrative agencies in comparable instances which should be treated alike; and

3. If the proposed definitions, in going beyond the common-law tests, should eventually result in magazine solicitors being held "employees" of magazine publishers and subscription agencies, it would impose undue and unreasonable burdens, hardships, and risks upon magazine publishers who are dependent upon subscription solicitation, upon the administrative agencies which must administer the act, and upon magazine solicitors as individuals.

Mr. ROBINSON. Then I would like to introduce Mr. Clinton Morris, of Sandusky, Ohio.

STATEMENT OF CLINTON MORRIS, SANDUSKY, OHIO, PERIODICAL PUBLISHERS SERVICE BUREAU, INC.

Mr. MORRIS. As Mr. Robinson has said, I am Clinton Morris, I reside in Sandusky, Ohio, and I am now and have been for more than 40 years engaged in the magazine subscription business.

During all that time I have been employed by Periodical Publishers Service Bureau, Inc., which has its home office in Sandusky, Ohio, and which has 36 branch subscription soliciting offices located in various cities of the United States.

My company, of which I am manager, does not publish magazines. It handles, on a commission basis, subscriptions to magazines published by others. The subscriptions are for the most part "paid during service" subscriptions; that is, subscriptions which are obtained by solicitors who receive a portion of the subscription price and which are paid for by the subscribers on an installment basis, each monthly installment of a subscription price being collected on a percentage basis by other persons known as collectors. My company handles

subscriptions for all kinds of magazines. When it obtains a subscription it is sent to the publisher involved, and the publisher, who is paid by my company, fills it by mailing directly to the subscriber the magazine or magazines called for by the subscription.

Senator MILLIKIN. Are you responsible for the payment of the subscription to the company?

Mr. MORRIS. Yes, sir; we are.

Although my 40 years in the magazine subscription business have been spent with one company, I am, because of my experience and the nature of my work and of my contacts with others in the same business, familiar not only with the way my company obtains subscriptions but also with the way other companies obtain them.

To my knowledge, two other companies besides my own handle subscriptions sold on a paid-during-service basis. Most subscriptions, however, are not so sold. They are sold on an all-cash basis, or on a two-pay basis. On a sale of a cash basis subscription the solicitor collects the full subscription price and then sends in the subscription and the money collected, less a portion which he retains for himself, to the publisher or subscription agency with which he deals. On the sale of a two-pay basis subscription the solicitor collects half the subscription price from the subscriber and sends in the subscription and the money collected, less his retained portion, and the publisher or agency involved bills the subscriber for the remaining half of the price.

I would say, from my experience, that by far the largest number of people who solicit subscriptions throughout the United States do so on the basis of catalogs which are sent to them on request by publishers or publishers' agents who deal with them entirely by mail.

Senator MILLIKIN. Tell me that again, please.

Mr. MORRIS. The majority of the people engaged in the magazine subscription business are what is known as catalog agents. They are sent a catalog, listing the magazines and giving the subscription price, the amount that they are to send to the publisher or the agent. They retain for themselves this commission.

Senator MILLIKIN. That is, the people that are in the same branch of the business that you are in?

Mr. MORRIS. The catalog agents, yes.

These catalogs contain the names of practically all magazines with their subscription prices. These solicitors obtain cash subscriptions and work on the basis of deducting and keeping a portion of the payments made by subscribers. From one company of this kind I requested specific information for the purpose of this hearing. I was told that the catalog solicitors include corporations and partnerships as well as individuals, and that the individuals include housewives, shut-ins, schoolboys and many others for whom soliciting is only a sideline and part-time activity. The above company received from such solicitors 89,742 separate orders in 1948 and 80,182 separate orders in 1949. The name of each of these solicitors stays on the company's subscription records until a year passes after the last subscription order has been received from him. Then it is taken off on the theory that the solicitor is no longer interested in obtaining catalogs or subscriptions.

According to the subscription records of 1948 of this company catalogs were sent to 18,019 solicitors, but from 2,539 of them no sub-

scriptions at all were received. Of the remaining 15,480 by far the largest number or 14,158 sent in from 1 to 25 subscriptions each during 1948 and each made, on an average, 16 cents per week.

Nine hundred and seventy-four sent in from 26 to 100 subscriptions each, and each of these made, on an average, 97 cents per week: 121 sent in from 100 to 200 subscriptions each and made, on an average $2.41 per week; 86 sent in from 200 to 500 subscriptions each and made, on an average, $6.18 per week; 20 sent in from 500 to 800 subscriptions each and made, on an average $14.24 per week; and the remaining 21 sent in over 800 subscriptions each and made, on an average, $24.80 per week. These people, of course have no fixed quotas, hours or territory and their subscriptions come in irregularly, generally increasing near Christmas time. In other words, they solicit where, when, and to such extent as they choose.

Other people obtain subscriptions by using their home telephones. The company mentioned above has a telephone sales department, and says that it has arrangements with 600 telephone sales solicitors scattered all around the country. These people, obviously solicit on their own and at their own expense and the circumstances as to them are comparable to the catalog solicitors already discussed.

Other solicitors work in groups, called crews, which travel from place to place on their own or out from branch offices of subscription agencies where they turn in subscriptions. Each crew member works on a basis of retaining or receiving a portion of the subscription price and pays his own expenses, which often includes a share of the cost of operating an automobile belonging to someone in the group, and the cost of meals or of board and lodging away from home.

My own company, and at least two others, have working arrangements with solicitors who obtain original subscriptions and with collectors who collect the monthly installments payable by subscribers and obtain renewal subscriptions.

In the month of January 1950 my company had made arrangements with 1,043 solicitors and 1,697 collectors. Most of those solicitors and collectors solicited or collected merely as a side line, and the largest part worked only part time. Of the 1,043 solicitors 706, or 70 percent made less than $50 in that month; and of the 1,697 collectors 1,045, or 61 percent made less than $50 in that month. Of course the earnings of solicitors or collectors depend upon themselves. They may do as little or as much work as they please. They have no minimum quotas or fixed routes.

Our records show that in January of this year and other periods, some solicitors sent in subscriptions with fair regularity for a time; others sent in subscriptions for a few weeks or from time to time or irregularly over a period of some months. The turn-over of such persons is very great, frequently running as high as 33 percent per month. A very few solicitors and collectors who devote their full time and solicit regularly, and get others to help them, make substantial money. One solicitor, for example, made, according to my company's records, $730 in January 1950, and one collector made $640.

In the case of my company, solicitors were ruled to be independent contractors by the Federal Bureau of Internal Revenue in July 1938, and are still so ruled, and I have been informed and believe many similar rulings were given by the Bureau to other companies with respect to solicitors.

A similar ruling was made in the case of my company at the same time by the Bureau with respect to collectors, but the Bureau reversed itself on collectors in March 1944, retroactively to January 1, 1944. Thereafter Federal Insurance Contributions Act taxes were paid on collectors for the first quarter in 1944 and a test suit instituted. The action was tried in the Federal district court in Toledo, Ohio, and after a full presentation of all the facts the court held in October 1947 that the collectors were independent contractors. In April 1949 the judgment to that effect was affirmed by the Court of Appeals for the Sixth Circuit (See *Brady* v. *Periodical Publishers Service Bureau, Inc.*, 173 F. 2d 776). Both the district court and the court of appeals decided the case with full knowledge of the Silk and Greyvan cases decided by the United States Supreme Court in June 1947.

In the collector case above-mentioned the court found after trial that during the first quarter of 1944 there were 2,194 collectors in the United States turning in collections to the branch offices above-mentioned; that they lived at varying distances therefrom, the greatest distance being 600 miles; that most collectors conduct their businesses with the branch offices by mail; that they receive commissions only and pay their own expenses; and it also found:

> The "collectors" and "collectors and solicitors" have the right to determine, and they do determine, for themselves how their work shall be done, determining for themselves on what days and during what hours the work shall be done; with respect to what particular subscriber or group of subscribers the work shall be done at any particular time, in other words where it shall be done at any particular time; whether it shall be done personally or through or with the help of husbands or wives or sons or daughters or brothers or sisters or neighbors or others obtained by them and not even known to the plaintiff; whether it shall be done on foot or by automobile or by trolley car or bus; whether it shall be done by personal visits to the subscriber or by telephone calls to him, or by mail to and from him; whether it shall be done by making one call per month upon subscriber, or making so-called "back calls" until the subscriber pays, or by collecting two or more installments at one time; whether more or less expense for back calls, transportation, and other things shall be incurred in connection with a particular collection or a particular verification or a particular solicitation of a renewal or original subscription; and whether or not to solicit renewal or original subscriptions, and when and from whom to solicit them.
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> Under their agreements with the plaintiff, the collectors and collectors and solicitors are not required to, and in most cases do not, devote their entire time and attention to the work for which they are compensated by the plaintiff as aforesaid, but on the contrary they are free to engage in any other work they wish to engage in (including soliciting subscriptions for others and collecting for others), and many of the collectors and collectors and solicitors do engage in other work, treating the work for which the plaintiff pays them as a mere side line which is separate and apart from and in addition to housekeeping or to regular business activities.

These facts, although found as to our collectors, are equally typical in general of our solicitors.

The rulings above mentioned to the effect that magazine subscription solicitors are independent contractors were handed down by the Bureau of Internal Revenue to my company and many others under the well known common law test as to freedom from control as to means and methods, and the court decisions above mentioned on magazine subscription money collectors were handed down on the same theory even after the decisions in *United States* v. *Silk* (331 U. S. 704) and *Harrison* v. *Greyvan Lines, Inc.* (331 U. S. 704). Now it is proposed by H. R. 6000 to add to that test provisions which seem calculated to make employees of everyone who renders services for

another unless he invests capital in his business and serves the public generally.

H. R. 6000, in my opinion, although its language is far from clear, especially in subdivision 4 of its proposed new employee definition, is calculated to put employer responsibilities upon people who for excellent reasons have long been held by the courts and by Congress not to be rightly subject to such responsibilities.

Magazine subscription solicitors and collectors are not subject to control now as employees are, and they will not be subject to control hereafter, even if they are declared employees by some definition such as now contained in H. R. 6000. Nevertheless, if such a definition is enacted into statute, it appears to me that publishers and subscription agencies will be liable to withhold taxes in situations where they do not receive or control the money from which withholding is to be made and that they will also be obliged, at great expense, to keep pay roll records and file reports in respect of thousands of people who are not now on such rolls and who, individually, produce very little revenue. Consequently, in my opinion, the following things will happen in the magazine subscription business, if that bill is so enacted:

(1) A source, and often an important source, of income or supplemental income, will be taken away from many thousands of people throughout the United States who now solicit magazine subscriptions or collect magazine subscription moneys. This is so because this income of so many solicitors and collectors is so small that it will be practically impossible or economically unwise for publishers or publishers' agents to withhold taxes, keep detailed records, and make detailed reports with respect to them. In fact it would be altogether impossible in many instances either to compute or to collect accurately, in terms of dollars and cents, taxes on the very small amounts made by many of these people, who often live and work hundreds of miles away from the publishers or publishers' agents to whom they send in subscriptions or moneys collected and with whom they deal only by mail.

(2) The magazine business itself will be harmed if it becomes necessary to abolish important subscription soliciting methods long in use because the difficulties and expense of collecting taxes from thousands of solicitors or collectors of small earnings make it impossible to continue to use those methods. The long-established practices, which I have described, have been widely adopted in the magazine subscription business because they make it economically possible to reach large numbers of potential subscribers in places both near and remote from the place of business of the publisher or agency. Other methods of solicitation, whether economic or not, may be forced by statute as an alternative to the present methods of securing subscriptions, but, in my opinion, such a thing will surely result in the curtailment of the presently wide-open opportunities for persons to engage in soliciting and collecting and will also result in the reduction of the number of people to whom magazines can be sold. Ultimately, the result will be to restrict the circulation of magazines.

The CHAIRMAN. Thank you very much, Mr. Morris.

That finishes the call of the witnesses for today, and the committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 11:55 a. m., the committee recessed to reconvene Wednesday, March 22, 1950, at 10 a. m.)

SOCIAL SECURITY REVISION

WEDNESDAY, MARCH 22, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Millikin, Taft, Brewster, and Martin.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

We had expected to hear this morning from Mr. H. L. Mitchell, president of the National Farm Labor Union, but I am advised by wire he will be unable to appear on account of illness. However, he will submit for the record a written statement on the need for social security for farm workers.

(The statement referred to, when submitted, will be placed in the files for the information of the committee.)

Senator MARTIN. Mr. Chairman, Dr. Francis B. Haas, who is the secretary of education of the Commonwealth of Pennsylvania, wishes to make known his opposition to that feature of H. R. 6000 permitting teachers and others to become a part of the State retirement systems.

The CHAIRMAN. It is so noted.

Senator MARTIN. Then, Gus Wachhaus, who is a member of the General Assembly of Pennsylvania, an who is blind, wants to place on record that he does not want anything that might interfere with the Pennsylvania or Missouri systems.

The CHAIRMAN. It is so noted.

Senator MARTIN. Dr. Joseph V. M. Ross of Berwick, Pa., wants the same notation made as it relates to the blind.

The CHAIRMAN. It is so noted.

Senator MARTIN. The same from Emory A. Rittenhouse of McKeesport, Pa., and Mrs. Paul Jones of the Washington County Branch of the Pennsylvania Association for the Blind; the same for Philip N. Harrison, who is the executive secretary for the Pennsylvania Association for the Blind.

The CHAIRMAN. It is so noted in the record.

Senator MARTIN. I also have here a statement from Mr. Leonard P. Fox, general secretary of the Pennsylvania State Chamber of Commerce, which, if it has not already been entered in the record, I would like to submit at this time.

(The statement referred to follows:)

STATEMENT FROM THE BOARD OF DIRECTORS OF THE PENNSYLVANIA STATE CHAMBER OF COMMERCE ON VARIOUS PROPOSALS IN H. R. 6000 TO EXPAND EXISTING SOCIAL-SECURITY LEGISLATION

The Pennsylvania State Chamber of Commerce, Harrisburg, Pa., is a business organization in the Commonwealth of Pennsylvania, composed of 3,600 individual business memberships, 155 local chamber of commerce in Pennsylvania, and 85 trade associations, both State-wide and regional. The Pennsylvania State Chamber's membership includes virtually all types of business. Actions taken by the board of directors of the State chamber were based on recommendations of its social-security committee comprising 19 members, representing various types of industry, and thoroughly conversant with the requirements and implications of social-security legislation.

INCREASES IN OASI BENEFITS

Since the enactment of the social-security legislation in 1935 and particularly since the amendments of 1939, there have been marked increases in wages with generally concurrent increases in living costs. The result is that the benefits for old-age and survivors insurance present too great a disparity with present wage scales and cost of living. One effect of this condition has been to require in numbers of cases the supplementing of OASI benefit awards by funds from State old-age assistance matched by Federal grants. Consequently, increasing the amounts of benefits under the old-age and survivors insurance proposal is favored as a logical step toward establishing a proper subsistence level for OASI beneficiaries. It is recommended that the minimum individual benefit be increased from $10 to $25 monthly and the maximum individual benefit be increased from $85 to $125 per month, with primary monthly individual benefit established at $65. It is also recommended that an increment of one-half of 1 percent per year be applicable.

KEEP PAY-ROLL TAXES ON PAY-AS-YOU-GO BASIS

The graduated increases in tax rates, equally applicable to employers and employees, proposed in H. R. 6000 for old-age and survivors insurance purposes, are opposed. It is recommended instead that the tax rate of 1½ percent, applicable equally to employers and employees as fixed January 1, 1950, be continued until such time that increase be necessary. The reserve fund is now approximately $11,000,000,000. Excess of income over outgo should not be permitted to result in an inordinately large reserve fund and the system should be on as nearly a pay-as-you-go basis as experience makes possible without extensive speculatory rate making. Flexibility is possible through rate increases by Congress when necessary.

DISABILITY BENEFITS OPPOSED

Disability benefit payments as provided in H. R. 6000 are opposed because of extreme difficulties, including great administrative costs and other expense, which would develop in adjudicating such claims throughout the Nation. State public-assistance systems, voluntary agencies, and the State vocational-rehabilitation agencies can more advantageously cope with the problems of the disabled. It is highly probable that any disability system in the social-security legislation would ultimately get out of hand and cause serious drains on the OASI funds.

SPECIFIC DEFINITION OF "EMPLOYEE" RECOMMENDED

It is recommended that a specific and final definition of "employee" be incorporated in the law on the original "master and servant" concept of common law. Great confusion would undoubtedly result from the granting of discretionary power to any administrative agency to define the word "employee." Especially affected in this area of uncertainty would be workers who should be considered as self-employed.

RECOMMENDED RETENTION OF TAX AND BENEFIT BASE

It is recommended that the tax and benefit base of each annual individual wage for OASI purposes be retained at $3,000 instead of being increased to $3,600, as provided in H. R. 6000. Such increase would result in increasing benefit amounts only to those earning more than $3,000 per year and would provide no increase for those earning below $3,000 annually. At the present time, the $3,000 wage base is fixed in unemployment-compensation laws of the States. Because of this

uniformity in the base tax, employers in number of States can submit to the State unemployment-compensation authorities duplicate wage report lists of those sent to Washington, on a quarterly calendar basis for OASI purposes. Variation in the wage bases would cause costly administrative difficulties in those States where employers may now submit employee wage reports as above indicated.

FIX MINIMUM MONTHLY EARNINGS AT $50

To prevent supplementing an OASI minimum monthly benefit award from old-age assistance funds and to encourage earnings on the part of older persons, it is recommended that a worker retired under the social-security legislation be permitted to earn up to $50 a month, instead of the present $15 per month, without forfeiting his OASI benefit. The proposal to permit a beneficiary 75 years of age or more to earn in excess of $50 a month without endangering his benefit is opposed as generally unnecessary. The proposal to provide lump-sum death payment is opposed because under the increased schedule of benefits provision for such cost could be available.

COVERAGE IN PUERTO RICO AND VIRGIN ISLANDS OPPOSED

The proposal to extend OASI coverage to workers in Puerto Rico and the Virgin Islands is opposed as unsound to provide high minimum benefits which are not commensurate with the economy or wage structure of those possessions.

Submitted by:

[SEAL] LEONARD P. FOX,

General Secretary, Pennsylvania State Chamber of Commerce.

MARCH 16, 1950.

Senator MARTIN. Mr. Chairman, the Reverend Edward T. Sullivan of the Catholic Charities of Carbondale, Pa., makes their views known as follows:

(1) Opposed to any enlargement of child-welfare services. A number of States are not using the money made available to them under "child-welfare services" at the present time because, as the Commissioner of Welfare of New York State pointed out in his testimony on H. R. 6000, the rules made by the Children's Bureau make it impossible for them to maintain their traditional relationships with voluntary agencies.

(2) Opposed to change in the definition of a "dependent child," which would have the effect of making title IV of the Social Security Act into a program of unemployment relief under the aegis of Aid to Dependent Children.

(3) Opposed to grant-in-aid to the States for general public assistance because this would bring the Federal Government into the entire field of relief and service and would set up a pattern of service for all American families, whether needy or not.

(4) Strongly in favor of the provisions of H. R. 6000 which would extend and improve the program of old-age and survivors insurance, including its provisions in regard to voluntary coverage of nonprofit agencies. We believe, however, that the time has come for the Congress to extend the program of old-age and survivors insurance so as to cover all the present aged. We believe that the present generation should face immediately the problem of caring for its own aged, on a pay-as-you-go basis.

Also, from the department of charities of the diocese of Erie, the Very Reverend Msgr. James M. Powers suggests the following:

In its present form H. R. 6000 is not too objectionable in the field of child care. However, the Catholic Church feels that if the amount appropriated for child-welfare services is increased much beyond the present figure of 3½ million dollars, it would be a serious threat to our Catholic-welfare programs. A greatly enlarged subsidy would enable the States to take over the child-welfare program from the counties in our State, and enable the State to handle the many Catholic children who are committed to us by the various counties.

Naturally, we in the Catholic welfare field are anxious to provide Catholic services for Catholic children. For this reason His Excellency, Bishop Gannon, has directed me to write to you to lay before you our desires in the matter. As you know, if the new program were instituted in Pennsylvania, it would work a serious hardship on Catholic welfare because of the present Pennsylvania philosophy and legislation regarding the use of public funds by private agencies.

For this reason, I ask you as a member of the Committee on Finance to consider favorably our request that you not increase the present 3½ million dollar subsidy until such time as there is more definite understanding as to how the program will affect voluntary child-welfare services. Rt. Rev. Msgr. John O'Grady of Washington presented very clearly the Catholic side of this picture before the Senate Comittee on Finance on February 1.

Mr. Chairman, Mr. Clarence Klocksin, of the legislative counsel of the Northwestern Mutual Life Insurance Co., proposes that full-time life-insurance salesmen be brought within the OASI provisions of the Social Security Act and suggests the following amendment:

At the end of section 211 of H. R. 6000 add a new paragraph to be designated section 211 (a) (9), as follows:

"(9) In computing 'net earnings from self-employment' of any individual under contract as a life-insurance salesman with any company authorized to issue life-insurance and annuity contracts, or under contract as a life-insurance salesman with an authorized agent of said company, there shall be deducted—

"(a) All remuneration earned by said individual as a life-insurance salesman except remuneration earned and received by him while under a written contract whereby he is required to devote his full time, or substantially all of his business activities, to the sale of life-insurance and annuity contracts to be issued by one company: *Provided*, That after termination of said full-time sales contract the receipt of commissions earned under said contract while the contract was in force shall not constitute earnings in self-employment.

"(b) Fifteen percent of the remuneration subject to this Act under subparagraph (a), which deduction shall be in lieu of all deductions allowed for business expenses attributable to the trade or business permitted under section 211 of this Act."

Amend section 207 (a) of H. R. 6000 by adding thereto an additional section, as follows:

"Sec. 207 (b). Chapter 9 of the Internal Revenue Code is amended by adding at the end thereof the following new subchapter:

"'Subchapter (G). Tax in respect to self-employment income of full-time life-insurance salesmen:

"'A. Rate of tax on salesmen: In lieu of all taxes imposed by subchapter (F) of Internal Revenue Code, and in addition to all other taxes, there shall be levied, collected, and paid each taxable year beginning after December 31, 1949, upon the self-employment income of every full-time life-insurance salesman after December 31, 1949, a tax equal to the percentages and at the rates provided in section 1400 of the Internal Revenue Code (as amended by sec. 201–A of H. R. 6000) in respect to wages received by employees.

"'B. Rate of tax to be paid by life-insurance company: In addition to all other taxes, every life-insurance company shall pay an excise tax, with respect to having individuals under contract with it as full-time life-insurance salesmen, upon the self-employment income paid by such life-insurance company to each full-time life-insurance salesman after December 31, 1949, in respect to services rendered by any such salesman after said date; and said tax shall be equal to the same percentages and at the same rates provided in section 1410 of the Internal Revenue Code (as amended by sec. 201–B of H. R. 6000) with respect to wages paid to employees.'"

Mr. Chairman, Congressman Robert F. Rich, Fifteenth District of Pennsylvania, would like to state that Mr. W. Clyde Sykes of the Emporium Forestry Co. desires a more definite definition of the word "employee" in the act.

Also, I desire to submit that James B. Boor of the Atlantic Refining Co. desires a more definite definition of the word "employee" in the act.

Miss Mary Harris, representing the Pennsylvania Association for the Blind of the Delaware County Branch, desires to object to permitting optometrists to making the eye examinations and vision tests.

The CHAIRMAN. We are glad to have these views, Senator.

Dr. Meriam? Doctor, you may come around. I think other members of the committee will be in shortly.

Is anyone else from the institution with you?

STATEMENT OF DR. LEWIS MERIAM, VICE PRESIDENT, BROOKINGS INSTITUTION, WASHINGTON, D. C.

Dr. MERIAM. No, sir. I regret that Dr. Moulton is out of the city, and my colleague Mr. Schlotterbeck is detained at home by illness; so that I am the only one.

The CHAIRMAN. Yes, sir. You may be seated if you wish to.

Dr. MERIAM. Mr. Chairman and gentlemen, the Brookings Institution appreciates your invitation to have a representative appear before you to testify on the important subject which you have under consideration. As that representative, I should like to present a brief opening statement summarizing the recommendations I would make and the broad reasons underlying them. The recommendations involve a complete departure from the concepts of private voluntary insurance upon which the existing system of old-age and survivors insurance is partially based. I am of the opinion that the system is socially questionable and from the standpoint of public finance thoroughly unsound. I shall do no more in this opening statement than broadly outline my position, and from then on leave to the members of the committee the question as to how long my testimony is to be.

The basic recommendations are that:

The social-security system should operate on a genuine pay-as-you-go basis.

The law should provide that all persons now in need because of old age or total and permanent disability and their dependents should be immediately eligible for benefits.

The cash to pay the benefits should be raised currently as the benefits come due.

We suggest that the system be financed through a flat-rate universal individual income tax without exemptions so that all persons with income contribute to the system.

The rate of tax should be high enough to supply each year the sum necessary to pay the promised benefits.

The proceeds of the tax should be earmarked and by periodic tax adjustment should be kept roughly in balance with the level of benefits.

In some years there would be a small balance; in others a small deficit. Thus no large reserves would be accumulated. Adjustments in benefits, taxes, or both should be made to preserve practical balance.

What are the basic reasons for these recommendations?

1. Persons who are in need require goods and services to bring them at least to a reasonable minimum of living. The goods and services they require will in the main be currently produced. In other words, the active workers and the owners of productive capital or land in each year must supply the bulk of the goods and services for the dependents of that year. A true pay-as-you-go system will recognize this basic economic fact.

2. The requirements of the needy are for essential goods and services. The level of money benefits granted under a social security system must be sufficient to supply the needed goods and services at prevailing prices. The utility of a system that promises fixed money

benefits payable in the distant future is impaired if not destroyed by an upward spiraling of prices. If wages and prices fall, the money benefits promised years before may place an unreasonably heavy burden on the active workers of that day. The present Congress, in our judgment, should preserve for future Congresses freedom to readjust benefits and taxes in the light of actual conditions prevailing in their time. No Congress can foresee conditions that will prevail 50 years hence, any more than the Congress in 1900 could have foreseen the past 50 years with two world wars and the great increase in wages and prices.

3. Future Congresses will have to give consideration to the total governmental demands for cash in their day and upon the capacity of the economy to yield the tax revenues. Like Congresses in the past, they will have to determine the priorities among the numerous and competing demands of various activities of Government, old and new. Naturally we all hope for an era of peace and good will among men, foreign and domestic tranquillity, and a continuation of those forces that have made the United States the most productive Nation in history, given its people the highest material level of living ever enjoyed by any people, and preserved for them a large measure of personal liberty and individual opportunity. That, however, is a hope; not an assured certainty. Since it is not an assured certainty, it seems the part of wisdom to go no further in committing future Congresses than is unavoidable. We can, I believe, safely trust future Congresses to do as well by the dependents of their day as we do by the dependents of ours.

Our own record to date leaves much to be desired.

1. We have established a no-means test old-age and survivors insurance system that promises benefits to covered workers who remain in it long enough to attain and retain an insured status. At the same time thousands of American citizens equally deserving are denied such benefits. Among them are the persons already too old ever to attain an insured status, active workers who are not in covered employment or who have not worked in covered employment long enough to attain an insured status. These excluded groups, their dependents, and their survivors draw no benefits without a means test and they may be far less able to maintain a reasonable level of living than many drawing these benefits under the old-age and survivors insurance system.

2. The National Government has made grants-in-aid to the States for public assistance for three categories: The aged, the blind, and dependent children living with relatives of the degree specified by law. Certain extensions are provided in bills now before your committee. I shall not go into the details. The point I wish to make is that the National Government has established no standards defining need or regulating the amount of benefit. Wide variation exists among the States. Persons in need from causes other than those occasioning Federal participation may get no assistance at all. Some States give assistance to individuals who would not be eligible in other States.

Thus for the future the Government promises no-means test benefits for all workers who have attained an insured status under old-age and survivors insurance regardless of their need but it has not made comparable provision for other citizens who are not under that sys-

tem despite the fact that they include many of our most needy classes. The first obligation of Congress and of the active workers is to extend benefits to all aged people in need and to eschew legislation which creates specially privileged classes.

3. The present provisions contain many anomalies largely resulting from pursuing false analogies to private voluntary insurance. By adopting certain concepts of private voluntary insurance, we have established a system that requires elaborate and costly record keeping, a system which passes along to future generations commitments for heavy benefit costs in their day and a system in which the reserve fund promotes a widespread belief of financial soundness.

Under the present old-age and survivors insurance system each succeeding year for the next half century will witness a substantial increase in the amount of cash which will be required to pay retirement benefits. We are passing along to children and grandchildren a benefit load proportionately much greater than what we today have been willing to assume.

Adoption of insurance concepts led to the establishment of a so-called reserve fund which consists of interest-bearing United States debt obligations equal in amount to the excess old-age and survivors insurance tax receipts. The excess tax receipts themselves are spent for general expenses of Government. The existence of this fund inevitably leads some to believe it will be comparable in function to the reserves of a private insurance company and hence will assist the Government in meeting the costs of retirement benefits in the decades ahead. Such is not the case, however, as I shall try to illustrate by the use of a simple parallel.

A group consisting of you, me, and a few others form a corporation to engage in a promising business venture. We are optimistic, socially enlightened, but a little short on the capital or cash side. An early decision is that we should at once start a sound contributory retirement system for our employees so that we shall not later be troubled by the heavy cost of benefits for past services. We begin at once to deposit in a special trust account the correct amounts for all our employees, consisting in part of contributions from the corporation and in part of sums of money withheld from the employees' wages.

As this trust account grows the question arises as to how it shall be invested. We are all optimistic over the future of our venture; the only thing that stands in our way is the need for more funds for expansion and for working capital. Our accountant comes forward with the brilliant suggestion that we invest the retirement trust fund in the bonds of our own corporation, specially issued for the purpose. He says they are first-class investments and we can use the cash to great advantage in increasing our productivity and our net income. We are all for it. Thereafter payments to the trust fund and the interest due on our bonds held by it are invested in these excellent bonds. The bonds belonging to the trust fund are meticulously deposited in a special box in the vault at the bank and adequate accounts are scrupulously maintained.

Some years later, when our oldest employees begin to retire, we can no longer invest all the annual contributions of the corporation and the employees in our bonds. Part of the annual contribution has

to be paid in cash because we need the cash to pay benefits. Late the cost of benefits exceeds the annual contributions to the fund. T the extent required, we must pay interest on the bonds held by th fund in cash in order to meet our benefit costs.

Our treasurer makes it perfectly clear that henceforth we mus pay a steadily mounting proportion of the interest due on these bond in cash out of current earnings. He insists that we cannot pay then out of anything else.

A director suggests that we could avoid our immediate difficult by selling to outside holders enough of the bonds presently in th reserve to supply the cash required for benefits. The treasurer point out that interest on the bonds thus sold to outsiders would thereafte have to be paid in cash from earnings. Next year and every yea thereafter, he tells us, we shall have to face the same problem, bu to a somewhat greater extent. It will be a continuous headache o growing intensity.

In the long run we can only pay the interest on our bonds in th retirement system or in the hands of outsiders out of corporate earn ings. Our bonds held by the fund are assets of the fund but they are liabilities of the corporation. The real security behind these bonds in the fund is the earning power of the enterprise—and this is based on the competency of the management and the workers of th corporation to produce goods and services which consumers want and to produce them at a profit.

How does the situation of our corporation differ from that of th Government with its old-age and survivors insurance reserve? Gov ernment has almost no income from earnings. The security behind the bonds in the old-age and survivors insurance reserve fund rests wholly upon the power of the Government to tax and to borrow. The bonds are not backed by earnings assets and thus do not reduce the amount of cash to be raised. The fact is that the draft on tax revenues or the amount to be raised by borrowing from the public will be the same whether there is a reserve fund or not.

The old-age and survivors insurance system, as we have it today, saddles future generations of American citizens with a tremendous commitment for benefit payments in addition to other costs of gov ernment. In view of the uncertainties of the age in which we live such legislation appears to us to be financially reckless.

The safe course, in our opinion, is to adopt a true pay-as-you-go system, giving such benefits as are reasonable and within our present economic ability, paying the costs each year, and trusting future generations to do likewise. The Government is not under contractual obligation to preserve the present system. In our judgment it should make fundamental revision now before the present benefits are readjusted to offset the change in the cost of living. The present offers an opportunity to shift to a financially sound system that may not come again.

The CHAIRMAN. Dr. Meriam, referring to the beginning of your statement, I wish to ask you this question, so as to get it clear in my mind. This is an excellent concept, here, and many parts of it make a very strong appeal to me, but I wish to get this very clear in my mind. You recommended it on page 1, among your recommendations:

The law should provide that all persons now in need because of old age or total and permanent disability and their dependents should be immediately eligible for

Do you mean to recommend a needs test when one has reached the retirement age fixed under your program?

Dr. MERIAM. Senator, that is the first obligation under which the Government rests, as I see it: to take care of those of its citizens whose resources place them below the level which the Congress establishes. They are in need because their resources are below that level.

The CHAIRMAN. Well, would you have that need determined at the Federal level? Or within the States?

Dr. MERIAM. I think our experience with the old-age assistance program indicates that the Federal Government will have to lay down certain Federal standards defining need, so that you will not be in the position in which you now are, of having such wide variations among the States as to what constitutes need and the amount of assistance which is to be given.

The CHAIRMAN. I wished to get that clarified in my mind before the other members of the committee proceed with their questions.

Senator MILLIKIN. I am not clear yet, Mr. Chairman, and I think that is a very penetrating question and goes to important aspects of the testimony.

Do you or do you not believe that the benefits which you are speaking of, here, should rest on a needs test?

Senator TAFT. What does that "all persons now in need" mean? Does that just refer to bringing in people as of this time, or is this a permanent needs test? Which?

Dr. MERIAM. The "now" refers, Senator, to the present. I have written a brief statement on benefits which perhaps, if I read it, may make it a little clearer.

Senator TAFT. May I raise one other question that the Senator has not raised?

Are these benefits under this plan to be flat, regardless of the past wages, and regardless of need?

Dr. MERIAM. Yes, sir.

Senator TAFT. Or are they to be varied in proportion to need? I mean, the plan is very indefinite.

Dr. MERIAM. Suppose I read this statement, then.

The CHAIRMAN. Senator Taft was not here when you began the statement.

I think, Senator, that broadly Dr. Meriam is suggesting a flat increase in income taxes on a net or gross basis.

Senator TAFT. But I was interested in the basis of the benefits.

Dr. MERIAM. Let me read this statement that I have prepared, which I think is a little more coherent than my answers would be:

Our view is that governmental social-security systems should go no further than to put a floor of protection under the people to give individual assurance that under no circumstances will they be in want; that if they would have a greater degree of protection than is afforded by such a minimum they should seek it through voluntary arrangements. Among voluntary arrangements we include personal savings, insurance, annuities, retirement systems for employees of public and private employers, home, farm, or business ownership, and other methods for protection characteristic of a free enterprise system. We do not believe that the Government should use its power to tax to compel its citizens to provide protection of a substantial part of the purchasing power they had been actively employed. The cost of such

protection in direct and indirect taxes will be so great that as the system matures many citizens will find that they have little margin for personal savings, little opportunity to do with their own as they will. Many of them will be forced to adhere closely to the pattern prescribed for them by the Government. We believe that the Government should leave to the people opportunity for initiative and adventure, the opportunity to take chances which may result in profits or losses.

Personally, I should prefer a system that takes into consideration the resources available to an individual or a family and in event of need gives only as much as is necessary to bring the individual or the family to a reasonable minimum level. Under modern administrative practices and adequate appropriations to supply the necessary funds, I believe this system could be applied without harshness and without involving too much loss of self-respect or self-confidence on the part of the recipient.

I am well aware—perhaps better aware than most—of the criticism leveled at the head of one who has the temerity to suggest even the use of a modern means test, such as has been developed in New Zealand.

Many persons who agree with me in respect to the financial dangers of the present system or of H. R. 6000 advocate the payment of a flat uniform benefit to each eligible individual—so much for a single man or single woman, so much for a husband and wife, and so much for each child. These sums would be payable without specific consideration of the resources possessed by the individual concerned.

Under a uniform flat-benefit system the Government would have to make a choice between two alternatives.

The first would be to pay to each beneficiary a fixed amount which would assure him a living in accordance with a minimum health and decency standard even in the absence of other personal resources. Any resources which he might have would then be available to enable him to live above the minimum health and decency standard. Under practically no condition would it be necessary to supplement the fixed benefit from public-assistance funds.

The other alternative would be to base the fixed benefit on the assumption that most people upon the happening of a covered contingency have some resources of their own or have some relative who is willing and able to give assistance. Research might disclose that a benefit of one-half or two-thirds of the amount required for a minimum of subsistence would make satisfactory provision for perhaps 75 to 85 percent of the population. Down at the bottom of the economic scale would be some who did not have enough to maintain a satisfactory level of living. Under such a system a public-assistance program would be necessary to make up the difference.

I am afraid that, should the Government say today that without any means test it will pay to every nonworking person aged 65 or over and to every other eligible person a benefit which will in and of itself sustain that person in accordance with a minimum standard of health and decency, the total amount of money required would be staggering according to present-day standards, although perhaps modest in comparison with the ultimate costs of H. R. 6000. When the Congress looked into the cost they may appear prohibitive if the cash to pay benefits had to be raised by current taxation.

I might say that that was exactly what happened in New Zealand. New Zealand started out in 1939, as I recall, with the idea that they were going to install a no-means-test system, a complete no-means-test system, but they were going to make benefits immediately available to take care of all present citizens who were lacking the resources to get along. When the Ministry completed its investigations, it discovered that the cost of such a universal system, without a means test, was so great that their economy could not stand it; and therefore they adopted a system which has what I have already referred to as a modern means test. And they have only one part of it which operates on a no-means-test basis; that is the part that relates to people who remain in the system and continue to pay for old age without a means test. They promise very low benefits in the first years, because the amount of contributions can't pay for more, and they gradually increase the amount of benefits on a scale so that the last time I studied the New Zealand law the full benefits were not to be reached until, as I recall, 1979.

A frank facing of the true costs of social security as an immediate charge might result in a decision either to use a test of resources in connection with eligibility or to assume some resources in arriving at the amount of benefit which you propose to pay.

May I express the hope that before this committee reports out a bill continuing the existing system that it examine into the costs of a system that will pay benefits to all our citizens who would be eligible for benefits had they spent their lives under a social-security system.

That refers to our people who are no longer in productive enterprise. They are beyond the age of productive enterprise, or they have had some misfortune—the death of the breadwinner, or disability. And we have them with us today. It seems to me that our obligation, our first obligation, is to take care of them.

To phrase it another way, for our generation to assume that responsibility for the old people and the survivors that H. R. 6000 will require our children and our grandchildren to assume, I know the costs will be high, but nothing like as high as we propose to require succeeding generations to pay.

The CHAIRMAN. Then, as I understand it, Doctor, you do suggest needs test, the need to be determined upon standards carefully worked out and laid down by the Congress itself?

Dr. MERIAM. Yes, sir. I have several things that I have worked out. I have prepared a statement with respect to the financing of the system through universal flat rate personal income tax.

The CHAIRMAN. Yes; I presume on some assumed benefit?

Dr. MERIAM. Yes, sir. In that, I have given some indications of what, it seems to me, would be the correct kind of mechanism to administer the means test I have always used. You can call it a resources test if you prefer.

Now, I think that whole discussion of the financing through individual income tax might be worth reading into the record if you so desire.

The CHAIRMAN. I am sure we will want that.

I think perhaps Senator Millikin wishes to pursue some questions.

Senator MILLIKIN. Yes; I have any number of questions.

The CHAIRMAN. And then we will come back to that, and have you read that into the record at some point in your testimony.

Senator MILLIKIN. As I figure it, Doctor, we have 11,000,000 people in this country now who are 65 years of age or older. I assume, since you say $75 a month for each one of them, your bill would be about $9,900,000,000 a year.

What will it be under the present system, say, in 10 or 15 years?

Dr. MERIAM. If I may, I would rather not go into the figures right now. I can provide you with the figures.

Senator MILLIKIN. Well, I must necessarily have the figures in order to judge the virtue of your plan and the virtue of any other plan. They may not be accurate, but we have just got to have them.

Dr. MERIAM. I will give you a memorandum on it.

Senator MILLIKIN. I would like to have a memorandum, but that forecloses present discussion of a very important subject.

Senator MARTIN. Mr. Chairman, it seems to me it would be rather important to have Dr. Meriam provide figures at this point, from the formula that he has worked out, as to the number that we would have on the list right now; and then, how it would be financed, the percentage that would be levied on in this flat income tax.

I think it would be a grand thing in America if everyone could be taken care of, but I would like to know how much this is going to add to our tax burden. I realize that a lot of that money will be spent. Well, it will all be spent, probably. But that will increase inflation, which is one of the dangers confronting us right now.

Dr. MERIAM. I can't sit here at the table, Senator, and give you those figures. I should be very glad to go back to the office where I have my details of record and prepare a memorandum; and I will talk with you afterwards to be sure I have exactly in mind what you want.

I can put that into the record. But I haven't the type of mentality that carries such figures around, and I think it would be much more valuable to the committee in the long run to have me submit a carefully worked out report on that, or a memorandum, than to sit and sort of "fudge it" from memory.

(The data referred to, when received, will be placed in the files for the information of the committee.)

Dr. MERIAM. I have not, in the book which we have just done, attempted to refigure the costs of a no-means test flat-sum system or a means test flat-sum system. The figuring which I have done on that subject is out of date, and I would be glad to do it over.

Senator MILLIKIN. Doctor, there is some available data that has bearing on the subject matter as far as the needs test is concerned, because that is the basis of our public assistance. And we now have 2,700,000 people who are receiving assistance through the assistance side of this program.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. In other words, if we have 11,000,000 elderly people, 65 and over, and if 2,700,000 are now on the means-test basis, there is some kind of a springboard from which to jump so far as your proposed system is concerned. So whatever label you wish to put on the system that you are suggesting, does it not roughly come down, at least as of today, to the order of the expenditures we are now making under public assistance?

Dr. MERIAM. No, sir; I think you would find that a uniform program with Federal Government establishment of standards would

result in substantially more payment than you are now making under public assistance.

Senator MILLIKIN. That would depend on your standards, of course.

Dr. MERIAM. Yes, sir; it would depend on the standards. And the thing that bothers me about the public-assistance program and bothers a great many other people is the wide variation among the States as to the proportion of the population that is receiving assistance. Louisiana recently displaced Oklahoma and has moved up to top rank, with something like 80 percent of its present old people in receipt of public assistance.

Senator MILLIKIN. Let us assume that there are some maladjustments in that part of what we are doing at the present time. Let us assume it for the sake of this discussion, say. It seems to me that, in essence, what you are proposing comes to much the same thing as the system we have at the present time.

At the present time you have two-thirds of your people, or more than two-thirds of your people, that, one way or another, have means enough not to submit themselves to a means test. In other words, they are not receiving public assistance. As to the rest of them, some of them are getting benefits under the contributory insurance system; but when those are not sufficient we go over to public assistance and make up the deficiency under what I assume is your own theory, that every one will be entitled to a minimum receipt of, let us call it, benefits from the Government.

So your getting rid of the insurance system simply adds that much burden to what, let us call it, is the public-assistance burden.

Dr. MERIAM. You would have an immediate increase in the cost of a system similar to that of New Zealand, which is not called a public-assistance system but is called a social-security system.

Senator MILLIKIN. I do not want, in my discussion with you, to get fixed with labels. I do not care what we call it. I am merely suggesting that the end result of your plan brings us to the present end result that we have; that under your means test what you do not take care of by the present plan is taken care of by public assistance. And so you liquidate that problem in that way.

Dr. MERIAM. Your administration would be entirely different.

Senator MILLIKIN. Well, what do you think would be the advantages of your change in system, other than, let us assume, that there would be an enhancement in efficiency, which, let us assume, would mean a decrease in costs. But would it be of such magnitude as to say that we should attempt to achieve the same result we now have by a complete change in system?

Dr. MERIAM. The change in the efficiency of the system would not result in any material increase in cost. What the system that I suggest would prevent would be the heavy annual mounting costs which are involved in your present system. That is a thing that, it seems to me, we should do everything in our power to get away from. Because we are sitting here today, in 1950, proposing to commit the children and the grandchildren in 1970 and the year 2000 to make very much heavier payments. Now, that is what I am trying to get away from.

I am trying to recommend a system which will take care of our people today; and have us pay for it today. We know exactly how much it is going to cost.

Senator MILLIKIN. I have no quarrel with you on that at all.

Dr. MERIAM. Now, if we adopt a benefit system that puts a floor of protection under people and does not go up high, we are safe. Subsequent Congresses can increase that as they see fit in accordance with the conditions that prevail at that time.

We might conceivably start with a system that had a rather low standard of benefits that could be progressively increased and raised as our capacity to pay and our financial condition warrant.

Senator MILLIKIN. That is all inherent in the pay-as-you-go system.

Dr. MERIAM. Yes, sir; that is inherent, and that is the essence of the recommendation. It is that matter of getting our public finance on a level so that we are not making commitments for the future that we cannot foresee.

The rest of it, from my point of view, is detail. If we can do a whole lot more than would be involved in any kind of a resources test and move over to one that pays very much better benefits, I would not be opposed to it, provided we know what we are doing.

Senator MILLIKIN. But if we should determine that we will not put the system at least primarily on a means-test basis, would you still favor the pay-as-you-go plan?

Dr. MERIAM. Yes, sir: I favor the pay-as-you-go plan, whatever kind of system you introduce. It is chiefly applicable to a flat-rate benefit system. It can be applied otherwise. Take, for example, H. R. 6000. If you cut out increments for length of service, you can get on to a pay-as-you-go basis; but in any case where you are following the concepts of private insurance and you have established the concept of the insured status, the length of time, you are getting yourself into the position where you have not eliminated that gradual upstepping of your costs.

Senator MILLIKIN. Then you would favor the "pay as you go" no matter what kind of a system we have. That is No. 1.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. No. 2, there might be some difference of opinion as to those who will be the beneficiaries under the system. In other words, there might be a means test, or there might not be a means test, but in any event it would be on a pay as you go.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. You favor the needs test?

Dr. MERIAM. Yes, sir, personally.

Senator MILLIKIN. Assume that we followed your theory, the Congress would have to determine the standards for those who come under the benefits following the needs test and also the amount; is that correct?

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. On the assumption I have used, that there are 11,000,000 people 65 or older at the present time, if everyone were given, I am saying, $75 a month, do you think that our economy at the present time could stand taxation for that system of, say $9,900,000,000 a year?

Dr. MERIAM. I would want to study that further, sir.

Senator MILLIKIN. How much of a rate then would that require, Mr. Fauri?

Mr. FAURI. About 9 percent of pay roll, based on the coverage in H. R. 6000.

The CHAIRMAN. The recommendation of Dr. Meriam is for a flat increase in the rate on incomes and on gross income which would be, in many industries, the weekly wage or the monthly income. In others, it would not.

Senator MILLIKIN. Mr. Chairman, if Mr. Fauri is correct, the rate, assuming this were on a pay-roll system, would be no greater than the rates which now prevail in sytems such as the railroad retirement and some of our public employees' systems.

Dr. MERIAM. It ought not to be very different from any system that is based on a level premium actuarial reserve.

Senator MILLIKIN. Now, you base your theory on an income tax?

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. You are getting away from the pay-roll system?

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. And you are getting away from the classification of "employee"? It would go for everyone in the country?

Dr. MERIAM. Yes, sir. That would be completely eliminated.

Senator MILLIKIN. And the chairman said something that had escaped me. You are basing your income tax on gross income.

Dr. MERIAM. Personal income without exemptions.

The CHAIRMAN. Substantially gross.

Senator MILLIKIN. That comes to substantially gross.

Dr. MERIAM. Yes, sir. Certain business expenses would be deducted out, but there would be no exemptions.

Senator MILLIKIN. That comes close to the controversial feature of the Townsend plan.

Dr. MERIAM. There would be no exemptions, and there are certain reasons why I recommend that. As I say, I have them here, and if you would like to have me insert them in the record or read them into the record, I would be glad to do it.

Senator MILLIKIN. I would like to have your observation on this. There are obvious disadvantages in the present tax-deduction system that we have in the income-tax field; the main one, perhaps, being that the man who suffers the deduction is not aware of the fact and therefore perhaps is not as sensitive to spending programs and as sensitive to economy in Government as he might otherwise be.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. When we had the question up whether we should have a deduction system, speaking quite frankly there was serious question as to whether, if everyone were put on the obligation of making an income-tax report, there would be large numbers of people who would not do it, and that you could not put that many people in jail. Now, let me have the benefit of your observations on that.

Dr. MERIAM. Well, Senator, the point is that under a system that involves a means test, or resources, the income report would be two things, from the poorer people. It would be the report of the amount of income on which they are to pay. It would also be the report on the basis of which the Government would decide whether that investigation should be made, to determine whether that person or that family was eligible for social-security benefits. That is, the lower income bracket people would have a distinct advantage.

Senator MILLIKIN. They would have an incentive.

Dr. MERIAM. And they would have a reason for filing that report. You would get away entirely from the application for public assist-

ance, which is the primary document, I think, in most States, in the administration of public assistance.

Senator MILLIKIN. Are you suggesting that the benefits will follow automatically from that kind of a report?

Dr. MERIAM. Yes, sir. That would follow for low-income people, but not necessarily for the high-income person. He would report on his resources, his income, and he would also report on his responsibilities.

Senator MILLIKIN. Well, his report, in a word, would contain the things necessary to determine whether he was in need, and the extent of his need. Is that correct?

Dr. MERIAM. Yes, sir; that is correct.

Senator MILLIKIN. That is the purpose of the report.

Dr. MERIAM. Now, certain of those reports would come in, and the reports would show, "Yes, this fellow has been on benefit for years." And this is just the annual check up, showing that his situation hasn't changed, and he stays on benefit. Some reports would come in showing that, according to the face of the record, the person is entitled to the benefit. But investigation would show he is not.

Senator MILLIKIN. One of the things that is so offensive about a needs test is, rightly or wrongly, the feeling on the part of the average citizen, of most citizens, that the welfare workers are engaged in "snooping." Would you not have a vast increase in that kind of "snooping," to check up on these reports?

Dr. MERIAM. You would have the same kind of investigator that checks up on our income tax if it does not look right, but with this difference, that in one case you are going to get something from the Government as a result of that investigation, and in the other case the Government may be going to get something from you.

Senator MILLIKIN. Doctor, I suggest there is a vast distinction. When we come to collecting taxes, we may be a little bit careless in the degree of the "snooping" that we do. The facts before us show that our checks are rather inadequate. That is the basis for the requests that come to us all the time to magnify the force of people who are doing that checking. But when it comes to paying out money for some strange reason or other I suggest to you we will be a whole lot more particular about that. And that is why I suggest that you will have a great magnification of the "snooping" process.

Dr. MERIAM. Of course, Senator, that depends somewhat on the type and nature of the standards which the Government would establish with respect to the payment of these benefits.

Senator MILLIKIN. Those standards, I suggest, will have to be rigid, or you are just opening the gate to have an automatic payment as a result of the report.

Dr. MERIAM. They would be rigid on the basis of the facts regarding number of people in the family. They would be rigid, fairly rigid, with respect to the resources which the family has.

Senator MILLIKIN. But the report in itself would be an utterly inadequate test, I suggest. You would have to check up.

Dr. MERIAM. Yes, sir; you would have to check. There is no question whatsoever as to that.

Senator MILLIKIN. You would have to check, and you would have to check rather vigorously.

Dr. MERIAM. Yes, sir; you would. But you do not have any question, in a case of that kind, of what in the old days used to be called "whether the family was deserving or not deserving". You would have no check into the morality or anything of that sort, which has frequently been involved in the administration of means tests. This, as I visualize it, is what you might call a straight economic investigation of the resources of that family, and that is a different type of fact than those which are involved in determining whether a mother is a satisfactory guardian for a child. I know something about social investigation and social work, and this, as I see it, is all on the economic side and would not go into the question of what I have so frequently found offensive, as to the moral conditions of the family, and so forth.

Senator BREWSTER. Have you a figure, Doctor, as to the number of individuals over 65 years of age who are economically independent?

Dr. MERIAM. I have some figures on that score, but I have not inserted them in the record.

Senator BREWSTER. Approximately how many do you figure in that status?

Dr. MERIAM. I think there is something like 27 percent of the people over 65 who are still working and self-supporting. Now, as to how many there are among the remainder who have resources enough so that they do not need it, I don't have the figures here. I am going to submit a memorandum to the committee on that score when I have the opportunity to sit down, at the office, and work on it. I will submit it within a very short time.

Senator BREWSTER. Well, have you estimated the cost of administering this needs test?

Dr. MERIAM. I do not think the cost of administering the needs test in connection with tying it in with the income tax would be excessive. It would cost more, of course, than a no-means-test system. And if the costs on investigation should be pretty high, you could save on the administrative costs by adopting the flat sum payment that is paid without any investigation at all.

Senator BREWSTER. What is the total income of the country to which this flat rate would be applicable?

Dr. MERIAM. I will get you that figure, sir. I do not have it in mind.

Senator BREWSTER. Was it around $225,000,000,000? Is that the approximate figure?

Dr. MERIAM. I haven't it in mind, sir. I can't answer you as to that.

Senator BREWSTER. What I had in mind was the total amount to which the flat rate would be applicable, and then the best estimate you could give of the cost of administering both the flat rate income tax and the means test.

Dr. MERIAM. I will put that in the record, sir.

(The material referred to, when received, will be placed in the files for the information of the committee.)

Senator BREWSTER. I suspect that when you get through you will find it is a great deal more than this ordinary income which we have, where you have these great exemptions, you see, which exempt all the little fellows. When you get through with estimating the cost of those, the figures will be very substantial.

I want to ask you whether or not there would be an alternative system of tax which would accomplish approximately the same result without so great a problem of administration. I am speaking now of some alternative form of tax, such as they have in Indiana, which they call, I think, the gross transaction tax.

Dr. MERIAM. I am very, very anxious if possible, sir, to use a tax that does not become a cost of production and does not enter into the price which we have to pay for the commodities.

Senator BREWSTER. Is there such an animal?

Dr. MERIAM. Well, sir, the nearest that I know of to it is the personal income tax. And that is the one reason that I have wanted to get rid of taxes that enter into the cost of production. The fault of any system of social security is that your system of financing is such that it tends to increase the price of commodities and the cost of living. Now, when you do that, you have impaired the value of the social-security system you have got.

One thing that worries me about H. R. 6000, our present system, and all the others, is that when you get these very high demands for cash to pay benefits which lie ahead of us, the Government is going to have difficulty in getting that cash, except through devices which are inflationary in themselves. You will find the cost of your living going up.

Now, all of us know that as to the people that we are talking about now, our present old people, who are no longer engaged in active production, they are living on some kind of fixed-money income. And they find that their situation is being made constantly more difficult by the system of taxation which the Government is using.

Now, I would take off the tax on employers' pay rolls. I wouldn't raise any of this money from a tax that is based on production. I would say: Levy a tax on the income of the people.

The employer gets caught there. He doesn't pay as an employer. He doesn't pay as an instrument of production. He pays as an individual who has this amount of income from his business.

Now, that is one of the basic reasons that led me to this recommendation of the tax. It is entirely possible that you can get this money very much more cheaply by the imposition of a sales tax, but that has the same defect. So that is the reason, it seems to me, that the principle of getting it out of the income tax is absolutely sound.

I should like to point out one thing in connection with the cost of administration. We are paying a tremendous amount now for the cost of administration of old-age assistance.

Senator BREWSTER. Ten percent.

Dr. MERIAM. That cost would be absorbed. That is, what I am suggesting wouldn't be additional cost.

Senator BREWSTER. You would save the cost of all the billions of records over in Baltimore?

Dr. MERIAM. I would like to see us save that money, because that is going to amount to a large sum of money. While the percentage is small, whether you base it on benefits paid or on the amount received, in the aggregate it is a tremendous figure. And I don't like to see those records over there—I don't like at all any social-security tax that is based on employers' pay roll and gets added into the cost of production.

There are two reasons I don't like it. First, it results in inflated prices or the tendency to inflate prices; and in the second place, it makes the people feel that they aren't paying for their social security. And social security can only be paid for out of taxes.

Senator BREWSTER. Would you in connection with the memoranda you are going to submit say whether you have a reliable estimate of how many of this 27 percent over 65 who are working would be otherwise independent, whether they are working because they have to work or whether they are working because they prefer to work? I think that enters into this question of determining on the means test. Do you suppose that figure is available?

Dr. MERIAM. I am not sure that the data on that are available. I will see how much I can get on it for you, sir. There are a lot of these questions I would like to know the answer to but I have never been able to get the data to answer them.

Senator MILLIKIN. I think that in some testimony we have had here someone offered that figure of the number of employes who are over 65.

Senator BREWSTER. He said it was 27 percent. He has given that figure. What I want is how many of those were working because they liked to work and how many were working because they had no one else to feed them. The figure I heard was that 90 percent of the people over 65 require some sort of outside assistance. What the basis for that figure is I do not know but it has always interested me a great deal as bearing on this general question.

Dr. MERIAM. I had occasion once to look into figures of that type which were very widely used and I could never find the material to answer those figures. I have talked to some people and the reply would be, "We took them from so and so."

I do not know whether you have had this in the record or not. This does not represent my own work at all. It is entitled "Graphic Facts From the Institute of Insurance, Division of Statistics and Research," and is a pie diagram of where our old folks get their income, the major source of income of people 65 and over.

Wait a minute, according to this chart I have understated a figure. This chart shows 34 percent are still working.

If the committee would like to have the chart, I shall be glad to give it to them. I am not sponsoring it. They say 17 percent have private assistance and 9 percent live on income from investments.

Senator BREWSTER. I would very much like to have it, Doctor.

Would that go in the record, Mr. Chairman?

The CHAIRMAN. I do not know whether that is in the record or not.

Senator BREWSTER. It is from the Institute of Life Insurance, division of statistics and research.

The CHAIRMAN. There has been some testimony offered here and maybe some charts were included.

Senator MARTIN. Mr. Chairman, I would like to make this observation. Your plan of tax which will not increase the cost of production to my mind is very sound but I have wondered whether in your tax plan you have taken into consideration the large number of copartnerships and very small corporations. The ones owned by an average of 2½ people furnish two-thirds of the employment in America. Now have you taken into consideration whether or not that would not add to the cost of production because the income of many

of these is either profits out of a copartnership at the end of a year or it is salaries that they receive as officers of the corporation?

Dr. MERIAM. I would tax the income that they receive from the business. I would not tax business as a business at all. The tax would be based on the personal income of the individual. There would be no business tax on any business concern whether it was a corporation or a partnership.

Senator MARTIN. I am wondering, Doctor, when you submit these figures if you would make a notation because that is a pretty considerable amount in the over-all income of the American people. There are so many small businesses that are conducted as a copartnership, as we term it in my own State, and I think there are similar businesses in most of the other States of the Union. That is a pretty considerable amount of the American income.

Dr. MERIAM. Yes: but just as far as it is possible to do so I would take the taxes for social security off the productive system of the country and put it on the personal income. Now how would that operate? That would operate to transfer purchasing power, take purchasing power in one group and transfer that purchasing power to another group. You would not greatly influence the amount of purchasing power which was in existence and being used. You would have some effect on the purposes for which that purchasing power is used. You would give purchasing power to people who have to use that purchasing power for the necessities of their current existence. They have to live out of the production of today. The dependents of today depend for most of the things that they buy on the current production of the workers and you transfer to them purchasing power. You would not increase the purchasing power: you would transfer it.

Senator MARTIN. I see your proposition that the individuals who are so fortunate that they can care for themselves will transfer part of that by Government to the unfortunate.

Dr. MERIAM. Yes, sir.

Senator MARTIN. Mr. Chairman, I feel that the doctor ought to give this a little bit in detail. There is no question, if all the Government is operated on a pay-as-you-go basis, there is no danger of economic collapse. When you project things into the future with the various degrees of inflation and values, you are getting into an uncertainty that you may have an economic collapse just as they did in Germany and many other countries where things of this kind have been undertaken. I think it would be very valuable to me in making up my own mind if this could be given in detail.

Dr. MERIAM. I will endeavor to do so.

The CHAIRMAN. Doctor, we will appreciate it if you will.

Dr. MERIAM. I have not the type of mentality that enables me to carry these in my head or to do good mental arithmetic. I am of the type of mentality that thinks best with a pencil and works the thing out. I am sorry I was not built the other way.

Senator MARTIN. There is not much danger then of getting something which would get us off in our thinking when you think it through.

Senator MILLIKIN. Doctor, may I pursue a little bit further your propositions that you do not want to add to the cost of production and that you want to decrease the cost of keeping records? Let me

ask you a couple of speculative questions for the purpose of getting some more information.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. Does not an increase in income taxes, after certain lags, certain smoothing out, increase the cost of production although it does not have the direct and immediate impact of an excise tax?

Dr. MERIAM. Sir, I think that I know what you are talking about and I think it is an exceedingly important matter. As you know, we have progressively raised the income-tax brackets and there is very little income still available for taxation that is held by those upper brackets. Now the upper brackets have been the source of our venture capital so that there is very great danger that we may cripple our production. We know that in certain professions, such as dentistry, for example, the incentive to go on has been diminished by the high rates of taxation.

Senator MILLIKIN. Mr. Chairman, I will have to have my memory checked on this but our own experience on this committee indicates that we get perhaps 70 to 80 percent of our revenues from income taxes in the so-called lower brackets.

The CHAIRMAN. Yes; $5,000 and under.

Senator MILLIKIN. Yes; so that roughly speaking this upper bracket that used to have a large income, in a very rough sense, we can eliminate. So we have to trace what happens to these people who have most of the incomes of the country and who pay most of the taxes.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. Now when you put an income tax on a worker, and that is the category we are talking about now, that immediately becomes the subject of bargaining and reflects itself in wages which in turn become a part of the cost of business, which in turn becomes a part of the prices which the consumer pays. So I am just projecting the speculation that with certain lags and eliminating certain of the immediate impacts of an excise tax on production by way of example you come in the end to the same thing, any form of tax becomes a part of cost and reflects itself in prices.

Dr. MERIAM. Yes, sir; but your distribution of it under the income tax is a very much more even thing.

Senator MILLIKIN. I will agree that the effect is a smoothed out effect, that the impact of the effect follows certain lags but I am coming to the end of the point and I am suggesting that any kind of tax reflects itself in cost and therefore in prices.

Dr. MERIAM. I am not going to take issue with you on that, sir. I believe that is true; after all, if we promise these great big social-security benefits we get the money through taxes and you are going to get an increase in prices as the result of that heavy taxation. I know of no tax—I wish I did—that you could guarantee would not affect prices at all. I know of no such tax.

Senator MARTIN. Along this matter of cost, I am wondering if it would be all right if I injected something?

Senator MILLIKIN. Certainly.

Senator MARTIN. This matter of cost of production is getting rather serious. Doctor, in many of our smaller items in this country as we are competing with the imports from foreign countries where the

standard of wages is much lower than in the United States. I have in my possession 28 items of manufacture and agricultural production that are being already variously affected. Now will not a tax like this make that situation considerably worse?

Dr. MERIAM. I would be inclined to say, sir, that it would perhaps make it better. If we could prevent our domestic prices from rising tremendously, then we would have less danger, as I see it, from the competition from the foreign countries and that is one of the reasons why I hate to see us make commitments now on the basis of long-run future instead of leaving the situation adjustable and flexible according to the conditions which we do confront.

Senator MARTIN. Thank you very much, Doctor, and thank you, Senator.

Senator MILLIKIN. Now coming to this transfer of purchasing power to which you referred in the very lowest brackets, $2,000 and under of gross income, for example, those people spend all of their money for the same type of goods for which the beneficiaries under this system would spend it.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. The upper part of the brackets, let us say from $2,000 to $5,000 or $10,000, is the principal source of your savings.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. Those savings theoretically enter into capital ventures, so you do have a true transfer of those in the lower income brackets if you are going to tax them for your system, you are going to transfer the same purchasing power from those in the lowest brackets to those who will be beneficiaries of the system.

In those upper brackets, however, I suggest that there is a distinction in effect, you will have perhaps less velocity of spending in the upper part of the brackets about which we are talking, you perhaps have more money that goes into capital goods than in consumer goods in relation to the lower brackets. So that so far as the upper bracket of this thing is concerned you will have a difference in dynamics of spending. Is that correct?

Dr. MERIAM. I think so.

Senator MILLIKIN. So that it is not precisely a transfer of one identical thing to another?

Dr. MERIAM. No, sir; it is not.

Senator MILLIKIN. When you transfer under your system you are putting money into the hands of the people who will spend it with great velocity.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. That in turn activates the so-called consumer part of our economy but that in turn reaches up into capital goods. If I go into a grocery store and buy a can of beans I am buying a consumer article but the can itself has to be made and it ramifies on up into capital goods. Is that not correct?

Dr. MERIAM. That is correct.

Senator MILLIKIN. I am going through all of this so that we may keep clear that we are not just taking one type of purchasing power from one group and transferring the same type of purchasing power to another.

Dr. MERIAM. The purchasing power we transfer would be equal in amount but the use of it would be different. It is perfectly clear that

any system of social security, H. R. 6000 or anything else, in transferring purchasing power. That is what the social security system does.

Now the thing that bothers me is that if we go into the high benefits as were proposed in 2893, the amount of purchasing power which will be transferred would be very much greater and we would be doing that today without knowing what the condition is going to be in 1970, 1980, and so forth. Now my recommendation would be that we do not go any further than we have to, to put an adequate floor or protection under our poor people in effecting that transfer.

Senator MILLIKIN. Let us not at the same time take the floor out from the lowest-income category.

Dr. MERIAM. Sir, I think they would pay extremely small amounts.

Senator MILLIKIN. We took 7,000,000 off the tax rolls in our last reduction and I am wondering whether this will result in putting them back on.

Dr. MERIAM. I would put them back on. I have three bases for putting them back on. We are told, and I think there is a great deal of truth in it, that one reason the people like so-called social insurance is that they have the feeling that it is something for which they themselves have paid at least in part; they are contributors. Now let everybody have the satisfaction of knowing that he has contributed.

I have already mentioned the fact that it seems to me in a system of this kind the benefits resulting from the payment of that tax would furnish a very important and valuable means of administration and it would likewise supply us with a great deal of material which we do not now have with respect to who these people in the lower income brackets are, how they get along, and what the situation is.

Senator MILLIKIN. Merely to illuminate the question, let me suggest in a speculative way that here you are just transferring the record keeping. At the present time we are all somewhat dumfounded at the enormous amount of records that has to be kept under the present system but under the change you are suggesting you will still have to pile up all of the reports, a much larger number of reports than are being piled up at the present time because you will have to keep them for research backward to see what the individual taxpayer's status was a year ago or 5 years ago. So, to complete my point, instead of Social Security keeping these records, why the Treasury will be piling them up, so 10 years from now we will look at them and say "Great Scott, look at the cost of maintaining this record system."

Dr. MERIAM. Under the present system, sir, we have to have the records from the itme that a boy gets his first job and comes under the Social Security System. We have to have it in minute detail at least until his benefit account starts paying and all those records go into the determination of the amount of benefit.

Senator MILLIKIN. And your means test will require also a continuous record of each individual.

Dr. MERIAM. I do not think it would be necessary to preserve the records in detail.

Senator MILLIKIN. Doctor, if we did not preserve the records you would be the first man to come up here and say, "You are depriving us of a valuable source of statistical information."

Dr. MERIAM. I think, sir, we could prepare the necessary statistics and records as we go along. I do not think it would be necessary for

us to keep anything like the volume of records we now keep and it would be a statistical record kept for the sole purpose of statistics; but I think a record that went back only a few years would be adequate for the purpose of administration.

Senator MILLIKIN. My hunch is that there could be a saving but as a matter of fact, whether Treasury keeps the records or whether Social Security keeps the records, I doubt very much whether in the end it will amount to much saving.

Dr. MERIAM. All right, sir, your guess is as good as mine.

Senator MILLIKIN. Now, Doctor, I would like to examine your proposal in relation to certain features of the present system. Let us assume that tomorrow we started on pay-as-you-go. Let us assume that we start on a pay-as-you-go system tomorrow under your system or under any other method of payment or coverage. What will we do with the $12,500,000,000 of the so-called trust fund?

Dr. MERIAM. I am going to give you my own idea without ever having given a great deal of study to it. I have thought about it many times. The trust fund is divisible into two parts, that which results from the contribution of the employer and that which results from the contributions of the employee. Now if I were doing it, I would give to the employees who have money in that trust fund a United States Government deferred annuity bond payable at age 65 or under certain conditions with interest at a reasonable amount of money. Of course you would destroy the debt obligations in the Treasury for the amount that has been transferred to these individual annuity bonds. That would be what we would do with respect to the employee's part.

As far as the employer's part is concerned, I would cancel those debt obligations of the United States Government.

Senator MILLIKIN. Now, Doctor, I respectfully suggest that there is a little doubt about that, about the rightness of this. The employer's contribution is a part of the employee's benefit which accrues to him from the moment the employer makes his contribution so that the employee could say, "This is a part of the benefit to which I am entitled." The employer does not make his contribution to help his own insurance; he makes it to help the insurance system of the employee.

Dr. MERIAM. Now I would go on a different basis there, Senator. The employer's contribution under our existing system has never been in any way earmarked for his own employees.

Senator MILLIKIN. It has not been earmarked for him.

Dr. MERIAM. Then the next point is it has become a tax passed along to the consumers to a considerable extent in increased prices. Employers have deducted their payments under certain taxes.

Now my memory is not very accurate, but as I recall we had a case, and you may recall it better than I do, of a processing tax. If I am not mistaken, that processing tax was declared unconstitutional for some reason. The result was that the question arose as to what you could do with the proceeds of that processing tax. That was another tax that had been passed along to the consumer. It had been deducted in one way or another. The decision was that that tax should go into the General Treasury in accordance with the doctrine of unjust enrichment. To return that tax to the individual employer who had contributed would come under that same doctrine of unjust enrichment.

Now if you should decide that you wanted to make some use of those bonds in connection with the subsequent administration, you would not destroy them, but I think from an accounting standpoint if you are going to get any money on those bonds you have to raise it by taxes. I think the simple thing from the accounting standpoint, and following the whole progress of your system, would be to wipe them off as far as the employer's tax is concerned, wipe them off the books.

Senator MILLIKIN. I continue to suggest that there is no analogy between the cases which you have cited and about what we are talking. Once the employer's contribution is made it becomes a part of the employee's benefit which theoretically he has a right to anticipate. It is true that the employee has the same right to the employer's contribution as he has to his own. If we are going to fix the employee up, let us fix him up with bonds that will cover all of his benefits.

Dr. MERIAM. You could do that. You could have done that had the system provided that when the American Telephone & Telegraph Co. paid its social-security tax as an employer that money went to the employees of the American Telephone & Telegraph Co., but it never did. The effect on the employer was a general tax the proceeds of which were to be used for the operating of the system as a whole.

Senator MILLIKIN. The same thing is true of the employee's contribution.

Dr. MERIAM. You can figure out from the record what the employee has paid in. He has paid it in as an individual. You can take action to restore that value that was taken from the employee.

Senator MILLIKIN. The mathematics of it would be very simple, assuming my premise is correct, that the employee has as much interest, as much right to the money that has been contributed by him as by the employer. So that once you determine what the employee's share is on whatever basis you set up, you merely have to add an equal amount to cover the employer's contribution.

Dr. MERIAM. All right: then the employee of the American Telephone & Telegraph Co. would get what he himself paid in and what the American Telephone & Telegraph Co. as a company had paid on his account. If you want to do it that way, sir, that would be all right with me, although I question the justice of that, as I do not think it has ever been true that the employer's tax was not to be distributed all over the whole field of covered employment without any reference whatsoever to the particular employees of the company.

Senator MILLIKIN. I suggest, Doctor, that once the contribution has been made by the employee or the employer it loses its identity as to particular business. It all goes into the pot for better or worse.

Dr. MERIAM. Yes, sir.

Senator MILLIKIN. Therefore if you are distributing the pot, you do not go back to the companies. You simply go back to what this employee has put in, you double it and give him the bonds to cover it.

Now, I want to say that bond suggestion is the best suggestion I have heard. I have been worried about this so-called trust fund and how from a fiscal standpoint we could absorb the impact of doing away with it.

Dr. MERIAM. I still think myself that the unjust-enrichment theory is a preferable method of handling the money which has been paid in by the employer, but I would get that trust fund out of the way as far as operating a pay-as-you-go retirement system is concerned.

Senator MILLIKIN. Under your system, how would you adjust according to the coverage of the present system? How can you bring that in in relation to the time of coverage, the amount of coverage, the length of coverage of those who have been in the system?

Dr. MERIAM. If you move over to a flat-benefit system, either with or without a means test, you have eliminated that type of difficulty.

Senator MILLIKIN. From then on.

Dr. MERIAM. From then on.

Now you have returned to the employees who are under the existing system the amount of money which they themselves have contributed, according to my point of view. Or according to your point of view; you have returned them the money they have paid in and you returned them the amount of money that their employer paid on their account. Now they are on the square. From here on you pay them the benefit under the new system.

Now my belief has been that the people now on benefit will get about as much under a new system as they are now getting. That is one reason why I should like very much to see your committee adjust your system and get it on what looks to me as a sound financial basis while those benefits are still low.

Senator MILLIKIN. Doctor, if your plan does not give more benefits than those that are now being paid on the basis of the 100-cent dollar put in by those of the employees with longer coverage, I do not know whether there is much reason for us to be here.

Dr. MERIAM. My expectation is that the benefits would be substantially larger than the benefits which are now being paid.

Senator MILLIKIN. I did not understand you to say that.

Dr. MERIAM. But I would not look forward to the benefits piling up as thy will under the present system from the result of your length-of-service increment, and as the result of changing the benefit formula. It is that long-time piling, sir, that gives me the great concern from the standpoint of public finance and the public welfare, and one of my major concerns has been that we will find ourselves in the position that in order to meet those heavy commitments we will have to take action which results in an increase in prices and destroys the very thing which we started out to do.

Senator MILLIKIN. I am almost in complete agreement with your analysis of the phony nature of the present system and the analysis of the inequities involved in it and your analysis of our inability, our possible inability, to make good the promises we are now making for the future.

Dr. MERIAM. I should like to make one more statement, if I may, Senator. I have always hoped that the Congress would establish a commission or a committee or something to go thoroughly into this whole problem under its own auspices and direction, to see whether this thing could be worked out. I am a member of the staff of Brookings Institution. We are not a wealthy institution, we do not have great resources. We cannot do many of the things which ought to be done in studying this problem. We frequently find ourselves under compulsion to adopt the best that we have. I think it would be thoroughly worth while for the creation of a competent committee or commission under your direction, not to see how you are going to tinker with the existing social-security legislation, but to go seriously

into this question of how we can establish a system that will operate on the pay-as-you-go basis, give protection to all our people, and be so designed that we run the minimum chance of getting that thing into our price structure so that we destroy the very thing we are attempting to do.

Senator MILLIKIN. We have been here in session since January 17 listening to the best men in the country on this thing and prior to that time we had our own advisory council set up consisting of a lot of good men and women. Does there not come a time when you have to make a decision rather than continue to stir the same mush all the time?

Dr. MERIAM. My answer there would be that it would be a different kind of thing. It would be not a calling in of people who are engaged in other things and are busy with other things to give you the best they have on the basis of what I call a superficial sort of study; you have a great deal of straight-out analytical work to be done. It has not been done. I do not know of anybody who can do it. I should like very much to see these problems and these questions raised and answered through the employment of, shall I say, an actuarial and statistical staff so that you really have the information.

Now I have handed up a chart here in asking the kind of question to which we need the answer. I cannot tell you whether that is a good chart or not. I have seen actuarial work turned out by Government which did not look to me like first-class actuarial work. It is not the kind of information on which I would like to base a decision. That was in the case of the initial stages of the railroad retirement system.

Now we do not have resources to do that actuarial work. You cannot get people in here to testify who have done the work that is required.

Senator MILLIKIN. We attempted to set up the advisory council with people of the type you are describing. In the last analysis we found no one in the insurance field or any other field who could come up with independent statistics and a rounded knowledge of the whole subject except finally they would have to go to the Social Security Agency which is the one involved here.

Dr. MERIAM. Yes, sir. Years ago when I first got interested in this field, when I was working with retirement systems for Government employees, I worked intimately with the actuary, George Burton Buck, who is regarded as a leading pension actuary in the country. He was the actuary for the Mayors' Pension Commission and I know the amount of work involved in studying these things. It seems to me it is not something that could be done in a few weeks, could not possibly be done through an organization such as your advisory committee.

Senator MILLIKIN. It had an excellent staff but in the last analysis they had to go to Social Security for the data.

Dr. MERIAM. Yes, in the last analysis they will have to go to Social Security.

Senator MILLIKIN. They would have to go for information out of that accumulation of stuff that you have been condemning.

Doctor, let me ask you this question. Have you any knowledge of the viewpoint of the President's Economic Council on this question of the trust fund?

Dr. MERIAM. I think I have somewhere a statement from the President's Economic Committee. I will read you, sir, what I have here

covering what they said. I think that is the safest thing for me to do rather than to attempt my own interpretation of the meaning of the words they use.

Senator MILLIKIN. May I interrupt you to ask when this was said and what the source is? Where does this appear?

Dr. MERIAM. The Fourth Annual Report to the President by the Council of Economic Advisers, December 1949.

Senator MILLIKIN. Thank you.

Dr. MERIAM. I am reading from page 22. My colleague, Mr. Schlotterbeck, prepared this. I had hoped that he was going to be here to take care of this question.

On page 22 they state:

> The true nature of the social-security problem being what it is, the concept of saving "for social security" is in one sense useful and in another sense misleading. It is useful to recognize that we must save in order to enlarge our productive equipment * * * but it is misleading to assume that through any process of bookkeeping, either personal or national, millions of people can save "for food and clothing, the medical care and recreational allowances" which they will be consuming 30 years from now when they retire. What they consume when they retire will be produced not by themselves but by the working force at that time.
>
> The Council strongly favors the national system of social security which involves contributions from employers and from workers on a systematic basis and which also involves contribution by Government. * * * Yet our discussion of the social-security problem implies that gradual efforts should be made to improve the contributor system so that at least part of the contributions would be more nearly on a pay-as-you-go basis. By this we mean the gradual development of a closer balance between social-security receipts and payments from year to year.
>
> The ultimate objectives should be toward making withdrawals from the economy for the purposes of social security roughly balancing the contemporary cost of benefits. * * * We also believe that as coverage becomes more general, the larger part of the social-security receipts should be obtained through general revenues rather than through payroll taxes. .

Then there is a new paragraph:

> This gradual development would be sound economics for the reasons already given and it would also provide a better gauge as to the magnitude of social-security benefits which we can afford to enact into present legislation.

Senator MILLIKIN. Thank you very much.

The CHAIRMAN. Thank you, Dr. Meriam. Did you make a mental note of the requests that have been made of you?

Dr. MERIAM. I should like to make one sort of personal statement, if I may.

The CHAIRMAN. Yes, sir.

Dr. MERIAM. As I said a few moments ago, I started working on this subject back in 1905 to 1910 in the Census Bureau. In 1915 I went to the New York Bureau of Municipal Research to do the research work on principles governing the retirement of public employees. I was forced as a young fellow, somewhere about 32 at the time, to give a lot of thought, which a young fellow would not ordinarily give, to retirement and the retirement age. I had the feeling at 32 that I did not want to retire, that I wanted to say in harness. Now I am on the other side of the retirement age, I am past the compulsory retirement age established by the Brookings Institution. I am delighted that the president and the board of trustees have given me the opportunity to stay in harness.

We are going to have a greatly increased body of people past 65. They need, as I need, an opportunity to continue to work and make

a contribution to our society. My life has been spent, in part, giving thought to the future of a child and grandchildren, one of the things that I would like very much to continue. I hate to think of being in a position where a child and grandchildren of mine or somebody else are making provision for me. I think it is contrary to the interest of the people themselves, it is contrary to the interest of society that we should be pursuing the mirage of pensions with the idea that everybody ought to be entitled to a pension when they get to the age of 65 years. I should like to see a whole lot more attention given to increasing the opportunities for gainful work for the people who are 65 or over.

I remember very vividly when I was doing that research work for the retirement systems reading what the Germans were doing. That was the old Kaiser Germany before the First World War. They recognized certain positions which were reserved for people who had reached the age when they were no longer active enough for their particular job. They did not give those positions to anyone.

I would like to see a whole lot more attention given to the effective utilization of the people who are past 65 in the interest of society and in the interest of those people themselves, so that for as long as possible we can have the feeling that we are still in harness, we have not been turned out to pasture.

That may be a personal point of view but I know most men of my age or older have exactly that same point of view. I am very much afraid that we will go on with this idea of making heavy financial commitments, large benefits for people when they are 65 and over, and I do not think we ought to do it; we ought to give them limited provision for benefits and the largest possible provision for constructive effort.

Senator MILLIKIN. Has the Brookings Institution made any studies on the continuation of elderly people in productive work?

Dr. MERIAM. Sir, we have under consideration at the present time a further study with respect to the pension problem as a whole. We have not started that yet. I expect it is going to be started in the near future.

I will say personally I shall probably be a member of the advisory committee on that study but it is not proposed that I do that myself. We are planning to give some consideration to that which is extremely important. From the standpoint of mental health of old people I think it is extremely important.

Senator MILLIKIN. Do you see at the present time any legitimate role of the Government in helping along a thing of that kind?

Dr. MERIAM. If you think of the Government as three levels of government, Federal, State, and local, I am pretty sure that there is a role for government. I would expect, however, that we will have to do as the American people have done in the past, do a good deal of experimental work to find out what is the right way of doing it. I cannot quite conceive of anybody right at this moment sitting down and mapping you out a Federal program. I think it has to grow and develop.

Senator MILLIKIN. Of course primarily it is a problem of industry, is it not?

Dr. MERIAM. Yes, sir; industry and local activities.

Senator MILLIKIN. The activities of the Government would have to be a sort of background, an incentive role?

Dr. MERIAM. Yes, sir.

The CHAIRMAN. If there are no further questions, Doctor, we want to thank you for your appearance and thank the Institution.

Dr. MERIAM. Sir, we are very grateful for this opportunity to be heard.

The CHAIRMAN. I do not know whether this chart can be put in the record. If it can, it should be noted that it is a graphic factual chart from the Institute of Life Insurance, division of statistics and research. The facts stated there as to the revenue which people 65 years and over are drawing for their support of course can be placed.

(The chart referred to is as follows:)

The CHAIRMAN. Senators Pepper and Holland, distinguished Senators from Florida, have asked to have inserted in the record a statement on H. R. 6000 by Mr. Sherwood Smith, Welfare Commissioner of the State of Florida. We are very glad to incorporate it in the record.

(The statement referred to is as follows:)

STATEMENT BY SHERWOOD SMITH, WELFARE COMMISSIONER, STATE OF FLORIDA

Florida is one of many States it is believed whose people favor expansion of the social-security law. Because of its situation in regard to its aged population and its economy, it is confronted with public-assistance problems in which expansion of the act would be of particular help.

Long before enactment of the original social-security bill in 1935, Florida was faced with difficulties in meeting the needs of its residents who were unable to provide for themselves. More recently, with constantly rising living costs and the shrinkage of the value of the dollar, this condition has improved only because Florida has been able to administer a public-assistance program with the aid of Federal funds.

Broadening the scope of the social-security program, as embodied in H. R. 6000, it is believed will help the people of this State who are in need. Some amendments already proposed to your committee are recommended which would help solve the economic problems of the needy aged in Florida.

While shrinkage of the dollar value has worked against those retired persons who came to our State thinking they could live on savings and investments—and now find that those are insufficient—many others among our aged have spent part or all of their productive years in "uncovered" occupations with relatively low wage rates; and as a result have never had the benefits of the old-age and survivors insurance features of the Social Security Act; or an opportunity to build a personal retirement fund on which they could rely during those years when they can no longer provide for themselves.

Understandably when practically all employed persons build a retirement fund they will in their declining years be better able to provide for themselves, and there will be less demand upon their taxpaying neighbors.

In Florida, approximately one-third of our population above the age of 65 years is included in old age assistance payments for varying amounts. Only a small proportion of them receive old age and survivors insurance benefits. Extension of this coverage would be helpful.

That brings us to a further belief that if early benefits were increased and if the period of required participation were shortened in order to be covered under the old age and survivors insurance program as has been proposed, more of our own citizens would no longer have to rely on a public assistance program. Those who are near the age of retirement and are just getting into covered employment should have the advantage of this program.

There is no need to recite to you the economic pressure under which many of our citizens—not only in Florida, but elsewhere—live. When disability comes before the age of retirement, many of them have nowhere to turn. An insurance program as protection against permanent conditions of this kind would lessen a great deal of suffering; and provide sustenance to members of families deprived when disability comes to the wage earner.

Responsibility in a democracy to those in need certainly extends to those who are unable to produce for themselves or to care for themselves because of total and permanent disability.

Services to children which are made possible through the Social Security Act already are showing encouraging results. It is gratifying to note that further expansion of this program is included in H. R. 6000 with an increased appropriation, and that an even further increase is suggested in proposed amendments to the bill.

The Federal matching provisions of H. R. 6000 providing for increased financial participation by the Federal Government in low-income States meets with our approval.

The benefits which have come to needy people and our whole economy through the Social Security Act are manifold and evident; and that there is a need for expansion of its provisions so that benefits can be extended to those not now

covered on a contributory self-financing basis seems equally evident. This also will reduce greatly the heavy tax load for public assistance.

The CHAIRMAN. Congressman James J. Delaney, one of the Representatives in Congress from the State of New York, was expected to appear before the Senate committee in person during these hearings but he is now submitting a brief, which will go into the record, in which he deals with various phases of social security but particularly emphasizes the necessity for some provision for unemployment compensation benefits to the Federal employees who have been dismissed or go out of their positions with the Federal Government.

(The statement referred to is as follows:)

STATEMENT OF HON. JAMES J. DELANEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, after passage of H. R. 6000, there was brought to my attention the plight of 2,500 Federal employees who were laid off at the New York Navy Yard. These workers were thrust into the ranks of the unemployed without the protection of unemployment compensation because Federal employees are ineligible for such compensation.

Had I known of this situation before H. R. 6000 came before the House, I would have pressed for an amendment which would have extended to Federal employees the unemployment compensation benefits now provided for workers already covered by the Social Security Act, or to be covered by amendments in H. R. 6000.

Before H. R. 6000 goes before the Senate I would like to give my support to S. 2760, a bill introduced by Senator Pepper to bring Federal employees under the unemployment compensation provisions of the Social Security Act.

In the case of the lay-offs at the New York Navy Yard, many of those discharged had served 15 years or more in the yard. When the reduction in force became effective, these men found themselves jobless without the assistance of either severance pay or unemployment compensation. Had they been employed in private industry, they would have been assured of unemployment compensation as provided in the Social Security Act.

The navy yard workers' problem is a graphic and particular example of the general problem faced by all Federal employees. It is true Federal workers are assured a retirement annuity through the Civil Service Retirement Fund, but that retirement system makes no provision for automatic benefits for a person laid off in a reduction in force.

Faced with the necessity of obtaining ready cash, apart from dipping immediately into savings, the Federal employee when discharged with less than 20 years' service, and within that limitation only, can apply to the Civil Service Retirement Fund for a refund of money he contributed while on a Federal pay roll.

After a reduction-in-force discharge, the workers in the eligible group—with more than 1 year of service but less than 20—may withdraw their contributions plus interest. But outside that service bracket, there is this restriction: workers with more than 20 years in Federal service cannot get a refund—their money must remain untouched until they reach the retirement annuity benefit age of 62.

Those who do withdraw their money from the retirement fund can restore it when reinstated in Federal service, to get the full benefits of the system. The restoration is not compulsory.

If we were to equate withdrawals from the retirement fund with unemployment compensation, we must first note that this resource is made available only to those whose Federal service falls within the permitted range of years—no more than 20. The Federal employee with more than 20 years of service cannot touch the money he contributed to the retirement fund, no matter how desperate his need at the moment. Thus, as a matter of fact, the money in the retirement fund cannot be regarded as funds for unemployment benefits, even in a restricted, personal sense, since the money comes from a fund which is neither collected nor administered as an unemployment benefit fund. Further, the fund is not available to all Federal employees.

If, in desperation, the worker with less than 20 years' service does make a withdrawal, he is taking care of present needs at the expense of future needs. The money he properly regarded as an insurance for old age he must, instead, put to use in his working years.

By contrast, the discharged worker covered by social security can provide for present needs through unemployment compensation without actually taking the money from what has been set aside for his old-age benefits. It is true the unemployment compensation will not match the average take-home pay, but the money does provide a sum that is readily expendable. It stands as the worker's first financial resource in time of unemployment; in this connection, his savings might be regarded as his second resource.

Just the opposite is true in the case of the discharged Federal worker. His first financial resource is his savings, and he must immediately dip into savings for household and other current expenses. Even if he is eligible to make withdrawals from the retirement fund, he is using money which is, in fact, savings under another name.

There is a further disadvantage, in the long run, for the discharged Federal employee who does withdraw money from the retirement fund. For him to gain the full benefit of the retirement annuity should he be reemployed in Federal service, he must restore to the fund all the money he has withdrawn, plus interest. While restoration would obviously be to his advantage, actually restoring the money would certainly prove burdensome to a person set back by any extended period of unemployment.

Thus, against the many known benefits of the civil-service system, there stands this denial of unemployment compensation. This inequality has become especially trying at this time because of the extensive reductions in force and delays in finding new placement in Federal service for displaced career employees.

To provide unemployment compensation for Federal employees, four bills were introduced in the House in the first session of the present Congress. None of the bills was incorporated in the amendments to the Social Security Act now before this committee. A bill to meet this problem, S. 2760, introduced by Senator Pepper, has been referred to this committee. S. 2760 is a companion bill to H. R. 6433, introduced by Mr. Lynch of New York.

Mr. Pepper's bill would, I believe, best solve the financial problem of the Federal employee in the matter of unemployment insurance. The amendment would eliminate the financial disability now imposed on the Federal worker, and would assure him a source of funds for necessities while he is seeking new employment.

There is another section of the amendments of 1949 which I would like to commend to the special attention of the committee as requiring revision and clarification. I refer to section 218 (a) (1) which provides for voluntary agreements for a coverage of State and local government employees. While it is true such agreements would be made only at the request of a State, an impression has been established that this section would make mandatory the transfer of State and local civil-service employees from their own retirement system to Federal social-security.

In such case I urge that adoption of an amendment prepared by Senator Lehman, which would specifically exclude from the application of this section all public employees in positions covered by a retirement system as previously defined in the act.

The change sought is an important one. Senator Lehman's amendment would leave undisturbed those civil-service employees of cities, counties, and States who are now covered by actuarily sound retirement systems. There is no good served anyone by moving workers out of a sound retirement system into another system. On the contrary, such a change would be a backward move in those instances where the local retirement system pays greater benefits than the Federal system offers.

It is true the proposed coverage of local civil-service employees would benefit employees of many small municipalities, counties, and some States, wherever local retirement systems are not provided at all, or where the benefits payable under them are inadequate.

As this committee is aware, representatives of small municipalities have supported the proposed new coverage, while representatives of civil-service employees in the larger States and municipalities have opposed the change. In the case of the latter, the opposition has been to transfer from actuarity sound local retirement systems to the Federal social-security system. That is a sound position to take. I would add my support to the petitions of these civil-service groups for an amendment such as Senator Lehman proposes.

I believe it will be generally agreed that the Social Security Act is intended to protect those left unprotected, not to interfere with any soundly established retirement system.

The CHAIRMAN. The National Federation of American Shipping Inc., requested permission to appear as witnesses and present thei views on this bill. However, the schedule was filled and in lieu o their personal appearance I am inserting in the record at this point a letter signed by their counsel, Mr. A. U. Krebs. The federation i assured that their comments and recommendations will be given th same consideration that would be given, had they been presente orally.

(The letter referred to is as follows:)

NATIONAL FEDERATION OF AMERICAN SHIPPING, INC.,
Washington, D. C., March 17, 1950.

HON. WALTER GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: The National Federation of American Shipping, Inc representing the owners of approximately two-thirds of the privately owned dr cargo and passenger merchant vessels and approximately one-half of the privatel owned tank ships under the American flag, desires to make the following recom mendations and comments with respect to H. R. 6000 amending the Social Securit Act, which is the subject of hearings by your committee:

INCREASE IN LIMITATION ON WAGES SUBJECT TO CONTRIBUTION

H. R. 6000 provides for a $600 increase in the present $3,000 limitation on annua wages subject to contribution and used in the computation of benefits. Appropri ate increases in benefits can be made without an increase in the tax and wag base. Although such an increase in the wage base would be of benefit to olde workers, particularly those retiring in the next few years, it would add 20 pe cent more to the taxes paid by and on behalf of younger workers over their life time. Furthermore, such an increase would considerably complicate existin voluntary pension and welfare plans, which have been integrated with the presen $3,000 wage base. The federation urges that the present $3,000 wage base b retained.

COVERAGE OF WORKERS OUTSIDE THE UNITED STATES

H. R. 6000 provides for the coverage of American citizens employed by a American empl yer outside the United States. Many of the Americans employe outside of the United States are covered under foreign social-insurance scheme for all purposes. Other such workers must pay taxes under foreign scheme although their opportunity to benefit from the schemes is relatively slight. Th federation recommends that the provisions receive very careful study prior t adoption.

EXTENSION OF COVERAGE TO PUERTO RICO AND THE VIRGIN ISLANDS

H. R. 6000 proposes to extend coverage to employees in Puerto Rico and th Virgin Islands. The economy of these islands does not justify the introductio of a social insurance scheme based on the higher wage levels prevailing in th United States. This is particularly true when consideration is given to th proposed heavy weighting of the benefit formula on the first segment of wages, an the proposed minimum average monthly wage of $50 and a minimum benefit o $25. The Federation is, therefore, opposed to the proposed extension of coverage

DEFINITION OF "EMPLOYEE"

H. R. 6000 proposes a new definition of "employee." This definition bears n relation to existing concepts of the employer-employee relationship, and woul include persons commonly considered to be independent contractors. Thus, th definition would make it impracticable, if not impossible, for employers in man cases to withhold social-security taxes. The Federation urges that the propose definition be deleted.

BENEFIT FORMULA

H. R. 6000 proposes a new formula for the computation of benefits. Th proposed formula contains several unsound factors. In addition to the unjusti

fied increase in the benefit base previously referred to, the formula unwisely retains the annual increment added to the basic benefit amount for each year of coverage. This annual increment is both unnecessary and unsound, and will lead to excessively high benefits in future years. Benefits should be sufficient to afford the desired basic value of protection now, and not 20 to 40 years from now after they have been automatically increased by an annual increment factor. The Federation is, therefore, opposed to the formula.

ELIGIBILITY REQUIREMENTS FOR DISABILITY BENEFITS

The Federation recommends that the eligibility requirements for disability benefits be much more strict than those proposed by H. R. 6000. In inaugurating a new type of benefit, an extremely cautious approach should be employed until there is an opportunity to measure the drain on the insurance fund.

REDUCTION OF DISABILITY BENEFITS

H. R. 6000 provides that an individual entitled to disability benefits under the Federal social-security program and under workmen's compensation statutes on account of the same disability for the same period of time will have his social-security disability benefit reduced by an amount equal to one-half of whichever of the two benefits is the smaller. Where disability insurance benefits have already been paid, the required deduction will be made by deductions from any other benefits, such as old-age or survivors benefits or subsequent disability benefits payable on the basis of the individual's wages or self-employment income. When a workmen's compensation benefit is paid on other than a monthly basis, reduction of disability benefits must be made in such amounts as will most clearly approximate the prescribed reduction in the case of those paid on a monthly basis.

Seamen who fall ill or are injured in the service of a ship do not receive benefits under workmen's compensation statutes but are furnished maintenance and cure (medical care) by the shipowner under the general admiralty law. Seamen are also entitled to indemnity for injuries resulting from unseaworthines of the ship or negligence of the employer.

H. R. 6000 should be amended so as to give the same recognition to maintenance and cure, and court awards for damages, that is given to benefits under workmen's compensation statutes. This can be accomplished by the following amendments:

On page 92, line 4, insert the following immediately after the word "individual": ", or maintenance and cure benefits have been received by such individual when employed as a seaman,".

On page 92, line 14, insert the following immediately following after the comma following the word "benefit": "or receipt of the maintenance and cure benefits,"

On page 92, line 19, insert the following immediately after the word "compensation": "or maintenance and cure".

On page 92, line 20, beginning with the parenthesis, strike out all through the parenthesis, line 22 and insert the following: "or if an individual employed as a seaman receives a lump sum payment for the same disability for the same period of time pursuant to a court award for damages,".

On page 93, line 6, insert the following immediately after the word "compensation": "Or maintenance and cure".

On page 93, line 7, insert the following immediately after the word "benefit": ", or a lump sum payment,".

On page 93, line 9, insert the following immediately after the word "compensation": "or maintenace and cure".

On page 93, line 10, insert the following at the beginning thereof: "or lump sum payments."

WAITING PERIOD FOR DISABILITY BENEFITS

H. R. 6000 provides that in order for an individual who is totally and permanently disabled within the meaning of the bill to qualify for disability benefits such an individual must, among other things, serve a waiting period. Except for certain claimants who filed delayed applications during a prescribed grace, period, the waiting period consists of the month which includes the day on which disability is determined to have occurred and the six calendar months following such month.

Seamen who are unable to work because of illness or injuries sustained in the service of a ship do not have their wages cut off because of such incapacity. They receive wages for the period of the voyage, and often for longer periods.

The federation urges that H. R. 6000 be amended to provide that the waiting period with respect to a seaman shall be the period subsequent to his disability determination date in which wages are received, or the six calendar months following the month of the disability determination date, whichever is the longer. This can be accomplished by the following amendment:

On page 89, line 8, change the period to a comma and add the following: "except that with respect to an individual employed as a seaman such term means the period subsequent to his disability determination date in which wages are received, or the period beginning with the calendar month in which occurred his disability determination date (as determined under subsec. (c)) and ending at the expiration of the sixth calendar month following such month, whichever is the longer period."

REPORTS ON SEAMAN'S EARNINGS

Prior to 1947, a seaman's earnings were reported on an earned basis permitting the prorating on a daily basis over the entire period of a voyage, and allocating to each quarter of the year its respective share of the earnings reported. However, a Treasury ruling based on amendments to the Social Security Act in 1946 forced the discontinuance of this method of reporting, and the substitute method of reporting earnings on a paid basis has proven to be most difficult of administration. The federation urges that H. R. 6000 be amended so as to permit a seaman's earnings to be reported, and taxes to be paid thereon, on an "earned" rather than a "paid" basis. This method of reporting is best suited to the industry, and is considered more equitable to the seaman.

The federation desired to offer the above comments and recommendations at the hearings now in progress, but was advised some time ago that the witness schedule had been closed. The federation, therefore, respectfully requests that the comments and recommendations be given the same consideration which they would have received if they had been presented orally, and that this letter be incorporated in the record of the hearings.

Very truly yours,

A. U. KREBS, *Counsel.*

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow morning.

(The following statement was submitted for the record:)

STATEMENT OF GEORGE BUCHAN ROBINSON

I

The contention of the Brookings Institution book—the Cost and Financing of Social Security, by Lewis Meriam and Karl Schlotterbeck, that OASI's reserve fund of Government bonds is a fiction is squarely founded, I submit, upon a certain identifiable error of accounting. That error is to treat the act of reserve accumulation of Government bonds—which is lending to the Government by OASI—as if it created the Government debt and/or interest cost of the bonds accumulated. A lender's lending cannot possibly create a borrower's debt or interest cost. The borrower—in this case the Government—creates his own debt and interest cost by his borrowings. This is a grave error, because whenever it is made, the fiscal effect of reserve accumulation of Government bonds is misunderstood.

If reserve accumulation of Government bonds created Government debt or interest cost, obviously such reserve accumulation would be fiscally harmful. But the exact opposite is the truth of the matter, that is to say, OASI reserve accumulation of Government bonds improves the Government's financial position, instead of harming it. It does so (1) by lodging with OASI—a branch of the Government—Government debt, which otherwise will be lodged with private creditors, and (2) by accomplishing that good purpose without itself increasing the Government's debt or interest cost; indeed, instead, it reduces both.

To be sure, OASI reserve accumulations would work to increase the Government's debt, if it should induce the Government to spend and borrow additionally. In this, OASI's fourteenth year, however, there is no evidence that the $12,000,000,000 reserve accumulation induced the Government to spend, or borrow, addi-

tionally; or that even freezes of the OASI tax rates induced the Government to spend, or borrow, less. There is presumptive evidence, therefore, that the amounts of the reserve accumulation affect only the amounts the Government borrows from other lenders, and not the total amount of the Government's debt. A Government which owes $257,000,000,000 cannot afford to misunderstand the fiscal effects of OASI reserve accumulation.

Some members of the committee will remember that in 1944, in a report to the Senate, the Committee on Finance said that OASI's having, or not having, $50,000,000,000 of 3 percent Government bonds in 1980 would make no difference to the taxpayers of that time. The committee's report said in substance that, with OASI owning $50,000,000,000 bonds, the taxpayers must pay $1,500,000,000 interest, and that with OASI owning no bonds, the taxpayers must pay the same annual sums in "direct appropriations" to OASI; and it treated those alternative payments as being fiscal equals. They were not fiscal equals, however, because with OASI owning no bonds, the taxpayers will be required, not only to make the $1,500,000,000 of direct appropriations to OASI, but also to hire $50,000,000,000 from other lenders, and pay $1,500,000,000 interest thereon. The committee's mistake, I submit, amounted to $50,000,000,000 of principal amount as of 1980, and to $1,500,000,000 of annual cost thereafter.

I wish to quote the phrase in your 1944 statement, that is, I submit, responsible for the committee's error. When you report postulated OASI's owning $50,000,000,000 bonds, it spoke of $1,500,000,000 as being needed "to pay the interest on $50,000,000,000 Government bonds in a reserve fund." That phrase, namely, "to pay the interest on $50,000,000,000 bonds in a reserve fund," treated OASI's having $50,000,000,000 bonds as creating interest cost of $1,500,000,000 a year.

The Government's interest cost is produced by the Government's owning bonds. Your report's phrase treated that interest cost as produced by OASI's owning Government bonds. That is the accounting error which has long plagued the OASI subject--the attributing of a borrower's debt or interest cost to a lender's lending. It is that error, moreover, that has persuaded many people that OASI's reserve accumulation forces the taxpayers to pay twice for their pensions. They would pay twice, to be sure, if the Government's borrowing from OASI created one cost, and the reverse side of the same transaction, i. e., OASI's lending to the Government, created a second cost. But lending does not create cost. It creates notes, or bonds receivable, i. e., assets, not debts.

The Brookings Institution book, by Meriam and Schlotterbeck, says (p. 155): "The obligations of the Government (liabilities) deposited in a trust account do not represent assets; they merely record future obligations which can be fulfilled only through the levy of future taxes, upon the economy in general." That passage, I submit, attributes to OASI's owning Government bonds taxation that will instead be produced by the Government's owning the bonds. The Government will not pay bonds because they belong to OASI, but because it owes bonds to whoever owns them.

I have examined dozens of versions of the accusations that OASI reserve accumulation of Government bonds lacks fiscal purpose and or that OASI's fund lacks substance. I have not seen a single version that is not founded in the accounting error I have described. Dr. Lewis Meriam repeated the error, indeed, in his testimony before the Committee on Finance, March 22, 1950. He said: "* * * we must pay interest on the bonds held by the fund in cash in order to meet our benefit costs." To be sure, we must pay interest on Government bonds in cash. But we must pay the same sums, whether the bonds belong to OASI or to others. We must pay because we owe the bonds, and without regard to the uses bond owners may make of the payments they receive. I do not say, of course, that the Committee on Finance was the author of the error. Its authors were certain influential actuaries, the published records show, spokesmen for the life-insurance companies and supporters of pay-as-you-go in OASI, who spoke about 1935.

In 1945 the life insurance indlustry's report, Social Security, declared OASI reserve accumulation of Government bonds to be fiscally purposeful (Social Security, pp. 36–37), having first, however, attributed to unnamed persons the accounting error the report abandoned. That error has now become, with the aid of certain of its own authors, anonymous. It is still influential, more is the pity.

The Meriam-Schlotterbeck book, I submit, also misquoted the Social Security Act. By misquotation, I mean making the act out to say things it does not say, by employing language that is at odds with the act's own language. Referring

to the passage I have quoted, I point out that it relates that Government bonds are 'deposited" in the trust fund, whereas in truth they are sold to the fund by the Government. The word "deposited" fails to take account of value's being paid for the bonds by OASI, and being received by the Government, whereas the statement that the bonds so "deposited * * * do not represent assets; they merely record future obligations * * *" supports the theory of value's not being paid and received, but is in conflict with both the language of the statute, and with the fact that the said bonds are both valid assets of OASI and valid liabilities of the Government.

It is indeed true that in a phrase preceding that in which the incorrect word "deposited" is employed, the authors say that the "trust fund is invested in Federal Government securities." This, however, does not excuse the later solecism, especially as it is just such casuistry as has misled innumerable readers vitally interested in the subject. I submit that obedience to the truth is a persistent imperative, and that even careless deviation is indefensible in those whose pretensions to scholarship and authority are as high as are those of the Brookings Institution.

A tragic feature of the Meriam-Schlotterbeck accounting error is that it holds OASI reserve accumulations to be fiscally purposeless, and OASI's Fund to be a fiction on grounds which have exclusive reference to the fund's moneys being invested in Government bonds. If those subversive findings were valid, all other funds which consist of Government bonds (bought for value paid) would also be fictions, and most banks and insurance companies would be insolvent now. The findings are not valid; but the critics have the Government on thin ice in the matter.

II

M. Albert Linton, president, Provident Mutual Life Insurance Co., and for many years ardent supporter of "pay-as-you-go" (and frozen tax rates) in OASI, proposed in a letter to the editor, the New York Times, published March 5, 1950, that another study of OASI be made.

What would now be studied? A program which, Mr. Linton said: "would bring the present aged retired immediately into the system, and pay them benefits. * * * Benefits would be paid out of the current OASI income, transforming the system into one that would be truly pay-as-you-go. The contentious reserve question would be solved, as benefits would probably take all of the 3-percent pay-roll taxes, and increases in the reserve fund would be greatly slowed down, or possibly halted."

Let OASI and Congress beware of this proposal, even though it be called "truly pay-as-you-go." The method Mr. Linton described would "solve the contentious reserve question" by abandoning further reserve accumulation; and although that abandonment would be helpful to all insurance salesmen, it would be the opposite for the rest of us, including the policyholders of the insurance companies.

In 1943, John M. Powell, president of Loyal Protective Life Insurance Co., presiding at a forum on social security held by the Health and Accident Association, said that the 1 percent employee tax rate was more favorable to the sale of insurance than a 3-percent rate will be. On the other hand, however, abandoning or reducing OASI's reserve accumulation would increase OASI's deficit, and that deficit is a second governmental deficit that is additional to a public debt, which now itself equals $257,000,000,000; and those deficits are continuously attacking the value of the dollar, even though that may not always be obvious. The insurance companies have need to beware lest their long-standing advocacy of frozen tax rates and more Government debt in OASI, seldom plainer than in Mr. Linton's present suggestions, shall in due course not only destroy OASI's chance to provide an enduring program, but also do much harm to dollars, including those due to their policyholders. The companies would in that event pay a high price—in loss of public confidence—for whatever additional insurance business employing pay-as-you-go in OASI is now obtaining for them. And so would others.

In 1938 Mr. Linton correctly treated OASI's reserve question as part of the Government's total fiscal question, and he should so treat it now. Mr. Linton said (Insuring the Future, the Atlantic Monthly, October 1938, p. 344):

"The * * * reserve plan in the Social Security Act (i. e., the act of 1935) may best be understood if it is looked upon as a device for solving the financial problem of the Government resulting from the existence side by side of a Gov-

ernment debt approaching 40 billions, and an old-age insurance program entailing heavy financial burdens. Looking forward to the time when annual old-age pension benefits will have grown to exceed annual pay-roll tax receipts by 1.5 billions or even more, the country may well be concerned if the budgets of this day shall have to provide not only for a large subsidy (i. e., to OASI) but also for interest of more than a billion a year on the Government debt. The double burden would bear heavily on the taxpayers."

Although the "device" of which Mr. Linton spoke, i. e., "the reserve plan" of the act of 1935, was thus recognized in 1938 by Mr. Linton as available "for solving the financial problem of the Government," being specifically the problem of having "side by side" a costly old-age pension program and a public debt "approaching 40 billions," the public debt was permitted to increase to its present size, and OASI' benefits were increased also, without that device being employed, indeed with Mr. Linton periodically recommending instead the opposite action of OASI tax freezes.

If there shall be another study of OASI, it should enquire at the outset what has become of Mr. Linton's 1938 concern for the future taxpayers, and especially why his concern for them is less now than then, whereas obviously it should be much greater. The story of Mr. Linton's unused "device"—unused though the need for its use became measured by an increase in the public debt or more than $200,000,000,000—testifies that increasing the OASI reserve accumulation—and not reducing it as Mr. Linton has suggested—is now in order, and should have prompt attention in any present study.

OASI reserve accumulation of Government bonds reduces the Government's net bonded debt, i. e., the amoung of Government bonds owned by others than the Government's own branch (OASI). With the Government's gross bonded debt almost $260,000,000,000, there has long been good reason for that favorable effect of OASI reserve accumulation to be noticed and respected. Mr. Linton, it appears, has forgotten about it.

III

Testifying before the Committee on Ways and Means of the House of Representatives, April 7, 1949, I opposed H. R. 2893, because, in view of the increased benefits it proposed to enact, it provided for insufficient reserve accumulation. (See hearings on H. R. 2893, pt. II, pp. 1612–1623.) I oppose H. R. 6000 upon the same grounds.

Respectfully yours,

GEORGE BUCHAN ROBINSON.

(Whereupon, at 12:15 p. m. the committee recessed to reconvene Thursday, March 23, 1950, at 10 a. m.)

60805—50—pt. 3——71

SOCIAL-SECURITY REVISION

THURSDAY, MARCH 23, 1950

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

The committee met at 10 a. m., pursuant to recess, in room 312, Senate Office Building, Senator Walter F. George (chairman) presiding.

Present: Senators George, Byrd, Johnson (Colorado), Kerr, Myers, Millikin, and Brewster.

Also present: Mrs. Elizabeth B. Springer, chief clerk, and F. F. Fauri, Legislative Reference Service, Library of Congress.

The CHAIRMAN. The committee will come to order.

Senator Long?

STATEMENT OF HON. RUSSELL B. LONG, A UNITED STATES SENATOR FROM THE STATE OF LOUISIANA

Senator LONG. I did not bring a prepared statement, Mr. Chairman. I would just like to discuss one or two points in the present social-security bill, H. R. 6000, which I expect to support.

I think this bill goes a long way toward correcting the inadequate provisions that we have at the present time for the needs of retirement and the other phases of social security. The only objection that I would have to benefits at the present time is that I believe they will still be too meager even after we work this program out. I note that the average benefits will be about $46 for retirement, and in my own State, the average public-welfare check is about $47.50 for people over 65.

The CHAIRMAN. Old-age assistance?

Senator LONG. People who are on old-age assistance; and who are, you might say, in that respect wards of the State and the Federal Government. It seems to me we should try to work out a retirement program wherein the retirement benefits, the social insurance for retirement, would take up where the public-welfare program leaves off, so that at least a person who has paid for his own retirement could expect to live in a little bit better circumstances than a person who, for one reason or another, either was unable or failed to contribute to his own retirement. I feel that a minimum benefit, for example, of $25 for a person who has paid over a period of years for his own retirement is ridiculous, when a person on public welfare who could simply qualify as being needy could get twice that maximum. I know in your State, Senator Millikin, it even goes higher than $50 a month.

Senator MILLIKIN. It is $75.

Senator LONG. It seems, therefore, since our Government has adopted the position that it would match up to $50 a month for the retirement of individuals—that is, under public assistance—we should take up at $50 for the retirement of people under social security, so that we could feel that at least those who have paid for their own retirement would live a little bit better, or at least as well as those who were depending entirely on public assistance.

I do hope that someday we will see the public-assistance program and the social-security insurance features merged into one consistent program, and I hope that if that day is ever reached we will provide a basic $50 per month retirement for everyone at age 65.

I do not believe that is likely under the present bill, so I will not go into great detail on it.

I also believe that someday we will see fit to go to a cash-in and cash-out basis, rather than attempting to build up enormous surpluses on which a person could retire. I do not know exactly how much the Social Security Administration estimates would have to be in the fund for people to retire, but I would estimate that if we are going to build up a fund large enough for 60 million workers to ultimately retire on, and take those same dollars back out over a period of time, the fund would probably have to be somewhere between 300 billion and 400 billion dollars. I do not believe you could find that many securities to purchase, and there is not that much cash in America. It appears to me it would be necessary either for the Government to issue additional securities or to run the printing presses to create additional currencies to build up such an enormous fund. I feel that we are making a basic error when we look entirely toward the dollar value of retirement and not in terms of it as a case of taking a certain portion of the gross national product and providing for those whom we wish to retire from productive labor. I believe, if we look at it in that sense, we will find that all during the time we have had social security we could have paid greater benefits if we had been paying out the receipts that we were at that time taking in.

It is my feeling that the workers who are presently working should pay the expense of retiring those who are presently retired, and should in turn expect the succeeding workers to pay the expense of retiring them as time goes by, and that our social-security policy should be based on estimating how much of our gross national product the national economy could afford for us to set aside for the retirement of our aged people.

Senator MILLIKIN. I think what you are saying is that you believe in a pay-as-you-go system.

Senator LONG. That is right. I believe in pay as you go. I do think it is a very fine thing to have a substantial reserve. We have at present, I believe, about 12 billion dollars, or possibly substantially more than that, in reserves; and, where you do have a substantial reserve, anyone dependent on that retirement system knows that there is no prospect of the fund going broke at any time in the near future.

I think everyone who is retired likes to feel there is a large amount in the fund and no immediate prospect of the fund coming to an abrupt end. Therefore, for the peace of mind of all those who rely on our social-security system, I believe it is good to have a substantial fund there and to put a little bit more into the system each year than we

take out. But, as far as building these tremendous reserves, I believe that someday we will find that fallacious.

I think, also, we will find that we are making a mistake when we try to plan the retirement of a person 50 years in advance. I believe if we are able to provide a reasonably satisfactory retirement program for our people today, or during the next 5 or 10 years, future Congresses will find a way to better plan for their people than we can plan for them generations in advance.

Of course, those items I do not believe will have much effect on the present bill, because I believe that the committee and the Congress are pretty well committed at the present time to going along under the usual insurance programs to build up these large reserves; but I do hope over a period of time we can work toward a pay-as-you-go system.

One need that is extremely deserving of help, Mr. Chairman, is the situation of the disabled people in this country. That is the blind spot of our present public-assistance program, and I feel that it is probably one of the blind spots of our insurance program as well. In my State, we provide for about 125,000 aged people over the age of 65. In addition, we provide for about 24,000 disabled people, about one-sixth as many people as we have under old old-age program. But it is this one-sixth who must be aided by the State, with no aid from the Federal Government whatsoever.

If my memory serves me correctly, we are spending about a million dollars a month in my State, with no Federal aid, in the effort to provide for these disabled people. If economies must be effected in our program, there are many who would urge that we reduce the aid for this category, because there is no Federal matching, and the money would go further in the old-age program with Federal matching. But that would be a very unfair thing to do in most respects, because those are the cases of the most crying need. In many cases those people have heart disease or have been subjected to a heart attack, where any strenuous labor would kill them almost immediately. Many of those people have cancer, and many of them have other incurable diseases, which would make it completely impossible that they ever work again. It seems very unfair that the Federal Government would match us and make it possible for us to adequately provide for a person 67 years old, let us say, who is yet able to perform some useful labor, and at the same time give us no aid at all in providing for a man, let us say, 61 or 62 years old, who is bedridden and may never be able to do any work of a remunerative character again. And I certainly hope that this committee will come forth with a provision to enable us to care for the disabled.

The definition that is presently in the bill as it passed the House provides for aid for the totally and permanently disabled, and I do not believe anyone will be able to tell us exactly what that language means if that test is applied. I know in my own State our workmen's compensation law used the term "totally and permanently disabled." The term was so strict that the court saw fit to liberalize it, and our definition in Louisiana is that a man who was a carpenter, if he suffered an injury which would prevent him from climbing a scaffold, although he could do many other types of useful work, was totally and permanently disabled to be a carpenter and is entitled to compensation as a totally disabled worker although he might then go to work as a

watchman and make more money than he made as a carpenter, because he had been totally and permanently disabled for that particular job that he had been doing. We will find ourselves splitting hairs and fighting over definitions as long as we have the definition of "permanently and totally disabled," unless we intend to go further and define those terms in this act. To me the only proper definition of "aid to disabled" would be that the person be, first, needy, and that in addition to being a needy person, he has disability that is such as to prevent him from earning sufficient money to provide for his own needs. That is what we are ultimately going to arrive at in our definition of "totally and permanently disabled," in my opinion, if we ever put it in the act. And I feel that we might as well be realistic in the beginning and realize that the State program would have to attempt to set up a definition that would be more administrative and would rely on the fact that a person because of his disability was unable to earn sufficient income to provide for himself. Otherwise, I believe we will find ourselves in a situation where possibly a great number of people who would be entitled to some consideration may not receive it.

There are a lot of people who are temporarily disabled, although the temporary disability may last for as long as 6 or 8 months, and if they have no other visible source of income it would seem to me that they should be entitled to some consideration for public assistance. I do not feel that it would be proper for the National Government to say that it would not match or assist with any of those kinds of cases. Therefore, I hope that this committee will consider the amendment that I offered pertaining to the definition of "disabled."

In addition to that, Mr. Chairman, I have received complaints from some of our States and municipal employees, who feel that they will be compelled to come under the Social Security Act and receive less benefits than they would receive under the present retirement system within their States. As an example, our school teachers have a very excellent retirement system in the State of Louisiana that they have worked on over a period of many years. Now, the law provides that those people could vote whether or not they wanted to come under the social-security program; and on its face it would seem that they would be well protected. However, they feel that, in the event we pass the present social-security bill and include such a provision, many of the members of the State legislature would simply refuse to appropriate money for the State's matching portion to the retirement system, in the effort to compel the teachers to go under the social-security program, which would be less expensive to the State. They feel that to avoid any type of compulsion, or being forced by the legislature, or by a balking legislature, to go under the Federal retirement system, they would just prefere to be exempted. Therefore, an amendment has been presented, which I believe was proposed by Senator Lehman, in this connection, and I will not attempt to suggest to the committee what its decision should be on that matter, but I do believe that should be considered in studying this bill.

Further than that, I have heard from many of the timber people, logging mills, and paper mills in my State, who are concerned about the definition of "employee" where, as they feel, the individual is a private contractor. I have not had a chance to make sufficient study of that matter to know just what my own opinion would be, but I

would call it to the committee's attention so that they may give study to the position of an independent employee, or an independent contractor, who may or may not be covered by the act. I certainly hope that, however the committee works it out, we do clearly spell it out one way or the other, rather than leave it for administrative decision as to whether a person working as a private contractor for a logging mill or a pulp mill or something of that sort is an independent contractor. I feel it is only fair to both the employer and the employee that both sides know where they stand when Congress acts on this measure.

The CHAIRMAN. Thank you very much, Senator Long, for your appearance.

Senator LONG. I thank you very much for the time, Mr. Chairman, and your consideration.

The CHAIRMAN. Mr. Lowell Whittet?

Mr. Whittet, before you proceed, we shall offer for the record a statement prepared by Ernest W. Greene, vice president of the Hawaiian Sugar Planters' Association, in which he advocates the coverage of farm labor under social security.

(The statement referred to follows:)

STATEMENT OF ERNEST W. GREENE, VICE PRESIDENT, HAWAIIAN SUGAR PLANTERS' ASSOCIATION

I am Ernest W. Greene, vice president of the Hawaiian Sugar Planters' Association, of which all of the producers of sugar in Hawaii are members.

The executive committee of the association, on March 13, 1950, unanimously adopted a resolution as follows:

"Whereas the Committee on Finance of the United States Senate is presently conducting hearings on proposed amendments of the Social Security Act, and consideration is being given by said committee to proposals for the extension of the coverage of said act to include persons not now receiving benefits provided by the act: Now, therefore, be it

"*Resolved*, That this committee express to the Committee on Finance of the United States Senate the position of the sugar-plantation companies of Hawaii in favor of the extension of the coverage provisions of the Social Security Act in order to entitle agricultural labor to the same old-age and retirement benefits now received by other persons covered by the act."

The production of sugarcane and the processing of raw sugar therefrom is necessarily a large-scale operation under the conditions which exist in Hawaii. Persons employed by sugar producers are engaged in year-round employment in every phase of the farming and harvesting of sugarcane, transporting such sugarcane to the sugar mill on the plantation farm, and processing it into raw sugar.

About one-half of the employees of sugar producers are employed in employment which is covered by the present Social Security Act. The other half are employed in employment which is defined by the act as agricultural and, therefore, they are exempt from such coverage. Exemption in this instance means that many thousands of the persons employed in producing sugar do not participate in the benefits of social-security legislation.

The sugar producers of Hawaii urge that the Committee on Finance amend the Social Security Act to extend to employees employed in agriculture the old-age and retirement benefits which are now received by persons who are covered by the act.

We believe that coverage of agricultural workers will accomplish simple justice by affording to such workers the security which is now enjoyed by other workers who are employed in employment which is so classified as to be covered.

The CHAIRMAN. Also a request by the Honorable Guy M. Gillette, junior Senator from Iowa, on behalf of the National Brotherhood of Packinghouse Workers: and that will be entered into the record also, Mr. Reporter.

(The statement referred to follows:)

UNITED STATES SENATE,
March 23, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

MY DEAR CHAIRMAN: I am submitting the attached statement from the National Brotherhood of Packinghouse Workers with the request that it be considered by your committee and made a part of the record of the hearings.

Your consideration of this request will be appreciated by the undersigned.

Sincerely,

GUY M. GILLETTE.

STATEMENT FROM NATIONAL BROTHERHOOD OF PACKINGHOUSE WORKERS

Our union, the National Brotherhood of Packinghouse Workers, CUA, approves, in principle, extension and improvements to the Federal old-age and survivors insurance system, to amend the public-assistance and child-welfare provisions of the Social Security Act, and for other purposes as set forth in H. R. 6000. We feel that in one respect, at least, especially with reference to temporarily or permanently and totally disabled workers the bill (H. R. 6000) does not make ample provision. The effective date should be immediately after passage. Since the cruel effects on those afflicted with polio and heart disease, or permanently disabled by industrial or other accidents, is a matter that should no longer be ignored.

All statistics on the permanently and totally disabled in our population are estimates subject to a very large chance of error. No census of the disabled has even been taken. As the disabled are not entitled to any special benefits in this country, there also is nothing resembling automatic registration of these people.

The estimate of 750,000 as the total number of all people who are under 65 and permanently and totally disabled comes from the Social Security Administration. It is based upon sample surveys made in the year 1945. This figure includes only people permanently and totally disabled who are in the employable ages, that is, from 16 to 65. Permanent total disability, as used in this estimate, takes account only of disabilities which have lasted more than 6 months. H. R. 6000 will provide benefits for only a small percentage of all of the people who are permanently and totally disabled. To qualify for benefits, not only must the disability be of such nature as to completely prevent employment and have already lasted at least 6 months, but the claimant must be able to establish that he was fully or currently insured. In most cases this will mean that only people who have had pretty regular employment up to the time that they become permanently and totally disabled will be able to get any benefits. Many disease conditions, however, are of such a character that disability comes on very gradually Many such people will not be able to attain or maintain the status of being currently and fully insured, as that involves at least employment in covered industries in half or quarter years. Workers who are newly brought under coverage by the amendments to the Social Security Act made in H. R. 6000 will not be eligible to any total and permanent disability benefits until 1956 at the earliest

Approximately how many people will be able to get permanent and total disability benefits should H. R. 6000 become law is even more of a guess than the total number of permanently and totally disabled persons. The best guesses on this point are those given in the report of the Advisory Council on Social Security on permanent and total disability insurance which was made to the Senate Committee on Finance in May 1948. On pages 15 and 16 of that report occurs the following estimate regarding the proposal for including permanent- and total-disability benefits in old-age insurance benefits which was made by the Advisory Council:

"After the program has been in operation for a few years, the number of new disability claims arising annually will range from 20,000 to 50,000, although after perhaps a decade or so, when the full effect of the extension of coverage has made itself felt, this number will rise to perhaps 40,000 to 100,000. Eventually the total number of disabled persons who are on the benefit roll and who are under age 65 will number roughly 300,000 to 800,000. The eventual annual cost of the proposed permanent- and total-disability benefits as a percentage of pay roll will probably range from somewhat more than 0.1 to possibly as much as 0.3 per-

cent of pay roll: in terms of dollars this corresponds to about 200 to 500 million dollars a year."

The recommendations of this Council were more liberal in this respect than H. R. 6000 but, in general, will also serve as an estimate of how many people will get benefits under H. R. 6000.

Another estimate relates to H. R. 6000 as passed by the House of Representatives. This was published last October by the House Ways and Means Committee as a separate document and is entitled "Actuarial Cost Estimates for Expanded Coverage and Liberalized Benefits Proposed for the Old-Age and Survivors Insurance System by H. R. 6000." These actuarial cost estimates were prepared for the use of the Ways and Means Committee by Robert J. Myers, actuary to the committee. As appears on page 7 of this report, the total number of beneficiaries who are expected to qualify for disability benefits under H. R. 6000 by the year 1955 is 190,000 to 594,000. Totals will increase in future years. The very wide range in the possible numbers is explained on the basis of varying assumptions, but it is made clear that the lower estimate is the more likely. From the same report it appears on page 9 that by 1955 the cost of permanent- and total-disability allowances will range from 12 one-hundredths of 1 percent of pay rolls to 34 one-hundredths of 1 percent. The ultimate costs (by the year 2000) are estimated at 36 one-hundredths of 1 percent to 93 one-hundredths of 1 percent.

At the present time approximately 2,000,000 persons, aged 14 to 64, who would otherwise be gainfully employed, are affected with serious disabilities which have continued for more than 6 months. It has been estimated that the chief causes of disabilities lasting more than 45 days fall into the following classifications:

	Percent		*Percent*
Respiratory diseases	18.8	Communicable diseases	9.0
Degenerative diseases	17.0	Female diseases	6.3
Accidental injuries	13.4	Nervous diseases	6.1
Digestive diseases	11.5		

Latest available figures from the national office of vital statistics show deaths from cardiovascular diseases and congenital malformation of the cardiovascular system in United States in 1947 between ages of 25 and 64 were 211,758 according to Edward Robbins, national labor representative of the American Heart Association.

When disability strikes a wage earner, it may be economically more disastrous for him and his family than unemployment, death, or forced retirement; for, in addition to the loss of wages, there are the costs of medical care, hospitalization, special diets, the expense of moving to a more favorable climate, etc.

The problem is being met, to a minor extent, in a number of ways. In some cases the workers receive payments from the workmen's compensation funds of his State. However, such payments are possible only where the disability has arisen out of the worker's employment. There are also some companies which make payments to their disabled employees. In some instances the worker carries insurance against disability either as an individual or in combination with his fellow workers. In recent years, a few States have provided by statute for disability insurance.

However, these various methods provide protection for only about 27 percent of the workers who are covered by unemployment-compensation laws. The only adequate solution of the problem is the establishment of a national plan. Only a national plan can give country-wide coverage and lifetime protection. There is a constantly occurring mobility between both industries and States. After disability occurs, it may be necessary or desirable for the disabled person to change his place of residence. A national system would allow this mobility much more easily than other plans. Under a national plan the cost burden in the case of varying rates of disability between localities, due to epidemics, catastrophes, varying age, sex and occupational characteristics, would be equalized.

This national system should be operated in conjunction with the present old-age and survivors insurance plan. The existing facilities of this plan, with its wage-record system and field organization, could be used in the administration of disability benefits. Employers would have to keep only one set of records. Contributions could be kept in a single trust fund which would provide greater flexibility in financing. There would be no overlapping of functions, and the number of administrators would be kept at a minimum.

However, the provisions of the proposed H. R. 6000 relating to disability benefits do not go far enough. The proposed bill provides disability benefits for only those workers who are totally and permanently disabled. The problem of the temporarily disabled worker is also of large proportions. Each day about 2,000,000 persons are kept from their jobs by disability which has lasted less than 6 months. In addition, there are large numbers of workers whose physical condition is such that they should not be at work; but who are there because they cannot afford the loss of wages. It has been estimated that the annual wage loss to the labor force through temporary disability is between 3 and 4 billion dollars. In addition to this wage loss, the labor force also is subject to a medical cost of $3\frac{1}{2}$ billion dollars.

Temporary disability also means a loss in productivity which is a vital loss to the Nation. It has been estimated that this loss of productivity equals the total of the wage loss and the medical cost. This hidden loss must be deducted from profits or passed on to the consumer in the form of higher prices.

In addition to the economic loss which the worker suffers as a result of temporary disability, he also suffers indirect losses. Among these are impairment of occupational efficiency, risk of permanent disability, lowering of the standard of living, and the psychological effect of want.

The bitter fight which is being made on permanent- and total-disability benefits in connection with the old-age insurance system centers around the possibility that the provisions for benefits may be greatly liberalized in future years. Under the restrictive conditions of H. R. 6000, both the total number of people who will get benefits and the cost of these benefits will not be great. The private insurance companies, however, do not want the Government to pay any permanent- and total-disability benefits, although this is a feature of the old-age insurance systems in practically all other countries. Logically, also, a man who is permanently and totally disabled before 65 is from an economic point of view in substantially the same position as the person who is unable to work by reason of old age. Old age is itself for many people a condition of invalidity. Those who do not want us to get a decent old-age and survivors insurance system, however, oppose the logical step of providing benefits for people who are permanently and totally disabled before they reach old age.

DON MAHON,
President, National Brotherhood of Packinghouse Workers and Vice President, Confederated Unions of America.

The CHAIRMAN. All right, Mr. Whittet. Will you please identify yourself for the record?

STATEMENT OF LOWELL WHITTET, ASSISTANT CONTROLLER, ED. SCHUSTER & CO., INC., MILWAUKEE, WIS., AND MEMBER, SOCIAL SECURITY COMMITTEE, NATIONAL RETAIL DRY GOODS ASSOCIATION

Mr. WHITTET. I am Lowell Whittet, assistant controller of Ed. Schuster & Co., Inc., department store, Milwaukee, Wis., and member of the social-security committee of the National Retail Dry Goods Association.

I wish to thank the committee for extending to me the privilege of appearing here today on behalf of the National Retail Dry Goods Association which is composed of approximately 7,000 department and specialty stores throughout the United States. The annual sales of the members of this association exceed $10,000,000,000 and they employ more than 800,000 workers.

Our organization has had an active committee on social security since the early part of 1935, which, as you know, antedates the passage of the Social Security Act. We have continuously endeavored to study the entire subject of social security from the broad view of the general welfare of all the people. It is because of this deep interest by retailers in this subject that I am appearing today.

Our organization believes that the social-insurance program should be extended to include all employed individuals, including self-employed, not now covered by the act because it is the democratic way of life to provide equal rights to all members of our society. The confusion resulting from an individual moving between covered and noncovered employment should be eliminated.

We definitely favor the insurance rather than the public-assistance approach in meeting the problems of old age retirement. In other words, we favor a program based on a "right earned" rather than on a "dole or needs" basis. We believe that through universal coverage of workers gainfully employed there can be a substantial reduction in the public-assistance program, and that the Federal Government can eventually withdraw from part, and possibly all, of these programs.

We are frankly fearful of the trends of the two programs—OASI and public assistance—and unless coverage is extended in the insurance program, it will be undermined by and eventually collapse in favor of an outright public-assistance program.

We favor the retention of the definition of "employee" which is now in the Social Security Act. If there is universal coverage, there is no need to tamper with the definition of "employee" and such retention would make it unnecessary for the Federal agencies involved to exercise their discretion in the field of employee-employer relationship by the proposed new and untried formula.

Senator MILLIKIN. Mr. Chairman, may I ask a question, please?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. By "universal coverage," do you mean that everyone should be covered?

Mr. WHITTET. Yes, sir.

Senator MILLIKIN. Even if one is not a worker, in the common acceptance of that term?

Mr. WHITTET. I would say he should be attached to the labor market.

Senator MILLIKIN. A man who looks after his own investments, for example?

Mr. WHITTET. He should have been attached to the labor market, in my opinion, in those employments which the bill would incorporate as "self-employed," or farmers, or domestics.

Senator MILLIKIN. He should be brought into the system one way or another?

Mr. WHITTET. Yes, sir.

Senator MILLIKIN. You have no exceptions?

Mr. WHITTET. No, sir.

Senator MILLIKIN. Thank you.

Mr. WHITTET. We favor the retention of the present formula, contained in the Social Security Act, for computing the average wage, rather than that proposed in bill H. R. 6000 which is complicated and will be exceedingly difficult to explain or understand.

If the objective of the program is to provide a minimum floor under fluctuating living standards, then you may want to consider the thought that any change in benefit amounts might be properly related to cost-of-living indices. In view of the constant changes in living costs a fairly constant floor under living standards can be maintained through such a relationship.

In any event, whatever action might be taken to increase benefit amounts, we believe that the present $3,000 wage base should be main-

tained as against increasing the base to $3,600 as proposed. Any desired increase in benefits can be secured by applying a different formula to the $3,000 base.

It has been argued that, unless the $3,600 base is adopted, there will be a marked tendency for benefit amounts to be uniform under present wage conditions. However, this is in no manner inconsistent with our concept of providing a basic minimum. On the other hand, it is clear that an upward progress in the wage base once started may eventually lead to the substitution of a complete national insurance program for private savings and private insurance. We think a particular objection against any increase in the wage base would be the far greater percentage increases in the benefits to those earning over $3,000 than to those earning $3,000 or less. Presumably, it is this latter class that are more in need of benefit increases at this time.

Senator MILLIKIN. Mr. Whittet, I am a little bit uncertain as to the meaning of the sentence which you have read: "On the other hand, it is clear that an upward progress in the wage base once started may eventually lead to the substitution of a complete national insurance program for private savings and private insurance." What is your reasoning on that?

Mr. WHITTET. The reasoning is that it may be $3600 this year, $5000 next year, or $10,000 the year thereafter. And as we increase that wage base level, we may simply be substituting a governmental program for a private plan.

Senator MILLIKIN. In other words, you feel there is a field for private insurance which should be protected?

Mr. WHITTET. Yes, sir.

As an additional consideration for the maintenance of the $3,000 wage base, we wish to point out that the wage base figure in the Federal Unemployment Tax Act and State unemployment compensation laws is $3,000. There would be a reporting complexity for employers if they were called upon to report on one wage base for OASI and another wage base for unemployment compensation purposes.

Also to be considered is the fact that thousands of private pension plans are now integrated with the $3,000 base. The change in that base would bring about substantial maladjustments that could only be cleared through detailed negotiations. We believe this is particularly undesirable since in our estimation it is entirely unnecessary.

We favor a revision in the present provision which permits a retired worker to earn only $14.99 per month without forfeiting his OASI benefits. This requirement has worked an unwarranted hardship upon many of our older people due to the increased cost of living.

We believe that the allowable monthly earnings should be increased to $50. If there are any earnings in excess of this amount, then the individual should simply be entitled to receive either his total earnings or his benefit, whichever is the larger.

We are opposed to that provision which provides for the payment of benefits to insured persons age 75 or over without consideration of their earnings.

Our organization wishes to register complete opposition to the establishment of either a national permanent disability or temporary disability program.

With reference to permanent and total disability, we are opposed to the inclusion of this feature in a national social security program for the following reasons:

1. It would discourage many people from attempting to rehabilitate themselves and from returning to a productive life.

2. It also would do something to an individual, as such. It deemphasizes him as a man and causes him to turn to the Federal Government to provide for his future.

3. It is the first step, and a big one, toward socialized medicine.

4. The problem of effective administration would be terrific, requiring not only specialists in this field, but a great deal of detail investigation and follow up by many governmental workers. Even then, malingering and other abuses could not be prevented.

5. The experience of the life insurance companies in this field has been adverse.

6. The estimated cost of this program appears low, ranging from 237 million in 1955 to 866 million in the year 2000. The question is raised as to whether anyone would be willing to underwrite these figures and definitely say that the costs will not be greater than the estimates.

We firmly believe that the field of permanent disability is one in which the Federal Government should not enter. The problem should be left with the States.

Comments of the social-security committee of the National Retail Dry Goods Association to the Finance Committee of the Senate:

My previous statement was based upon the policies of our national organization, the National Retail Dry Goods Association, while the subsequent remarks represent the views of our social-security committee. Due to lack of time, the following comments have not been submitted to our national organization, and consequently it has not had an opportunity to consider and approve them.

In view of recent developments, we believe that it is timely for you as a committee to stop, consider, and reevaluate the entire approach to the problem of the aged. We believe that you have the rare opportunity to investigate and to develop an entirely new and sounder approach to the problem of the aged.

Senator MILLIKIN. May I interrupt, Mr. Chairman, please?

The CHAIRMAN. Yes.

Senator MILLIKIN. What was the experience of the retail merchants during the war so far as the full-time or part-time employment of aged persons was concerned?

Mr. WHITTET. I would say that it was increased. It was very difficult to get the necessary help to man the stores.

Senator MILLIKIN. Are the retail merchants attempting as best they can to keep elderly people employed if they can work and want to work?

Mr. WHITTET. I can only speak for our own organization, sir; and in our own organization we are. We have many people over age 65 that are continuing to work and do a good job.

Senator MILLIKIN. Is the association, as such, giving any attention to that problem?

Mr. WHITTET. As far as I know, we have not given any attention to that specific problem.

Senator MILLIKIN. Thank you.

Mr. WHITTET. The fact that you have under consideration bill H. R. 6000 provides the opportunity for a very thorough reexamination at this time of the basic philosophy and principles underlying the present approach to the old age retirement problem as set forth by existing law and the proposed amendments to it by H. R. 6000.

The present approach raises serious questions, not only of minor imperfections, but of the over-all program. In our opinion, existing law and H. R. 6000 are defective in that they necessarily, to a certain degree, provide the formula and theory of a "reserve." This is because taxes collected under such a growing program in early years will exceed disbursements. This "reserve" under a governmental system is really illusory—money cannot be invested so as to constitute assets as in private insurance companies. This approach, which is so-called insurance, bears no analogy to insurance principles.

There is no conceivable way for today's workers to provide funds for the future on an insurance basis; rather the present attempt to finance on an insurance basis simply postpones the full impact of the benefits until some future date, a situation which is detrimental to a sound fiscal policy for Government. No matter how it is argued, these contributions collected by the Government and expended for current purposes are simply gone and are not available for the future. They must be raised again either from taxation or borrowing. Present contributors to OASI are being deceived because those who are now paying this pay-roll tax are taught to believe that a fund is being created from which their benefits will be paid. It is absolutely wrong to continue to convey the idea that a fund is being created to provide for old age payments when actually it is not being done.

Furthermore, considering the excess tax receipts as a reserve gives rise to pressures to further expand both benefits under the existing program and to expand in other social-security fields. New programs endanger sound fiscal policy through encouraging plans for Government expenditures in future periods because future obligations do not have to be met out of present taxation or borrowing.

As a consequence, enactment of H. R. 6000 is really legislating for the future generation, for the retirement problem as it will exist a generation hence. By reason of slowing developing maturity we have slowly developing costs, but the costs will inevitably increase from year to year. Bill H. R. 6000 is estimated by the Social Security Agency to cost $1,300,000,000 its first effective year and assuming the scale of benefits and coverage to be in no manner further increased, the annual cost will mount to 12 to 15 billion per year by conservative estimates within the next 50 years. The most critical defect is that the provisions of the proposed legislation providing very substantial future obligations do not deal in a realistic manner with the cost or the necessity of raising the money to meet the obligation involved. They do not provide for the future because they cannot.

Present approach does not adequately provide for the present aged through OASI and consequently the program has been supplemented by public assistance. Even if coverage under H. R. 6000 were extended to all gainfully employed not now covered, numbering approximately 23,000,000—H. R. 6000 is designed to increase coverage by 11,500,000—it would not take care of the existing retirement problems of the aged because any substantial benefits under its provisions for the noncovered group would not be forthcoming until

after a 5-year eligibility period had elapsed. Even then presumably only a relatively small part of the group to which coverage was extended would be entitled to benefits.

It is clear that the present approach in existing law and H. R. 6000 does not reach the problem of the present aged, or the immediate prospective aged. At the present time, only 40 percent of the men 65 years and over have insured status, and only 25 percent of the aged women. While further extension at this time would, as pointed out, bring in a larger proportion of the aged some 5 years from now, it is clear that there would be millions who would not be able to qualify because of present age.

We suggest that the committee earnestly consider a revision of the basic principles of OASI and the adoption of the following principles which we deem to be sound:

1. Each generation must provide for meeting the social problems of the retired aged and other nonproducers then living. The obligation of the producers to the nonproducers should be redetermined from time to time, and the required amount of money raised from the producers through pay-roll taxes to take care of these obligations. Each year payments to the aged can and should be paid out of pay-roll taxes collected in that year.

2. The prospective beneficiaries in the program must be made cost-conscious. This requires the retention of the contribution system based on earnings. We would not depart from this principle of a direct tax based on employment which, of course, involves some degree of differential benefits based on amount of wages earned. Future benefits should be based on past work, but paid for by workers then employed. We believe that contributions and benefits should be related to wages earned, or earnings in the case of the self-employed.

3. We believe that each individual should realize that he has a responsibility to make as much provision as possible for his old age. He should not depend upon someone else, particularly the Government, to provide for his old age. The most which any governmental plan should do is to provide a basic minimum.

Senator MILLIKIN. Mr. Chairman, might I ask a question, please?

What would be your own thought on the subject of a basic minimum, regardless of the past earnings of a man?

Mr. WHITTET. I would think that the basic minimum would have to at least equal the average of the old-age assistance.

Senator MILLIKIN. Your theory on that is that the average represents the composite of experience for the measurement of need?

Mr. WHITTET. Yes, sir.

The application of these principles, if the Congress sees fit to apply them, would mean immediate universal extension of coverage to all presently employed and the giving of benefit eligibility to those who are now over age 65. Benefits payable under this program should immediately be extended to all unemployed individuals now past retirement age, provided they performed work in occupations which will be covered under the act as amended. Individuals, while earning more than $50 per month, should be entitled to receive his benefits or his earnings, whichever is greater.

Senator MILLIKIN. May I ask the witness another question?

The CHAIRMAN. Yes, Senator.

Senator MILLIKIN. Mr. Fauri, our technical expert, advises us that the average of public assistance is $44. That is combined Federal and State contributions. Is that the figure you had in mind?

Mr. WHITTET. I had $44–$46 in mind; yes, sir.

Senator MILLIKIN. Thank you.

Mr. WHITTET. We also urge that the present exemption from income tax of OASI benefit payments should be removed and benefit payments should be included as subject to the income tax. Thus, those with incomes also receiving benefits would be required to contribute to the support of their Government when they had appreciable income from other sources. They would pay no tax in the event they were in the low-income group and in real need of their old-age benefits.

Certain manifest advantages would accrue from this revised approach.

A. We could immediately determine the essential factors involved in taking care of our present aged.

B. We would be facing up to the problems as to how much the current producers are willing to divert from their present standard of living to the care of the nonproducers. In short, what part of the national income are we able to use for this social-security purpose.

C. Having ascertained this share of the national income, we can then make a realistic determination of benefit amounts available for retired individuals and the contributions required finally from industry and present workers to meet the amount estimated.

We will be attempting to do now what we are piously legislating that our children and grandchildren do for us 30 or 40 years from now. Under this program, the electorate and its elected representatives would have to currently raise the money to meet the over-all obligations imposed. We should not impose any programs for the future merely because they are comparatively costless today.

We believe that you should face this very important problem realistically with a full appreciation of the obligations involved.

We hope that you will enact a program for the aged which will remain within the financial ability of industry and producers to support.

Senator MILLIKIN. Mr. Chairman, may I ask another question, please?

The CHAIRMAN. Yes, sir.

Senator MILLIKIN. With reference to the basic minimum of $44 or $45, or whatever it is, would you start out paying that? If we could do what we wanted to here, would you start out paying that $44 or $45 to every aged person 65 years old, say, starting tomorrow, regardless of what their past contributions would be?

Mr. WHITTET. Yes, sir; if they had been attached to the labor market in their previous years.

Senator MILLIKIN. And, regardless of what their earnings had been or whether they had been in and out, you would start the whole thing off at a flat minimum?

Mr. WHITTET. Yes, sir.

Senator MILLIKIN. Starting at once, and starting to pay the bill at once?

Mr. WHITTET. Yes, sir.

Senator MILLIKIN. Please clarify me on this: What would be the circumstances under which you would raise the basic minimum?

Mr. WHITTET. I would think one of the principles that you would want to use to resolve that question would be whether you could afford to raise the additional amount, whether you had the funds and the ability to carry the additional load.

Senator MILLIKIN. Would that be on a needs basis?

Mr. WHITTET. No, sir.

Senator MILLIKIN. Or would it have relation to prior contribution?

Mr. WHITTET. It would have relation to prior contribution.

Senator MILLIKIN. That is where the prior contribution would come in, on the excess over your basic minimum?

Mr. WHITTET. Yes, sir.

Senator MILLIKIN. Have you thought of a formula for that?

Mr. WHITTET. No, sir.

Senator MILLIKIN. In Colorado, under the public-assistance part of the program, we pay, I think, an average of about $75 a month to husband and wife. Now, the wife in a certain sense has not been attached to employment. Would you pay the husband and wife?

Mr. WHITTET. I would be inclined to pay the husband, and I think the status of the wife should be investigated and explored.

Senator MILLIKIN. What I was getting at: Would you give the wife the basic minimum, short of a needs test?

Mr. WHITTET. We would like to get away from the needs test and put it on a rights basis.

Senator MILLIKIN. That is what I am driving at, and I was wondering what your thinking was on that.

Mr. WHITTET. And, if that wife had been attached to the labor market in previous years, I would be inclined to say that she should have the basic minimum.

Senator MILLIKIN. And if not, then, if there is need, that would necessarily have to come under the needs test?

Mr. WHITTET. That is right.

Senator MILLIKIN. Thank you.

The CHAIRMAN. Thank you very much, Mr. Whittet. We were very glad to have your contribution and the benefit of your study.

Mr. WHITTET. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. John Dressler?

Mr. Dressler, you may have a seat.

STATEMENT OF JOHN DRESSLER, PRESIDENT, EASTERN STATES GASOLINE RETAILERS ASSOCIATION, AND EXECUTIVE SECRETARY, NEW JERSEY GASOLINE RETAILERS ASSOCIATION, HACKENSACK, N. J.

Mr. DRESSLER. Thank you, Senator.

The CHAIRMAN. You are the executive secretary of the New Jersey Gasoline Retailers Association?

Mr. DRESSLER. That is right, Senator, the New Jersey Gasoline Retailers Association and Allied Trades, Inc.

The CHAIRMAN. Yes, sir.

Mr. DRESSLER. My name is John Dressler.

I am here speaking first for the 3,000 operators of gasoline service stations who are members of the New Jersey Gasoline Retailers Association, of which I am executive secretary.

I am also speaking on behalf of the 8,000 service-station operators belonging to the Eastern States Gasoline Retailers Association, of which I am president.

Throughout the country the members of many such independent dealer organizations have passed resolutions expressing firm opposition to the definition of "employee" in H. R. 6000, which would undoubtedly make them "employees" of their lessor-suppliers for social-security purposes and petitioning their Senators and Congressmen to make certain that no such change is made in the present law.

These associations were organized to protect the interests and promote the welfare of some 200,000 retail gasoline dealers and their families throughout the Nation.

You gentlemen know and are being served faithfully by many of these men.

Resolutions and petitions to the above effect have been adopted by the dealer organizations shown on the attached schedule.

I should like merely to read this list, which I am sure is only partial:

Denver (Colo.) Petroleum Retailers Association
Retail Gasoline Dealers Association of Connecticut
Georgia Association of Petroleum Retailers
Maryland Retail Gasoline Dealers Association
Retail Gasoline Dealers Association of Massachusetts
West Michigan Gasoline Retail Dealers Association
New Jersey Gasoline Retailers Association
Inter-City (N. Y.) Gasoline Dealers Association
Long Island (N. Y.) Gasoline Dealers Association
Greensboro (N. C.) Service Station Protective Association
Independent Gasoline Dealers Association, Inc., of Youngstown, Ohio
Petroleum Retailers Association of Oklahoma
Petroleum Retailers of Philadelphia (Pa.)
Cambria County (Pa.) Retailers Association
Lawrence County (Pa.) Service Station Association
Erie County (Pa.) Gasoline Retailers Association
Pennsylvania Gasoline Retailers Association
Chattanooga (Tenn.) Retail Dealers Association
Retail Gasoline Dealers Association of Wisconsin

Those were the retailers. The wholesalers are as follows:

Alabama Petroleum Jobbers Association
Arkansas Independent Oil Marketers Association
Florida Independent Petroleum Marketers Association
Georgia Independent Oil Men's Association
Illinois Petroleum Marketers Association
Iowa Independent Oil Jobbers Association
Kansas Oil Men's Association
Kentucky Petroleum Marketers Association
Maine Independent Oil Marketers Association
Michigan Petroleum Association
Northwest Petroleum Association
Missouri Petroleum Association
Nebraska Petroleum Marketers Association
Empire State Petroleum Association
North Carolina Oil Jobbers Association
Ohio Petreleum Marketers Assosiation
Pennsylvania Petroleum Association
South Carolina Oil Jobbers Association
South Dakota Independent Oil Men's Association
Tennessee Oil Men's Association
Texas Oil Jobbers Association
Virginia Oil Men's Association
Virginia Petroleum Jobbers Association
Wisconsin Petroleum Association

These are the associations whose members would be affected by this bill and have expressed opposition to the definition of "employee."

The language in subparagraph (4) of the proposed definition is so vague as to defy anyone to guess how many independent businessmen will be included as an "employee." Even subparagraph (3) of the definition affords too much latitude of interpretation by the Treasury Department. The Congress can have no assurance that gasoline dealers will not be covered as employees unless the definition of such term in the law as presently on the books is left undisturbed.

Now these hundreds of thousands of independent lessee dealers are not only alarmed over this definition of "employee" in H. R. 6000. They smell more smoke!

They fear with good reason that this is merely the first of a planned or unplanned series of blows which will ultimately destroy their independence completely and convert them, for no good reason, from independent self-respecting businessmen into hired hands.

They know that already there are now three bills pending in Congress that would make them "employees" of their lessor and principal suppliers for Federal unemployment compensation purposes, by means of exactly and literally the same definition of "employee" as that contained in H. R. 6000. One of these bills is H. R. 6718.

Next on the agenda, if H. R. 6000 and H. R. 6718 become law, will, of course, be State unemployment-compensation laws which have to follow exactly the same pattern as the Federal law.

Is it therefore any wonder that these dealers are alarmed? Is it any wonder that they have a real fear of being treated as employees under other State and Federal employee laws, such as workmen's compensation laws, labor-relations laws, temporary employee disability laws, employers' liability laws, minimum-wage and maximum-hour laws—to mention merely a few—if this first blow (H. R. 6000) is taken at their independent status?

And is it any wonder that they are determined to do all they can to stop this first blow?

I know from talking directly with many of these people and from reading resolutions of their associations and their trade publications that these service-station operators are definitely opposed to being treated as employees of anyone for any purpose. They are an independent lot!

They lease their service stations from jobbers and supplying companies and usually buy most of their petroleum products and some of their accessories from these suppliers. However, they buy other items and some of their other petroleum products from other wholesalers. Their leases are usually just like any other lease of business property. They are truly independent merchants and under all law that I know about today they are so treated.

The Gasoline Retailer, which is the national newspaper of the automotive service industry with a circulation of over 94,000, carried, on February 15, 1950, a statement which I made and which I cannot emphasize too strongly:

> For years we have fought to create a greater degree of independence among gasoline retailers. We welcomed the change from company-operated to company-leased stations. We have constantly urged the suppliers to leave the retail market to the small-business man, but with one action (and, I might add,

similar action taken in other fields) on the part of our national legislators, all of this past effort can be nullified.

Let us continue to better the growth of the independent businessman. Let us insist on greater, not lesser, independence.

Now, gentlemen, don't let anybody fool you. These independent service-station operators are intended to be covered by this law as "employees" of their suppliers. This is apparent from pages 84 to 86 of the majority report of the House Ways and Means Committee. Just read these two pages.

It is also apparent from certain statements contained in an analysis of the definition of "employee" in H. R. 6000 prepared for the House Ways and Means Committee by the expert and unprejudiced staff of the Joint Committee on Internal Revenue Taxation on July 22, 1949, while H. R. 6000 was being considered by the House committee.

This analysis—while referred to only in the House minority report—is printed in the House Ways and Means Committee report, No. 1300, beginning at page 189. In such analysis, the staff of the Joint Committee on Internal Revenue Taxation, whom we certainly have no reason to doubt, said:

* * * It is the opinion of the staff that paragraph (3)—

now paragraph (4) in H. R. 6000—

of the definition adopts a method of extending the definition of employee which is basically undesirable because it is too uncertain in its scope and because it will extend the definition of employee to include groups for whom it would be impractical, if not impossible, to demand an accounting for remuneration or tax withholding from it.

Assurances by present administrators of the voluntary limits which they will place on interpretation of the broad provisions of paragraph (3)—

now paragraph (4)—

will not be binding for the future, and the Federal Security Agency and the Treasury will not be in a position to limit the scope of paragraph (3)—

paragraph (4) in the bill—

if the courts decide to place a wider interpretation on it. * * *

* * * The Federal Security Agency—

and, as the committee knows, that is the body which will administer this law—

states as its present opinion that the economic dependency test would extend the definition of employee to include the following groups who are considered independent contractors under the common law: * * *

CONTRACT FILLING-STATION OPERATORS

It is highly probable that the economic-dependency test would also extend the definition of employee to include the following: * * *

GASOLINE-STATION OPERATORS

* * * * * * *

(c) Gas-station operators: Gas-station operators who lease their stations from oil companies or distributors may have only limited investments in their facilities, and permanency is contemplated in their relationship with the oil companies or distributors.

Senator MILLIKIN. Mr. Chairman, may I ask a question, please?

I do not have the slightest idea what the committee or the Congress will do about this, but just assume that they do not accept the definition of "employee" that you are complaining about. Are you in a position

to say whether the members of your association would be content to consider themselves as self-employed and come under the social-security system as self-employed?

Mr. DRESSLER. Yes, sir. I say that further on. We do approve of the self-employed coverage, and we certainly like the idea.

Furthermore, retail outlets are integral to the production, distribution, and sale of oil products and a relatively slight degree of skill is required for this work. Conseqnently, although the degree of control exercised over gas-station operators may be slight and although they may have considerable opportunities for profit or loss, they might be treated as employees under paragraph (3)—

paragraph (4) in H. R. 6000—

of the proposed definition.

I am not a lawyer but some of my lawyer friends tell me that the above quotation will be a part of the legislative history of this law. They also tell me that since there is nothing inconsistent with that interpretation in the majority report of the House Ways and Means Committee, such interpretation by tax experts serving this congressional committee would be most persuasive if and when the courts come to interpret such an ambiguous statutory definition or the regulations based thereon—assuming the Senate does not change it.

These lawyer friends of mine also tell me that if the Treasury Department copies into its regulations pages 84 to 86 of the majority report of the House Committee, and the Senate does not change the definition, the courts would be bound absolutely thereby as a correct expression of Congress' intention. They also say that under the tests for determining who are "employees" set forth in paragraph (4) of this definition and interpreted on pages 84–86 of such majority report, all service-station operators who lease their stations from their principal suppliers could easily be ruled by the Treasury and the Federal Security Agency to be "employees" of their lessors for social-security purposes, and that the courts would be absolutely bound by such rulings.

I don't know. That's what these lawyers tell me. Of course, it looks that way to me as a layman. You gentlemen make the laws. You know. My lawyer friends say you will understand the above and they think you will agree with it if you reread pages 84–86 of the House majority report. I know it says this bill would treat as employees people we never thought would ever be so treated.

I can see just by reading the House committee's explanations of paragraph (4) of this definition that every single one of the factors of such paragraph could easily and clearly be applied to a dealer reselling branded products sold to him by a jobber, wholesaler, or oil company leasing his station to him, so as to make such dealer the "employee" of his supplier. If each of these "factors" could so clearly be applied, then I would suppose that the combined effect of these seven factors would leave no doubt that these people could be treated as employees.

Now getting down to brass tacks—these people I speak for take a firm stand in opposition to the extension of this definition beyond what we would ordinarily understand in everyday language to be an "employee."

My own constituents, as well as other lessee operators of service stations, want to continue as small independent businessmen. They

are entirely willing to pay social-security taxes as self-employed individuals. They consider that this is indeed a small price to pay for maintaining their independence.

At the present time, these dealers select their own employees.

They are not dominated by anyone.

They open and close the stations when they desire.

They take time off and they do not have to ask any company boss for permission to do so.

They keep their own books and that's their business.

Some of them hire relatives who might not be considered suitable as employees of a big company for one reason or another. But they are getting their livelihood through these independent businesses and that surely is the American way of doing things.

They do not have to tell the oil company or jobber anything about their business. All they have to do is pay for the products they buy and pay their rent, just as any other independent merchant, just as the corner grocer, who owns his own business but happens to lease his premises. To treat my constituents differently from a corner grocer is, to say the least, discrimination.

Some of these dealers are big tire dealers. Others derive a great deal of their income from services, such as washing cars, greasing cars and trucks, tire services, mechanical repair services, et cetera.

How will the supplying company or companies ruled to be the employers determine what the true "wages" of the dealer are in order to pay 1½ percent as social-security tax?

I am sure that the members of this committee readily appreciate that a supplying company could not long tolerate the uncertainty created by this situation, and would, therefore, be compelled to establish the control over the dealers which would make them in fact employees. Even then how could two or more supplying companies ascertain the amount of net income on which each of them must pay taxes on behalf of the dealer?

Even though the suppliers of gasoline, oil, grease, tires, batteries, et cetera, do not control to any great extent the manner in which the gasoline dealer conducts his business, and even though the dealer works for profits and not for wages, nevertheless, the adoption by Congress of a definition which will permit the Treasury Department or the courts to apply the so-called economic dependency test will result in such a service-station dealer being treated as the employee of one or more of his suppliers.

There is a still worse result from this proposal. Converting such independent dealer into an employee of his supplier or suppliers for social-security, unemployment-insurance, and other purposes would add to the suppliers' cost. There is a great deal of competition in the retail gasoline industry. Increases in the suppliers' direct and indirect costs such as supervision of many thousands of new employees, keeping detailed records, auditing, et cetera, et cetera, may well make it necessary for these suppliers to increase the rent to my constituents and to increase the price charged to them in order to avoid losing money. The marketing division of the oil industry is not making nearly as much money now as it did in the last 2 years. Increased rents to my members and others similarly situated and increases in the prices they have to pay for their principal products may well force them, one by one, to go to their suppliers and say: "Here, you take

the station. I can't operate it now at a profit." These suppliers have investments in these locations and they would, therefore, be compelled, as a matter of economic self-defense, to take them over and operate them with ordinary hired help.

Therefore, what appears to be an innocent definition may well destroy the independence of the dealer.

All of my constitutents, and I know that all other independent lessee operators of service stations throughout the country, are aware of what is going on in connection with this bill because it has been publicized through our trade publications and dealers associations.

We expect you gentlemen, as our friends in Congress, to stop this destructive trend right at the outset. We hope that you will, moreover, take action which will encourage independent business rather than discourage it.

We all, therefore, urge this committee to rewrite the definition of "employee" in H. R. 6000 by striking out paragraph (4). By that action lessee operators of service stations and any others similarly situated will be left in the same status as they are today; namely, independent self-employed merchants.

Thank you, gentlemen, for your time.

The CHAIRMAN. Are there any questions? It appears there are not.

Thank you very much, Mr. Dressler.

Mr. DRESSLER. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Marshall? You may identify yourself for the record, and we will be glad to hear you.

STATEMENT OF J. HOWARD MARSHALL, PRESIDENT, ASHLAND OIL & REFINING CO., ASHLAND, KY.

Mr. MARSHALL. My name is J. Howard Marshall. I am president of the Ashland Oil & Refining Co. of Ashland, Ky.

Since what I have to say will relate not only to the position of my own company but will also go into some of the aspects of this particular law as related to the marketing branch of the petroleum industry in general, I might say, by way of general qualification, that I am also the vice president in charge of marketing of the American Petroleum Institute, and that during the war I served as chief counsel and Assistant Deputy Administrator of the Petroleum Administration for War. Particularly in that latter capacity, I have followed in some detail the general marketing practices of the petroleum industry over the Nation at large.

At the outset, I want to make it clear that this presentation will not raise any economic or social questions as to the propriety or desirability of the proposed extension of social security coverage, as such. Also, I am assuming for the purpose of this discussion that the adoption of the tax and benefit coverage of the "self-employed" as presently proposed in this bill will be adopted.

My sole purpose in this appearance is to argue against the proposed definition of "employee" in H. R. 6000. It is my position that the adoption of an unrealistic definition of "employee" is an unsound and impractical method of collecting taxes for self-employed under the proposed extended coverage of the Social Security Act. I want

to go on record as favoring extending the coverage of the Social Security Act but I want it done honestly, intelligently, and not in a way which is detrimental to small businesses.

I believe that the law should be so written that he who must carry the tax burden can clearly see his duty; that is, that everyone can tell who is whose "employees" and who is self-employed. The more I have studied this bill and the House committee report on it, the more convinced I am that the proposed definition of employee deliberately distorts and confuses normal business relationship and common understanding.

I should like to discuss with this committee briefly two challenging questions which are raised by the proposed definition of "employee" in H. R. 6000.

1. Will my company be required under this bill to gamble at its peril whether jobbers and dealers selling Ashland's products and the dealers of such jobbers and the employees of such dealers and of such jobbers are to be deemed Ashland's employees? If so, is Ashland confronted with the bitter alternative of either attempting to take over the business of our independent customers or policing the operators and employees of these customers, or, on the other hand, ceasing to do business with these independent merchants?

2. Will this proposed change in the definition of "employee," if it becomes law, disrupt the business economy of the Nation by jeopardizing the growth of small businesses? In other words, will it force big business to absorb little independent businesses to avoid assuming undisclosed and undeterminable future tax liabilities?

Since my observations will be based in part upon the effects this proposal will have upon the Ashland Oil & Refining Co., I feel that I should say a word or two about our company.

Ashland Oil & Refining Co. is one of the independents; we are not one of the so-called majors. As oil companies go, Ashland is a relatively small company generally classified as an independent refiner although, of course, we do engage in some marketing activities and in the production and transportation of crude oil and refined products. Our principal place of business is Ashland, Ky., and our products are sold throughout the Ohio River Valley.

As regards Ashland, I want to make it clear at the outset that our fundamental interest in this legislation, as far as our own company is concerned, springs from our concern over the future welfare of the independent jobbers and dealers who provide the outlet for our products. We operate no retail service stations, and relatively few wholesale bulk plants. Over 80 percent of our entire refinery production, totaling some 40,000 barrels per day, is sold to independent jobbers. We are the largest supplier of independent jobbers throughout the length and breadth of the Ohio Valley. Anything which tends to disrupt or render uncertain our relations with these independent jobbers or their relations with their service station dealers damages these dealers and wholesalers and jeopardizes the future of our company as an independent refiner.

Senator MILLIKIN. Mr. Marshall, this is beside the point, but I am just curious where you get your oil.

Mr. MARSHALL. Senator, we get our oil in part from eastern Kentucky, in part from western Kentucky, southern Illinois, and southern Indiana, and in part up the Mississippi River from as far south as

Baton Rouge; that oil in that territory being acquired largely on exchange with other companies.

Senator MILLIKIN. Thank you.

Mr. MARSHALL. When our customers can't tell whether they have to pay social security taxes on their employees or whether we do, when these customers have to argue with their dealers as to whether the dealer pays or the supplier pays, when all of us who have heretofore operated as independent refiners, wholesalers, and service station dealers cant' tell whether one is expected to police the other, and which one, when this extends even down to their customers, particularly the customers of our jobbers, then in my judgment another nail will have been driven by the Government, however inadvertent and however well-intentioned, into the coffin of the independents in the oil business.

Although Ashland markets a relatively higher proportion of its products to independent wholesalers than is the case with many oil companies, nevertheless the business practices and procedures of Ashland and of its jobber customers are substantially similar to those of other companies in the petroleum industry. Indeed, gentlemen, competition forces them to be so. It is for this reason that I am able to assure this committee that the effects which this proposed legislation would have upon our operations and the operations of our wholesale customers are typical of the industry at large.

The marketing set-up of Ashland, like that of every other significant supplier in the oil industry, is complicated by wide variety of outlets, customers, and business relationships. Indeed, when you come to gas marketing, let me say to you gentlemen that when you are dealing with wholesalers and when you are dealing with service stations, practically all of them today are operating on a basis which, under the common law and under the court decisions and under the Social Security Act as presently written makes them independent businessmen. Notwithstanding that, however, there are a great variety of relationships. For example, dealing with the wholesaler for the moment, the supplying company frequently leases him his place of business. It may be on short term or long term. The supplying company may or may not supply tanks or tankage. It may or may not assist the wholesaler in providing trucks.

When you come to the service station, tanks, pumps, equipment of one kind or another is leased, rented, loaned. There are just dozens of different relationships in which, without in any sense depriving the owner of the service station of his independence, assistance of one kind or another is provided to these independent businessmen.

In addition, the business of wholesale distributors of petroleum products and the business of most service station dealers involves the handling and selling of a wide variety of products ranging from gasoline to such products as antifreeze compounds, tires, batteries, and other automotive accessories, and all the other equipment that you gentlemen have all seen around in service stations. And if you went to the jobber's plant, you would see the same kind of thing. Of course, this raises the interesting question of how many suppliers might be deemed to be the employer of the employees of those operating service stations and other facilities marketing petroleum products.

I will not burden the committee with the detailed description of the different types of business arrangements which exist in the oil

industry. Suffice it to say that there are numerous distinctions, differences, and variations in the methods of distribution. As I will point out shortly, in this industry particularly, all of these various relationships for the sale of oil and gasoline necessarily involve elements which could be seized upon by the Federal administrators and others as a basis of holding jobbers, wholesalers, and service station dealers to be employees of their supplier under paragraph (4) of the proposed definition of "employee," despite the fact that all these resellers of products are truly independent businessmen.

I have searched the report of the House Ways and Means Committee in vain in an attempt to find something in the majority report which would clearly indicate an intent to exclude wholesale and retail gasoline and oil distributors from the vague limits of the proposed definition of "employee." I have noted from a reading of statements by other witnesses before this committee that your attention has been drawn to the fact that the example given at the bottom of page 87 in the report does not accurately describe the typical and predominant method by which gasoline and oil are marketed at wholesale.

By way of illustration, there, the example says: "The X oil company is engaged in the business of marketing petroleum products and enters into a contract with A, under which A is to operate a distribution station." By that, of course, they mean a bulk plant or wholesales plant, as we know it in the oil industry, I assume. Then it goes on to say: "A provides his own tanks and trucks. He operates the station as his own and employs assistants of his own choice."

Well, when you say "A provides his own tanks and trucks,"—maybe so, or maybe not. In the case of our own company, the jobber does usually provide his own trucks, but we have been known to help him with the financing of the trucks. Typically in the oil business, the ordinary wholesaler of petroleum products does not own his own plant. He leases it. He may lease it from an oil company. He may lease it from somebody else. Those things are expensive. A large amount of capital is involved.

Then, when it says here that he operates the station as his own: Gentlemen, does that mean that he can't put up the brand of a supplying company? Some do, and some don't. In our own case, many of our jobbers market under their own brands. But if the jobber so elects and wants to use the Ashland brands, he may. And that likewise is true of most companies. But the fact as to whether or not he uses his brand and in his turn with his dealers provides aid and assistance to promoting that brand doesn't make him more of an independent businessman than if he used our brand. It is still his business, and he still operates it, and he still selects the employees and chooses the ways and means of running the business. None of us, in any of those cases, have anything to say about his employees and don't want anything to say about them.

I think in the light of the facts as they exist in this industry, we can say with all candor that the example referred to in the House majority report will do more, if this proposed definition becomes law, to include wholesale distributors as employees than it will to exempt them from coverage. Anyone who does not fall within the exact factual description of the example—and let me assure you that it is not in any sense typical of the industry—will surely be considered

by the administrative agency as an "employee," on the theory that the failure specifically to exclude indicates an intention to include. The example used, as I have said, does not conform to typical types of bulk plant distributor relationships in the industry, which are now universally regarded as independent distributors.

Retail marketing in this industry, gentlemen, has always been predominantly in the hands of small-scale independent businessmen. The garage man and the country store were the first type of gasoline dealer. With the development of the automobile came the filling station.

Senator MILLIKIN. I suggest to you that the first gasoline dealer was the livery stable keeper.

Mr. MARSHALL. I suspect that is right, Senator Millikin.

Senator MILLIKIN. A very good friend of mine went to a large oil company many years ago with a plan for the filling station, years ahead of his time. The head of the company, one of the largest oil executives in the country, laughed him out of the office and said, "Young man, don't you know that the gasoline that will be sold in the future will be sold as it is now, from the livery stables?"

Mr. MARSHALL. That is very interesting. My first recollection in buying gasoline in a little town outside of Philadelphia was at a blacksmith's shop. In those days, they bought the gasoline in 5-gallon cans and poured it into the car. They looked like milk cans, as I recall, when my dad used to buy it.

With the development of the automobile came the filling station, often specializing in gasoline and lubricants. The mushroomed growth of the filling station is familiar, I know, to all members of this committee.

As a creator of small business enterprise in cities and towns up and down the countryside in the United States, gasoline and oil have had no rival. The wholesaling and retailing of gasolines, fuel oils, lubricants, tires and accessories have become the sole business of many, and a supplemental source of income for thousands upon thousands more of independent businessmen.

There was a time during the 1920's when the refiners of oil emphasized and were moving in the direction of the distribution of their products through outlets operated by those manufacturing the oil products; viz: the refiners. Even at the peak of this trend, however, the number of company-operated—and by that I mean oil refining companies—the number of company-operated outlets accounted for less than 10 percent of the total retail outlets in this country. This trend toward company-operated service stations was reversed in the early 1930's, and ever since the overwhelming trend in this industry has been in the direction of the independently operated service station. At the present time, all but a handful of the retail outlets for petroleum products are independently operated.

Senator BREWSTER. Would it occur to you that if you succeeded in this and got all the independent outlets under the control of the big oil companies, they could then indict the oil companies for being a monopoly in distribution under other theories that are now prevalent?

Mr. MARSHALL. Senator Brewster, it would certainly be my fear that anything that leads to refining companies actually taking over what today are the thousands of independent jobber and retail dealers in petroleum products, anything that leads in that direction, tends to

move in the direction of a restraint of competition in the business.

Senator BREWSTER. And so the Department of Justice would then indict them?

Mr. MARSHALL. Well, one is always under that risk, I suppose, these days.

This trend toward company-operated service stations was reversed in the early 1930's, and ever since the overwhelming majority have been operated by the independents.

In view of the independent character of most of the marketing operations of the petroleum industry, I want to examine the proposed definition of "employee" to see how it would affect these independent relationships. I just want to elaborate a little bit more on the application of the language of this proposed amendment to the facts as they exist in the oil business.

Paragraph (4) of the definition, which causes the most uncertainty, provides that any individual who is not an employee under the first three paragraphs of the subsection may be determined to be an employee "by the combined effect of"—and then it lists seven different combinations of factual situations. They are all listed back there on that chart, as I noticed when I came in. They are:

(A) control over the individual,
(B) permanency of the relationship,
(C) regularity and frequency of performance of the service,
(D) integration of the individual's work in the business to which he renders service,
(E) lack of skill required of the individual,
(F) lack of investment by the individual in facilities for work, and
(G) lack of opportunities of the individual for profit or loss.

Let us look at the first factor listed in paragraph (4) of the proposed definition, namely, that which appears under the general subject of "control." What is meant by "control" as it is used in this paragraph? The House committee said, on page 84 of its report, that there had been too much emphasis in the past on "the legal right to control" in determining who is an "employee." Obviously, then, the word means something more than "legal" control. Note also what the committee said in its report on page 85:

> Control * * * may in particular cases be evidenced by one or more of a variety of circumstances, including the performance by the individual of his service in accordance with procedures, or at times, fixed by the person for whom the service is performed.

What does this business of "in accordance with procedures" mean? My company and its independent jobbers and distributors to whom we sell, as well as every other supplying company, certainly suggests marketing procedures to their distributors, and they to the dealers from time to time. Distributors and dealers desire this help, and it promotes the sale of what we all have to sell. We all furnish advertising displays and techniques and give the distributors and dealers the benefit of knowledge gained from surveys and wide experience.

An let me point out that that does not apply just to the so-called major companies that sell under major brands. We sell hundreds of independent jobbers who sell under their own brands, "Joe Bloke's Special," or any name that he likes to put on it. And he, in dealing with his dealers, turns around and supplies his dealers and service stations with advertising helps and sales aids and assistance. His

dealers want it, and it helps them in their business. It does not make them any less independent because they get it.

However, what we are concerned about is that any of this material that is supplied might easily be construed administratively as "procedures."

I am frank to say that it is difficult for me to see how any distributor or dealer of a branded product of any kind could escape the danger of being labeled an "employee" of his supplier under the vague language contained in this definition.

As a further example of what will constitute evidence of control, the committee says, on page 85 of its report, that furnishing "the place, tools, or equipment for the work" or "the right to terminate the service of the individual without cause or on short notice" is indicative of "control."

Typically throughout the oil industry, in one form or another, by lease, by loan, or otherwise, those selling petroleum products, whether they are refiners or independent wholesalers or jobbers, furnish facilities, equipment, pumps, tanks, locations, trucks, to other independent wholesalers and dealers desiring to enter, maintain, or expand their businesses. Indeed, without such assistance, many of the independent marketers in the oil industry could never have gotten started. And the mere furnishing of the foregoing assistance does not, in any realistic sense, confer any control either in fact or as a matter of law, or as any one in the oil business understands the term.

The second factor in paragraph (4) of the proposed definition relates to "permanency." I am sure that every member of this committee recognizes that every seller of every product strives to attain a degree of permanency in the relationship between himself and his customers. It is certainly true of the oil industry, and I will tell you gentlemen that Ashland certainly tries to hang onto its customers as best it knows how. No distributor or dealer is anxious to shift his sources of supply unless there is some dissatisfaction in the arrangement—or unless you fail to keep yourself competitive, I might add. As indicative of the permanency of the relationship, I noticed in the remarks of Mr. Sam Weiss, who appeared before this committee on March 10, 1950, that he had been a distributor for the same oil company since 1927. Mr. E. B. Chapman, who appeared before the committee on the same day, testified that he had been a distributor for the same company for some 18 years. Mr. Fowler, who appeared on March 15, testified that he had been handling the products of the same company between 13 and 14 years.

Let me say that these are very typical examples of what happens.

It is clear, however, that the Administrator of this law, under this definition, would have to find in almost every case that the relationship between the supplying oil company and its distributors and dealers has enough of permanency to come within this "factor" of the proposed definition.

The third factor mentioned in paragraph (4) of the definition is "regularity and frequency of performance of the service." The report of the committee on page 85 indicates that this factor is the opposite of "sporadic part-time activity." I haven't the slightest doubt as to how this must be applied to every wholesaler or dealer relationship in the whole oil industry. This industry operates 24 hours a day, 7

days a week, 365 days a year. If this isn't "regularity and frequency," I don't know what it would be.

The fourth factor mentioned in paragraph (4) is "integration of the individual's work in the business to which he renders service." A great deal of knowledge about the business of marketing petroleum products is not necessary to know that the wholesale distributors and the retail dealers are essential to the business of the oil company whose products they sell.

Senator MILLIKIN. The same would be true as to the grocery store, would it not? The grocery store must have a relation with the wholesaler or jobber.

Mr. MARSHALL. Senator, with this possible difference. And I don't pretend to be an expert on the grocery-store business. In the oil business nothing is stored very long, and it can't be. Oil production starts at the well. From that point on, there is a regular constant stream of movement from there right on down through the pipe lines, the refineries, and thence to the wholesalers and to the filling stations.

Senator MILLIKIN. Well, if there is not a constant stream of movement in the grocery store, pretty soon the sheriff closes the door.

Mr. MARSHALL. There is no question of that. Let me assure you that is true in the oil business, too.

The fifth factor mentioned in paragraph (4) is the "lack of skill required of the individual." It is certainly true that no high degree of skill is required to operate a gasoline pump: although I was talking to my friend John Dressler before he came in, and he might disagree with me slightly on that. Certainly some of our dealers are very skillful individuals. However, we can't tell, from the way the act is worded how this factor of "skill" will be evaluated by the administrator of the act. Certainly the language of the bill is not very helpful in resolving the inherent ambiguity in the phrase.

The sixth factor mentioned is the "lack of investment by the individual in facilities for work." Once again, we don't know what interpretation the Administrator would give to this factor. We don't know what he would consider an "investment." We don't know whether he would consider premises which are leased instead of owned as a part of the retailer's investment or of the wholesaler's investment. The fact is that many dealers are able to operate without too substantial an investment in the basic facilities. Typically, independent distributors and dealers throughout the oil industry borrow, rent, or lease anything that competition permits them to get from their suppliers, and they are no less independent because they are smart in minimizing their own investment and getting themselves started in business.

The last factor mentioned in the proposed definition is the "lack of opportunities of the individual for profit or loss." While I feel sure that the Administrator would be forced to agree that a wholesale distributor and a dealer in the oil business possess the opportunity for profit and loss, I can't tell just how much of this opportunity the Administrator is going to say must be present. We do not know whether the opportunity for profit would be sufficient, or whether there must be sufficient investment so that a serious loss could be incurred. The point is that the answer to this ambiguous factor again can't be found in the proposed definition, and its interpretation will be left almost wholly to an administrative agency.

We can see, from all of the above, that paragraph (4) of the proposed definition of an employee amounts to an undefined method of giving uncertain weight to seven indefinite factors. The statute says that the employee-employer relationship will be determined "by the combined effect of" those seven indefinite factors.

I want to mention in passing two or three other points, but only in passing; first of all, as to paragraph (3) of the proposed definition. But before I take that up, I might note first that I have read with much interest the comments that were made by Senator Schoeppel in relation to the second sentence of paragraph (2) of the proposed definition of "employee," and I want to just say that I concur most heartily in the statement that Senator Schoeppel made before this committee. I know, from knowing Andy Schoeppel over a long period of years, that he is thoroughly familiar with the operations of the oil industry and knows whereof he speaks, and I don't think there is anything I could add to Senator Schoeppel's statement, but I do want to endorse it in passing.

Senator MYERS. May I interrupt, there, Mr. Chairman?

The CHAIRMAN. Yes; Senator Myers.

Senator MYERS. Mr. Marshall, are the employers of the distributors and the jobbers and the dealers with whom your company does business and to whom you have just referred, covered under social security presently?

Mr. MARSHALL. No; Senator Myers, but, as I said, though I don't know whether you were here when I started, my discussion here today is based on the assumption that the provisions of this act relating to the payment of social-security taxes by the self-employed will be passed. And my company favors it, and we think we ought to be covered.

Senator MYERS. I was not referring to that. I mean these independent distributors, independent businessmen, that distribute to the jobbers and the dealers to whom you have referred.

Are their employees presently covered under social security?

Mr. MARSHALL. Oh, yes. Their employees are covered under social security.

Senator MYERS. They are covered?

Mr. MARSHALL. Yes; within the limits of the present act.

Senator MYERS. That is right, of course.

Mr. MARSHALL. Let me say to you that with regard to the exact details, in the case of my own company, of how they handle their social-security taxes with their employees, I must admit that I don't know. I have never inquired. But I assume that the vast majority of them do, as regards those employees, pay social-security taxes within the limits of the present law.

Senator MYERS. And they are covered under the act.

Mr. MARSHALL. That is correct.

Senator MYERS. It would seem to me, then, that this definition of "employee" in paragraph (4) was intended to extend coverage to persons not already covered.

Mr. MARSHALL. Well, that may be the intent, Senator, of some of its sponsors, but the way it is drafted it would seem to me that it goes so far beyond that, relating to the question of who is obligated to pay and police the tax, that I would say that if that is all of its purpose it

goes so much further that it injects so much confusion in the thing that none of us would know where we stand.

Senator MYERS. That leads me to my last question.

Then do you have any suggestions as to a definition which will make absolutely sure and certain that such employees now covered do not become your employees, a definition which will at the same time extend coverage to those groups of employees who are not presently covered.

Mr. MARSHALL. Senator, my view on that is that these seven tests under paragraph (4) should be stricken from the act; that the provisions relating to self-employment should stand; and that for the determination of who are and who are not employees we should continue as we are under the present act for the determination of whose employee a person is, and stick with what in effect amounts to the rather definite standards as to the determination or who is and who is not an employee, which have been pretty well defined by the courts, which is the position in which we now are.

Senator MYERS. But if the purpose of the Congress is to extend coverage to employees not now covered, will it not be necessary that the definition probably be expanded in order to extend coverage, leaving your problem out entirely?

Mr. MARSHALL. I think you do that, Senator, by the provisions relating to self-employed, and I think that is as far as it is necessary to go.

Senator MYERS. Could there be some provision in that definition to make absolutely sure and certain that those employees now covered should remain covered in the same status and the same category as presently covered, and should not be transferred over to another employer?

Mr. MARSHALL. I don't believe it is necessary.

Senator MYERS. But do you think it could be done?

Mr. MARSHALL. I think it would be very difficult. I think it would be very difficult, and I think that if you rest upon the court decisions that is quite sufficient.

Senator MYERS. Your worry, then, seems to be that these employees now covered by independent contractors with whom you do business may eventually be determined to be your employees rather than the employees of your independent contractors.

Mr. MARSHALL. I most certainly am.

Senator MYERS. I mean, that is your position?

Mr. MARSHALL. I most certainly am; and then I don't know how to deal with our business relationships with the hundreds of people that we supply.

Senator MYERS. But would you be satisfied if some definition could be evolved to make absolutely certain that they would remain the employees of their present employer and would not be considered under any interpretation of the act to be your employees?

Mr. MARSHALL. Let me say again that I think it perfectly clear that if you put in none of these seven factors, those that are now employees under the court decisions that have pretty well defined it will continue to be so, and I don't think you need an additional definition.

Senator MYERS. Thank you.

The CHAIRMAN. All right. Please proceed, Mr. Marshall.

Mr. MARSHALL. I want to make brief reference to paragraph (3) of the definition of "employee." To my mind it illustrates the danger of going beyond the general common-law rules, even though this paragraph might be considered a model of definiteness as contrasted with the blank-check approach of paragraph (4).

It appears to me that the only category in this paragraph which could conceivably apply to the oil industry is that which is described under subsection A as "outside salesmen in the manufacturing and wholesale trade." After reading the House committee report, pages 81, 82, and 83, I am concerned about the possible application of this language to groups which are not intended to be included. For example, the wholesale oil and gasoline salesman, who is an independent businessman, might be found by the Administrator to be an employee.

I am unable to know, if this "outside salesman" group includes "drummers" and city salesmen of drygoods, hardware, and groceries, who asked for it, or whether it includes anyone who sells any kind of product. Obviously, if there are any extensions of coverage attempted under paragraph (3) such attempt requires the utmost care otherwise, it will end up with unexpected results when applied to unanticipated situations.

I emphasize that I hold no brief for the inclusion or exclusion of any of the occupational groups listed in paragraph (3). What I am urging is that, if the Congress wishes to include any specific occupational group as "employees" instead of as "self-employed," it do so in explicit and unmistakable language.

In conclusion, I submit, Mr. Chairman, that we cannot escape the conclusion that the proposed definition of "employee" will upset a long established and highly successful method of doing business in the petroleum industry and will have the effect of destroying many thousands of small independent businesses in this country.

It is my earnest recommendation that the Congress leave the definition of "employee" as it now stands in the present law. The matter of coverage of particular and specific occupations could then be handled by the Congress in explicit and unmistakable language. This recommendation will have no effect upon the extended coverage proposed in the bill, because all who are not "employees" may be covered and receive the full benefits of the Social Security Act, if Congress so desires, under the category of "self-employed."

All I am really saying, above everything else, is that we all want to know what we can do. And as an independent refiner of petroleum and petroleum products, I want to be in a position to deal with and assist the independent jobbers and the independent service-station operators with whom we have dealt and continue to deal, and upon which, in the last analysis, the future success of our business depends. I don't want a law or a definition that will end up in such a way that, intentionally or unintentionally—and it seems so often to happen this way—we have in effect given the independent business groups another kick in the pants.

I think, Mr. Chairman, that is all I have to say.

The CHAIRMAN. Well, sir, we thank you for your appearance.

Mr. MARSHALL. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Frederick MacMillin?

STATEMENT OF FREDERICK MacMILLIN, EXECUTIVE DIRECTOR, WISCONSIN RETIREMENT FUND, MADISON, WIS.

Mr. MacMillin. I have filed with the committee, Mr. Chairman, copies of the statement, but I would like to speak orally to it.

My name is Frederick MacMillin. I am the executive director of the Wisconsin retirement fund, which has been constituted by the Wisconsin Legislature, the basic retirement system for the State of Wisconsin, and ultimately this system will replace all other public-employee systems in the State with the exception of the teachers and the Milwaukee systems.

At the present time this system comprises about 30,000 covered individuals.

My presentation will be confined to a discussion of the integration of existing public employee retirement systems with social security, as is now proposed in the bill as it was passed in the House. I have no illusions as to the development with respect to this point of view. I am well aware of the thousands and tens of thousands of communications which have been received by members of this committee and other Senators in opposition to that viewpoint, but I hope to clearly demonstrate, and least to my satisfaction, that these fears are ungrounded and that integration of existing retirement systems for public employees with social security will benefit those now included under these systems.

First of all, I am amazed at the implications being broadcast that the Congress is trying to force something on the States with respect to the coverage of State and municipal employees. And, of course, the facts are just the opposite. The proposal in the bill at present is in accord with the best traditions of States' rights. It simply constitutes an enabling act and must be implemented by the act of each State legislature if it is to be effective in that particular State. If the State legislature does not act, it is the same, for all practical purposes, as if Congress had never acted on this point; and therefore I am unable to understand why any legislature should memorialize Congress when they have the control within their own power.

Of course, obviously it is true that when this decision is made by any State legislature, the members of any retirement system will have the same opportunity to present their viewpoint and exert the same pressure on the State legislatures as they are now existing on Members of Congress. If for any reason a decision in a State legislature does not please the members of any system, of course, it is also true, as you know, that these members still retain the complete control, because of the referendum feature. There is no way of forcing them to take the integration against their wishes.

Now, in the testimony that is printed in part 2, frequently in response to questions on this referendum feature, as to which objections were raised, several individuals admitted that regardless of how the referendum feature was worded they would be opposed to it. They don't want any referendum on any basis.

I would like to say this to the committee: that rather than incorporate in the bill, if you retain this particular provision in the act, a referendum feature which is impossible of attainment, it would be much better to take the Lehman amendment straight and extend it to

everybody. For instance, it has been recommended that there be a two-thirds vote of all those under the system. In other words, if a person doesn't vote, it would be the same as if he voted "no." Well, you know better than I the difficulty of getting people to vote. I think that would be just as improper as to say that no Member could sit in the Congress unless he received a majority of all the electors in his district.

Senator BREWSTER. We would not have any President if that had been in effect.

Mr. MACMILLIN. That is true.

Incidentally, I do agree with the contrary view, that it is not desirable to include in any referendum the provisions that those now receiving pensions should be allowed to vote. I agree that that should be stricken, if for no other reason than because it would be cruel in giving them an idea that their benefits could be extended; which, of course, would not be possible under this bill.

In discussing this referendum feature, the contention has been made frequently that the issue is so complicated that it is not possible to conduct an educational campaign so that the members of these systems know what this is all about. Then I submit to the members of this committee that if, after an educational campaign, they can't understand the issues, then the people who have been flooding you with letters and telegrams don't understand the issue either. And I think that is true.

Senator MILLIKIN. Well, where does that bring us? Nobody understands it, so where do we come out?

Mr. MACMILLIN. As far as our own system is going to be concerned, Mr. Chairman, I am going to suggest an amendment in just a minute which I think would at least solve our dilemma without interfering with some of the these other people who are squawking.

Of course, these people are fearful that their systems are going to be abolished. I think these are reckless statements. I think the State legislatures are just as conscientious in dealing with this matter in good faith as is the Congress; and, as I indicated, I think the same pressures will be exerted there that were exerted here. I think it is perfectly possible to integrate any existing system with social security, with at least four results: first, that the aggregate annuities paid to the individuals will be increased; second, that there will be better provision for the dependents; third, that there will be better provision for survivors; and fourth, that there will be no material change in cost either to those under the system or to the taxpayers in the States. And that is a staement which you will challenge, but as to which I will explain my point of view in just a minute.

Now, several times members of this committee have inquired whether a system could be evolved whereby the integrity and individuality of the different existing retirement plans could be maintained and at the same time provide a method for giving a man coverage as he moves in and out of public and private employment. Well, Wisconsin has such a plan, which is written into our law and has been there from the beginning. We now provide, in the law pertaining to the Wisconsin retirement fund, for integration with social security as soon as the Congress acts. It will be automatic. It will not even require action by the legislature. It will go into operation at once unless the Congress includes provisions which would require legislative action.

Now, here is the way it would work under the Wisconsin system. At the present time most employees contribute 5 percent of their earnings, and the State, or the counties and the cities, match that with another 5 percent. The provision in our law is that as soon as they become covered by social security—and next January 1 that would go to 2 percent under this bill—they would pay 2 percent to Washington, or Baltimore, and 3 percent under our system. The result would be that all of their prior service credits up to now would remain unchallenged. They would build up their credits in the future at the rate of 3 percent instead of 5 percent, and they would in addition get all of the benefits of social security.

I think that any plan can be modified to accomplish the same result, and therefore I submit that the contentions which have been advanced to this committee, that there are grave doubts that many States and subdivisions thereof can afford to have both, and the statement that this would impose a double burden of contributions upon the underpaid public employee, are completely unfounded.

Now, as to the reasons why integration is desirable: First of all, the members of this committee are aware of the rapidly accelerating tendency to provide supplemental retirement plans in private industry, and we think it is grossly discriminatory to deny that same right to those employed by States and localities. We do not believe that they are second class citizens. We think that they should have the same opportunities that those in business and industry have.

Senator MILLIKIN. But if they do not want it, why should we compel them to take it?

Mr. MACMILLIN. You should not; and that is why you have a referendum feature, Senator Milliken.

Senator MILLIKIN. It deals with two things. First, it deals with a very small number of people who are hustled into a meeting to make the decision. And second, even if you did it with a 90-percent vote or a 95-percent vote, if an individual in there has a vested right in what you have got, you would have no right to vote him out of it. It is just a funny little American principle that we can not vote certain things out of existence in this country, even though 99 percent of the people favor it.

Mr. MACMILLIN. Are you thinking, for example, of the New York provision, the provision in their constitution?

Senator MILLIKIN. I am thinking that if they have a system where the individual has a vested right as of today, his vested right should not be destroyed by a two-thirds vote of all, a one-third vote of all, a majority, or any other portion of those present. Make it any figure you want to. There is just a certain little principle that we have there, about not voting people's vested rights away from them.

Mr. MACMILLIN. There are court opinions, of course, on both sides of the question, depending upon the wording in each particular system.

Senator MILLIKIN. I agree.

Mr. MACMILLIN. But that is a problem that, it seems to me, each system will have to face, and it may be that in some they can only make it applicable to new employees.

Senator MILLIKIN. The contracts are affected by public policy. There is no question about that. And how far public policy could reach in to mitigate what I have said to you, I am not prepared to state, because I do not know the details of the particular systems. But

this business of voting people's rights away by any percentage of those who are affected is a serious business.

Mr. MacMillin. My answer to that would be, Senator, that if there is a vested-right provision in a system, integration would probably be impossible for the existing employees. It would only be possible to make it applicable to new employees. But I think the States can take care of that adequately.

I just want to mention one other phase of that, and that is that it has been suggested that this plan will result in loading responsibilities upon the State and the Federal Government. I don't think that holds water, because after all we are not asking for anything more than employees in private business and industry are getting. We are not asking for more than they are.

Secondly, as was discussed, I understand, yesterday morning, because of the fact that this system has fallen far short of being self-supporting when considered on an actuarial basis, and since there seemed to be general agreement that there are financial burdens which are being shifted to the future, and which the people under our system and the taxpayers of our State and cities and counties are going to have to pay, we think we should be allowed to participate in the benefits.

Now, it is true that we could extend our own system to give the same benefits such as are expanded under social security. But that would mean that we would have to increase the 5 percent that the individuals pay, we would have to increase what the taxpayers pay, and we would have to increase our costs to get what we are already paying for or will have to pay for ultimately in supporting social security.

Senator Millikin. Do you object to the pay-as-you-go principle?

Mr. MacMillin. I think that is something that I am not prepared to take a position on one way or the other, Senator. I admit the difficulties of accumulating enough security to put this on an actuarially sound basis. I have no illusions as to the problem there.

As to how each individual would benefit from being under both systems: Our system provides that an individual coming to work at 30 and continuing to work until he is 65 will build up enough credits to give him half pay. We have about 1,200 annuitants at the present time, and only a very small percentage of those come anywhere close to half pay. Our average annuity is $50 per month. I think that less than one-third of our people over 65 have retired, because the annuity they would get is so small. And why? Because they have only been working for the Government for a short time. Their previous employment record was in private industry and business. Under this integration which we are supporting, here, let us take a man who is earning $250 a month and who was under our system from age 45 to 65. Under our system at 65 he would get only $66 a month. If the integration were to become effective, instead of getting $66 a month he would get anywhere from $130 a month to $161, depending upon when the service occurred. And I think you would concede that that is a tremendous increase in benefit to the person who would be so affected. In terms of benefit some would get a smaller increase and some a larger increase, depending upon the facts in each case.

Fourth, this integration would provide very valuable protection for dependents. Under most existing retirement systems, including our own, if an employee dies his widow gets either only a refund of his own contributions or a very nominal death benefit, as contrasted with what is provided under this bill, where a widow with two minor children would be getting $123 a month if her husband had been earning $200 a month. And I think you can realize the peace of mind that would give the people under our system.

Fifth, of equal value is the protection to surviving widows. Under most systems, including our own, widows receive little or nothing. I think about 90 percent of our annuitants have life annuities for the individual only, and, of course, the benefits under social security would be immeasurable to these surviving widows.

Sixth, and I think this is one of the most important points, existing retirement systems provide very limited protection for persons who have spent most of their working career in private business or industry. We receive many pathetic letters saying: "My husband is only getting $30 a month from your system" or "only $40 a month." Of course, it is obvious they can't live on that. Why do they get so little? They have been working for the Government for a short time, and they may have spent 20 or 25 years in private employment; and without integration they get no credit for private employment, and they receive only the pittance they get for their short period of governmental service.

Seventh, we think integration is essential for those who leave uncovered employment in the future to enter covered employment. I think that should be obvious to this committee. Our turn-over figures show that last year there was a turn-over of 12 percent of the people under our system. Every day we receive numerous applications of people who have left to go into private industry.

Now, I would like to suggest to the committee that if the amendment which is being proposed is adopted, to exclude all public retirement systems, you consider an amendment which would allow Wisconsin to be used as a guinea pig. Wisconsin, as far as I know, has the only law which has already provided for integration; and therefore, you could adopt this amendment which I shall read to the committee. This wording probably is not correct, but it will give you the idea. There could be added on to the Lehman amendment, for example:

Such exclusion shall not be applicable to the individuals included under any retirement system of any State or political subdivision thereof if the enactment ment establishing such system on February 1, 1950, expressly provided for making such system supplementary to the Federal old-age and survivors insurance system.

Now, that would give you a chance to, as I say, use Wisconsin as a guinea pig, our particular system. It would not affect the teachers' system in our State. It would not affect the Milwaukee system. It would not affect the police and firemen's insurance systems.

Senator MILLIKIN. Would you mind reading that again?

Mr. MACMILLIN. The part to be added on to the Lehman amendment?

Senator MILLIKIN. Yes.

Mr. MACMILLIN:

Such exclusion shall not be applicable to the individuals included under any retirement system of any State or political subdivision thereof if the enactment establishing such system on February 1, 1950, expressly provided for making such system supplementary to the Federal old-age and survivors insurance system.

And our law so provides, and has from the beginning.

Senator BREWSTER. You do not know of any other State that has done that?

Mr. MACMILLIN. Well, I think your technical adviser can give you better information; but so far as I know, we are the only ones who have done that.

You see, what we object to is that if New York does not want it, if Colorado does not want it, fine; but why should they say to Wisconsin: "You can't have it"?

Now, similar fears were expressed at the time social security was first adopted, in 1935

Senator MILLIKIN. I think it should be said that there are some objections to giving the privilege to any one to elect to come under the system.

Mr. MACMILLIN. You mean the problem of adverse selection? Is that what you are thinking about?

Senator MILLIKIN. Yes.

Mr. MACMILLIN. Well, of course, there wouldn't be adverse selection under our system, where we have 30,000 covered now.

Senator MILLIKIN. We would have to study it to find that out.

Mr. MACMILLIN. I mean, the whole system would come under as a whole.

Senator MILLIKIN. It still remains necessary to make a study of the Wisconsin system.

Mr. MACMILLIN. I don't see, where there is a coverage of 30,000 now, and where you have spread the risk over several hundred governmental units, you could possibly have any adverse selection.

Senator MILLIKIN. Well, if you were considering being insured by an insurance company you would want to take a look at it, would you not?

Mr. MACMILLIN. Similar fears were expressed in 1935, when social security was first adopted. I am thinking of fears as to the existing retirement systems. Senator Clark proposed an amendment in the Senate which was adopted, excluding additional private systems. That amendment was later eliminated in conference committee. And I think the record of what has happend over the years with respect to private supplementary systems bears out the fact that those fears were completely unfounded. Because you all know that when you consider the number of private systems today as compared with 1935 there is practically no comparison.

I hope this committee will stand by the report of the Advisory Council on Social Security, which was submitted to your committee in 1948. That committee went into this problem in detail, and I think that their report and their statement on this particular point states it much better than anybody could state it.

Now, I know you want to get away, and I will conclude with this: I am convinced that the individuals who have a chance to study this

will not agree with the pressure that has been brought to bear on this committee. There has been written into your record a letter submitted to Senator Millikin from a gentleman in Colorado. You recall the statement, probably, that I am referring to. I can not recall the gentleman's name. It is in the committee record twice, on pages 895 and 1093. In it he tells what happened when he went out and talked to 3,000 people in Colorado who were under these systems, as to whether or not they wanted to be under them or not. And he found a very different viewpoint from that which is expressed in the letters submitted to you.

Senator JOHNSON. Is that Mr. Roth's letter?

Mr. FAURI. That is the letter of Mr. Herrick Roth.

Mr. MACMILLIN. That is the name, yes. I was asked to come up to a meeting of city and county employees in Harrington 2 weeks ago, and I hadn't even mentioned H. R. 6000 when a man said: "I have been reading magazine articles. I understand our system is to be wrecked. If Congress passes H. R. 6000, we won't have any system left."

So I said, "I am going to explain to you just what would happen under H. R. 6000."

I read the provision in our law. I explained exactly how the provision would take effect, as to both systems. And without taking the time to give you the details, everybody in the meeting room said, "That would be wonderful. Why shouldn't we have that type of integration? We are going to write to our Senator that we want that." I am convinced that if it were possible to sit down with the people that have been flooding you with letters, they would come to the same conclusion.

Senator MILLIKIN. I suggest that the same group, if it met the next day and heard someone equally persuasive on the other side, would reach the opposite conclusion.

Mr. MACMILLIN. I am not willing to concede that, Senator.

The CHAIRMAN. You are assuming, however, that the States and municipalities would keep up their present retirement systems?

Mr. MACMILLIN. We are committed to that. We have already written it into our law.

The CHAIRMAN. I understand you are. But I say all your argument is based on that assumption.

Mr. MACMILLIN. Well, Senator, I have been around legislatures for a good many years and I have seen what has happened to public retirement systems. And I think it is very unrealistic, in view of what is happening in private industry, to suggest that any public-employee retirement system is going to be less liberal. I think the trend is all in the opposite direction. I know what happens when pension bills come before our legislature.

The CHAIRMAN. Yes. You have some considerable pressure back of private systems, too, that you would not have in your legislature. The tax dollars get tight. You would not expect to see any expansion of your State and municipal systems, would you? You might, in Wisconsin. You said you were a guinea pig, and so I assume you are.

Mr. MACMILLIN. Well, at least our retirement system I think is as sound as any retirement system you will find in the country. It is actuarially sound.

The CHAIRMAN. I am not questioning that. But I am simply saying that all your argument is predicated upon that basis; that is, that the States or municipalities are going to continue to support their private systems even though all the members in the system were taken in under social security.

Mr. MACMILLIN. Personally, I do not have any doubt. Whether I can convince you of that, of course, is a different matter. But I have been around the legislature for 20 years, and I have watched pension bills very closely, and the trend is in the opposite direction. I think the question is "Where are we going to have the limit?" rather than "Where are we going to cut them down?" I think the question is "Where are we going to have the top limit?"

The CHAIRMAN. Any other questions?

Thank you, sir, for your appearance.

Mr. MACMILLIN. Thank you, Mr. Chairman.

(The prepared statement of Mr. MacMillin follows:)

STATE AND LOCAL GOVERNMENTS SHOULD BE PERMITTED TO INTEGRATE EXISTING RETIREMENT SYSTEMS WITH SOCIAL SECURITY

(By Frederick N. MacMillin, Executive Director, Wisconsin Retirement Fund.)

I submit this testimony as the executive director of the Wisconsin Retirement Fund. This is the largest retirement system for public employees in the State of Wisconsin, and it has been constituted the basic retirement system by the Wisconsin Legislature. Ultimately, after legislative enactments have taken full effect, presumably the only other retirement system for public employees in the State of Wisconsin, outside of systems for the city of Milwaukee and Milwaukee County, will be the State-wide teachers' retirement plan.

The Wisconsin Retirement Fund now includes more than 25,000 active employees, and about 4,000 inactive accounts of persons who eventually may be eligible for a retirement annuity. Besides the State, 76 cities, 15 villages, 37 counties, and 33 other governmental units have voluntarily acted to include all eligible employees.

This presentation will be confined to a discussion of section 106 of H. R. 6000, which relates to the coverage of State and local employees.

OPPOSITION BASED ON FAULTY REASONING

It is difficult to understand the reason for the almost hysterical opposition to the inclusion of persons under existing public retirement systems which has emanated from certain quarters, and which has resulted in so much pressure being exerted on Members of Congress. I suggest that these persons have acted precipitously without fully thinking the matter through. There are sound reasons for concluding that a little less heat and more light on this matter would probably produce very different conclusions. I think it can be definitely established that if a little ingenuity is used, a way can be found to transform each retirement system into a supplementary system with the following results:

(1) The aggregate annuities payable would be increased.

(2) Valuable protection will be provided for dependents which is now largely lacking.

(3) Survivors of annuitants will continue to have annuity income after the death of the participant, whereas under existing plans many survivors are left without an annuity.

(4) There need not be any material change in the cost to either the employee or the governmental unit.

SIMILAR FEARS PREVIOUSLY PROVED UNFOUNDED

This is not the first time that there has been an attempt to stampede the Senate with a proposal for exclusion. In 1935 when the bill establishing the social security system reached the Senate, an amendment by Senator Clark, of Missouri, was adopted to exclude those persons covered by existing retirement systems main-

tained by employers. However, this Senate amendment was eliminated by the conference committee.

This decision has proved to be a wise one. While exact statistics evidently are not available, it appears that there were about 650 private retirement systems in business and industry in 1939, covering approximately 2,000,000 persons. By 1949 this had increased to at least 13,000 private system supplementaing social security and covering at least 7,000,000 persons. It should be common knowledge by this time that the existence of social security has not operated to reduce the coverage of private systems, but rather the trend is exactly the opposite. There is no logical reason to assume that the experience would be any different with respect to public employees.

The Advisory Council on Social Security appointed by the Senate Committee on Finance in 1947 gave careful consideration to this matter, and their conclusion as contained in their official report to the Committee on Finance on April 8, 1948, concisely states the essentials:

"Many proposals previously advanced for covering these workers have advocated excluding, on either a permissive or a mandatory basis, various limited groups of State and local employees, apparently in fear that coverage under old-age and survivors insurance would weaken or even completely destroy their State and local retirement system. As pointed out in the Council's recommendations for coverage of Federal and railroad employees, retirement systems supplementary to old-age and survivors insurance perform a valuable and necessary function. When coverage is extended to State and local employees who are members of staff retirement systems, those systems can be adjusted to supplement the basic old-age and survivors insurance benefits. Private employers have demonstrated that such adjustments can be made satisfactorily and without any loss in total retirement protection. The Council believes that in light of (*a*) the incontrovertible merit of the retention and development of supplementary plans, (*b*) the fact that employees under industrial pension systems did not suffer losses in benefits attributable to adjustment to old-age and survivors insurance program, and (*c*) the fact that State and local governments have recognized the need for, and taken action to provide retirement protection for their employees, any fear that the availability of old-age and survivors insurance will lead Government units to reduce the total protection afforded their employees is unjustified."

WISCONSIN HAS A PLAN FOR INTEGRATION

The Wisconsin legislature and the governing bodies of the 161 governmental units are specifically committed to the integration of the Wisconsin Retirement Fund with the old-age and survivors insurance system established by the Federal Government. From the very inception of this Wisconsin system there has been written into law (sec. 66.903 (2) (f) of the Wisconsin statutes) a provision whereby these public employees may also be given the advantage of inclusion under social security as soon as this is made possible by the Congress. Automatically the Wisconsin Retirement Fund will then be transformed into a plan providing supplementary benefits.

The practical result would be that the contributions of employees and governmental units to the Wisconsin Retirement Fund will be reduced by the amount of the respective contributions to social security. However, the employees will then receive the full benefits of social security, they will retain without change all accumulated credits under the Wisconsin Retirement Fund, and they will continue to build up additional credits under the Wisconsin Retirement Fund. Both employee groups and the fund staff have considered this carefully, and no one has yet been able to find any person who would not gain materially by obtaining the benefits to be derived both from social security and from the existing Wisconsin Retirement Fund.

In practice integration would work out this way in Wisconsin: At present, for general employees, the employee contributes 5 percent of his earnings up to $350 per month and the governmental unit matches that with a current service contribution of 5 percent. (The governmental units also pays all prior service, disability, death, and administration costs.) Under integration, beginning January 1, 1951, the employee would pay 2 percent to social security and only 3 percent to the Wisconsin Retirement Fund. In like manner, the governmental unit would pay 2 percent to Social Security and its matching current contribution to the Wisconsin Retirement Fund will be reduced by that amount. Thus, the contentions which have been advanced to the Committee on Finance that "there are grave doubts that many States and subdivisions thereof can

afford to have both" and that such "would impose a double burden of contributions upon the underpaid public employee" are completely unfounded. There is no reason why every existing public employee retirement plan cannot be modified in the same manner as the Wisconsin Retirement Fund.

REASONS WHY INTEGRATION IS DESIRABLE

Those who have opposed making it possible for persons under existing public employee retirement systems to procure the material benefits of social-security coverage also would do well to examine the advantages to be derived from dual coverage. Here are some of the reasons why such integration seem desirable:

(1) Since there is a rapidly accelerating tendency to provide supplementary retirement plans for employees in business and industry, it would be grossly discriminatory to deny the same advantage to those in public employment.

(2) Inasmuch as the old-age and survivors' benefit system has fallen far short of being self-supporting when considered from an actuarial standpoint, and since the benefits paid are far in excess of what can be provided actuarially from the actual contributions, the sytem is sound only because taxpayers are liable to underwrite the cost differentials. It is unjust to require public employees to help underwrite this cost without being able to participate in the benefits to be derived therefrom.

(3) As previously indicated, each participant would naturally benefit to the extent to which his annuity from two sources would exceed that to be derived only from the existing system. It is not possible to state the exact amount of the increase, since this would vary with length of service and the exact years when the service occurred. However, as an illustration consider a person earning $250 per month who contributed to the Wisconsin Retirement Fund from age 45 to 65, and who would at age 65 receive a life annuity of $66 per month. (If he had begun work at age 30, the annuity would have been half pay.) If the integration authorized under H. R. 6000 were to become effective, the combined annuity which he and his wife would receive, instead of being $66, would range from $130 to $161, depending upon when the service occurred.

(4) The protection for dependents would be particularly valuable. Under most existing retirement systems, if an employee dies leaving a wife and minor children, ordinarily the only payment made is a modest death benefit or the refund of the employee's own contributions. Contrast that with the payment under H. R. 6000 where a widow with two minor children would receive $123 per month if her husband had earned only $200 per month and had been covered for only 5 years. This should provide considerable peace of mind for an employee who now worries about what wil happen to his dependents in case of his death.

(5) Of equal value is the provision for a surviving widow. Under most existing systems, the widow receives little or nothing unless the employee elects a substantial reduction in his own annuity. For example, of 1,279 now receiving annuities under the Wisconsin Retirement Fund, in 1,163 instances the widow would receive nothing, with possibly few exceptions. But H. R. 6000 makes substantial provision for a surviving widow which would relieve the worries of a retired employee with respect to the support of his wife after his death.

(6) Existing retirement systems provide very limited protection for persons who have spent most of their working career in private employment and have entered public employment later in life. Many pathetic letters are received from old people in this category who find it impossible to live on the small amounts they receive. Yet it is unreasonable to expect the taxpayers of a municipal government to provide a full annuity for a person who had devoted only a few years to serving the public. It is, therefore, important that such persons shall be permitted to participate in the social-security program. This necessity can be shown by the following example:

Suppose that a man had worked in private employment from January 1, 1913, to January 1, 1946, and then would work for the State or a city from January 1, 1946, to January 1, 1956, at which time he would attain age 65. Assume that he earns $200 per month in public employment during the last 10 years of his working career. Since the Wisconsin Retirement Fund is devised to provide half pay of $100 in this instance only where a person has worked from age 30 to age 65 at least, the annuity in this case would be about $25 per month, obviously too small to support himself, let alone a wife. Because he had been in covered employment for only 9 years since 1937, he would not have acquired any rights under social security. Thus this man and his wife would be denied any par-

ticipation in the protection of this national program even though he had devoted the 33 best years of his working career to private employment.

It is difficult to understand how anyone can justify the continuation of any such unreasonable discrimination.

(7) Integration is essential for those who leave public employment in the future to enter covered employment. Certainly there should be no disposition on the part of anyone to deny a public employee the free choice of employment by trying to chain him to his present job. In many existing systems, such a change in employment results in the loss of retirement rights. Therefore it is important that he be given full social-security protection. Such change of employment is not rare. In Wisconsin in 1949 those under the Wisconsin Retirement Fund who terminated public employment for reasons other than death or retirement equaled 12 percent in a single year, and this in a State where the spoils system has been virtually eliminated at both the State and local levels.

(8) The fears that existing retirement systems will be abandoned seem to be entirely unfounded. The records of past years do not disclose that sound retirement systems for public employees have been abandoned. Since the trend is to constantly expand the benefits provided for those in private industry and business, there is no reason to anticipate a contrary trend in public employment. There is no reason why these retirement systems cannot be transformed into supplementary systems in the same manner as has been written into the Wisconsin Retirement Fund law.

(9) The safeguard written into H. R. 6000 requiring a referendum in the case of existing public employee retirement systems should effectively allay any alarm that may exist. This means that a ballot must be submitted to each present participant under a public retirement system to permit him by secret ballot to say whether he wants to integrate the system with social security. However, there appears to be no justification for requiring a two-thirds vote. The American tradition of majority rule should also be allowed to prevail in this instance.

It would be inexcusably selfish for the members of any retirement system which for any reason preferred to remain out of social security (which right they could protect by referendum) to try to prevent the members of another retirement system from being included when it was clearly to their advantage to be included.

(10) If the State of Wisconsin and the municipalities under the Wisconsin Retirement Fund are absolutely barred from including public employees under the social-security system, this will result in impairing the recruitment of qualified employees as vacancies occur in positions covered by the retirement plan. Individuals will hesitate to accept such jobs when it will mean that their dependents and survivors are denied the full protection provided by social security. This will lower the quality of the public service, and may even increase the cost of Government.

SPECIFIC CLASSES OF PUBLIC EMPLOYEES SHOULD NOT BE INCLUDED

It has also been suggested that specific classes of public employees be barred from participation in the old-age and survivors' insurance plan—such as, for example, policemen and firemen. Under the Wisconsin system this would be very unfair to policemen and firemen. Under the Wisconsin law all policemen and firemen, outside of the city of Milwaukee, who are hired after January 1, 1948, and many other policemen and firemen, are included under the Wisconsin Retirement Fund which specifically provides for integration with social security. It would be very unfortunate if in any city the employees of the street department, the park department, and so forth, were given the additional social-security protection, while the policemen and firemen—working for the same employer—were compelled to be confined to the lesser benefits provided under the Wisconsin Retirement Fund. This would be entirely indefensible.

REFERENDUM PROVISION SHOULD BE CORRECTED

With respect to the referendum provision, it seems quite cruel to require that present annuitants participate in the referendum which is made mandatory for existing public retirement systems. Such participation will only lead them to hope that their annuity will be increased because of such integration, when this would be wholly impossible under the proposed bill. This should be modified to exclude annuitants from the referendum.

ADMINISTRATIVE PROVISIONS SHOULD BE UNIFORM

A final comment on the administrative proposal. There seems to be no logical basis for treating governmental employers any differently than private employers from an administrative viewpoint. State governments should not be required to assume the responsibility and the expense of administration which the Social Security Administration pays for private employers. Likewise, it is believed that municipal and county governments and their employees will have a more comfortable feeling if their payments and records are transmitted directly to the responsible Federal agency, rather than channeled through a third party, thus increasing the likelihood of errors and confusion.

CONCLUSION: OPPOSITION TO INTEGRATION ENTIRELY UNNECESSARY

It would appear that in reality all of the pressure which has been brought to bear upon the Congress to induce it to prohibit the integration of existing retirement systems for public employees with the Federal old-age and survivors insurance system is completely unnecessary. All that the Congress would do in H. R. 6000 would be to enact enabling legislation. The real choice as to what would be done in any State would be made within that State. This is entirely proper, since the Federal Government should not try to dictate policies with respect to State and municipal employees.

Consequently, there is no logical reason why any State legislature should memoralize the Congress on this point. The final choice in that State will be made by the State legislature under H. R. 6000, not by Congress.

Likewise, there is no justifiable reason why the representatives or members of any retirement system for public employees should exert pressure on Members of Congress. These members of retirement systems will presumably have ample opportunity to present their case to their State legislature. Then, even if the legislature should happen to disregard their wishes with respect to integration, these employees still have complete control, since they have the prerogative to reject integration when the referendum is held.

In view of this complete control by each State legislature and also by the members of each existing retirement system, it would seem to be utterly selfish to try to prevent integration in one State where integration is wanted, simply because such is not desired in another State.

The CHAIRMAN. Miss Mildred Arnold?

Miss Arnold, we will be very glad to hear you. You are from the Children's Bureau of the Social Security Administration?

STATEMENT OF MISS MILDRED ARNOLD, DIRECTOR, DIVISION OF SOCIAL SERVICES, CHILDREN'S BUREAU, SOCIAL SECURITY ADMINISTRATION, FEDERAL SECURITY AGENCY, WASHINGTON, D. C.

Miss ARNOLD. Yes, Mr. Chairman. I am Director of the Division of Social Services of the Children's Bureau. I would like to make a statement on recommendations for an expanded program of child-welfare services.

Because questions have been asked, both in hearings before this committee and by other interested persons, I am here to present additional information concerning the child-welfare programs now being carried on by the various State welfare departments. At the same time I want to tell you how the children in this country would benefit if the annual appropriation for child-welfare services were increased from 3½ million to 12 million dollars.

First, I want to talk about the children who need child-welfare services. Children in need of child-welfare services may be anywhere, everywhere, in any or all of our communities. They may be living

with their own families or with relatives. They may be your neighbors' children or other children you have known intimately.

Some are disadvantaged from birth or at an early age by physical disabilities or mental conditions. Some suffer from family friction and lack of adjustment to other members of their family. Some have parents who are ill physically, sick mentally, or for some other reason cannot give them the care and affection they need. Others are victims of economic conditions which deprive them of normal home life. Some have been so seriously abused or neglected that someone outside their own family must provide the care they need. All of these children have the same need to be loved, the same desire for achievement, the same potentialities as other children. They differ only in that, through no fault of their own, they have been deprived of the opportunities we consider the birthright of every child in our democracy.

The purpose of the child-welfare program is to strengthen family life and to provide care and protection for those children who cannot be cared for in their own homes. Individualization of children needing help has long been the watchword of the child-welfare program. By individualization, we mean, first, seeing each child as an individual and understanding his peculiar problems. Then, in turn, we must individualize the plan for his care, being sure that it is the best way of meeting the problems of that particular child. To assure this, we must provide a variety of social services for children, including services to children in their own homes as well as in foster care; that is, in institutions or in foster family homes. The variety of services we now consider essential for the child-welfare program has expanded gradually as we have learned more about ways of helping children.

A hundred years ago, we thought that we could best help children by providing custodial care for them in institutions. Many States built large State institutions for dependent and neglected children in the 1800's. Here children received food and shelter but little individual attention. Gradually, we came to realize that most children thrive best in family homes.

The children themselves showed some of us that this was true. I remember Tommy who made me aware of this a number of years ago. He had been kept in an institution for several years. His mother was dead and his father had disappeared years before. He was a good-looking, docile child when he entered the institution. We realized that the institution was not meeting his needs when he became the ringleader in a number of stealing episodes. When I discussed this behavior with him, he poured out his feelings with the words, "Put us kids into homes and then we won't do these things." He was placed in the home of a farm family and 6 months later the rural school reported that he was one of the leaders in the school and a good influence on the other boys. Tommy had leadership qualities, which could be used for good or for bad, depending on how adequately his own individual needs were being met.

And so we learned, from long and sad experience, to "put kids into homes." Today, 42 percent of the children under care in the public child-welfare programs are in foster-family homes. Some of them are healthy, attractive infants for whom a permanent plan of adoption can and will be made. But these are few compared to the total. Only

one out of every five children in foster homes are waiting to be adopted.

Most of the children coming to the State and local welfare departments are not beautiful, blue-eyed babies, but older boys and girls, many coming as family groups. About 70 percent of them are of school age.

We have the conviction that these children, too, need a family home, and so the majority who are receiving foster care are in what are known as boarding homes. Perhaps this is an unfortunate term because these homes are in no sense commercial undertakings. They are homes of plain, wholesome American families whose home life has much to offer children. Often the children of these parents have grown up and gone away and the home seems empty without them. So the parents open their doors and their hearts to care for other children needing a home. At the present time public welfare departments are caring for 70,000 children in such boarding homes. Foster parents are paid a monthly stipend, often inadequate, to take care of the extra cost of having the children in their homes.

Foster homes are carefully selected and studied by child-welfare workers and matched with the children. And "home-finding," as it is termed in social-work language, calls for all the skill and understanding that a worker can muster. Sometimes it may take months to find the right home for a particular child. But, on the basis of my 10 years of experience in placing children in foster homes, I am convinced that with time, patience, and skill, the right home can usually be found.

All States, except six, now have some legislation regarding the licensing of boarding homes. The State welfare departments establish minimum standards which all homes have to meet before they can be licensed. State law or regulation sets the maximum number of children who can be cared for in any one home.

The maximum is usually four, although the average number of children cared for in any one home is probably closer to two or three.

These developments in foster care have had a profound effect upon the picture of child care in this country. No State institution for dependent and neglected children has been established in the last 14 years. Two States, Michigan and Minnesota, have closed their institutions for dependent children and instead have established a State foster-home service, with a small receiving home to care for the children temporarily until they can be placed in foster homes. Michigan was the first to establish a State institution for dependent children and the first to abolish it when able to introduce foster-family care on a State-wide basis. Only 15 States, at present, maintain institutions for dependent and neglected children.

Several States, such as Oklahoma for example, have introduced individual case-work services for children in their State institutions and as a result have been able to decrease the population of the institution by returning some children to their own homes and by placing others in adoptive and boarding homes. In the 14-year period, 1933–47, on the basis of reports from 29 States, the total number of children living in public institutions for dependent and neglected children was reduced 32 percent. From 1933 to 1943, the number of children receiving foster-family care from public agencies increased 70 percent. Since 1943 the number of children receiving foster-family care through public agencies has continued to increase.

Although every State has one or more public institutions to care for delinquent children, the number of children in these institutions has also decreased. In the 29 States for which comparable data are available, the population in these institutions decreased 29 percent between 1933 and 1947.

The decrease in the use of public institutions for dependent and delinquent children does not mean that no children's institutions are needed. There is and will continue to be a definite and useful place for the progressive and specialized institution serving the physically or mentally defective child, the emotionally damaged child, and the child who needs special temporary care. Often adolescents and older youth need institutional care because they are at a stage of development when they are seeking independence from adults. This means that many of them are unable to take on the substitute parental relationships inherent in the foster home.

As we have gained more understanding of children and of the use of foster care, we have also recognized that no improvement in the child's material surroundings and no affectionate care by strangers can fully compensate him for the loss of his birthright—life with his own family in his own home. Consequently, we are placing much greater emphasis on the provision of services to children in their own homes, preventing family break-downs wherever possible. And as a result we find that 40 percent of the children receiving public child-welfare services are still in their own homes and we earnestly hope that they can remain there.

We are slowly but steadily making headway in keeping children in their own homes, or, if this is not possible, in finding good substitute homes for them. But many children in need of help are still not receiving it. Vast areas of this country have no child-welfare services.

This may mean in effect that these services can actually discriminate against children. Only 20 percent of the 3,183 counties in the country have the services of a full-time child welfare worker paid from public funds. The services of private agencies are largely centered in the more urban areas. As a result of this, one child, whose home is in danger of being broken, may be fortunate enough to have an understanding and skillful child-welfare worker come to his rescue.

Another child, perhaps just 5 miles away in another county, may have no help available to him and may have to continue to live under extremely handicapping and unhappy conditions. For example—and this was a case just recently told to us by one of the States—Helen, age 7, is seriously neglected by her parents and in ill health. She happens to live in a county in a Midwestern State where there are no child-welfare services available. For 2 years she has been urgently in need of a good foster home, and her problems have been growing steadily worse because this need has not been met. In contrast, Tito, the same age, lives in a State in the southwestern part of our country and in a county where there are child-welfare services. He, too, had been seriously neglected by his relatives and was severely malnourished. But, unlike Helen, Tito, received the care he needed. The public-health nurse reported his situation to the child-welfare worker who immediately arranged for needed medical care and hospitalization for him. As soon as he was able to leave the hospital, she placed him in a good foster home and he has developed into a happy, healthy youngster.

If grants to the States for child-welfare services were increased from $3,500,000 to $12,000,000, what would this additional $8,500,000 mean in terms of the number of children who could be helped? How many more child-welfare workers would be available to serve children? How many additional counties could have services? What improvements would be possible in the child-welfare program?

State welfare departments were recently asked how they would use this additional money if it became available. This was their answer:

The great need is for more child-welfare workers. They represent the backbone of the service.

Only when these workers live in the counties, become a part of the community, and make their services known and respected, do families feel free to come to them with their problems and early enough so that a major disaster can be prevented. Every State needs more child-welfare workers in the counties. The States plan to use about $3,145,000 in this way. This would mean that a public child-welfare program could be establish in approximately 650 counties now without these services and the total number of counties with full-time child-welfare workers paid from public funds would be increased from 20 percent to 41 percent of the 3,183 counties in the country. And what is still more significant, 100,000 additional children would receive services under such an expansion.

The local child-welfare workers need the help of more experienced or more specialized workers. These workers are usually called child-welfare consultants. State welfare departments provide consultants to go regularly into the counties to help the local staff plan and improve their child-welfare program. Specialized consultants come in to work on specialized programs such as foster family care, juvenile delinquency, adoption, institutional care, homemaker service. For these types of services State plan to spend $1,275,000.

The lack of trained workers has been one of the principal road blocks to increased child-welfare services. In order to secure competent workers, State departments throughout the country have had to provide opportunities for workers to obtain needed training. One means of doing this is through the use of educational leave stipends for workers on the job. The worker is granted leave for a specified period, usually 1 year, so that she can attend a graduate school of social work. During this period, she is given a monthly stipend to cover the cost of training. The States would spend about $680,000 for educational leave. This would enable them to send 350 additional persons to schools for social work for training.

Senator MILLIKIN. Mr. Chairman?

The CHAIRMAN. Yes, Senator Millikin.

Senator MILLIKIN. My thought is this, in connection with testimony of this kind: Why cannot the States handle this particular problem?

Miss ARNOLD. Are you speaking now of the training of workers of the total program?

Senator MILLIKIN. I am speaking of the total problem and the training of workers.

Miss ARNOLD. We have found that the States have increased their appropriations for child-welfare services very materially since the Social Security Act was passed, but they still are not able to meet adequately all of the needs. They are not able to provide sufficient

funds for enough workers to be trained, for enough workers to go into the counties, and for the foster care of the children.

Senator MILLIKIN. Do you not believe that all of the States are capable of raising $12,000,000 for this purpose?

Miss ARNOLD. I think it would be difficult for many of the States to do it. They have already made very greatly increased appropriations for child-welfare services. They have also made very large grants, as you know, for the public-assistance program. I think it would be difficult for many of the States to appropriate adequately.

Senator MILLIKIN. Do you think that, of all of the things that can be sold in connection with social security, what you are talking about now has the greatest appeal?

Miss ARNOLD. I think it has a very great appeal.

Senator MILLIKIN. And if it has a great appeal, or the greatest appeal, and I should think it would have the greatest appeal of all, it is very hard for me to believe that 48 States of the Union have to come running down here to Washington to get $12,000,000. It seems to me that is a basic weakness in the situation.

Miss ARNOLD. I think we have to keep in mind the enormous increases that the States have made for the total program of public welfare in the country. It is often difficult for a small program, such as child welfare, to really be able to keep its head above water, on the basis of some of these other tremendous programs, where greatly increased appropriations have had to be made. I do feel that the States have made heroic efforts and have really done very well in pulling out State funds. We are now convinced that Federal funds do not dry up State funds. Every study we have made shows that they really have drawn out State funds. It must be remembered that these programs are administered in county welfare departments along with the other welfare programs, particularly public assistance. Usually the total appropriation for the public-welfare department goes in as a whole, and there have been enormous increases.

A few States may be able to make adequate appropriations, but many States have not been able to.

Senator MILLIKIN. If we take a subject like this, which touches our deepest emotions, and if we get in the habit of coming to Washington for something of that kind, why, of course, the States will not appropriate. I wonder why it cannot be sold at home. It is less than 10 cents per inhabitant of this country.

Miss ARNOLD. I think it has been sold, and I think the States have done a great deal. I have some figures here from individual States showing the great increases which they have made.

I do feel that this really needs to be a partnership all the way through. I think that we have to be concerned about children in Washington. I think the States have to be concerned, and I think the local governments have to be concerned.

Senator MILLIKIN. I have a little curiosity about this educational program. If a person teaches school, he provides his or her own education before he starts to teach. Why do we select this particular field in which to pay for instruction of the worker?

Miss ARNOLD. Because of the great dearth of trained social workers in the country. The teaching field, of course, is an old profession. We have been training teachers for many years. Social work is a relatively new profession. There is a very great dearth of trained social work-

ers, and particularly child-welfare workers, where the training is so very important.

Senator MILLIKIN. What you are saying is that this is a necessary incentive to get enough workers?

Miss ARNOLD. Yes.

Senator MILLIKIN. Enough skills?

Miss ARNOLD. Yes. Perhaps eventually, as the profession gets older and more people go into it, this training program may not be necessary.

Senator MILLIKIN. That will never happen. Once you start this kind of program, you will never recede from it, I suggest.

Miss ARNOLD. From the problems which I have been discussing, you can see that skilled and trained workers are necessary. It has not been possible to get enough trained workers to meet the need.

Senator MILLIKIN. I do not doubt the need for training but I am wondering who should pay for it.

Miss ARNOLD. I think the States have felt that it is a good investment to put a relatively small amount of their money into the training of workers. You see, these workers are brought in under the merit system in the States, so that they are State employees. They agree to come back to the program after completion of training. The States know that when they make this investment, which is a relatively small one, workers will come back and really make a contribution to the program.

About $2,300,000 would be used by the States for the care of children in foster-family homes. Many States, through State and local appropriations, have increased markedly their funds for foster-family care of children. For instance, North Carolina increased its funds for this purpose from $96,000 in 1945 to $235,000 in 1949. Despite these increases, foster-family-care programs are still inadequate in many parts of the country. Even though Arizona, for instance, increased its funds from $110,000 in 1945 to $252,000 in 1949, the State reports that very few additional children in need of foster-home care can be placed during this year because of inadequate funds.

Many States have indicated that they would use increased Federal funds to provide detention care in foster-family homes. For example, Iowa reports that a survey of detention care of childrin during 1947 reveal the shocking fact that of the 75 counties studied 90 percent had used jails for detention of children. If additional funds become available, Iowa will use about $12,000 to provide detention care in foster-family homes. Colorado, Florida, Illinois, Indiana, Oklahoma, Texas, and Utah are among other States that would use some of the increased funds for this type of care.

The States report that a substantial number of children referred to them are in need of emergency care. Unfortunately, some of these children are given shelter in jail, because of a complete lack of facilities for shelter care. These children are not delinquent. They are homeless. The States would use some of the additional funds—about $450,000—to provide emergency care in foster-family homes. Georgia cites this as a particular problem and would use about $60,000 to meet this need.

Other States would set up other special facilities for foster care. In Illinois there are critical problems growing out of the lack of facilities for unmarried mothers and their babies. The Illinois Public Welfare

Department believes that the provision of such facilities would do much to allay the "black market" in babies. Consequently, this State proposes to spend approximately $50,000 for foster-family care for unmarried mothers and their babies. Other States with similar proposals include Alabama, Georgia, Iowa, Michigan, North Carolina, Ohio, Oklahoma, Pennsylvania, and Vermont.

About $100,000 would be used for the return of runaway children as provided in H. R. 6000. Often, runaway children do not receive adequate care because of the possibility of their becoming financially dependent upon the local community in which they are stranded or detained. Arizona, Georgia, Illinois, Indiana, Iowa, Kentucky, Missouri, and South Carolina have pointed out the need for funds for runaways.

About $285,000 would be used for homemakers. A specially trained homemaker, working under the direction of a child-welfare agency, can do a lot to hold families together when the mother must go to the hospital or is ill at home. Only a small beginning has been made to provide homemakers in rural areas. Several States would like to develop this service: Arkansas, Georgia, Mississippi, Ohio, Oklahoma, Oregon, and Texas.

In summary, I would like to say that if grants to States for child-welfare services are increased from 3½ to 12 million dollars, I firmly believe this is what it would mean to children.

Fewer children will lose their homes needlessly as a result of family break-down.

More children will be cared for in good foster homes.

Fewer children will be detained in jail.

Fewer babies will find their way into the "black market."

More children will have the protection of careful placement in an adoptive home suited to their individual needs and capacities.

And finally, perhaps the most important of all, more children will reach adulthood able to make their maximum contribution to our democratic way of life.

Thank you.

The CHAIRMAN. Miss Arnold, we appreciate your appearance here. How long have you been with the Social Security Administration?

Miss ARNOLD. For about 7½ years.

The CHAIRMAN. And before that you were in social-security work?

Miss ARNOLD. I was director of the children's division of the Indiana Welfare Department; so, I was a receiver of these funds, and I knew what it meant in my State to have some Federal funds come in to help us develop the program.

The CHAIRMAN. You have been at both ends of the line?

Miss ARNOLD. Yes, I have. I have also been a county worker. I started out as a rural worker in one of the New York counties, so that I know something about the problems of rural children from that experience.

The CHAIRMAN. You point out that the drift is definitely away from institutional care for children, and to the foster home.

Miss ARNOLD. Yes; from general institutional care to foster homes. We need the specialized institution, but for shorter-time care of children.

The CHAIRMAN. And for special purposes.

Miss ARNOLD. And for special purposes; yes.

Senator JOHNSON. I would like to ask just one question, Mr. Chairman, if I may.

The CHAIRMAN. Yes, Senator Johnson.

Senator JOHNSON. Should the Congress vote additional funds amounting to $8,500,000, as you have suggested, what would that mean in the way of State appropriations to match that money?

Miss ARNOLD. Under the present title V, part 3, of the Social Security Act, there is not a matching provision. It started out with only a $1,500,000.

Senator JOHNSON. In any degree?

Miss ARNOLD. It simply says that for the local services Federal funds should pay part of the cost. We have been rather flexible in interpreting that provision. Perhaps the Congress would want to consider whether, if funds were increased to $12,000,000, some kind of matching formula should be provided. When it was set up first, the matching formula was not put in.

Senator JOHNSON. But the present law views the Federal money as a part of the contribution.

Miss ARNOLD. For the local services, yes. It says it shall pay part of the cost.

Senator JOHNSON. Could you make an estimate, provided we do not change the law and change the formula, of what an increase of $8,500,000 would mean in the way of increased State appropriations?

Miss ARNOLD. It would be difficult, but I think we could make an estimate, particularly with regard to local services.

Senator JOHNSON. That is all, Mr. Chairman.

The CHAIRMAN. Thank you very much, Miss Arnold, for your appearance and your contribution.

Miss ARNOLD. Thank you, Mr. Chairman.

The CHAIRMAN. Dr. Starks?

We are calling Dr. Starks a little out of order on this list, because of the fact that one of the Senators at least may have to go to the floor.

You may be seated, Dr. Starks. Please identify yourself for the record, sir.

STATEMENT OF DR. C. ROBERT STARKS, SECRETARY, COLORADO OSTEOPATHIC ASSOCIATION, DENVER, COLO.

Dr. STARKS. My name is Dr. C. Robert Starks. My home is in Denver, Colo., where I am actively engaged in practice as an osteopathic physician licensed in medicine and surgery. I appear here today as secretary of the Colorado Osteopathic Association and as a past president of the American Osteopathic Association. My statement has been prepared with the advice and assistance and is in consonance with the policies of the department of public relations of the American Osteopathic Association, and of the State association which is a divisional society of the national organization.

There are upward of 200 osteopathic physicians in practice in Colorado. Osteopathic physicians or surgeons are legally licensed in all States, to a total in excess of 11,000. More than 300 hospitals located throughout the country are staffed by doctors of osteopathy. The

members of the profession are engaged in general practice or in surgical or other specialty practice.

May I assure you that we greatly appreciate this privilege of discussing the medical provisions of H. R. 6000, an act to extend and improve the Federal old-age and survivors insurance system, to amend the public-assistance and child-welfare provisions of the Social Security Act, and for other purposes.

The primary objective of the Colorado and national associations is the promotion of the public health and it is in pursuance of that objective that we appear here today.

Disability insurance benefits: Title I, section 107, page 88 of the bill, amends title II of the Social Security Act to extend disability insurance benefits to qualifying individuals who are totally and permanently disabled. Insured persons who become totally and permanently disabled and remain so for a period of 6 months following determination of such disability are entitled to benefits. The Federal Security Administrator is authorized to provide for the determination and redetermination of disability by medical examinations to be performed by Government or private physicians. The Administrator is authorized to terminate disability benefits if the insured refuses to submit himself to examination or without good cause refuses to avail himself of rehabilitation services obtainable under the State-Federal programs provided under the Vocational Rehabilitation Act.

There are perhaps good and bad features in all social-security programs and this one is no exception.

Among the good points of the program, is the fact that it should serve as a case finder for rehabilitation purposes. Many disabled persons who could be restored to employability have never heard of the State-Federal vocational rehabilitation programs, which operate under the act of Congress approved June 2, 1920, as amended, entitled "An act to provide for the promotion of vocational rehabilitation of persons disabled in industry or otherwise and their return to civil employment."

For some 30 years, it has been the policy of Congress as set forth in that act, to make available vocational rehabilitation services, for the disabled. This bill should promote that vocational rehabilitation program.

Section 107 does not increase the number of persons entitled to medical services at Government expense. The medical care would be available only under the Vocational Rehabilitation Act. Only needy persons otherwise eligible under that act could obtain physical restoration services. It does not increase the coverage of the Vocational Rehabilitation Act.

Among the bad features of the program under section 107 is the possibility of malingering. This is partially offset by the 6-month waiting period. There can be no doubt that in many instances it would be extremely difficult to determine and certify the "medically demonstrable physical or mental impairment which is permanent." Wherever there is a family physician he would be in the best position to make the determination. It is noted on page 94 that the Administrator is authorized to secure the cooperation of local government and private groups for advice and assistance in securing efficient administration. The cooperation of these groups should serve to minimize

abuses, but inevitably the principal responsibility will rest on the examining physician.

If the Congress shall determine that the public good in such a program outweighs the potential abuses, the cooperation of the physicians of the country to make the system work will become a social responsibility.

Public assistance: The present Social Security Act limits Federal financial participation in public assistance payments to those which are paid to the recipient in money.

Title III of H. R. 6000 changes that. The term "public-assistance aid" (sec. 303, p. 173; sec. 323, p. 178; sec. 344, p. 185; and sec. 351, p. 194) is revised to mean "money payments with respect to or medical care in behalf of" a public-assistance recipient. Under this bill, then, all or any part of the federally matched assistance to the needy aged, dependent children, blind, and the newly added category of needy totally and permanently disabled, may be devoted to medical care and paid directly by the assistance agency to the supplier of medical care.

The Advisory Council on Social Security in its report to the Senate Committee on Finance, Senate Document 204, Eightieth Congress, states:

> It is frequently desirable to let recipients make their own arrangements for medical services. On the other hand, there are many circumstances in which the assistance agency finds it preferable to pay the doctor or other supplier of medical care directly.

In instances where the assistance agency finds it preferable to make the arrangements and pay for the medical care directly, there is no indication that the recipient has any choice of the type or quality of medical care tendered, except the possible choice of accepting that or nothing.

The bill does not define the term "medical care." On page 42 of the House report on the bill (House Report 1300, 81st Cong.) the term "medical care" is defined as "medical services." Defining a term with the term is not of much help. Letters from the chairman of the House Committee on Ways and Means and the Commissioner of Social Security, which I desire to make a part of the record, state that osteopathic services would be included within the term. There is, however, nothing to prevent their successors from reaching a different conclusion.

It is the Federal Security Administrator who is charged with the responsibility of prescribing regulations interpretative of the terms of the act. We ask that osteopathic inclusion be expressly provided for in the bill rather than left to the vagaries of administrative interpretation. Our request is urgently necessary because the Administrator has already, in other social-security grant-in-aid programs, administratively excluded osteopathic services from the definition of "medical care."

It is that fact which brings me to the next point in my discussion of that unfavorable precedent, and a request for its removal.

Crippled-children's services: Title V, part 2, of the Social Security Act authorizes Federal grants-in-aid to the States for—

> medical, surgical, corrective, and other services and care, and facilities for diagnosis, hospitalization, and aftercare, for children who are crippled or who are suffering from conditions which lead to crippling.

The program operates under State plans that require approval by the Federal Security Agency.

Colorado prepared a State plan for services for crippled children, and included services by licensed osteopathic physicians and hospitals. The Federal agency turned it down, refusing to approve the State plan so long as osteopathic participation remained a part of it.

In other words, according to the Federal agency, the terms "medical care" and "hospitalization" as used in the Social Security Act do not include services by doctors of osteopathy and hospitals.

Colorado had obviously thought otherwise. So had other States. They knuckled down. The osteopathic profession also knuckled down. But it was not a supine submission. The profession in Texas sought to enjoin the State agency from complying with the edict of the Federal agency requiring the State to exclude osteopathic services under a similar State plan (EMIC). The lower court granted the injunction, but the appeals court of the State held that the State agency was merely acting as the agent of the Federal agency and had to abide by the conditions imposed by the Federal agency. *Wilson* v. *State Board of Health* (188 S. W. 2d. 999).

A representative of the Federal agency, testifying before the Senate Committee on Education and Labor on June 22, 1946, on a bill for Federal aid for medical services for all children under 21 years of age, took the position that Congress apparently had acquiesced in the policy by which the Federal agency prevents the States from using the facilities of the osteopathic profession and institutions in carrying out the programs involving medical services under the Social Security Act.

Senator MILLIKIN. Is anyone connected with the Social Security Administration present who can say why the osteopaths were excluded?

The CHAIRMAN. There does not seem to be any representative here at this time.

Dr. STARKS. We put in our program, in Colorado, of course, then this question came up that the Federal agency was the one who said that, because of the definition in the law.

Senator MILLIKIN. Under the law, as you have quoted it, I just cannot understand why osteopaths would be excluded.

Dr. STARKS. Well, we could not, either.

Senator MILLIKIN. You give medical service.

Dr. STARKS. That is right.

I sought legal aid and advice on that matter of acquiescence by Congress, and was informed that Congress cannot be said to acquiesce, or demur, to an administrative interpretation unless and until the interpretation has been properly brought to the attention of Congress. *Lukens Steel Company* v. *Perkins* (60 S. Ct. 869; 310 U. S. 113).

That is a principal reason why I am here today—to bring to the attention of this congressional committee which has jurisdiction over social-security legislation, this policy of the Federal Security Agency which tortures the language of the Social Security Act to deny to the States the right to help crippled children by utilizing osteopathic services under the social-security program.

I said the States knuckled down. An impasse is apparently in the making in Kansas. The Kansas Legislature passed a law, approved April 2, 1949, expressly including doctors of osteopathy as physicians

qualified to render medical services under the crippled-children's program in that State.

Who is better able to judge the qualifications of the suppliers of medical care in such programs, the States or the Federal agency?

The House Appropriations Committee Report No. 450, recommending appropriations for the fiscal year 1944, sheds luminous light on that question as follows:

> The States have established standards for licensing health practitioners and the Federal Government has never attempted to establish such standards. In the judgment of the committee, the Children's Bureau has not the power under law either to establish such standards or to question the standards established by the State. It is not the desire of the committee, of course, to permit the use of Federal funds to break down safeguards against the practice of healing arts by improperly and inadequately trained persons, but the committee does believe that the State laws and standards constitute the necessary protection for the public.

In Colorado, and a number of other States, osteopathic and medical candidates take the same examination before the same State board and receive the same State license to practice medicine and surgery. In more than half the States the scope of the osteopathic license is equivalent to that of doctors of medicine. Most States license the practice of major operative surgery.

The American Osteopathic Association is the generally recognized agency for accrediting schools of osteopathy and surgery. However, several State medical boards have made personal inspections of all osteopathic schools preliminary to examinations of osteopathic applicants for unlimited licenses to practice and found them to be institutions furnishing training of comparable scope and quality to that provided in recognized medical schools.

Evidence that Congress has considered the training accorded in Osteopathic and medical institutions as comparable is furnished in the act regulating the practice of the healing art in the District of Columbia which states:

> The degrees, doctor of medicine and doctor of osteopathy, shall be accorded the same rights and privileges under governmental regulations.

The Congress, as you know, included that in the act of February 27, 1929 (45 Stat. 1329).

Another example of the recognized comparable quality of training in medical and osteopathic colleges is to be found in the Medical Service of the Veterans' Administration. In 1946 Congress prescribed that to be eligible for appointment in the Medical Service of the VA Department of Medicine and Surgery an applicant must—

> hold the degree of doctor of medicine or of doctor of osteopathy from a college or university approved by the Administrator, and have completed an internship satisfactory to the Administrator, and be licensed to practice medicine, surgery, or osteopathy in one of the States or Territories of the United States or in the District of Columbia.

In administering that law, Gen. Paul R. Hawley, then Chief Medical Director of the Veterans' Administration, took the position that there could not be two standards of proficiency in the Medical Service; and that as soon as he should become satisfied of the equivalence of osteopathic and medical education he would recommend appointment of osteopathic applicants. He was so satisfied. All osteopathic colleges and all intern-training hospitals approved by the American

Osteopathic Association have been approved by the Veterans' Administration, and a number of osteopathic physicians are now serving in the VA Department of Medicine and Surgery.

Thus, while one arm of the Federal Government is hiring osteopathic physicians as qualified to render medical services on an equivalent basis with doctors of medicine, another arm of the Federal Government denies to the States the exercise of a similar prerogative in the social-security program, even though the State must contribute and may be bearing the principal expense of the services involved.

We request that the terms "medical care" and "hospitalization" be expressly defined to include the services of osteopathic physicians and hospitals staffed by osteopathic physicians.

We submit the following amendment designated as amendment No. 1:

Page 198, after line 7, insert a new paragraph reading as follows:

(4) Section 1101 (a) of the Social Security Act is further amended by adding at the end thereof the following new paragraph:

"(8) The terms 'physician' and 'medical care' and 'hospitalization' include osteopathic practitioners or the services of osteopathic practitioners and hospitals within the scope of their practice as defined by State law."

The proposed amendment is in consonance with definitions of these terms as employed by Congress in connection with the rehabilitation program under the United States Employees' Compensation Act, as amended, which reads:

The term "physician" includes surgeons and osteopathic practitioners within the scope of their practice as defined by State law.

The term "medical, surgical, and hospital services and supplies" includes services and supplies by osteopathic practitioners and hospitals within the scope of their practice as defined by State law (U. S. C., 1940 ed., title 5, sec. 790).

The proposed amendment would not foreclose further extension of these terms by administrative interpretation because section 1101 (b) provides:

The terms "includes" and "including" when used in a definition contained in this act shall not be deemed to exclude other things otherwise within the meaning of the term defined.

Under the proposed amendment the States will be free to utilize the services of the osteopathic profession and its institutions in like manner as it may use the services of doctors of medicine and medical hospitals without fear of prejudice or jeopardy of Federal approval of their State plans for services under the respective titles of the Social Security Act. In addition, the amendment will confirm eligibility of doctors of osteopathy as physicians for purposes of physical examinations under title II of the Social Security Act, as amended by H. R. 6000.

Our proposed amendment No. 2 is as follows:

Page 57, line 3, strike the word "osteopath"

This is a technical amendment made necessary by the adoption of amendment No. 1. This is the exemption clause.

Senator JOHNSON. Would that amendment be subject to the adoption of amendment No. 1?

Dr. STARKS. Yes.

Senator JOHNSON. If amendment No. 1 is not adopted, then amendment No. 2 should not be adopted. Is that not correct?

Dr. STARKS. No. An amendment similar to our amendment No. 3 should be substituted then.

Our next and final amendment. No. 3, is as follows:

Page 159, lines 19 and 20, namely, line 19 after the word "physician" insert the phrase "(doctor of medicine or osteopathy)", and line 20 after the word "dentist" strike the word "osteopath."

That relates to an exemption clause, amending the tax provisions.

The effect of the amendment is to exempt osteopathic physicians as within the term "physician" as employed in section 1641 (c) of the Internal Revenue Code as amended by the pending bill.

The present language of the bill lists "physician" and "osteopath" in separate categories, which establishes an undesirable precedent and is a prejudicial deviation from former congressional and departmental classifications.

The suggested change is in conformity with language employed by the Civil Service Commission in Federal Personnel Manual MI–3 which reads:

Medical certificates for use in connection with temporary appointments and transfer, promotion, or reappointment under part 10 of the Commission's regulations may be executed by any duly licensed physican (doctor of medicine or osteopathy).

An osteopathic physician is a "competent, licensed physician" under the regulations of the Civil Aeronautics Administration:

Some question has arisen with regard to the interpretation of a "competent, licensed physican" who may conduct the subject examination.

Form ACA 1345, Report of Physical Examination for Student and Private Pilots, has heretofore stipulated that application for the examination be made to any licensed physician (M. D.) in active practice. Inasmuch as there appears to be physicians other than M. D.'s who are properly licensed, equipped, and fully capable of conducting this examination, the Form ACA 1345 has been revised, deleting reference to M. D.

Inspectors may therefore accept a medical certificate from an applicant where such certificate has been executed by any doctor of medicine or doctor of osteopathy licensed to practice under the laws of the State involved (Safety Regulation Instruction No. 206, Civil Aeronautics Administration, Department of Commerce).

The case of *Howerton* v. *District of Columbia* held:

The science of osteopathy has become sufficiently established to justify the classification of its practitioners within the exception to the act, "regular practicing physican" (52 App. D. C. 230, 289 Fed. 628 (1923), construing Act of May 2, 1918 (40 Stat. 560)).

Stedman's Medical Dictionary definition of osteopathy reads: "Osteopathy. A school of medicine based upon the theory that the normal body, when in correct adjustment, is a vital machine capable of making its own remedies against infections and other toxic conditions. The office of the physician of this school is to search for, and when found, to remove, if possible, any peculiar condition in joint, tissues, diet, or environment which are factors in destroying the natural resistance. The measures upon which he relies to effect this end are physical, hygienic, medicinal, and surgical, while relying chiefly on manipulation."

No congressional definition of physician excludes osteopathic physician. On the contrary, Congress has on a number of occasions specifically included doctors of osteopathy in the term physician (Public

Law 558, 75th Cong., 52 Stat. 586, 5 U. S. C. A. 790; Public Law 658, 79th Cong., 60 Stat. 904, 5 U. S. C. A. 150).

In conclusion, I would like to say that in the early part of my testimony, I adverted to certain letters from the chairman of the House Ways and Means Committee and the Commissioner of Social Security. I ask that they be inserted in the record following my remarks.

Senator MILLIKIN. Mr. Chairman, I see that Mr. Cohen has returned.

Mr. Cohen, why has the security agency held that the terms "medical care" and "hospitalization" as used in the Social Security Act do not include services of doctors of osteopathy?

Mr. COHEN (Wilbur J. Cohen, special assistant to Commissioner for Social Security). I believe you have reference there to the provisions of title V on maternal and child health and crippled children.

The CHAIRMAN. That is correct.

Mr. COHEN. It is my understanding, if I recollect correctly, that the position that was taken was that Congress did not specifically, as it had in other statutes, include osteopathy.

Senator MILLIKIN. Does the agency object to the inclusion of osteopathy?

Mr. COHEN. I believe that at the time this action that is referred to took place the agency did take that position.

Senator MILLIKIN. Has not Dr. Altmeyer recently stated that the osteopaths would not be discriminated against?

Mr. COHEN. I don't recollect whether that is in reference to the same matter that we are talking about today or not.

Senator MILLIKIN. Then do you recommend that if it is the view of this committee and of the Congress that osteopaths should be included, we should spell it out? Is that correct?

Mr. COHEN. Yes, sir. If the policy decision of the Congress is that it should be included, then I think it should be done by statute.

Dr. STARKS. The letter from the chairman of the Ways and Means Committee indicates that the bill includes osteopathic services as "medical care" and says Commissioner Altmeyer has given assurance against discrimination. The Commissioner's letter says he believes the bill does not discriminate.

Mr. Chairman, the sincerity of these gentlemen is not questioned. However, similar assurances also were given at the time of the adoption of the Social Security Act in 1935. For example, under date of February 20, 1935, the legislative chairman of the New Mexico Association of Osteopathic Physicians and Surgeons, Dr. McCune, wrote to Mr. Harry L. Hopkins, a member of the Committee on Economic Security which sponsored the original Social Security Act as follows:

DEAR SIR: Referring to the Economic Security Act which I am informed is now pending in Congress, I, as chairman of the legislative council of the New Mexico Association of Osteopathic Physicians and Surgeons, am asking if you will be so kind as to lend your influence to the end that nothing shall be written into this act at the time of its passage and approval, concerning health supervision, which would admit it to be construed as a preference to any school of practice.

We wish particularly that no regulation shall be incorporated in this act which would indicate congressional intention of a discriminatory nature as between practitioners of the various schools of healing practice.

Yours very sincerely,

CAROLINE C. MCCUNE, D. O.,
Legislative Chairman

Under date of February 27, 1935, Dr. McCune received a reply from the executive director of the Committee on Economic Security as follows:

DEAR DR. MCCUNE: Hon. Harry L. Hopkins, the Federal Emergency Relief Administrator, who is a member of this committee, has asked us to answer and reply to your letter of February 20 in which you urge that the Economic Security Act make no discriminations between different groups of physicians and surgeons.

We can assure you that there is no such discrimination provision in this bill.

Appreciating your interest in this very important matter we are,

Sincerely yours,

COMMITTEE ON ECONOMIC SECURITY,
EDWIN E. WITTE,
Executive Director.

The Federal administrative agency took a contrary view, as I have described.

The Social Security Act is administered in every Middlesex village and town. If the terms "physician" and "medical care" and "hospitalization" include the services of osteopathic physicians and hospitals, then the people entitled to benefits under the Social Security Act and the administrators at all levels are entitled to know it, and it is respectfully submitted that the only conclusive vehicle for conveying that information is by express inclusion in the context of the law, as our suggested amendments provide.

Mr. Chairman, that completes my statement. I want to assure you that the Colorado Osteopathic Association and the American Osteopathic Association stand ready to cooperate in any way possible with your committee in regard to this legislation, or any other, to the best of their ability.

I want to thank you very much for your consideration.

The CHAIRMAN. Thank you very much, Doctor. You referred to two letters from the chairman of the House Ways and Means Committee and the Commissioner of Social Security. If you will hand them to the reporter, they will be incorporated in the record following your statement.

Are there any questions?

Senator MILLIKIN. I am glad to see you, Doctor.

Senator JOHNSON. I appreciate the chairman's assistance in making it possible for Dr. Starks to appear here. He got his application in just a little late, and we had to have a special dispensation to make the arrangements.

I do want to thank the chairman for making those arrangements.

The CHAIRMAN. We were very glad to have you appear, Doctor.

Dr. STARKS. I want to thank the Chairman, too.

(The letters submitted by Dr. Starks for the record follow:)

COMMITTEE ON WAYS AND MEANS,
HOUSE OF REPRESENTATIVES,
Washington, D. C., August 22, 1949.

Hon. NOAH M. MASON,
House of Representatives, Washington, D. C.

MY DEAR COLLEAGUE: This is in reply to your letter of August 18 concerning osteopaths under the public assistance provisions of H. R. 6000.

I have discussed this matter with representatives of the Social Security Administration and have been assured by Mr. Altmeyer, the Commissioner, that the term "medical care" will not be interpreted to discriminate against osteopaths.

In order to make it absolutely clear that the term will be interpreted in this way, the following sentence has been included in the committee report:

"The term 'medical care' is not defined in the bill. Since medical care is to be provided in accordance with State plans, the term includes medical services provided by any person authorized by State law to render such services."

Sincerely yours,

(Signed) R. L. Doughton,
(Typed) R. L. DOUGHTON,
Chairman

FEDERAL SECURITY AGENCY,
Washington, August 22, 1939

Hon. NOAH M. MASON,
House of Representatives,
Washington 25, D. C.

DEAR MR. MASON: I have read your letter to Mr. Doughton, dated August 18, and Mr. Gourley's letter to you, dated August 17, copies of which you were kind enough to send to us, dealing with the matter of the status of osteopathic physicians under the public-assistance provisions of H. R. 6000.

The term "medical care" as used in the bill with reference to State plans of public assistance is not a defined term. The term, therefore, means such medical services as may be provided under the State plan by such persons as are authorized by State law to give such services. In view of this fact, we do not believe that the bill discriminates against practitioners of osteopathy or osteopathic patients.

We would have no objection to this information being included in the committee report or in a statement by the chairman of the committee when the bill comes up for debate.

Sincerely yours,

A. J. ALTMEYER, *Commissioner*

The CHAIRMAN. Miss Emily C. Hammond?

STATEMENT OF EMILY CUYLER HAMMOND, BALTIMORE, MD.

Miss HAMMOND. Mr. Chairman, I will proceed just as rapidly as I possibly can.

The CHAIRMAN. We do not want to be rude at all, but you will accommodate us by being as brief as you can.

Miss HAMMOND. I will be just as brief as possible.

I have a statement which I would like to have incorporated in the record. It is short. I will start it and skip certain sections.

The CHAIRMAN. Your whole statement will be incorporated in the record as you have prepared it.

Miss HAMMOND. Thank you.

My name is Emily Cuyler Hammond.

I am here as a private, individual American, representing no other individual or group, to testify against H. R. 6000 on the basis of 19 years' study of social security at home and in Europe. I am at present preparing a book on security or freedom in America.

Mr. Chairman, I shall give you, if I may, first a résumé of the rather unique experience from which I draw my conclusions; second, the reasons I believe the Social Security Act to be a misnomer and H. R. 6000 to offer no real security; and, third, an outline of recommendations for a self-supporting, pay-as-you-go American pension program.

In 1931, when the depression posed the question of what to do about those who could not take care of themselves, I went to Germany, on my own account, to investigate the whole field of social security from the point of view of the individual.

I chose Germany because, since Bismarck started the social-insurance movement back in 1883, the country had had time to assimilate its benefits, and the principle of insurance, it seemed to me, was more consistent with American tradition than the dole. I confidently expected to find the contributory German system a shield to human dignity as against the humiliation of public relief.

After studying the Bismarckian social insurances at the University of Heidelberg, I made an investigation of those laws in operation in a number of the great industrial centers, in cities, small towns, and rural areas. I interviewed Government officials in charge of the various programs on the Reich, Province, and municipal levels, and inspected their institutions, hospitals, low-cost housing projects, work relief projects, work camps, or whatever.

I talked to politicians, doctors, employers, and labor leaders. Most important of all, I talked to people covered by the laws. Wherever possible, I lived in workers' houses or in the home of some other Reich beneficiary or pensioner—because I wanted to find out the impact of these insurance laws on the individual German.

The first thing that impressed me as significant was that German social insurance was "insurance" in name only. It reality it was a money-raising device on the one hand and a Reich-subsidized handout on the other, given and taken as a "right" in exchange for freedom of action.

Government officials at all levels looked upon "das volk" as unable to take care of themselves. Generally speaking, they assumed that the more reichsmark they were able to dispense in subsidy to industry and agriculture and in benefits to the people, the less "trouble" there would be.

As Bismarck had introduced "social insurance" to buy off labor revolt spear-headed by the Socialists, so Weimar's Social Democratic and successive leftists regimes liberalized "social insurance" in an attempt to buy off Communist or Fascist revolution. In 1931 and 1932, Bruning's Center Party was caught holding the bag.

The vast majority of the Germans with whom I talked, concerned with the administration of the so-called social insurances—with a few notable exceptions—expressed their own selfish interests. The enormous, bloated bureaucracy whose members owed their jobs to the system was for it at all costs. The higher the official the rosier the glasses through which he viewed the welfare state.

Physicians with large outside practices looked darkly upon health insurance, declaring that it destroyed the doctor-patient relationship; those less proficient were grateful for its guarantee of their livelihood, proclaiming loudly the people's need.

Employers were divided and profoundly disturbed. For the most part they clung to the belief that social insurance was the purchase price of labor peace—and cheap at that, if it gave value received. But with the depression, the increasing burden of the Republic's "insurance" and welfare taxes had become so intolerable as further to reduce over-all production and everybody—employers, employees, and beneficiaries—had smaller pieces of the pie.

Desperate employers watching the growth of communism in their factories, among the ranks of the unemployed, and in the Reichstag, and listening to a mountebank promising to put the ancient German

gods to work to start the wheels of production again, committed the crime of backing Adolf Hitler.

Labor leaders, who had abdicated their effective power by advocating federal responsibility for the workers' welfare, boasted that it was really trade-unionism that had brought the social insurance into being, complained that the Government was not doing enough, but had no solution to offer as to how it might do more and remain solvent.

All these donors of social security deluded themselves on the people's reaction. The people, the beneficiaries of so much for so little, reacted quite differently from what was expected of them.

During those last years of the Weimar Republic's existence, the average German, I discovered, was not a free human being whose dignity was protected by his alleged "insurance" right to assistance in case of ill health, unemployment, disability, or old age. He was a state serf, cringing and conforming in the presence of officialdom; carping and cheating behind the back of the law; doing the minimum required of him; devoid of personal initiative, incapable of independent reasoning; blaming the Government for everything that went wrong. And no wonder.

The average German, under the Weimar Welfare Republic, did not have to think for himself or plan for his future. He was dependent on the fatherland, directly or indirectly, for his vocational training, for his employment and unemployment compensation; for his, his wife's, and his children's health; for any accident or disability that might befall any of them; or his old age; for his burial; for his survivors.

Having to make few important decisions for himself in day-to-day life, he could hardly be expected to know what to do in time of crisis. Just as his wife and his children could have little respect for the husband and father who ran to the Government for every need, so, in turn, he could have little faith in the paternalistic state unable to solve its own problems. The fatherland's various social-insurance "funds" had been broke so often that the fiction of reserves was no longer taken seriously. But when the Government exhibited its innate weakness by ruling by edict, the confused and harassed serf naturally turned to whomever most convincingly promised him a way out of his dilemma.

Mr. Chairman, I am convinced that Bismarckian social security in its political deceit, basing "rights" on token contributions, robbing the people of initiative and responsibility, reducing production by back-breaking taxation, necessitating ever-more-centralized Government controls, was the essential underlying cause of the failure of the Weimar Welfare Republic—and, incidentally, of Hitler's rise to power.

In December 1933, after making a comparative study of "security" under the Nazis, I came home, and in August 1935 witnessed, to my horror, my country following in the footsteps of Germany, embarking on a course I felt to be fraught with disaster. The Social Security Act was sponsored by men and women wanting to do good by their fellow men. Yet, there seemed to be not the slightest question of the wisdom of adopting a foreign concept or of copying a foreign system in extravagant detail which, however utopian it sounded in theory, had been proven in practice to be economically unsound. Whenever I brought up the point of the collapse of the Weimar Welfare Republic, the answer was: "Oh, that could only happen in Germany. The Germans are sheep. It couldn't happen here—or anywhere else."

In July 1937, I went back to Europe; and, from that time until the war brought me home again, I made a comparative study of social security in its social, economic, cultural, collective, and political aspects in France, Germany again, Poland, Austria, Hungary, Czechoslovakia, Switzerland, Italy, Albania, and Greece. Everywhere I found that the same cause resulted in the same effect: To the extent that a government took responsibility from the individual through "social security," to that extent the individual had lost his personal freedom and initiative. Social security was the barometer of dictatorship.

Since the war, I have made surveys in a number of States, to gather material for my book. Wanting to estimate the effect of Bismarckian social security on the individual American, I have talked to beneficiaries in their own homes, usually by a random ringing of doorbells in working-class districts. After allaying the initial dreadful suspicion that I might be a social worker coming to spy and after taking an oath that I would never divulge identity, I have encountered remarkable candor.

Although Europe was suffering varying degrees of depression when I was there, and we have been enjoying relatively high employment here, nevertheless I have the uncanny feeling that I am redreaming an old dream. There is the same sneering at the Government for not giving enough, the same boasting of chiseling with the easy: "Everybody else gets away with it, why shouldn't I?"

But there is a difference: There are still Americans who would rather suffer hardship than either undergo a needs test or cheat to get something for nothing. There is also a healthy questioning as to whether the law itself is not unjust and whether, after all, it would not be better to exchange alleged future security for an honest dollar.

Insecure democracy: Mr. Chairman, I am opposed to the present Social Security Act and to H. R. 6000 because OASI is un-American economically and ideologically. It will lead to statism here as it did in country after country in Europe—unless it is stopped now.

I submit, Mr. Chairman, that we cannot exact laws which undermine individual responsibility and expect to survive as a free people.

I shall not dwell upon the fictitious fund, the face of double taxation; the burden on industry passed on to the consumer in inflationary prices; the expense of an expanding bureaucracy tending unnecessary wage records; or the precariously mounting cost of H. R. 6000. I should prefer to concentrate on the effect of the injustices of the law on the individual American.

OASI is dishonest in principle and performance. Its avowed purpose is to protect the dignity of the individual. It proceeds to try to fool the individual into believing that, by his compulsory contributions, he is paying his own way for security in old age. This is not true; the people in increasing numbers know it; and their dignity is not protected by the pretense. On the contrary—

There is neither dignity nor justice in a $20,000 windfall—a hand-out from the public purse—to a $50,000-a-year executive employee. And the same goes for the hand-outs right on down the line to the unhappy compulsory contributor who misses insured status by a quarter and has to undergo a needs test to qualify for assistance.

According to Mr. Myers at the Agency, at the end of 1949, of the 80.4 million who had contributed into OASI, 36.7 million lacked insured status.

Senator MILLIKIN. Would you mind stating that again?

Miss HAMMOND. At the end of 1949, according to Mr. Myers, of the 80.4 million who had contributed into OASI, 36.7 million lacked insured status. Even under the lighter coverage of H. R. 6000, "15 or 20 million" of the gainfully employed would remain uncovered—not to mention those who would lose or never acquire "status."

In other words, OASI fails of its purpose: As a hand-out, it undermines the self-respect of those who could save for themselves, and offers no protection at all to those who need it most.

This has created doubt in the minds of many people as to the justice of the law. Why, they ask, should some who have worked diligently all their lives have to undergo the indignity of a needs test while others may receive windfall benefits whether they need them or not? Why should contributions ever have to be forfeited? Why should the Government want anyone to stop working?

Mr. Chairman, we cannot have apparently unjust laws and honest citizens.

(The material deleted from the prepared statement follows:)

INSECURE DEMOCRACY

I am opposed to the present Social Security Act and H. R. 6000 because—

I. Old-age and survivors insurance is a foreign concept unsuited to American needs. It is reactionary, discriminatory, and undemocratic. As it robbed the new industrial masses of initiative and responsibility in country after country in Europe, it will, if allowed to continue, do the same thing here.

Mr. Chairman, I submit: We cannot enact foreign laws which limit individual freedom and expect to survive as a free people.

II. OASI is dishonest in principle. It fools the people into believing that, through their compulsory contributions, they are paying their own way for security in old age. This is not true. OASI is an "insurance" in name only. As with old-age insurance in German, it is a money-raising device on the one hand and a federally subsidized old-age benefit program for selected classes of the population on the other.

In addition, while offering a benefit bargain, OASI sells a potential bill of goods in that there is no one who can accurately predict the purchasing power of the dollar 10 or 20 years hence. Capricious changing of the benefit formula only accents the farce of the arbitrary relationship of benefits to contributions.

H. R. 6000 in no way corrects the essential although undoubtely unintentional deception of the original act.

III. OASI is unjust in performance. It awards "windfall" benefits to some who have acquired insured status, while to others who have contributed just short of this lucky state of being, the act says: "You have forfeited your rights. The Treasury will not return your money. If you are in need, prove it: Go to your local State agency and apply to take a needs test for public assistance."

Under H. R. 6000, a $50,000-a-year executive who has been covered for the last 17 years may receive, if he retires at 65 in 1960, an OASI pension of $70 a month. With a total contribution over 23 years of $1,110 he may expect to receive $13,625, if he is single. If he is married to a wife his own age, he may expect to receive $21,486 for that same $1,110 contribution. Quite a nice "windfall" for a wealthy men to receive at public expense. And yet, under H. R. 6000, the man or woman who falls short of insured status, even by no fault of his own, forfeits his contributions and, if he is in need, must undergo the needs test.

OASI also unjustly divides American citizens into separate classes: the deserving and nondeserving of pension rights. On January 1, 1950, of the total 11,200,000 aged not in institutions, a total of 1,900,000 men and women were receiving OASI pensions as a matter of right whether they needed it or not. Of these, 200,000 were also receiving public assistance. A total of 2,500,000 other men and women were receiving public assistance on the basis of a needs test.

Even under the far wider coverage of H. R. 6000 the present aged are not allotted the privilege of pension rights.

The whole administration of OASI, with its complicated formulas, its rules and regulations and innumerable discriminations, creates doubt in the minds of many people as to the justice of the law. Why, they ask, should some who have worked diligently all their lives have to undergo the indignity of a needs test; while others may receive "windfall" benefits whether they need them or not? Why should contributions ever have to be forfeited? Why should the Government want anyone to stop working?

Mr. Chairman, we cannot have unjust laws and honest citizens.

IV. OASI is unsound economically. The fund which must be invested in Government obligations is a constant temptation of wasteful Federal spending. When benefits fall due, the Government must tax the people again to obtain the money to pay the benefits. (Parenthetically, when I was in Poland, the rumor persisted that the steamships *Pilsudski* and *Batory* were built out of old-age insurance funds. Had not the war intervened, the Government would have had to tax the people again to obtain the cash to pay the benefits. It would have amounted to double taxation.) It will amount to double taxation here if the system is not changed.

OASI is unsound fundamentally insofar as it reduces over-all production by discouraging old people from working; burdens industry with unnecessary costs; and maintains a large bureaucracy of nonproducers, maintaining unnecessary wage records.

Future OASI costs—expected under H. R. 6000 to more than double in 10 years and to increase by almost five times in 20 years—broach the question as to whether we have the right to impose such a load on the next generation.

Miss HAMMOND. Public assistance, financed by Federal grants-in-aid, which has mushroomed in recent years to a grotesque fungus is deplorable for three reasons: A. The needs test. B. Increasing costs. C. The increasing Federal penetration in a field I believe the fathers of our country never intended the Federal Government to enter.

I take it to be axiomatic that in a free society the individual is expected to earn his own bread and butter. When the individual fails, his family is next in line to look out for him; when his family fails, or he has no family, his church or his community takes over; when his church or his own community fails, the State takes over; and when the State wants more money, it cries to Washington.

The number of representatives of State agencies who have come into this room professing a desire for greater "insurance" coverage and at the same time holding out their hands for more grants-in-aid, is an indication of failure of the family, the church, the community and the State itself.

The more Federal money made available for the needy, the more needy there will be. Eventually, the more needy there are dependent on the Federal Government, the less Federal money there will be.

There will come a day of reckoning, as there has come to every other welfare state in history—unless, of course, the President of the United States should care to go with hat in hand to UNESCO or the world federalists asking grants-in-aid for crippled children, and needy blind, and aged among the cotton growers of Georgia, the apple growers of Virginia, the farmers and workers of Colorado, Ohio, Texas, and Maine, the once self-respecting citizens of our 48 States.

We Americans as individuals have already delegated too many of our prerogatives. The delegation of love of our neighbors, and of kindness to our neighbors' crippled children and other disabled members of our communities is in fact impossible. Love and kindness cannot be reduced to a benefit formula, nor to a price-of-living budget. Assistance should stay with the local community and receive not a penny of Federal aid.

Disability allowances as proposed by H. R. 6000 would bring the Federal Government into private homes in a manner never envisioned by the far-sighted writers of our Constitution. The constitutional consideration, the diagnostic difficulties, the problem of enforcement, and the political ramifications should be sufficient to make it unthinkable.

The H. R. 6000 redefinition of "employee" and proposal to include the self-employed under OASI would only undermine the independence of that many more of our citizens and hasten the day of an American Welfare republic.

Speaking for myself, I want to stay out. I emplore this committee to protect the rights of those Americans who wish to face the risks of life on their own.

Mr. Chairman, because I do earnestly believe that we as a nation are well on our way to losing our birthright of freedom, lured by the illusion of "security," I respectfully ask your committee's consideration of the following recommendations:

I. That the present Social Security Act be repealed in its entirety.

II. That the present Social Security Act be replaced by an honest responsible pay-as-you-go system under which—

A. Every American citizen would pay an income tax of 3 percent on the first $5,000 of income, without exemptions, for aid to the aged.

B. Every American citizen at the age of 65 would receive a flat amount, tied to the changing cost of a bare living, $35 a month to start, without a means or a work test.

C. State and local agencies would have the responsibility of caring for the disabled, for orphans and children in broken homes; and of subsidizing especially needy cases of aged.

D. The individual would have the responsibility of saving—by whatever means he saw fit—for his old age and his survivors. He would be free to work as long as he is able, to contribute to his own and his neighbor's fuller life.

III. That a special commission be appointed to make an exhaustive study of the costs of a universal, nondiscriminatory, democratic pay-as-you-go system of aid to the aged; and of the possibility of keeping both the necessary taxes and payments down to the State level. It is true that State income tax set-ups would complicate the problem of interstate payments. But so is democracy more complicated than dictatorship.

Cutting through the thicket of complexities of OASI—the benefit formulas, the qualifications, disqualifications, inadequate contributions, increment factors, windfall benefits, innumerable discriminations, and who has a right to what—our problem is simply this:

We want to make decent provision for those who cannot take care of themselves, without undermining the responsibility and initiative of those who can. There is a very fine line which divides too much from too little assistance. Too little means poverty, disease, death. Too much means serfdom. It saps individual self-respect and initiative, breeds indolence, and eventual revolution from the right or the left. The small tax credit I suggest for all American citizens at the age of 65 would serve as a margin of error. It would be a first line of protection for those who had little or nothing. It would eliminate the temptation to cheat and to beg for more and more and more from

the Government because the working and producing taxpayers in a pay-as-you-go system would always outnumber the voting recipients. It would not undermine incentive to work or to save but would return responsibility to the individual, where, in a free country, it belongs. In the long run, it would be cheaper, more efficient, more equitable, and more democratic.

I would just like to make one remark and that is that if this committee should report out H. R. 6000, doubling benefits, the possibility of a return to a sound system would be that much more difficult.

I want to thank you very much for the privilege of appearing.

The CHAIRMAN. Thank you very much, Miss Hammond, for your appearance and your contribution.

Miss HAMMOND. Thank you.

The CHAIRMAN. Miss Wright? Will you have a seat, please? You happen to be the last witness.

STATEMENT OF MISS IMOGENE B. WRIGHT, WASHINGTON, D. C.

Miss WRIGHT. Yes. This will only take me 7 minutes.

The CHAIRMAN. You are from Washington?

Miss WRIGHT. Yes.

The CHAIRMAN. And you are Miss Imogene B. Wright; is that the name?

Miss WRIGHT. That is right.

The CHAIRMAN. You may proceed with your statement.

Miss WRIGHT. Mr. Chairman and Senators of the Finance Committee, I am Imogene Wright, a waitress in one of Washington's larger hotels. I have been asked to furnish your committee information as to how tips of waitresses may be taxed for social-security purposes, and how the girls of the waitressing profession in general feel about the subject of tips and taxes.

In procuring the data and information for the compilation and production of my book, I interviewed over 100 girls who work in shops in Washington, Boston, and New York. The word picture I have thus put together seems about as complete and all-inclusive as any that has ever been published.

I think I should start with the over-all picture of tipping in the United States insofar as public eating places are concerned. My estimate, which is based on the most authoritative research work I have been able to locate, is that there are approximately 3,000,000 working waiters and waitresses in this country, and that these 3,000,000-odd serves receive tips, or gratuities, aggregating about $7,250,000 a day, based on the average taken from the research of our union which puts the waiter's or waitress' tips at $2.75 a day.

The average restaurant worker puts in about 280 days a year. We arrive at this figure by allowing him 1 day a week off, 2 weeks for vacation and 20 days off without pay or tips for sickness or personal business.

Multiply this $7,250,000 by 280 days and we get a probable grand total of $2,030,000,000 a year in tips, which would be taxable for social-security purposes if a way could be found to do it.

My estimate of the number of waiters and waitresses in the United States is based on a statement by the National Restaurant Association

in a recent bulletin, that there are about 525,000 public eating places in the United States and that 25 percent of America's meals are eaten outside the home.

The number of servers in these public eating places run all the way from one or two waitresses, in a small place, to over a hundred in some of the larger hotels and eating establishments. Restaurant association experts estimate that the average is between 8 and 10 servers for each restaurant.

I am sure that six would be a conserative figure—one which is not overstating the case. This would bring the total number of waiters and waitresses in these 525,000 establishments to 3,150,000—or $3,000,000 in round numbers.

From the best source of information available, I believe an estimate of $2.75 a day is a fair one for tips of the average waiter or waitress in the United States. I base this figure on the testimony of Mr. Charles E. Sands, the representative of the Hotel and Restaurant Employees International Union.

This union is a very efficient organization. It has the best of research workers and ideal facilities for this research. It has locals in 800 cities. I do not see how anyone can go behind Mr. Sands' figures.

These figures are that some workers in small restaurants may take in as low as 50 cents a day, while those in larger and better places will run all the way up to $4 or $5. By averaging these figures the best way you can, we get $2.75 a day. Multiply this by 3,000,000 workers and you get 7¼ million dollars a day in tips—$2,030,000,000 a year on the 280-day basis. In my opinion there are three ways in which this 2 billion can be taxed.

Way No. 1 would be to adopt the European system of having the establishment add 10 percent or 15 percent to the guest's check, to be paid the server as tips—just as restaurants in many places in the United States add 2 percent or 3 percent to the guest's check to be paid the State or city as a sales tax. I give these two different tip levels because tips will vary not only as between different communities and different sections of the country but as between different establishments in the same community.

Way No. 2 would be for Congress to pass minimum-wage laws for employees now depending on tips for the bulk of their take-home pay. I realize that, in order to do this, the prices on the menus would have to be raised accordingly. The establishment must make income meet outgo, but the consumer will pay in the end, just as the consumer always does.

Way No. 3 would be for Congress to enact a special social-security law for workers who must depend on tips for a living wage, patterned along the lines of the Civil Service Retirement Act. A standard level for tips would have to be set at, say, $2 a day. The employer would deduct 6 percent—or 12 cents per day—as the tax on tips from each weekly check paid the worker by the employer. This would be paid to the Government, along with 6 percent of the basic wage, for their social-security retirement fund. These tip workers would start drawing a retirement wage at 60 or 62, just as the Government worker does now, and based on the same method of computation.

It is my observation that a majority of waitresses would like to see tipping abolished and a minimum wage substituted. Most of us agree with our union representative, Mr. Sands, when he said:

> We believe our employees, our members, should be paid an adequate wage or commission so they would not be forced to take tips.

And now, gentlemen, to be perfectly blunt, we feel that H. R. 6000 was sent down to Congress as a red herring. We do not believe that those who conceived the bill sincerely believe they can ever tax all the tips of tip workers under the present system, because that would involve making over 3,000,000 people tell the truth. Rather, we believe this proposal was inspired or written by the Internal Revenue people to make this class of workers declare all their tips so they can be checked on for income-tax purposes.

To sum it all up, we of the waitressing profession think the proposal to tax our tips for social-security purposes is a very good one. We hope the Congress can and will work out a plan—with the cooperation and help of the employers and the workers—that will be satisfactory all around.

We hope you can give the waitressing profession, and with it our allied workers, the waiters, the feeling that those of us who live to be 60 will be as well taken care of in our declining years as the workers in the more and better fixed salary brackets.

We thank you very, very much.

The CHAIRMAN. Your appearance here at this time reminds us that we have not had lunch.

Senator MILLIKIN. I would like to ask one question.

The CHAIRMAN. Yes, Senator Millikin?

Senator MILLIKIN. If this were done, would you be embarrassing the estimates that are made by the waiters and waitresses as to their incomes for purposes of the income tax? I mean, there the tips are usually played down. Here, you play them up. I mean, would you be double-crossing yourself somewhere along the line?

Miss WRIGHT. Well, I am only going by the figures that I took from someone else.

Senator MILLIKIN. I see.

Miss WRIGHT. I didn't say as to how much any girl would make. That I can't say. No one can say. I only know how much I make.

Senator MILLIKIN. I think your answer was a very good one.

The CHAIRMAN. Thank you very much.

(The following statements and letters were submitted for the record:)

STATEMENT OF SENATOR LISTER HILL OF ALABAMA

Mr. Chairman and gentlemen of the committee, H. R. 6000 proposes desirable and much needed revision of the Nation's social-security program to meet the growing, changing demands and needs of the American people. I strongly supported the original Social Security Act of 1935. I joined in sponsoring those liberalizing amendments to the Social Security Act that have been enacted. And I am asking for the extension and expansion of social security.

I am addressing the committee at this time, however, with particular reference to the maternal and child health services and services for crippled children.

H. R. 6000 as it was passed by the House of Representatives in the last session of Congress does not include authorization for increasing the funds for these programs but leaves them at their present levels. I urge the committee to amend H. R. 6000 and authorize adequate funds to meet the urgent and growing need for these services. I urge the committee to increase the authorization of

funds for the work of the Children's Bureau in child welfare and child parent relationships.

The United States has seen a phenomenal increase in its child population during the last 10 years. The number of children under 5 years of age has nearly doubled. The 46,000,000 children in the country now constitute almost a third of the Nation's population.

Along with the sharp rise in the number of births, the cost of medical and health services has increased. As a result, the whole structure of State services for maternal and child health and for crippled children is threatened.

At no time has any State been able to furnish complete and State-wide maternal and child health services. Now 22 States have had to curtail the services they do provide.

We know the value of the maternal and child health services and the progress made under these programs. Since 1935 when the Social Security Act was passed maternal mortality has dropped 77 percent and infant mortality has declined 32 percent.

Curtailment of these vital services at a time when births and child population is increasing so sharply is literally a matter of life and death to the mothers and infants of America.

When the services are curtailed, the rural and low-income areas are the first to be affected. Yet this is where the services are most needed.

Half of the children in the United States are borne into one-sixth of the families. Generally these are young families whose maximum earning capacity has not yet been reached.

The States that are rich in children are the low-income States without financial resources to support adequate services for mothers and children. Mississippi, for example, has 63 children for every 100 adults. Yet Mississippi has a per capita income of $758 a year. Mississippi's capacity to support services for her mothers and children is considerably less than that of New York, which has 32 children per 100 adults and a per capita income of $1,891.

Despite the steady progress in maternal and child care, the death rates for mothers and children still vary widely in relation to the financial resources of the States. In 1947 the maternal mortality rate in Mississippi—with the lowest per capita income in the country—was more than twice the mortality rate in Nevada, with the highest per capita income.

Increased appropriations can help to correct these disparities because section 502 of the Social Security Act provides, in addition to a flat sum allotted to each State, that additional funds be granted on the basis of the number of live births and the financial need of the States. If the present authorization of $11,000,000 with State matching for the next fiscal year is increased to $22,000,000, the States with higher birth rates and lower per capita income can approach the level of the wealthier States in their maternal and child services.

The present authorization for crippled children's services carried on through the Children's Bureau is $7,500,000. I urge the committee to include in H. R. 6000 the authorization to increase to $22,500,000 the funds for crippled children's services. This is a threefold increase, but the need for preserving and expanding these services is imperative.

Thirty-seven States have reported that their crippled children's programs must be curtailed if additional funds are not available. More than 22,000 crippled children were on waiting lists for treatment in April 1948. By the end of 1948 the number had increased more than 50 percent and it has continued to rise during the past year. Children are being sent home from hospitals, clinics have been discontinued, and other methods of treatment have been abandoned due to inadequate funds.

A half million children are known to have defects requiring orthopedic or plastic treatment, including some 160,000 children with cerebral palsy. Another half million are victims of rheumatic fever. Two hundred thousand have epilepsy. The States have made great progress since the enactment of the Social Security Act in discovering and treating these children. But there are many more afflicted children than those on the records.

Some of the children can be cured. Many of them can be rehabilitated to lead normal, useful lives. Children with spastic type of cerebral palsy can be helped to the point where they can attend school, learn to hold responsible jobs, and take their rightful place in the community.

I am urging the committee to make increased provision for needy dependent children and needy mothers by taking them into consideration under the permanent and total disability provisions of H. R. 6000.

The presence of the mother in the home is essential for the proper care and guidance of young children. Yet disability insurance bears no relation to the number of dependents, and mothers in such families frequently must go to work.

The bill provides for increasing the funds for grants to the States for child welfare from the present $3,500,000 to $7,000,000 a year, and increasing the present $20,000 allotment for each State to $40,000 a year.

With the increase in child population in the United States we can expect a proportionate increase in the problems of child welfare. I hope the committee will further increase to $12,000,000 the authorization for child-welfare grants, to permit the States to expand their programs and employ additional trained staff experts.

There is no duplication of services in the programs provided under the Social Security Act and the other health and medical legislation which I have joined in sponsoring. All of the programs are essential to the health and welfare of our people.

The local public health units bill passed by the Senate will help local and county health offices to strengthen and expand their health services and preventive medicine.

The school health services bill provides for research into child life and the child's social and emotional development.

S. 2591 provides for research into the causes of certain crippling diseases such as multiple sclerosis, cerebral palsy, epilepsy, eye diseases, and others.

Our amendments last year to the Hospital and Health Center Construction Act are enabling the States to build more hospitals and health centers and provide more adequate facilities for the care of mothers and children.

As coauthor of these measures I can say that none of them will fulfill the need for specialized services in the field of maternal and child health and the care of crippled children.

The growth of child population and the increase in births, and the progressive curtailment of the State programs makes it urgent that we fill the gaps in H. R. 6000, broaden and strengthen the services our social-security program provides, and meet the developing need for the care of America's mothers and children.

STATEMENT OF HON. ARTHUR V. WATKINS, UNITED STATES SENATOR FROM UTAH

I have received considerable correspondence from my constituents in Utah as well as from people in other sections of the country on various sections of H. R. 6000. Many of my Utah constituents have found it impracticable to appear before the committee to present their views on many provisions of the proposed law; and, therefore, I am taking this opportunity to present to the committee for their consideration some of the ideas which have been expressed in my correspondence as well as some of my own ideas relating to this proposal.

Let me cite specifically some objections in connection with H. R. 6000:

MINING INDUSTRY

Section 210 (k) (3) (F) and 206 (d) (3) (F) and 210 (k) (4) and 206 (4) (2), if passed by the Congress, will result in the cessation of a large amount of mining in my State as well as in other States.

The changes in these sections would place mine lessors and mine lessees in an employer-employee classification which would be a direct reversal of present laws which recognize the independent status of the parties involved. Now why am I so sure that the adoption of this legislation will result in the cessation of a large segment of the western mining industry?

The mining industry in the State of Utah has gone through just such a period. From 1900 to 1940 mine leasing in the State of Utah flourished. Then the various social agencies in the State of Utah determined that the mine lessees would be better off as employees of the various mining companies rather than as independent businessmen; and, therefore, in 1940 by administrative action all mine lessees in the State of Utah were determined to be employees for the sake of various social-legislation purposes. The result is history. From 1940 until 1944 mine leasing in the State of Utah not only was terminated but almost the entire activity carried on formerly by these groups ceased. Some mining companies endeavored to continue their operation under the employer-employee relationship but found that it was totally uneconomical. Other witnesses before

this committee testifying on this problem have documented these facts, and I subscribe fully to the testimony of Mr. James K. Richardson, Mr. Robert M. Searls and Mr. Ralph Hopes.

The mine lessees themselves oppose their classification as employees. It is my understanding that neither the mine operators nor lessees are opposed to the inclusion of the lessees activity under social security if it is made possible for them to be included voluntarily on the basis of the self-employed category. This is not a situation where people are opposed to a practice, such as was the case of home workers under the wage and hour law, but is merely a question of how to insure the future of a segment of our people. The method contained in the cited sections of H. R. 6000 will not give security to this mine-lessee segment. Quite to the contrary, it will cause instability and unemployment. The far-reaching effect of the approval of the above-cited sections in my State of Utah would be that a number of men now making a very comfortable living would be throw on relief with an immediate loss in excess of $1,000,000 in new capital in the State plus the loss this would occasion to the farmers, grocers, and other merchants right on down the line.

At this point I wish to quote for the record a letter from the self-styled mayor of Alta, Utah, formerly one of the richest mining areas in the State, and the petition mentioned in Mayor Watson's letter:

CITY OF ROMANTIC ALTA, UTAH

EXECUTIVE DEPARTMENT

Mr. JAMES RICHARDSON,
Manager of Utah Mining Association,
Salt Lake City, Utah

DEAR MR. RICHARDSON: I address you at this time to admonish you of the great worry the leasers of this old famous mining camp have.

A few of them came to me today with the enclosed papers and asked me if there wasn't something I could do to help out in not having them put out of business, which they know will happen if our Federal Government passes a law making them employees of the owner or mining company owning the mineral land or mine in which they are leasing.

Therefore I would be much pleased if you would plead their case for them to the powers that be.

I, myself, know hundreds of these old leasers and most of them are expert miners, but many of them cannot qualify to work on company account because of age in many cases and in other cases they have slight disabilities, so they will not only be out of business, but they will have to go on relief.

Trusting you can do something for these men, I am

Sincerely yours,

GEORGE H. WATSON,
Mayor of Romantic Alta.

To Whom It May Concern:

We, the undersigned leasers, prefer leasing because we save thousands of tons of ore, and prospect for new veins and bodies of ore, also old cave-ins that the companies would leave that would never be recovered if it wasn't for a leaser.

Also, we feel free working for ourselves as a leaser which is no more than right in a free country as ours.

Steve Basta, Francis Coupens, Louie Chesnick, Ray Lofthouse, K. Lewis Fields, Bob Basta, Ash Jacobson, Ivan R. Hansen.

This committee and the Congress cannot escape the issue that the mining industry at the present time is a sick industry. An attempt was made by various Members in Congress in which I joined, to assist this industry by the passage of S. 2105, which was defeated just recently in the House. All those who testified in support of this measure stressed the fact that our mining industry was in a very precarious economic condition. Many of the mines are shut down; two of the largest mining areas in the State of Utah—Park City and the West Tintic area are almost 100 percent closed. Foreign imports of cheap concentrates in connection with the so-called reciprocal trade program have contributed to this drastic situation. However, the mining industry is doing its utmost to maintain its properties in workable condition. The products of this industry are vital to our national defense. The mine lessee activity is

insuring, at least, that these mines are kept in stand-by condition. The passage of H. R. 6000 with the above-cited sections included would contribute much toward the complete collapse of our mining industry.

I think it is important, also, to keep in mind that the Advisory Council to the Senate Finance Committee did not recommend enactment of these sections. I, therefore, urge upon the Senate Finance Committee that the amendments sponsored by the American Mining Congress be included in the bill which will be reported to the Senate floor.

PROPRIETOR AND INDEPENDENT CONTRACTOR

Another proposed change included in H. R. 6000 is included in section 210 (K) (2), to specifically change the effect of the United States Supreme Court's holding in *Bartels* v. *Birmingham* (332 U. S. 126). The particular language referred to reads as follows:

"For purposes of this paragraph, if an individual (either alone or as a member of a group) performs service for any other person under a written contract expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person)."

In analyzing this problem I should like to quote a portion of a statement submitted to me by the Ballroom Operators' Association of Utah:

"I believe that a little history of what has happened in this relationship between the traveling band leader and the ballroom operator will help to clarify the matter in your mind.

"Prior to 1941, the ballroom operator signed a contract with the orchestra leader through a booker or agent representing the orchestra leader for his services and the members of his orchestra at the particular ballroom. This contract was called the Form A contract and under its terms, the musicians union contended that the operator was the employer of the orchestra leader and the members of his orchestra. This matter was contested by the ballroom operators and the matter was tried in a Federal court in Chicago. The issue involved was whether or not the Griff Williams orchestra were employees of a Chicago hotel. It is known as the Griff Williams case and inasmuch as I am anxious for you to get this information, I have not taken the time to look it up but could provide it if you deem it necessary. The circuit court of appeals for that area decided that the hotel was not the employer of the Griff Williams orchestra but that Griff Williams was an independent contractor and hence, the employer of the members in his orchestra. The matter was appealed to the Supreme Court who refused to review the case. As a result of this case, the musicians' union then prepared the Form B contract which supplanted the Form A contract. *The only difference in the Form A and the Form B was that the ballroom operator agreed that he was the employer and he was referred to as the employer and he signed the contract over the word 'employer.' This contract went into effect in June or July 1941 and we have had to sign it whether we liked it or not in order to get bands—it was what you might call 'economic pressure.'* [Italics supplied.] We would have to sign the contract whether or not it cited in the contract that we were the mayors of our respective cities but that fact would, of course, not have made us the mayors any more than it made us the employers.

"Immediately after the Griff Williams case, a few ballroom operators, under the name of Midwestern Ballroom Operators Association started the *Bartels* v. *Birmingham* case in Des Moines, Iowa. The United States Supreme Court in June 1947 handed down its decision affirming the point that name bands 'were not the employees of the dance hall or amusement hall operators.' Unbeknown to us and more or less surreptitiously, Mr. Petrillo included in H. R. 6000 the paragraph to which you refer in your letter of February 7 to Mr. Freed which would in effect make null and void the Supreme Court ruling in our favor referred to above and would compel us to pay the tax as employers of these orchestras simply because the contract recited that we had complete control when, as a matter of fact, we do not, and have never had control over these orchestras. Exhibit A contained herein will clarify this matter.

"This H. R. 6000 passed the House before we were even aware of the fact that this particular paragraph was in the bill, hence, we made no attempt to

stop it in the House because we knew nothing of it but we are attempting to see that the matter is properly clarified in the Senate.

"There are two types of orchestras which we employ as ballroom operators. Type 1 is what is known as a local band. This is an orchestra made up of musicians who live in the city or in the area close to the ballroom where they work; generally, they have day jobs and work in the ballroom from time to time when traveling bands are not available or deemed advisable not to use. These orchestras generally play for scale and on this particular type of orchestra, I have always paid title VIII and title IX of the Social Security Act and Unemployment Compensation to the State of Utah. By 'always,' I mean before the Bartels case and after although it is clear that I would not be compelled to under the terms of the Bartels case because the local orchestra leader is also the employer of his musicians. However, because the boys are not getting over scale, from a practical standpoint, it meant that the union would have to raise the scale of the orchestra enough to pay this tax, therefore, arrangements were made with the local union that I would pay the tax on these local bands and the scale was not raised as a result. This is handled similarly by other ballroom operators and where it is not, we, the National Ballroom Operators Association, could very easily see that it was handled this way. These local orchestras do not play any other place, except in their own vicinity and they are not musicians but are organized just as a side-line as their day jobs are their main livelihood and ambitions.

"Type 2 is what is known as the name, or traveling orchestras. This group represents themselves as going concerns and available to anyone who would like to hire them. They travel from one part of the country to the other on annual or semiannual tours. They are represented by a booker who contacts the ballroom operator; they are represented by a personal manager or agent who contacts the bookers for them; they furnish us with publicity; they tell us what type music they play; what radio stations they have played on and what records they have recorded. They inform us on how well they are known and what a big crowd they will draw. This type is broken down into two classes (1) the class that has not yet reached the top and these orchestras receive several hundred to a thousand dollars or so over the scale, and, (2) the class that at one time was in class (1) and has now reached the top and they, of course, receive thousands of dollars in excess of scale."

A similar problem arose in the State of Utah and a brief was filed for refund of unemployment compensation contribution paid under protest on name and traveling bands. I have attached copies of the brief and form contract as exhibits A and B, respectively, for inclusion at this point.

It is also interesting in this case to note that no recommendations of the Advisory Council were included covering this situation. I, therefore, suggest that the second paragraph of the cited section be deleted from the bill when the Senate committee reports it to the floor of the Senate.

TEACHER RETIREMENT

The various school teacher associations in my State have requested that I present their views in connection with the proposed amendments to H. R. 6000 which they feel will jeopardize the established teacher retirement systems which have been operating for nearly 15 years in Utah. These amendments are as follows:

"1. In section 218 under definition strike out (C) of paragraph (5).

"2. In section 218 strike out (d) (1) (line 10, p. 82, through line 17, p. 83) and substitute: '(7) Such agreement shall exclude all public employees in positions covered by a retirement system, as previously defined in subsections (b) (4) of this section.' "

The Utah State Teachers' Retirement Board's spokesman requested me to state as follows:

"This expression represents the almost unanimous opinion of the 8,000 members of our system:

"It is not our intention to deny anyone the benefits of a retirement system. We feel, however, that inasmuch as there is a State-wide teacher retirement system in each State, which systems can, and do meet the requirements of the members of the system better than would social security, these State systems should be protected. We feel, further, that if the door is opened by permissive agreement, some State governments will withdraw their support from the State

system, and transfer the obligation to the Federal Government. The ultimate cost to the taxpayer for a certain benefit is exactly the same, whether it be a Federal system or a State system. However, if one State should discontinue its teacher retirement system, and transfer to social security, other States would be inclined to do the same thing, in order to be on an equal basis."

In addition to the above quotation, the following is a summary of the objections the Utah State Teachers' Retirement Board, which represents all the teachers in the State of Utah, raised to inclusion of teachers under the social security program. They are fully cognizant of the fact that H. R. 6000 provides for voluntary arrangements between the State government and the Social Security Board for social security benefits to be made available to State and local employees. At the present time Utah State Teachers' Retirement System in about nine cases out of ten provides for more liberal benefits at more commensurable rates than contemplated in H. R. 6000. In addition, the social security benefits are not particularly attractive to unmarried workers or to workers without dependents. A large percentage, estimated between 60 to 70 percent of teachers in Utah are women and an even greater percentage have few or no dependents. The social-security system provisions of H. R. 6000 are not as beneficial to these classes as is the State retirement system.

I am informed that there is a State-wide teacher retirement system in every State and Alaska and Hawaii and that the same analysis above set forth is applicable in those States.

At this point I wish to quote a letter from Ray L. Lillywhite, secretary-director of the Utah State Teachers' Retirement Board:

"In Utah, our members contribute an average of 8 percent of their salary to our system. Under social security they would have to pay only 1½ percent, graduated up to approximately 4 percent by 1970. It appears, then, that social security gives more for the money than do the State systems. Perhaps it does at the present time, but a pension on teacher retirement allowance of $100 per month will cost just as much if it comes from the Federal Government as it does from a State or local system. Someone will have to pay the difference if the burden is shifted to Federal social security.

"We know that, at the present time, the members of our retirement system would not vote to go into social security, unless they could also keep the benefits of the present State Teacher Retirement Act. However, we feel that State legislatures would be very much inclined to drop the benefits of the State system, or eliminate them entirely if there was a possibility of shifting the burden, or part of it to the Federal Government. Our teachers would then be forced to vote for social-security coverage, in order to have protection. This agitation would be accelerated as more States transferred from their own State systems to Federal social security.

"Our proposed amendment to H. R. 6000 would exclude our public employees who are in positions now covered by a retirement system, and would thereby prevent any threat by State legislature, as indicated in the paragraph above.

"The teachers of Utah would greatly appreciate your efforts along the lines suggested."

MANUFACTURERS' AGENTS

I have received extensive correspondence from manufacturers' agents, both within and without the State of Utah, calling my attention to the drastic impact of section 210 (A) (1) (8) and section 210 (K) (4) of H. R. 6000. It seems to me that the language in these sections is arbitrary and impractical of application. I recognize that some of these standards have been used in various court decisions to determine the employee-employer relationships for purposes of other social legislation. Many years of litigation would be required to determine all the various implications of such an amendment. It seems to me that if it is to be determined that old-age benefits as well as the other benefits anticipated in H. R. 6000 are necessary for these particular independent merchant classifications that a more satisfactory solution could be reached by permitting them to voluntarily come within the scope of the act as self-employed individuals. This problem is also one closely tied in with the discussion above set forth in connection with mining lessons; and it is interesting to note that the Advisory Council made no recommendation regarding the definition of the term "employee" as contained in H. R. 6000.

Another item I wish to call to the attention of the committee relates to the inclusion of funeral benefits and disability insurance. Section 107 and related

sections of H. R. 6000, in my estimation, are unwarranted extensions of Federal bureaucracy and is a matter which has been and is now satisfactorily handled in the States by private insurance firms. Each State in its Workmen's Compensation Act provides for disability insurance in all degrees, from temporary disability to permanent disability. Extension of the Federal Security Agency into this field would, in my estimation, be an unwarranted invasion of the field of States' rights. I am not opposed to sound programs for the social betterment of the people, and where there are voids in these programs, I think logically the Federal Government might be expected to lead the way in exploring the necessity for such programs. But where satisfactory programs are in existence, being handled by the States or by voluntary organizations, it is very poor judgment, in my opinion, to increase the taxpayers' expense by adding new Government bureaus, more employees and a multitude of new regulations, all of which will merely be superimposed on existing ones. I urge the committee to delete the entire section 107 and all related sections from H. R. 6000 before it is reported to the Senate.

NEWSPAPER ACTIVITY

H. R. 6000, now before the Senate Committee on Finance, contains in section 210 (a) (16) (A) (B) an exemption for newsboys and news vendors identical with that in the present social-security laws.

Ample testimony and evidence has been taken by various congressional committees as to the equity for these exclusions and I urge the Senate committee to retain these exclusions in the bill to be reported to the Senate floor.

Previously in this statement I have called attention to certain specific sections in the bill defining employees. In addition to those specific sections cited, I want to emphasize the importance of retaining the definition of employees as contained in the present social-security laws. In my estimation, to extend the definition of employees as is done in H. R. 6000 now before the committee would open the door to numerous controversies and lawsuits. There is no successful guide to determine the extent of coverage under the proposed definitions.

I stress again the fact that the Advisory Council made no recommendation regarding the amendment of the definition of employee.

NONPROFIT, RELIGIOUS, CHARITABLE, ETC. ORGANIZATIONS

Section 210 (a) (9) proposes to amend the Social Security Act by including employees of nonprofit organizations organized and operated exclusively for religious, charitable, scientific, literary, educational, or humane purposes if such organization is not engaged in substantial lobbying activities and to exclude only licensed, ordained ministers of the church in exercising his ministry or a member of a religious order exercising the duties required by such order.

In addition an entirely new concept is provided. Contributions from the employees are compulsory but those by employers are voluntary. It seems inequitable to have coverage extended to these groups on a basis which would be discriminatory against the employees because of the reduction in benefits as a result of this partial contribution. The Advisory Council made no recommendations as to the discrimination indicated in this section. Undoubtedly certain groups now excluded might wish to be included and it would seem to me that it should be voluntary on their part. In the same manner self-employed are covered. I suggest that the committee seriously consider this aspect of the problem. I further suggest that the proposed longuage as contained in section 210 (a) (9) is too restrictive since it covers some groups which should be excluded.

I have been requested by the Utah Society of Naturopathic Physicians and Surgeons, Inc. to support their position as expressed in a letter of March 8, 1950, to the committee.

This association is desirous of amending 211 (C) (5) by adding the word "Naturopath" immediately following the word "Osteopath." It is the desire of this association that their members practicing naturopathic treatment be excluded from coverage on H. R. 6000 as a self-employed professional group. The amendment suggested to section 211 (C) (5) would accomplish this purpose.

STATEMENT OF HON. JAMES G. POLK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman and members of the committee: I am appearing before your committee today on behalf of the Wilknit Hosiery Co., Inc., of Greenfield, Ohio.

This is a direct-selling company whose hosiery is distributed by approximately 20,000 independent sales people, most of them working only part time.

Subsection 4 on page 51 of the bill H. R. 6000, relating to the definition of the word employee should be stricken from the bill. I refer to lines 4 to 16, inclusive, on page 51, which defines an employee as "(4) any individual who is not an employee under paragraph (1), (2), or (3) of this subsection but who, in the performance of service for any person for remuneration, has, with respect to such service, the status of an employee, as determined by the combined effect of (A) control over the individual, (B) permanency of the relationship, (C) regularity and frequency of performance of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss."

The above definition of the word "employee" is so involved and uncertain in its scope that it is basically undesirable. If retained in the bill, I believe it will result in costly and unnecessary litigation to determine what it means and you will find the courts will be unable to agree on the proper interpretation and application of the definition to specific cases. To retain this complicated definition will, in my judgment, only result in confusion and a large number of lawsuits by individuals suing for benefits or for the establishment of wage credits or to avoid a tax on the self-employed.

I am not a lawyer, but I know there are many able and experienced lawyers on this committee and I am going to suggest to you that in place of subsection 4 you substitute the old and well-understood common-law definition of the word "employee." The common-law definition has been construed by the courts to have a certain definite and well-understood meaning. I strongly urge your favorable consideration of my proposal to restore the common-law rule on who is or is not an employee.

To retain the complicated and unworkable definition of employee in subsection 4 of this bill will work great hardships on many businesses and will give small benefits to the salespeople involved.

In conclusion, may I quote from a letter I have received from Mr. L. Lowell Wilkin, general manager of the Wilknit Hosiery Co., Inc., under date of March 1, 1950:

"We now have approximately 130 local employees, and it takes 2 girls about 2 days a week to keep each employee's record up-to-date. There are approximately 20,000 independent salespeople selling our hosiery (most of them part time). From the preceding figures it takes 4 working days per week to keep 130 employees' records up-to-date. In the case of salespeople we believe that it would take one-fourth that time, which would be only 1 day per week for each 130 employees. In a 5-day week 1 girl could take care of 650 employees. Therefore, we would need 1 extra employee for each new 650 employees. If this bill, H. R. 6000, classes our 20,000 salespeople as employees, it would require over 30 more persons for us to employ locally. Of course, we could not operate.

"We have no control over these 20,000 independent salespeople. They do not even sign their name to applications. Many of them sell various lines of merchandise, and how could tax be figured in these cases? They collect their own profit when they make the sale. No wages are involved. There exists no means by which a wage could be established beyond guesswork, because we are not sure what prices they charge since we require only the "balance due" to be received by us. There are no pay rolls, no rate of pay, and no pay periods. Except in the mind of the salesperson no one knows how much time is put in."

There are no doubt a large number of business concerns in the United States similarly affected by subsection 4 of this bill.

In our effort to increase and extend social-security benefits, and I favor these increases in benefits, we should not harm private enterprise.

It is through employment by private enterprise that the part-time salespeople earn a livelihood. Many of these persons will be unable to secure employment if business concerns like the Wilknit Hosiery Co. are not able to profitably use the services of part-time salespeople.

It is my hope that this committee will eliminate subsection 4, and more clearly define the word "employee" as used in the bill.

DEPARTMENT OF AGRICULTURE,
Washington, January 13, 1950.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate.

DEAR SENATOR GEORGE: This is in reply to your request of October 14, 1949, for a report on H. R. 6000, a bill to extend and improve the Federal old-age and survivors insurance system, to amend the public assistance and child welfare provisions of the Social Security Act, and for other purposes. For the present our comments relate only to those provisions of the bill which affect employees of Farm Credit Administration agencies operating under the supervision of the Department.

At the present time, none of the employees of the Farm Credit institutions (except employees of 116 production credit associations in which a production credit corporation no longer owns any stock) are covered under the Federal old-age and survivors insurance system, since the basic statutes pertaining to these institutions exempt them from the tax imposed by section 1410 of the Internal Revenue Code. However, the employees of the production credit corporations, the Federal Intermediate credit banks, the district banks for cooperatives, Central Bank for Cooperatives, the Federal land banks, and the Federal Farm Mortgage Corporation are covered by the Civil Service Retirement Act. Consequently, the employees of 1,224 national farm loan associations and 387 production credit associations are the only ones working for Farm Credit institutions who are not covered under either one of the retirement systems. On several occasions, the Department has favorably recommended the enactment of legislation which would extend coverage of the Federal old-age and survivors insurance system to the employees of these associations. Section 203 (a) on page 127 of the bill, together with the definitions of employment contained in section 210 of the Social Security Act, and section 1426 (b) of the Internal Revenue Code, as amended by sections 104 (a) and 205 (a) of the bill (p. 34 and p. 136 respectively), would make all national farm loan associations and production credit associations subject to the tax imposed by section 1410, and would cover their employees under the Federal old-age and survivors insurance system. The Department favors these provisions and strongly recommends the inclusion of both groups of associations as a part of the general legislation to broaden the coverage under the Federal old-age and survivors insurance system.

However, under the provisions referred to above, it appears that the Federal land banks inadvertently would also be made subject to the tax and their employees would come under the Federal old-age and survivors insurance system. As indicated above, these employees are presently covered by the civil service retirement system. The Department believes that coverage of these employees under the civil service retirement system should be continued. Simple amendments in lines 12 and 13 on page 37 and lines 11 and 12 on page 139, which would consist of striking the words "which is partly or wholly owned by the United States" would accomplish the desired purpose, and we recommend that such amendments be made. The suggested amendments would have the effect of exempting the Federal land bank employees so long as they are covered by the civil service retirement system, but, if such employees were ever taken out from under the civil service retirement system, they would automatically be subject to the Federal old-age and survivors insurance system.

The Bureau of the Budget advises that, from the standpoint of the program of the President, there is no objection to the submission of this letter.

Sincerely,

CHARLES F. BRANNAN, *Secretary.*

FEDERAL SECURITY AGENCY,
OFFICE OF VOCATIONAL REHABILITATION,
Washington, D. C., March 22, 1950.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR MR. CHAIRMAN: I have followed with considerable interest the hearings that the Committee on Finance has been conducting on H. R. 6000, an act to extend and improve the Federal old-age and survivors insurance system, to amend the public-assistance and child-welfare provisions of the Social Security Act, and for other purposes.

During the course of these hearings, several witnesses, in discussing the problems and needs of disabled persons, have indicated that practically all totally and permanently disabled persons can attain economic security through the State-Federal program of vocational rehabilitation and that the introduction of a contributory program of disability insurance would not be necessary to achieve this objective. Such statements have deeply concerned me and warrant, it seems to me, further clarification. I would appreciate having this letter inserted in the record.

There is no doubt that the rehabilitation of disabled persons so that they might enter upon or return to work and become self-supporting is a sound investment in the conservation of our human resources. At the same time, it must be recognized that persons who come within the category of totally and permanently disabled for all forms of employment represent, in the main, those disabled persons for whom the possibilities of vocational rehabilitation are at present extremely limited or nonexistent. Further, there are certain economic problems associated with total and permanent disablement which cannot be met through the provisions of the existing vocational rehabilitation program. On the basis of the information which follows it is my opinion that permanent and total disability insurance would provide in part for an important and as yet unmet need, and would greatly facilitate the rehabilitation of disabled persons.

One of the major problems confronting disabled persons who are capable of being rehabilitated is the need for financial support for themselves and their dependents between the onset of disablement and the time they are physically and otherwise capable of undergoing rehabilitation. The State-Federal program of vocational rehabilitation does not authorize financial assistance to disabled persons during this period of their disablement. Data from some of our periodic studies of persons rehabilitated by the State agencies point up, at least partially, the extent of this problem.

Sixty-five percent of the 58,020 disabled persons who were rehabilitated by the State agencies during the 1949 fiscal year were reported to have had a prior work history of substantial employment at the time they were interviewed for rehabilitation, whereas 14 percent had never worked, and 21 percent had some work experience that was considered unsubstantial. Ten percent were dependent upon either public or private relief as the major source of support. Twenty-six percent were dependent upon wage earnings, which includes some living on savings from recent earnings as well as those who were currently working (mostly part time) but nevertheless required rehabilitation services to continue their employment or to secure more suitable employment. Some type of insurance benefits were reported as the major source of support for only about 8 percent of the cases—this includes 3 percent whose major source of support was workmen's compensation. An additional 10 percent were dependent upon friends, long-term savings other than insurance, and other miscellaneous sources. Therefore, approximately 46 percent of the total group were dependent upon their families for their major source of support at the time they were interviewed for rehabilitation services. These facts appear even more significant when one considers that close to one-half of the total group had one or more dependents at the time of application for services under the vocational rehabilitation program. As will be pointed out later, it should be kept in mind that only a portion of the 58,020 disabled persons referred to would come within the category of totally and permanently disabled as contained in H. R. 6000.

Another urgent need is that of financial support for the disabled person and his dependents while undergoing vocational rehabilitation. While maintenance is one of the services provided needy disabled persons it is available only in connection with certain other services and solely during the period the individual is receiving such services. For example, an individual may have completed his preparatory services and encounter several months' delay before securing suitable employment. Maintenance would not be available to the disabled individual under the rehabilitation program during this particular period. Perhaps of even greater importance is the fact that even though disabled persons in process of vocational rehabilitation may have dependents, financial assistance for the support of the families of these disabled persons is not available under the program. The lack of adequate financial means of support for disabled persons and their families during the period of rehabilitation not only frequently complicates the development of a suitable plan for the complete rehabilitation of disabled persons, but in many instances may be so serious as to make rehabilitation impossible.

Take, for example, a manual laborer, with two or three dependents, who is found to have tuberculosis in the advanced stage. Such a person would be totally disabled and might remain so permanently. With proper medical treatment and sanatorium care over an extended period of time, there might be some chance for recovery to the point where, with rehabilitation services, he might be returned to some form of employment. He would probably require vocational training as well as guidance and counseling before he could be placed in suitable employment. Although his tuberculosis would be arrested, he would, in order to preserve his health, have to enter employment compatible with his physical condition which in some instances might require sheltered employment. His problem during the sanatorium and postsanatorium period would be complicated by the financial needs of his family. Studies indicate that this is one of the major problems in the treatment and rehabilitation of persons with tuberculosis. The worry of family responsibilities often retards the process of medical recovery Frequently, such persons either do not enter the hospital at all, leave the hospital and return to work before they are physically able, or discontinue rehabilitation services to secure unsuitable work—only to suffer a relapse requiring another period of prolonged hospitalization and possibly leading to an early death. Without some means of financial support for his family during the long period of necessary hospitalization and rehabilitation, this man might never be able to resume his family responsibilities. Disability-insurance benefits would, by providing the necessary economic security for the family, reduce the psychological effects of the prolonged disability and increase the chances of recovery. Although it is recognized that not all victims of tuberculosis would come within the scope of the proposed program of extended disability insurance the above situation would be equally applicable to other types of cases of prolonged disablement.

It was mentioned earlier that although all persons rehabilitated under the State-Federal rehabilitation program have some permanent physical or mental impairment that constitutes a substantial employment handicap, only a small proportion of them would be considered as totally and permanently disabled. Of the total number rehabilitated during the fiscal year 1949, approximately 50 percent were under 31 years of age, and somewhat more than one-third had never worked or had only unsubstantial employment. Data are not available to indicate the number who currently are not accepted for rehabilitation because of the severity of their disablement, advanced age, or who are unable, for physical or other reasons, to apply for and undergo vocational rehabilitation.

At the same time it must be recognized that some persons generally considered to be totally and permanently disabled can be rehabilitated. Some could be prepared to enter the competitive labor market whereas the more severely disabled might be confined to a sheltered type of employment. The State agencies have, in fact, rehabilitated many persons who would be classified as totally and permanently disabled. For example, during the 1949 fiscal year, the State agencies rehabilitated into employment a total of 3,166 blind persons as well as 7,300 persons with such disabilities as multiple amputations, impairment of two or more limbs, and back and spinal injuries, including paraplegics. You may be interested in a specific example or two, as illustrative of such cases. (1) A man totally blind and part of the right arm amputated was supplied with training and equipment necessary to engage in the poultry-raising business, and he now builds his own chicken-breeder equipment and maintains an income sufficient to support his wife and two children. (2) A young man, 24 years of age, injured in an accident which resulted in total paralysis of the lower extremities. He was hospitalized for 1 year with an additional year devoted to training in radio repairing. Necessary equipment was provided him to set up a radio-repair shop in his own home. Without these services he probably would have continued to be totally and permanently incapacitated for gainful employment. (3) A young man with double leg amputations was supplied with artificial legs, training in their use, and institutional training in watch repairing. He is now successfully employed and supporting his wife and children. Without these services he no doubt would be classified as totally and permanently disabled.

Although many persons considered to be totally and permanently disabled could, under the most favorable conditions, be rehabilitated, I believe there would remain a substantial number of such persons for whom vocational rehabilitation would not be possible. This is particularly the case for the older group For example, about two-thirds of all those disabled for 6 months or more are in the 45–65 age group. A large portion of those who might qualify for disability benefits under H. R. 6000 would be older persons with heart or other forms of chronic diseases who could not, even under present economic conditions, be

effectively placed in industry. Even able-bodied workers in the older age groups find it hard to secure new jobs when out of employment for 6 months or more. For totally and permanently disabled workers in similar circumstances, finding employment in the competitive labor market is even more difficult. Although rapid strides are being made in the successful placement of disabled persons in industry, self-employment, and sheltered employment, it may take many years before a significant portion of the totally and permanently disabled are absorbed in the labor market. A contributory disability-insurance program would provide this group with protection against the contingencies of early forced retirement resulting from disablement.

During the process of the hearings some witnesses have indicated that the availability of disability benefits, even when small in amount, would encourage persons to accept benefits rather than undergo vocational rehabilitation. This position is not supported by experience in the administration of the publicly supported program of vocational rehabilitation during the past 30-year period. Within this period a substantial number of disabled persons who were recipients of insurance, workmen's compensation, or similar benefits have been rehabilitated annually. I am sure you will find that the experience of the Veterans' Administration in the vocational rehabilitation of veterans with service-connected disabilities, of both wars, will substantiate our experience. The experience of rehabilitation centers such as the Institute of Rehabilitation and Physical Medicine in New York, curative workshops, and similar facilities, in which many of the patients are beneficiaries of some form of financial assistance, I am sure will provide similar evidence. The fact that industrial compensation insurance carriers utilize these facilities in providing services to beneficiaries and the fact that one insurance carrier has established its own rehabilitation center is another case in point. It is my belief, which I am confident will be confirmed by those administering vocational rehabilitation in the States and other authorities in rehabilitation and allied fields, that disability benefits, especially when modest in amount, would have a positive influence and with few exceptions would facilitate materially the vocational rehabilitation of disabled persons. In fact, in many instances meaning the difference between success or failure.

In addition to providing a source of support for a number of disabled persons undergoing rehabilitation, another way in which a disability insurance program would facilitate vocational rehabilitation is that it would assist in the early referral of disabled persons for services. In this connection, I wish to point out that early provision of vocational rehabilitation services is important in the successful rehabilitation of disabled persons and is therefore important in keeping the number of persons who cannot be rehabilitated at a minimum. Rehabilitation can be more easily accomplished if services to the individual are initiated as soon as possible after the onset of disability—before the disabled person becomes discouraged and apathetic and before he loses his working skills. The problem of reaching disabled persons while they are still in the early stages of disability one that has been somewhat troublesome to the State rehabilitation agencies—would be reduced considerably under a program of disability insurance.

Before closing I wish to point out that the complementary nature of rehabilitation and disability insurance has long been recognized. Back years ago, it was apparent to those charged with the administration of workmen's compensation laws that the seriously disabled workman needed retraining, often in an entirely new occupation, if he were to make a successful job adjustment. In fact, the support given by such groups for public provision of vocational rehabilitation for civilians was an important factor in relation to the passage of the Vocational Rehabilitation Act of 1920. The Federal Employees' Compensation Act Amendments of 1949 (Public Law 357, 81st Cong.) including provision for the vocational rehabilitation of permanently disabled Federal employees drawing benefits under the act. Recently the importance of rehabilitation in relation to the payment of disability benefits has been emphasized in the way that the State-Federal vocational rehabilitation program has been cooperating with the officials of the welfare and retirement fund in rehabilitating disabled mine workers. With respect to disabled veterans of both wars, Congress has recognized the complementary nature of the two by providing rehabilitation services for veterans drawing disability benefits.

Finally, may I emphasize, that rehabilitation does not obviate the need for a disability-insurance program. An expanded program of vocational rehabilitation is necessary in order to reach all of the disabled who are in need of and can benefit from such services; a program of disability insurance will assist by

rounding out the rehabilitation program and in meeting the needs of those disabled persons who have no prospect of returning to the labor market. I urgently recommend that a program of disability insurance be enacted.

Sincerely yours,

MICHAEL J. SHORTLEY, *Director.*

AMERICAN HOTEL ASSOCIATION,
Washington, D. C., March 28, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: In connection with H. R. 6000, which is currently before the Senate Finance Committee in executive session, we are eager to place one further statement before your committee.

We are aghast at the misinformation and erroneous figures which were included in the statement of Mrs. Imogene B. Wright, who, as the final witness before your committee, testified regarding tip income of service personnel in hotels and restaurants. Mrs. Wright estimated:

(1) That there are three-million-odd service workers who receive tips or gratuities;

(2) That a grand total of $2,030,000,000 a year in tips is received by these employees.

Page 913 of the 1949 Statistical Abstract of the United States shows that there are a total number of employees in restaurants equaling 594,648. Obviously this includes all employees, and not simply those service employees who are in position to receive tips. Page 193 of the abstract shows total employment in the Nation's hotels of 607,575. In the testimony of Daniel J. O'Brien, who appeared before your committee, representing the American Hotel Association, appears the estimate that no more than 30 percent of employees in the Nation's hotels work in those departments which dispense food and beverages. This would account for only 182,272 people out of the total number of employees quoted above. Here, again, this includes all employees in the food and beverage department. So these Government figures reveal that less than 800,000 employees are engaged in restaurants and hotels in the food and beverage departments, and even this number is not in position to benefit from guests' gratuities.

Then, Mr. O'Brien testified that total tip income of service employees in hotels of the Nation is $70,000,000 annually. This is based on gross sales of food and beverage departments of approximately $1,000,000,000. In the light of these reputable estimates by the industry, coupled with official Government figures, it is readily apparent that Mrs. Wright's statistics appear to be without foundation whatsoever.

Finally, Mrs. Wright urged that H. R. 6000 be amended in a manner which would make the tip income of service employees subject to pay-roll tax as a means of enhancing old-age and retirement benefits for these employees. We call to your attention the fact that under current Bureau of Internal Revenue procedure, an employer is obliged to pay the social-security tax on any tip income declared by the employee. So, if this service personnel is desirous of enhancing their own social-security coverage, they have only to make a declaration to their employer of tip income under existing regulations. No modification of the statute is necessary to achieve this objective.

Respectfully,

M. O. RYAN

STATE OF NEW HAMPSHIRE,
DEPARTMENT OF PUBLIC WELFARE,
Concord, March 23, 1950.

Hon. WALTER GEORGE,
Senate Finance Committee, United States Senate,
Washington, D. C.

DEAR SENATOR GEORGE: This is to advise that inasmuch as New Hampshire was not represented at the hearings before your committee on H. R. 6000 and since this State has a major interest in such legislation, not only in the proposed amendments relating to public assistance but also those relating to the social-

security system, we should like you to consider this correspondence as a statement of our position regarding the bill.

This department, like other State agencies concerned with the administration of assistance, has long been disturbed by the growing size and cost of assistance programs. It is our opinion that public-assistance programs, which are based upon a needs test, were never intended to care for the large number of persons who are now forced upon them. We do not look with enthusiasm on growing assistance programs. Our board of public welfare and the administrators of the agency itself have been alarmed both by the failure of the contributory social-insurance system to keep pace in benefit levels with the rising cost of living and by the failure to extend the contributory system to a larger portion of the population. Today, because the contributory social-insurance programs are not carrying their share of the burden of economic need, public-assistance case loads and costs are disproportionately greater than necessary. The result is that the taxpayers are overburdened with the cost of an ever-increasing public-assistance program.

It is, therefore, our conclusion that the present old-age and survivors insurance program be extended in coverage, its eligibility requirements liberalized, and its benefit payments increased substantially.

Another matter of grave concern to New Hampshire is medical care. An item of cosiderable expense in the administration of public welfare in our State today is medical and hospital care. The present provisions of H. R. 6000 limit Federal sharing in medical-care cost to those individual cash grants which do not exceed Federal matching. In a State such as New Hampshire, where the average monthly payment is so close to the Federal ceiling, the medical-care needs of most recipients must be met largely from State and local funds. We therefore urge the committee to consider the advisory council's recommendation for a new and separate reimbursement formula for medical care furnished assistance recipients.

In conclusion, may we express the hope that the committee will find it possible to extend coverage, to liberalize benefits realistically, and otherwise strengthen old-age and survivors insurance, which from the point of view of public welfare, is basic to the country's total social-security program. We feel that if the Congress will act now to extend this self-financing method of assuring security, a method already in accord with our American tradition of independence, we can definitely look forward to the time when public-assistance case loads and costs will diminish.

Respectfully submitted.

JAMES J. BARRY, *Commissioner.*

TEXAS TRADE ASSOCIATION EXECUTIVES,
Dallas, Tex., March 25, 1950.

Hon. TOM CONNALLY,
United States Senate Office Building, Washington, D. C.

DEAR SENATOR: On behalf of the attached list of 28 Texas trade and business groups representing 40,000 Texas employers, we will appreciate your attention to the attached statement of our views regarding H. R. 6000.

Our attention has been required on so many other matters lately, such as wage-hour legislation, etc., that only recently were we able to consider these proposed amendments to our Social Security Act. We are now advised that hearings on this bill before the Senate Finance Committee will be concluded on March 24.

Therefore we will greatly appreciate it if you will file this statement with the Senate Finance Committee on our behalf, in lieu of a personal appearance which would be impossible at this late date.

While we have listed some of our specific objections to H. R. 6000 on the attached statement, it is our further opinion that the bill as a whole is unsound and unworkable, and if such a course is pursued it will result in irreparable harm to our national economy. We feel that Congress should adopt an entirely new approach toward amending our present Social Security Act.

Respectfully yours,

GENE EBERSOLE, *President,*
TEXAS TRADE ASSOCIATION EXECUTIVES.

STATEMENT OF TEXAS BUSINESS AND TRADE REPRESENTATIVES REGARDING SOCIAL SECURITY ACT AMENDMENTS OF 1949

Some of the features of this bill which we consider most objectionable are as follows:

1. *Definition of employee.*—The common-law rules are broadened by the addition of seven factors to be considered in determining employee status. These factors ignore legal considerations in the determination of this status and there is placed in an administrative agency substantial power to determine such status. Since this bill generally broadens the Social Security base, the agency will inevitably take the position that all persons doing any character of work for an employer are employees. The social aspect of this amendment strikes at little businesses and independent contractors and the trend will be for the employer to discontinue doing business with such persons due to the uncertainties and increased costs with respect to tort liability, wage-hour liability, and similar problems, or for employers to take over such businesses or contractors, either alternative being contrary to the principles of independent enterprise. The uncertainty under this definition will lead to increased administrative costs and prolonged litigation. If this definition is adopted it will probably be incorporated in the Federal and State unemployment compensation laws and in the law requiring the withholding of income tax at source which will further increase business costs.

2. *Definition of wages.*—This bill raises the annual wage base from $3,000 to $3,600 and therefore substantially increases the tax of both the employer and employee. Proper benefit increases can be made without this change. In addition, it also needlessly complicates present business pension and retirement programs based on the $3,000 wage limit. This $600 annual increase would probably be extended into Federal and State unemployment compensation programs, resulting in further increased taxes.

3. *Public assistance.*—The proposed act makes more Federal funds available to the States for public assistance to those not included in the Federal social-security program, for example, old age, blind, dependent children. This is further Federal encroachment on State powers. Effective social security should decrease, not increase, the need for public assistance and since H. R. 6000 increases public assistance it promotes Federal socialization.

4. *Permanent and total disability.*—This proposal would create a new program of insurance against loss of earnings due to permanent and total disability. Insurance companies have found this unworkable and extremely expensive. Subjective claims for disability are impossible to evaluate. Such a national program encourages worker laziness and security greed, and furnishes an effective national mechanism for vote influence.

It is our sincere belief that the basic issues involved in this legislation are of such significance and are such a radical departure from our present system that it behooves our Congress to reconsider the entire approach to the problem of amending our present social-security laws. While some remedial legislation may be necessary, we do not believe it should be done in the manner proposed in H. R. 6000.

LIST OF TEXAS TRADE AND BUSINESS GROUPS JOINING IN THE FOREGOING STATEMENT

Texas Private Truck Owners' Association.
Texas Lumbermen's Association.
Texas Highway Branch, Associated General Contractors.
Dallas Chapter, Associated General Contractors.
Texas Wholesale Liquor Dealers Association.
Wholesale Beer Distributors of Texas.
Retail Merchants, Association of Texas.
Texas Mid-Continent Oil and Gas Association.
Associated Employers, Inc.
Southwestern Ice Manufacturers' Association, Inc.
Associated Credit Bureau of Texas
Texas Good Roads Association.
Texas Association of Life Underwriters.
Texas Hardware and Implement Association.
Retail Furniture Association of Texas.
Texas Retail Jewelers Association.
Texas Appliance and Air-Conditioning Association.
Texas Retail Dry Goods Association.
Texas Wholesale Grocers Association.
tion.
Texas Wholesale Grocers Asociation.
San Antonio Builders Exchange.
Texas State Association of Building Owners and Managers.

LIST OF TEXAS AND TRADE BUSINESS GROUPS JOINING IN THE FOREGOING STATEMENT—continued

Texas Association of Employers.
Texas Motor Courts Association.
San Antonio Manufacturers Association.
Texas Restaurant Association.
Texas Hotel Association.
Texas Butane Dealers Association.

OLD-AGE AND SURVIVORS INSURANCE FOR FARMERS

(Statement Submitted by W. I. Myers, Dean of the New York State College of Agriculture, Cornell University, Ithaca, N. Y.)

This statement deals with reasons favoring the extension of the old-age and survivors insurance program on an all-inclusive basis to self-employed farmers. I strongly favor extension of this program to hired farm workers also, but I shall not add to the testimony already presented in favor of this proposal. Instead, the entire statement is devoted to reasons why the program should be extended not only to the urban self-employed as provided in H. R. 6000, but to farmers as well.

Conditions on farms are almost completely different from those of a century ago. Formerly farm families were relatively self-sufficient and independent. Little capital was required and most of the things which were needed on the farm and in the home were produced on the farm. The welfare and future of rural people depended largely on factors which were under the direct control of the farm family.

The modern farmer, however, is a businessman who usually has to go into debt not only for his farm but for livestock and machinery as well. He buys large quantities of raw materials and sells them as manufactured or partly manufactured goods. Although most farmers raise part of their own food and do not have to pay rent, total cash farm family expenditures frequently exceed the value of things which are provided by the farm and used in the home. The liquidation of the debt involved in financing a modern farm business usually requires most of a working lifetime, even under favorable conditions.

This continued and progressive commercialization of farming has made the welfare of farmers increasingly dependent on factors beyond their control. A severe and prolonged decline in prices received for farm products, for example, can wipe out a lifetime of savings and destroy any possibility of income for their declining years. Farmers who happen to be born at a time which enables them to liquidate their debts under a stable or rising price level are fortunate. More farmers, however, are likely to encounter one or more periods of declining prices which may delay or prevent the repayment of their debts. Economic security for farmers which was relatively certain a century ago has now become difficult and in most cases inadequate. Increasing numbers of older farmers now approach their retiring years with uncertainty concerning sources of funds to meet their cash living costs.

At this point I should like to make it clear that I have no plan to remove all or even most of the risks and uncertainties involved in farming. It is, of course, impossible and in addition might be undesirable. Nor do I favor changes in the old-age and survivors insurance program which would assure sufficient retirement income to meet all needs of retired persons during their declining years. I do, however, favor extending the present old-age and survivors insurance program on a compulsory basis to self-employed farmers to give them a minimum level of retirement income to which they can plan to add income from savings, investments, and insurance, and provide, if possible, sufficient income to meet all of the needs of their declining years. The reasons for favoring this extension of the program are as follows:

Farmers face same risks as others.—It cannot be denied that farm people experience about all the hazards faced by city people. Old age and death play no favorites. Although the needs for their retirement years are lower in terms of dollars for farm people than for city people, the need does exist and provision should be made for meeting the need. In fact, it might be argued that farmers are more in need of OASI benefits than wage-earners because of the uncertainty and wide variations in net income in contrast to regular wage earnings which are more conducive to a planned savings or retirement program.

Many farm people have some OASI credit.—There is no way of knowing exactly how many farm operators have worked in covered employment or how

much OASI credit they have accumulated. The United States Department of Agriculture in a recent publication, however, estimated that 35 percent of all farm operators have some old-age and survivors insurance credit. A survey of 96 farms in one rural area in New York showed that 28 percent of the farm operators had some OASI credit. It is probable that the proportion of farmers with OASI credit varies in different parts of the country, being highest in the most industrialized areas. It is apparent, however, that a significant part of our present farmers have already made some OASI contributions. Both the survey in New York and estimate of the United States Department of Agriculture show that the contributions are usually not high enough to assure even minimum benefits. In most cases, these wage deductions will return nothing to either the farmers or their families unless they are again permitted to contribute to the program.

Farmers now help to pay cost of OASI.—OASI taxes in employment which is now covered by the program are considered a cost of doing business and are accordingly passed on to consumers. Farmers, thus, indirectly pay a share of OASI taxes although they receive no direct benefits from them. This is particularly important when one considers that such taxes are paid not only on purchases for the home but also on most production items, such as machinery, fertilizer, feed, and building materials. Some farmers are also helping to pay the cost of the present OASI program and receiving nothing in return by making contributions in covered employment which, as indicated above, are insufficient to obtain any OASI benefits for them. It is admitted, of course, that farmers would make additional contributions in order to benefit fully from the program. But such a move would also help them obtain some benefits from the indirect contributions which they are now making.

Costs distributed among those helped.—Without some such program as OASI it is generally agreed that large numbers of persons would need financial assistance during their declining years in addition to that which they might provide for themselves entirely through their own efforts. This might be provided through a program such as old-age assistance. Like most other thoughtful persons, however, I strongly favor a program which requires a maximum number of those who are able to participate to contribute directly on their own behalf. Extension of the OASI program to farmers would be an important step toward a reduction in the cost of public assistance and the further distribution of the cost of care for persons needing assistance in their declining years on the basis of their ability to contribute. The heavy old-age assistance load in many of the primarily agricultural States is a reflection of the high public cost for the aged needy where only a small proportion of them are eligible for OASI benefits.

More old people and children in rural areas.—Most rural areas in the United States have a larger number of persons 65 years of age and older per worker than do urban areas. Similarly, most rural areas have more children under 15 per worker than do urban areas. In New York State, for example, in 1940, 10 percent of the farm population was 65 years of age or older but only 6 percent of the urban population was 65 or older. Similarly, 24 percent of the farm population was less than 15 years of age but 20 percent of the urban population was less than 15. This means that people in rural areas carry a potentially heavier burden of care both for older people and for dependent children. Extending the OASI program to farmers would help to reduce public assistance for the old and for dependent children in rural areas.

Farm families buy less life insurance.—Studies of the life insurance carried by farm people show that on the average fewer of them carry such protection than do persons in cities. Even among these, the amount of the policy is often extremely low. In the New York survey, mentioned above, only 46 percent of the farm operators had life insurance. The average face value of life-insurance policies per family for all families was $2,450. A study for the Federal Reserve Board in Michigan in 1947 showed that 84 percent of the heads of households owned life insurance; among farmers, only 55 percent were insured. For the country as a whole, the Institute of Life Insurance estimated that families had an average of $4,600 of life-insurance protection in 1947. This includes group insurance, which makes up about one-fourth of the total. No doubt there are many reasons why farm people have less insurance. It is not particularly pertinent, however, to discuss them here. The important fact is that lack of life-insurance protection among farm people, in general, is a further indication of the need for protection of the farm family in case of death of the breadwinner, and for him and his dependents after he reaches retirement age.

No company pension plans for farmers.—Private industry and business as well as Government have provided pension plans covering millions of nonfarm workers. In most cases the workers as well as the employers contribute to the pension plans. Many such programs provide reasonably satisfactory retirement income. Where they are supplemented by OASI benefits, the retirement income may comprise a reasonably large proportion of total retirement needs. Farmers, however, have no opportunity to participate in private pension plans. Extending the OASI program to them would permit them to participate, to some extent, in retirement programs and benefits now available to their city cousins.

Would not discourage thrift and industry.—In my opinion extending the OASI program to farmers would not discourage thrift and initiative on the part of farmers. Farmers as a group have long been known for their thrift, initiative, and independence. None of us want to see them lose these characteristics. In my opinion, extending the OASI program to farmers would encourage such desirable traits, rather than discourage them. It would make farmers more conscious of the need for providing adequately for their families if they should die "too soon" and also to prvide for their own needs if they should live "too long." In my opinion, young farmers would be more likely to undertake the risks of farmer ownership if they knew that regardless of the outcome they would be assured of protection for their families in case of death and a modest cushion of retirement income for their declining years.

Cost of OASI benefits low.—All of us agree, I believe, that farm people face the same risks and have the same needs for OASI benefits as other workers. It is also true that farmers cannot provide for meeting such needs in any other way at a cost which compares favorably with the cost under the OASI program. Savings, investments, and insurance all are means of providing for these needs but in none of them can families obtain the degree of security and the amount of benefits at the low cost which is possible under this program. Because it offers low-cost protection, I believe farmers, like millions of others, should be permitted to benefit from the OASI program.

Administrative difficulties not insurmountable.—The self-employed generally have been exempt from the OASI program due in part at least to the increased administrative difficulties of keeping records and collecting taxes, as compared with employed persons. Intensive study by the Social Security Administration and the experience of social-security programs abroad indicate that such difficulties are not insurmountable. Since H. R. 6000 already provides for extending the OASI program to about 6,000,000 self-employed urban persons, I see no good administrative argument against extending the program to self-employed farmers. It is true that different problems will be encountered but with a system of annual reporting and the possible payment of contributions in connection with income-tax reports, I see no serious difficulties which cannot be overcome.

Many farm leaders favor extension of OASI to farmers.—Since serving as a member of the Advisory Council on Social Security of your committee, I have taken many opportunities to discuss with farmers, and particularly farm leaders, the present OASI program and the advantages and disadvantages of extending it to farmers. In all instances it has been my experience that when farmers understand the program, a large majority of them favor extension of it to farmers. The fact that more farmers have not testified in favor of OASI before this committee is in my opinion not a reflection of opposition to it but an indication of unfamiliarity with the program. In New York, for example, our State Farm Bureau Federation has given a great deal of time and study to this problem during the past 2 years. At its annual meeting in 1948 and again in 1949 it endorsed extension of the program to farmers as well as farm workers. Mr. Don J. Wickham, vice president of the federation, testified in favor of OASI for both farmers and their hired workers before the House Committee on H. R. 6000 in 1949. Mr. E. S. Foster, secretary of the federation, has already testified in favor of OASI for farmers and their workers before this committee. My contact with farm leaders from many other States indicates that most of those who understand the OASI program favor extension of it to farmers.

Would help preserve family farm.—Nowhere else in our economy except on the farm do we find the same tightly knit family-business interest that we find on the millions of family farms which are the backbone of American agriculture. Today, there are many influences which can conceivably affect or possibly even destroy the independence and soundness of the American family farm. In my opinion, extending the OASI program to farmers would contribute significantly to the preservation of the family farm by enabling farmers, through their own

efforts, to contribute to their own independence and well-being and that of their families in case misfortunte should strike during their productive years or in case they and their dependents need assistance during their declining years.

STATEMENT OF THE T. J. MOSS TIE CO. ON BEHALF OF ALL OTHER MEMBERS OF THE RAILROAD CROSS-TIE INDUSTRY SIMILARLY SITUATED

The T. J. Moss Tie Co., Security Building, St. Louis, is one of the several hundred individuals and firms whom, we understand, have expressed a desire to appear before your committee and give it the benefit of their views with reference to two sections of H. R. 6000, sections 206 (a) and 104 (a) of H. R. 6000 which propose amending the Social Security Act and the Internal Revenue Code by defining the word "employee" therein, but who because of limitations of time were unable to do so. This will give the committee some idea of the magnitude of the problems raised by these proposed amendments and the public concerned over the Congress enacting them into law.

These proposed amendments will result in an unnecessary destruction and alteration of fundamental business relationships far beyond our capacity to measure which relationships are historically established and economically indispensable, and without contributing any comparable benefit either to the economy or to the objectives of the act.

Tie companies obtain railroad ties primarily from these sources:

1. By purchase from farmers.
2. By purchase from independent producers who cut them from their own lands or lands which they control.
3. By purchase from contractors who produce them from company-owned lands.
4. By cutting them from their own lands with their own employees.

Those arrangements vary with the locality and the circumstances, but by and large all but 15 percent of the ties acquired by this company come from sources other than those produced by its own employees. There are thus dependent upon the company many hundred small and independent producers who as a part-time or full-time vocation, but often as an adjunct of other agricultural pursuits, utilize their woodlots or other forest preserves to create a local economy and to provide employment not otherwise available to themselves and other dependents.

The excursion contemplated by these amendments would destroy their status as contractors. It is academic. It fails to give proper credit to the rural and isolated situation they occupy. The farther removed an individual is from the concentrations of employment, such as a factory, the less adaptable he is to supervision. It is for this very reason that historically the contractor relationship developed and has been maintained with reference to these people, and it has never been possible either to adjust them or the operations they perform into a concentrated, compact producing unit.

The amendments urged completely dislocate and destroy the possibility of that relationship. If such a definition were adopted and were fully enforced by the Treasury and the Administrator, there is no limitation to the dislocation it would cause, except the complete annihilation of a contractor, and, for that matter, a subcontractor as well.

The criteria which are advanced are worse than useless.

Many hundreds of farmers, woodsmen, ranchers, and others in rural areas, sometimes as a vocation but most frequently as an adjunct of some other agricultural enterprise, harvest from a farm woodlot or other wooded tract sufficient growth to create a livelihood for themselves and an economy for the local community and others dependent upon them.

By the very nature of the work and circumstances they are small, and they are independent producers or contractors. They have no means of disposing of the products of their efforts save by arrangement or sale to a consumer such as the tie company.

Determination is largely left to the whim and caprice of the Administrator, depending upon the objectives which he seeks to obtain in the particular case:

1. *Control, for example.*—There is no control over any contractor save the end result, but there is always, and necessarily, some degree of contact which may be construed as a form of control.

2. *Permanency.*—How many times does the relationship have to be renewed to be permanent? There is a tendency to renegotiate with a satisfactory contractor. Does it require three or a hundred of these to be permanent?

3. *Integration.*—All work is integrated. One of the recent cases holds that a window cleaner is integrated because it is necessary to keep the window clean if the machinist is to run the machine inside the factory. Another case holds that the manufacturer of grain doors is integrated with railroading.

4. *Skill.*—Who can appraise the skill of the unlettered woodsman who appraises the board-foot content of the standing tree, or the cross-tie potential of an irregular log lying on the sawmill carriage?

5. *Investment.*—How much investment? All a tie hewer needs is a broadax. Is this sufficient investment in facilities? Under present concepts it has been and will probably continue to be ruled out, although it represents 100 percent of the necessary capital.

And finally, how many of these criteria need be present to constitute the line of demarcation between a "contractor" and an "employee." No one knows. No one can tell from the amendment. It is the combination of some uncertain number of these that produces what is referred to as an over-all picture, which is nothing more than an emotional judgment. These are not definitions. They are substitutes for definitions. These are not criteria. They are facilities for shoring up a result.

After these amendments were in effect a short time the only contractor or subcontractor that would be accepted under them would be a freak.

To reach into our economic system and destroy the contractor relationship is to so dislocate our economy that from a production standpoint the consequences are wholly unforeseeable. The destruction of independent enterprises, moreover, would be devastating.

Our national history and the history of this industry is replete with examples of young men in wooded areas seeking at first employment, then a smallmill, then a tract of timber, and finally an independent yard, until he provided himself and the community in which he lived with substantial employment and independent economic security.

There is no possibility for his survival under this amendment because he cannot assume the responsibility of dealing with hundreds he cannot see as "employees," nor can those with whom he is accustomed to deal undertake to assume the responsibility not only for him but for those whom he employs.

Yet that is the net eventual result of this change of definition.

NECESSITY

If there were any necessity for this field being explored there might be some justification for hazarding some of the risks involved. But we state as a matter of fact that—

1. The change in definition would not extend the coverage of the act to any person not otherwise covered; and

2. The change in definition in the act would not increase the amount of benefit paid to any person who was covered.

All of the persons who could possibly be covered are either employees of someone and as such covered by the present act or are self-employed and as such would be covered by the other provisions providing for coverage of self-employed persons.

Moreover, the bill provides that despite different tax rates for employees and self-employed persons, the benefits payable to each are identical. We have read with some interest the discussion before this committee by Mr. Robert E. Canfield, who represented the American Pulpwood Association, an industry closely akin to ours, in which he outlines the payment of benefits under paragraph 4. It is our opinion that his conclusions are sound. For the sake of brevity and to avoid repetition, we incorporate as a part hereof all of the argument and the conclusions which he arrives at thereunder.

What possible reason is there for self-employed persons being covered differently than other self-employed persons, and what difference does it make whether a person is covered as an employee or whether he is covered in some other manner. If a person is covered, he is covered.

It can only be concluded that the purpose of making these amendments is solely for the convenience of the Administrator and the Treasury in enforcement. The only objective than can be adduced from such a change of definition is to undertake to shoulder upon others responsibility for thousands over whom they have no supervision or relationship to accommodate the convenience of enforcement officials. In the light of the consequences to our industrial system

and to the hundreds of thousands of workers who entertain the hope and aspiration of bettering their economic life by establishing a small independent unit, the ills that will flow from such a change are overwhelming as compared with the achievement of this one dubious result, to wit, the featherbedding of enforcement.

This is no new undertaking. The House committee recommendations are reliably and accurately reported to have been influenced, if not dominated, from the enforcement agency. This is also currently reported to be true of the Advisory Council report to this committee. Let the results speak for itself.

The Administrator has previously interpreted the word "employer" in the pattern heretofore used and the National Labor Relations Board has undertaken to follow it. The Wage and Hour Division have similarly urged it for the same purpose and succeeded in having it engrafted into dicta in an opinion of the Supreme Court. Congress promptly ordered it otherwise. Then the Administrator and the Treasury Department undertook it again until Congress specifically ordered otherwise. This, then, represents the third trial. In view of the fact that many of the definitions employed by the other agencies of Government in social legislation have their root in the definitions of the Social Security Act, it is highly important that this committee weight both the considerations which prompt this persistent effort to alter a fundamental business relationship and the need for it and benefits to be derived therefrom.

From the standpoint of the individuals involved as well as the endless dislocations to industry which will follow, and particularly to industry engaged in the production of wood products, it is quite necessary for this committee gain to repudiate this unwarranted and fundamental change. Nothing has occurred in recent months nor has anything been adduced from the records of these proceedings which indicates a change of condition or a present necessity for the amendment to the word "employee," and we respectfully urge this committee not to adopt the amendment.

BOSTON HOUSING AUTHORITY,
Boston, Mass., March 22, 1960.

Senator GEORGE,
Chairman, Senate Committee on Finance,
United States Senate, Washington, D. C.

GENTLEMEN: I wish to place the Boston Housing Authority, a political subdivision of the Commonwealth of Massachusetts, on record as favoring H. R. 6000. However, I regard section 218 of H. R. 6000 as not quite as apt as it might be insofar as our authority and other local authorities in the Commonwealth of Massachusetts are concerned.

Chapter 121 of the General Laws of Massachusetts states: "A housing authority may enter into a compact or compacts with the Social Security Board or take such other action as it may deem appropriate to enable its employees to come within the provisions and obtain the benefits of the Social Security Act."

"If the employees of a housing authority shall come within the provisions of the Social Security Act, their employment shall be included in the term 'employment' as used in sections 1 to 7, both inclusive, of chapter 151A." (Ch. 151A is the Massachusetts Unemployment Insurance Act).

Inasmuch as our State legislature has already granted the right to an authority to enter into a compact with the Social Security Board, I feel that the Federal Legislature should permit the Social Security Administrator to deal directly with an authority and not through the Governor. Accordingly, I recommend that section 218 be amended by adding to section (k) the following:

"Where State law permits, the Administrator may, at the request of any political subdivision of a State, enter into an agreement with such political subdivision for the purpose of extending the insurance system established by this title to services performed by individuals as employees of such political subdivision. Such agreement to the extent practicable shall be governed by the provisions of this section applicable in the case on an agreement with a State."

As your committee is aware, the trend throughout the United States is to broaden the scope of the Social Security Act so as to cover employees such as ours. Our employees are not protected by civil service. Until 1948 they were not covered by any retirement system. In 1948, however, a law was enacted which permitted them to join the State retirement system. This year our State

law is again being broadened so as to permit our employees to enjoy the benefit of the employment security law. There is presently pending in our State legislature a bill, H–208, which will make this possible. It appears very likely that this bill will be enacted.

This proposed legislation is in line and in harmony with legislation enacted in Wisconsin, New York, Texas, Arizona, Kentucky, Montana, Nevada, Tennessee, and California.

If our State is willing, and our local authorities are willing, and the people employed by them are willing, to enter the social security service, then I feel that your committee should heed their request and allow them to participate in and enjoy the benefits of this liberal, progressive legislation.

In conclusion, let me commend you for the excellent work your committee is doing.

Very truly yours,

JOHN CARROLL, *Member.*

GEORGE A. MEYLS, JR.

FOREST PRODUCTS

BALTIMORE, MD., *March 22, 1950.*

Reference: Social security extension

CHAIRMAN OF THE FINANCE COMMITTEE,
United Seates Senate, Washington, D. C.

DEAR SIR: The Honorable Senator Herbert R. O'Conor has stated that if I will put into writing my views on social security, you will have them become part of the record. I hope they will not become so far buried that no attention will be paid to them.

From the time of inception of the Social Security Act which my records indicate was January 1, 1937, until about 1945, I was a subscriber to the fund and, of course, was eligible for its benefits.

Since 1945, I have been operating as an individual, doing a commission and wholesale business, and I have tried in every way to continue payments for my credit to the Board and I am prohibited by law from doing this as an individual even though I was perfectly willing to pay both the employee and the employer payments. I even went so far as to try and pay these through one of the corporations I represent, but I was told it was illegal for them to handle this for me.

Unless there has been some change in recent years, the maximum salary which is taxable under social security is $3,000 per anum which broken down into taxes prior to January 1, 1950, meant the employee and the employer each paid $30 per year or a total of $60. Since January 1, 1950, I understand this amounts to 1½ percent each or a combined total of $90 per annum.

As far as I can see, what the Government should be interested in is receiving this $90 per wage earner and what difference would it make to them if they receive this $90 from the United States Steel Corporation or Joe Doakes, the taxpayer. Because I am an individual and not organized, I cannot see why I am not allowed to participate in this old-age benefit.

I pay very heavy personal income taxes and the many, many, other hidden and excise taxes. I mention this because of the fact, if the time ever comes when payments into social security are not sufficient to meet the outgo, I believe the answer can only mean funds from the general tax receipts.

Reiterating again, gentlemen, I do want to participate in the old-age benefits in the social security fund and am perfectly willing to pay to the Government all of the funds they would receive were I employed by a large corporation. Being an individual, I cannot see why it is not possible for me to participate in these benefits. I am confident there are thousands and possibly millions occupying the same position as I do.

Thanking you for the opportunity of submitting my views and trusting you will act favorably upon them, I am

Most respectfully,

G. A. MEYLS, Jr.

STATEMENT BY CERTAIN AMERICAN NEWSPAPERS PUBLISHERS CONCERNING H. R. 6000

NEWSPAPER BOYS AND NEWSVENDORS

In 1939 newspaper boys under 18 years of age were excluded from the provisions of the Social Security Act by unanimous action of the Congress, and such exclusion continues as part of the law today.

In addition, during the first session of the Eightieth Congress, both Houses of Congress by unanimous consent passed a bill excluding news vendors from the Social Security Act and from the Internal Revenue Code, only to have the bill vetoed after adjournment of Congress, leaving no possibility for action upon the veto. Upon reintroduction in the second session of the Eightieth Congress, the bill again was passed in the House and in the Senate by unanimous consent. Again the bill was vetoed, but was passed over the veto by a big majority (304 to 28 in the House; 76 to 7 in the Senate).

When the bill leading to present H. R. 6000 was introduced in the House, the existing exclusion for newspaper boys under 18 years of age and the existing exclusion for news vendors were omitted.

The House Ways and Means Committee, however, restored these specific exclusions, and, in accordance with recommendations of that committee, these exclusions remain a part of H. R. 6000 as passed by the House, found in section 210 (a) (16) (A) (B) at pages 42 and 43 of the bill.

We believe that the equity and history behind these specific exclusions fully justify their continuance in the present law, and respectfully urge that the Senate confirm these exclusions as they now stand in H. R. 6000.

DEFINITION OF EMPLOYMENT

Since the beginning of social security legislation, the accepted common law definition of "employee" has been applied in determining the employment status of the individual. Under this definition there have been thousands of judicial and Treasury Department decisions establishing precedents in specific cases. Added to these are the vast body of judicial and administrative common-law decisions under State unemployment laws, State workmen's compensation laws, Federal wage-and hour-laws, Federal and State labor laws, tort law and related fields. There is no present reason for discarding this pattern.

Nevertheless, in November of 1947, the Commissioner of Internal Revenue issued a proposed set of regulations under which a greatly expanded area of coverage was contemplated through the device of a confusing and unrealistic definition of so-called economic reality. To prevent the Department's placing these proposed regulations in effect, the Congress passed a law specifically continuing in effect the status quo common law definition, at the same time making it clear that the Bureau had gone far beyond the legislative intent of the Congress in these proposed regulations.

This law, and the long-standing common law definition of employee is to be repealed by the present H. R. 6000 now under consideration by the Senate. Under the provisions of this bill, the definition of "employee" would be thrown into the field of so-called economic reality and outside the boundaries where precedents and decisions serve as a time-honored guide.

The proposed definition is fraught with the possibility of endless and expensive legislation, uncertainties, and the vagaries of never ending departmental or bureaucratic interpretations. It would discard hundreds of years of stabilized judicial procedent for an inequitable new concept which might require several more centuries to define.

We respectfully ask that the Senate and the members of the Finance Committee reinforce this legislation, H. R. 6000, with the certainty and equity which must always be the bulwark of any successful tax law; that it be free of the inequalities and injustices which will gnaw at and undermine the people's favorable option of the social-security system; that is retain a definition of "employee" which contains solid criteria establishing the status of an individual based upon decisions rendered under the common law; that the Congress amend H. R. 6000 by eliminating the proposed definition and by expressing in certain and final terms its unequivocal intent to retain the common law definition of "employee."

NEWSPAPERS

Birmingham News, Birmingham, Ala.
Tuscaloosa News, Tuscaloosa, Ala.
Phoenix Republic and Gazette, Phoenix, Ariz.
El Dorado Daily News, El Dorado, Ark
El Dorado Evening Times, El Dorado Ark.
Southwest Times Record, Fort Smith, Ark.
Hope Star, Hope, Ark.
Hot Springs Sentinel Record, Hot Springs, Ark.
Hot Springs New Era, Hot Springs, Ark.
Magnolia Banner-News, Magnolia, Ark.
Stuttgart Daily Leader, Stuttgart, Ark.
Texarkana Gaxette, Texarkana, Ark.
Texarkana Daily News, Texarkana, Ark.
Alhambra Post-Advocate, Alhambra, Calif.
Culver City Star-News, Culver City, Calif.
Fresno Bee, Fresno, Calif.
Glendale News-Press, Glendale, Calif.
Hollywood Citizen-News, Hollywood, Calif.
Long Beach Press-Telegram, Long Beach, Calif.
Los Angeles Daily News, Los Angeles, Calif.
Los Angeles Examiner, Los Angeles, Calif.
Los Angeles Herald and Express, Los Angeles, Calif.
Los Angeles Times, Los Angeles, Calif.
Monrovia News-Post, Monrovia, Calif.
Oakland Post-Inquirer, Oakland, Calif.
Oakland Tribune, Oakland, Calif.
Redondo Beach Daily Breeze, Rendondo Beach, Calif.
Sacramento Bee, Sacramento, Calif.
San Diego Union-Tribune, San Diego, Calif.
San Francisco Call-Bulletin, San Francisco, Calif.
San Francisco Chronicle, San Francisco, Calif.
San Francisco Examiner, San Francisco, Calif.
San Francisco News, San Francisco, Calif.
San Pedro News-Pilot, San Pedro, Calif.
Venice Evening Vanguard, Venice, Calif.
Greeley Daily Tribune, Greeley, Colo.
Washington Star, Washington, D. C.
Washington Times-Herald, Washington, D. C.
Florida Times-Union, Jacksonville, Fla.
Miami Daily News, Miami, Fla.
Orlando Sentinel-Star, Orlando, Fla.
Atlanta Constitution, Atlanta, Ga.
Atlanta Journal, Atlanta, Ga.
Twin Falls Times-News, Twin Falls, Idaho.
Centralia Sentinel, Centralia, Ill.
Chicago Herald-American, Chicago, Ill.
Chicago Tribune, Chicago, Ill.
Peoria Journal, Peoria, Ill.
Peoria Star, Peoria, Ill.
Evansville Courier, Evansville, Ind.
Indianapolis News, Indianapolis, Ind.
Indianapolis Star, Indianapolis, Ind.
Terre Haute Tribune-Star, Terre Haute, Ind.
Dubuque Telegraph-Herald, Dubuque, Iowa.
Topeka Capital, Topeka, Kans.
Topeka State-Journal, Topeka, Kans.
Baton Rouge State Times, Baton Rouge, La.
Baltimore News-Post, Baltimore, Md.
Baltimore Sun, Baltimore, Md.
Boston Herald-Traveler, Boston, Mass.
Boston Record-American, Boston, Mass.
Lawrence Eagle-Tribune, Lawrence, Mass.
Lowell Sun, Lowell, Mass.
Worcester Telegram and Gazette, Worcester, Mass.
Detroit Times, Detroit, Mich.
Lansing State Journal, Lansing, Mich.
St. Paul Dispatch and Pioneer Press, St. Paul, Minn.
Joplin Globe, Joplin, Mo.
Kansas City Star, Kansas City, Mo.
St. Joseph News Press and Gazette, St. Joseph, Mo.
Reno Evening Gazette and Nevada State Journal, Reno, Nev.
Las Vegas Review-Journal, Las Vegas, Nev.
Concord Monitor and New Hampshire Patriot, Concord, N H.
Bergen Evening Record, Hackensack, N. J.
Courier Post, Camden, N. J.
Hudson Dispatch, Union City, N. J.
Albany Times-Union, Albany, N. Y.
New York Journal-American, New York, N. Y.
New York Daily Mirror, New York, N. Y.
Charlotte News, Charlotte, N. C.
Greensboro News, Greensboro, N. C.
Winston Salem Journal and Twin City Sentinel, Winston Salem, N. C.
Minot Daily News, Minot, N. Dak.
Dayton Daily News, Dayton, Ohio.
Dayton Journal Herald, Dayton, Ohio.
Springfield News-Sun, Springfield, Ohio.
Bartlesville Examiner-Enterprise, Bartlesville, Okla.
Holdenville News, Holdenville, Okla.
Muskogee Daily Phoenix, Muskogee Okla.
Okmulgee Daily Times, Okmulgee, Okla.

NEWSPAPERS—continued

Seminole Producer, Seminole, Okla.
Portland Oregonian, Portland, Oreg.
Lancaster New Era and Intelligencer Journal, Lancaster, Pa.
Philadelphia Daily News, Philadelphia, Pa.
Pittsburgh Sun-Telegraph, Pittsburgh, Pa.
Scranton Times, Scranton, Pa.
Charleston News and Courier, Charleston, S. C.
Spartansburg Herald-Journal, Spartansburg, S. C.
Huron Daily Plainsman, Huron, S. Dak.
Watertown Public Opinion, Watertown, S. Dak.
Nashville Banner, Nashville, Tenn.
Austin American Statesman, Austin, Tex.
Beaumont Enterprise and Journal, Beaumont, Tex.
Dallas Times-Herald, Dallas, Tex.
El Paso Times, El Paso, Tex.
El Paso Herald-Post, El Paso, Tex.
San Antonio Light, San Antonio, Tex.
Salt Lake Tribune and Telegram, Salt Lake City, Utah.
Burlington Free Press, Burlington, Vt.
Seattle Post-Intelligencer, Seattle, Wash.
Seattle Times, Seattle, Wash.
Tacoma News-Tribune, Tacoma, Wash.
Charleston Daily Mail, Charleston, W. Va.
Kenosha Evening News, Kenosha, Wis.
Milwaukee Sentinel, Milwaukee, Wis.
Augusta Chronicle, Augusta, Ga.
Hartford Times, Hartford, Conn.
Chicago Daily News, Chicago, Ill.
Chicago Sun-Times, Chicago, Ill.
Chicago Journal of Commerce, Chicago Ill.
Danville Commercial-News, Danville Ill.
Bangor Daily News, Bangor, Maine
Boston Post, Boston, Mass.
Detroit, News, Detroit, Mich.
Plainfield Courier-News, Plainfield, N. J
Santa Fe New Mexican, Santa Fe, N Mex.
Albany Knickerbocker News, Albany, N. Y.
Beacon News, Beacon, N. Y.
Binghamton Press, Binghamton, N. Y.
Elmira Star-Gazette, Elmira, N. Y.
Elmira Advertiser, Elmira, N. Y.
Ithaca Journal, Ithaca, N. Y.
Ogdensburg Journal, Ogdensburg, N. Y.
Malone Telegram, Malone, N. Y.
Newburgh News, Newburgh, N. Y.
Rochester Times-Union, Rochester, N. Y.
Rochester Democrat and Chronicle Rochester, N. Y.
Saratoga Springs Saratogian, Saratoga Springs, N. Y.
Syracuse Post-Standard, Syracuse, N. Y.
Utica Observer-Dispatch, Utica, N. Y.
Utica Press, Utica, N. Y.
Pittsburgh Post-Gazette, Pittsburgh, Pa.
Detroit Free Press, Detroit, Mich.
Wilmington News-Journal, Wilmington, Del.

ADVANCE ALUMINUM CASTINGS CORP.,
Chicago, Ill., March 23, 1950.

Re social-security bill. H. R. 6000.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: On December 29, 1949, we wrote you regarding the above bill. Now that the bill is being considered by the Senate committee, there are two or three points we would like to specifically draw to your attention regarding the status of self-employed people known as direct-selling salespersons.

1. We believe the definition of "employee" should be the usual common-law rule as set forth in subparagraph (k), subsection (2) of bill H. R. 6000 and subsections (3) and (4) should be eliminated.

2. We believe section 210 (a) 18, which excludes services performed in the sale and distribution of goods for others, should end with the word "commodities" and would therefore read as follows:

> "Service performed by an individual in the sale or distribution of goods or commodities for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service directly from the purchasers of such goods or commodities."

3. We believe self-employed people are amply covered under section 211 of this bill.

As the bill is presently written, there will be confusion, court tests, and an extremely complicated situation. It passes to administrative agencies powers

which we believe are not essential or necessary. Congress will give us a definite pattern which is clearly understood in business circles, as well as in the courts, if the above suggestions are followed.

Our suggestions would not decrease the scope of coverage, would not give administrative agencies undue legislative powers, would keep legislative power in this connection in the Congress, and would provide the direct-selling industry with a rule which is practical, logical, and fully understood.

For further detail of our views substantiating our thoughts given herein we refer you to our original letter, copy of which is attached.

As you realize, this legislation is of major importance to the direct-selling industry and we therefore ask that you please give our proposals your serious deliberation and studied consideration.

Very truly yours,

G. L. HEFNER, *Treasurer.*

ADVANCE ALUMINUM CASTINGS CORP.,
Chicago, Ill., December 29, 1949.

Re social-security bill, H. R. 6000.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: We respectfully ask your careful consideration of the status of self-employed people, known as direct-selling salespersons, in connection with the above-entitled pending bill which would comprehensively amend the Social Security Act. We believe such people should not be considered in "employment" and should not be classified as "employees" under section 210.

The above-entitled bill in the form in which it passed the House considerably broadens the scope of coverage and redefines exemptions so as to include many persons who have been historically considered not to be employees. The classification of such class of persons as employees would tremendously add to the financial burden imposed upon the employers (both directly and indirectly) and would eventually lead to substantial increases in the cost of every manufactured article, a situation which everybody (including those clamoring most loudly for amendment) are anxious to avoid.

We are concerned, however, mostly with those portions of the amendments dealing with those types of salespersons who have historically been considered to be independent contractors. We market one of our products (Miracle Maid cookware) under a form of written contract through dealers operating in various States, which contract provides for the sale of our products to such dealers and the resale thereof to their customers. The difference in the cost to them and the resale price represents their gross profit. They own and operate their own automobiles, purchase their own sample equipment, hire their own assistants (who are unknown to us), bear all their own expenses, and, outside of the fact that they usually do not lease store space, are exactly in the same category as local retail stores who handle other products produced by us.

Section 210, which deals with the definition of "employment" and with exemptions from employment, has been very comprehensively amended so as to limit and restrict many of the exemptions heretofore made under the act. We are concerned primarily with section 210 (a) 18, which excludes services performed in the sale and distribution of goods for others and reads as follows:

> "Service performed by an individual in the sale or distribution of goods or commodities for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service directly from the purchasers of such goods or commodities, if such person makes no provision (other than by correspondence) with respect to the training of such individual for the performance of such service and imposes no requirement upon such individual with respect to (*a*) the fitness of such individual to perform such service, (*b*) the geographical area in which such service is to be performed, (*c*) the volume of goods or commodities to be sold or distributed, or (*d*) the selection or solicitation of customers."

If such paragraph had ended with the word "commodities" so that it would read as follows:

> "Service performed by an individual in the sale or distribution of goods or commodities for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service, directly from the purchasers of such goods or commodities"—

it would furnish a definite and certain criterion for application of the law and would not lead to dispute as to the scope of such exemption.

As presently phrased (even when read in the light of the definition of "employee" upon which we will hereafter comment) it is sufficiently comprehensive in its scope to include many distributors and dealers who are as much in business for themselves as any local retailer. In fact, the exemption provision might be interpreted (especially in view of the "liberal" attitude with which the courts are prone to construe the provisions of the Social Security Act) so as to include local retailers of many classifications who are engaged in the business of selling goods for others.

In addition to the limited exclusion found in section 210 (a) 18 the pending bill redefines "employee" in such a manner as to include many persons not historically considered to be employees and who, by any generally accepted definition of such term, cannot be so considered. The proposed definition of employee which is found in subparagraph (k) of section 210 reads as follows:

"(k) The term 'employees' means—

> "(1) any officer of a corporation; or
>
> "(2) any individual who, under the usual common-law rules applicable in determining the employer-employee relationship, has the status of an employee. For purposes of this paragraph, if an individual (either alone or as a member of a group) performs services for any other person under a written contact expressly reciting that such person shall have complete control over the performance of such service and that such individual is an employee, such individual with respect to such service shall, regardless of any modification not in writing, be deemed an employee of such person (or, if such person is an agent or employee with respect to the execution of such contract, the employee of the principal or employer of such person); or
>
> "(3) any individual (other than an individual who is an employee under paragraph (1) or (2) of this subsection) who performs services for remuneration for any person—
>
> "(A) as an outside salesman in the manufacturing or wholesale trade;
>
> * * * * * * *
>
> "(G) as a house-to-house salesman if under the contract of service or in fact such individual (i) is required to meet a minimum sales quota, or (ii) is expressly or impliedly required to furnish the services with respect to designated or regular customers or customers along a prescribed route, or (iii) is prohibited from furnishing the same or similar services for any other person—

if the contract of services contemplates that substantially all of such services (other than the services described in subparagraph (F) are to be performed personally by such individual except that an individual shall not be included in the term 'employee' under the provisions of this paragraph if such individual has a substantial investment (other than the investment by a salesman in facilities for transportation) in the facilities of the trade, occupation, business, or profession with respect to which the services are performed, or if the services are in the nature of a single transaction not part of a continuing relationship with the person for whom the services are performed; or

> "(4) any individual who is not an employee under paragraph (1), (2), or (3) of this subsection but who, in the performance of service for any person for remuneration has, with respect to such service, the status of an employee, as determined by the combined effect of (A) control over the individual, (B) permanency of the relationship, (C) regularity and frequency of performance of the service, (D) integration of the individual's work in the business to which he renders service, (E) lack of skill required of the individual, (F) lack of investment by the individual in facilities for work, and (G) lack of opportunities of the individual for profit or loss."

May we suggest that this definition could appropriately end with paragraph (2) of subparagraph (k) quoted above if our suggested revision of section 210 (a) 18 were adopted. If it is desired that the scope of the "employee" relationship be enlarged (and we see no necessity therefor) in view of the express inclusion

of "self-employed" persons under the act, then both paragraph (G) and subparagraph (4) of such section should be modified to include an exception reading substantially as follows:

> "except that an individual shall not be considered in employment under this paragraph, if service performed by the individual be in the sale or distribution of goods or commodities for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service directly from the purchasers of such goods or commodities."

May we point out generally that the inclusion of complicated and comprehensive definitions of this nature is bound to lead to many court tests of the meaning of the language which would place additional burdens on employers and subject them to the hazard of contingent liability, which may be substantial in the event of adverse rulings. It will also lead, we are sure, to differences between the Social Security Board and the Internal Revenue Department as to interpretation of the law which will further complicate the situation with respect to the position of the employer.

Please understand that we are not opposed to social security for all gainfully employed persons. If it is the wish of the Congress that coverage be extended along the lines suggested in the pending bill, such extensions can (so far as situations in which salespersons of the nature to which we are referring are concerned) be effected by including such persons in the self-employed group to which coverage is to be extended and to which they logically belong. By this simple method, the scope of coverage would be unchanged but the burden of attempting to establish and maintain a pay-roll system by direct-selling companies for direct-selling representatives would be eliminated.

May we point out further that a pay-roll system of any substantial accuracy whatsoever is impossible for direct-selling persons by the very nature of the business in which they are engaged. For example:

1. The gross earnings of such salespersons cannot be accurately determined especially where (as in our situation) such earnings consist of the difference between the price at which the product is sold to the salesperson and the price at which he resells to his customers, and such salesperson pays all his expenses.

2. Expenses of these salespersons cannot be accurately determined or controlled because such expenses vary according to the efficiency of the individual salespersons.

3. The net earnings from which the taxes to provide funds for social security payments are derived cannot be accurately determined because:

(*a*) The net earnings constitute the difference between the price at which the product is sold to the salesperson and the price which he obtains from his customers, less his expenses, and the gross earnings and expenses will vary from individual to individual.

(*b*) Even though we might be able (to some extent) to determine the gross earnings which a particular salesperson might make, the net earnings could not be determined with any degree of accuracy because we would have to rely upon reports from the salesperson as to the amount of his expenses and these expense reports are, generally speaking, inaccurate.

(*c*) The interest of such salesperson would be directly opposite to that of the company and there would be an incentive on the part of the salesperson to pad his expenses and understate his earnings.

(*d*) Under the contract with which our salespersons operate, it is practically impossible for us to determine the net earnings, and we would thus be subject to inquiries and investigations by the Internal Revenue Department and the Social Security Board—especially in those instances where the individuals involved would make an accurate report for income tax purposes but an inaccurate report to the company for social security purposes.

(*e*) Many direct salespersons handle various lines of merchandise. Thus, under the bill as proposed, the various companies for which such salespersons would operate would have to make reports and pay taxes on the earnings of the same individuals.

(*f*) Under the arrangement between ourselves and our direct sales representatives, the company never comes into the possession of any of the earnings of the salespersons and has no means of withholding moneys from earnings to cover the taxes imposed. The result of this will be that the company will have to try to devise some system of collection from the various salespersons involved, which, of course, cannot be 100 percent effective. The company will thus be required to pay a double portion of the tax for those persons from whom it cannot collect.

In this connection may we point out that effective functioning of a direct sales relationship requires that the earnings of the salespersons be retained directly by them and that the pending bill will require changing of this system in order that the company may come into possession of moneys from which the tax may be paid.

It does not seem probable that the Congress desires to set up legislation that is difficult or impossible of operation in order to obtain a coverage that may be desirable, when such coverage can be obtained through the operation of the coverage of self-employed persons—in which class these salespersons historically and logically belong.

The classification of these persons as employees would lead to many other difficulties and problems for the employer which are, for practical reasons, incapable of solution.

1. *Federal income tax withholding.*—The employer (if these persons were employees) would be required to collect and withhold taxes under the Federal income tax law. As we point out above, direct selling companies do not—and cannot by the very nature of their business—come into control of the direct salespeople's earnings. There would, thus again be presented a major collection problem and the employer would undoubtedly be subjected to considerable loss because of the impossibility of collecting from these salespersons.

2. *Use and sales taxes.*—The employer may be subjected to sales and use tax laws of the various States and many municipal corporations. Under the system now in operation, self-employed people take care of their own problems as to these taxes, and are liable for reporting on and paying the same. Transposing these persons into employees would place a burden upon the company to collect and report on these taxes (for which funds in many cases would not come into the employer's possession), and the employer would again become subject to added burdens and a grave possibility of monetary loss.

3. *State income-tax withholdings.*—Classification of these persons as employees would require the employer to comply with many States' laws as to income taxes with withholding tax provisions for individuals. Here again the employer would be faced with the problem of collection and with obtaining funds for which to pay the various amounts which it would be required, under the State income tax laws, to withhold.

4. *Tort liabilities, property damage, and so forth.*—Classification of these persons as employees would subject the employer to many lawsuits and possible liability for various tort liabilities, such as personal injuries, and for property damage occasioned to third persons by reason of the operations in which the salesperson is engaged.

5. *Corporate income tax liability.*—If these persons are classified as employees, there is grave danger that the direct selling companies will be held to be doing business in the States in which their various salespersons operate, and such companies would be subjected to the payment of State franchise and income taxes in situations in which they would not now be liable.

6. *Personal property taxes.*—Many of these salespersons carry a merchandise inventory. If the salespersons were classed as employees, the company would become responsible for the reporting and paying of personal property taxes on the inventory which is "owned" by the salespersons.

7. *Dishonest salespersons.*—Under the presently existing arrangement, salespersons would be the ones responsible and liable for their own dishonest and improper personal acts. Under an employer-employee set-up there is a grave possibility that the company would be held to be liable for these personal acts of the salespersons.

In general, the company would be subjected to all of the difficulties and problems outlined above in a situation where (historically and for practical reasons) it cannot control the activities of the salespersons. The reasons why such control cannot exist are briefly stated as follows:

1. Such salesperson cannot be supervised or observed in his work which is always performed outside of the premises of the company, and with no direct supervision from the company.

2. The number of hours which he works and the time or times in which such work is performed cannot be checked for the reasons set forth in the preceding paragraph No. 1.

3. The activities (dishonest, immoral, etc.) in which he may engage while operating his business cannot be controlled by the company.

We wish further to point out that some of the tests laid down to determine whether or not a person is an employee are not relevant to the definitions of employment or employee. For example, section 210 (a) 18 reads as follows:

"Service performed by an individual in the sale or distribution of goods or commodities for another person, off the premises of such person, under an arrangement whereby such individual receives his entire remuneration (other than prizes) for such service directly from the purchasers of such goods or commodities, if such person makes no provision (other than by correspondence) with respect to the training of such individual for the performance of such service and imposes no requirement upon such individual with respect to (A) the fitness of such individual to perform such service, (B) the geographical area in which such service is to be performed, (C) the volume of goods or commodities to be sold or distributed, or (D) the selection or solicitation of customers."

We do not believe the matter of training, whether by correspondence or otherwise, has any bearing on whether the salesperson functions as an employee or as a self-employed individual, or as a purchaser for resale to his own customers. We believe the line in parentheses "(other than by correspondence)" is not a gage of employment. We also believe that "(B) the geographical area in which such service is to be performed" and "(C) the volume of goods or commodities to be sold or distributed" are not gages of employment. We see no reason why a contract for sale of merchandise to an individual for resale cannot also have such stipulations and there be still no question of the independent nature of the relationship.

Section 210 (k) (3) (G) brings out sales volume to be sold and investment other than transportation. Neither of these are indicative of an employee relationship. As we all know, many distributor or dealer businesses of great magnitude have grown from a very small initial investment. These should not be included as requirements because the agreement could be one of sale to an individual for resale and still include both points.

Section 210 (k) (4) brings out regularity and frequency of performance of service, integration of the individual's work in the business to which he renders service, and lack of investment by the individual in facilities for work. As stated above, these are not indicative of any employee relationship and could very easily be part and parcel of an agreement whereby an individual buys merchandise for resale to his customers.

Your thoughtful consideration of the above when social-security bill, H. R. 6000, comes up for action will be greatly appreciated. In your consideration of this problem, generally, let us point out that many of the recent so-called social reforms which have been enacted into law have been made without adequate thought being given to the economic and practical difficulties which confront the honest employer in his endeavors to comply therewith, and of the practical consequences upon all citizens, including both the employees and the employers.

Very truly yours,

G. L. HEFNER, *Treasurer.*

SIMPLIFYING THE WORK REQUIRED OF EMPLOYERS AND THE GOVERNMENT IN ADMINISTERING THE WITHHOLDINGS FOR SOCIAL SECURITY TAXES AND INCOME TAXES

(Statement of Harry C. Gretz, Representing a Special Committee of the Controllers Institute of America)

Mr. Chairman and members of the Senate Finance Committee, my name is Harry C. Gretz. I reside at South Orange, N. J., and I represent the Controllers Institute of America. In addition to being a member of the institute, I am a member of its national board of directors and of its national tax committee. I am also chairman of a special committee on income and social-security-tax withholdings.

Just a word about the Controllers Institute. It was founded in 1931 by a group of 19 controllers of the larger corporations in the country. In the 19 years of its existence, it has expanded to a membership of over 3,600 representing some 2,700 different companies. It now has 43 local branches known as controls, which cover the whole United States and parts of Canada.

The institute is a technical and, in a sense, a professional organization. It stands for the observance of the highest ethical standards in corporate accounting

practice and in the reports of financial and operating conditions of corporations to their directors, stockholders, governments, and other interested parties.

The institute undertakes, through its national committees, to keep informed as to requirements of the Federal Government for information required from business and to represent the membership before Congress and governmental agencies in connection therewith.

I appreciate this opportunity to appear before your committee to discuss some of the problems associated with the mechanics of withholding, from the pay of each employee each pay period, certain amounts required by the Federal Insurance Contributions Act and other amounts required by subchapter D of the International Revenue Code—Collection of Income Tax at Source on Wages.

This is the second time I have had the privilege of appearing before you in connection with withholding. On August 11, 1942, I appeared before your committee to urge the adoption of the so-called wage-bracket withholding tables to be used in lieu of the actual determination to the nearest cent of the withholdings of the 5 percent victory tax under H. R. 7378. That suggestion was followed in that act, and even though the code has been amended several times since then and the withholdings for income-tax purposes have been greatly expanded, wage-bracket tables have been incorporated in all such later acts.

My purpose in appearing before you today is to urge further simplification in the work required of employers as tax collectors for the Government—not to recommend any increase or decrease in the amount of a tax. To summarize briefly, I urge amendments to the present Federal Insurance Contributions Act and the Internal Revenue Code to accomplish the following:

(*a*) Permit employers to make a single withholding from the pay of each employee each pay period, in lieu of separate withholdings for social-security taxes and income taxes. In lieu of separate withholdings, an allocation would be made annually of the total amount withheld to show the portion applicable to social-security taxes and the portion applicable to income taxes.

(*b*) Eliminate the necessity for furnishing the Government with quarterly information returns of the taxable wages paid to each employee under the Federal Insurance Contributions Act.

(*c*) Simplify the requirements for statements to employees and information returns to the Government by permitting the use of an annual statement which will show (a) taxable wages for social security, (b) social-security taxes withheld, (c) wages for income-tax purposes, and (d) income taxes withheld. The original of such statement would be furnished to the employee, with two copies being furnished the Government—one to be used for income-tax purposes and the other for old-age insurance purposes.

(*d*) Bring the definitions of "wages" for income-tax purposes and for social-security tax and benefit purposes into closer conformity.

WITHHOLDINGS FOR THE GOVERNMENT AMONG THE MOST COMPLICATED OF PAY-ROLL DEDUCTIONS

Most pay-roll deductions are flat amounts to be deducted from pay each pay period. However, the withholdings for social-security taxes and the withholdings for income-tax purposes require special computations or references to tables to determine the amount to be withheld.

In the case of social-security taxes prior to 1950, the computation was a relatively simple one. The rate was 1 percent computed to the nearest cent, which meant pointing off two decimal places to fix the amount. Now that the rate is 1½ percent, the derivation of the amount is not so simple. It means a multiplication or the use of a wage-bracket table in steps of 66⅔ cents to determine the amount to the nearest cent.

Even in social-security tax withholding there are some troublesome features, although not encountered each pay period. The $3,000 maximum taxable wages in any one year is one, and other definitions of "wages" also present some problems.

In the case of the income-tax withholdings, the computation of the amount is more complex. The tax rate is 15 percent of the amount by which wages exceed the number of withholding exemptions claimed, multiplied by an amount for each such exemption. However, the present laws simplify these computations for those employers who do not use certain types of computing machines by giving employers the option of using the wage-bracket tables.

To give you an idea of the number of withholdings which employers make in the course of the year, our committee obtained some data from 833 employers.

These data indicate that 63 percent of their employees were paid weekly; 14 percent biweekly; 18 percent semimonthly; and 5 percent monthly. There were a scattered few paid daily or at irregular intervals, and these were ignored. The average is between 41 and 42 pay periods a year per employee. If we assume an average of 1½ deductions per pay period for the 2 withholdings, that means about 60 withholdings a year per employee. For all employees subject to one or both withholdings, the total number will probably mean 2½ to 3 billion withholdings each year.

If we stop to consider that for each withholding we must determine or obtain from tables the amount to be withheld from the pay of each employee each pay period; make the deductions for these amounts; record the taxable wages and deductions; cumulate these amounts; prepare and make monthly tax payments to the Government; prepare quarterly wage information by individual employees under FICA; and prepare annual information returns showing wages and income tax withheld; and then multiply all these operations by 2½ to 3 billion withholdings a year—we can get a general idea of the volume of work employers are required to perform as tax collectors for the Government and we can also get a general idea of the work that must be done by the Government, at taxpayers' expense, to process all of the data supplied them. At the same time, we can get some idea of possible savings that would accrue to employers and the Government if only some of these operations could be eliminated.

ILLUSTRATING THE MAIN FEATURES OF COMBINED WITHHOLDING

Table No. 1 shows a comparison of combined withholding, with separate withholding for social-security (FIAC) taxes and income taxes (FITW). To illustrate, we take the case of an employee who is paid $45.50 weekly during the year and who claims three exemptions. Lines 1 through 4 show the present income tax withholding computed on the percentage basis. It will be noted that it is necessary, first, to obtain the amount subject to FITW by deducting from the gross wage an amount for claimed exemptions, figured at $13 each. To this net amount, a rate of 15 percent is applied. Line 5 shows the withholding taken from the wage-bracket withholding table. Incidentally, this brings out the savings to employers of using the wage-bracket withholding tables, as compared to the computations necessary on the percentage basis where employers do not use certain types of computing machines in connection with pay-roll work.

In addition to the income-tax withholdings, employers at present are required to compute a social-security witholding at 1½ percent of the gross wage (up to $3,000) or use a table in 66⅔-cent brackets to determine the amount. The social-security tax withholding in our illustration is shown on line 6.

The proposed combined withholding is shown on line 7 and taken from a wage-bracket table. This is in lieu of the two withholdings at present shown on lines 5 and 6. A necessary adjunct to combined withholding is the allocation at the end of the year, which is shown on lines 8 and 9. This is done by applying the 1½ percent rate to the annual wage, as defined in FICA, in order to arrive at the portion applicable to social-security taxes, the remaining portion of the combined withholding being deemed to apply to income taxes.

Our proposal also contemplates that the present W-2 forms, now showing the total wages and the amount of income tax withheld, be expanded to include the amount of wages as defined in FICA and the social-security taxes withheld.

Table 1 is intended merely to convey the general idea back of combined withholding, as distinguished from separate withholdings for social-security and income taxes. It illustrates the most simple case, namely, where wages for social-security and income-tax withholdings (before exemptions) are exactly the same.

Even under this illustration it will be noted that there are different amounts withheld, depending on the method of withholding. These differences are due entirely to rounding, as explained in the footnotes at the bottom of the table.

THE ADMINISTRATION'S TENTATIVE COUNTERPROPOSAL

After our committee had concluded there were potential savings in combined withholding, we presented our proposal to the institute's membership, with a large percentage of the membership voting being in favor of it. We then arranged joint meetings with all of the governmental agencies concerned. It was evident from the start that we were in agreement as to principle, although there were several features which required further consideration. At our request, repre-

sentatives of the Bureau prepared a tentative draft of proposed statutory provisions relative to the combined tax, including their ideas where we were not altogether in agreement.

Our proposal contemplated giving employers an option to use the combined withholding tables or to continue separate withholding under the present laws. Also, it left the matter open as to whether the tentative amount for social security under combined withholding should be based on the entire wages earned during the year or only on wages up to $3,000. The latter basis was preferred by the institute's committee, however, and several members of the committee came to feel that combined withholding would not be acceptable if it obliged employers to make current withholdings for social security on wages in excess of $3,000. The Government's proposal provided for currently ignoring the $3,000 limit and would make combined withholding mandatory with respect to all employees who are covered by FICA and who receive payments for wages subject to income-tax withholding which are not less than wages as defined by FICA, provided such payments do not include any amount on account of retirement except from wages under FICA.

For instance, employees of railroads would be excluded to the extent such employees are covered by the Railroad Retirement Act, and not by FICA. Also, employees who receive payments in kind (that is, living quarters or meals furnished for the convenience of the employer), which are wages under FICA but not for income taxes, would be excluded.

Under the Government's proposal, the definitions under income-tax withholding control where they are the equal of or greater than the wages as defined under FICA. For instance, combined withholding will be applicable to payments on account of sickness or accident disability, medical and hospitalization expenses or death payments, dismissal pay, and to the excess of wages over $3,000, all of which are not taxable under FICA.

However, the overwithholding during the year on account of applying the combined withholding to wages not taxable under FICA would automatically be made applicable to income-tax withholding. (See table II.) In such instances where the amount exempted for income-tax purposes exceeds the gross wages and the total withholdings are less than the FICA employee taxes (due to rounding), the amount withheld is deemed to be the amount due from the employee under FICA

PRINCIPAL POINTS ON WHICH THERE ARE DIFFERENCES OF OPINION

While a large majority of the institute members voting on our original proposal favored combined withholding, it should be pointed out that the proposal on which they voted contemplated the optional feature; that is to say, employers who so desired would have been free to continue making separate withholdings as at present. It was evident from the replies that a substantial number who favored the proposal as it was put up to them would not have favored combined withholding on a mandatory basis. Also, as I have previously indicated, there is difference of opinion in the institute's committee as to whether the current withholding for social security on the excess of wages over $3,000 would be, on balance, objectionable. As a matter of fact, these two differences of opinion are closely related because those of the committee who most urgently insist on the optional feature also oppose the current withholding for FICA on the excess over $3,000. Of course, with the option to continue separate withholding under the present laws, there would be no withholding on the excess over $3,000 where such option is exercised.

In the first meeting of our committee it was brought out that determining in what pay period the $3,000 was reached, applying the 1½ percent on the portion of the wage in that pay period which, when accumulated with prior wages during the year, would exactly total $3,000, and then making sure there were no further withholdings for FICA purposes, constituted quite a problem in the mechanics of social-security tax withholding.

When we submitted our draft of the proposal to the institute's membership, we mentioned that there were two ways to avoid that particular problem. One way would set up a table which would use the 1½ percent rate on the total wages up to the point where the rate was equal to $3,000, and, beyond that, to use a prorata of $45 a year (1½ percent of $3,000) applicable to the particular pay period.

The other way would be to ignore the $3,000 limitation for withholding purposes and at the year end use any excess as an additional income tax withholding.

Where the employee earns more than $3,000 in a year, this second way would overwithhold; whereas, if an employee earning at a rate of more than $3,000 failed to earn $3,000 in a year, the former method would underwithhold.

Either of these two methods would not only save time where the withholding tables are used, but the second method would also save time where the larger companies use certain types of computing machines which automatically apply the percentage method.

As previously mentioned, the Government's tenative statutory proposal makes mandatory a combined withholding formula which ignores the $3,000 maximum whether the withholdings are based on the percentage method or whether they are set up in withholding tables.

It is only fair to state that the Government's position regarding the mandatory requirements stems from the premise that options should only be used where the results under different plans are substantially the same. Consequenly, they object to an option which would result in substantially different withholdings under a similar set of facts. There is considerable merit in that position, and some employers have advised our committee that they did not want to be put in the position of being forced to exercise an option where the results would be substantially different.

There was one other point raised by some of the members, bearing on the question of an option to use separate withholding. This point is that the extra work at the year end of allocating the combined withholding and preparing the enlarged information statements for each employee came at a peak-load time, which would make it particularly burdensome to meet the dead line for furnishing such statements. In this connection, it is noted that the present law permits the Commissioner to extend the time for a period not exceeding 30 days. A reasonable administration by the Commissioner of this provision should mitigate this objection to the mandatory requirement.

Because most of the differences of opinion narrow down to the objections stemming from overwithholding of FICA taxes on wages in excess of $3,000, it appears desirable to set forth the possible extent of this overwithholding.

Table III illustrates the extent of possible overwithholding due to applying the 1½ percent on wages in excess of $3,000 per year, where taxpayer earns at the same rate during the entire year. The table assumes a joint return, because the overwithholding is less under a separate return. The overwithholding begins when rate of pay reaches $3,000 per year. Beyond this and up to the wage level where the second-bracket income-tax rate begins to apply, the amount of the overwithholding increases as the wage level increases. Because the income-tax portion of withholding reflects only the first-bracket rates, the overwithholding reaches a maximum at the wage level where the second-bracket rate begins. And because exemptions have the effect of increasing the wage level where this second-bracket rate begins, the amount of the possible overwithholding increases as the number of exemptions increases.

For instance, for any number of exemptions not less than two, the overwithholding increases progressively as the rate of pay increases from a weekly pay of about $58 a week to a weekly pay of about $111. Beyond this point, for an individual with two exemptions filing a joint return, the additional tax liability growing out of the second-bracket income-tax rate progressively reduces the overwithholding to a point about $196 a week, where there it is completely exhausted and beyond which underwithholding comes into the picture. The maximum overwithholding for such individual is about $42 a year.

For an individual with 10 exemptions filing a joint return, the overwithholding increases progressively as the rate of pay increases from about $58 a week to about $213 a week. At this rate, the maximum overwithholding for such individual reaches slightly more than $120 a year. As the rate increases beyond $213 a week, the overwithholding becomes progressively less as the total taxable income is subject to higher surtaxes and will be exhausted when the rate is the equivalent of about $335 a week.

HOW SERIOUS IS OVERWITHHOLDING DUE TO IGNORING THE $3,000 MAXIMUM UNDER FICA?

The following attempts to summarize the reasons back of the objection to mandatory combined withholding which will withhold on FICA wages in excess of $3,000:

(a) It is unfair to employees to take out of their pay any more than is absolutely necessary.

(*b*) Employees should be currently conscious of what part of their pay each pay period is taken out for social security and what part is taken out for income taxes.

(*c*) Combining FICA taxes which are imposed to offset the cost of old-age insurance with income taxes which go into the general revenues of the Government may result in a trend of thinking that old-age insurance be financed out of the general revenues.

(*d*) Ignoring the $3,000 wage limit in current withholding may be taken as an argument in favor of broadening the base.

As to the first point, quite a few employers express themselves as being reluctant to be a party to any proposition that would take more out of the pay of their employees than is absolutely necessary. Even though it would be done as a result of governmental action, they feel that their employees would resent the fact that the employer has suggested it to the Government. This point is well taken and needs very serious consideration.

There is a strong tendency toward overwithholding in the withholding requirements for income taxes under the present laws. This grows out of the fact that an individual's exemption allowances are prorated over the pay periods. For each individual who has taxable wages in one or more pay periods, but who in other pay periods has no wages or wages less than his exemption, there is overwithholding. (See table IV.) Of course, this does not apply where the net taxable income for the full year gets into the upper surtax brackets as, in such cases, there is underwithholding with such employees being required to make a declaration of their estimated tax liability and withholding and to make quarterly payments against any excess of tax liability over the withholding.

Because of the tendency under the present laws toward overwithholding for large numbers of workers, we asked the only group we believed were in a position to obtain employee reaction to overwithholding. This was the Bureau of Internal Revenue, which makes about 30,000,000 refunds each year to individual taxpayers on account of excessive overwithholdings. The Bureau's experience is that taxpayers have no gripes because more was taken out of their pay than was necessary and that they are more than pleased to get a lump-sum windfall when the refund comes around. It is possible that this reaction can be explained because the overwithholding was a sort of forced saving with all of the benefits that go with savings.

Among the group where the tax liability exceeds the withholding, there are, as time goes on, more and more employees who deliberately underclaim exemptions so that more of their tax liability will be taken out of their pay before they get it and that there will be that much less to make up in their quarterly payments. This is a strong indication that employees in this class would have no objection to theoretical overwithholding under FICA if the excess is applied to their income-tax liability.

These are the pros and cons, as our committee sees them, with respect to employee reaction to overwithholding more social-security taxes than is absolutely necessary. Our committee could not come to any unanimous conclusion on this point, but we are willing to abide with whatever decision your committee arrives at.

Points (*b*), (*c*), and (*d*) appear to require no further explanation. Your committee is well qualified to weigh these considerations against other factors which also have a bearing. We do wish, however, to point out that our recommendation for combined withholding should not be taken as an endorsement that old-age insurance benefits should be financed out of general revenues or as an endorsement of any increase in the base beyond the present $3,000 annual maximum.

To sum up the question of combined withholding and to make our position as employers perfectly clear: There are substantial savings in costs inherent in combined withholding and greater savings if the withholding formula contemplates ignoring, during the year, the differences in the definition of wages, of which the most important is the $3,000 maximum wage under the FICA. But we do not favor combined withholding unless Congress finds that the excessive FICA overwithholding during the year (which at the end of the year will be applied to income tax withholdings or subsequently refunded by the Government) is not objectionable to the employees, since it is the employees' pay out of which the excessive overwithholding is taken.

QUARTERLY INFORMATION RETURNS

A relatively large number of employers who wrote us regarding the proposal for combined withholding, which was submitted to the institute's membership, asked whether something could be done to relieve them of quarterly information returns of FICA wages for both Federal old-age insurance and State unemployment compensation purposes.

I became interested in the mechanics incident to social security in the very beginning and have followed its development up to the present time. I realized a fundamental difference in the data requirements as between the two. For old-age insurance, it appeared that it would be necessary to have a complete earnings record for the full service life of each employee, as practically every employee would be an actual beneficiary at age 65 or his dependents would have some rights in case of death. Also, if the insurance concept was to be retained, a record of taxable wages for the full service life would be needed.

On the other hand, there would be thousands and probably millions of employees who would never apply for unemployment benefits and, for these, any reporting is an economic waste; for those who do apply, only the most recent earnings should be necessary to qualify them and to determine the benefits to which they would be entitled.

In spite of this fundamental difference, employers have been required to furnish to both the Federal Government and to the State governments quarterly information returns of the wages paid to each employee. Since the early days of social security, I have been preaching the doctrine that annual information returns should be adequate for old-age insurance purposes and that information returns for only those who claim unemployment insurance, showing only recent data as to taxable wages, should be adequate for State unemployment-insurance purposes. I am happy to report that the States are moving in this direction.

In the original Social Security Act, the requirements for the collection of the tax, payments to the Government, and information returns by employees were left to regulations prescribed by the Commissioner under the approval of the Secretary of the Treasury. By the time Congress was considering the 1939 amendments to the law, the regulations provided for a combined quarterly tax return and information returns of taxable wages by employees. There was nothing in the law at that time that made quarterly information returns mandatory. It was merely that the Bureau decided it was desirable, for proper administration, that the tax returns and information returns be reconciled quarterly.

Then, in the 1939 amendments to the Social Security Act, Congress made it necessary for the Social Security Board to obtain quarterly wages of each covered employee by introducing quarters of coverage in the benefit eligibility requirements and by excluding certain quarters and certain quarterly earnings in the provisions relating to the computation of monthly benefits.

Perhaps in 1939 there was some justification for substituting quarters of coverage in lieu of years of coverage to qualify some aged persons who would not otherwise qualify. But, even then, the cost to do that, in terms of what it meant to employers and to the Board in being required to report and process quarterly earnings for every covered employee, was and still is enormous.

It now appears that the further we get away from the early days, the less need there is for quarters of coverage in the eligibility requirements. And, with the experience gained by employers in making proper returns, there is no necessity at this time for quarterly reconcilements. That the Bureau accepts this can be attested by the fact that for income-tax withholdings we now have the equivalent of monthly payments to the Government and an annual information return by employees.

In the computation of monthly benefits, the elimination of certain quarterly wages can have very little effect. When you consider that the average wage is then coupled with a very broad formula for determining the monthly benefit, which after all has only an indirect relation to past wages or contributions, there can be no justification for this otherwise unnecessary expense to employers and the Government.

Section 214 in H. R. 6000, now before your committee, continues the quarters of coverage in defining a fully insured individual and, while the benefit formula is extremely complicated (probably not 1 out of 100 applicants for old-age insurance could determine what he is entitled to even if he had a full record of his wages throughout his covered employment), it does use years of coverage rather than quarters of coverage. However, on page 67, under the caption "Treatment

of wages and self-employment income in year of computation," we find the clause "and there shall be counted only the wages paid to him prior to the *quarter* in which he filed such application" (italics supplied).

I hope you will permit me to stray from my main theme for a moment, but I do not want to overlook an opportunity to urge your committee to simplify, if at all possible, the benefit formula now included in H. R. 6000. While I offered the opinion that probably not 1 out of 100 applicants for old-age insurance could determine what he is entitled to even if he had a full record of his wages throughout his covered employment, I believe it would be possible to train employees of the Board so they could determine the benefits and could even explain the determination to the satisfaction of an applicant.

But this is not enough. Just recently there has been established a trend in connection with private pension plans, under which benefits under those plans take into consideration the primary benefits under Federal old-age insurance. That means that employees of employers should also know how to determine the benefits and explain the determination to the satisfaction of employees entitled to benefits under private pension plans.

Getting back to the main theme, namely, the elimination of quarterly information returns: To sum up our position on this point, there are substantial savings in costs to employers and Government if Congress will eliminate the necessity for such quarterly information, and it should be able to do this without any adverse effect on employee benefits. This saving in cost is independent of savings from combined withholding but, if combined withholding is also adopted, there can be greater savings through the use of a carbon copy of the W–2 form (expanded to also show social-security wages and taxes) for the purposes of the Social Security Administration.

SIMPLIFYING THE DEFINITIONS OF "WAGES"

Our consideration of the problems that would have to be met under combined withholding brought into sharp focus the differences in the definitions of "wages" for social-security and income-tax withholding purposes. I have seen a list of 22 such differences and the author of the list made it plain that there might be others.

Some of them appear to be justified. The excess over $3,000 of wages and payments on account of retirement, sickness or accident disability, medical and hospitalization expenses, or payments on account of death and dismissal payments, which are exempted under FICA, fall in this category.

But there are other differences, which approach the point of meticulous preciseness not justified by broad treatment given to other factors, such as previously mentioned, which should be removed. For instance, there appears to be no justification for exempting for income-tax purposes payments in kind but, at the same time, including them in the base for social-security taxes and benefit computations.

LUMP-SUM PAYMENTS MADE TO EMPLOYEES FOR TRAVELING EXPENSES

Lump-sum payments to employees for traveling or other bona fide ordinary and necessary expenses incurred or reasonably expected to be incurred in the business of the employer is another example of a difference in definition. They are taxable for social-security purposes but not subject to withholding for income taxes.

However, such lump-sum payments are, by regulations of the Bureau, gross income to the individual and reportable on forms 1099, annual information returns (T. D. 5480). Individuals may claim actual expenditures as a deduction, provided they attach a statement to the return explaining in detail the expenses deducted. Presumably, the employee will have to maintain a detailed record of the expenditures to support the deduction claimed.

Ordinarily, such lump-sum payments, in lieu of actual expenditures, have, as their objective, three main purposes, viz, (*a*) to avoid detailed records of traveling expenses, (*b*) to remove a temptation to pad expense vouchers, and (*c*) to fix automatically the maximum amount that the employer will pay.

Since individuals may claim actual expenses incurred as a deduction, there is no revenue to the Government where the lump-sum payment is a reasonable maximum allowance for actual expense.

For these reasons, I urge legislation which will exempt from income, and from wages defined under the Federal Insurance Contributions Act, lump-sum payments for traveling expenses, where it can be demonstrated to the satisfaction of the Commissioner that such payments in fact represent a reasonable maximum allowance for actual expense.

I apologize for taking up so much of your time, but our committee feels that the tremendous costs incurred by employers and the Government in administering the social-security and income-tax withholding plans warrant the time necessary to a full and complete statement about the mechanics of doing the job.

I conclude with the hope that your committee will give serious consideration to the suggestions we have made to reduce these costs.

TABLE I.—*Example: $45.50 weekly, $2,366 annually, 3 exemptions—FICA tax at 1½ percent*

	Weekly	Weekly×52
Total withholdings, determined separately:		
Income-tax withholding:		
1. Gross wage	$45 50	
2. Exemptions at $13 each [1]	39.00	
3. Net wage subject to income-tax withholding (1−2)	6.50	
4. Amount of income-tax withholding (15 percent of 3) [2]	.98	$50 96
or		
5. Income-tax withholding—Wage bracket table [3]	1 10	57 20
Social-security-tax withholding: 6. 1½ percent of gross wage	.68	35.36
Combined withholdings, with annual allocation: 7. Combined withholding—Wage bracket table [4]	1 78	92 56
Allocation:		
8. FICA tax −1½ percent of annual wage		35.49
9. Balance—Income-tax withholding		57 07

[1] The $13 weekly exemption allowance is a rounding of $12.8205 ($600÷ 9×1/52)

[2] The 15-percent rate is a rounding of 14.94 percent (the result of deducting 17 percent from the sum of 3 percent normal tax and 17 percent surtax, and multiplying the balance by 0.9)

[3] The $1.10 weekly withholding is a rounding of $1.05155 (the result of deducting 3 exemptions at $12.8205 from the gross wage (note 1) and multiplying the remainder by 14.94 percent tax rate (note 2).

[4] The $1.78 combined weekly withholding would come from a new wage-bracket table. It is the result of adding the $1.10 in the present wage-bracket table for income-tax withholding to 1½ percent of gross wage.

TABLE II.—*Illustration of automatic year-end transfer of theoretical overwithholding of FICA taxes to withholdings for income taxes*

	FICA tax	Income tax	Total
Example: $79 weekly wage; $4,108 for 52 weeks, 3 exemptions—Combined withholding, $7.29 weekly, $379.08 for 52 weeks:			
Theoretical allocation	$61 62	$317.46	$379.08
Allocation after transfer of theoretical overwithholding of FICA taxes to income taxes	45 00	334.08	379.08
Actual tax liability assuming a joint return, no other income, and deductions at 10 percent		314 94	
Example: $200 weekly wage; $10,400 for 52 weeks, 3 exemptions—Combined withholding, $27.10 weekly, $1,409.20 for 52 weeks:			
Theoretical allocation	156.00	1, 253. 20	1, 409. 20
Allocation after transfer of theoretical overwithholding of FICA taxes to income taxes	45.00	1, 364. 20	1, 409 20
ctual tax liability assuming a joint return, no other income, and deductions at 10 percent		1, 353. 22	

TABLE III.—Illustrating the extent of possible overwithholding due to applying the 1½ percent rate on wages in excess of $3,000 per year

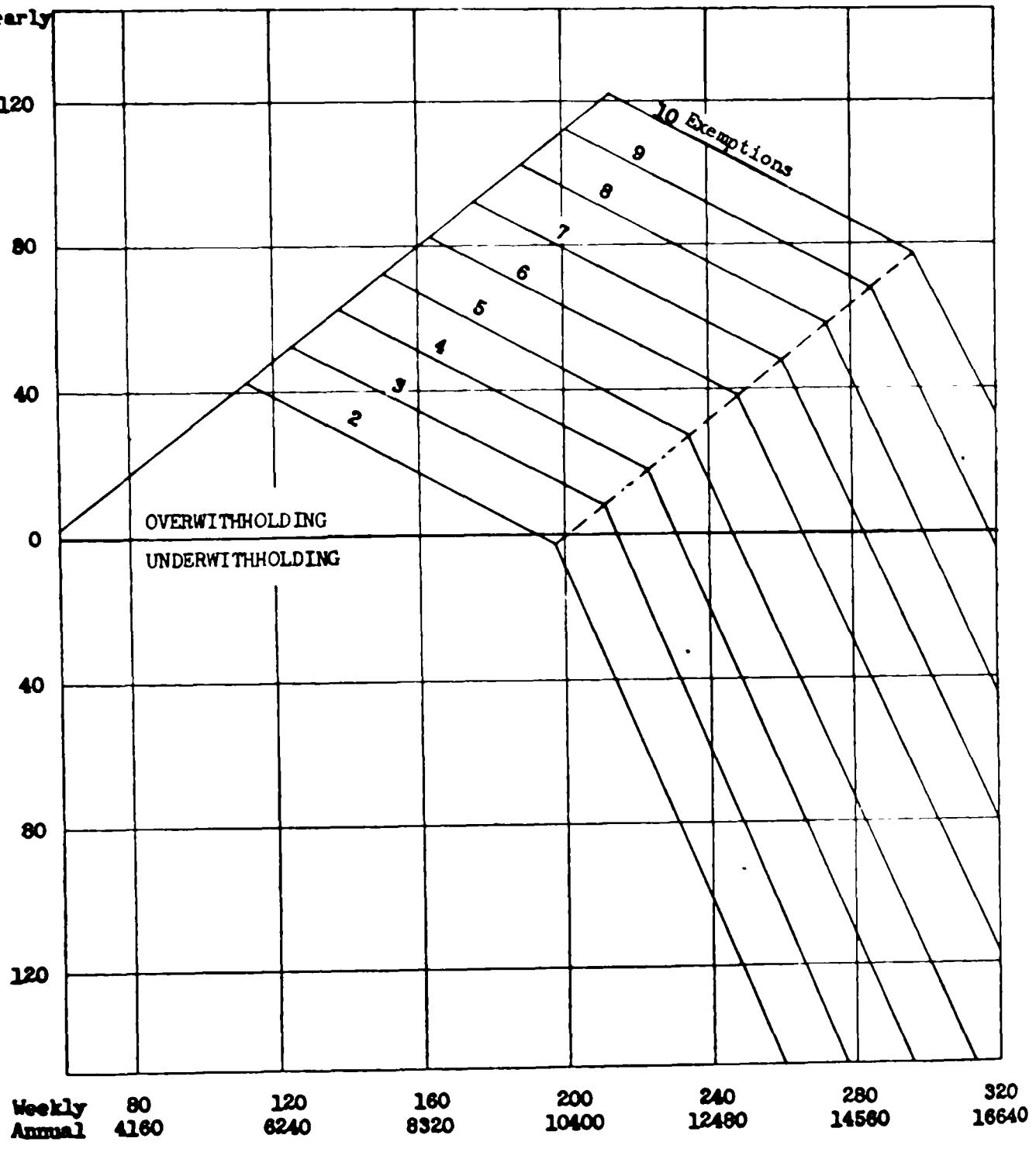
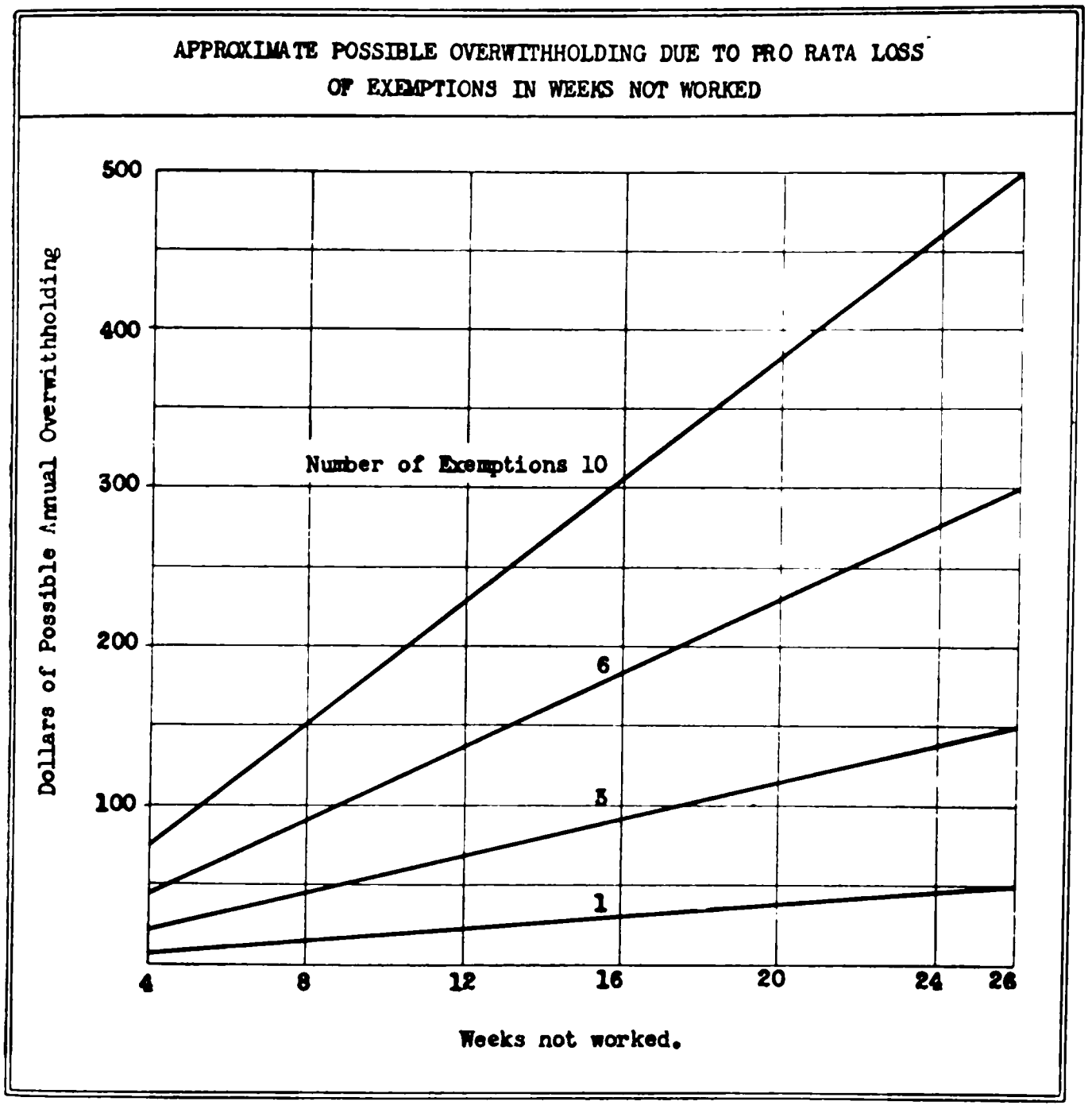


TABLE IV



STATEMENT FROM THE COUNCIL FOR SOCIAL ACTION, CONGREGATIONAL CHRISTIAN CHURCHES

This statement is submitted in behalf of the Council for Social Action, an official agency of the Congregational Christian Churches. It represents only the Council for Social Action. In a democratic organization like the Congregational Christian Churches, no individual or group is empowered to speak for all members and churches.

The Church is concerned with social security for two basic reasons. First, family security is the first principle of social welfare. Social security helps to produce those conditions of physical, mental, and spiritual confidence and well-being which are essential to the development of good family life.

Secondly, social security is concerned with basic economic and social rights of people. The Church cannot be the Church and remain silent when people are involved.

In May 1949 the Council for Social Action adopted the following policy statement:

"We recommend that it be established as a national policy that all citizens are entitled to adequate social-security benefits. Existing social-security provisions should be extended to include especially the self-employed, domestics, agricultural workers, lay employees of religious, charitable, or any other group of workers not already covered by social security or some other adequate pension

plan. The comprehensive social-security program should include increased old-age and survivor's benefits, unemployment compensation, and an adequate program of public assistance and health protection.

"The Council for Social Action believes that the churches should be unequivocal in giving guidance to the Nation in the program of broad social welfare which social security legislation represents. Especially do we regard it as imperative for the churches to be included in a Federal social security plan offering protection to their lay employees. We believe that such a program can be operated without impairing in any way the rights and freedoms of the churches."

In line with this policy, we are happy to commend the general purpose of H. R. 6000. However, we would like to address ourselves to three specific points which have a bearing on this legislation:

1. We are critical of the provision making social-security insurance compulsory for employees and merely voluntary on the part of employers when they are religious or charitable organizations. We strongly urge extension of social security to employees of nonprofit organizations on the same basis as for employees in other areas. We believe that the special treatment afforded charitable, religious, and other nonprofit organizations is not in the best interest of either the organizations or their many employees. H. R. 6000 requires that the employee must make a "compulsory" contribution to the social-security fund, but the employer may or may not contribute an equivalent amount.

Voluntary contributions for the employer is an unwholesome and discriminatory principle. It destroys the concept of mutuality which is central to the entire social-security program. If the employer does not avail itself of the opportunity to make a voluntary contribution, the employee will receive only one-half of the benefits given other participants in the program. He may be "in" one year and "out" the next. His social-security benefit will always be the most expendable item in the budget. As a result, his old-age security benefit will be insecure and less than the benefit of other employees.

We do not agree with those who oppose compulsory contributions by the employer on the grounds that such compulsion would violate the principle of separation of church and state. We do not believe that any serious constitutional questions would be raised by including religious organizations on the same basis as other enterprises.

2. We regard the failure to provide coverage for agricultural labor as a most significant inadequacy of H. R. 6000. This means that 4,000,000 families who earn their living by producing raw materials to feed, clothe, and shelter city families will continue to receive few, if any, of the benefits of the social-security system.

Yet these farm families are among the least able to lay aside for their old age, for support of their dependents in case of death or for sudden emergencies. About half of all the families in agriculture, including the farm operators, the tenants, the sharecroppers, the hired workers, and the migrant seasonal help, made less than $2,000 in 1949 from both farm and part-time nonfarm work. One-fourth of all the families in agriculture received less than $1,000 that year, a year of farm prosperity. Clearly these families cannot afford to save enough for retirement or to tide them over a bad emergency on this income.

As a result, these people must rely on public assistance in their old age. Today, about 52 percent of the public old-age assistance load falls upon rural counties. In many agricultural States, twice as many people receive old-age assistance or charity as receive old-age insurance benefits. This necessity is inconsistent with the national policy of regarding a contributory insurance plan as far more desirable than a system of direct aid.

The social-security tax would not place too heavy a drain on the farmers' budget, yet the benefits the tax helps pay for would help keep these hard workers from the charity rolls. Many of the farm families have helped pay for social-security benefits through contributions made during periods when they were employed at nonfarm jobs.

The cost in human terms of the exclusion of agricultural workers from social-security insurance cannot be tabulated. This cost is not borne by the aged alone; the children of the many farm families whose main breadwinner has died without the protection of survivors insurance pay the price of exclusion also.

The Council for Social Action urges that the Congress act to extend the protection of the social-security insurance system to agricultural workers on the same basis as other citizens.

In connection wth our concern for the welfare of agricultural families, we believe that H. R. 6000 should provide for an increase in grants-in-aid to State assistance, health, and welfare programs. It is generally true that States and counties which lack funds or facilities cut services to farm families first. No State in the Union provides a well-rounded health and welfare program for all its rural families. Only substantial grants-in-aid will make possible adequate care for these Americans.

3. Congress needs to recognize the long-range and difficult problem of Puerto Rico. Welfare aids which can be extended through our social-security system will aid materially in the solution of one aspect of the problem of Puerto Rico.

We strongly support the provisions of H. R. 6000 which would extend old-age and survivors insurance to Puerto Rico and the Virgin Islands. The desire on the part of the 2,000,000 Americans, whose home is Puerto Rico, to be included in the social security insurance system is a healthy one. It reflects an optimism about the success of a current effort to raise productivity and living standards through industrialization. At this point in the economic development of the island, very few workers reach retirement age; few Puerto Ricans have sufficient income or enough steady employment to qualify for the insurance benefits if they do reach retirement age.

It is important, however, that workers who can contribute to an insurance system be permitted to share in the benefits on an equal basis with their fellow Americans on the mainland. ("Equal basis," as used above, means that Puerto Rican workers will receive benefits equal to those of U. S. workers of the same income.) This is consistent with the policy of placing a contributory insurance system above reliance on a system of direct assistance. If we do not include these workers in an insurance plan, they will be forced to rely on direct assistance.

We are wholly in accord with present provisions extending grants-in-aid to the insular government for public assistance. The whole social security system is predicated on the philosophy that local resources cannot be expected to meet all of the welfare needs, and that Federal assistance should be extended on the basis of need for the well-being of the Nation as a whole.

We support the proposals to include Puerto Rico in the public-assistance and child-welfare programs of social security. The average per capita income in Puerto Rico is less than half that of Mississippi, the lowest income State. The desperate need for welfare aids becomes increasingly apparent when one considers that these low incomes are not balanced off by lower cost of living. The cost of living in Puerto Rico at comparable standards to those in the United States is as high as that of the mainland.

The Puerto Ricans have demonstrated initiative and imagination with a program to meet the problem of maintaining economic gains in the face of rapidly growing population where the population is already dense and natural resources sharply limited. An unenlightened trade policy toward Puerto Rico has retarded industrialization of the island in the past. Now that the process is taking place, the benefits of increased public assistance and extension of the social security insurance can go a long way toward improving the economic health of a depressed domestic area.

A Statement by the Lutheran Church, Missouri Synod, Concerning Social Security Exemptions

To the United States Senate Finance Committee:

Sirs: Your committee is presently considering H. R. 6000, popularly known as "The new Federal social security bill." In lieu of appearing before your committee at its hearings, for which no appointment could be secured, the undersigned, speaking for the Lutheran Church, Missouri Synod, wish, in this brief written statement, to draw your attention to an apparent need of amending or clarifying section 210, page 40, subparagraph (9), which excepts—

"Service performed by a duly ordained, commissioned, or licensed minister of a church in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order."

We submit that the Lutheran Church, Missouri Synod, has in addition to its pastors a class of ministers, 1,374 of them in 1948, who should classify under the term "duly ordained," but might be held to be outside of the scope of that term in the administration of the act, on the technicality that they are not formally ordained and are not pastors.

Definition of the ministers in question

The 1,374 ministers in question belong to the clergy of our church and are officially defined by our church as "ministers of religion," "ministers of the Gospel," or "servants of the Word." They are trained for their vocation in institutions which our church maintains specifically and solely for that purpose. They are officially approved by the church, formally called by local congregations, installed by authority of the officials of the church, and consecrated for a life-long, full-time service to the church, precisely the same as the pastors. They receive a theological training which is substantially the same as that of pastors, originally the same, but today with more emphasis on education. They may, and on occasion do, transfer from their particular service to that of a pastor, or are called upon by a church in their present capacity to perform, or help perform, sacerdotal and other pastoral functions.

They are formally called, installed, and pledged for life to the service of the church as "ministers of religion," have an active part in the performance of the ministry of the church, and devote themselves primarily to teaching instead of preaching. Their main obligation is to conduct and teach Lutheran elementary, secondary, and higher schools, although in the local church they commonly instruct also adults and young people, and in general assist the pastor in the ministry of the congregation. In this respect they compare in a way to the teaching orders of the Roman Catholic Church, except that they are not organized as an order.

The ministers in question are men. Ordinarily they are married and have families. They are salaried by the local church, have no other vocation, and are covered by the pension system of our synod, under exactly the same terms as our pastors. Like the pastors, they have also been exempt from military service in World Wars I and II as "ministers of religion."

Classification under H. R. 6000.

We have no doubt that the authors of the bill intend to except the service of the ministers in question, especially since they name members of a religious order besides duly ordained, commissioned, or licensed ministers. But we also sense the need of amending or clarifying this provision, for we fear that, in the interpretation and administration of this act, the term "duly ordained" could be taken to mean only pastors, and that the ministers here under consideration would also not classify under "commissioned, or licensed minister."

Clarifying amendment

We respectfully urge, therefore, that section 210, page 40, subparagraph (9) of H. R. 6000, be amended by your honorable committee as follows:

"(9) Service performed by a duly ordained, commissioned, or licensed minister of a church, including a formally called and installed minister of religious education, in the exercise of his ministry or by a member of a religious order in the exercise of duties required by such order."

JOHN W. BEHNKEN, D. D.,
President, The Lutheran Church, Missouri Synod.

PAUL M. BRETSCHER, Ph. D.,
Chairman, Board for Parish Education,
The Lutheran Church, Missouri Synod.

STATEMENT OF EUGENE J. BUTLER, ASSISTANT DIRECTOR, LEGAL DEPARTMENT, NATIONAL CATHOLIC WELFARE CONFERENCE

I desire to address myself to the committee on the subject of title II of the Social Security Act, providing Federal old-age and survivors' insurance benefits, and section 1426 (b) (8) of the Internal Revenue Code which exempts certain organizations from the payment of taxes imposed under the Federal Insurance Contribution Act (title VIII of the Social Security Act).

The provisions of the Internal Revenue Code are the following:

"SEC. 1410. In addition to other taxes, every employer shall pay an excise tax, with respect to having individuals in his employ."

(The rate is fixed by the statute and is intended to increase progressively until it is 3 percent of the wages paid by the employer.)

Section 1426 (a) defines wages and section 1426 (b) defines employment as follows: "The term 'employment' means any service * * * except:" (there are ten classes of service excepted).

Among these excepted services is:

"(8) Services performed in the employ of a corporation, community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation."

This exception by definition has the effect of exempting a large number of organizations and their employees from the payment of tax under section 1410 and their employers from the payment of tax under section 1400.

This exception results further in the exclusion of employees in these organizations and institutions from the benefits of old-age and survivors' insurance.

From the very inception of the social security system, the National Catholic Welfare Conference has been concerned over the status of employees of religious organizations in relation to old-age and survivors insurance, and on many occasions has expressed its sincere desire to have lay employees of these organizations covered under this program.

When the legislation was first under consideration, and again in 1939, when the late President Franklin D. Roosevelt proposed amendments to the program in operation, a spokesman for the NCWC appealed for coverage for the lay employees of such organizations, and, at the same time, asked for serious considerations of methods to protect the traditional exemption from taxes of religious organizations.

At that time, the NCWC planned to present its views to the congressional committees. However, it will be recalled, such opposition to any possibility of taxing religious organizations had arisen, that the House Ways and Means Committee decided to abandon its attempt to work out a solution to the problem. Later, a communication was directed to the chairman of the Senate Committee on Finance which stated, in part:

"The administrative board (NCWC) pleads for a formula of participation of workers in the old-age benefits of the act without prejudice to the tax-exempt status of the nonprofit religious, charitable, and educational institutions."

In March of 1946, a spokesman for the NCWC appeared before the House Committee on Ways and Means and in presenting his testimony stated, in part:

"The exclusion of these employees (of religious organizations), unfair though it is, is traceable to the failure of this committee to develop a formula under which provision would be made to extend to these employees the benefits of old-age and survivors insurance but which, in extending benefits, would give sincere and full recognition to the fact that traditionally these church related activities have been generally exempt from taxation."

Very briefly, this has been the consistent attitude of the National Catholic Welfare Conference on this important subject over the years.

It has always been the contention of the NCWC that the employees of religious, charitable, and educational organizations should be covered. The NCWC has objected strongly to the fact that its employees and the employees of similar organizations were denied the benefits which old-age and supervivors insurance makes available to all other employees. However, it contended sincerely, and still insists, that the traditional tax-exempt status of religious organizations is not merely a "catch phrase," but a symbol of a distinctive American heritage. Far from being a special privilege, it is a recognition by the Federal Government of the important contributions to the general welfare made by religious, charitable and educational organizations and institutions.

Therefore, the National Catholic Welfare Conference has regarded this problem as one with two facets. On the one hand, there was the desire on the part of the administrative board that all of its employees, and the employees of all religious organizations, should enjoy the benefits which this program makes available. On the other hand, there was this tradition, this American heritage, that religious organizations should be exempt from direct tax levies. This principle, deeply rooted in our national history, the NCWC believes is worth preserving and defending.

The problem the administrative board of NCWC recognizes as one which has engaged the efforts of you distinguished gentlemen and your honorable predecessors in office is working out a formula which will make adequate porvision for both aspects which I have outlined.

During the Eightieth Congress, the administrative board was heartened by the proposal by the House Committee on Ways and Means in this connection. As you will recall, it was proposed at that time that the employees of religious,

charitable and educational organizations should be covered into the program on a "voluntary" basis. In other words, religious, charitable, and educational institutions, as employers, were permitted, in the proposed legislation, to determine whether or not to make the contributions to the old-age and survivors insurance fund and thus make it possible for the employees to be covered into the system. Although, admittedly, there was no absolute guaranty that all the employees of exempt organizations would enjoy these benefits, there was a definite recognition by the committee of the fact that the tax-exempt status of this type of institution should be protected.

That proposal was embodied in amendments to the Social Security Act which the House of Representatives approved in the Eightieth Congress.

It is our sincere opinion that the proposals contained in the legislation presently under consideration are adequate to meet the problem which the NCWC considers most important.

It is a matter of simple justice, that the employees of religious, charitable, and educational institutions be protected by the provisions of old-age and survivors insurance. From the standpoint of economics, it is imperative that they enjoy these benefits. It is not good for the continued efficient operation of any such institution that its employees are strongly attracted to other employment offering the social security benefits which are denied them in religious, charitable, and educational institutions.

H. R. 6000, in our opinion, in providing these benefits for this class of employee, is a long step forward in the advancement of this great social program. At the same time, this legislation, H. R. 6000, recognizes the importance of the American heritage of which I have spoken, and protects it. It makes completely voluntary the decision whether or not a religious, charitable, or educational institution shall contribute to the fund for old-age and survivors insurance coverage.

This measure makes provision for regulations covering the manner in which such an employer may make its voluntary contributions. The National Catholic Welfare Conference is confident that care will be taken to make these regulations just and equitable both to the employers and the employees.

The NCWC has pleaded for many years for a satisfactory solution to this perplexing problem. The present measure represents to my mind a major accomplishment. Your committee is to be congratulated.

STATEMENT OF THE NATIONAL FUNERAL DIRECTORS ASSOCIATION OF THE UNITED STATES, INC., CONCERNING LUMP SUM DEATH PAYMENTS AS A PART OF THE SOCIAL SECURITY PROGRAM

FOREWORD

The National Funeral Directors Association of the United States, Inc., was organized in 1882. As of March 1, 1950, this organization had 11,461 members in good standing. These members are primarily owners and operators of funeral establishment located in every State of the Union and in the District of Columbia.

It is estimated that each year the members of NFDA take care of the funeral services of more than 1,000,000 Americans. As counselor to the bereaved families the funeral director must advise them on many of the problems which arise at the time of death. One of these is the matter of social-security benefits.

In keeping with an association policy, we feel we are not in a position to comment on all the phases of the social-security program. However, each day funeral directors throughout the Nation have an opportunity to observe the reaction to and benefits of lump-sum death payments under the law, and it is in regard to this subject and this subject alone that we wish to submit the following statement.

STATEMENT ON LUMP-SUM DEATH PAYMENTS

It has come to our attention that testimony before the Finance Committee has revealed that certain groups are asking that all lump-sum death payments under the provisions of the social-security law be abolished.

The National Funeral Directors Association of the United States believes that as a part of the social-security program there should be a lump-sum death payment which is primarily a death benefit and not a burial or funeral allowance. This is the case under the present social-security law and under H. R. 6000. Under these two measures it is impossible for the individual who is going to

receive a lump-sum benefit or for the funeral director to know what the amount of such benefit is going to be until it is received. We believe that lump-sum payments should continue as provided for under the present law.

Under such a program, survivors selecting a funeral service cannot be greatly influenced by the amount of the social-security lump-sum payment. It has been the observation of our members that the survivors select the funeral service they would ordinarily choose, based upon their ability to pay, taking into consideration the costs thereof along with the expenses of the last illness. It is readily apparent that the amount of the lump-sum payment is no sufficient to meet all contingencies that arise with death; therefore industrial or other life-insurance benefits are essential. It has been a further observation that the payment of a lump-sum benefit is of material assistance to survivors in the lower income groups.

In addition to the foregoing, there are individuals covered by the present act who, having no dependents, will probably die without survivors and will receive no benefits therefrom except in the form of a lump-sum death payment reimbursing the person who paid the funeral expenses. Many of these individuals are aware of the fact that under the present law this payment will be made and are relying on it to help take care of the expenses of their last illness and death. If there are no social-security lump-sum payments, these individuals will not only fail to receive any benefits from social security but at the time of their death will probably be without sufficient funds to help defray the necessary expenses. If the lump-sum payment is denied in such cases, the Government will find itself in the unfortunate position of having levied confiscatory taxes.

It is our considered opinion that if the formula for lump-sum benefits as set up in H. R. 6000 is used that it will result in smaller payments. We do not feel that the House of Representatives so intended. We therefore urge that lump-sum payments be maintained and in an amount that will not be less than under the present law. Unless this is done, those who will need the payments most will suffer thereby.

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STATEMENT FROM THE DAIRY INDUSTRY COMMITTEE, WASHINGTON, D. C.

The Dairy Industry Committee is composed of six trade or business associations, as follows: American Butter Institute, American Dry Milk Institute, Evaporated Milk Association, International Association of Ice Cream Manufacturers, Milk Industry Foundation, National Cheese Institute.

These member associations in turn are composed of approximately 7,500 employers who employ approximately 500,000 employees throughout the United States in the dairy industry. The annual pay roll is in excess of 1.25 billion dollars. The old-age and survivors insurance tax, under the present law, to be

paid by these employers and by their employees for the year 1950, at the $1\frac{1}{2}$ rate, is $18\frac{3}{4}$ million dollars, or a total old-age pension tax of $37\frac{1}{2}$ million dollars.

In addition to their many thousands of employees, dairy industry companies contract for services of many thousands of individuals, small-business men, who are not infrequently have their own employees. These individuals are known as contract milk haulers and contract cream haulers. There are other individuals also who contract to haul cheese and whey and other dairy products. These contract haulers own the motor vehicles which they use and in many cases have their own employees and now are and always have been considered independent contractors. They are self-employed individuals who pay taxes on the wages of their employees in accordance with the law. In many cases they haul for more than one principal, and in many cases they haul dairy products for one principal over several routes. Throughout the country there are areas where these haulers buy and sell the routes over which they haul for a dairy industry firm.

Dairy industry processors also have contracts with hundreds of individuals known in the trade as cream buyers. These cream buyers operate their own general stores in many instances and as an incident thereto contract with a dairy company to purchase cream from the producers in the area surrounding the cream buyer's place of business. Generally, under the terms of the contract with the cream buyer, the dairy company informs the cream buyer of the price it will pay for fresh cream which meets the specified tests. The dairy company has no control over the cream-buyer's activities. If a cream buyer is on the job, his cream-buying may be more profitable to him than his general-store activity. On the other hand, if the cream buyer does not purchase for sale to the dairy firm enough cream to make it worth while for the dairy firm to expend time and money to aid the cream buyer in such extra activities, such firm, or the cream buyer himself, as a general rule, may terminate the contract on 30, 60, or 90 days' written notice.

The foregoing brief statement of facts may suffice to demonstrate the reason for grave concern on the part of dairy processors with reference to paragraph (4) of the proposed definition of "employee" as contained in H. R. 6000.

The 7,500 dairy-industry companies who are members of the above-named business associations respectfully submit for your careful consideration two points:

First: We recommend that the definition of "employee" be amended by deleting therefrom paragraph (4) found on page 51 (sec. 210 (k)) and on page 152 (sec. 206 (a)) of H. R. 6000.

Second: We favor increasing old-age pensions as proposed in H. R. 6000 but believe it unnecessary and unwise at this time to increase the tax rate or tax base as proposed (tax-rate increase, p. 123, sec. 201 (a) and (b); tax-base increase, pp. 31, 32, 129, and 130).

FIRST POINT

The dairy-processing industry favors the continuance of the means and methods which are now in effect, and which have been in effect for many years, to determine the status of an individual. We favor the continuance of the Gearhart amendment of 1948 whereby the Congress made it clear that the status of an individual is to be determined by the common-law rules. We seriously object, however, to paragraph (4) of the definition of "employee" found on pages 51 and 152 of the bill, wherein the "combined effect" of seven factors set forth in the paragraph is the indefinite and baffling guide for determining the status of an individual.

The legislative department of the our Government thus invests in two Federal bureaus, the Federal Social Security Agency and the Treasury Department, discretion unconfined and vagrant in the determination of when an individual is an employee. "This is delegation running riot," as the eminent jurist, Mr. Justice Cardozo, said in his opinion in the *Schechter case* (55 Supreme Court Reporter, p. 837 at p. 853). Since these Federal bureaus, in the determination of the status of an individual, not an employee under the first three paragraphs of the definition, have as their guide the "combined effect" of seven factors, obviously only the said Federal bureaus can say with any degree of certainty when an individual is an employee.

Under the present relatively simple tests, the two Federal bureaus often disagree as to the status of an individual. The result is that individuals held to be employees by the Social Security Agency receive old-age pensions although no

contributions were made to the Federal old-age fund on behalf of such individuals. No contributions were made because the Treasury Department held such individuals to be independent contractors. With the "combined effect" of seven factors to juggle and weigh, the two Federal bureaus will be establishing the status of individuals on a quicksand base, and the likelihood of disagreement between the bureaus is immeasurably increased. What weight is to be given each of the seven factors? Which of the factors is the determining factor? If a dairy company contracts with a hauler or cream buyer to do certain things, does said company have control over the individual? Many haulers and cream buyers have been operating under contracts with dairy firms for years, and the performance of service by the hauler or cream buyer or his employees is regular and daily. Do these facts change the status of the hauler or cream buyer who has always been considered an independent contractor, a self-employed individual who is brought into the old-age insurance field by H. R. 6000? The services rendered by the haulers and cream buyers certainly can be integrated in the business of the dairy processor. The latter could perform these services through his employees but prefers, in keeping with long practice in the dairy business, to contract out such services with self employed, independent contractors who have skill in handling motor vehicles and collecting and caring for dairy products and who have skill in buying and testing and caring for cream. Is it necessary, under the sixth factor, known as (F), that the dairy company investigate the financial condition of each hauler and cream buyer to determine the "lack of investment" or extent of investment of the hauler or cream buyer "in facilities for work"? Finally, the seventh factor, (G), provides for "lack of opportunities of the individual for profit and loss." Whenever an individual is engaged in business it seems axiomatic there are the concomitant opportunites for profit and loss.

The dairy company does not control these haulers or cream buyers, who, if they find their contracts unprofitable, will cancel the same. As above pointed out, however, many haulers develop dairy routes throughout the country and sell the same, just as cream buyers may develop a large business or neglect his cream buying, and profit or lose according to the skill and business acumen demonstrated. These self-employed, independent contractors may have one or two or more employees. They may go on collecting and paying old-age insurance taxes only to find out, perhaps, that they are employees, and their employees, if any, are employees of the contracting company for part or all of their working time.

It seems clear that havoc will be wrought in the dairy industry and great confusion and unnecessary costs and expenses will be involved if the two Federal bureaus are to be given such unlimited power and discretion. No dairy industry or other firm could say with any degree of certainty which of the self-employed independent contractors were his employees if paragraph (4) of the definition of "employee" is adopted or which continue to be independent contractors.

The "combined effect" of the seven factors for old-age insurance, if enacted into law, will open the way for amending the Federal and State unemployment compensation laws by inserting a similar definition of "employee" in those laws and then in the wage-and-hour laws and the Federal income-tax law for withholding purposes. It seems only realistic to suggest such action if "employee" is to be defined as proposed in H. R. 6000. If we are correct in our belief, then the combined effect of such a definition of "employee" will nullify the efforts by thousands of self-employed. Small employers will be wiped out. The firms who have dealt with those individuals for years as independent contractors will necessarily have to demand of such individuals information as to their social-security numbers, their ages, the value of their services separate from the price paid for the use of their vehicles and their operation of the same, or the operation of the vehicles by their employees, and separate from their store rentals and other expenses as allocated to the activities of cream buyers, and the financial interest of such individuals "in facilities for work."

If an individual, for years classified and regarded as an independent contractor is held to be an employee because of the elusive "combined effect" of the seven factors and other Federal and State laws are amended, as above indicated, so that there is a uniform definition of employee, then it may be expected that claims for personal injury or property damage will be filed against the contracting company for the negligence of someone operating a vehicle or performing some other service under contract over whom the company has no control and who may be a stranger to it.

Self-emnloyed individuals are to be brought within the Federal old-age insurance field, and we favor this broadening of the coverage. We most respectfully and definitely submit, however, especially because of such broadening of coverage,

that it is unnecessary and improper to invest the Federal Social Security Agency and the Treasury Department with the unlimited power and discretion contained in paragraph (4) of the definition of employee.

SECOND POINT

H. R. 6000 provides for an increase in the amount of old-age insurance payments. This appears to be a sound move. But, beginning with 1951 and for 8 years thereafter, the proposed tax for old-age insurance is to be increased from 1½ percent on the employer and 1½ percent on the employee to 2 percent on each, and the tax base is to be increased from the first $3,000 per year per employee to the first $3,600 per year per employee. Provision is also made for increasing the tax rate up to 3¼ percent on the employer and on the employee by 1967.

After 13 years of experience with the Federal old-age insurance law on a 1 percent tax against the employer and the same tax against the employee, and on a tax base of the first $3,000 per year per employee, 13.8 billions of dollars have been collected on which the general taxpayers have paid 1.27 billions of dollars in interest. Out of old-age and survivors' insurance trust funds, 2.9 billions have been paid out in old-age pensions (Social Security Bulletin of the Federal Security Agency, January-February 1950, p. 26). As of the end of November 1949 there was in the fund 11.85 billions. For each of the fiscal years 1947–48 and 1948–49, there was paid out in old-age insurance benefits approximately one-third of the income to the fund in each of those years.

With an 11.85 billion fund as of November 1949 and three times as much money coming into the fund currently as is being paid out, it seems unnecessary at this time to increase either the tax rate for employers and employees or the tax base as proposed in H. R. 6000.

You will doubtless recall that the original Social Security Act provided for a tax rate of 1 percent on the employer and 1 percent on the employee for 1937, 1938, and 1939 and one-half of 1 percent increases on each every 3 years until a 3 percent rate on each would be applicable with respect to employment after December 31, 1948. These increases in the tax rates were not put into effect. Instead, the 1 percent rate was continued until January 1, 1950, when the present rate of 1½ percent on each became effective. The Congress wisely modified the law with reference to the tax rate and should not now approve an increase in the rates as proposed in H. R. 6000. When the payments from the old-age insurance fund more nearly approximate the income to the fund from the taxes on the employer and employee, then we advocate a reexamination of the subject.

The Federal Security Agency, 3 to 5 years before the payments from the fund approximate the income, should advise Congress as to the tax necessary to provide the payments anticipated for 2 or 3 years.

A reserve fund of over 11 billions of dollars is unnecessary. The higher we build the old-age trust fund, more taxes the general taxpayer will be compelled to pay to provide interest on the taxes already paid by the employers and employees and others covered under the law, and the greater the tendency, in all probability, to veer more sharply from the use of insurance principles in this huge old-age and survivors insurance undertaking.

Respectfully submitted.

THE DAIRY INDUSTRY COMMITTEE,
M. H. BRIGHTMAN, *Executive Secretary.*

STATEMENT OF THE ASSOCIATED BLIND, INC., CONCERNING THE AMENDMENTS TO TITLE 10 OF THE FEDERAL SECURITY ACT AS EMBODIED IN S. 2066

The Associated Blind welcomes the opportunity to state its position with reference to S. 2066. A vast majority of the blind people who constantly turn to our organization for help are on "blind assistance." Furthermore, the Associated Blind is an organization conducted and directed by blind people themselves; and, therefore, in this double capacity of directly representing the blind themselves as well as living with this handicap ourselves, we feel you will find our views and experience most valuable in determining the course of action to be taken.

The blind have long struggled to minimize and eventually eliminate entirely the attitude of giving pauper relief and subsistance standards to any blind person compelled to seek public financial assistance. With the advent of the Federal Security Act in 1935, in which title 10 made it possible for the various States to grant this much-needed assistance to the blind, it was hailed with much joy and

enthusiasm by the blind, because it reduced the inadequacy of living standards and also took the first step toward that distant goal for the right to live as normal and decent human beings. However, this was short-lived when in 1940 there was an amendment to title 10 of the Federal Security Act requiring States to take into account all sources of income before granting financial assistance. Consequently, the means test was used in its most restrictive sense, thus reviving the attitude of pauper relief and marginal subsistance. Moreover, the administrative policies and regulations of the separate States indicated that public assistance was to be regarded in the light of emergency relief rather than as permanent assistance. Since a very small minority of blind people were able to secure full-time remunerative employment, it thereby developed the unhealthy situation where only paupers and indigents were considered eligible for assistance, whereas those blind people who might become partially self-supporting through their own labor were deprived of the incentive to work at all because the meager earnings derived from partial employment would be deductible from their request for assistance. All this created a deplorable situation in which the public agencies on the one hand catered to pauperism and indigence and reduced assistance to the minimum while, on the other hand, the blind who wished to engage in remunerative employment were penalized for it in the corresponding reduction of their earnings from the needed assistance, thus destroying all desire for incentive, initiative, and the hope to live as useful and self-supporting citizens.

As a result of this glaring defect and injustice in our public-assistance laws, the Associated Blind, along with other sympathetic groups, constantly sought to have such inadequacy corrected to the best interests of all concerned. To accomplish this, our organization strongly favored and advocated the principle of "exempt earnings." In other words, it was felt that a definite amount of money should be deductible annually from a blind person's income from all sources after which assistance would then be granted. In this way, a person of visual impairment would not be penalized for his efforts to seek and retain employment and at the same time be freed from the degrading investigation into his every activity as to the possible source of his income. The blind person would be encouraged to exercise initiative and be stimulated to take every advantage of self-improvement until such time that he felt he could gladly forego the benefits of public assistance. Thus, when this principle of granting an outright exemption was incorporated in H. R. 6000 (introduced into Congress in 1949), the Associated Blind was proud to announce to the blind that considerable progress had been made in this direction. However, H. R. 6000 restricted this principle of granting exemption only to those blind people seeking vocational rehabilitation, and the amount of exemption would be determined by the agencies administering this law. As to what exemptions would be granted would be left entirely to the discretion of such administrating agencies. This again involved the question of the means test and lacked universal application. In other words, the amount of exemption would differ from person to person and retain all the evils of prying investigation. Moreover, it excluded entirely that large group of blind people who had to apply for blind assistance but who could not avail themselves of any exemption because they were not on vocational rehabilitation.

While the principle of exemptions was desirable and a long step in the right direction, it was more than offset by the disadvantages that were in turn created. Hence, the blind do not endorse H. R. 6000 and reject its provisions in its entirety. It should be pointed out that H. R. 6000 states, on page 95, a revised definition of legal blindness. Whereas at present this is 20/200, it would be 5/200. The downward trend of this definition would work an undue hardship on many visually handicapped people who ranged between these two limits. Medical records and accumulated experience reveal unmistakenly the need of a large group of people to receive help from public-assistance laws due to the many pecularities of visual impairment ranging from 5/200 to 20/200, so that this entails social and economic deprivation.

In view of the foregoing, it should be abundantly clear that the Associated Blind is highly in favor of endorsing S. 2066 for the following reasons:

S. 2066 seeks to grant a flat exemption to all blind people seeking assistance. Its universal application removes, to a large degree, fear and degradation for the blind people subjected to needless investigation. It promotes initiative and encourages incentive for those blind who may become partially or fully employed. It is our strong belief that S. 2066, while yet inadequate and falls short of the desired goal, will nevertheless go a long way toward bringing about that social and economic security which is so essential to the spiritual welfare and human dignity of every American citizen.

RESOLUTION ADOPTED BY THE CALIFORNIA COMMISSION ON INTERSTATE COOPERATION

Whereas the Federal Unemployment Tax Act provides for a 3-percent excise tax upon pay rolls, and that a taxpayer who has paid into a State unemployment-insurance fund may offset such payments against the said 3-percent Federal tax to the extent of 90 percent thereof, provided that the State unemployment-insurance law is certified by the Secretary of Labor as being in conformity under the provisions of the Federal Unemployment Tax Act; and

Whereas the Federal Unemployment Tax Act requires that certain provisions be included in a State unemployment-insurance law in order that the same may be certified; and

Whereas the said Federal Unemployment Tax Act further provides that on December 31 of each calendar year the Secretary of Labor shall certify to the Secretary of the Treasury each State whose law he has approved and that the Secretary of Labor shall not certify a State law which he finds, after notice and hearing, has changed its law so that it no longer contains the provisions required in the Federal Unemployment Tax Act, or where the said Secretary has found that the State has failed to comply substantially with any of the required provisions; and

Whereas during December 1949, the Secretary of Labor threatened to refuse to certify the California Unemployment Insurance Act as being in conformity with the Federal Unemployment Tax Act on the ground that the California Unemployment Insurance Appeals Board had removed from the California statute the required provisions by interpreting them in a manner which the Secretary of Labor did not approve; and

Whereas the Secretary of Labor, through hearings held in Washington, D. C., in December 1949, endeavored to coerce the California State Department of Employment and the California Unemployment Insurance Appeals Board into delegating to the Federal Government the power to interpret the California unemployment insurance law under threat of withholding certification upon failure to so agree; and

Whereas the failure or refusal of the Secretary of Labor to certify the California Unemployment Insurance Act would have imposed a retroactive tax burden of approximately $200,000,000 upon California taxpayers and further, would have caused the immediate suspension of the entire California unemployment-insurance program, including immediate cessation of the payment of benefits to unemployed workers in California; and

Whereas it is the opinion of the California Commission on Interstate Cooperation that the intent and purpose of the Congress of the United States was to delegate to a Federal official the duty to ascertain whether the State laws contained the statuory provisions required by the Federal Unemployment Tax Act, and that it was not the intent or purpose of the Congress to authorize any Federal official to dictate to a State unemployment-insurance appeals board, a State department of employment, or the State supreme Court the interpretation of State laws; and

Whereas there is no effective judicial review of a decision of the Secretary of Labor for the protection of a State: Now, therefore, be it

Resolved, That the California Commission on Interstate Cooperation requests the Council of State Governments to take immediate action and to sponsor amendments to the Federal Unemployment Tax Act so as to provide, in effect, the following:

(1) That the power and authority of the Secretary of Labor under the provisions of the Federal Unemployment Tax Act be limited to a determination as to whether or not State unemployment-insurance laws contain the statutory provisions required by said Federal Unemployment Tax Act:

(2) That certification of a State law shall continue so long as such required provisions are contained in said State law, and so long as any judicial proceedings with respect thereto are pending; and

(3) That, if after hearing, the Secretary of Labor determines that a State law does not conform to said Federal requirements, adequate judicial review be provided; and be it further

Resolved, That the executive secretary of this commission be directed to forward copies of this resolution (1) to the executive secretary of the Council of State Governments with the urgent request that this matter be immediately considered by the board of managers of said council so that remedial proposals may be immediately considered by the Congress of the United States; and (2) to the president of the National Association of Attorneys General requesting their immediate cooperation in the presentation of said remedial proposals.

STATEMENT BY W. R. BULL, DIRECTOR OF SOCIAL SECURITY AND INSURANCE DEPARTMENT, NEW JERSEY STATE CHAMBER OF COMMERCE, NEWARK, N. J.

INTRODUCTION

Mr. Chairman and members of the Senate Finance Committee, my name is W. R. Bull. I am director of the social security and insurance department of the New Jersey State Chamber of Commerce, and secretary of the social security committee of the State chamber.

The membership of the State chamber consists of more than 1,500 business and industrial firms in New Jersey. The social security committee is composed of 40 executives from representative firms all of which are affected by and interested in the Social Security Act and its impact upon our present and future economy.

The State chamber and its social security committee have given much time and careful consideration to the problem of revising the provisions of the Social Security Act. The basic premises from which we began should be clearly stated.

General concepts

We believe that the old-age and survivors' insurance provisions of the Social Security Act should provide a basic floor of income at retirement and that coverage under these provisions should as far as possible be universal. We feel that any changes should be made within the confines of the present law and within our ability to meet not only the present costs of this program but also the future costs, which must of necessity rise.

We are hopeful that as a result of the study of social security by this committee the present imbalance between the old-age and survivors' insurance program and old-age assistance will be corrected. Despite the fact that the original intent of the Social Security Act was to supplant old-age assistance payments by insurance payments this goal has not been reached. There are at this time about 60 percent more persons receiving old-age assistance than are being paid benefits under the old-age and survivors' insurance program; furthermore, the average old-age assistance payment is nearly 100 percent larger than the average benefit under old-age and survivors' insurance.

In view of this situation we feel that the provisions in H. R. 6000 calling for increased Federal matching contributions to States for old-age assistance are not in accord with the basic tenet of our social security system. We therefore recommend that our insurance program be strengthened and extended so the Federal Government may withdraw at the earliest possible time from the State-Federal public assistance program and the statutory requirements necessary to carry out this provision should be included in the law.

It is in the light of these primary concepts that we respectfully submit the following recommendations.

Extension of coverage

We recommend that coverage under old-age and survivors' insurance be extended even beyond the limits set forth in H. R. 6000. In fact, we are in favor of universal coverage insofar as it is practicable, whereby a basic, minimum floor is provided for virtually all gainfully employed persons. By providing the broadest possible coverage the problem encountered at the present time with individuals who fluctuate between covered and uncovered employment would be largely eliminated, thus reducing in large part the need for future old-age assistance payments.

Retention of present tax base

To keep our system in line with this basic floor concept, which is the basis of all social insurances, we strongly urge that the taxable wage base remain at $3,000 and that benefits be computed from that base. We deem this basic floor concept essential if we are to preserve our traditional incentives of thrift and self-reliance, whereby the individual may build for himself additional security when he has earnings greater than his basic requirements.

Revision of benefit formula

Payments to beneficiaries under old-age and survivors' insurance do not provide a basic floor income when measured by the present cost of living. Accordingly, we recommend that the benefit formula be increased. We are concerned, however, that both the present and the future costs be kept in mind when an increase in the benefit level is considered. We, therefore, suggest that the minimum primary benefit be increased to $25; but we also suggest that the maximum primary benefit proposed in H. R. 6000 should be altered in view

of the basic income concept of this type of legislation. We must remember tnat certainty of income and not some hypothetical figure termed "adequate" is the primary criterion in any social insurance. It is recommended, therefore, that benefits be computed by use of the following formula:

Fifty percent of the first $100 of the average monthly wage plus 15 percent of the next $150 up to the maximum wage of $250. We are in accord with the advisory council on social security to this committee in their unanimous recommendation that the 1 percent increment factor be eliminated because of the annually increasing cost.

It is our opinion that the $150 maximum benefit for survivors' insurance proposed in H. R. 6000 should be reduced to $125. The maximum benefit must not be set so high that it will destroy private initiative and personal planning for additional financial security.

Definition of average annual wage

The existing definition of the average annual wage should be retained in favor of the complicated and complex continuation factor set forth in H. R. 6000. We are in accord, however, with that provision which permits a beneficiary to earn up to $50 a month without suffering loss of benefits. The existing $15 limit is undoubtedly too low and this increase will both encourage and permit individuals to lead useful economic lives to the benefit of themselves and society.

Lump-sum death benefits

It seems to us that the provision in H. R. 6000 requiring payment of a lump-sum death benefit in all cases should not be approved. The voluntary provision by large numbers of covered workers for meeting burial and last-illness expenses has been brought to the attention of this committee. It thus appears unnecessary to add this cost to the old-age and survivors' insurance program. Our organization favors the retention of the existing provision in the Social Security Act regarding lump-sum payments.

Definition of employee

Because we regard the extension of coverage to the widest practical base as desirable, the provision in H. R. 6000 redefining the term "employee" is felt to be necessary. Any individual employer or employee should know whether or not he is under the old-age and survivors' insurance program from a statement of the law rather than being dependent upon an arbitrary and discretionary administrative ruling. The proposed changes will in our opinion unnecessarily complicate the problem of covering the new wage groups.

Permanent and total disability

We believe that the proposal before this committee to provide permanent and total disability coverage under the old-age and survivors' insurance program should not be adopted. Disability protection is one of the most complicated and costly fields of insurance. Claims are very difficult to administer and control even with a competent and adequate staff since disability is a subjective and intangible concept which cannot be determined with any accuracy in most instances. The almost disastrous experience of private insurance carriers in this field should be carefully considered. We assert that the solution to this problem lies in State and local jurisdiction and control.

Cost of the program

In view of our recommendations to extend coverage and to increase benefits, we deem it highly important to emphasize the matter of paying for these liberalizations. In our opinion the tax burden should continue to be divided equally between employer and employee. We also feel that a beginning tax rate of 2 percent on employers and 2 percent on employees should be established, and that the tax increases which will be required in the future be stipulated in the legislation that is approved by this committee. It is essential that the citizens of this country realize now that any increase in a social-insurance program must be paid for (1) by increased production from those who are gainfully employed; or (2) by a reduction in take-home pay; or (3) by a reduction in other Government services. It should be clearly understood by all of us that we cannot obtain more benefits than we are willing to pay for, and that our payment must be in terms of production.

In conclusion, we wish to point out that a sound Federal fiscal policy, one which will prevent further inflation and provide a steady purchasing power for wage earners as well as old-age and survivors' insurance beneficiaries, is the only foundation upon which any real security for our citizens can be built.

STATEMENT ON BEHALF OF THE FOOD, TOBACCO, AGRICULTURAL, AND ALLIED WORKERS UNION OF AMERICA, BY ELIZABETH SASULY, WASHINGTON REPRESENTATIVE OF FTA

My name is Elizabeth Sasuly. I am the Washington representative of the Food, Tobacco, Agricultural, and Allied Workers Union of America.

Our union, FTA, speaks on behalf of 100,000 organized workers in the food, tobacco, and cotton-processing industries, for several thousands of agricultural workers who are members of our union, and for the millions of unorganized agricultural workers who have no means of making their needs known to Congress.

The original exclusion of agricultural workers from the Social Security Act was indefensible on grounds of humanity, economics, and reason. These workers, historically and notoriously the most underpaid and lease secure of all American workers, have always had the greatest need for such protection.

When the exclusion of agricultural workers in 1939 was extended to processing workers, by the device of calling these workers "agricultural," the injustice became doubly indefensible. FTA, therefore, urges your committee to take the following steps:

1. Extend full coverage of the social-security law to agricultural workers.

2. Repeal those sections of the definition of agricultural labor which at present designate close to half a million industrial workers employed in packing fresh fruits and vegetables and in other operations as agricultural workers (Sec. 1426 (h) of the Internal Revenue Code).

Stamp system proposals made by the Commissioner for Social Security Administration and endorsed by the Commissioner of Internal Revenue outline entirely workable plans for applying the law to agricultural workers. In the case of processing workers excluded by being called agricultural, procedures already in use for other industrial workers can be reapplied.

Over 200,000 workers are engaged in the preparation and packing of fresh fruits and vegetables for market. A large portion of these workers are members of FTA and work under FTA contract.

These workers were covered by the Social Security Act when it was passed in 1935. Four years later, in 1939, they were suddenly informed that they were now "agricultural" workers, and therefore not eligible for coverage. Congress had decided to call them so—without explanation. Their work remained the same. Their need for coverage remained the same. The bitter comment of many of these workers was this: "I guess we don't grow old any more."

The shed workers who ask this question work in modern, highly mechanized industrial plants. Arthur J. Altmeyer, writing in the Social Security Bulletin in 1945, said:

"There is little to distinguish the conditions under which workers perform services in these plants from those in ordinary urban factories. Except for the product handled, the work is virtually identical. * * * The inside of a typical citrus-packinghouse is a maze of conveyor belts and machinery."

Shed workers cannot possibly be classified as "agricultural." They turn to agricultural work only in periods of economic depression, and this in turn is understandable since agricultural work has always been the lowest paid and the least protected of any labor in the Nation.

Shed workers are therefore on a par with factory workers, in that they require training, experience, and skill in performing highly industrialized and mechanized tasks.

During the war, a number of shed workers went into war plants in order to contribute to war production. But because this employment was temporary, their wage credits were usually insufficient to give them an insured status entitling them to old-age and survivors' benefits. Shed workers are among the 31,700,000 people reported by the technical staff of the House Committee on Ways and Means in 1945 to have insufficient wage credits to make benefits possible because of frequent shifts between covered and noncovered employment.

Because of the nature of their work, shed workers need protection against insecurity more than other industrial workers. The bulk of shed workers—who pack the lettuce, carrots, tomatoes, citrus and other fruits grown in specialty crop production areas and shipped by rail express to terminal markets throughout the country—are forced to migrate from one area of the country to another during the year. The employers need their skills and the workers need the jobs. But the workers must pay for transportation covering hundreds of miles, for temporary housing and for other items that are not in the budgets of other industrial workers.

A typical lettuce packer often covers the following itinerary: He works in Salinas, Calif., from May through October. Some are lucky enough to work the entire Salinas season from April through November. Then he must go to the Salt River Valley in Arizona—700 miles away—for 6 weeks of work. In January he goes to the Imperial Valley in California—another 500 miles— for a 2½-month season. During this time, he takes his family with him, paying for transportation, paying high rent for temporary quarters, or he leaves his family behind, paying double rent and being deprived of their company.

It is obvious that such an itinerary does not leave much margin for saving against old age. And when the worker decides to settle down, say in Salinas, he of course loses work and income as the result.

But the effect of the 1939 exclusion of shed workers is more far-reaching than this. Stimulated by the action of Congress in 1939, a majority of the States changed their definition of agricultural worker to conform to the Federal statute. So the shed workers suffered still further as they were deprived of unemployment compensation.

Attempts have been made to carry this exclusion process still further, most notably in the many campaigns to secure exemption of shed workers from the protection of the National Labor Relations Act. Such attempts, of course, were laid to a proclaimed desire to aid small farmers, whose products were packed by cooperatives, while large growers packed their own in large establishments on their own farm enterprises.

But if such inequity existed, surely the way to remedy it was not at the expense of the shed workers, but rather by giving such workers the same coverage that is extended to others.

We urge most strongly that your committee act promptly to remedy this situation. We urge that even if coverage is extended to agricultural workers, shed workers be removed from the definition of 1939 which arbitrarily made them "agricultural" workers.

There are no problems of administering the law in such an event. It can be done merely by striking from paragraph (4) of section 1.26 (h) of the Internal Revenue Code the words "or, in the case of fruits and vegetables, as an incident to the preparation of such fruits and vegetables for market."

It is simply a question of restoring coverage in the manner in which it was applied before 1939. The same type of situation holds for processing workers excluded by other sections of the 1939 amendments: those engaged in processing dried fruits, employees of bean cleaning elevators, cotton gin workers, poultry hatchery employees, and employees of nurseries and greenhouses. Similarly, agricultural laborers employed by labor contractors and hired out in large gangs should not be included in the definition of agricultural labor.

Agricultural workers are the lowest paid, the least secure and the most exploited of all workers in the country.

Congress has consistently seen fit to exclude them from every piece of legislation which has provided benefits to industrial workers and also, with one exception, from all farm programs which have provided benefits for farmers. Agricultural workers have been degraded to the status of second class, grade B citizens—insofar as our laws are concerned. Their status under State laws is equally poor.

Four million people work as agricultural workers during the course of the year. During periods of industrial unemployment, such as we are in at the present time, the number naturally becomes much greater. Declining farm income, also marked at the present time, forces thousands of formerly operating farmers into agricultural labor. It should be noted, too, that the bulk of agricultural labor today is employed on big, commercial scale farms. The traditional "hired man" on the family size farm no longer represents agricultural labor.

Both the Democratic and Republican Parties have recognized the great need of social security coverage for agricultural labor and in their platforms have called for its extension to cover them.

The report of the House Committee on Ways and Means in 1946, entitled "Issues in Social Security," made the following recommendations:

"It seems particularly important to cover agricultural workers as (1) many of them also work at times in covered employment and make contributions but still have insufficient coverage for protection; (2) they have low incomes; and (3) a large proportion of them have heavy family responsibilities * * * There is no group in the population less able to provide for old age and family security, or who need OASI protection more."

FTA calls on the committee and the Congress to act on these generally agreed upon recommendations

The only objection that is raised to such inclusion is the fallacious one that workers might lose the books in which stamps indicating the contributions made by worker and employer might be lost, or that errors might be made.

Yet every day errors are made, cards are lost, records are confused in situations involving industrial workers. Such errors and replacements are constantly being worked upon by the Social Security Administration and no one claims that administration is impossible because of them.

Our union, like all others, uses a stamp-book system to record payment of dues and the standing of the individual member. These books are highly valued by the members, and are not lost. Thousands of our members travel from the asparagus fields of Stockton, Calif., to the Alaska salmon canneries each year, yet they do not lose their books. We are convinced that a valuable record of social security contributions, representing security for old age, would be equally cherished by the workers.

We know that the Social Security Administration has carried on studies for many years on the most feasible method of administering the law under increased coverage. The system of stamp books they have proposed has been found workable in other countries. We are convinced it would be workable here.

In conclusion, our organization wishes to stress the importance and the immediate need, as well as the feasibility, of removing shed workers from the unfair exclusion put upon them in 1939, and of extending coverage to agricultural workers who need it as much and more than any other group in the Nation.

Common justice and equity to a large, hard working and heavily exploited section of the American people demands that it be done.

SIOUX FALLS, S. DAK., *March 11, 1950.*

JOS. S. LAWRENCE, M. D.,
American Medical Association,
1523 L Street NW., Washington, D. C.

DEAR DR. LAWRENCE: Reading your Capitol Clinic No. 9, of March 7, the first paragraphs concerning flaws in the permanent and total disability clause of H. R. 6000, brings to mind many instances in my own experience which might better be reported.

At the present time I am examining for the rating boards of the Veterans' Administration center here in Sioux Falls. Each of the rating boards, not wishing to turn down any eligible veteran seeking total and permanent disability benefits accorded to World War I veterans who are now 60 years of age or older, make a special point to insist on excessive examination and laboratory work. For instance, it is well known by the members of the rating boards that a certain amount of arthritis exists in every individual having reached the age specified, so that, whether or not the veteran in his statement has mentioned rheumatism or arthritis, the rating board adds in their request for physical examination these words, "General medical, special orthopedic, with X-ray of all affected bones and joints." Of course this indicates to me, when examining the veteran, if I find any stiffness, any swelling of any joint, which would include the small joints of the hands, the entire spine, in most instances both hip joints, etc. If the examination shows stiffness, and shows X-ray changes, then it becomes a problem of the rating board to determine if enough joints are affected to make the veteran totally and permanently disabled.

It is quite plain, then, that "total and permanent disability" rests on the judgment of a board of laymen, who have a medical report before them, plus a number of more or less accurate "sworn" statements of other laymen, and occasionally other physicians, supporting the case.

It is quite generally accepted here that it is the duty of certain veterans service officers to seek out all veterans who have attained the age at which they are eligible to apply for the benefits mentioned, see that they fill out a claim form, and include in the claim that they are suffering from arthritis particularly of the spine. Many veterans, who are not disabled, and who do not need these benefits refuse to file such claims, and will not perjure themselves to make such claims. Many veterans who do file the claim are eligible for such benefits because they are permanently and totally disabled; I would guess this figure to be about 60 percent of all those examined need the benefits or are entitled to the

benefits because of disability. At the present time I spend one-half to two-thirds of my time examining for this type of claim alone.

I think it quite proper to carry the analogy to the general population. I can imagine the confusion and chaos which would occur when every citizen who has reached the age when they are eligible for total and permanent disability benefits applies for the same, thus demanding a physical examination including X-ray of all affected bones and joints, X-ray of the chest, and all other laboratory work required to support the claim. None of the examination being actually done to determine actual and medical proof of permanent and total disability. Even then the final outcome of the claim depending entirely upon the leniency of the particular rating board examining the evidence before them, keeping in mind the pressure of political ward heelers demanding help for their friends.

Sincerely yours,

DON H. MANNING, M. D.

STATEMENT OF GEORGE S. EATON, EXECUTIVE SECRETARY, NATIONAL TOOL & DIE MANUFACTURERS ASSOCIATION, CLEVELAND, OHIO

The small businesses that make up the special tool and die industry have very serious problems on pensions, both from the viewpoint of their owners and also from the viewpoint of their employees, who are highly paid mechanics.

In common with other small-business men, most tool and die shop owners do not see how they can maintain private pension plans. To undertake the heavy fixed obligations so required might easily lead to bankruptcy, in which case the supposed security gained by the workers would prove imaginary.

In view of the great increases in wage scales and the cost of living since the Federal social-security program was inaugurated, increases in the present old-age benefits are overdue. And to answer the needs of small businesses and their employees, these increases should be greater than provided in H. R. 6000.

A few words about the special tool and die industry will help in understanding its problems on pensions. The contract shops in this industry make to order specially designed tools, dies, jigs, fixtures, gages, molds, and special-purpose machines. Usually there is only one of a kind ordered. Many of them also do precision machining on a jobbing basis. They are almost invariably operated by their owners, who have come up from the bench.

The National Tool & Die Manufacturers Association represents the job-shop owners who make these specially designed tools and dies. All of these manufacturers are small-business men. The employment of a typical tool and die shop is 25 or 30. Many have 10 or less employees and only a few have more than 100. They employ tool and die makers, die sinkers, all-round machinists, machine specialists—all very highly skilled mechanics. There are now probably 2,500 contract tool and die shops in the United States.

The special tooling made by our members constitutes equipment which is necessary in adapting the machinery of a mass-production plant to the manufacture of a particular metal or plastic part. Before production can be started on a new or revised model someone must design and manufacture the special dies and tools needed. The "captive" tool rooms of the big manufacturing plants do much of this work, so that the contract shops must compete with their customers for business, and of course get it only if they can show advantages.

While our industry is the cornerstone of mass production, it is entirely dependent upon orders from mass-production plants for its business. The ingenuity and precision with which our industry works makes possible the necessary simplicity of mass production.

As would be expected from its nature, the contract tool and die industry is a hazardous one financially. During the years of the depression that followed the prosperous 20's the industry dropped far below the average earnings level of other manufacturing groups. Mortality of the shops in this industry has always been high except in good times. And they did poorly last year, when business was good in most lines.

When demand is active many of the highly skilled craftsmen employed in contract tool and die shops earn $4,800 a year or more. And practically all of them earn more than $3,000 a year.

Because of the big fluctuations in the orders received by contract tool and die shops, which they can do little to level out, and the custom among tool and die makers of seeking to broaden their experience by changing jobs, there is much

movement of workers among the various shops, even in good times. Private pension plans, even if practical from a financial standpoint, would fail to give a great many of these workmen the protection they would get from adequate Federal pensions.

In addition, the establishment of private pension plans in these small shops, in this precarious industry, would introduce such financial hazards that their existence would be threatened, and the plans probably bankrupt in depressions.

In view of present-day pressures for pensions to provide old-age security, rather than to rely on individual thrift and family cooperation, the only equitable way is to establish an all-embracing Federal system with as adequate payments as the country's economy can support.

Without attempting to pass judgment upon all the provisions of H. R. 6000, we wish to urge that the old-age benefits be brought more into harmony with the need and rights of the higher paid workers. This can be done by raising the maximum annual wage base from the present $3,000—established when wage levels were far below those of today—to $4,800, or at least to $4,200.

It is realized that pay-roll taxes on any wages above $1,200 a year that are included in the wage base bring increases in pensions that are small in comparison with the basic payments. But these increases are still enough to make a material contribution to the retirement benefits of the higher paid workers, to which they are entitled. Their payments and those of their employers are paying for much of the pensions granted the low-paid workers. The only hope of these higher paid employees for pension rights that are secure, and can be retained even though the workers change employers, is through increased retirement benefits under the Federal social-security plan.

Tool and die shop owners, with few exceptions, feel that they cannot maintain private pension plans. This feeling must be shared by the vast majority of small-business men everywhere. Yet they must compete for mechanics with the "captive" toolrooms of the giant corporations which do have pension plans. They are willing to meet the higher pay-roll taxes that would be required with a maximum wage base of $4,800, in order that their employees may look forward to more adequate retirement incomes, and they urge that Congress provide for such an increase in the wage base.

Unless social-security pensions are made adequate, pressure for private pensions will continue on all employers for years to come—on the small, for whom pension plans are impractical, as well as on the large. And these small businesses—the backbone of American life—may gradually disappear.

Practically all of the private pension plans negotiated within recent months have been in large, well-established companies with big reserves, and most such companies may well expect to have to maintain private pension plans. It is therefore only natural for spokesmen for the great national associations representing businessmen to recommend keeping the maximum wage base at $3,000, as we understand they have done.

While this may seem to serve best the desires of their large members, it will not meet the needs of the contract tool and die manufacturers and countless other small-business men. These employers know that the welfare of their employees and their own ability to stay in business will be helped by a higher maximum wage base in H. R. 6000.

THE AMERICAN PUBLIC HEALTH ASSOCIATION,
New York, N. Y., March 16, 1950.

Senator WALTER GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: The American Public Health Association appreciates the privilege of presenting to the Committee on Finance of the United States Senate its interest and convictions in the extension and improvement of social-insurance provisions with particular reference to H. R. 6000. It is requested that the following statement be considered by the Committee on Finance and included in the record.

The American Public Health Association, as the professional society of 12,000 public-health workers, has a broad interest in this legislation because of the values for health which derive from (a) increased coverage and more adequate benefits to assure maintenance of income when earnings are lost or cut off, and (b) the feeling of security which such changes will bring to people. Further-

more, public-health people have a special interest in income maintenance during periods of disability in (a) improving opportunity for the care of the disabled and chronic sick, and (b) making health services more effective.

The association believes that many features of H. R. 6000 are sound and wishes to go on record as follows:

(1) The association supports the provisions in H. R. 6000 allowing the utilization of Federal public-assistance funds in payments to recipients residing in public medical institutions meeting State standards.

(2) The association supports the provisions of H. R. 6000 for permanent and total-disability insurance.

This implements the following recommendation in a joint statement "Planning for the chronically ill," made by the American Hospital Association, American Medical Association, American Public Welfare Association, and the American Public Health Association:

"Other measures which enable chronically ill persons to be cared for at home include improved housing, supervised boarding homes, medical social service, recreational and occupational therapy, and vocational rehabilitation. Social-security measures to maintain income such as disability insurance, old-age insurance, and public assistance are likewise of vital importance."

(3) The association supports the following provisions of H. R. 6000 relating to extension of coverage of old-age and survivors insurance:

(a) Inclusion of employees of State and local Government by voluntary compact of the State with the Federal Security Agency. If such employees are under an existing retirement system, they can be included only if they elect to do so by a two-thirds majority.

(b) Inclusion of employees of nonprofit institutions; if the employer does not elect voluntarily to pay the employer's tax, the employee would receive credit with respect to only one-half his wages for the employee's tax which he must pay.

(4) The association supports the provisions in H. R. 6000 permitting the States to utilize Federal public-assistance funds in making direct payments for medical care to practitioners and institutions.

In this connection the association wishes to express its position with respect to medical care of the needy by the following statement:

It is recognized that public-welfare departments are now handicapped in carrying out their existing responsibility to assure medical care,[1] when needed and not otherwise available, to recipients of federally aided public assistance by the inadequate financial provisions of the Social Security Act and its requirement that all aid be extended in the form of cash payments to the recipient. It is therefore recommended that the latter restriction be eliminated and that the agency administering assistance be authorized to finance the purchase of medical care in behalf of assistance recipients. In order to assure the quality of medical care thus purchased for assistance recipients and relate it to their individual needs, it is also recommended that its financing be accomplished through funds earmarked for that purpose rather than charged against the funds available for cash payments to individuals. The further view is expressed that any provision to finance medical care for assistance recipients should permit the administration of the medical aspects of such care by public-health departments.

(5) The association recommends as amendments to H. R. 6000 the following provisions which were included in the report of the Advisory Council on Social Security to the Senate Finance Committee (Social Security Bulletin, October 1948, p. 8):

(*a*) "The Federal Government should pay one-half the medical-care costs incurred by the States above the regular maximums of $50 a month for a recipient ($15 for the third and succeeding persons in a family receiving aid to dependent children) but should not participate in the medical costs above the regular maximums which exceed a monthly average of $6 per person receiving old-age assistance or aid to the blind and a monthly average of $3 per person receiving aid to dependent children."

(*b*) "Federal grants-in-aid should be made available to the States for general assistance payments to needy persons not now eligible for assistance under the existing State-Federal public-assistance programs."

In further reference to our statement under (4), above, with respect to medical care of the needy, the association hopes that the committee report will make it

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[1] Wherever the term "medical care" is used in this statement, it is understood to include dental, nursing, hospital, and other health care as well as physicians' services.

clear that the provisions of the Federal bill intend to leave the States latitude for the welfare departments to contract with or otherwise utilize the services of the State or local health departments in providing or in effecting and operating arrangements for medical services to needy persons, when this is in the interest of economy, efficiency, and quality of care in this part of the State's program. This is especially important since in Maryland, Richmond, Va., the District of Columbia, and in a number of other localities, health departments are now responsible for providing medical care for public-assistance recipients. There is a growing interest of health departments in this field. We believe that the greatest possible encouragement should be given to this sound development which will help achieve integrity and unified administration of all health and medical-care services. We consider it important that nothing in the bill hinder such developments.

Respectfully yours,

HUGH R. LEAVELL, M. D., Dr. P. H
Chairman, Executive Board

BORDEN'S,
Temple, Ariz., March 17, 1950

The Honorable CARL HAYDEN,
United States Senator, Washington, D. C.

DEAR SIR: As a representative of a corporation doing business in the State of Arizona, I wish to object to bill H. R. 6000, Social Security Act Amendments of 1949, as presently written and also wish to suggest certain modifications which are as follows:

(1) That paragraph 4 of section 206 of H. R. 6000 be deleted because it places power in the Terasury Department and the Social Security Agency which, in effect, gives these agencies legislative authority to determine which individuals are employees through the consideration of the seven factors as provided on page 152, paragraph 4 of this bill. Employers would be unduly burdened and embarrassed by having foisted on them as employees, individuals over whom they would have little or no control and in some cases, the employer would not even know said individuals.

(2) That the tax rate for old-age pensions for the employee and the employer, which was raised from 1 to 1½ percent for each this year, remain at 1½ percent until such time as it appears that the payments from Federal old-age pension trust fund each year approximate the income to the fund; and that the tax base of $3,000 remain the same since it is unnecessary to increase the tax base to increase the old-age pension.

(3) That old-age assistance payments to the needy aged be left to the States because they are closer to the recipients of these payments. If the Federal Government must participate in the payment of old-age assistance, that there be no increase in the Federal Government contributions to the Federal-State system to encourage situations which occurred in the State of Louisiana (under Federal-State set-up, wherein the Federal Government contributes the greater portion of the amount paid out) where 819 out of each 1,000 needy are receiving old-age assistance.

I sincerely trust that you will give the foregoing your utmost consideration.

Respectfully yours,

D. E. STUART,
Superintendent.

NATIONAL ASSOCIATION OF REFRIGERATED WAREHOUSES, INC.,
Washington, D. C., March 16, 1950.

Hon. WALTER F. GEORGE,
Chairman, Committee on Finance,
Senate Office Building, Washington, D. C.

DEAR SIR: Your committee is now considering H. R. 6000, as passed by the House of Representatives, extending the old-age and survivors insurance system, amending the public assistance and child welfare provisions of the Social Security Act.

The National Association of Refrigerated Warehouses, consists of over 500 responsible cold-storage warehouses, representing better than 90 percent of the public refrigerated storage space in the United States. The industry employs

more than 20,000 men and women and has an annual pay roll in excess of $50,000,000.

The association is vitally interested in and favorable to the major aspects of this legislation but does feel that any increase in the present $3,000 taxable base is unwarranted and unnecessary. It is believed that the fixed percentage increases in the social-security tax rate is sufficient for the needs of the program and entails sufficient burden upon both employer and employee, without adding to this burden further by an increase in the taxable base, regardless of amount. It is further felt that such increase will have an undesirable effect on the country's economy, and the reduction in take-home pay of employees will only accelerate labor's demands for increased wages.

We, therefore, wish to file herewith our opposition to any increase in the taxable base.

Respectfully yours,

J. L. GAGINI, *President.*

ASSOCIATION OF WASHINGTON CITIES,
Seattle, Wash., March 6, 1950.

To Members of the United States Senate:

LADIES AND GENTLEMEN: The Association of Washington Cities, representing the 238 cities and towns of the State of Washington, has long favored the extension of social-security coverage to municipal employees. Since many cities do not have a retirement system, it seems very logical that employees who work for municipal corporations should not be placed at a greater disadvantage in regard to old-age insurance coverage than those who work in private industry. Among the many other reasons for the extension of this coverage to local governments, it is quite apparent that municipalities themselves should not be placed at a disadvantage in competing for qualified personnel. The latter condition has resulted many times in cities which have lacked either the authority or the funds to establish full-scale retirement systems, or where it has been necessary to recruit temporary employees who could obtain no advantage from the ordinary career service type of retirement plan.

After years of work toward this end, it now appears that some action will be taken at this session of Congress to extend social-security protection to public employees through action on H. R. 6000. Because the resolution as presently drafted has obvious defects which would place municipal governments at a great disadvantage, we express the earnest hope that it will be revised prior to its final passage.

In the first place, it is highly essential that each municipality be given the right to decide for itself whether it is to have old-age and survivors' insurance coverage. Considering the home-rule problem of municipal governments, the sphere in which local autonomy is to be exercised is an important one. In this regard, there is occasional disagreement as to just what functions are to be considered local in nature, and those which are deemed of State-wide importance and of such nature that it is perfectly proper for the State legislature to declare basic policies. In the home-rule States, of course, it has often been necessary to resort to the courts to determine just what is a State, as opposed to a local, purpose, or where the dividing line between State and local control should be drawn. Among students of government, however, there is almost a complete unanimity that the State government should not attempt to fix salaries, or determine the working conditions of municipal employees over the heads of city councils elected for this purpose. For the State to arbitararily fix municipal salaries, or determine their personnel policies, including the extent to which retirement plans are to be utilized, is to place the State government in the role of a city council, where it is called upon to determine purely local policy without having at its disposal basic facts about the financial status or the other local conditions which pertain to the municipality concerned. It is very evident that city governments should have the right to determine their own personnel policies including the extent to which they will participate in retirement plans or social-security coverage. There are too many local factors to be considered to place this decision elsewhere, and cities therefore see no sound reason why State governments should make the decision as to social-security coverage for them, or why contracts for coverage should be handled through the State administration.

In the second place, cities definitely want the privilege of covering all municipal employees who have no retirement system at present. Workers employed by the city should not be placed at a disadvantage with those in private industry.

Lastly, some provision should be developed by the Social Security Board for those who shift from public to private employment, or who transfer several times during a period of years, so that they never work out satisfactory protection under a career service type of retirement plan. While we believe in encouraging career service in local government, the social problem occasioned by the lack of any old-age insurance will not be solved for the worker who shifts from one position to another unless some such action as that recommended be taken by the Congress.

Summarizing the above, this association suggests a revision of H. R. 6000, to provide the following:

1. Direct contracts between the cities and the Federal Government—let each municipality determine for itself whether it is to have old-age and survivors' insurance coverage.
2. The coverage of all municipal employees who have no retirement plans at present.
3. Some plan for those who shift from public to private employment, or who transfer several times during a period of years, so that satisfactory protection is never developed.

Please be assured that any consideration you may give these matters will be appreciated by the cities and towns of the State of Washington.

Very truly yours,

C. V. FAWCETT,
Chairman, Executive Committee.

NEW JERSEY WELFARE COUNCIL,
Newark, N. J., March 15, 1950.

The Honorable WALTER GEORGE,
Chairman, Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: The New Jersey Welfare Council, a State-wide membership organization which is concerned with the health and welfare needs of the citizens of New Jersey, wishes to advise you officially of its action in support of bill H. R. 6000 providing for the extension of the present Social Security Act, on which legislative hearings are now being held before your committee.

The New Jersey Welfare Council has gone on record officially endorsing H. R. 6000 as being a progressive and significant step forward in the development of the social security legislation in our country. We recognize that the enactment of this bill into law will serve to extend welfare benefits to an increasing number of people in the United States as well substantially increase benefits that are now being received.

We would like to point out, however, several instances in which we believe that the legislation now before you for consideration should be strengthened to provide an even more adequate social security system.

1. Coverage under old-age and survivors insurance should be broadened to provide full coverage so as to include farmers, farm workers, part-time domestics, and professional persons who will be excluded under the pending legislation.
2. The age at which women should become eligible for old-age and survivors insurance benefits should be reduced from 65 to 60 in accordance with recommendations of your Advisory Council on Social Security.
3. Under the public assistance titles of the act payment of direct medical care should be provided over and above the Federal matching ceilings for categorical assistance up to an average of $6 a month for adults and $3 a month for children.
4. The recommended appropriation of $7,000,000 for child welfare services should be increased to $12,000,000 as originally proposed in an earlier bill.
5. While the addition of a fourth assistance category, "Disability assistance for persons permanently disabled" will increase Federal coverage for needy persons, it is our opinion that a more desirable system of coverage for people requiring public assistance would be provided through the elimination of all categories and the adoption of a public assistance program for which Federal funds would be made available on a matching basis for all needy unemployed persons regardless of age or physical condition.

We trust that our recommendations may be entered into the official hearings of your committee and that they will be given favorable consideration in your preparation of legislative recommendations.

Sincerely yours,

ROBERT D. SMITH, *President.*

STATEMENT BY BENJAMIN C. MARSH, EXECUTIVE SECRETARY, PEOPLE'S LOBBY, INC., WASHINGTON, D. C.

Four facts need to be considered in connection with social security proposals:

1. No social security system can provide any more security than the economic system of which it is a part.

2. Social security measures must not be used to further imperialist designs.

3. Extension and increase of public social security measures postulate at least equal controls by Government of all economic activities and of individuals.

4. Only the Federal Government, can operate social security measures effectively, and economically.

1. The lure of health and unemployment insurance, and old-age pensions, tends to obscure the fact that such measures cannot be a substitute for a sound economic system under an economy of abundance, but on the contrary tend to postpone such an economy to the extent they are accepted as a substitute therefor.

Security and social benefits can be fully realized only out of maximum possible production, with such objective, and not the quest for profits, the motive for production.

Continuous deficiteering—and in only 2 out of the past 20 years has the Budget ever been balanced, though 8 years have been prosperous—dooms the effectiveness of social security measures.

Our economic system is in a state of highly unstable equilibrium, postponing a smash only through expenditures of billions for arms, and the cold war, a large part of it being paid for by long term interest bearing bonds.

Living off succeeding generations, doesn't provide security, it conceals the fact of insecurity.

2. First Germany and then Britain adopted a system of social security, such as we have undertaken—Germany to condition her workers for a supreme Deutschland über Alles effort in World War I to challenge Britannia Rules the Waves, and Britain a few years later, to condition her workers for the struggle to maintain that rule.

When Germany tensed for her second effort in World War II, and America's real rulers sensed the opportunity, to try to grasp the scepter from Britain's faltering hands—and so prevent Germany from grabbing it—President Roosevelt and Senator Wagner espoused social security here.

Social security and the concept of the American century developed simultaneously.

We grabbed bases throughout the world, in an effort to anticipate any other nation's getting them, tried to control the San Francisco Conference at which the United Nations was organized, and instigated the veto, in the Security Council.

3. The concepts of complete individual freedom and complete responsibility of Government to insure maintenance when unemployed and after working years—whether retirement be at 60, 65, or 70—are mutually exclusive—painful as that fact is to politicians, whose slogan is "as thy promises, so shalt thy votes be."

The Congressional Joint Committee on the Economic Report correctly stated, over a year ago: "The Government, which is the only instrumentability that can balance the needs of agriculture, industry, and labor, cannot afford to be without a plan."

Senator Joseph C. O'Mahoney, chairman of the joint committee, in submitting its report on the steel industry, said—"The collectivist corporation in our time has become the most significant aspect of our whole economic structure.

"These organizations are dominating a steadily increasing segment of the industrial and commercial activities of the whole Nation. They affect the lives not of the people of one city or one State, but of the people of the entire United States.

"Their managers may, and do determine by their private decisions, how much of a given commodity 144,000,000 people may have, and the price they pay for it."

Social security payments, whether for old-age pensions, unemployment benefits, or widows' allowances, come out of the national product.

Wages and prices determine temporarily, the degree of security while working; payments made by Government through taxes upon profits or other income (or by bonds which are a lien on future income), determine temporarily, the degree of security during periods of sickness, or unemployment, or as old-age pensions.

Obviously Government must determine the location and nature of production as well as the retained profits of production, and also rate of pay and place of employment of workers when it attempts to insure maintenance from the womb, whose productivity is encouraged by certain dogmas, to the tomb, recourse to which is being postponed.

This is merely to apply the practice of parity payments, farm-price supports, and conservation payments to farmers, all of which ineluctably involve acreage limitations, and Government direction of production.

4. At present about 39,800,000 persons are included in our old-age pension system, of whom 35,000,000 are in trade and industry.

Pending legislation proposes to add some 10,650,000 of whom about 4,500,000 are self-employed and 3,800,000 State and city employees.

About 10,150,000 persons will not be covered, even if pending pension legislation is enacted, including many who most need such pensions—1,600,000 farm-family workers, 1,500,000 farm laborers, 1,100,000 self-employed earning less than $400 a year net, 750,000 part time domestics, and about 500,000 nonsalaried doctors, dentists, lawyers, engineers, clergymen, and so forth.

The Social Security Administration reports that during the year ended June 30, 1949, $3,530,000,000 was collected from Federal, State, and local Governments, by the needy, the old and the jobless—of which the Federal Government paid $1,721,000,000—or nearly half.

During that year, Federal-State jobless payments amounted to $1,193,000,000 compared with $753,000,000 the year before, and 5,644,975 persons drew jobless pay, compared with 3,820,744, the preceding year.

Average weekly payment in fiscal 1949 was $19.91 compared with $18.19 in 1948.

Federal-State relief paid the needy, aged, blind and dependent children, amounted in 1949 to $1,710,000,000, an increase of $316,000,000 over the preceding year, and went to 4,062,505 individuals.

United States News and World Report, (March 17, 1950) states:

"People in 21 States of the Union get more cash from Federal, State, and local governments, than they get from factory pay rolls. In 15 other States, Government payments are more than half as large as manufacturing pay rolls.

"In no State do Government payments amount to less than a fourth of the income paid by manufacturers to their workers.

"Nearly 6,000,000 civilian workers depend upon some government directly for their livelihood.

"Government payment to individuals amounts to about $28,000,000 a year, compared with $46,000,000,000 in pay rolls of the manufacturing industry."

It shows that in North Dakota Government payments were 644 percent of manufacturing pay rolls, in South Dakota 336 percent, in New Mexico 413 percent, in Arizona 333 percent, in Utah 213 percent, in Nevada 325 percent, and in Wyoming 268 percent.

About a fifth of the Federal Government's receipts is now derived directly or indirectly from taxes on consumption, regardless of ability to pay.

Pensions paid by corporations, or other employers, are paid by consumers regardless of ability to pay, in higher prices. Only the Federal Government can levy progressive income taxes so as to put the burden of noncontributory payments for pensions, upon those able to pay.

Industry payment of pensions deprives the Government of revenue. All such payments like wages, are deducted from tax liability, as legitimate costs of doing business.

Business concerns are taxed chiefly at a fixed rate.

There is, however, a growing demand that excessive profits be distributed to stockholders, so they may be taxed even more progressively.

Industry pension plans enable them to escape more of such taxes, which is probably the reason many of the big stockholders in steel and coal and automobiles favor industry-paid pensions.

Government will have to pay most of pensions as well as of unemployment benefits, minus current contributions, because most collections to date are in Government securities, and the Government must borrow or tax.

The Federal Security Administration in reply to a question from People's Lobby, Inc. wrote us April 8, 1949, about social insurance collections:

"Collections since the beginning of these social insurance collections have been about $29,000,000,000. It is inevitable even under the present law, that the tax rate must go up at some future date, either by increase of the pay-roll taxes, or by contributions from the general fund."

There are about 11,300,000 persons in the United States, 65 years of age and over, most of them living on small fixed incomes, and many of them dependent on Federal or local relief or private charity.

It is too late for any contributory pension system to help them.

Company pensions will tend to make employees more conservative and content with the profit system, or at least compliant, since loss of a job usually means either less of the pension, or a reduction, by transfer.

Only the Federal Government can insure continuity in pensions; the crash of 1929–33 would have disrupted many company systems.

Every person working, with an income above the minimum requisite for a decent standard of living, should make an annual contribution to old-age pensions, as to unemployment compensation, and by some similar system of payment, because the past few years has developed an unfortunate and false conception here, that the Federal Treasury is the widow's cruse of oil, and self-replenishing.

Such contribution should be lower for heads of families with several dependents.

The experience of the United Mine Workers' pension and welfare fund proves the necessity of public supervision of funds collected from the public through laws giving employers such authority.

Of the nearly 40,000,000 persons now under a Government-pension system, about 7,200,000 are also covered by industrial pension and profit-sharing plans.

Of the 490,000 corporations in the United States, 13,000 have pension plans, and of these 4,662 are paid for in part by the employees, while in 8,338 employers pay the entire cost.

In 1946, of 526,363 corporations reporting on income, 359,310 reported a net income, and 131,842, or 25 percent, a deficit. In 1937, 57 percent of all corporations reported deficits and in 1938, 61 percent. Usually about a fourth to a third of corporations do not make a profit.

Of the 3,500,000 businesses (of all sorts) in the United States, 26,900 corporations—less than eight-tenths of 1 percent—employ 52 percent of the workers, so most employers have only a few employees.

Some two-fifths of new enterprises fail within 2 or 3 years, and only about one-tenth last much beyond the fifth year. Commercial and industrial failures (exclusive of banks) were 3,476 in 1947, or three times as many as in 1946, but a relatively small number compared with 31,822 in 1932, and even with 14,768 in 1939—before heavy Government spending started for hot and cold war.

New business risks are largely taken by private investment.

The congressional Joint Committee on the President's Economic Report in a report on investment published October 11, last year, states that capital requirements of the 600,000 retail and 70,000 wholesale firms which started between the first of 1945 and October 1947, were $7,000,000,000.

Of this, "63 percent was provided from the personal savings of the entrepreneurs, 14 percent from bank loans, 8 percent from suppliers, and 11 percent from other loans."

There is no reason to think the fate of these concerns will be any better than of other newcomers in our competitive system, and an additional pension charge of 3 percent or even 2 percent of pay roll will hasten their demise.

WEIL, GOTSHAL & MANGES,
Washington, D. C., March 9, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

MY DEAR SENATOR GEORGE: I respectfully wish to comment upon one particular phase of the amendments to be made to the Social Security Act as provided in H. R. 6000. My thoughts are addressed principally to the provision of the proposed act which will extend old-age and survivors insurance coverage to employees of nonprofit charitable institutions and the impact which this provision will have upon persons over 65 years of age who are employed by these institutions and are receiving insurance benefits under the present law as well as the financial burden which will be imposed upon these institutions.

Under section 209 (b) of the present law, employment by nonprofit charitable institutions is expressly exempted from coverage of the act. Consequently, wages

received from such employment are not subject to the provision of section 203 (d) (1) of the act which is applicable only to wages received in covered employment. Thus, a person over 65 years of age may receive wages for employment by a nonprofit charitable institution without forfeiting any of the benefits to which he may be entitled on the basis of wages previously earned in covered employment.

H. R. 6000 will extend coverage of the act to include employment by nonprofit charitable institutions so that persons now employed by such institutions who are also receiving insurance benefits on the basis of prior covered employment will lose such insurance benefits. Section 103 (b) proposes to increase from the present exemption of $15 a month to $50 a month the amount that may be earned by an insurance beneficiary from covered employment without loss of benefits. However, in most instances, wages received from such employment will exceed this exemption so that, in effect, the extension of coverage of the act will deprive these persons of the insurance benefits which they are presently receiving.

In this regard, there appear to be two cogent factors which your committee should consider:

First, many persons over 65 years of age have taken employment with charitable institutions because they are not physically able to perform arduous manual labor and they cannot readily find employment in productive occupations in private industry. Although wages paid by charitable institutions are substantially lower than the level of wages in productive industry, these persons have been able to supplement their income by the benefits provided under the present act and thus provide a minimum aggregate income for the support of themselves and their immediate dependents. H. R. 6000, in its present form, will deprive these persons of the insurance benefits which they have been receiving and reduce the bare minimum income which is necessary for their maintenance and support. When persons have attained the age of 65 years, they have established a certain pattern of living which is based upon the income which they can expect to have. If this income is reduced, they are faced with two alternatives, either to obtain higher wages in their present employment or to find new employment which will provide them with the necessary minimum wage. In the case of persons over 65 years of age now employed by charitable institutions, neither of these alternatives will be available. Charitable institutions themselves operate on minimum budgets and they cannot afford to increase wages to replace the loss of insurance benefits. As to the second alternative, it is extremely difficult even in periods of economic prosperity for persons over 65 years of age to find new employment in private industry. Under present economic conditions, such employment would be entirely unavailable to these persons.

Secondly, the impact of this provision will impose a severe financial hardship upon charitable institutions. They will be faced with pressure by their employees to increase wages to compensate for the loss of insurance benefits. Furthermore, if the threat of loss of the increased insurance benefits provided under H. R. 6000 should discourage persons over 65 years of age from continuing their employment, these charitable institutions will be forced to employ younger people who will require higher wages.

In view of the consequences which I have described herein, I would respectfully recommend to the committee that H. R. 6000 be amended so as to provide that persons over 65 years of age who are presently employed by a charitable institution may continue to receive without reduction the insurance benefits which have heretofore been paid to them. Although H. R. 6000 provides for an increase in insurance benefits, it would seem to be equitable if the foregoing provision is adopted that insurance benefits be paid to these persons at the rates presently in effect and not upon the increased rates provided under the proposed act. The provision could be so phrased that these persons would be entitled to receive benefits at the increased rates upon their retirement from employment and subject to the exemption of $50 per month provided under section 103 (b) (1) of H. R. 6000, or upon attaining the age of 75.

It is my understanding that only a relatively small number of persons would be eligible to avail themselves of the relief which would be provided by such provision and the cost thereof would be relatively small in comparison to the burden to which these persons would otherwise be subjected.

I trust that this matter will receive your favorable consideration and I would be happy to discuss this matter with you further if you should so desire.

Respectfully yours,

ELY KUSKEL.

STATE OF NEW YORK, SENATE RESOLUTION No. 114

ALBANY, *February 28, 1950.*

Committee on Rules (at request of Mr. Wicks):

Concurrent resolution of the senate and assembly memorializing the Congress of the United States to exclude members of retirement systems within the State from pending provisions extending the social-security law

Whereas there is now pending before the Congress of the United States certain legislation to extend the provisions of law, commonly referred to as the social security law, to include all public employees in the United States including public employees of the various cities and the governmental subdivisions of such States, and

Whereas in the State of New York pension and retirement systems have been established for many years and are available for membership by every public employees of the State, or its various subdivisions; and

Whereas under the constitution of the State of New York all such public employees, notably policemen, firemen, and public school teachers who are members of any such pension or retirement system within the State, enjoy a contractual relationship under which their rights cannot be diminished or impaired: Now therefore be it

Resolved (if the assembly concur), That the Congress of the United States hereby respectfully is memorialized to exclude from the provisions of such pending legislation members of the police departments, fire departments, public school teachers, and all other employees who are presently members of any pension or retirement system administered by the State of New York or any of its governmental subdivisions; and be it further

Resolved (if the assembly concur), That copies of this resolution be transmitted to the Secretary of the United States Senate, the Clerk of the House of Representatives, to each United States Senator and to each Member of the House of Representatives elected from the State of New York.

By order of the senate,

WILLIAM S. KING, *Secretary.*

In assembly March 1, 1950.
Concurred in without amendment.
By order of assembly:

ANSLEY B. BORKOWSKI, *Clerk.*

AMERICAN NATUROPATHIC ASSOCIATION,
Midland, Tex.

To the Members of the Senate Finance Committee.
(Attention Hon. Walter F. George, chairman)

DEAR SENATORS: This association represents the members of the naturopathic profession in the United States, comprising some 7,000 naturopathic physicians.

Naturopathy is a therapeutic system embracing a knowledge of the constitution, diseases, injuries, and disabilities of man and remedially employing nature's agencies, forces, processes, and products in the practice thereof.

We have observed that certain self-employed professional groups are specifically excluded from coverage in H. R. 6000, section 211 (c), (5), providing with reference thereto as follows: "The performance of service by an individual in the exercise of his profession as a physician, lawyer, dentist, osteopath, veterinarian, chiropractor, or optometrist or as a Christian Science practitioner, or as an aeronautical, chemical, civil, electrical, mechanical, metallurgical, or mining engineer; or the performance of such service by a partnership."

According to the report of the Committee on Ways and Means of the House of Representatives, the term "physician" as used in the section above quoted means "an individual who is legally qualified to practice medicine." It is quite obvious that is the reason osteopaths and chiropractors sought and obtained exclusion from coverage.

This association respectfully requests that the foregoing section 211 (c), (5), be amended by adding the word "naturopath" immediately following the word "osteopath," thereby according the naturopathic profession the same recognition and exempt status provided and granted the other schools of the healing arts in said section.

We believe it would be contrary to the public interest to include the naturopathic profession under the coverage of H. R. 6000 and exclude all other healing art professions from the provisions thereof, which now appears to be the case.

Respectfully submitted.

HENRY SCHLICHTING, JR., N. D.,
President.

THE NATIONAL SHERIFFS' ASSOCIATION,
Washington, D. C., March 16, 1950.

Senator WALTER F. GEORGE,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: The writer notes the Senate Finance Committee, of which you are chairman, is considering H. R. 6000 which would amend the Social Security Act to include employees of States, counties, and municipalities.

This bill, of course, would include deputy sheriffs, and as president of the National Sheriffs' Association I would like to endorse this bill whereby the deputies would have Social Security protection.

Our national offices are in Washington and in event testimony before the committee would be helpful, the executive secretary would be glad to appear.

With all good wishes, I am

Sincerely yours,

A. B. FOSTER,
President, National Sheriffs' Association.

A RESOLUTION RELATING TO REVISION OF THE SOCIAL SECURITY ACT BY THE INTERNATIONAL ASSOCIATION OF CHIEFS OF POLICE, WASHINGTON, D. C.

Whereas there is now before the various committees of the Senate and House of Representatives of the United States, proposals for revision of title II of the Social Security Act, relating to old-age and survivors insurance, namely as presented in H. R. 6000; and

Whereas, after careful consideration of all issues involved and a weighing of benefits now enjoyed by members of State of local police pension and retirement systems, the executive committee of the International Association of Chiefs of Police is of the firm belief that such members now receive and enjoy greater benefits and financial security from these existing pension and retirement systems than they would under social-security coverage; and

Whereas these present pension and retirement systems are adequate and well adapted to the needs of the public employees covered thereby; and

Whereas the imposing of social-security coverage upon these public employees now covered by State or local pension and retirement systems would require them to carry a double burden of contribution and ultimately would lead to dissolution of such State or local pension and retirement systems: Therefore be it

Resolved, That the executive committee of the International Association of Chiefs of Police does herewith petition the Senate and House of Representatives of the United States to specifically exclude from social-security coverage police, firemen, teachers, and other public employees now protected by adequate pension and retirement systems.

Certified to be a true and correct copy, this 8th day of February 1950.

EDWARD J. KELLY, *Executive Secretary.*

LAKE COUNTY DEPARTMENT OF PUBLIC WELFARE,
Gary, Ind., March 9, 1950.

Hon. Senator WALTER GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR GEORGE: I have studied H. R. 6000 very thoroughly and find its provisions very sound. The only defect is that it does not go far enough. All employees should be covered under OASI. The omission of certain groups such as farmers and farm hands is unsound. Farm hands are one of the first groups who become dependent in old age. States and communities that are

rural will be carrying a heavy burden when this group will have to rely on public assistance. The farmer is going to be placed in a rather unfair position without coverage. He will have to pay tax for those on public assistance, and pay tax through the purchase of products (as industry will charge part of the costs of OASI and private pensions plans to the cost of production). In other words, the groups left out will be triple taxed and yet will not obtain any social-security benefits for themselves.

I'm afraid that farm groups and farmers have not been fully informed about the implications of the OASI program.

H. R. 6000 does not embrace wholesale medical insurance. Frankly, I'm glad that it does not. I believe that private initiative and the competitive enterprise system should be given the opportunity to handle this social problem.

H. R. 6000 is a modest approach to basic social security. It does not go into areas that can be solved by private incentive and voluntary mutual responsibility. I would appreciate this being included in the hearing record.

Very truly yours,

FRED H. STEININGER, *Director.*

NATIONAL ASSOCIATION OF COUNTY OFFICIALS,
Washington, D. C., March 13, 1950.

Senator WALTER F. GEORGE,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR GEORGE: I am enclosing herewith a copy of a resolution adopted by the National Association of County Officials which has a bearing upon H. R. 6000, now under consideration by the Senate Finance Committee. It is requested that this letter and the attached copy of our resolution be made part of the record of your committee in relation to that bill. Attention is invited particularly to that portion of the resolution calling for extension of social-security coverage to all employed persons, including self-employed and particularly on a permissive basis the employees of the State and local governments.

Sincerely,

KEITH L. SEEGMILLER,
Washington Representative.

RESOLUTION NO. 6

Resolved, That the National Association of County Officials go on record as favoring a system of social-security benefits available to every employable person; including the self-employed, and permissive legislation as to public employees.

Resolved, we, the officers and delegates to the National Association of County Officials convention, assembled in Oakland, Calif., this 20th day of July 1949, urge the enactment of a law which will provide that voluntary inmates of county infirmaries, homes, or hospitals, which said institutions meet social-security standards, be entitled to Federal funds for old-age assistance upon the same basis of matching as used for care in private homes.

ILLINOIS POLICE ASSOCIATION, INC.,
Evanston, Ill., March 18, 1950.

Senator WALTER F. GEORGE,
Senate Office Building, Washington, D. C.

DEAR SENATOR GEORGE: Thank you for the fine way in which you received our presentation to the Senate Finance Committee on February 9, last, requesting an amendment to bill H. R. 6000 to exclude all public employees now covered by a pension plan.

We hope you will continue to support our efforts as stated in the enclosed resolution which represents over 33,000 members.

Very truly yours,

FRED H. EICHLER,
Chairman, Legislative Committee, Illinois Police Association, Inc.

PROTEST

To His Excellency, the President of the United States of America, and to the Honorable the Members of the Congress of the United States of America:

The undersigned organizations, representing a combined membership of more than 33,000 members, through their duly authorized representatives, whose signatures appear below, do hereby vigorously protest the passage of H. R. 6000 in its present form, and we wish to express our uncompromising opposition to this bill, or any other, which would seek to either absorb our existing organizations into the social-security system or provide for the membership of these organizations to vote them into the social-security system at some later date. We strongly urge the passage of the Lehman amendment to H. R. 6000 which would exclude from the operation of H. R. 6000 all public employees now covered by a retirement system, or, if that amendment be considered too broad, then the adoption of an amendment to H. R. 6000 which would have the effect of excluding the undersigned organizations completely from the operation of H. R. 6000. The undersigned organizations operate in the city of Chicago, the county of Cook, of the State of Illinois.

Policemen's Annuity and Benefit Fund of Chicago (12,000 members), by Joseph P. Fitzgerald; House of Correction Pension Fund (125 employees), by John E. Wagner; Illinois Police Association (10,000 members), by Fred H. Eichler; Firemen's Annuity and Benefit Fund of Chicago (6,000 members), by John P. O'Connor; Park Policemen's Annuity and Benefit Fund (1,200 members), by George A. Otlewis; Policemen's Benevolent and Protective Association (4,000 members), by Leonard A. Duncan.

Total membership of above organizations here represented, 33,325.

AMALGAMATED ASSOCIATION OF STREET, ELECTRIC RAILWAY, AND MOTOR COACH EMPLOYES OF AMERICA,
Detroit 26, Mich., March 13, 1950.

Hon. WALTER GEORGE,
Chairman, Senate Committee on Finance,
United States Capitol, Washington, D. C.

DEAR SENATOR GEORGE: At the hearings before your committee on proposed amendments to the Social Security Act, held on February 10, 1950, your committee very kindly gave our organization leave to submit a further statement and a proposed amendment to H. R. 6000 which would result in coverage of employees of public transportation systems taken over by State or municipal authorities after 1936.

As indicated in my statement before your committee, it is urgent that employees of public transportation systems acquired by State or municipal authorities after 1936 be afforded protection under the Social Security Act. We believe that such coverage should be definite and automatic. It appears that some groups of public employees, such as police, object to possible coverage under the voluntary agreement section of H. R. 6000, section 218. We would have no objection to the express elimination from the bill of groups of public employees not employed on public transportation systems. We are interested solely in obtaining coverage for employees of public transportation systems on an automatic rather than a voluntary basis.

The inequities which employees of such public transportation systems have suffered as a result of the transfers to public operation have been specifically dealt with in my statement before the committee. We are enclosing herewith a draft of proposed amendments to section 210 (a) (8) (B) of the Social Security Act as amended by H. R. 6000, and to section 1426 (b) (8) (B) of the Internal Revenue Code as amended by H. R. 6000. These amendments provide for coverage of employment performed in the employ of a State or municipally operated public transportation system acquired after 1936.

We hope that your committee will see fit to report these amendments favorably. We wish to thank your committee for the courtesies extended us.

Respectfully yours,

A. L. SPRADLING,
International President.

H. R. 6000

[In the Senate of the United States]

AMENDMENTS intended to be proposed by Mr. ——— to the bill (H. R. 6000) to extend and improve the Federal old-age and survivors insurance system, to amend the public-assistance and child-welfare provisions of the Social Security Act, and for other purposes, viz:

On page 39, beginning with line 16, strike out all down to and including line 18 on page 40, and insert in lieu thereof the following:

"(B) Service (other than service performed under an agreement under section 218) performed in the employ of a State, or any political subdivision thereof, or any instrumentality of any one or more of the foregoing which is wholly owned by one or more States or political subdivisions in connection with the operation of any public transportation system: *Provided*, That service performed in the employ of any of the foregoing in connection with the operation of any public transportation system acquired after 1936 by such State, political subdivision, or instrumentality shall be deemed unemployment within the meaning of section 210 (a) of this title."

On page 141, beginning with line 12, strike out all down to and including line 14, page 142, and insert in lieu thereof the following:

"(B) Service (other than service performed under an agrement under section 218) performed in the employ of a State, or any political subdivision thereof, or any instrumentality of any one or more of the foregoing which is wholly owned by one or more States or political subdivisions in connection with the operation of any public transportation system: *Provided*, That service performed in the employ of any of the foregoing in connection with the operation of any public transportation system acquired after 1936 by such State, political subdivision, or instrumentality shall be deemed employment within the meaning of section 210 (a) of this title."

COOK COUNTY DEPARTMENT OF WELFARE,
Chicago 1, Ill., March 22, 1950.

Hon. WALTER F. GEORGE,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR GEORGE: Writing as director of a county department administering the three categorical public-assistance programs (old-age assistance, aid to dependent children, and blind assistance) I should like to submit for consideration by the Senate Finance Committee certain suggestions for additions and modifications in H. R. 6000.

At the outset I wish to make clear my general endorsement of the provisions of the bill, and to express satisfaction with the manner in which the House, especially through its Ways and Means Committee, attacked some of the inadequacies in the present social-security structure.

Social insurance coverage

I think that it is generally recognized that it is in the interest of the general welfare to relieve need resulting from economic insecurity beyond the individual's control. I believe such need should be met as far as possible by extending coverage and increasing benefit levels in the contributory social-insurance system.

The economic advantages of a system which is self-financing are obvious. Less obvious, perhaps, but also important, are the social advantages to the individual of a system which entitles the beneficiary to payments as a matter of right, without the necessity of inquiring into his personal situation. It is my conviction—a conviction based upon years of experience as an administrator—that most people find public assistance, with its necessary means tests and frequent investigations, most unpalatable even though necessary to life itself.

The contributory insurance systems have failed to increase benefits, even in relation to minimum subsistence standards, and they have also failed to include in coverage a large proportion of our population. As a result there is, quite naturally, an increased number of persons who must depend upon public assistance; these numbers include those persons not covered by the insurance programs as well as those who are covered but whose benefits are so low that public assistance is needed, too.

It seems to me that unless immediate steps are taken to extend social insurance coverage to all working people and to increase its benefit levels, the present pressures for higher flat grant assistance payments may seriously endanger the social-insurance system. Such pressures—to liberalize assistance payments—will, of course, continue unless the so-called new start recommendation of the Advisory Council is put into effect. Without this provision, whereby persons now approaching retirement age could qualify for benefits after a year and a half (1½) of covered employment rather than a minimum of 5 years as required in H. R. 6000, the effect of extended old-age and survivors insurance coverage will be long delayed.

Disability insurance

I wish to give my full support to the provisions of H. R. 6000 which relate to insurance against permanent and total disability. In Cook County, just as in other counties in Illinois and throughout the Nation, charges against tax funds for care of long-time disability and chronic illness are considerable.

Assistance categories

I agree with the recommendation of the American Public Welfare Association which has given long-standing support to plans for Federal participation in aid to all needy persons. This involves aid to so-called general assistance as well as to the three present categories. Such a recommendation is also before you from the Advisory Council on Social Security.

It seems to me that if you do not wish to commit the Federal Government to sharing in general assistance at this time that there are certain changes which could be made in H. R. 6000 which would go a long way toward reducing the present costs of assistance in the various States:

(*a*) Aid to the permanently and totally disabled could be broadened to include all those who are in need because of disability. Very often it is in the early stages of disability that use of assistance funds can be most productive—in terms of prevention, cure, and rehabilitation.

(*b*) The definition of eligibility for aid to dependent children could be broadened to include children with both parents in the home if actual need were found to exist. I think that the need of the child, rather than the "cause" of the dependency should be the factor determining eligibility for aid to dependent children.

Medical care

I should like to urge the adoption of the Advisory Council's recommendation to extend financial aid to the States for medical assistance beyond the ceilings on individual cash payments. The proposal of H. R. 6000 to include medical assistance within individual ceilings would not meet actual needs, and would be difficult to administer.

The recommendation of the Advisory Council (50 percent Federal reimbursement of the cost in an amount not to exceed $6 a month times the entire adult caseload, and $3 a month times the number of children receiving assistance) is a much to be preferred method of payment. If the Senate Finance Committee does not feel that it can adopt the above recommendation of the Advisory Council, it should act on the recommendation of the American Public Welfare Association—that ceilings on assistance payments apply on an average rather than individual basis. Under such a plan medical payments made to or in behalf of a needy person could exceed the ceiling in one month provided the averages of all such payments in the State did not exceed the ceiling.

In conclusion I wish to state that I realize fully that cost is a big problem in the achievement of adequate social-security programs. It is for this reason that those of us who administer assistance emphasize the need to extend the contributary system. Even with the extension of the insurance programs, there will always be a residual group which must depend upon public assistance. For this residual group, and for those persons not now covered by insurance programs, there must be adequate public assistance provisions.

Very truly yours,

JOSEPH L. MOSS,
Director, Cook County Department of Welfare.

The CHAIRMAN. That will conclude the hearings on H. R. 6000.

(Whereupon, at 1:45 p. m. the committee recessed.)

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