SOCIAL SECURITY ACT AMENDMENTS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

SEVENTY-SIXTH CONGRESS

FIRST SESSION

ON

H. R. 6635

AN ACT TO AMEND THE SOCIAL SECURITY ACT, AND FOR OTHER PURPOSES

JUNE 12, 13, 14, 15, 26, AND 29, 1939

REVISED PRINT

Printed for the use of the Committee on Finance

UNITED STATES
GOVERNMENT PRINTING OFFICE
16083 WASHINGTON : 1939

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SOCIAL SECURITY ACT AMENDMENTS

MONDAY, JUNE 12, 1939

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

The committee met, pursuant to call, at 10 a. m., Senator Pat Harrison (chairman) presiding.

The CHAIRMAN. The committee will be in order. Dr. Altmeyer, will you come forward, please?

STATEMENT OF ARTHUR J. ALTMEYER, CHAIRMAN, SOCIAL SECURITY BOARD

The CHAIRMAN. Doctor, the House has passed H. R. 6635, certain amendments to the Social Security Act, and the committee would like to have an explanation of the bill and what changes have been made in the law, and the committee will be glad to have any suggestions that you may wish to offer.

Mr. ALTMEYER. Yes, sir. I have a statement that probably will take three-quarters of an hour, but I would be glad to be interrupted at any point rather than wait until the end, if you prefer.

Senator CONNALLY. Doctor, preliminarily, there was another bill introduced in the House originally. Now this bill, as I understand it, H. R. 6635, was the later bill which carried the modifications and amendments which you suggested; is that right?

Mr. ALTMEYER. Yes, sir; this is the House Ways and Means Committee bill.

Senator CONNALLY. This is the amended bill?

Mr. ALTMEYER. Yes, sir. In addition, there were three minor committee amendments made on the floor Saturday afternoon. I do not know whether they are incorporated in the copy you have, or not.

Senator CONNALLY. No; they are not in here.

Mr. ALTMEYER. They are very minor amendments.

Before discussing bill H. R. 6635 and the recommendations of the Board, I should like to summarize briefly the present provisions of the act and the experience which has developed up to date.

As you know, the Social Security Act was finally passed on August 14, 1935. However, appropriations did not become available until February 11, 1936. If you recall, there was a filibuster, and we did not receive any appropriations until Congress reconvened.

Senator VANDENBERG. You need not look at me.

Mr. ALTMEYER. It was on that date that the first grants were made to the States for public assistance. So it is only slightly more than 3 years since we began operating under the act.

In May 1937 the United States Supreme Court upheld the social-insurance provisions of the act. Consequently, every State now has an unemployment-compensation law and over 44,000,000 persons have been building up benefit rights under the Federal old-age insurance system.

Two fundamental approaches to the problems of economic insecurity and dependency were embodied in the Social Security Act. One was to alleviate present needs, the other to forestall future dependency by building advance protection against the economic hazards causing dependency. The assistance method was chosen as the best method of attaining the first objective while the second was to be achieved on an insurance basis. Accordingly, the assistance titles of the Social Security Act provided for Federal grants for the extension of State programs of aid to the needy aged, dependent children, and needy blind. The insurance method was applied to the problems of unemployment and old age by providing Federal grants for State-administered programs of unemployment compensation and by establishing a Federal system of old-age insurance. The Social Security Act also made available Federal funds for the extension and development of certain welfare and health activities, which are not under the jurisdiction of the Social Security Board.

PUBLIC ASSISTANCE

As regards public assistance, considerable progress has already been made as a result of the Federal aid provided in the assistance titles of the Social Security Act. All the States, the District of Columbia, Alaska, and Hawaii now participate in the Federal-State programs of old-age assistance.

The CHAIRMAN. Let me interrupt to make one suggestion, please. There was a special committee created by the Senate known as the Byrnes Committee on Unemployment and Relief. That committee has given consideration to and has recommended certain amendments to the Social Security Act, with a view of helping the unemployment and relief situation. It is my thought that this committee ought to express the sentiment that if any of the members of that committee desire to sit in with this committee, to listen to these witnesses, and to ask questions we would be very glad for them to do so. I think we ought to have the chairman of that committee, Senator Byrnes, who made the report of that committee, to sit in with us. So, without objection, Senator Byrnes and the other Senators on the special committee will be invited to sit in with us and the clerk will notify them.

Senator CONNALLY. Dr. Altmeyer, you used the terms "old-age insurance" and "old-age assistance" there. Do you distinguish between those two? Are they two different things?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. That is right, is it?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. One is title II and the other title I?

Mr. ALTMEYER. Title I is old-age assistance, sometimes called State old-age pensions.

The CHAIRMAN. That is where the Federal Government assists the State to take care of the old-aged?

Mr. ALTMEYER. Yes.

The CHAIRMAN. And the other is where the employees are taxed together with the employer to provide for old-age insurance?

Mr. ALTMEYER. Yes. The first old-age assistance, usually called State old-age pensions, is on the basis of need. The second, the old-age insurance, is on the basis of right, irrespective of need, based upon past earnings and contributions of the participants in the program.

All of the States and the Territories are now participating in the old-age-assistance program, but only 40 States, the District of Columbia, and Hawaii, are receiving Federal grants for aid to dependent children and an equal number have approved programs for aid to the blind. Under these cooperative Federal-State assistance programs, some 2,600,000 needy persons are receiving regular cash aid related to their need. The total Federal, State, and local expenditures for these assistance programs amounted to more than $495,000,000 during the calendar year 1938. Of this total, $391,000,000 was spent for old-age assistance, $93,000,000 for aid to dependent children, and $11,000,000 for aid to the blind. A cumulative total of $1,177,000,000 in Federal, State, and local funds had been expended in connection with these approved assistance programs up to the end of March 1939.

UNEMPLOYMENT COMPENSATION

Now with regard to unemployment compensation, Wisconsin was the only State which already had an unemployment compensation law in operation when the Social Security Act was passed. As a result of the Federal act, all the States, the District of Columbia, Alaska, and Hawaii now have such laws. All but two of these jurisdictions are now paying benefits. When Illinois and Montana begin on July 1, 1939, this Federal-State program will be fully operative throughout the United States. It is estimated that the 51 unemployment compensation laws together cover more than 27½ million wage earners. During the calendar year 1938, benefits amounting to almost $400,000,000 were paid to some 3,800,000 workers temporarily unemployed in the States then paying benefits. Another $145,000,000 was paid in unemployment compensation benefits during the first 4 months of this year.

OLD-AGE INSURANCE

The Federal old-age-insurance program will not be fully operative until monthly benefits become payable. In the meantime, small lump-sum benefits are being paid. By the end of April 1939 such lump-sum benefits had already been paid to or on behalf of almost 345,000 persons who reached age 65 or who died. These lump-sum payments, based on 3½ percent of accumulated earnings, amounted to a total of about $17,200,000.

Senator WALSH. Doctor, I wanted to ask you a question, before you left unemployment compensation. My attention has been called to the existence, in some quarters, of collusion between the employers and employees in laying off a great number of employees for the purpose of giving them an opportunity to get these insurance benefits. Has that matter been called to your attention? Have you observed that practice?

Mr. ALTMEYER. I think that possibly exists in some instances. It is a matter of State administration. I think, perhaps, it exists in

your State, chiefly because you are not paying partial unemployment benefits. I do not know whether you would call it exactly collusion.

Senator WALSH. I think perhaps that is too strong a word, but there seems to be an understanding to let them off for a few weeks rather than postpone the time, and they really send them out in order that they may get this insurance.

Mr. ALTMEYER. Yes. Well, the reason that there may be some arrangement between the employers and employees in your State is this, that if a man is just partially unemployed, he does not get any benefits since he must be totally unemployed; and so some employers stagger their weeks of unemployment. They put a man on full time for this week, or for 2 weeks, and then lay him off completely for 1 or 2 weeks, rather than just giving him partial employment all the time. My understanding is that an advisory committee of your State has recommended that partial unemployment be compensated within a reasonable time, in order to avoid that anomaly.

Senator WALSH. That does cause that sort of practice. Is that a situation to be dealt with by the States or through the Federal law?

Mr. ALTMEYER. It must be dealt with entirely by the States.

Senator WALSH. It is a matter over which the Federal Government has no control?

Mr. ALTMEYER. That is correct, Senator.

The CHAIRMAN. Does that situation come up also in California?

Mr. ALTMEYER. I'm not sure, Senator.

Aside from the anomaly of need for partial unemployment benefits, you do sometimes have arrangements and understandings between employers and employees so that employment is provided in such a way that there is some supplementation through unemployment compensation benefits. Great Britain has had that sort of experience in the operation of its law, and it is hard to correct. However, as you may know, most of the State laws do provide for what is called individual employer experience rating, so that employers with unfavorable benefit experience have to pay a higher rate than employers with favorable benefit experience.

The CHAIRMAN. In how many States does that situation exist?

Mr. ALTMEYER. In all except 11.

The CHAIRMAN. That was originally the Wisconsin system, was it not?

Mr. ALTMEYER. Yes, sir.

Senator KING. Referring to the condition in Massachusetts to which you have referred, whatever was done was done with the consent of the employer and employee, was it not?

Mr. ALTMEYER. Yes.

Senator KING. To stagger the employment?

Mr. ALTMEYER. Yes, sir.

Senator KING. And not with the purpose of punishing the employer?

Mr. ALTMEYER. No.

The CHAIRMAN. The money that comes from the funds is accumulated in the State?

Mr. ALTMEYER. Well, it is deposited with the Federal Treasury, but it is entirely State money.

Senator LA FOLLETTE. Dr. Altmeyer, do you treat further on in your statement with the so-called McCormack amendment?

Mr. ALTMEYER. Yes, sir.

The machinery for paying these lump-sum benefits is functioning successfully and will be ready to meet the load of monthly claims when due. Wage-record accounts have already been set up for about 44,000,000 persons, and wages were reported for more than 32,000,000 of these individuals sometime during 1937 or 1938.

Before I discuss in detail bill H. R. 6635 and the Board's recommendations, I shall very briefly summarize the main provisions of H. R. 6635.

TAXES

With respect to taxes the bill freezes the old-age insurance at 1 percent on the worker and the employer for the 3 years 1940, 1941, and 1942. The bill does not disturb the scheduled step-ups in the tax rates in 1943, 1946, and 1949.

Senator VANDENBERG. So what would be the rate in 1943?

Mr. ALTMEYER. Two percent each, and in 1946 it becomes 2½ percent each, and in 1949 it becomes 3 percent each.

Senator VANDENBERG. So without intervening legislation the tax would be double in 1943?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. Two percent in 1943?

Mr. ALTMEYER. Yes, sir.

Senator KING. Do you think it wise for us to anticipate just what the situation will be in 1943, 1946, and 1949?

Mr. ALTMEYER. Well, the present law does that. I think there is considerable advantage in doing that, Senator, because this old-age-insurance program is a long-range program, and unless you have the financing laid out the relationship between the benefits and the contributions is likely to become confused.

Senator KING. Well, I had in mind the fact there has been considerable complaint, and justly, that we have been building up too large a fund.

Mr. ALTMEYER. Yes.

Senator KING. I was wondering if, by trying to anticipate what the conditions will be 4, 5 or 6 years, or 7 years from now, we may not be shooting in the dark.

The CHAIRMAN. Well, we do not change it until 1943. We go up to 1942. We do not affect, by these amendments, anything up to that. Is that right?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. We merely freeze the present tax rate.

Mr. ALTMEYER. For 3 years.

Senator KING. In 1943, 1946, and 1949 you have those increases to which you have just referred?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. Are you going to discuss this tax question in greater detail later?

Mr. ALTMEYER. Yes, sir. This is a very brief statement. I will be very glad to discuss it in detail. In fact, I have the material here to discuss it in detail.

The Federal unemployment-compensation tax is modified so as to apply only to the first $3,000 of wages. That is the old-age insurance tax now, which just applies to $3,000. So it puts the two taxes on the same basis.

Provision is also made for the reduction of unemployment-insurance contributions under State law when States have a certain reserve fund and have met certain minimum benefit standards.

OLD-AGE-INSURANCE BENEFITS

As to old-age-insurance benefits, the old-age-insurance system has been revised to start the payment of monthly benefits 2 years sooner, to liberalize the monthly benefits, to provide supplementary monthly insurance payments for aged wives, and to provide survivors' benefits for widows, orphans, and dependent parents.

COVERAGE

As to coverage, certain additional employments are excluded by the bill, such as student nurses, hospital internes, services for college fraternities, fraternal, agricultural, horticultural, and voluntary employees' beneficiary associations. Services of employees earning less than $45 per quarter for nonprofit oganizations are also excluded.

The term "agricultural labor" is broadened to exclude at least 270,000 additional persons engaged in the commercial harvesting of crops and the processing and delivering of agricultural products.

These additional exclusions apply to both old-age insurance and unemployment compensation. About 1,100,000 additional persons are brought under old-age insurance (seamen, bank employees, and employed persons 65 and over) and about 200,000 persons (chiefly bank employees) under unemployment insurance.

FEDERAL GRANTS TO STATES

As to Federal grants to States, the Federal grant per aged individual is increased from 50 percent of not more than $30 per month to 50 percent of not more than $40 per month. This means that the maximum Federal grant per person is increased from $15 to $20 per month.

The CHAIRMAN. You put a tax now on the unemployment-insurance compensation which ordinarily comes to $2,000 a year, and he pays 3 percent, is that right?

Mr. ALTMEYER. Yes.

The CHAIRMAN. Now, in the House bill, you have limited it to the first $3,000, and that is all?

Mr. ALTMEYER. Yes, sir. That is the maximum that already exists in the case of the old-age-insurance tax title.

Senator GERRY. Doctor, do I understand your position on this bill to be that in 1943 you would jump to what the present law calls for?

Mr. ALTMEYER. Yes.

Senator GERRY. And then you would increase it two-thirds?

Mr. ALTMEYER. It would double.

Senator GERRY. It would double?

Mr. ALTMEYER. Yes; because it is 1 percent each now, and it would be 2 percent each in 1943.

Senator GUFFEY. The 3 percent ordinarily would give you more than it would now?

Mr. ALTMEYER. Yes.

Senator GUFFEY. It would limit it to 3 percent.

Mr. ALTMEYER. It just takes care of the first step-up.

Senator VANDENBERG. It does not make any difference what the experience is.

Senator GUFFEY. At the same time, 2 percent is more than you need?

Mr. ALTMEYER. Yes.

Senator GUFFEY. Before you leave the subject there, I wonder if you could give me one or two figures. What reserve do you contemplate will have been accumulated in 1943?

Mr. ALTMEYER. You will find that figure on page 15 of the House Ways and Means Committee report, table 6. The reserve at the end of 1942 is estimated to be $2,441,000,000.

Senator VANDENBERG. Does that figure contemplate the benefit contemplated in this bill?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. Is there anything in the bill which applies to Secretary Morgenthau's suggestion of the reserve which shall be three times the benefits paid in 1948?

Mr. ALTMEYER. Yes; that is what this bill does; it applies that yardstick.

Senator VANDENBERG. Is that in the bill itself?

Mr. ALTMEYER. The bill provides for a board of trustees to report to the Congress each year as to the actuarial status of the fund, and to give particular attention to the question of whether the fund is likely to exceed this three times the highest benefit payments during the next 5 years, and also gives attention, of course, to the question of whether the fund is likely to be unduly depleted.

Senator VANDENBERG. What would be three times the largest payment in the subsequent 5 years?

Mr. ALTMEYER. Well, if you take 1942, for example, the benefit payments 5 years hence are nearly $1,000,000,000. So three times that would give you about $3,000,000,000, and the actual reserve estimated at the end of 1942 is $2,441,000,000.

Senator VANDENBERG. Under the rule of three, what would the reserve finally become at its maximum in the course of the years? Let me change the question. Go up to 1980, where we previously had the figure, of $47,000,000,000. What would be the figure in 1980 under the rule of three, instead of $47,000,000,000?

Mr. ALTMEYER. In 1980 it might get up to as much as $15,000,000,000—thirteen to fifteen billion dollars. That is an outside figure. I do not mean that the benefit estimates would be that in that year, but the three times would amount to that.

Senator VANDENBERG. That would be under the rule of three?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. I do not think that is unreasonable. What I am trying to get at is that we now contemplate a jump of $15,000,000,000 instead of a jump of $47,000,000,000.

Mr. ALTMEYER. Yes; and I might add that the figures show that up to 1955 the reserve that will be built up will be $7,700,000,000 by that time, and unless the contribution rates were increased, or unless there was a Government subsidy of some kind, it might decline from that level. We have only estimated costs up to 1955.

Senator VANDENBERG. Now let me ask you one other question about taxes. You have stated the amount collected. Have you figured what amount of that is delinquent and uncollected?

Mr. ALTMEYER. No. The taxes, you know, are collected by the Bureau of Internal Revenue.

Senator VANDENBERG. Is that a substantial figure?

Mr. ALTMEYER. I do not think so. I think they have had very great success in collections.

Senator VANDENBERG. You have not been impressed with the fact that the pay-roll taxes have been a matter of great embarrassment to small business, and in many instances have practically put them out of business?

Mr. ALTMEYER. I have not seen any evidence to that effect.

Senator VANDENBERG. And you have not any figures about the delinquencies?

Mr. ALTMEYER. No.

Senator VANDENBERG. Are those available?

Mr. ALTMEYER. I think the Treasury could give you some estimate on that?

Senator VANDENBERG. I wonder if I could ask you to have your staff get them and put them in the record?

Mr. ALTMEYER. Yes.

(The following statement was submitted by the Bureau of Internal Revenue:)

No reports are received in the Bureau of Internal Revenue with respect to those taxpayers who file their returns but who do not voluntarily submit remittances in payment of the tax. In order to develop this information, it would be necessary for the collectors to make a check of all of their assessment lists since the Social Security Act became effective. However, a check of the records of one of the large metropolitan collection districts disclosed that better than 95 percent of the old-age insurance taxes assessed have been collected leaving less than 5 percent outstanding. Of that 5 percent outstanding it is reasonable to assume that a large portion will eventually be paid by the taxpayers. It is reasonable to believe that the situation in other districts is as good.

Senator CONNALLY. Mr. Chairman, before the doctor leaves this line, he testified about the $3,000 unemployment-compensation taxes modified so as to apply only to the first $3,000 wages. That is because of the fact that regardless of a man's salary he cannot draw over $3,000 benefits; is that right?

Mr. ALTMEYER. Both for the reason you cite and for administrative reasons, so that you can get the two tax titles on the same basis. The employers can make reports much more easily. There are other changes to bring the definitions in the two tax titles in uniformity, too, and we recommend in our report that consideration might even be given to combining the two taxes so that the employer may make only one report.

The CHAIRMAN. Do you think that is possible?

Mr. ALTMEYER. I think it is safer, first, to get the definitions in uniformity and to see then whether it would be possible to take a further step.

The CHAIRMAN. The States make one of the collections?

Mr. ALTMEYER. Yes; except, Senator, on the unemployment-compensation-tax title, 10 percent of that is collected directly by the Federal Government and 90 percent by the States, so there are Federal collections both under the unemployment-compensation-tax title and old-age-insurance tax title.

The CHAIRMAN. The 10 percent is collected direct from the taxpayer?

Mr. ALTMEYER. Yes; it is collected direct from the taxpayer, and he furnishes the Bureau of Internal Revenue a certificate from the State which he can use to offset the 90 percent.

The CHAIRMAN. Now, you have got one provision in this House bill where, before the States had set up the machinery under the first collection that they had paid to the Federal Government, we give them a right to refund the taxes for 1936, 1937, and 1938?

Mr. ALTMEYER. Yes; there are a number of provisions in the bill to take care of delinquencies in payment of taxes, and to forgive, or to modify, the penalties that are involved.

Senator VANDENBERG. May I ask you one further question? Is it necessary to take the pay-roll tax up to 6 percent in 1948 in order to maintain the rule of three?

Mr. ALTMEYER. Yes, sir. As I pointed out, in 1955 it is possible that the total amount of benefits paid may exceed the total amount of collections. There is a wide range in the estimates as to what the benefit payments will be. Senator Connally, I think, suggested when we actually start paying benefits and have more data we will be able to give you more exact estimates of future cost. Now it is pretty much guessing regarding many factors.

The CHAIRMAN. It is the recommendation of your Board that after 1943 we do not tamper with the rate?

Mr. ALTMEYER. Definitely.

The CHAIRMAN. That we leave it open for study, and so on?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. What does the Advisory Council recommend on that subject?

Mr. ALTMEYER. It, of course, recommends that you not tamper with the set-up next year.

Senator VANDENBERG. That is the majority. The minority agreed to this freezing, did it not?

Mr. ALTMEYER. There are 3 or 4. There are 25 members on the Advisory Council, and with the exception of 3 or 4 they recommended that the step-up next year go into effect, because of the uncertainty involved in making estimates.

Senator VANDENBERG. Did not they recommend something else?

Mr. ALTMEYER. They recommended a study and that we report to the Congress as to the 1943 step-up accordingly. Now, this bill does provide, as I mentioned a few minutes ago, for a board of trustees consisting of the Secretary of the Treasury, the Chairman of the Social Security Board, and the Secretary of Labor to make a specific report to the Congress on the status of this trust fund.

Senator VANDENBERG. Prior to 1943?

Mr. ALTMEYER. Every year.

Senator VANDENBERG. You think it is essential, do you, to maintain the set-ups in this statute and not abandon the set-ups and provide for subsequent congressional action de novo in regard to these pay-roll taxes, after we have had our experience?

Mr. ALTMEYER. I think that even the conservative estimates indicate the need for those set-ups if you are going to keep this old-age-insurance system on a self-sustaining basis. Of course, if there is going to be Government subsidy out of the general fund then you might do otherwise, but if you want to keep it on a self-sustaining basis I think it is essential that you retain the present contribution rates.

Senator VANDENBERG. As you know, in the course of all this controversy I never wanted to disturb the actuarial integrity of the system. I simply thought that the full reserve was not necessary to the actuarial integrity.

Mr. ALTMEYER. Yes. This large reserve, which really never was what the insurance companies would call a full reserve, is the result to a considerable extent of the pattern of benefits that is provided in the present law, where you start out with a very, very small annual cost and end up with a very large annual cost. Now the provisions of H. R. 6635 provide a different pattern of benefits, where the benefits payable in the early years are much more adequate than under the present law, but are tapered off in the later years, so that there is not such a steep increase in the benefit disbursements. That cuts down the excess collections in the early years and automatically cuts down the reserve.

The CHAIRMAN. The action of the House carries out the recommendation of the Board with respect to that?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. The only thought I had was this 6-percent pay-roll tax in 1948, which scares about half of the little-business men in America almost to death, in view of their experience to date in their difficulty to pay their part of the 2 percent, and while I would not want to delude them regarding the future, it seems to me, if there was any chance in regard to our experience in the next 9 years that is going to permit any alleviation of that tax, the most seemingly encouragement that we could give them now would be to suspend the subsequent schedule pending our experience and subsequent congressional action before the time comes to apply the tax.

Mr. ALTMEYER. I think that would endanger the entire contributory insurance idea. It would throw your whole financing into a state of uncertainty. Every Congress would be confronted with the question then of: Shall we or shall we not? You would not be sure that you would have anything like a contributory insurance on anything like a self-sustaining basis.

Senator CONNALLY. Your idea now is to suspend it for 3 years, to leave it under the existing law, and if we need to change the existing law we have got several years in which to do it. That is correct, is it not?

Mr. ALTMEYER. Yes, sir.

Senator GERRY. You are not in favor of suspending it now?

Mr. ALTMEYER. You mean suspending the step-up next year?

Senator GERRY. Yes.

Mr. ALTMEYER. We think it endangers the contributory principle.

Senator GERRY. I thought I understood your testimony correctly.

Mr. ALTMEYER. What I mean to say, Senator, is that it is not entirely an expert question, it is a question of the public reaction. You see, we are making recommendations which will greatly increase benefit payments in the early years, and at the same time contributions are made less. Well, that seems strange. It seems as though it is something like a miracle that you can increase the benefit payments and reduce the tax payments at the same time. If the public, if the contributors and beneficiaries, got the notion that there was not really much connection between contributions and benefit payments, then the whole idea of the contributory system would suffer.

The CHAIRMAN. Doctor, let me get clear on this question that I asked you. It is the recommendation of the Board to freeze the present tax up to 1943?

Mr. ALTMEYER. No; that was not the recommendation of the Board.

The CHAIRMAN. That was not the recommendation of the Board?

Mr. ALTMEYER. The Secretary of the Treasury submitted four different alternatives to the House Ways and Means Committee, and one of those alternatives provided for the freezing of the tax, and that is incorporated in this bill. As I say, it is not a matter so much of expert opinion as public psychology involved in the idea of the contributory insurance principle.

The CHAIRMAN. But your desire, and the desire of the Board is that if we accept the philosophy of freezing it to 1943, that we do not disturb the law at this time?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. That is to go into effect in the present law for 1943 and the years following?

Mr. ALTMEYER. Yes.

Senator GERRY. What would the 1943 rate be?

Mr. ALTMEYER. Two percent each, instead of the present 1 percent each.

Senator VANDENBERG. You simply clip the 1½ percent set-up; that is, you go from 1 to 2 percent?

Mr. ALTMEYER. Yes.

Senator KING. Dr. Altmeyer, I read carefully all of your testimony, which came in several volumes, in the House hearings. After the discussion there, and in further consideration, if you needed any further consideration, you still adhere to the views that you expressed in your statement before the House Ways and Means Committee in the general discussion on the bill?

Mr. ALTMEYER. Yes, sir.

Senator KING. And the testimony which you give this morning is in harmony with the statement which you made before the Committee on Ways and Means?

Mr. ALTMEYER. Yes, sir; so far as I can recollect. You may find some inconsistencies.

Senator KING. You have referred to the paradox of increasing the benefits and reducing the contributions. In increasing your benefits have you not compensated for the increase by a decrease in the ultimate benefits?

Mr. ALTMEYER. Yes.

Senator KING. So the grand total of benefits remains the same?

Mr. ALTMEYER. Yes, sir; that is right; over 40 or 45 years.

Senator KING. That does not make it quite so much a paradox?

Mr. ALTMEYER. No, sir.

Senator KING. In your statements in the hearing before the House Committee on Ways and Means you confess that some of the views were almost guesses, as to the effects of the different rates and the future rate.

Mr. ALTMEYER. Yes, sir.

Senator KING. So that the actuarial experience was not such as to enable you to determine, with any degree of certitude, just what the situation would be in a given year?

Mr. ALTMEYER. Yes.

Senator KING. You still adhere to that view?

Mr. ALTMEYER. Yes, sir.

Senator KING. There is very much uncertainty when you attempt to fix rates and determine what the result will be?

Mr. ALTMEYER. Yes.

The CHAIRMAN. The law is filled with uncertainties.

Senator KING. Human nature is filled with uncertainties.

Mr. ALTMEYER. I was discussing the old-age-insurance benefits. The House bill revises the old-age-insurance system to start the payment of monthly benefits 2 years sooner, in 1940 instead of 1942, increases the monthly benefits that are payable in early years, provides a supplementary monthly insurance payment for aged wives, so that a married man would receive more than a single man when he retires, and provides for a survivor's benefit for widows or for dependent parents. If a man died there would be certain benefits payable to his widow, orphans, and if there were not a widow or orphans, to dependent parent, or parents.

The CHAIRMAN. That is not based on need, that is paid as a matter of right and principle, that they have acquired this fund?

Mr. ALTMEYER. Yes.

The CHAIRMAN. And these dependents are entitled to it?

Mr. ALTMEYER. Yes.

The CHAIRMAN. It applies to children below 18 years of age, does it not?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. And it does not make any difference if the wife has plenty, she gets one-half of whatever the husband gets, is that right?

Mr. ALTMEYER. Yes, sir. In the case of widows and orphans it is probable that need exists. Now in the case of dependent parents, because it is not so probable that all parents will be dependent upon these persons who die, the committee proposes that only parents who are totally dependent at the time of death shall share, but if the total dependency exists at the time of death then the right to a benefit continues without any subsequent reinvestigation of need. That is the same as it is under most workmen's compensation laws.

The CHAIRMAN. To what extent do they share?

Mr. ALTMEYER. The same as a child would, namely, 50 percent of the basic benefits.

The CHAIRMAN. Suppose that the father and mother are both living and dependent?

Mr. ALTMEYER. The dependent parents share only if there is not a widow or an orphan under 18. The committee felt concerned about the case of the unmarried person who would die and leave no widow, no orphans, and might leave a dependent parent. They wanted to take care of that situation, and they therefore put in dependent parents, but only in the event that no widow or orphan under 18 was left by the deceased.

The CHAIRMAN. Well, suppose the deceased left no dependent father or mother, no dependent children or no wife, what becomes of the funeral expenses?

Mr. ALTMEYER. Well, there is a provision for a small lump sum to take care of funeral expenses.

The CHAIRMAN. Any of the kin, if they get the money, would pay it?

Mr. ALTMEYER. Yes, sir.

Senator KING. The administrator of the estate, possibly.

Mr. ALTMEYER. There is a provision that you can pay to a close relative instead of going to the necessity of probate.

The CHAIRMAN. What is the amount?

Mr. ALTMEYER. Six times the basic monthly benefit of the deceased.

Senator KING. Did you experience some difficulty in reaching the conclusion in respect to the depreciation of any funds that might inure to the benefit of an employee, in view of the multitudinous questions that may arise as to whether the children or the mother, or the estate should receive the sum?

Mr. ALTMEYER. There is a specific line of descent put into the bill, so you do not have to turn to the various laws of the States to determine who gets it, and under what circumstances.

Senator KING. Did you discover whether in Great Britain and in Germany—I will not comment on the kind of government they have now, but soon after they had established this system—did you ascertain whether they followed the same method of disposition of the fund as you have attempted to follow here?

Mr. ALTMEYER. Most of the foreign systems follow the same ideas expressed in this House bill, and in our recommendation, namely, that provision is made for benefits to the aged person when he becomes a certain age, and benefits are provided for survivors in case of premature death, and no benefits are payable to estates, the whole idea being to furnish the maximum protection at the minimum cost.

The CHAIRMAN. Under the present law the lump sum is paid?

Mr. ALTMEYER. Yes, it is, and the lump sums paid to the estate eventually would amount to a considerable figure.

The CHAIRMAN. You think that there would be a saving in this treatment?

Mr. ALTMEYER. Yes; it would not be possible to provide these supplementary benefits and these survivors' benefits that I have mentioned, at the same cost unless there were savings in other respects—this lump sum to the estate, for example, and the shaving down somewhat of the benefit to the single person in the distant years.

The CHAIRMAN. Have not you changed it in this House bill to the amount of payment that will be made by virtue of the average wage they have received over a certain period?

Mr. ALTMEYER. Yes, sir; we recommend changing the base from the total cumulative earnings to average wages. That enables us to pay benefits related to the average wages in the early years and not get out of line in the later years. Or, putting it in another way, the benefits in relation to average wages are constructed in such a way that they bear a reasonable relationship in the early years, and then for each year that the man is in the system he gets 1 percent increase in his benefit, so that every person does benefit the longer he is in the system. The effect is that the average monthly benefits in the early years are higher, and the monthly average benefits in the later years are lower for the single person, but with the supplementary benefits for the aged wife, for example, the married man will get more even in the later years than he would under the present system.

The CHAIRMAN. Don't you think, Doctor, that this system that is recommended in this House bill would help relieve the unemployment situation, or the W. P. A., as I will put it.

Mr. ALTMEYER. I think it would help greatly. For example, we now have, on W. P. A., thousands of mothers with children who are dependent because of the premature death of the father. We have hundreds of thousands of mothers with dependent children on what we call mothers' pension in the States. Our figures show 42 percent of the children who are now being aided in the States under mothers' pensions laws are being aided because of the death of the father. As this insurance system gets into operation and a young man dies leaving a widow and children there will be benefits payable until the child becomes 18 years of age. It ought to remove a large proportion of these dependent children from the State mothers' pension rolls, and also ought to remove some of them from the W. P. A. rolls.

The CHAIRMAN. Could you tell this committee if there is any plan on foot of removal from the W. P. A., if the W. P. A. should be continued at that time?

Mr. ALTMEYER. I do not know.

The CHAIRMAN. Or give us any assurance that any order will be expressed to that effect?

Mr. ALTMEYER. No, sir; I could not.

Senator CONNALLY. That would be a question to be put into a W. P. A. bill, would it not?

Mr. ALTMEYER. Yes.

Senator LODGE. Dr. Altmeyer, could you give the committee some idea as to how many people of 65 years of age and over, as of 1940, would come under these provisions, just roughly?

Mr. ALTMEYER. Yes. The number in 1940 is not so very large, even with the revision.

Senator LODGE. Well, is it about a million?

Mr. ALTMEYER. I have not got the figures. I think it is probably about a couple of hundred thousand.

Senator LODGE. A couple of hundred thousand?

Mr. ALTMEYER. Yes.

Senator LODGE. Do you know what the proportion is of people over 65 who are single?

Mr. ALTMEYER. A relatively small proportion of men over 65 are single.

Senator LODGE. A very small proportion who are single?

Mr. ALTMEYER. Yes.

Senator LODGE. It is true, is it not, that these increases, or is it true that these increases are made to some extent at the expense of the single people?

Mr. ALTMEYER. Yes, sir.

Senator LODGE. What would be the percentage of single people? Would it be over 10 percent or 20 percent?

Mr. ALTMEYER. By "single" you mean the widower?

Senator LODGE. Yes.

Mr. ALTMEYER. The widowed as well as the single?

Senator LODGE. Yes.

Mr. ALTMEYER. I think that about one-third of all men, age 65 and over, are single.

Senator LODGE. One-third?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. I have some specific and detailed questions that I would like to ask you, concerning the effect of these arbitrary

dates which must be set up under this present approach. Would you prefer that I wait until you finish your statement?

Mr. ALTMEYER. Under old-age insurance, you mean?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. Yes; I would. I think there will be a great many questions that you would want to raise of that character.

Senator CONNALLY. Mr. Chairman, don't you think it would be well for the Doctor to go ahead and finish his regular statement?

Senator LA FOLLETTE. That is agreeable to me, but inasmuch as every other Senator questioned him I did not want to preclude my right to come in under this general questioning.

Senator CONNALLY. My suggestion was not suggested by the Senator from Wisconsin's questions, but by what the Doctor himself said. I will promise not to ask any more questions.

The CHAIRMAN. This is a peculiar situation here. The House has had this bill for two or three months and this committee is not familiar with it, so we have got to ask questions all the time.

Senator CONNALLY. Mr. Chairman, let me interrupt you there. Don't you think, though, if he goes ahead and presents his statement he would answer a lot of things that would be asked now if they do not know what is going to follow? When he gets through we will put him on the griddle and ask him anything we want to. He probably will answer a lot of things if we just let him alone.

Mr. ALTMEYER (resuming the reading of his statement):

Aid to dependent children is increased from one-third to one-half and the age limit raised from 16 to 18 if the child is regularly attending school.

Vocational rehabilitation grants are increased by $1,000,000 per year from $1,938,000 to $2,938,000.

Puerto Rico is made eligible for grants for maternal and child welfare, vocational rehabilitation, and public health.

OLD-AGE INSURANCE

In considering the old-age insurance system, it should be borne in mind that it is separate and distinct from the Federal-State program of old-age assistance. Under Federal old-age insurance, benefits are payable as a matter of right irrespective of individual need, and in relation to past earnings. Under Federal-State old-age assistance, payments are made only on the basis of individual need as determined by the State.

Our present system of old-age security thus embodies two principles: The insurance program related to the individual's past earnings and the assistance program related to his present need.

The basic program of old-age insurance is to make the system more immediately and fully operative without destroying the reasonable relationship which must exist in such a program between benefits payable and past earnings. For the protection of future beneficiaries and future taxpayers it is essential that this reasonable relationship be maintained; just as in the case of old-age assistance it is necessary to maintain a reasonable relationship between assistance granted and the needs of the individual.

The present old-age-insurance system, while maintaining a reasonable relationship between past earnings and future benefits, provides

proportionately greater protection for the low-wage earner and the short-time wage earner than for those more favorably situated. In other words, it recognizes presumptive need as an essential consideration in any socially adequate old-age-insurance system. But the presumptive need toward which social insurance is directed must be distinguished from the specific need, as established by investigation, which public assistance is designed to meet. To allow for presumptive need, the old-age-insurance system gives much greater weight to the first $3,000 of accumulated earnings than to subsequent earnings. It is thus possible for a person retiring in the early years of the system, or for a low-wage earner retiring at any time, to receive very liberal benefits in proportion to his past earnings.

But every worker, regardless of his level of earnings or of the length of time during which he has contributed, will receive more by way of protection than he could have purchased elsewhere at a cost equal to his own contributions. In other words, the system recognizes the principle of individual equity, as well as the principle of social adequacy. It has been possible to incorporate in the system—I am still speaking of the present system—both these aspects of security by utilizing a larger proportion of employers' contributions to pay benefits to those retiring in the early years, and to low-wage earners. A similar procedure is also followed in private pension plans. Such plans recognize that the employer must contribute more liberally in behalf of older workers if they are to have sufficient income to retire.

The Board's recommendations with regard to revision of old-age-insurance benefits are as follows:

1. Monthly benefits should begin in 1940 instead of 1942.
2. Supplementary benefits should be provided for aged wives.
3. Benefits should be based upon average wages instead of total accumulated wages.
4. Benefits should be provided for widows and orphans instead of the 3½-percent lump-sum payments now provided.

These recommendations of the Board with respect to benefits have been embodied in H. R. 6635. In addition, the Ways and Means Committee has added two other provisions. First, benefits are payable to the dependent aged parent of a deceased individual who leaves no widow and no unmarried child under age 18. Second, upon the death of an insured person who leaves no one immediately entitled to a monthly benefit, a small lump sum is paid to a surviving close relative, or if no such close relative, to the person assuming responsibility for the funeral expenses of the deceased to the extent of his responsibilities.

Senator GERRY. What page is that of the bill?

Mr. ALTMEYER. Page 17.

Although the committee added these two types of benefits to the bill the total over-all cost of the system—that is the cost over the next 40 years or so—is still within the over-all cost of the present system. Moreover, while it was necessary, in order to accomplish this result, to eliminate the large lump sums to estates of deceased workers that eventually would have been payable and to scale down somewhat benefits payable in distant years to single persons, the tax and benefit plan under the old-age-insurance provisions of H. R. 6635 are so formulated that every worker will receive more in protection for at least the next 40 years than he could purchase from a private

insurance company with his own contributions. Even in an extreme case of a single person earning $250 per month, that is the maximum, for the next 45 years the annuity purchaseable elsewhere would amount to only 30 cents per month more than the $58 per month such person would be entitled to under the revised plan.

COVERAGE

The Social Security Board is of the opinion that it is sound social policy to extend old-age insurance to as many of the Nation's workers as possible. It believes that it is administratively feasible to provide this protection for large numbers of people who are not yet covered.

Even with its present limited coverage—estimated to include at any time only 50 percent of the Nation's gainfully occupied population—at least some small measure of protection is already being furnished by the old-age-insurance program to two-thirds of those gainfully occupied. This is due to the fact that a great many persons, usually in excluded occupations, work in covered employment from time to time. However, since the adequacy of this protection depends to a considerable extent upon the length of time the individual actually works in covered employment, it is highly desirable that coverage be extended as rapidly as administratively feasible.

AGRICULTURAL LABOR

As regards agricultural labor, the Board believes that the "agricultural labor" limitation on coverage should be modified. It is, of course, apparent that the problem of covering the independent farmer cannot be finally solved, except as part of a general program to cover the self-employed. It is also recognized that the complete inclusion of employees engaged in agricultural labor is fraught with great administrative difficulties. However, the Board believes that the inclusion of large-scale farming operations, often of a semi-industrial character, would reduce rather than increase administrative difficulties.

At present it is almost impossible to delimit the field of "agricultural labor" with anything like the certainty required for administration and for general understanding by employers and employees affected. The extent of the exception is shadowy indeed where the producer also engages in processing and marketing.

The Board recommends that the language of the present exception relating to "agricultural labor" be modified to make it certain that this exception applies only to the services of a farmhand employed by a small farmer to do the ordinary work connected with his farm. The Board further recommends that, with a reasonable time allowed before the effective date, the "agricultural labor" exception be eliminated entirely. The Board's recommendation in this respect is not in accord with the changes made by H. R. 6635. As already stated H. R. 6635 considerably expands, instead of contracts, the definition of agricultural labor.

DOMESTIC SERVICE

The Board recommends that the exception of domestic service be eliminated with a reasonable time allowed before the effective date. It is believed that the principal administrative difficulties with respect

to domestic service will be overcome, just as they will be in the case of agricultural labor, when the individuals affected become generally informed as to the benefits and obligations incident to coverage. The House bill expands the definition of domestic service to include service for a college fraternity, so that service performed by commercial agencies might even be excluded.

The CHAIRMAN. Explain that a little better there. I do not understand it.

Senator CONNALLY. That is the exemptions?

Mr. ALTMEYER. That is the exemptions. The present law provides for exemptions of domestic service in private homes. The amendment in H. R. 6635 would provide for exemptions of domestic service in college clubs, fraternities and sororities as well, and it does not restrict that service to the service in the employ of the fraternity or sorority, or the college club, and so these large catering and servicing organizations that deal with fraternities, sororities and college clubs, and do all the work for them, might be exempted under this language.

Senator VANDENBERG. I judge you are opposed to that?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. You would not exempt them if they did exclusively, fraternity college work, if they did not cater to anything else?

Mr. ALTMEYER. I am speaking of when they do the work for these fraternities.

The CHAIRMAN. Did I understand you to say you oppose this provision in the bill?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. Are they in turn employing college boys for partly commercial purposes?

Mr. ALTMEYER. It is partly a commercial matter. They pay them a lump sum, or a certain percentage, and the fraternity is relieved of that part of its affairs.

Senator DAVIS. Would you say that even though they employ students to do the work in these college clubhouses?

Mr. ALTMEYER. We recommend in these cases of nonprofit organizations that the first $45 of wages that are earned during a given quarter not be considered. If we make that $45 cash, since most of these students who are working their way through (working in the fraternities, and so on), get far less than $45 in cash, in addition to their board and room, that sort of proposal would exclude these students working in these fraternity houses.

Senator DAVIS. Even though they are working for the caterer?

Mr. ALTMEYER. No. This $45 only applies to employees of nonprofit organizations. It would take care of these fraternal organizations that have the people scattered throughout the country, handling the collection of dues, who probably do not earn $45 per quarter. We have had considerable complaint from a number of fraternal organizations that it is a nuisance, that the amount of benefits built up through the coverage of these agents, or members, who have taken care of the dues collections is not worthwhile. We have no objection to excluding that, but when it comes to full-time employees then we think, unless there are administrative difficulties involved, they ought to be given the protection of the Social Security Act.

Senator DAVIS. Does not the caterer himself, within these college fraternity clubs, base his service charge on the help that he has to pay within the club, and if he gets the student to do the work and pays him just probably for the time being, while he is there—would he get under it?

Mr. ALTMEYER. Under the present law the student, if his employer is a commercial caterer.

Senator DAVIS. If he is employed by the caterer?

Mr. ALTMEYER. Yes; just like the people down town who hire student help have to contribute on that basis.

Senator BROWN. Dr. Altmeyer, it is your recommendation to actually, under the House bill, excuse such employees?

Mr. ALTMEYER. No, sir.

Senator BROWN. All domestic labor is excluded by the bill which passed the House Saturday?

Mr. ALTMEYER. Yes, sir.

Senator GERRY. Doctor, did you make an exemption there raising the age limit from 16 to 18 on dependents?

Mr. ALTMEYER. Dependent children.

Senator GERRY. What is that limitation? You said something about if they were in college.

Mr. ALTMEYER. If they are regularly attending a school.

Senator GERRY. For example, if a boy was studying a trade, would he be exempted, or would the boy who is going to college get the benefit?

Mr. ALTMEYER. Of course, it is up to the age of 18. That usually just carries him through high school.

Senator GERRY. You have raised it from 16 to 18, haven't you?

Mr. ALTMEYER. Yes; but I say that the age limit of 18 would only carry him through high school.

Senator GERRY. But you are making a distinction between the boy who is studying a trade and the boy who is going to school. That is what I was getting at.

Mr. ALTMEYER. Under the aid to dependent children, that is the State mothers'-pension laws, the action of the House was to match, in the case of children between 16 and 18, if the child was regularly attending a school, and the question whether he is regularly attending the school is left to the determination of the State administration.

Senator GERRY. If the child who is regularly attending a school gets the benefit, while the child that has to go out and work does not, is not that a discrimination in favor of the child who is attending the school?

Mr. ALTMEYER. You are speaking now of aid to dependent children, are you not?

Senator GERRY. Yes.

Mr. ALTMEYER. That is because if the child is going to school the mother is obliged to take care of the support of that child, and the aid to dependent children is all on a needs basis.

Senator GERRY. Suppose a child is learning a trade, or something like that, then that child would not get the benefit?

Mr. ALTMEYER. That is right.

Senator GERRY. That child would be really discriminated against?

Mr. ALTMEYER. You mean if the child is really learning a trade.

Senator GERRY. If he is learning to be a skilled mechanician, he would be at a disadvantage with the other child?

Mr. ALTMEYER. Yes; that is right.

The CHAIRMAN. Have you any comments to make on that suggestion?

Mr. ALTMEYER. I think that that is a good point that Senator Gerry makes. I do not know whether it could be worked out administratively to take care of that situation, because the line between the bona fide apprentice and what employers call "learners" is very shadowy, and if you try to write it into law I think you would find a great difficulty in doing so.

Senator VANDENBERG. How could you hire anybody like that under the Wages and Hours Act?

The CHAIRMAN. The Wages and Hours Act permits apprentices to be employed?

Mr. ALTMEYER. Yes.

Senator GEORGE. But you cannot get them in under that?

Mr. ALTMEYER. I think the Senator was inquiring about learners.

Senator VANDENBERG. Yes.

Mr. ALTMEYER. I do not recall what the provisions are about that in the Wages and Hours Act.

The CHAIRMAN. Go ahead, Doctor.

MARITIME EMPLOYMENT

Mr. ALTMEYER. As regards maritime employment, the present exclusion of maritime employment has been eliminated by H. R. 6635. The Board recommends that employees of American air lines outside this country also be brought under in the same manner.

The recommendations of the Board with respect to Federal and State instrumentalities and the employer-employee relationship, as well as with respect to allowing benefit credits for wages earned after 65, have been incorporated in H. R. 6635.

NONPROFIT ORGANIZATIONS

The Board recommends the inclusion of service performed for religious, educational, charitable, and similar nonprofit organizations. The Board foresees no serious administrative difficulties in such inclusion. The House bill somewhat expands the present exclusion of service for nonprofit organizations, by excluding services for college fraternities, fraternal, agricultural, horticultural, and voluntary employees' beneficiary associations.

Senator BROWN. Dr. Altmeyer, I notice on page 100 of the bill the bill excludes railroad employees. That is because they are included in another act?

Mr. ALTMEYER. Yes.

Senator BROWN. On the Great Lakes the sailors of the large bulk carriers have a provision for social security, such as the Pennsylvania Railroad, for example, has.

Mr. ALTMEYER. Yes.

Senator BROWN. Now how do you work in the social security plan with a private employment plan that is already set up and has a large fund actually operating? How do you dovetail the two?

Mr. ALTMEYER. We do not dovetail. The private pension plan must adapt itself to the basic old-age insurance plan, and practically all of them have done so. The private pension plans that were in existence have adapted themselves, so they are superimposed on the basic Federal old-age insurance system. There have also been a great many new ones that have been set up that have done so.

Senator BROWN. Was there any objection indicated in the House hearings on the part of the Great Lakes sailors as to the compensation plan that they have?

Mr. ALTMEYER. No, sir.

Senator BROWN. So far as this idea is concerned?

Mr. ALTMEYER. No, sir.

Senator BROWN. No objection?

Mr. ALTMEYER. No, sir.

Senator GEORGE. Doctor, you say "The Board recommends the inclusion of service performed for religious, educational, charitable, and similar nonprofit organizations." Does the House bill include that recommendation?

Mr. ALTMEYER. No, sir.

Senator GEORGE. It excludes it?

Mr. ALTMEYER. It excludes it.

Senator LODGE. Doctor, before completing the topic called old-age insurance I wonder if you can confirm certain fundamental figures about the old-age picture. As I understand it, in 1940 there will be 8,000,000 people 65 years of age; is that about right?

Mr. ALTMEYER. No.

Senator LODGE. Is it not estimated that one-third of those are not in need of any form of public assistance?

Mr. ALTMEYER. No.

Senator LODGE. That leaves about five or six million that will be taken care of. Title II, with these changes, would take care of about how many?

Mr. ALTMEYER. About a couple of hundred thousand. I am just giving the aged, because, you see, we have widows and orphans in addition.

Senator LODGE. That leaves, roughly, about 4,000,000 to be taken care of by old-age assistance?

Mr. ALTMEYER. No, no. There are about one-third that probably are in need of public assistance, one-third of that 8,000,000.

Senator LODGE. One-third that are in need?

Mr. ALTMEYER. Yes.

Senator LODGE. I think the statistics reveal one-third that were not in need.

Mr. ALTMEYER. There are about two-thirds that are either being taken care of by their children, relatives, or by public assistance, but only about one-third who are in need of public assistance, that have no means of support of their own and have no children who are able or willing to take care of them.

Senator LODGE. What I have in mind is the table showing the number of people of 65 years of age who do not need any form of public funds, who can maintain themselves, or who are being taken care of by the family, and then have the table show the provisions that have been made for the remaining two-thirds, so that we can

have the entire picture regarding the people of 65 years of age and over before us. Can you furnish that?

Mr. ALTMEYER. Yes.

Senator LODGE. Thank you very much.

Mr. ALTMEYER. That is as regards old-age assistance.

The CHAIRMAN. I will ask you to furnish that for the record.

Mr. ALTMEYER. Yes.

(The material submitted is as follows:

Estimated economic status of persons 65 and over, Jan. 1, 1940

Economic status of persons dependent on specified means of support	Number	Percentage distribution
Total estimated number of persons 65 and over in the United States, Jan. 1, 1940	8,370,000	100
A. Dependent on self or on spouse	3,550,000	42
1. Dependent on self by reason of savings, earnings, annuities, and pensions	3,100,000	37
2. Wives dependent primarily on husbands in (1) above (also includes husbands dependent primarily on wives in (1) above)	450,000	5
B. Dependent on children or other relatives	2,220,000	27
C. Dependent, wholly or partially, on public or private social agencies	2,600,000	31
1. In receipt of old-age assistance or aid to the blind	2,090,000	25
2. In receipt of public institutional or noninstitutional care (other than (1) above)	440,000	5
3. In receipt of private institutional or noninstitutional care	70,000	1

Senator BROWN. Dr. Altmeyer, in line with the question that Senator George asked, there is serious opposition on the part of the religious, educational, and charitable organizations coming within the Social Security Act, is there not?

Mr. ALTMEYER. Yes.

Senator BROWN. For instance, the college organizations?

Mr. ALTMEYER. Yes.

Senator BROWN. You want to bring them in?

Mr. ALTMEYER. From the administrative standpoint they can be easily brought in, but from the standpoint of public understanding there may be a question as to bringing them in. We are not passing upon that. I might say, so far as the educational institutions are concerned, the Association of College Presidents voted that they wanted to come under the old-age insurance but not under the unemployment compensation. As regards most of the religious organizations, I think they do not want to be under either.

The CHAIRMAN. What are your views of a fraternity such as the Moose organization?

Senator DAVIS. You better ask me about a hundred others that I belong to. Let me ask you this: A number of these fraternal organizations, since the honorable chairman called attention to it, many of them have their homes for children, their schools, educational facilities, and one or two that have educational facilities that are equal to high-school education. They have religious staffs on their schools that are composed of many different religious organizations. I cannot quite understand why a religious society is exempt and yet a branch of a fraternal society, which has religious service and religious instructors, is not exempt from it. The same might apply to an

educational institution. This particular society that I have reference to has a school that gives education equal to a high-school education, and it has a trade school as well, in which they teach a trade, as well as giving them an equivalent of a high-school education. It is considered one of the great high schools. That is under the supervision of the educational director of the State. Now, why is it that you exempt educational institutions and yet in these fraternal organizations that have a school equal to a high school you do not exempt that part of the fraternal work?

Mr. ALTMEYER. You always get those border-line cases whenever you have categorical exclusions. Some fall within the category and some fall just outside of the category, although they may be very much analogous to those within the category.

Senator DAVIS. The same thing applies to religious education. For instance, they have a church there for the many different denominations, yet everybody in the community I have in mind, or several communities I have in mind, have a church. They have the largest church school probably in that particular neighborhood, and yet they have to pay unemployment insurance on the priests, the preachers, and the Sunday school representatives. They pay unemployment insurance and they pay the old-age annuity, I think, and yet they are excluded on the outside. In addition to that I know of one that has a farm of more than a thousand acres, that they have to pay unemployment insurance and old-age insurance on the people that are employed on that farm.

Mr. ALTMEYER. They will not under this bill any more.

Senator DAVIS. They will not under this bill?

Mr. ALTMEYER. No.

Senator DAVIS. Are you sure that the religious side, the educational side or agricultural side of those schools will be exempted from the bill?

Mr. ALTMEYER. No; I am just sure about the agricultural, because the agricultural definition exempts now any person doing work on a farm, whereas under the present language this organization you speak of, running a farm, might not be considered to be engaged in agriculture.

Senator DAVIS. Why discriminate against a fraternal organization that is in educational work and that probably has 700 or 800 in the school? Why discriminate against them?

Mr. ALTMEYER. I think the ones being discriminated against are the ones that are excluded.

Senator DAVIS. Why bring them in? While you are exempting them why should you not exempt them if the fraternal organizations conduct religious services? Why bring them in under that if they have educational facilities?

Mr. ALTMEYER. It is a matter of definition. You can solve all these anomalies by bringing them all in, as we have recommended.

Senator DAVIS. Yes; you can; but you have not yet given exemption to the church. You give exemption to agriculture and you give exemption to education, and yet, because a fraternal organization is involved, you bring them in. If you are going to exempt one you should exempt them all, or if you bring one in you ought to bring them all in.

Mr. ALTMEYER. I get your point.

UNEMPLOYMENT COMPENSATION

As regards unemployment compensation, the Board has recommended the placing of a $3,000 limit in unemployment compensation as in old-age insurance, which will save employers about $65,000,000 a year. Furthermore, the provision for refunds and abatements to employers who paid their 1937, 1938, and 1939 contributions late to the States will save employers about $15,000,000. So when added to the changes made in old-age insurance tax rates which will save employers $415,000,000 in the next 3 years, it is clear that a substantial reduction in employers' tax liability has been achieved.

The CHAIRMAN. Did not we pass once before a resolution that gives them that right?

Mr. ALTMEYER. That was for 1936. This takes care of 1936, 1937, and 1938.

Senator GEORGE. Doctor, was there an effort made to reduce this $3,000 to $2,000 in the House?

Mr. ALTMEYER. No, sir.

The Board believes that any proposal for reducing the tax rate for unemployment compensation should be examined in the light of the fundamental purposes that are sought to be accomplished by unemployment compensation. Congress is now confronted with the problem of developing a long-range program to take care of unemployment. The only long-range approach to the unemployment problem which we have on the statute books today is the Federal-State system of unemployment compensation embodied in the Social Security Act.

The purpose of unemployment compensation is to provide some minimum protection when those persons who are ordinarily employed become unemployed. It is not relief nor is it intended to meet all unemployment under all conditions. The prime objective of unemployment compensation is to provide benefits to persons who become unemployed in normal times due to the ordinary changes in business conditions and also to provide the first line of defense during periods of unusual unemployment and severe business depression.

Unemployment compensation is a method of safeguarding individuals against distress for a certain period of time after they become unemployed. It is designed to compensate only employable persons who are able and willing to work and who are unemployed through no fault of their own. Instead of making the individual get along on a steadily descending level of living until he has exhausted the last shred of his savings, credit, and the generosity of his relatives and friends, thus reaching a point of destitution at which he is eligible for relief, unemployment compensation sets aside contributions during periods of employment and provides the individual with benefits as a legal right when he becomes unemployed. During the periods of employment the fund is built up to be available for the payment of benefits in the periods when industry fails to maintain employment.

Senator GERRY. Have they changed the time limit on that, Doctor?

Mr. ALTMEYER. There are no benefit standards in the present Social Security Act at all. As regards unemployment compensation, it is left entirely to the State, but there are certain optional benefit standards put into the House bill in case a State wants to reduce its unemployment compensation rate.

The CHAIRMAN. That is known as the McCormack amendment?

Mr. ALTMEYER. That is known as the McCormack amendment.

The estimates made by the President's Committee on Economic Security on the basis of available data for the 12 years 1922–33, inclusive, showed that in the best year (1929) there were 5½ percent unemployment and in the worst year (1933) nearly 42 percent. Even in such fairly prosperous years as 1925–28 the average rate of unemployment was about 8 percent. On the basis of this experience the actuaries of the Committee on Economic Security estimated that a 3-percent contribution rate would provide for the Nation as a whole 12 weeks of benefits with a 2-week waiting period.

These estimates of the Committee on Economic Security may seem very conservative when consideration is given to the fact that $1,300,000,000 is now available in the unemployment trust fund to the credit of the various States for making benefit payments. However, the very purpose of unemployment compensation is to build up reserves during periods of employment to be paid out during periods of unemployment. A reserve of $2,000,000,000 at a time of serious unemployment might last only a year.

Senator DAVIS. Do all of the States have a reserve?

Mr. ALTMEYER. Yes, sir. You see, the Social Security Act provided that no benefits could be paid for the first 2 years, during which time these reserves were being built up in order that there would be a reserve for every State.

Great Britain operates on about a 4-percent rate at the present time. The contribution rates were slightly higher several years ago, but because of the increased employment due to rearmament the contributions were recently dropped to an average of about 4 percent. Despite this contribution rate Great Britain accumulated a deficit of over $500,000,000 during the depression.

Only 25 States have had 1 year or more of experience in benefit payments. This is insufficient to make any valid prediction that the present contribution rate of 3 percent is too high and should be reduced. If all the States had started the payment of benefits in January 1938 they would have paid out $225,000,000 in addition to the $540,000,000 paid out so far. This would have reduced the reserves by the same amount. Benefit payments would have increased further, and the available reserves reduced to the same extent, if the system had been in operation for several years so that workers could have built up larger wage records.

However, while the reserve funds of most States are in a stronger position at the present time than when benefits were first payable, this is not true for all States. There were 13 States in which benefit payments during 1938 were equal to, or in excess of, the amounts collected in contributions from the date benefits were first payable. In one State the benefits paid out were nearly three times the contributions collected during the period benefits were paid. That is Michigan. In two States, if they had begun to pay benefits in January 1938 instead of July 1938, their unemployment-compensation funds would now be entirely exhausted.

The year 1938 was a year of substantial unemployment, and most States are now rebuilding their reserve funds for future benefit payments. Yet the uneven character of unemployment is shown by the fact that three States paid out benefits during the first 3 months of 1939 in excess of the contributions collected.

The data compiled by the President's Committee on Economic Security shows that for the 4 years 1930–33, inclusive, the percent

unemployed in the State with the highest unemployment was almost twice that of the lowest State. It is obvious, therefore, that the same contribution rate cannot finance the same level of benefits in both States. If the contribution rate in the State with the most favorable employment experience is used to determine the national rate in the Social Security Act, the small benefits payable in the States with unfavorable employment experience would not justify the administrative cost involved in paying them.

All our experience points, therefore, to the fact that a 3-percent contribution rate is not sufficient to pay reasonable benefits over a long-time period. In any case, there is certainly not sufficient experience at this time to justify a general downward reduction in the contribution rate. Moreover, there is not a single State unemployment-compensation law that should not be liberalized to afford more adequate benefits. The benefit, at the most, is 50 percent of the weekly wage loss and is usually limited to not more than about $15 a week. The period of time over which benefits are payable is usually limited by the States to about 14 to 16 weeks, with some States having as low as 12 weeks. There is a waiting period before any benefits are payable at all—usually 2 or 3 weeks.

In Great Britain benefits are paid after a waiting period of 3 days and for a duration of 26 weeks. There is no State at the present time which even approximates these provisions.

Senator VANDENBERG. How about the amount he gets compared to ours?

Mr. ALTMEYER. In a small fraction of the cases, it is more than he would draw in wages, because they have a different plan; they have dependents allowances as well. The District of Columbia has, but none of the States have any dependents allowances. In general the rate in Great Britain represents a higher proportion of the wage loss than the rate in this country.

Senator GERRY. Under the Social Security Act is there not a requirement for a long period of Federal aid, that the Federal Government will contribute to the State?

Mr. ALTMEYER. Under unemployment compensation?

Senator GERRY. Yes.

Mr. ALTMEYER. No. It is purely a State-financed proposition. The Federal tax rate of 3 percent is imposed on all employers having eight or more employees during 20 or more weeks. Then such an employer may claim an offset up to 90 percent of that 3 percent.

Senator GERRY. I think that is what I had in mind. They have to be employed for 20 weeks?

Mr. ALTMEYER. Yes.

Senator GERRY. That is the Federal regulation, is that right?

Mr. ALTMEYER. That is in order to be subject to the tax.

Senator GERRY. That is in order to be subject to the tax?

Mr. ALTMEYER. Yes.

Senator GERRY. But he does not go any further than 20 weeks. It leaves it to the State then to decide now long they want to pay?

Mr. ALTMEYER. Yes.

Senator BARKLEY. Does this bill make any change in the present law in respect to turning unemployment-compensation money over to the State without any restraint whatever, without any check upon employees, their character, their qualifications, or their activities?

Mr. ALTMEYER. You are speaking of the State employees?

Senator BARKLEY. Yes; State employees paid by the Federal Government, every dollar of whose salaries is paid by the Federal Government. Don't you think the Federal Government ought to exercise some restraining jurisdiction over the selection of these people?

Mr. ALTMEYER. Yes.

Senator BARKLEY. Have you recommended any change?

Mr. ALTMEYER. Yes.

Senator BARKLEY. Is it in the bill?

Mr. ALTMEYER. No, sir.

The CHAIRMAN. Did they adopt a merit system for each State?

Mr. ALTMEYER. No, sir.

The CHAIRMAN. There is nothing in it at all?

Mr. ALTMEYER. In fact, there is a parenthetical expression in there that says that the State plan shall provide such methods of administration "(other than those relating to the selection, tenure of office, and compensation of personnel)" as are necessary for the proper and efficient operation of the plan.

Senator CONNALLY. That is existing law?

Mr. ALTMEYER. That is existing law. They left it unchanged.

Senator CONNALLY. They left it as it is?

Mr. ALTMEYER. Yes.

The CHAIRMAN. What does the Board recommend?

Mr. ALTMEYER. We recommend the exclusion of the parenthetical expression and the substitution of a positive statement that the State shall establish a systematic merit system for the selection of personnel.

Senator BARKLEY. Following my inquiry, I think it is utterly ridiculous for the Government of the United States to put up all the money that is to be expended in the compensation of unemployment without even setting a standard, without having any jurisdiction or any check-up, or any restraint, or any say-so at all, as to who is to spend it, as to what their activities shall be, without in any way being able to curb the political activities of State employees who are paid out of the Treasury of the United States. The Federal Government, as a matter of decency, certainly ought to exercise some jurisdiction over that sort of thing.

Senator HERRING. Dr. Altmeyer, I think you misunderstood Senator Gerry's question. It did not relate to the time during which the benefits were paid. His question did relate to that, but your answer related to the qualification of the 20 weeks.

Mr. ALTMEYER. Probably there was confusion there. There is no requirement in the Federal law as regards the standards for benefit payments in the States. There is this definition of who is an employer.

Senator GERRY. I think that is what I was confused about. They had to employ them for 20 weeks in order to come under the benefit. I do not remember whether there was any limitation on that, as to how long they had to contribute, but that is left entirely to the States?

Mr. ALTMEYER. Yes.

Senator GEORGE. They vary, Doctor?

Mr. ALTMEYER. Yes; very much.

Senator GEORGE. The State laws do vary?

Mr. ALTMEYER. Yes.

Senator BYRNES. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Senator BYRNES. Dr. Altmeyer, the House committee changed the language relative to the system of selecting employees by adding the word "proper."

Mr. ALTMEYER. Oh, yes.

Senator BYRNES. What did they mean by that?

Mr. ALTMEYER. Well, the language in unemployment insurance reads "proper" and in public assistance reads "efficient." So we thought the language ought to be consistent throughout and therefore it was made consistent throughout.

Senator BYRNES. Does the addition of the word "proper" affect in any way the manner in which you will operate in passing upon the various methods of selecting employees?

Mr. ALTMEYER. Right now I do not know what effect that change in language has, if any.

Senator BYRNES. What opinion do you have of the recommendation of the unemployment committee as to the provision carried in the bill?

Mr. ALTMEYER. We endorse that wholeheartedly.

Senator BARKLEY. I move, if it be feasible, to include that language in the bill.

The CHAIRMAN. Without objection, at this point of the testimony that will be included as the recommendation of the Byrnes committee.

(The matter referred to is as follows:)

Clause (5) of section 2 (a) of such Act is amended to read as follows: "(5) provide such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel standards on a merit basis, as are found by the Board to be necessary for the proper and efficient operation of the plan;".

Clause (5) of section 402 (a) of such Act is amended to read as follows: "(5) provide such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel standards on a merit basis, as are found by the Board to be necessary for the proper and efficient operation of the plan; and ".

Clause (3) of section 503 (a) of such Act is amended to read as follows: "(3) provide such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel standards on a merit basis, as are necessary for the proper and efficient operation of the plan;".

Clause (3) of section 513 (a) of such Act is amended to read as follows: "(3) provide such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel standards on a merit basis, as are necessary for the proper and efficient operation of the plan;".

Clause (5) of section 1002 (a) of such Act is amended to read as follows: "(5) provide such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel standards on a merit basis, as are found by the Board to be necessary for the proper and efficient operation of the plan;".

Section 303 (a) (1) of such Act is amended to read as follows:

"(1) Such methods of administration, including methods relating to the selection and number of personnel and the establishment and maintenance of personnel and the establishment and maintenance of personnel standards on a merit basis, as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due; and."

(The pertinent portion of the report on S. 2203 is as follows:)

One of the most important safeguards for the Social Security program, in both its Federal and State aspects, is an adequate and well-equipped personnel. The Social Security Board operates under Federal civil service. The committee feels that State agencies administering public assistance plans, including plans for maternal and child-health services and services for crippled children, should be

administered under adequate provisions for selection of personnel and maintenance of personnel standards on a merit basis. The bill, therefore, includes as a condition of Federal participation, that the State have such requirements in this regard as are necessary for the efficient and proper operation of such plan.

The CHAIRMAN. You may proceed, Doctor.

Mr. ALTMEYER. Of course with only a 3-percent rate we cannot liberalize our State laws to the same extent as Great Britain. However, some States are able at the present time to liberalize their laws and should do so rather than reduce contribution rates.

The Board believes that the entire problem of unemployment compensation needs further time before we can make an intelligent decision with regard to the Federal law. Over 30 States have already passed legislation affecting unemployment compensation at this session of the State legislatures and bills are still pending in other States. Some of the States have liberalized the benefit provisions of their laws, but only in a very cautious and conservative manner. In view of the fact that the States do not feel that their reserves are in excess of their future liabilities, the Board is very reluctant to endorse any proposal for the reduction of contribution rates at this time.

However, if the Congress believes it desirable to take some action toward reducing contribution rates, the Board believes that the approach in section 610 of H. R. 6635 is less dangerous than a flat reduction in the present 3-percent rate. Briefly, section 610 provides that a State may reduce the contribution rates below an average of 2.7 percent, and the employers in that State would still be able to claim 2.7 percent offset against the Federal tax, provided such a State maintained the reserve and observed the minimum-benefit standards set forth in section 610. States which did not meet these conditions would be required to levy contributions at an average rate of 2.7 percent so that they could finance benefits approximating in some degree the minimum standards set forth in section 610. The Board does not wish to be understood as considering the benefit standards contained in section 610 to be adequate.

Senator LA FOLLETTE. What comment, if any, have you to make, Dr. Altmeyer, on the apprehension with the States that have a benefit rating provision, in regard to 610?

Mr. ALTMEYER. I think you have to look at what you are attempting to accomplish under unemployment compensation. In my judgment the benefits that are being paid now are utterly inadequate to meet any sizeable portion of the problem of unemployment. Certainly until we know that 2.7 percent is too much—I do not think it is too much—we should not permit the operation of an individual employer experience rating system, such as Wisconsin has, to result in an average over-all yield of less than 2.7 percent. Wisconsin ought to, if it believes that 2.7 percent will result in the building up of an excessive State reserve, liberalize its law, because Wisconsin is one of the most illiberal of the States today. It is among, I would say, the lowest 10 percent or 20 percent of the States, so far as adequacy of the benefit schedule is concerned.

As I look at this new requirement that an average of 2.7 percent be maintained, it would operate this way, that if a State could pay these minimum-benefit standards provided in the McCormack proposal, they could reduce below the average of 2.7 percent, but if they could not meet those minimum-benefit standards then they would

be required to maintain the 2.7 percent, so that they would have funds to pay benefits approximating in some degree those minimum benefits set forth in the McCormack proposal. As I said a minute ago, the Board does not want to be interpreted as believing that those minimum benefit standards are adequate.

Senator LA FOLLETTE. As I understood your statement, you said you were reluctant, in view of the short time of experience which you have, or which we have had under this title, to state what your position is. Is it to be inferred from that that you would prefer to leave the law as it stands now rather than to go into this question of changing these provisions?

Mr. ALTMEYER. Yes, sir; except that we would recommend, as an additional requirement in the law, which is not in the present law, that no individual employer experience rating system shall operate so as to yield less than 2.7 percent. The effect of that would be that employers could have variations in their rate depending upon their employment experience, but employers with bad employment experience, would have to pay more than 2.7 percent in order to offset the reduction in rates granted to employers with favorable employment experience.

Senator LA FOLLETTE. If I understand you correctly, and in order to get the Board's position on the record, it is this: rather than take the provision which is contained in the so-called McCormack amendment the Board would prefer to see the law stand as it is with the provision that we have just outlined?

Mr. ALTMEYER. Yes, sir.

UNEMPLOYMENT COMPENSATION COVERAGE

As regards coverage, the Board makes substantially the same recommendations concerning the coverage of unemployment compensation as it does concerning old-age-insurance coverage. Extension of the coverage to maritime employees would require the passage of a Federal unemployment-compensation act, since it is impossible to confer upon the States jurisdiction over maritime employment. The Board recommends that such an act be passed covering all maritime employment which it is not possible or practicable to bring under State laws.

STATE PERSONNEL

Under the present Federal law, before a grant to a State for unemployment compensation administration may be certified, the Social Security Board must find that the State law includes provisions for "such methods of administration (other than those relating to selection, tenure of office, and compensation of personnel) as are found by the Board to be reasonably calculated to insure full payment of unemployment compensation when due." In another section, the Board is required, in making such grants, to determine the amount "necessary for proper administration" of the State law.

The Board believes that proper administration must necessarily include adequate provision for the selection, tenure of office, and compensation of personnel. Therefore it may be argued that a conflict exists in the present Federal provisions. The Board believes this should be resolved by repealing the parenthetical language quoted above.

In the opinion of the Board it is sound policy for the State unemployment compensation agencies to have entire authority and responsibility for the selection, tenure of office, and compensation of individual employees.

Senator CONNALLY. Doctor, right there, don't you think instead of merely striking out the parentheses, if those are your views, that the language in the present law should be elaborated somewhat?

Mr. ALTMEYER. Yes, sir. I am saying that in the next sentence.

Senator CONNALLY. You are?

Mr. ALTMEYER. Yes, sir.

But this authority and responsibility should be exercised in accordance with a systematic merit system for the establishment and maintenance of desirable personnel standards. The Board therefore recommends that for the parenthetical language already quoted, there be substituted language requiring that methods of State administration shall include procedures for the establishment and maintenance of personnel standards on a merit basis.

Such merit systems shall include, as does the Federal civil service law, prohibition against political solicitation and political activity, since the salaries of State unemployment compensation personnel are paid entirely out of Federal funds.

Senator CONNALLY. May I ask you, Doctor, has the Board ever reconsidered its views, as to why the Federal Government should pay all the administrative expenses?

Mr. ALTMEYER. Well, it is a somewhat anomalous situation where the Federal Government pays 100 percent, but until we have the system operating longer we are not prepared to make a definite recommendation of an alternative.

Senator CONNALLY. Would it not be wise to require at least some percentage of contribution by the States, say 20 or 25 percent, which would be quite an inducement on the State to maintain an economical system, even though it is a small contribution? As it is now it is easy to spend other people's money when that results in the employment of your friends.

Mr. ALTMEYER. Then the question would arise, Senator, as to whether that proportion which the State would bear of the administrative expense could be paid out of this unemployment compensation trust fund which is to their credit here. If it could be paid you would be put in the same situation as you are put now, unless you required also that the legislature follow the same budgetary procedure as regards that proportion as are followed in the case of their State expenditures.

Senator CONNALLY. I commend that to your future consideration. I think there might be some very good reform right in there.

The CHAIRMAN. Has the 10 percent been adequate to take care of the administration?

Mr. ALTMEYER. Yes, sir. It has averaged a little over 8 percent.

The CHAIRMAN. Who gets the additional 2 percent?

Mr. ALTMEYER. The Federal Government gets it. Part of this difference is used to pay the costs incurred by the Social Security Board and the Treasury Department involved in the Federal administrative responsibilities due to unemployment insurance.

Senator LODGE. As to my request in regard to the table that Dr. Altmeyer has agreed to prepare, I wonder if he could also include the estimate of people over 65 who are single.

Mr. ALTMEYER. Yes, sir.

Forty State unemployment compensation agencies already operate under a general State civil-service law or in accordance with a merit system established for or by the agency itself. The effect of this suggested amendment would simply be to make personnel practices already put into operation by a large majority of States more general.

The Board believes that requiring the State agencies to establish a merit system would place Federal-State relations on a more stable and automatic basis. In actual experience the result of establishing an adequate State personnel system has been to eliminate the necessity for detailed Federal scrutiny of operation, and the possibility of misunderstanding and conflict in Federal-State relations. The suggested requirement thus constitutes not an encroachment of Federal authority in State operations, but rather a protection to the States against undue interference with their administrative functioning.

The establishment of a merit system also protects taxpayers and beneficiaries within the State, inasmuch as it materially reduces the hazard that administration will become so unsatisfactory that the State law can no longer be certified by the Board as meeting the administrative standards of the Federal act. Such inability to certify means that employers in a State would be required to pay to the Federal Government 100 percent instead of 10 percent of the Federal tax, in addition to paying their full tax under the State unemployment compensation law. Up to the present the Board has not found it necessary to withhold certification in the case of unemployment compensation, although it had been necessary to take such action regarding public assistance grants. Effective safeguards should be set up, in order to eliminate the possibility that the derelictions of their public servants may bring such a penalty upon innocent citizens of a State.

PUBLIC ASSISTANCE

The Board recommends no fundamental change in Federal-State relations as regards public assistance. It believes, however, that certain substantive and procedural changes can be made which will greatly strengthen and improve the protection now afforded.

OLD-AGE ASSISTANCE AND AID TO THE BLIND

In the case of assistance to the needy aged and the needy blind, bill H. R. 6635 provides that the Federal Government shall pay to a State 50 percent of the amount expended by the State up to $40 instead of $30 per month as in the present law. In addition to reimbursing the States for 50 percent of their assistance payments to the needy aged and needy blind, the Federal Government makes an additional allowance of 5 percent of the Federal grant which a State may use for administration. Since the Federal grant usually represents less than one-half of the total expenditures made by a State this 5 percent really represents less than 2½ percent of the total sums for use in connection with administration. This flat 5 percent does not represent an adequate Federal contribution for proper administration; and the Board, therefore, recommends that the law be amended so that Federal grants may reimburse the States for 50 percent of the necessary cost of proper administration. Experience has shown that lack of sufficient funds for proper administration has resulted

in the waste of Federal funds for assistance purposes. The Board is of the opinion that the increase in grants to the States for the administration of their laws will result in a saving to the Federal Government in connection with assistance payments.

AID TO DEPENDENT CHILDREN

The Board has strongly recommended that grants-in-aid to the States for aid to dependent children be placed on the 50 percent matching basis already in effect for the other two assistance programs. The Board's recommendation in this respect has been incorporated in H. R. 6635. At the present time the Federal Government contributes only one-third of the payments made by the States to dependent children. As a result, fewer States are participating in this program, and in many of the States that are participating the level of assistance for dependent children is lower than that for the aged and the blind. The number of old people now being aided through Federal grants is three times as large as the number of dependent children. But the actual number of dependent children in need of assistance and eligible under Federal and State standards is probably fully as large as the number of needy aged now receiving assistance.

The Board has also recommended that the age limit for dependent children should be raised in the Federal law from 16 to 18 years when the child is regularly attending school. This would recognize the present desirable tendency for children to finish high school before seeking permanent employment. This recommendation has been embodied in H. R. 6635.

The CHAIRMAN. Tomorrow morning when you take the stand the committee will have some questions that will be propounded to you with reference to this H. R. 6635, in regard to matching it to $15 and matching it to $20, the Federal Government and the State, and you will also discuss the recommendations of the Byrnes committee with reference to the Federal assistance to the States, and the various proposals that were offered there in the House.

Senator GERRY. I would like to ask the Doctor what the definition of the Board is in regard to dependent children.

Mr. ALTMEYER. There is a definition in the law on that.

Senator GERRY. In the original Social Security Act?

Mr. ALTMEYER. Yes, sir.

Senator GEORGE. The House made no change whatever, Doctor, with respect to the 50-50 matching in the case of old-age assistance?

Mr. ALTMEYER. No, sir.

Senator GEORGE. It just raised the maximum of the Federal Government contribution?

Mr. ALTMEYER. Yes, sir. The definition as to the dependent child is on page 52. It reads:

> The term "dependent child" means a needy child under the age of 16, or under the age of 18 if found by the State agency to be regularly attending school, who has been deprived of parental support or care by reason of the death, continued absence from the home, physical or mental incapacity of a parent, and who is living with his father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, or aunt, in a place of residence maintained by one or more of such relatives as his or their own home.

Senator GEORGE. What page is that?

Mr. ALTMEYER. Page 52, section 403.

The CHAIRMAN. I wish, Doctor, if you can, you would give us an estimate of the Byrnes committee report as to Federal assistance to States up to 66⅔ on their individual say so, in the needy States. If you put it at $20 what would be the additional cost? Give us an estimate on that.

Mr. ALTMEYER. Do you mean the Byrnes proposal of a variable grant running from 50 to 66⅔ percent?

The CHAIRMAN. Yes.

Mr. ALTMEYER. And a standard put in the law that the average must be $20 instead of $15?

The CHAIRMAN. Yes; for the consideration of the committee.

Mr. ALTMEYER. Yes.

Senator BYRNES. The alternative, what it costs as it is written in the bill reported by our committee and what it would cost if the same formula was applied to the $20 contribution provided by the House.

Mr. ALTMEYER. Yes. You also have a minimum standard there of $15. Do you want that figured out?

Senator BYRNES. Figured on the $15 minimum and on the $20 minimum.

Mr. ALTMEYER. All right.

Senator CONNALLY. You mean figured on the $15 minimum on your formula?

Senator BYRNES. Yes.

Senator CONNALLY. And the $20 as carried in the bill?

The CHAIRMAN. Yes; $20 on his formula, too.

Mr. ALTMEYER. Yes; figured on $15 as now contained in the Byrnes proposal, and then under the Byrnes proposal with $20 instead of $15.

Senator CONNALLY. Yes, sir.

The CHAIRMAN. That is right.

Mr. ALTMEYER. That $20 would be an average. It is not the same as the $20 in the present House bill.

The CHAIRMAN. It is on an average basis?

Mr. ALTMEYER. Yes.

At present the maximum amounts which may be taken into consideration in making Federal grants are $18 for the first child and $12 for each additional child in the family. The Board recommends that these maximum limitations be liberalized, since in most cases the mother must also be supported.

VARIABLE GRANTS

Federal grants-in-aid under the three public-assistance provisions of the Social Security Act will total approximately a quarter of a billion dollars during the current fiscal year. These grants are made to all States on a uniform percentage basis, regardless of the varying capacity among the States to bear their portion of this cost. The result has been wide difference between the States, both in number of persons aided and average payments to individuals. Thus in the case of old-age assistance the number of persons being aided varies from 54 percent of the population over 65 years of age in the State with the highest proportion to 7 percent in that with the lowest proportion. Similarly State averages for payments to needy old people range from about $32 per month to $6. While those variations may

be explained in part on other grounds, there is no question that they are due in very large measure to the varying economic capacities of the States.

The Board believes that it is essential to change the present system of uniform percentage grants to a system whereby the percentage of the total cost in each State met through a Federal grant would vary in accordance with the relative economic capacity of the State. There should, however, be a minimum and maximum limitation to the percentage of the total cost in a State which will be met through Federal grants. The present system of uniform percentage grants results at best in an unnecessarily large amount of money flowing in and out of the Federal Treasury, and at worst in increasing the inequalities which now exist in the relative economic capacities of the States.

As regards the principle of variable grants, the Board wishes to make it clear that it is not recommending any plan that will result in an increase in the total amount of Federal funds available for matching State expenditures. Neither is the Board suggesting any change in the Federal matching ratio which would increase the Federal matching ratio for the first $15, $20, or $25 of expenditures per case (with a lower ratio of Federal matching for expenditures above such specified amount) or which would provide a flat minimum Federal grant per person. The Board believes that if the principle of variable grants is adopted the variations in matching ratio should be related to the varied economic capacities of the States as established by an objective standard such as per capita income. The Board further believes that the variations in the ratio matched by the Federal Government should average 50 percent. This would necessarily mean that in some States the Federal Government would match at a lower ratio than the present 50 percent and in some States at a higher ratio than the present 50 percent.

STATE PERSONNEL

With regard to requiring States to establish merit systems for the selection and maintenance of personnel, the Board makes the same recommendations for public assistance as for unemployment compensation. It should be noted that in 22 States public assistance agencies already operate under a systematic merit system and that in varying degrees all the States have set up objective standards of some sort for the selection of public assistance personnel. In public assistance, as in unemployment compensation, this provision would strengthen State administration, safeguard taxpayers and beneficiaries, and place Federal-State relations on a more stable and automatic basis.

CONCLUSION

Finally, may I observe that in discussing bill H. R. 6635 and the Board's recommendations I trust that I have not given the impression the Board is questioning the judgment of the Ways and Means Committee or the House of Representatives because some of the original recommendations made by the Board were not incorporated in this bill. The Board fully appreciates that it is the function of legislators to weigh the recommendations of technicians and reject such recom-

mendations as appear to them to be untimely, impracticable or undesirable.

The House Ways and Means Committee, as you know, devoted more than 4 months to the consideration of the proposals contained in this bill. During that time the entire membership of the committee, both majority and minority members, gave the most careful consideration to the data and the views presented by the Board, as it did to all the other testimony presented. Bill H. R. 6635 as finally drafted represents a reconciliation of many originally differing views. In the opinion of the Board it constitutes a tremendous step forward in providing security to the people of this country.

The CHAIRMAN. Doctor, we will appreciate it if you will be here in the morning and be ready to answer any questions that members of the committee might ask you. The committee will recess until tomorrow morning at 10 o'clock.

(Whereupon at the hour of 12 m. the committee recessed until 10 a. m. of the following day, Tuesday, June 13, 1939.)

SOCIAL SECURITY ACT AMENDMENTS

TUESDAY, JUNE 13, 1939

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

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

The CHAIRMAN. The committee will come to order. Mr. Herbert Pillen.

STATEMENT OF HERBERT PILLEN, WASHINGTON, D. C., REPRESENTING THE SHOPPING NEWS MANAGERS CLUB

The CHAIRMAN. Mr. Pillen, you represent the Shopping News Managers Club?

Mr. PILLEN. Yes, sir.

The CHAIRMAN. You may proceed.

Mr. PILLEN. Mr. Chairman, and gentlemen of the committee.

Until recently I had the pleasure of being associated here with Senator Bulkley. I am now associated with him in the practice of law. Since he is in New York, I have the privilege and pleasure of coming here to meet with you on this subject.

This is a proposal to amend titles VIII and IX of the Social Security Act in order to exempt those carrier boys of advertising papers who work after school hours. They are primarily students but under the law, the employers pay the tax on their wages, while the boys, so far as unemployment compensation is concerned, can receive no benefits. In this connection we represent the 18 merchant-owned shopping news located in Boston, Buffalo, Chicago, Cincinnati, Cleveland, Dayton, Detroit, Grand Rapids, Houston, Long Beach, Los Angeles, Milwaukee, San Francisco, Seattle, Springfield, Mass., Washington, and Youngstown.

The CHAIRMAN. This is not in the bill, it is in the act, as I understand it?

Mr. PILLEN. The bill does not go as far as we hoped it would. Chairman Doughton referred to the additional exemptions provided by H. R. 6635.

The CHAIRMAN. Is there any change made in the House bill from the present law, with reference to this?

Mr. PILLEN. It provides an exemption for college students, but it does not cover these grammar-school boys or high-school boys who are employed part time in the afternoon.

Chairman Doughton, on page 18 of his report, said that they provided certain exemptions on part time, intermittent employment where the total earnings are only nominal and where the benefits are inconsequential and a nuisance. We believe, so far as title VIII is concerned, we should come within those terms.

So far as title IX is concerned, we believe it is entirely an oversight that these charges are made, since no benefits at all can be paid to these boys. This request is not made with the idea that we are not sympathetic with the law, we are entirely sympathetic with it so far as full-time employees are concerned, but this has reference only to those boys who work during the afternoons.

Senator VANDENBERG. How large a group is it that is involved?

Mr. PILLEN. What is that?

Senator VANDENBERG. How large a group is it that is involved?

Mr. PILLEN. About 10,000 boys throughout the country. They are paid an average of $2 a week, 52 weeks a year, or $1,040,000 salary during the year.

Senator VANDENBERG. Are they any different from the newsboy who works for the regular newspaper?

Mr. PILLEN. I believe the newsboys are exempted because of the fact that they become little merchants under certain interpretations. They buy the papers from the newspaper office and then sell them and thus become their own employers, and thereby avoid the tax. I represent here these advertising newspapers. For instance, in your State of Michigan there is one at Detroit and one at Grand Rapids.

Senator VANDENBERG. I know about them.

Mr. PILLEN. They, of course, are controlled by the merchants who advertise in them. These merchants own the stock in them, and employ a manager. The manager has a very small office staff, but he does employ 400 or 500 carriers. Now he pays more for his carriers than he does for his office staff, and he pays a tax on all salaries, and as the result he accumulates three or four times as much as he can ever hope that his particular field of employment will recover.

So far as these boys themselves are concerned, they can never get unemployment benefits, because under the laws of the various States, the primary requisite to secure benefits, is that the person be "available for employment" and a schoolboy who goes to school all day is not available for employment.

The Ohio law contains that provision. For instance, it says "No individual shall be entitled to any benefits unless he or she is capable of and available for work."

The District of Columbia law, which was written by the Congress here, says, in section 10 (a) (4), that one of the first requisites is that he is available for work, that he has registered and inquired for work. Of course, the school boy would not be available for work.

I discussed this fact with the District Unemployment Compensation office and was told that there is an additional reason why these carrier-boys cannot be beneficiaries, and that is they cannot be totally unemployed because most of their time is consumed in going to school, and they cannot, therefore, receive benefits.

Now, the employers do pay the tax. Some of the States have recognized the fact that since these boys cannot get any benefits out of it, the employer ought not to be taxed. Those States are Ohio, Illinois, Michigan, New Jersey, Oregon, Rhode Island, Wisconsin, and New York.

The Ohio statute states:

> Employment as a short-time worker of a minor, whose principal occupation is a student actually attending public or private school, shall not be deemed an employment within the scope of this act.

New York has a similar provision, and Wisconsin has that provision. In fact, these States recognize the fact that since the boys cannot get the benefits they ought not to be taxed for it, but under the Federal law, even though the State does not collect the tax, the Federal Government takes the full amount of the tax, because the law says if you pay a State tax you are entitled up to a 90 percent drawback, but when you do not pay a State tax for unemployment, you pay 100 percent of the tax to the Federal Government. The Federal Government, in effect, says:

> While it is true you boys cannot get the benefits, and it is true your State recognizes it is unjust to take the tax from your employers because you cannot get the benefits, yet the Federal Government will take the money and not give any benefits for it.

I shall not take the time of the Committee to quote the various State laws proving this point, but with your permission will include these quotations in the brief which I shall file herewith.

Senator GERRY. Don't you construe that as a coercive force on the States by the Federal Government to make them do this?

Mr. PILLEN. It was intended to include, of course, as many as possible of the people who may become unemployed, but, as I understand the background of the law, it was to stabilize employment throughout the country. The tax was to "coerce" employers to so operate as to eliminate the valleys in employment levels, wherein the unemployed become a public problem and great relief burden.

Now, the amount of employment of these boys has no relation to the stability of employment elsewhere. We cannot employ anyone but schoolboys, because anyone seeking regular employment is not interested in 2 or 3 or 4 hours a week in which he gets an average of from 60 cents to $1.10 an afternoon, or $2.10 a week.

Senator VANDENBERG. Your boys are comparable to regular newspaper carriers, the only difference is that your boys cannot use the escape clause which the regular carriers use?

Mr. PILLEN. That is right, exactly. This is a vital part of their overhead. For instance, in Senator La Follette's State, I went over the figures with Mr. Barnett there, he pays about $29,000 for office-force salaries, about $79,000 for his carrier boys, in a dollar or two dollars apiece over the course of the year, and he pays 3 percent to the Federal Government on both. The State of Wisconsin says, "No one will get any benefit from the larger payment so we will not take your money for it," but the Federal Government does take the full amount.

In connection with title VIII it is, of course, possible that these boys may receive some benefit 45 or 50 years later. The average age is 16, so it will take 49 years until they could get this old-age insurance.

Senator BROWN. You are paying for old-age-insurance benefits?

Mr. PILLEN. Under the old-age-insurance provision, we have to collect a penny from the schoolboy and contribute a penny ourselves, 1 percent of everything, even of a dollar or less.

In this connection it might be well to say that the Wages and Hours Division has exempted these boys, all newsboys. I have here the release of the Labor Department, which I hope may be made a part of the record, showing that the Wages and Hours Division recognizes this fact.

EXHIBIT A.—*Record of carrier employment—Shopping News Managers Club*

	How many combine this work with other employment not exempt under the act?	How many boys use this money to support their parents?	What is maximum amount boys can earn?		What is average amount the boys earn?		Age of carriers			Period of employment		
			Weekly	Quarterly	Weekly	Quarterly	Youngest	Oldest	Average	Shortest	Longest	Average
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Boston	About 2 or 3 percent	8 percent help support parents; 35 percent help support self.	$2.50	$32.50	$2.00	$26.00	14	19	17	1 delivery	5 years	25 months.
Buffalo	Less than 5 percent	About 40 percent	5.10	66.30	.99	12.87	14	18	15½	do	(3)	(3).
Chicago [1]	1½ percent	33 percent help support parents; 40 percent help support self.	4.50	58.50	1.95	25.35	14	19	16½	do	5 years	8 months.
Cincinnati	9 percent	About 54 percent	5.40	70.20	1.80	23.40	14	19	16	do	4 years	20 months.
Cleveland [1]	None; do not permit carriers to take other employment.	About 15 percent	5.78	75.00	4.05	52.60	14	19	16½	do	5 years	Do.
Dayton	15 percent	Nearly all to some extent; say, 50 percent.	5.78	75.00	4.56	59.28	14	18	16	do	4 years	2½ years.
Detroit [1]	None; do not permit carriers to take other employment.	About 6 percent	2.50	32.50	2.07	26.91	14	19	16¼	do	5 years	2 years.
Grand Rapids [1]	do	Approximately 90 percent.	3.46	45.00	2.23	26.79	14	18	16	do	do	3 years.
Houston	1 or 2 percent	Negligible	1.00	13.00	.85	11.00	12	16	14	do	1½ years	9 months.
Long Beach	2 percent		4.00	52.00	3.00	39.00	14	19	15	do	5 years	1½ years.
Los Angeles [1]	Very few	Not many	2.50	32.50	1.25	16.25	14	19	16	do	4½ years	20 months.
Milwaukee	7 percent	3 percent help support parents; 35 percent help support self.	2.70	35.10	1.35	17.55	14	19	16	do	4 years	1 year.
Minneapolis			1.90	24.70	1.80	23.20	14	18	16	do	do	2 years.
San Francisco (including Oakland) [1].	5 percent	About 70 percent	3.97	51.59	2.79	36.30	14	19	16½	do	4½ years	20 months.
Seattle [1]	10 percent	5 percent help support parents; 35 percent help support self.	2.70	35.10	1.54	20.00	14	19	16	do	5 years	2 years.
Springfield, Mass. [1]	Few, if any	Not available	4.00	52.00	3.00	39.00	14	18	16	do	4 years	Do.
Washington	None	Not more than 1 or 2 percent.	3.00	39.00	1.53	19.89	14	19	15½	do	5 years	Do.
Youngstown [1]	Only 1 boy	Very few	2.31	30.00	1.09	14.14	12	17	15	do	do	3 years.
Average estimate	3 or 4 percent	7 percent help support parents; 35 percent help support self.	5.78	75.00	2.10	27.20	14	18½	16	do	4.4 years	21 months.

[1] Issued twice weekly.

[2] In existence only since February 1938.

(The release referred to is as follows:)

UNITED STATES DEPARTMENT OF LABOR, CHILDREN'S BUREAU

WASHINGTON

[Immediate release Wednesday p. m. papers, April 12, 1939]

APPLICATION OF THE CHILD LABOR PROVISIONS OF THE FAIR LABOR STANDARDS ACT TO CHILDREN ENGAGED IN THE DISTRIBUTION AND DELIVERY OF NEWSPAPERS

With the approval of the Solicitor of the United States Department of Labor, the Chief of the Children's Bureau announced today [Wednesday] that in administering the child-labor provisions of the Fair Labor Standards Act in relation to the work of minors under the age of 16 years in the distribution of newspapers, she would proceed on the basis that producers and manufacturers of newspapers and dealers in newspapers who ship newspapers or deliver newspapers for shipment in interstate commerce are subject to the child-labor provisions of the act if the work of minors under the age of 16 years engaged in the distribution of such newspapers requires them to come in or about the establishment in which the newspapers were produced.

Mr. PILLEN. We also looked into the possibility that there may be survivor benefits, under the old-age-insurance sections, which should not be taken away.

We checked the boys and found less than 4 percent of them combined this work with other employment. The shopping news organizations ask that the carriers be not otherwise employed, so that they will be available to deliver the Shopping News, with any other special advertising matter which the various merchants in the organization desire to distribute. They are encouraged not to accept outside employment, and so less than 4 percent of the boys combine this work with other outside employment.

I have here a chart which gives certain data in regard to the various shopping news, which I hope will be made a part of the record, which shows exactly how many boys combine this work with other employment. About 7 percent say they help their parents; and, of course, under the act, it seems almost impossible that they could get any material amount for survivor benefits, because certainly the youngsters are not likely to have wives or children surviving them, since they are all 16 or 17 years old, some of them as young as 14. This chart will show that the boys earn on an average of $2.10 a week, or $27.20 quarterly; their average age 16; and average period of employment 21 months. This information was gathered together just a few days ago from the various shopping news organizations involved.

(The chart referred to is on facing page.)

Senator BROWN. Mr. Chairman?

The CHAIRMAN. Senator Brown.

Senator BROWN. Might I ask a question of the chairman?

The CHAIRMAN. Yes.

Senator BROWN. It seems to me the witness makes a pretty good case. What is the attitude of the Board on that question?

Mr. ALTMEYER. We think it would be unfortunate to exclude these Shopping News organizations. They are in competition with newspapers.

Senator BROWN. All I want to know is whether you oppose it or not.

Mr. ALTMEYER. That is one thing. The other thing is if the wages of these children are exempted from the tax it creates an incentive to employ child labor instead of adults.

Mr. PILLEN. If it were possible to employ grown people for this work we would do it, but obviously no man who is seeking regular employment is going to take work 2 hours a week or 4 hours a week if it would interfere with his seeking regular employment, and it is necessary that we have persons who are able to deliver the papers on the days that they come out.

Senator BYRNES. What percentage of the employees engaged in this work are adults?

Mr. PILLEN. I cannot tell you exactly. Of course, the adults in the plant are employed full time and would not be exempted in the amendment we suggest. There are no carrier boys employed, that I can find on this report from the Shopping News managers who are beyond 19. The youngest is 14 in every instance except Houston, Tex., and Youngstown, Ohio. The oldest boy is 19. (See exhibit A.) The average age is 16. They are all schoolboys.

The CHAIRMAN. You say there are five States that, by law, are not charging this tax?

Mr. PILLEN. More than five, Senator, and more States are being added to that number all the time, New York just the other day.

The CHAIRMAN. I understood you to say something about the Federal Government collecting this 3-percent tax.

Mr. PILLEN. Now, we are talking about unemployment?

The CHAIRMAN. We are talking about unemployment.

Mr. PILLEN. That is true.

The CHAIRMAN. But the States do not get the 90-percent benefits?

Mr. PILLEN. That is correct.

The CHAIRMAN. Is that right, Doctor?

Mr. ALTMEYER. That is right. I mean, in those States they do not tax. They have a perfect right to tax if they want to, however. Many States do.

Senator CONNALLY. And if they did tax they would get the benefits.

Senator GERRY. That is the idea of the statute.

Senator CONNALLY. They are supposed to level it out.

Mr. PILLEN. I think, Senator, the boys would never get the benefit. The State would get the money, but the boys for whom it is collected would never get the benefit.

The CHAIRMAN. Go ahead, Mr. Pillen.

Mr. PILLEN. To show you the bookkeeping difficulties of the situation, these 18 publications employed, at the time this chart was made up, 9,576 carriers who received an average wage of 86.7 cents per issue. Now, you can see no grown person is going to accept that as regular employment. Any time he got any other employment he would take it.

Senator DAVIS. Is the business profitable enough so that they can use adults exclusively in this work?

Mr. PILLEN. No, because adults will not report regularly. It is only 2 or 3 hours a week after school that the papers are delivered. They will not promise to be there every Tuesday or Friday, or every Tuesday and Friday in some cases.

Senator DAVIS. Is not the promise of an adult equal to that of a young child?

Mr. PILLEN. We cannot say to him, "You cannot accept any other employment on any afternoon because we may need you."

Senator DAVIS. What I would like to know is: Is the business profitable enough to employ adults?

Mr. PILLEN. No, it is not. To be certain that adult carriers would be available when needed a wage all out of proportion to the hours employed would be necessary. These merchants who own these papers feel that there is a great pressure on them by what amounts to a 5-percent tax, 3-percent unemployment, the 1 cent for employer's contribution, and, of course, where it is less than a dollar they do not take the penny away from the newsboy, they pay that for him, so actually they pay 5 cents for each boy who works for them for each dollar or less.

Senator VANDENBERG. As a practical proposition you cannot have men for carriers of shopping news any more than you can have men as newsboys for regular newspapers.

Mr. PILLEN. That is correct.

Senator VANDENBERG. It is simply out of the question.

Mr. PILLEN. Yes. Now, I started to say there are 9,576 of these carriers. We find, by actual study, that 93.6 percent of them have to be replaced some time during the year. Because of illness, or for some other reason they do not show up. In other words, when these carriers are replaced, either temporarily or otherwise, they have got to get someone else. During the year it was shown that they needed to employ substitutes 18,546 times.

Now, it is not practical to get alternates in these various districts, because if 93.6 percent of the boys who are promised regular employment do not show up during the year at some time or other, it is obvious that more than 93.6 percent of the alternates, who have no particular reason to be available, would not be available when they are needed.

Senator CONNALLY. Right there, the reason for that is that you are giving them such short employment, just this little employment of once a week, it is not attractive to them, and if they find anything at all, they do not show up, is that it?

Mr. PILLEN. That is true. We cannot give them any more employment.

Senator CONNALLY. Of course you cannot. This is a cooperative concern?

Mr. PILLEN. That is right, Senator.

Senator CONNALLY. It is run in order to keep them from paying the high advertising rates that they pay in the newspaper?

Mr. PILLEN. I would not say that, Senator. It is operated chiefly on the demand of housewives who want, in a concise form, all the sales that are going on in a specific day.

Senator CONNALLY. I know I get them, I step on them at my door once in a while, but I have not made any demand for them.

Mr. PILLEN. I cannot state very well in your case that Mrs. Connally would be interested, but I do believe most of the Senators' wives, the Senators who have their wives here, find them of interest.

The CHAIRMAN. The newspaper would be for this proposition, would it not?

Mr. PILLEN. The newspapers I think would be entirely favorable to the amendment we propose, because in those cases where the news-

papers actually own the routes instead of the boy owning it, they would be exempt. We do not try to make this class legislation at all.

I would like to have you understand, too, that when you employ one boy for one delivery, you have to get a social-security number and have a couple of weeks' correspondence with the State board, or tell them why you haven't a number for them, until you finally get your number, and then you may never employ the boy again. You pay him 75 cents and the Government 5 cents.

Now, the college students are exempt, even though they go to institutions that are not exempt from the income tax and other taxes, if they work for the college and earn up to $45 a quarter. We feel if college students should be exempt in earning this small amount that high-school boys ought to have that same opportunity to earn it without the impediment and nuisance of tax collection.

I do not have the numbers of the pages of the bill as it passed the House, but the amendment we propose, and we give it in the alternative to the bill as reported in the House, would be as follows:

Add a new section in three places:

Page 40, line 23; page 62, line 23; page 90, line 1, adding a new section (14) saying:

Service performed by a short-time worker 18 years of age or under, whose principal occupation is a student actually attending a regular daytime public or private school, provided such service is not of a hazardous nature, is not in or about the plant or factory, and is of no more than 3 hours on any schoolday or more than 15 hours in any one week—

would be exempt from the unemployment and old-age tax provisions:

Or, in the alternative—

(14) Service performed by a short-time worker 18 years of age or under, whose principal occupation is a student actually attending a regular day-time public or private school, provided such service is not of a hazardous nature, is not in or about the plant or factory, and the income from which is not more than $45 per quarter.

We have offered it in the alternative rather than by including both provisions in the one amendment, for fear that if you made a salary limitation and an hourly limitation you might have certain persons who would work the maximum hours but try to drive down the wages, to get under the limitation. So we tried to do one or the other. Either one of them would be satisfactory. We would prefer the $45 minimum, because then there could be no chance that Shirley Temple or anyone else who makes a lot of money an hour, would try to work out his schedule so he would go to school regularly and still earn his salary.

The Shopping News have always paid good wages. They have to. For instance, here in Washington the carriers work about an hour and 50 minutes each delivery. This check-up with the publications shows that the boys earn 75 cents for that hour and 50 minutes, or 40 cents an hour. So there is no possibility of conflict with the minimum-wage law.

These employers pay reasonable rates in order to get and keep courteous and dependable delivery boys.

Before I close I would like to submit for the record a chart of carrier employment experience of the 18 publications composing the Shopping News Managers' Club, Inc.

The CHAIRMAN. Without objection that may be included in the record.

(The chart referred to is as follows:)

EXHIBIT B.—*Carrier employment experience of the 18 publications composing Shopping News Managers' Club, Inc.*

	Times delivered per year (1)	Total carriers per delivery (2)	Replacements required per year (3)	Total of (2) and (3) (4)	Number temporary replacements per delivery (5)	Resultant total of temporary replacements per year (6)	Wage paid per delivery 7)
Boston	52	868	573	1,441	25	1,300	$0.95
Chicago	104	1,550	2,550	4,100	139	14,456	.90
Cincinnati	52	516	443	959	19	9,988	.90
Cleveland	104	942	621	1,563	21	2,184	.885
Dayton	52	286	182	468	11	572	.87
Detroit	52	894	462	1,356	14	728	.95
Grand Rapids	104	201	121	322	4	416	.60
Houston	52	350	1,050	1,400	40	2,080	.70
Long Beach	52	232	100	332	23	1,196	.95
Los Angeles	104	943	1,399	2,342	28	2,912	.79
Milwaukee	52	343	165	508	16	832	.90
Minneapolis	52	340	85	425	17	884	.75
San Francisco (including Oakland)	104	789	505	1,294	20	2,080	1.10
Seattle	104	480	314	794	48	4,992	.75
Springfield	104	192	60	252	10	1,040	1.00
Washington	52	548	314	862	40	2,080	.75
Youngstown	104	102	26	128	16	1,664	1.00
Total		9,576	8,970	18,546	491	40,404	[1] .867

[1] Average wage per delivery.

(Mr. Pillen submitted the following brief and communication:)

BRIEF OF HERBERT PILLEN [1] REPRESENTING THE SHOPPING NEWS MANAGERS CLUB

A proposal to amend the Social Security Act to exempt from title VIII and title IX persons 18 years of age or younger who attend school as their primary occupation but who are in part-time or intermittent employment.

In referring to certain additional exemptions provided by H. R. 6635, Chairman Doughton, for the Committee on Ways and Means, states (H. Rept. No. 728, 76th Cong., p. 18):

"The intent of the amendment is to exclude those persons and those organizations in which the employment is part-time or intermittent and the total amount of earnings is only nominal, and the payment of the tax is inconsequential and a nuisance. The benefit rights built up are also inconsequential * * *. This amendment, therefore, should simplify the administration for the worker, the employer, and the Government."

This appeal for exemption of the boys who deliver Shopping News, once or twice a week, requiring less than 3 hours on the days employed, is entirely in line with the reasons for the exemptions to which the committee report refers.

This request is not to be construed as rising from lack of sympathy for the fundamental principles of the law. Each publisher heartily subscribes to these principles and complies willingly insofar as it applies to employees working full time and earning wages or salaries in an amount which makes it worth while. We also are complying with the law at present in the collection of pennies from our school boys. But we hope your body will see the inequalities which exist in this case.

So far as the 3-percent tax which is imposed under title IX for unemployment-compensation purposes is concerned, we can find no one who justifies this tax, since it is obvious that the boys in whose behalf it is paid cannot be beneficiaries.

Since these workers are primarily students they cannot be totally unemployed

[1] On behalf of the 18 merchant-owned Shopping News located in Boston, Buffalo, Chicago, Cincinnati, Cleveland, Dayton, Detroit, Grand Rapids, Houston, Long Beach, Los Angeles, Milwaukee, San Francisco, Seattle, Springfield, Mass., Washington, and Youngstown.

within the meaning of the State laws, and therefore when they lose their delivery jobs, or get out of this part-time employment, they cannot obtain unemployment benefits. In other words, their employers pay a tax on their wages for which no benefits can go to the employee, or to anyone. A full-time student incidentally doing part-time work cannot become "unemployed" by losing that part-time work, because he cannot become "available for work" and retain his primary student status.

For instance, the Ohio law provides: "No individual shall be entitled to any benefits unless he or she is capable of and available for work."

The Wisconsin law reads: "Eligibility for benefits. (1) Availability for work. No employee shall be deemed eligible for total or partial unemployment benefits for any week, if such employee was with due notice called on by his employer or by the employment office to report for work actually available within such week and was physically unable to work or unavailable for such work."

This "availability for work" requirement is contained in all the State laws providing unemployment insurance benefits. And of course it is a logical and necessary requirement.

Now, obviously, a full-time school boy or girl cannot be available for work within the meaning of these laws. The District of Columbia Unemployment Compensation Commission so holds, as do all the others.

Under the District of Columbia Unemployment Compensation Act, there are two provisions either one of which is sufficient to prevent payment of benefits to carrier boys as unemployed, if they are full-time students: Section 10 (a) (4) requires that they be available for work, and section 10 (a) (5) requires that they be totally unemployed.

In Wisconsin, for instance, the unemployment compensation department of the industrial commission furnishes a form letter to employers of school boys and girls, which reads:

"To_____, employee:

"Since you are a student, working outside of school hours for not more than 4 hours on any full school day, you are not entitled to benefits for partial or total unemployment from your employer under the Unemployment Compensation Act.

"At any time, however, that you are no longer a student (that is, if you worked more than 4 hours on any day which was not a customary vacation day from your school; or if you have stopped attending school regularly), let your employer know immediately. In that case you would be entitled to benefits if you became unemployed.

"Date_____

_____

"Employer"

So it is apparent that the part-time employment of school boys and girls can result in no unemployment benefits to them.

But the tax applies just the same. Some States recognize the injustice of collecting special-purpose taxes where the benefits cannot follow, and specifically exempt such employees from the tax. These States are: Ohio, Illinois, Michigan, New Jersey, Oregon, Rhode Island, Wisconsin, and New York.

For instance, the Ohio law provides:

"(6a) Employment as a short-time worker of a minor, whose principal occupation is a student actually attending public or private school, shall not be deemed an employment within the scope of this act."

The New York Statute reads:

"Employment as a part-time worker of a minor under the age of 21 years who is actually in regular attendance during the daytime as a student in an institution of learning."

In Wisconsin for several years the law provided no benefits to these student employees but collected the taxes. However, an amendment has been added as follows:

"The term 'employment,' except as a given employer elects otherwise with the commission's approval, shall not include: * * * 4. Employment as a newsboy, selling or distributing newspapers or magazines on the street or from house to house * * *."

More States are likely to follow, but this does not help, since under the Federal law full payment must be made to the Federal Government, if there is no State tax for unemployment insurance, by virtue of the fact that the tax must be paid to the Federal Government, less 90 percent of what is paid to the State. If the State collects no part of it, the entire amount is payable to the Federal Government.

In other words, the Federal law in effect says that even though these part-time employees can receive no benefits, and an increasing number of States recognize this fact and therefore exempt their employers from the tax, we shall collect the entire amount of the tax—but of course there won't be any benefits.

Nor is this 3 percent a small part of the overhead of these concerns: The Shopping News are owned and controlled by the merchants who advertise in them. A manager operates the enterprise and has a modest office staff, but employes about three or four hundred boys—1, 2, or 3 days a week for 2 or 3 hours in the afternoon. The composition and printing is done usually by some local newspaper or printer, so that the total salaries for the permanent staff amount to one-third or one-fourth of that paid to the carriers, and it is therefore difficult to absorb and of course distasteful because the employer paying it realizes that the employees on whose wages it is paid cannot hope to benefit from it.

In connection with title VIII I shall show why it is not possible to employ other than school boys for this work, but so far as title IX is concerned, we are convinced that the tax exists only because its injustice was not heretofore called to the attention of the Congress, and we are confident that this inequality and injustice will be eliminated at this time.

As to title VIII, the old-age-insurance provisions, it is true that some slight benefit might go to these employees, 47 or 48 years later, since they are under 18 years of age when employed, but it is our contention that this exemption is justified because the existing provision is a nuisance to the Government, and to the employer, to keep the records during all these years, and the possible benefits are too inconsequential to justify it.

At the outset let me say that it is necessary to employ school boys for this work; since it is part-time several hours a week, it is not possible to secure persons who are regular workers interested in full-time employment. The boys do not go near the plants, but the papers are delivered to their homes while they are in school, and they start their deliveries from their own homes. The boys always come from their own neighborhood and are representative of the neighborhood.

Some newsboys are exempt from the law at this time, because they buy their papers and sell them to their own customers and are therefore considered little merchants.

The Wage and Hours Division has exempted newsboys, provided they do not go to the plant or factory, and in their definition of newsboy the boys delivering Shopping News are included.

The attached chart (exhibit A) shows that less than 4 percent of these boys combine this work with other employment, so that there is little chance that the amount paid would be helpful in building up an old-age insurance account of value. About 7 percent help support their parents, though an additional 35 percent help support themselves, by buying books, enjoying hobbies, etc. The average amount payable to these boys is $2.10 per week, or $27.50 quarterly. Their average age is 16, and the average period of employment is 21 months. This comes from information gathered within the past 2 weeks from the 18 merchant-owned Shopping News involved in this appeal.

The realities from the side of the bookkeeping difficulties ahead of the Internal Revenue Department and the 18 Shopping News composing our association, is revealed by the following analysis of the statistical report that is attached (exhibit B):

1. These 18 publications employ a total of 9,576 carriers.

2. These 9,576 carriers receive an average wage of 86.7 cents per issue (some Shopping News publish twice weekly rather than just once a week, and occasionally an additional circular may be distributed). Individual rates per delivery range from 60 cents to $1.10.

3. The report shows that annually 93.6 percent of this total of 9,576 boys leave the service and have to be replaced. This means 8,970 more individual entries in the bookkeeping responsibilities of the Government and us. But that is not all—

4. Carriers have to be replaced, not permanently, but for particular deliveries, because of illness, authorized absence, etc. The substitutes employed have to be paid for the occasional emergencies for which they are employed. The report attached shows in columns 5 and 6 the extent of such emergency employment of substitutes per week and per year. This shows that during the year, these 18 employers have to employ such substitutes 18,546 times. We must report for each one of these substitutes even though he might only be employed for one single delivery and after that have no further employment with us.

We are sure you will recognize the nuisance involved in securing a Social Security card for a boy to fill the place of another boy who has suddenly taken ill or other-

wise cannot fulfill his undertaking. In this instance it is usually the first employment of the boy under the act so that he does not have a number. In other fields, where older persons are employed, there is considerable chance that the person already has his number. Here a card must first be secured in nearly every instance, at considerable cost in time and expense to the prospective employer, since he is in a hurry to fill the emergency vacancy and must undertake securing the number to be certain it is available.

In view of the excessive turn-over among these delivery boys, it is not practical to arrange for alternates in each district. Undoubtedly more than 93.6 percent of such alternates would not be available when called upon, since so large a percentage of the regular carriers must be replaced annually.

Since college students who work around the college or other institution are exempt up to $45 quarterly, we feel the same exception should apply to the high-school student who seeks part-time employment. Certainly these boys should be encouraged in this effort—work of this kind is character building and in no sense harmful.

To this end we suggest an amendment in the three pertinent places in the bill, as follows:

Add a new section in three places: Page 40, line 23; page 62, line 23; page 90, line 1:

(14) Service performed by a short-time worker 18 years of age or under, whose principal occupation is a student actually attending a regular day-time public or private school, provided such service is not of a hazardous nature, is not in or about the plant or factory, and is of no more than 3 hours on any school day or more than 15 hours in any one week.

Or

(14) Service performed by a short-time worker 18 years of age or under, whose principal occupation is a student actually attending a regular day-time public or private school, provided such service is not of a hazardous nature, is not in or about the plant or factory, and the income from which is not more than $45 per quarter.

It is felt that either the time limitation or the wage limitation should be included, but that both limitations should not be included, since that may encourage "chiselers" and those not in sympathy with the act to try to get the maximum of hours with the minimum of wages. We prefer the latter.

The Shopping News have always paid good wages. They pay these boys about 40 cents an hour. They must pay such wages to get and keep courteous, dependable carriers.

MUNSEY BUILDING,
Washington, D. C., June 13, 1939.

Hon. PAT HARRISON,
Chairman, Senate Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR HARRISON: At the committee meeting this morning, when I appeared in behalf of an exemption for schoolboy carriers, some of the questions indicated that the committee would be interested in knowing whether the various Shopping News are published because the rates are lower than those for regular newspaper advertising.

I have checked the rates on the newspapers in the District of Columbia, and find that the rate for a page a week for a year, or 150,000 lines, in the Washington Post is 14.44 cents per line; the Times-Herald is 15.9 cents per line, and the Star is 17.9 cents per line. The News is 11 cents per line on a 175,000-line basis. The cost for the Washington Shopping News, including engraving, is 14.5 cents per line for 122,300 lines, or, higher than the Post and News, and lower than the Star and Times. I presume this is representative of the industry, and I believe is sufficient to show that these Shopping News were organized by their merchant owners because of the results achieved and the demand demonstrated. It is a business proposition of proved value to the merchants involved, which merchants do not discontinue advertising in the regular newspapers, but advertise in both.

The Shopping News is of value because it gives to the housewife shopping news only. She finds all the information she wants concentrated in one paper without extraneous matter. And she gets it free.

Respectfully yours,

HERBERT PILLEN.

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

Dr. Altmeyer, will you come forward, please?

STATEMENT OF ARTHUR J. ALTMEYER—Resumed

The CHAIRMAN. There will be a lot of questions, I imagine, that will be propounded. Senator La Follette, you had some questions that you desired to ask.

Senator LA FOLLETTE. Dr. Altmeyer, I would like to go through some questions with you with the objective of bringing out, if possible, some information on the effect of the arbitraries which have been necessary.

Now could you tell me what qualifications a person who is 65 or over before January 1, 1940, must possess in order to be entitled to receive the old-age benefit, or the primary insurance benefits, whichever you prefer to call it?

Mr. ALTMEYER. Yes, sir. You will find on page 13 of the report of the House Ways and Means Committee the definitions of "fully insured" and "currently insured" individuals. I might explain, first, the reason why it is necessary to make a distinction between "fully insured" and "currently insured." You will have young men in only 2 or 3 years, perhaps, who die leaving a widow and orphans. Now if you had the same definition of an insured individual to cover these younger people who die in midcareer, so to speak, as you have for the person who retired at age 65, it would be too stringent and exclude the very people to whom you want to furnish protection. Therefore, we are suggesting a difference.

Take, first, the "fully insured" definition on page 13. Because of the fact that we are recommending that these monthly benefits commence 2 years sooner, it is necessary to make a considerable modification in the eligibility rquirements. Especially is that so because you have men and women who have reached age 65 since January 1, 1937, when this law went into effect. Those people, after they have reached age 65, have not been able to build up any benefit rights, because, as the law is written now, when a person reaches age 65, both the contributions and the benefit rights cease, and they receive a small lump sum. That is another reason why it is necessary to liberalize the eligibility requirements for those retired in the early years.

Senator LA FOLLETTE. Now taking this person at 65 or over before January 1, 1940, what must have happened to him in order that he be entitled to these primary insurance benefits?

Mr. ALTMEYER. He must have had 2 years of coverage ("coverage" is defined as earnings of $200 or more in a given year) and earned a total of $600 in wages.

Senator LA FOLLETTE. Would that mean that wages received by a person when 65 or over before January 1, 1940, do not count?

Mr. ALTMEYER. The wages?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. The wages after age 65 do not count, and that is why it is necessary to be so liberal. You have the 3 calendar years 1937, 1938, and 1939, and it is hoped that by making it only 2 years those persons who have had some employment experience during those years and can establish that they are really suffering a wage loss by retiring, will be covered.

So, as I say, for those who have become 65 years of age before January 1, the qualifications are 2 years of coverage and a total of $600 of earnings.

Senator LA FOLLETTE. From the covered employment?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now it is a fact, is it not, as I understand it and found under the experience, that there is a great deal more going in and out of covered employment, going out and then back again, than was anticipated?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. And who also must file an application?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. What are the qualifications required by a person who attained the age of 65 in 1940?

Mr. ALTMEYER. Well, you will find in the table that a man attaining the age of 65, or a woman attaining the age of 65, in 1940, would have to have 3 years of coverage and $800 of earnings. Then if the person attained the age of 65 in 1941, it is 3 years of coverage and $1,000, or $200 more of total earnings. In 1942, it is 4 years of coverage and $1,200 of total earnings; in 1943, it is 4 years with $1,400; in 1944, it is 5 years with $1,600 total earnings and in 1945, it is 5 years with $1,800 total earnings. Thereafter it is one-half of the years since 1936 plus 1 additional year and earnings of $2,000. In other words, you have to move into your permanent eligibility requirement gradually in order to make eligible in these early years persons who have some degree of earning history to warrant paying them a retirement benefit.

Senator LA FOLLETTE. Now, as I understand it, these changes in requirements as between persons who were 65 before and those who were 65 in 1940 take effect on January 1, 1940, do they not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. So that under this proposal the eligibility requirements for a person who attained the age 65 on December 31, 1939, would differ from those applicable to a person attaining the age 65 on January 1, 1940?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Is this example correct: Employee A, who attains age 65 on December 31, 1939, let us assume that he received $400 from wages in 1937 and $200 in 1938 and does no work of any sort thereafter, what would he pay in taxes as provided in the Social Security Act and in these amendments?

Mr. ALTMEYER. You said $600 altogether?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. He would have paid only $6 in taxes, and his employer paid $6.

Senator LA FOLLETTE. And if he had filed an application on January 1, 1940, he would be entitled to benefits, would he not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. How much would his monthly benefit be?

Mr. ALTMEYER. $10, the minimum.

Senator LA FOLLETTE. And if he had a wife over 65, who was not entitled to a benefit in her own right, and a dependent child under 18, what would the benefit with respect to his wages be?

Mr. ALTMEYER. It would be still pretty close to the minimum.

Senator LA FOLLETTE. $13.34, would it not?

Mr. ALTMEYER. $13.60.

Senator LA FOLLETTE. Now, how much will be paid out on the average to a man aged 65 at $10 month on the expectancy of his life?

Mr. ALTMEYER. Well, the life expectancy is about 12 years.

Senator LA FOLLETTE. So that would be around $1,400?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Now, take another example. Suppose a man received $3,000 in wages in 1937, $3,000 in 1938, and works no more after the end of 1938, how much would he pay in insurance taxes?

Mr. ALTMEYER. He would pay 1 percent. You say the total is $6,000?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. He would pay $60 and his employer would pay $60.

Senator LA FOLLETTE. If he attained 65 on January 1, 1940, would he then be entitled to benefits, if he filed an application?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. If he attained that age on January 1, 1940, he would not be entitled to it, would he?

Mr. ALTMEYER. I did not remember when you said he became 65.

Senator LA FOLLETTE. He attained the age of 65 on January 1, 1940. He would not be entitled to any benefits, would he?

Mr. ALTMEYER. And he was in only 2 years?

Senator LA FOLLETTE. That is right.

Mr. ALTMEYER. No.

Senator LA FOLLETTE. He would not be entitled to any, as I understand it, because of the fact he attained the age of 65 in 1940. He can be eligible only if there were 3 calendar years in which he received wages of at least $200.

Mr. ALTMEYER. That is right. If he earned $200 after January 1, 1940, he could then become eligible.

Senator LA FOLLETTE. If he had the good fortune to become 65 years of age before the date in this example he would be entitled to benefits, would he not?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. Therefore, even though employee B receives 10 times as much wages and pays 10 times as much in taxes as employee A, employee B gets nothing while employee A can look forward to receiving as much as $1,400, over 200 times as much as he, himself, paid in taxes; that is correct, is it not?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. Employee B could still qualify, however, if he had the good fortune to earn $200 in the third year?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. You would say the chances for employment at 65 or over are rather slim, would you not?

Mr. ALTMEYER. Not if the person has been working up to age 65.

Senator LA FOLLETTE. Now, if employee B received $200 in wages from covered employment in 1940 he would be eligible, would he not, on January 1, 1941, if he applied for it?

Mr. ALTMEYER. He would be eligible immediately after he earned the $200. If he earned it in the first month he would be eligible on February 1.

Senator LA FOLLETTE. And his primary benefit would be $28.76, would it not?

Mr. ALTMEYER. I have not made the calculation. I imagine that is what it would be.

Senator LA FOLLETTE. And if he had a wife aged 65 there would have been a benefit of $14.38 more payable to her if she was not entitled to more in her own right; that is correct, is it not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, even if there were no benefits payable to a dependent child, the total benefit in respect of employee B's wages would be $43.14 per month, would it not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, if the wife of employee B survived him after he became entitled to these benefits would she be entitled to benefits thereafter?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. She would get three-fourths of her husband's primary insurance benefit, or $21.57 per month, is that right?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. What is the value of a benefit of $43.14 payable for the combined lifetime of a husband aged 66 and wife aged 65 with $28.76 payable during the after lifetime of the husband if the wife should die first, or $21.57 during the after lifetime of the wife if the husband should die first?

Mr. ALTMEYER. You mean the actuarial value?

Senator LA FOLLETTE. That is usually computed on the combined annuity table at 3 percent, is it not?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Which would make $5,677.

Mr. ALTMEYER. I would think that is correct.

Senator LA FOLLETTE. Now, the value of the $28.76 per month of employee B at 66 on the same basis would be $3,322, would it not?

Mr. ALTMEYER. I would imagine so; yes.

Senator LA FOLLETTE. And the average payments would exceed $4,000 during the lifetime?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. In other words, for an additional $200 in wages after January 1, 1940, and $6 in taxes paid by him and $6 paid by his employer, employee B, under this example, could get a benefit worth at least $3,322, and if he has a wife 65 years of age, $5,677.

Now, would it not obviously be to great advantage to get $200 more in wages, and would not there be an inducement created there for a lot of subterfuge for persons to fall into the category of this employee B that I have given in this example?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Do you see any way in which that could be corrected?

Mr. ALTMEYER. No, sir. We will have to recognize, when we start a social-insurance system, that we are going to have these anomalies that you pointed out so well, and that we are going to have benefits payable in the earlier years far out of proportion to the contributions that have been made by the insured person himself.

If you will turn to page 14 of the Ways and Means Committee report you will see the difference between the benefits payable under this proposed revision and the benefits that would be purchased from

a private insurance company. Take, for instance, a man who had been earning $50 a month, even after 20 years of coverage he could only get a monthly annuity of $1.55, on a strictly insurance basis. A man could draw, even under the present law, 72 times as much as he has paid in, and under this proposed revision he could draw still more in proportion to what he has paid in.

Senator LA FOLLETTE. Would there be anything to prevent a man in the situation of employee B from organizing a company and paying himself $200 and thus getting this tremendously increased benefit?

Mr. ALTMEYER. We suggested putting in language to provide penalties for collusion for the purpose of obtaining the benefits. That is on page 33 of the bill, section 208. We have some language there, but there will be a considerable temptation for collusion.

Senator LA FOLLETTE. Now, there are other times when the requirements generally show that small differences in the case of obtaining age 65 may produce very large differences in benefits; are there not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. I want to have incorporated at this point a table, which I would like to have you correct if it is not correct. You can see it later.

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. Without objection, it may be put into the record.

(The table referred to is as follows:)

A. The changes can be shown in tabular form as follows:

Attained age 65—	Date of change, initial requirement	Number of calendar years in which at least $200 must be received in wages from covered employment	Minimum aggregate wages to be received from covered employment
Prior to Jan. 1, 1940		2	$400
In 1940	Jan. 1, 1940	3	800
In 1941	Jan. 1, 1941	3	1,000
In 1942	Jan. 1, 1942	4	1,200
In 1943	Jan. 1, 1943	4	1,400
In 1944	Jan. 1, 1944	5	1,600
In 1945	Jan. 1, 1945	5	1,800
In 1946	Jan. 1, 1946	6	2,000
In 1947	Jan. 1, 1947	6	2,000
In 1948	Jan. 1, 1948	7	2,000

Thereafter the $2,000 remains unchanged but the number of years in which $200 or more of earnings is required rises by 1 year on January 1, of 1950, 1952, 1954, 1956, 1958, 1960, 1962, and 1964, to 15 years.

Senator LA FOLLETTE. Now, as I understand it, these calculations are on a calendar-year basis, are they not?

Mr. ATMEYER. Yes, sir.

Senator LA FOLLETTE. Is it true that no year counts toward meeting the qualification requirement at less than $200 wages received in it?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. I would like to bring out what may happen on account of this slight difference in amount received by taking two examples. Take employee C and employee D who attained the age of 65 in the early part of 1938. Both earned $3,000 in wages in 1937 and employee C received $200 in 1938, before he attained age 65, but the prorata part of employee D's wages before 65 was only $199.99. Now, suppose they both ceased work before January 1, 1940. As I understand it, employee C would be entitled to benefit and employee D would not; is that correct, under the bill as it stands?

Mr. ALTMEYER. I do not know whether I got all of the conditions.

Senator LA FOLLETTE. There is a difference of 1 penny in the amount of wages received in the calendar year. So because he got 1 cent less he would be out, but the fellow who got 1 cent more would be in?

Mr. ALTMEYER. Except, of course, in making the statement that these earnings do not count, I should correct my statement to say that they do count toward these total earnings that are mentioned here.

Senator LA FOLLETTE. No; but assume that these two people, in one of the years for which they must have wages under covered employment, one of them got a cent less than $200, he would be out of any benefits, would he not?

Mr. ALTMEYER. That is correct; however, by earning $200 in 1940, or later, he could qualify.

Senator LA FOLLETTE. And the person who got a penny more would be in?

Mr. ALTMEYER. That is true. Under the present act if a man earned $1,999.99 he would be out with no possibility of qualifying later, and a fellow who earned $2,000 would be in.

Senator LA FOLLETTE. Now, employee B, in this example, would have a primary insurance benefit of $24.37, would he not?

Mr. ALTMEYER. I imagine so.

Senator LA FOLLETTE. So the difference of 1 penny in wages might make a difference of many thousands of dollars in benefits?

Mr. ALTMEYER. Yes, sir; if the person suddenly quit working for all time.

Senator LA FOLLETTE. Now, if an individual worked in December of 1938 and January of 1939 and was paid $195 in wages in each month, but worked in no other month in either year, would he have a year of coverage under these amendments?

Mr. ALTMEYER. No, sir.

Senator LA FOLLETTE. Have you any estimate on how many employees will pay taxes under the Social Security Act, or these amendments, who will fail to receive as much as $200 in a calendar year?

Mr. ALTMEYER. Yes. About 15 or 20 percent.

Senator LA FOLLETTE. In 1937 there were 6,661,000 employees, according to the Social Security Bulletin, for March of 1939, and according to table I on page 3. Records for about 1,500,000 employees are not included in the tabulations, either because no report was received or because certain other data were missing. That is correct, is it not?

Mr. ALTMEYER. I imagine so.

Senator LA FOLLETTE. And what proportion is that 6,600,000 persons of the total number included in the tabulation?

Mr. ALTMEYER. 22.1 percent.

Senator LA FOLLETTE. Now, what proportion of employees paying taxes in 1937, in the age group 60-64, earned less than $200?

Mr. ALTMEYER. A small proportion. Strangely enough, the older workers earned higher wages on the average than the younger.

Senator LA FOLLETTE. According to table VI on page 8 of the same bulletin there were 15.8 percent.

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. What were the proportions in the higher ages?

Mr. ALTMEYER. You mean 65?

Senator LA FOLLETTE. Yes; above 60 to 64. From 65 to 69 there were 29.9 percent.

Mr. ALTMEYER. They are not taxed, so we do not have any reliable record of those.

Senator LA FOLLETTE. There were 29.9 percent, according to the bulletin, who received wages which were creditable of less than $200, and for ages 70 and over, 53.5 percent of those reported had wages of less than $200 during the year. Wages received by a person after 65 were not supposed to be reported, so these figures are not comparable with those for the younger years.

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. They do indicate, do they not, a very large proportion of those at ages over 65, who received wages, earned less than $200 in 1937?

Mr. ALTMEYER. Yes; but that is not for a full year, of course. That is because of that in-and-out movement that you mentioned in the beginning.

Senator LA FOLLETTE. We have got to take that into consideration, do we not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. In considering the impact of these arbitraries under these amendments?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, in 1938 employment and wages, it is generally known, were lower than in 1937. Is it not probable then that some persons nearing 65 who were employed and received more than $200 in 1937 were wholly unemployed or got less than $200 in 1938?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Is it likely that any appreciable number of persons nearing age 65, who did not receive wages in 1937 or got less than $200, would get $200 or more wages in 1938?

Mr. ALTMEYER. I did not get the first part of the question.

Senator LA FOLLETTE. Well, in view of the fact that employment is down, is it likely, I ask, that any appreciable number of persons nearing age 65, who did not receive wages in 1937, or got less than $200 in that year, would get $200 or more in wages in 1938?

Mr. ALTMEYER. You say is it not unlikely?

Senator LA FOLLETTE. Is it not likely.

Mr. ALTMEYER. Yes; that is right.

Senator LA FOLLETTE. Now, so far as the year 1939 is concerned, although employment is running above 1938, would you think that many of the men 65 or over, or nearing 65, would fare any better as to wages than they did in 1938?

Mr. ALTMEYER. Some would.

Senator LA FOLLETTE. How many persons is it estimated will attain age 65 by January 1, 1940?

Mr. ALTMEYER. During what period?

Senator LA FOLLETTE. How many persons is it estimated will attain age 65 by January 1, 1940?

Mr. ALTMEYER. You mean how many persons would become eligible, or what?

Senator LA FOLLETTE. Who will attain that age of 65.

Mr. ALTMEYER. During the 3-year period 1937, 1938, and 1939?

Senator LA FOLLETTE. I will put it this way: Prior to or on January 1, 1940.

Mr. ALTMEYER. During this 3-year period of 1937, 1938, and 1939, I take it you mean?

Senator LA FOLLETTE. Yes; with creditable wages.

Mr. ALTMEYER. I cannot give you an estimate on that now.

Senator LA FOLLETTE. Will you furnish that, please, for the record?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. I mean an approximation. I know you cannot give the exact figures. Could you give me the figures as to how many surviving persons 65 or over on December 31, 1940, excluding those over 65 before January 1, 1937, will have had some creditable wages at that time?

Mr. ALTMEYER. I will have to put that in the record, too.

Senator LA FOLLETTE. It is very difficult to get any precise estimate on that, but my information is it will run to some substantial figure, will it not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. It might be 500,000?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Now, can you tell me how many persons there will be alive on January 1, 1940, who will have by that time received wages from covered employment, irrespective of the fact that some or all of such wages were received when the person was over 65 and therefore were not creditable?

Mr. ALTMEYER. You say you want an estimate of that number?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. I can give you that.

Senator LA FOLLETTE. My information is that the figures would be somewhere from 1,000,000 to 1,200,000, or 1,300,000.

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Have you any estimate on the corresponding figure for December 31, 1940?

Mr. ALTMEYER. No, sir.

Senator LA FOLLETTE. You can furnish that?

Mr. ALTMEYER. Yes; I will try to furnish all that.

Senator LA FOLLETTE. How many of these will have ceased working by January 1, 1940 Would you say around 300,000 to 400,000?

Mr. ALTMEYER. You mean during the course of a calendar year?

Senator LA FOLLETTE. Now, how many of these people I have been discussing is it estimated will have ceased working by January 1, will retire or lose their jobs?

Mr. ALTMEYER. 1940?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. I do not know, offhand.

Senator LA FOLLETTE. Now, most of those who have not ceased to work, then, will not be able to qualify on January 1, next?

Mr. ALTMEYER. I would want to go over the figures. I could try to make an estimate of the proportion.

Senator LA FOLLETTE. Will you do that, please?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Have you made any estimate on how many persons you would expect will qualify for these benefits by the end of 1940?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. What is that number?

Mr. ALTMEYER. You mean of the old people, themselves?

Senator LA FOLLETTE. Yes.

Mr. ALTMEYER. We estimate that about 400,000 will probably meet the qualifying requirements of the amendments. Many of these, however, will continue working. About 200,000, not counting the wives, parents, widows and orphans will probably receive benefits during the year. If aged wives, widows and parents are included the total would be more than 265,000.

Senator LA FOLLETTE. Now, as I understand it, the wages received by persons over 65 would become creditable in 1940 will they not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. So that in addition to the numbers which have just been brought out, that will be inserted in the record, which have been brought out in these previous questions, can you tell me, or furnish for the record how many persons who were 65 or over 65 on January 1, 1937, will receive creditable wages in 1940?

Mr. ALTMEYER. Yes; I will furnish that for the record.

Senator LA FOLLETTE. Now, in your estimate do you calculate that those who are qualified for old age benefits are likely to retire or not?

Mr. ALTMEYER. It all depends upon the conditions of business.

Senator LA FOLLETTE. Now, exclusive of the wives or widows over 65 who might receive benefits by reason of rights acquires by virtue of their husband's wages, how many persons with creditable wages do you estimate will actually be receiving old-age benefits or primary insurance benefits by the end of 1940?

Mr. ALTMEYER. As I say, I do not have those figures.

Senator LA FOLLETTE. Well, now, subject to the correction of these figures, in which I may be erroneous, as I understand it, by the end of 1940 from 1,150,000 to 1,400,000 persons of age 65 and over will have received wages from covered employment. Not all of these will have had creditable wages. That is, some will be 65 before January 1, 1937, and cease work before January 1, 1940. The total number who will have had creditable wages by the end of 1940, and will then be 65 or over will be from 1,000,000 to 1,200,000. Of these, 300,000 to 350,000 will be eligible for benefits and 200,000 will actually be getting benefits. Therefore, only from 15 to 20 percent of the persons in the occu-

pational groups covered by this bill who are 65 and over on December 31, 1940, 1 year after the amendments have gone into effect, and who have worked in those covered occupations at some time on or after January 1, 1937, will be actually benefited. It should be said, however, that more will come in as the years go by. That is correct, is it not?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, it has been stated that these amendments would probably add a very large number of people; I have seen some statements up to 1,000,000, older workers to be covered. Would it not be more accurate to say that the amendments will consider persons up to 65 in covered employment and many thousands of them will not receive anything in return for those taxes?

Mr. ALTMEYER. It is possible.

Senator LA FOLLETTE. Is it not probable?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Now, the aggregate wage requirement is going up to $800 as distinguished from $600, is it not?

Mr. ALTMEYER. I did not get that question.

Senator LA FOLLETTE. I say, the aggregate wage requirement will be raised to $800 instead of $600?

Mr. ALTMEYER. For those age 65 on January 1, 1940, or later.

Senator LA FOLLETTE. And on January 1, 1942, the years in which $200 must be earned increase from 3 to 4, and the aggregate wage requirement will be raised from $800 to $1,000, and these requirements increase over a period of years as shown by the table to which you have referred, is that right?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. In fact, it increases until 1946 and then it becomes $2,000, and the years of coverage, $200 per year in wages, rise until 1964 when it will become 15 years?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. Now, as I understand it, the purpose of these increases in earning requirements is to hold down the number of beneficiaries, in order to keep the system in some sort of control; is that correct?

Mr. ALTMEYER. Rather to assure a reasonable relationship between loss of earnings and benefits.

Senator LA FOLLETTE. If you cannot furnish it now, will you furnish for the record how many people these requirements you estimate will exclude from the system?

Mr. ALTMEYER. I think it would be impossible to make an estimate of that kind.

Senator LA FOLLETTE. Can you give any approximation?

Mr. ALTMEYER. No, sir. We hope, of course, that long before you reach these distant years there will be more extensive coverage than there is now, and many of these anomalies you mentioned will disappear, because the earnings during the course of years will be enough to qualify, whereas, now it is 20 percent, for example, as has been mentioned, that would not have $200 earnings, largely due to the fact that they have been in covered employment only a fraction of the year. Unless we knew what the coverage is going to be in these later years we could not estimate the number of persons who would be excluded.

Senator LA FOLLETTE. How many persons is it estimated will attain age 65 in 1941, after having had some wages from covered employment?

Mr. ALTMEYER. I do not have those figures.

Senator LA FOLLETTE. My information is from 150,000 to 160,000 during the year, and from 400 to 430 a day. Now, you could not give us any estimate on how many of these will not be eligible for old-age benefits at the end of 1940, could you?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, taking into account the fact that in 1937 one-sixth of them failed to receive wages as much as $200, and that conditions were much worse in 1938 and not too good in 1939, and men approaching 65 have great employment handicaps, would it not be reasonable to expect that from one-fourth to one-third would not be qualified at the end of 1941?

Mr. ALTMEYER. I would not hazard a guess.

Senator LA FOLLETTE. Might we not have cases such as this: Employee C who attained age 65 toward the close of 1940 had total wages of $600, and wages of $200 or more in 3 years getting the benefit, and employee D attained the age 65 a few days or weeks later, with more wages, and having paid a larger amount of taxes than C, still not receiving any benefit?

Mr. ALTMEYER. Yes, sir, but he could qualify by later earnings.

Senator LA FOLLETTE. And is it not true that later on, when the years of coverage as well as the aggregate earnings requirements change, as on January 1, 1942, one man having a sum of $800 in wages getting benefits, while the man who got as much perhaps as $1,000 gets no benefit because he was born a few days too late?

Mr. ALTMEYER. Yes, sir, but he also could qualify by later earnings.

Senator CONNALLY. Doctor, is it not true that you have got to have some dividing line in all these things, the dates and amounts?

Mr. ALTMEYER. Yes, Senator.

Senator LA FOLLETTE. All I am anxious to do, Senator, is to develop the fact for the benefit of the committee and any others who may be interested, in order that we may not have any exaggerated hopes aroused as to what this measure is going to do. Newspapers have carried stories that it is going probably to bring in a million new people, and that sort of thing, and I think these facts are of great interest and should have the consideration of the committee.

Now, would you say that it was any exaggeration to say that every year for many years a large number of persons who attain age 65 will be disqualified even though they have earned creditable wages?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. And that many of them will fall short by a very little?

Mr. ALTMEYER. That is right.

Senator LA FOLLETTE. Would you say that the disqualifications which will result because of these arbitraries would be similar in all sections of the country, or would be different?

Mr. ALTMEYER. No; they would be different depending upon the wage levels in the various parts of the country. They would exclude more persons in the South than in the North, for example.

Senator LA FOLLETTE. I would like to bring out the discrepancies of the impact of these arbitraries in different sections of the country by taking the proportions earning less than $200 in 1937, and what

proportion of those persons for whom wages were reported earned less than $200 in 1937.

These figures are computed from table 13, on page 80, of the Social Security Bulletin for March 1939, as follows:

Wisconsin, 20.9 percent.
Mississippi, 49.9 percent.
Utah, 30.7 percent.
Georgia, 35.5 percent.
Virginia, 29.3 percent.
Texas, 35.9 percent.
Massachusetts, 16 percent.
Connecticut, 13.9 percent.
California, 23.7 percent.
Iowa, 29.1 percent.
New York, 15.8 percent, and the country as a whole, 22.1 percent.

Now, also, I would like to ask you to furnish, if you will, for the benefit of the committee, estimates, if you can give them by States and by these specific standards which are set up in the unemployment compensation amendments to the act, required as a condition precedent to reduction of cash.

Mr. ALTMEYER. Would you like to know how they would affect each State, you mean?

Senator LA FOLLETTE. Yes; the increased costs to each State for each one of these conditions precedent to cash reduction.

Mr. ALTMEYER. I would hesitate to put it on a State-by-State basis, because of the great many unknowns that are involved. I think I could give you an estimate for the country as a whole.

Senator LA FOLLETTE. You could not give it by States?

Mr. ALTMEYER. It would be just a guess, and I would not want to underwrite such a guess. I think it is a considerable guess when you make an estimate for the country as a whole, for the reason, as I stated yesterday, that the benefit experience has been so brief, but our best guess for the country as a whole is an increase of about 20 percent.

Senator LA FOLLETTE. I desire to place in the record certain tables illustrating the effect of certain amendments in the pending bill.

Illustrative cases of variations in amount of survivors' benefits under the proposed amendments to the Social Security Act

Employee (male)	AA	BB	CC	DD	EE	FF	GG	HH
Date of death (under age 65)	Any time in 1940	Any time in 1941	Jan. 1, 1942, or thereafter	Jan. 1, 1940	Any time in 1941	Any time in 1942	Any time in 1943	Jan. 1, 1944, or thereafter
Wages in:								
1937	$3,000	$3,000	$3,000	$3,000	$2,000	$2,000	$2,000	$2,000
1938	3,000	3,000	3,000	Out	2,000	2,000	2,000	2,000
1939	3,000	3,000	3,000	3,000	2,000	2,000	2,000	2,000
1940	.....	Out	Out	.....	2,000	2,000	2,000	2,000
1941	.....	.....	Out	.....	.....	Out	Out	Out
1942	.....	.....	.....	.....	.....	.....	Out	Out
1943	.....	.....	.....	.....	.....	.....	.....	Out
Amount of child's insurance benefits	20.60	17.38	0	16.15	16.47	14.73	13.58	0
Amount of widows' insurance benefits (at 65)	30.90	26.07	0	0	24.71	22.10	20.36	0
Amount of widows' current insurance benefit	35.76	26.07	0	24.23	24.71	22.10	20.36	0

Out=Out of system: Disabled, unemployed, self-employed, or employed in an uncovered occupation.

NOTE.—All benefit amounts given are on a monthly basis and assume existence of survivors entitled to receive them.

Illustrative cases of variations in amount of primary insurance benefits under the proposed amendments to the Social Security Act

Employee	L	M	N	O	P	Q	R	S	T
Date of attaining age 65	Mar. 1, 1946	Jan. 1, 1946	Dec. 31, 1945	Dec. 31, 1945	Dec. 31, 1943	Dec. 31, 1940	June 30, 1964	June 30, 1964	June 30, 1964
Wages received in:									
1937	$1,200	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$200	$3,000
1938	600	2,000	2,000	2,000	3,000	3,000	3,000	200	3,000
1939	500	1,800	1,800	1,800	3,000	3,000	3,000	200	3,000
1940	180	1,500	1,500	1,500	3,000	3,000	3,000	200	3,000
1941	190	S	S	S	S		3,000	200	3,000
1942	400	S	S	S	S		3,000	200	3,000
1943	600	S	S	S	S		3,000	200	3,000
1944	150	3,000	3,000	3,000			3,000	200	3,000
1945	195	S	S	S			3,000	200	3,000
1946	50	S	S	S			3,000	200	3,000
1947							3,000	200	3,000
1948							3,000	200	3,000
1949							3,000	200	3,000
1950							3,000	200	3,000
1951							D	200	3,000
1952							D	D	S
1953							D	D	S
1954							D	D	S
1955							D	D	S
1956							D	D	S
1957							D	D	S
1958							D	D	S
1959							D	D	S
1960							D	D	S
1961							D	D	S
1962							D	D	S
1963							D	D	S
1964							D	D	S
Total taxes paid by worker	$50.85	$143.00	$143.00	$143.00	$120.00	$120.00	$765.00	$57.00	$855.00
Date last received wages	Feb. 28, 1946	Dec. 31, 1944	Dec. 31, 1944	Dec. 31, 1944	Dec. 31, 1940	Dec. 31, 1940	Dec. 31, 1950	Dec. 31, 1951	Dec. 31, 1951
Date of filing of application			June 1, 1946	Dec. 31, 1945	Dec. 31, 1943	Jan. 1, 1941		June 30, 1964	June 30, 1964
Date last performed any work		June 1, 1946	do	June 1, 1946	do	Dec. 31, 1940	Dec. 31, 1950	Dec. 31, 1951	do
Primary insurance benefit (per month)	0	0	$26.73	$28.11	$32.94	$41.60	0	$10.00	$33.22

S=Self-employed or employed outside coverage of insurance system or unemployed.
D=Disabled.

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Senator LA FOLLETTE. I have a number of additional questions which I desire to submit to you. I will have them inserted at this point and will ask that you insert your answers to the questions for inclusion in the consolidated hearings. Thank you, Dr. Altmeyer.

ANSWERS TO QUESTIONS ASKED BY SENATOR LA FOLLETTE ON AMENDMENTS TO THE OLD-AGE AND SURVIVORS' INSURANCE PROVISIONS OF THE SOCIAL SECURITY ACT

GENERAL STATEMENT BY MR. ALTMEYER

The questions submitted for the most part relate to the border-line situations arising in the early years of any contributory social-insurance system which does not cover all of the gainfully occupied persons. While many of these border-line situations could be eliminated or their effects modified by reducing the eligibility requirements in the early years, the cost would of course be greater in the early years and border-line situations would still arise.

The existing old-age insurance law has the same difficulties. Initially, its requirements are far more restrictive than those of the proposed amendments. In the first place, they exclude from coverage completely (except for a small lump-sum refund) all those who attain age 65 prior to January 2, 1941. In the second place, it is necessary that the wage earner shall secure $2,000 or more of wages, some part of which is earned in at least 5 different calendar years after 1936 and prior to attaining age 65.

The proposed amendments have substantially liberalized these provisions, making possible the coverage of those attaining age 65 prior to January 2, 1941, and reducing, as regards those at or close to age 65, the amount of wages which must be earned and the number of years in which wages must be earned. The fact that the present law excludes from coverage those attaining age 65 prior to January 2, 1941, greatly increases the problem of setting up satisfactory eligibility requirements for those retiring in the early years. These now excluded are the ones who are likely to retire soonest. However, their wages after age 65 are not reported to the Government since these wages do not count for either benefit or tax purposes. There are difficulties and disadvantages in attempting to give consideration to these wages just as there are difficulties and disadvantages in failing to take them into account.

As the system matures, the requirements in the proposed amendments for a fully insured status gradually increase, since the opportunity to qualify increases. However, there has been introduced what is known as a currently insured status, designed to provide benefits to survivors in the event of the death of an individual who has been working in covered employment approximately half of the time during the 3 years immediately preceding his death.

The fundamental problem that arises in the early years of any contributory social-insurance system is to provide benefits that are reasonably adequate and at the same time insure, as the system matures, a reasonable relationship between contributions and benefits. Obviously, if a social-insurance system is to be adequate it is necessary to pay benefits to those retiring in the early years which are in excess of the benefits which their contributions would purchase on an actuarial

basis from a private insurance company. This is not in violation of sound principles of contributory social insurance, but rather an application of sound social-insurance principles. In other words, a social-insurance system should provide that the low-wage earners and the wage earners who have had an opportunity to contribute only a short time receive more in proportion to their contributions than high-wage earners and wage earners who have had an opportunity to contribute a long time. The old-age insurance system under consideration accomplishes this purpose by using a larger proportion of the employers' contributions for low-wage earners and wage earners who have had an opportunity to contribute only a short time, but at the same time provides protection to all persons at least as much as they could purchase with their own individual contributions on an actuarial basis from a private insurance company.

While the relationship between contributions and benefits cannot be exact, especially in the early years of the operation of a system, it is absolutely essential that the benefits bear a reasonable relationship to the wage loss that is sustained since protection against wage loss is the fundamental purpose of contributory social insurance. Because this is the fundamental purpose of contributory social insurance, it is of course necessary to have some earnings qualifications as a condition of eligibility for benefits. Just as in the case of contributions qualifications, these earnings qualifications cannot be as strict in the early years because those reaching retirement age in these years have had only limited opportunity to demonstrate their earnings record since the date that the system went into effect. However, as the system grows older and the opportunity to establish a contributions and earnings record increases, it is desirable that the contributions and earnings qualifications also be strengthened in order to make certain that benefits are reasonably related to contributions and loss of earnings. In this way it is possible to insure an automatic balance between contributions and benefits and to achieve maximum protection at minimum cost under a cooperative arrangement including employees, employers, and the Government.

In the answers to these questions, the terms "wages," "employment," and so forth, refer to the definitions and provisions of H. R. 6635, referred to the Committee on Finance, June 12, 1939, in the Senate of the United States.

Senator LA FOLLETTE. 1. In order to be entitled to receive old-age benefits (called primary insurance benefits) what qualifications must a person who was 65 or over before January 1, 1940, possess?

Mr. ALTMEYER. He must have not less than 2 years of coverage and have received wages of not less than $600 subsequent to 1936. A year of coverage is defined as a calendar year in which not less than $200 is received as wages. He could never receive monthly benefits under the present law, since he could not have met the requirements now in the law, that is, earned wages in 5 separate calendar years after December 31, 1936, and before he attained the age of 63.

Senator LA FOLLETTE. 2. In order to be entitled to receive old-age benefits (called primary insurance benefits) what qualifications must a person who attained the age of 65 in 1940 possess?

Mr. ALTMEYER. He must have not less than 3 years of coverage and have received not less than $800 as wages subsequent to 1936. He could never receive monthly benefits under the present law, since

he could not have earned wages in 5 separate calendar years after December 31, 1936, and before he attained the age of 65.

Senator LA FOLLETTE. 3. When do these changes in requirements as between persons who were 65 before and those who were 65 in 1940 take effect?

Mr. ALTMEYER. The effective date of these changed requirements is January 1, 1940.

Senator LA FOLLETTE. 4. Then the eligibility requirements for a person who attained age 65 on December 31, 1939, would differ from those applicable to a person born on January 1, 1940?

Mr. ALTMEYER. Yes. A similar situation exists in the present law, those attaining age 65 on or after January 2, 1941, being able to qualify for monthly benefits and all these attaining age 65 earlier being excluded from all but lump-sum benefits.

Senator LA FOLLETTE. 5. Let us be specific. Take as an example, employee A who attains age 65 on December 31, 1939. Let us assume that he received $400 from wages in 1937 and $200 in 1938 and does no work of any sort thereafter. What would he pay in taxes as provided in the Social Security Act and these amendments?

Mr. ALTMEYER. The proposed amendments do not take effect until January 1, 1940. Therefore, they would have no effect on the taxes which the individual in question would pay. These taxes under the present law would be $8 in 1937 and $4 in 1938 and would be shared equally by the employee and the employer, each paying $4 in 1937 and $2 in 1938.

Senator LA FOLLETTE. 6. If he filed an application on January 1, 1940, would he be entitled to benefits?

Mr. ALTMEYER. He would under the amendments, but not under the present law.

Senator LA FOLLETTE. 7. How much would his monthly benefit be?

Mr. ALTMEYER. If only a primary benefit is payable, it would be $10 a month.

Senator LA FOLLETTE. 8. How much will be paid out, on the average, to a man aged 65, at $10 per month for the balance of his life?

Mr. ALTMEYER. A man, age 65, could expect to receive on the average an aggregate of $1,400 to $1,450.

Senator LA FOLLETTE. 9. Take another employee, B. He receives $3,000 in wages in 1937, $3,000 in 1938, and works no more after the end of 1938. How much would he pay in insurance taxes?

Mr. ALTMEYER. Employee B would pay $30 in 1937 and $30 in 1938. Like amounts would be paid by the employer.

Senator LA FOLLETTE. 10. If he attained age 65 on January 1, 1940, would he then be entitled to benefits if he filed application?

Mr. ALTMEYER. No; neither could he receive monthly benefits under the present law. Of course, by continuing to work after age 65 until he had earned $200 more, he could qualify under the amendments. Under the present law a person reaching age 65 without qualifying could never qualify regardless of how long he worked after age 65.

Senator LA FOLLETTE. 11. Why would he not be entitled to benefits?

Mr. ALTMEYER. Since he attains age 65 during the calendar year 1940, he would be required to have a minimum of 3 years of coverage,

whereas he has only 2 years of coverage prior to age 65. However, he would be entitled if he earned $200 after reaching age 65.

Senator LA FOLLETTE. 12. But if he had attained 65 one day before he did, he would be entitled to benefits on January 1, 1940?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. 13. Even though employee B received 10 times as much wages and paid 10 times as much taxes as employee A, employee B gets nothing while employee A can look forward to receiving as much as $1,400, over 200 times as much as he himself paid in taxes. Is that correct?

Mr. ALTMEYER. That is true so far as he himself is concerned. Employee B's dependents might receive benefits in the event of his early death.

Senator LA FOLLETTE. 14. How much chance has he to get employment? He is now 65.

Mr. ALTMEYER. The individual who has earned as much as $3,000 a year in 2 years after attaining the age of 62 should, unless disabled, have much more than an average chance of earning $200 in 1 year after attaining age 65, which is all that would be required to make him eligible.

Senator LA FOLLETTE. 15. If employee B received $200 in wages from covered employment in 1940, would he be eligible on January 1, 1941, if he filed application then?

Mr. ALTMEYER. Yes; he would be eligible on January 1, 1941, or earlier if he did not require the entire year of 1940 to earn the $200.

Senator LA FOLLETTE. 16. How much would he get?

Mr. ALTMEYER. $28.76 a month.

Senator LA FOLLETTE. 17. And if he had a wife aged 65, there would be a benefit of $14.38 more payable to her if she were not entitled to more in her own right.

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. 18. Even if there were no benefits payable to a dependent child, the total payable in respect of employee B's wages would be $43.14 per month?

Mr. ALTMEYER. Yes.

SENATOR LA FOLLETTE. 19. If the wife of employee B survived him (after he became entitled), would she be entitled to benefits thereafter?

Mr. ALTMEYER. Yes.

Senator LA FOLLETTE. 20. How much would she get?

Mr. ALTMEYER. She would be entitled to $21.57 a month.

Senator LA FOLLETTE. 21. What is the value of a benefit of $43.14 payable for the joint lifetime of a husband aged 66 and of wife aged 65, with $28.76 payable during the after lifetime of the husband, if the wife should die first, or $21.57 during the after lifetime of the wife, if the husband should die first?

Mr. ALTMEYER. Based on the combined annuity mortality table at 3-percent interest—$5,657.

Senator LA FOLLETTE. 22. What is the value of the $28.76 per month to employee B at 66?

Mr. ALTMEYER. Based on the combined annuity mortality table at 3-percent interest—$3,322.

Senator LA FOLLETTE. 23. For an additional $200 in wages after January 1, 1940, and $6 in taxes paid by him and $6 paid by his

employer, employee B can get a benefit worth at least $3,322, and if he has a wife 65, $5,677?

Mr. ALTMEYER. This statement is reasonably accurate so far as the amounts involved are concerned.

Senator LA FOLLETTE. 24. It would obviously be greatly to his advantage to get $200 more in wages. Would it not be worth while for him to form a corporation and pay himself $200 in wages during 1940? What would prevent him from doing it?

Mr. ALTMEYER. Merely forming a corporation and paying himself $200 would not necessarily mean that the $200 is wages. As defined in section 209, wages means remuneration for employment, and employment means service performed by an employee for his employer. There must be a bona fide relationship of employer and employee—a bona fide employer, a bona fide employee, and bona fide employment. Frequently, for example in workmen's compensation, it has been necessary to look beneath the form of colorable devices. Section 208 provides penalties for fraudulent misrepresentation in connection with claims and fradulent misrepresentation as to wages for the purpose of obtaining benefits whether made to the Board or to the Bureau of Internal Revenue.

Senator LA FOLLETTE. 25. Are there other times when the requirements change so that small differences in the date of attaining age 65 may produce very large differences in benefits?

Mr. ALTMEYER. This question seems to overlook the fact that while the eligibility requirements vary with the date of attaining age 65, these requirements remain fixed as to the individual and do not increase with the passage of time after he attains 65, even though he continues working. This fact makes it possible for an individual to qualify by earnings after reaching age 65, which is impossible under the present law.

Senator LA FOLLETTE. 26. When do these changes occur and what are they?

Mr. ALTMEYER. A table showing this information appears on page 54, part 2, of the hearings. The general measure is whether the individual has, before retirement, been in covered employment more than half as many years as elapsed after 1936 and before the year he became 65. In this respect the requirements do not substantially change.

Senator LA FOLLETTE. 27. Is it true that no year counts toward meeting the qualification requirements if less than $200 in wages is received in it?

Mr. ALTMEYER. Insofar as the portion of the qualification requirements for a "fully insured status" dealing with years of coverage is concerned, this statement is true. However, wages or less than $200 in any given year do count toward the minimum aggregate wage requirement. They may also enable the employee to secure a "currently insured status."

Senator LA FOLLETTE. 28. Let us see how that might work. Here are two employees, C and D, who attained age 65 in the early part of 1938. Both earned $3,000 in wages in 1937 and employee C received $200 in 1938 before he attained 65, but the pro rata part of employee D's wages before 65 was only $199.99. (Before January 1, 1940, wages received after attaining age 65 do not count.) Both cease work before January 1, 1940. As I understand it, employee C

would be entitled to benefit and employee D would not. Is that correct.?

Mr. ALTMEYER. The interpretation of this situation is correct as it affects the employee C; but employee D need not be permanently prevented from securing benefit, as under the present act. If he earns $200 in 1940, or some later year, he could immediately be qualified for benefits and, as pointed out in question 24, this is not unlikely.

Senator LA FOLLETTE. 29. How much would employee C get if he filed application on January 1, 1940?

Mr. ALTMEYER. Employee C would be entitled to receive a primary insurance benefit of $24.37 for January 1940.

Senator LA FOLLETTE. 30. So a difference of 1 penny in wages might make a difference of many thousands of dollars in benefits?

Mr. ALTMEYER. Such a circumstance would be rare and could be overcome by this individual earning $200 in 1940 or some later year. Under the existing law the individual who earns $1,999.99 is permanently disqualified for a monthly annuity, whereas an individual earning 1 cent more would qualifiy for a monthly annuity. Furtheremore, under the existing law an individual might earn wages of $3,000 per year for each 4 years and be permanently ineligible for a monthly annuity due to the qualification provision that he must have earned wages in covered employment in at least 5 years.

Senator LA FOLLETTE. 31. If an individual worked in December 1938 and January 1939 and was paid $195 in wages in each month, but worked in no other month in either year, would he have a year of coverage counted toward old-age benefits because of earning $390 in two consecutive months?

Mr. ALTMEYER. No. A year of coverage is defined in terms of calendar years rather than in terms of consecutive months.

Senator LA FOLLETTE. 32. How many employees who will pay taxes under the Social Security Act or these amendments will fail to receive as much as $200 in a calendar year?

Mr. ALTMEYER. During 1937, the only year for which we have our records tabulated as yet, approximately 6,660,000 people had wages of less than $200 credited to their accounts. About 1,800,000 out of the 6,660,000 are males less than 25 years of age who may be expected to develop higher earnings later and, of the remainder, about 2,540,000 are females who may profit through the dependents' and survivors' allowances. Only about 2,320,000 are males 25 years of age and over, or about 14 percent of all such males. Moreover, probably a large proportion of this 14 percent consists of persons who are normally engaged in uncovered employment during a substantial part of the year.

Senator LA FOLLETTE. 33. What proportion is the 6,660,000 persons of the total number included in the tabulation?

Mr. ALTMEYER. About 22 percent of the total number included in the tabulation. But as noted above, the men aged 25 and over comprise only about 7 to 8 percent of the total number included in the tabulation.

Senator LA FOLLETTE. 34. What proportion of employees paying taxes in 1937, in the age group 60 to 64 years, earned less than $200?

Mr. ALTMEYER. Slightly less than 16 percent.

Senator LA FOLLETTE. 35. What were the proportions at higher ages?

Mr. ALTMEYER. The tabulations of wages at ages above 65 are meaningless. The only cases included are ones in which the employer paid taxes in error, since no taxes are payable on wages received after reaching age 65.

Senator LA FOLLETTE. 36. But it is clear that a very large proportion of those at ages over 65 who received wages earned less than $200 in the year 1937, is it not?

Mr. ALTMEYER. If the age 65 limitation had not been in effect during 1937 a much different picture would have been presented, the correct figure probably being about 15 percent to 20 percent. A study of claims for lump-sum payments to those attaining age 65 which were certified in November and December 1938, indicated that 64 percent would have already qualified at that time for monthly benefits under the amendments. This sample may not be entirely representative. However, it seems reasonable to assume that with the opportunity now afforded of qualifying by earnings after age 65 (if earnings prior to that age are insufficient), a still larger percentage of these persons would ultimately qualify for monthly benefits.

Senator LA FOLLETTE. 37. In 1938 employment and wages were lower than in 1937, were they not?

Mr. ALTMEYER. Employment was lower in 1938 than in 1937. While employment continued to decline sharply during the first half of 1938, employment increased during the last half of 1938. Whether or not our wage records will reveal a generally lower distribution of earnings per individual than in 1937 we are unable to state at the present time, since the tabulations are not yet available. It does not necessarily follow that reduced employment means a lower average-earnings level per covered worker. The reverse might well be true due to the unemployment of many wage earners whose primary work is in part-time, casual, or uncovered employment. It is possible that the average in 1938 may be slightly higher than in 1937.

Senator LA FOLLETTE. 38. Then it is probable that some persons nearing 65 who were employed and received more than $200 in 1937 were wholly unemployed or got less than $200 in 1938?

Mr. ALTMEYER. Some who earned more than $200 in 1937 probably earned less than $200 in 1938. On the other hand, some who earned less than $200 in 1937 would earn $200 or more in 1938 and in 1939.

Senator LA FOLLETTE. 39. Is it likely that any appreciable number of persons nearing age 65 who did not receive wages in 1937, or got less than $200, would get $200 or more in wages in 1938?

Mr. ALTMEYER. The claim tabulation referred to in the answer to question 36 indicates that 12 percent of those who earned less than $200 in covered employment in 1937 earned more than $200 in covered employment in 1938.

Senator LA FOLLETTE. 40. What about 1939? Employment is running above 1938. Will many of the men 65 and over, or nearing 65, fare better as to wages than they did in 1938?

Mr. ALTMEYER. It seems reasonable to assume that they would.

Senator LA FOLLETTE. 41. How many persons who will attain age 65 by January 1, 1940, and are then living will have had some creditable wages by January 1, 1940?

Mr. ALTMEYER. As previously stated, the only tabulated data which we now have available relate solely to the 1937 earnings records. Thus far we have no satisfactory knowledge of the amount of the in-and-out movement. With these limitations in mind, it does not seem unreasonable to assume that from 300,000 to 400,000 employees may reach age 65 by January 1, 1940, and have creditable wages posted to their accounts.

Senator LA FOLLETTE. 42. How many surviving persons 65 or over on December 31, 1940, excluding those over 65 before January 1, 1937, will have had some creditable wages at that time.

Mr. ALTMEYER. Subject to the limitations of the answer to the previous question, perhaps from 450,000 to 600,000 individuals would be a reasonable range of estimates.

Senator LA FOLLETTE. 43. How many persons will there be alive on January 1, 1940, who will have by that time received wages from covered employment irrespective of the fact that some or all of such wages were received when the person was over 65 and therefore were not creditable?

Mr. ALTMEYER. The answer to this question is again limited by lack of any data. We assume that it refers solely to those who have attained age 65 by January 1, 1940. Based on a rough guess, we would estimate that the number of survivors age 65 and over on January 1, 1940, who may have earned wages in covered occupations, regardless of the fact that such wages were not reported due to the age limitation, would range from 800,000 to 1,300,000.

Senator LA FOLLETTE. 44. What will the corresponding figure be for December 31, 1940?

Mr. ALTMEYER. Corresponding estimates for December 31, 1940, range from 1,000,000 to 1,500,000.

Senator LA FOLLETTE. 45. How many of these will have ceased working by January 1, 1940?

Mr. ALTMEYER. We assume that this question refers to question 43 rather than to question 44. On this assumption our estimates as respects covered employment are from 100,000 to 500,000. It should be remembered, however, that death is the only absolute bar to obtaining additional wage credits.

Senator LA FOLLETTE. 46. Most of these who have now ceased to work would not be able to qualify on January 1 next?

Mr. ALTMEYER. This question assumes that those who have ceased work at the present time would not be qualified under the proposed requirements. This statement is true in the case of those individuals who attained age 65 prior to 1938 and thus have not more than 1 year's creditable wages recorded at the present time since these individuals cannot possibly get 2 years of coverage by January 1, 1940. On the other hand, those people attaining age 65 during 1939 and with creditable wages previously recorded may, as a class, be expected to be qualified for benefits on January 1, 1940. As already pointed out in answer to question 36, this is also true to a considerable extent for those attaining age 65 during 1938.

Senator LA FOLLETTE. 47. How many persons do you expect will qualify for benefits by the end of 1940?

Mr. ALTMEYER. We assume that, in the light of the previous questions, this question refers to the number who would be qualified for

old-age benefits rather than for survivors' benefits in the event of death. We would estimate that the number who would have attained age 65 and would be qualified for old-age benefits by the end of 1940 might range from 250,000 to 400,000. Even these estimates are subject to fairly substantial margins of error.

Senator LA FOLLETTE. 48. You said a moment ago (question 42) that from 480,000 to 500,000 persons who had not attained age 65 on January 1, 1937, but who would be 65 or over by December 31, 1939, would have had some creditable wages by that time. I understand that wages received by persons over 65 will become creditable in 1940. In addition to the half million just mentioned, how many persons who were over 65 on January 1, 1937, will receive creditable wages in 1940?

Mr. ALTMEYER. We estimate that about 400,000 to 500,000 persons over age 65 on January 1, 1937, will probably receive creditable wages in 1940.

Senator LA FOLLETTE. 49. Will all those who are qualified for old-age benefits retire immediately?

Mr. ALTMEYER. No.

Senator LA FOLLETTE. 50. How many persons with creditable wages do you think will actually be receiving old-age benefits by the end of 1940? Do not count wives or widows over 65 years receiving benefits by reason of rights acquired by virtue of their husbands' wages.

Mr. ALTMEYER. On this basis our estimate would be that about 200,000 persons might be in receipt of benefits at the end of 1940. This does not include wives, widows, or dependent parents age 65 or over. Neither does it include younger widows and orphans.

Senator LA FOLLETTE. 51. Is this a correct summary? By the end of 1940, from 1,150,000 to 1,450,000 persons then 65 and over will have received wages from covered employment. (Question 44.) Not all of these will have had creditable wages: That is, some were 65 before January 1, 1940, and ceased working before January 1, 1940. The total number who will have creditable wages by the end of 1940 and will then be 65 or over will be from 1,000,000 to 1,200,000. (Question 42 plus question 48.) Of these 300,000 to 350,000 will be eligible for benefits. (Question 47.) And 200,000 will actually be getting benefits. (Question 50.) Therefore only from 15 to 20 percent of the persons in the occupational groups covered by this legislation who are 65 and over on December 31, 1939 (1 year after these amendments take effect), and who have worked in those covered occupations at some time on or after January 1, 1937, will be actually benefited?

Mr. ALTMEYER. The answers to questions 42, 44, 47, 48, and 50, as stated above, should be noted as they differ somewhat from those anticipated by this question. While the figure of 15 to 20 percent is probably correct for 1940, it must be remembered that an additional 15 to 20 percent of the aged group would be eligible in 1940 if they chose to retire rather than continue working. Moreover, in 1941 and subsequent years a large proportion of the remainder will qualify for benefits.

Senator LA FOLLETTE. 52. Yes, but several hundred thousand will never benefit unless they secure employment by devious means?

Mr. ALTMEYER. As stated above, there will be many aged individuals who will not be eligible to benefits in 1940 but who will become eligible

in 1941 and thereafter by earning bona fide wages in covered employment without any devious means.

Senator LA FOLLETTE. 53. Is it not then just a little misleading for the papers to say that the amendments probably add 1,000,000, or whatever it is, older workers to the coverage? Would it not be more accurate to say that the amendments will start taxing persons over 65 in covered employment and that many scores of thousands of them will not receive anything in return for the taxes?

Mr. ALTMEYER. The report of the House Ways and Means Committee states that about 1,100,000 additional persons are brought under the old-age insurance system. Of this number about 350,000 are seamen and bank employees of all ages.

The remaining 750,000 are persons who on January 1, 1940, will be working in covered employment. Since these persons will then be working—despite their advanced age—it is reasonable to assume that a considerable proportion of the 750,000 will become eligible for benefits.

Senator LA FOLLETTE. 54. On January 1, 1941, there is another change in the requirements, is there not?

Mr. ALTMEYER. Yes; for those attaining age 65 in 1941.

Senator LA FOLLETTE. 55. The aggregate wage requirement will be raised to $800 instead of $600?

Mr. ALTMEYER. The requirement will not be raised from $800 to $1,000 for those attaining age 65 prior to 1941, but will be raised for those attaining age 65 in 1941. Such persons have, of course, 1 more year since December 31, 1936, to meet this requirement than those retiring prior to 1941. It is also reasonable to assume that their aggregate earnings for the same period of time since December 31, 1936, will be greater than for still older workers.

Senator LA FOLLETTE. 56. And on January 1, 1942, the years in which $200 must be earned increases from 3 to 4, and the aggregate wage requirements will be raised from $800 to $1,000?

Mr. ALTMEYER. This is correct, except that the earnings requirement is raised from $1,000 to $1,200 for those attaining age 65 in 1942. It should be borne in mind, however, that the earnings requirement for a person attaining age 65 in a given year is fixed and does not increase with the passage of time, even though the person continues working.

Senator LA FOLLETTE. 57. And these requirements increase for a period of years?

Mr. ALTMEYER. Yes; depending upon the year in which age 65 is attained.

Senator LA FOLLETTE. 58. The purpose of these increasingly stringent requirements is to keep the number of beneficiaries down?

Mr. ALTMEYER. The purpose of the increasingly stringent requirements is not to keep out beneficiaries but rather to restrict benefits to bona fide employees in covered occupations who have contributed to the scheme, while at the same time to protect the fund in later years. It must be remembered that agricultural labor, domestic service, and self-employment are excluded from both tax and benefit coverage. As long as we have only a limited coverage plan it is necessary to have qualification provisions which will keep the system solvent by limiting benefits to those persons who are in covered employment a reasonable proportion of the time and have contributed over a reasonable period of time. The provisions of

H. R. 6635 for those now at or close to age 65 are much more liberal than are the provisions of the existing Social Security Act. H. R. 6635 definitely attempts to liberalize these requirements in the early years of the operation of the bill in order to provide retirement benefits to a much wider segment of our aged population. There is, furthermore, in the case of deaths an alternative provision for survivorship benefits if the individual was employed in covered occupations and earned a minimum of wages in the 3 years immediately preceding his death. None of the hypothetical individuals cited in the previous questions of this list would be entitled to anything but lump-sum benefits under the existing Social Security Act regardless of future earnings.

Senator LA FOLLETTE. 59. How many does it keep out? In 1940 apparently the requirements prevented about a million people who had earned wages in covered employments since January 1, 1937, from being eligible. Some of these might qualify in 1941 by getting $200 in wages in one way or another—but probably not enough to be significant from a social point of view. But because of the increase in the aggregate-wage requirement some who attain age 65 in 1941 will not qualify who would have qualified had they been a year, or 6 months, or 1 day younger. Is that not true?

Mr. ALTMEYER. It is not true that the requirements of the amendments will prevent about a million people who have earned some wages in covered employments since January 1, 1937, from being eligible. About 200,000 persons who became age 65 since January 1, 1937, are still working—many of whom are receiving relatively substantial remuneration, as illustrated by the records of earnings for 1937. It is reasonable to assume that most of these will be able to qualify for benefits when they choose to retire.

Senator LA FOLLETTE. 60. How many persons will attain age 65 in 1941 after having had some wages from covered employment? How many on the average each day?

Mr. ALTMEYER. Depending upon the actual volume of the in-and-out movement, there might be from 175,000 to 250,000 individuals attaining age 65 in 1941 after having had some wages from covered employment. This is roughly 500 to 700 a day on the average.

Senator LA FOLLETTE. 61. How many of these will not be eligible for old-age benefits at the end of 1941?

Mr. ALTMEYER. We believe that perhaps 15 percent to 20 percent of them, or roughly from 40,000 to 60,000, might not be eligible in 1941. However, these may qualify at a later date by subsequent earnings.

Senator LA FOLLETTE. 62. But taking into account the facts that in 1937 one-sixth of them failed to receive wages of as much as $200; that conditions were much worse in 1938 and not too good in 1939; and that men approaching 65 have great employment handicaps; would it not be reasonable to expect that from one-quarter to one-third would not be qualified at the end of 1941?

Mr. ALTMEYER. We doubt that as high a proportion of these individuals as one-third would not be qualified by the end of 1941.

Senator LA FOLLETTE. 63. And we would have cases like this: Employee C who attained age 65 toward the close of 1940, had total wages of $600 and wages of $200 or more in 3 years getting a benefit; and employee D, attaining 65 a few days or weeks later, with more

wages, and having paid a larger amount of taxes than C and still receiving no benefit. And later on when the years-of-coverage as well as aggregate-earnings requirements changed, as on January 1, 1942, we would again have some with $800 in wages getting benefits, while a man who got $9,000 gets no benefit because he was born a few days too late.

Mr. ALTMEYER. There might be instances of this sort, but again it must be remembered that persons have an opportunity to qualify by earnings after reaching age 65 while the requirement is fixed as of the year in which age 65 is attained.

Senator LA FOLLETTE. 64. But every year for many years 30,000 or 40,000 or 50,000 persons who attain 65 will be disqualified, even though they have earned creditable wages? And many of them will fall short by very little; and some will be out of luck only because of having been born too late?

Mr. ALTMEYER. A substantial number of individuals may be excluded from qualifying for monthly benefits although they have wages credited to their accounts. However, under the amendments the number who will be out of luck only because of having been born too late is relatively small, whereas the present act excludes perhaps 2,000,000 of these individuals. It is not so much a matter of having been born too late as it is of not having worked steadily in covered employment. Extending the coverage to the excluded group should tend to eliminate a major share of these cases. The number who will fall short of qualifying by a very small amount of wages is also a limited one. The conditions imposed by the bill will not eliminate many bona fide workers in covered industry. It may eliminate many individuals who might be expected to work sporadically but who cannot be considered as gainfully employed within the scope of the definition used by the Bureau of the Census.

Senator LA FOLLETTE. 65. Will the proportion of persons who are disqualified be the same in all sections of the country?

Mr. ALTMEYER. No.

Senator LA FOLLETTE. 66. Suppose we take the proportions earning less than $200 in 1937. What proportion of those persons for whom wages were reported earned less than $200 in 1937 in: Wisconsin, Mississippi, Utah, Georgia, Virginia, Texas, Massachusetts, Connecticut, California, Iowa, New York, and the whole country?

Mr. ALTMEYER (reading):

	Percent		*Percent*
Wisconsin	21	Massachusetts	16
Mississippi	50	Connecticut	14
Utah	31	California	24
Georgia	35	Iowa	20
Virginia	29	New York	16
Texas	36	The whole country	22

Senator LA FOLLETTE. 67. And what were the proportions of the following groups who were reported to have received wages of less than $200 in 1937: Male, white; female, white; male, Negro; female, Negro; male, other races; female, other races?

Mr. ALTMEYER (reading):

	Percent		*Percent*
White males	17	Negro females	50
White females	30	Other males	34
Negro males	39	Other females	54

Senator LA FOLLETTE. 68. How much was paid in taxes on wages of persons receiving under $200 in 1937?

Mr. ALTMEYER. About $10,000,000, of which about 45 percent, or $4,500,000, was received in respect to individuals less than 25 years of age who may be expected to develop higher earnings later.

Senator LA FOLLETTE. 69. Will the individuals by and for whom these taxes were paid receive any larger benefits by reason of their payment?

Mr. ALTMEYER. If an individual ever attains a fully or currently insured status, these small amounts of creditable wages will raise the average earnings and therefore raise their benefits. These items themselves may enable an individual to obtain a currently insured status or, in the early years, to make up the aggregate wages required for a fully insured status.

Senator LA FOLLETTE. 70. And the corresponding amounts for 1938 and 1939 will be larger than for 1937 because of greater unemployment and more short time?

Mr. ALTMEYER. Possibly, although as indicated in answer to question 37 the mere fact that employment was lower in 1938 than in 1937 is no guaranty that the distribution of wages creditable under the provisions of the Social Security Act will enlarge the proportion of those with creditable wages who earned less than $200 during the course of the year.

Senator LA FOLLETTE. 71. In addition to taxes paid on amounts of wages for individuals receiving less than $200, there will be other tax payments by and for individuals who will never benefit therefrom, will there not?

Mr. ALTMEYER. This is possible, although it should be noted that such individuals may have had protection as currently insured individuals. It should, at the same time, be recognized that many persons who have received less than $200 will benefit from the program by receiving supplementary benefits as wives and survivorship benefits as widows or parents.

Senator LA FOLLETTE. 72. How can taxes be paid on amounts of more than $200 without the individuals making the tax payments receiving any benefit therefrom?

Mr. ALTMEYER. An individual paying taxes on amounts of more than $200 per year could not fail to acquire either a currently insured or fully insured status unless he had had neither 6 quarters' earnings of $50 each during the 12 quarters' period prior to death nor the requisite number of years of earnings at this rate prior to date of retirement.

Senator LA FOLLETTE. 73. What will be the amount of taxes each year on employees earning less than $200 per year when taxes reach the maximum, using the 1937 experience?

Mr. ALTMEYER. Based on the 1937 experience, there will be about $30,000,000 a year in taxes paid by those earning less than $200 in covered employment. Of this amount, about $13,500,000 will be paid by or on behalf of those less than 25 years of age.

Senator LA FOLLETTE. 74. I want to find out something about the operation of the several survivorship insurances. Let us take a man who dies at the age of 45 in the year 1940, after having earned $3,000 each year in 1937, 1938, or 1939. He is survived by a widow and a daughter aged 12, both of whom had been wholly dependent upon him. Would they receive benefits immediately, and if so, how much?

Mr. ALTMEYER. Yes. They would be entitled to a combined monthly benefit of $51.50.

Senator LA FOLLETTE. 75. If he died in 1941 having earned no wages in 1941, would they be entitled to any benefits, and if so, how much?

Mr. ALTMEYER. Yes. They would be entitled to a combined monthly benefit of $43.45, even assuming no creditable wages had been earned in 1940.

Senator LA FOLLETTE. 76. If he died in 1942, would they be entitled to any benefits, and if so, how much?

Mr. ALTMEYER. If the man had not worked at all during either 1940, 1941, or 1942, he would not be entitled to any benefit. However, if he had worked in covered employment at some time during these years his survivors might be entitled to receive benefits. The amounts would depend upon his earnings.

Senator LA FOLLETTE. 77. Is the lapsing of insurance rights after periods of unemployment characteristic only of the early period of operation or will it occur as long as the system operates?

Mr. ALTMEYER. It may occur in certain cases as long as the system operates particularly as long as the system operates on a limited-coverage basis. As the system matures, however, and more persons obtain a fully insured status fairly early in life, the number of such cases will become relatively small and unimportant. The extension of the system to classes now excluded would be a great help in solving this lapsing problem.

Senator LA FOLLETTE. 78. Do years in which an individual earns less than $200 ever count toward insurance rights?

Mr. ALTMEYER. Yes. Years in which an individual earns less than $200 may count toward insurance rights for the widow's current insurance benefits, the orphans' benefits, and the lump-sum death payments if as much as $50 was earned in any calendar quarter of such years. Such years may also help establish a fully insured status.

Senator LA FOLLETTE. 79. What is a current insurance status?

Mr. ALTMEYER. Currently insured status is designed to give insurance protection to dependents of workers who have been in system a short while. The eligibility requirements for this status are consequently very low. Earnings of as much as $50 in 6 or more out of the 12 calendar quarters immediately preceding the quarter in which death occurs entitles a worker to have survivor benefits or lump-sum benefits payable to his dependents.

Senator LA FOLLETTE. 80. Then if an individual lives for more than 18 to 21 months after the close of the last quarter in which he received as much as $50, he cannot be currently insured when he dies?

Mr. ALTMEYER. While that is true, he may, however, be fully insured and a fully insured individual is entitled to all benefits under the amendments.

Senator LA FOLLETTE. 81. I understand that full insurance status after the system has operated a while may last longer without lapsing than current insurance status, but even the latter may lapse. Generally speaking, it is true, is it not, that full insurance status will lapse in 1 year's less time after an individual has his last year of coverage than the number of years he has been continuously employed since 1936 or since attaining age 21? For example, an individual aged 25 in 1937 gets years of coverage in 1937, 1938, and 1939. He could be

fully insured if he died in 1940 or 1941, but not in 1942. Is that correct?

Mr. ALTMEYER. The specific example given is correct. However, the generalization made in the second sentence of the question is incorrect, since once an individual has 15 years of coverage or reaches 65 fully insured, he is a fully insured individual for the rest of his life and is eligible for all benefits.

Senator LA FOLLETTE. 82. And if he had years of coverage in 1937, 1938, 1939, and 1940, he could be fully insured if he died in 1941, 1942, and 1943, but not in 1944?

Mr. ALTMEYER. That is correct, except that once an individual has 15 years of coverage or reaches 65 fully insured, he is a fully insured individual for the rest of his life and is eligible for all benefits.

Senator LA FOLLETTE. 83. And he would have to have at least $1,400 in wages in order to be fully insured in 1943?

Mr. ALTMEYER. He would have to have earned $1,400 in wages since December 31, 1936. However, once an individual has 15 years of coverage or reaches 65 fully insured, he is a fully insured individual for the rest of his life and is eligible for all benefits.

Senator LA FOLLETTE. 84. Now if he does not have continuous years of coverage after 1936 or after age 21, an individual would be fully insured for such a period after his last year of coverage or the number of years of coverage less the sum of one plus the number of calendar years after 1936 or after age 21 which did not count as years of coverage. That is, of course, if the further qualification as to aggregate wages is met. For example, if in the period 1937 to 1943 there were 5 years of coverage (1938 and 1940 not counting as such) and wages received totaled as much as $1,800, the individual would be fully insured for 2 years after the end of 1943 (5−(1+2))—that is, 1944 and 1945. And if in the period 1937 to 1944 an individual had 6 years of coverage, his fully insured status would run for the 3 calendar years 1945, 1946, and 1947 (6−(1+2)) if he had $2,000 in wages. Am I right in my understanding of the provision?

Mr. ALTMEYER. The specific instances given above are correct but the general statement must be qualified by the fact that once an individual has 15 years of coverage or is fully insured at age 65 he is fully insured for all time to come.

Senator LA FOLLETTE. 85. How many individuals within the scope of this system will become permanently and totally disabled each year?

Mr. ALTMEYER. We estimate that at the outset from 100,000 to 350,000 individuals within the scope of the system will become permanently and totally disabled each year and that this number will increase substantially in future years as the number of individuals within the scope of the system increases due to the increasing population and the effect of the in-and-out movement. This wide range is due to varying differences in the definition of disability which might be adopted.

Senator LA FOLLETTE. 86. What is the life expectancy of a person who is permanently and totally disabled?

Mr. ALTMEYER. The answer to this question is subject to considerable qualification depending upon the age of the individual at date of disability and the type of impairment leading to his disability. Certain types of cases of total and permanent disability have an

extremely short life expectancy. Other types of disablement, such as an individual who may have lost both legs, do not have a life expectancy differing radically from the life expectancy of the general population at corresponding ages. On the average it might range from 2 or 3 in the early years of disablement up to 14 or 15 years after disability had existed a few years. However, the average would vary depending upon the definition of permanent disability.

Senator LA FOLLETTE. 87. Persons who become permanently and totally disabled are likely to be physically handicapped for some time prior to becoming completely disabled, are they not?

Mr. ALTMEYER. The answer to this question is again very closely tied up with the type of impairment leading to disability. For example, disability which is closely associated with advancing age is apt to be very gradual in its onset. Disability due to accident or acute disease may, in general, be much more sudden.

Senator LA FOLLETTE. 88. And these physical handicaps will affect their earning power adversely before that power disappears entirely, will they not?

Mr. ALTMEYER. If the onset of the disability is a gradual affair their physical handicaps will in many cases, but not in all, adversely affect their earning power before that power disappears entirely. In many cases, however, the gradual onset of disability does not affect earning capacity during the developmental period.

Senator LA FOLLETTE. 89. Therefore, am I not correct in thinking that some will not be able to get in years of coverage for the last year or so before they finally are compelled to give up work?

Mr. ALTMEYER. While you are correct in your assumption, such a condition need not in itself prevent an individual from being qualified for benefits.

Senator LA FOLLETTE. 90. Then is this not true? There are probably 125,000 individuals who have had some coverage who will become completely and permanently disabled every year. Many of them will have already been handicapped as to coverage. As a group they will have had subnormal earnings. Normally, they can look forward to a few years of life. But if they live a year and then die, their survivors will get less than if they die before the close of the calendar year. And if they live too long, the survivors will get nothing.

Mr. ALTMEYER. The rate of disability increases with age. Therefore, it is possible that large numbers of persons who become permanently and totally disabled will eventually be fully insured for old age as well as survivorship benefits and will never lose their rights to benefits. On the other hand, substantial numbers of such disabled persons may lose their rights to benefits.

Senator LA FOLLETTE. 91. Is it too pessimistic a view to think that there may be here in this type of provision excessive encouragement of suicide or worse?

Mr. ALTMEYER. This seems to us to be an overly pessimistic view of the situation. We doubt that very many persons would consider the differential in their benefit right or in the size of the benefit sufficiently serious to warrant suicide.

Senator LA FOLLETTE. 92. It is a fact is it not, that the death rate among low-income groups is materially higher than it is for those in the middle and upper income groups?

Mr. ALTMEYER. The data available indicate that this is true.

Senator LA FOLLETTE. 93. That is, in the South, among Negroes and among the unemployed, the rate of mortality at the present time is materially above the average?

Mr. ALTMEYER. The available data bear this out in the case of Negroes in the North as well as in the South and in the case of the unemployed.

Senator LA FOLLETTE. 94. How many deaths prior to age 65 will there be each year in the next few years in the groups covered by this old-age insurance system?

Mr. ALTMEYER. In round numbers about 200,000 a year, being somewhat less than 200,000 initially and somewhat larger than 200,000 a few years hence as the system expands.

Senator LA FOLLETTE. 95. Among these deaths each year will be a disproportionate fraction composed of persons who have been disabled for longer or shorter periods or who have been unemployed or who come from low-wage groups?

Mr. ALTMEYER. That is probably true.

Senator LA FOLLETTE. 96. Then I ask if we ought not to expect that as many as one-quarter of those who die each year and who have been in covered employment, will have no insured status at the time of death?

Mr. ALTMEYER. There is no reliable information available at this time upon which to base an answer to this question. It should be remembered that many such persons will be married women who after having been employed for a few years in their twenties will die later in life.

Senator LA FOLLETTE. 97. And many of that quarter would have had an insured status if they had died earlier?

Mr. ALTMEYER. See answer to previous question.

Senator LA FOLLETTE. 98. And probably at least another quarter of those who die each year will have smaller benefits payable to survivors than if they had died in a preceding calendar year?

Mr. ALTMEYER. The definition of "average monthly wages" in section 209 (f) excludes the year in which the individual died from the calculation of the average wage for benefit purposes. Therefore, any person whose earnings decline in such year is not penalized with a lower average wage.

Senator LA FOLLETTE. 99. Then, in general, a large group of persons each year, perhaps as many as 50,000, will get nothing under the survivorship benefit provisions and another group of 50,000 will be penalized?

Mr. ALTMEYER. There is no reliable information available at this time upon which to base an answer to this question.

Senator LA FOLLETTE. 100. And these 100,000 will come largely from among those in greatest need: The disabled, those with lowest incomes, the submerged third?

Mr. ALTMEYER. While no information is available to indicate the exact numbers, it is certain that they will include a substantial proportion of individuals who cannot be considered as bona fide wage earners normally attached to the labor market.

Senator LA FOLLETTE. 101. I read in the papers a day or two ago about a witness before the Temporary National Economic Committee who testified about a startling situation in the insurance field. As I

recollect it, it was shown that in the past 20 years, industrial insurance policyholders had lost over $1,400,000,000 by the lapsing of their policies. Will we not have something of the same sort here? Your actuaries have made estimates of cost. I assume that they must have taken into account income from taxes paid by and for individuals who never qualify for any benefits either for themselves or for survivors. I know that this is a field in which estimates are subject to a more than usual margin of error. But the committee ought not to be asked to take this wholly on faith. Will you not, therefore, have your actuary make an estimate giving the range of probability, and using the tax schedule in the amendments:

(*a*) The amount of taxes to be paid by employees or employers during 1950–59, inclusive, on wages of less than $200 in a calendar year.

(*b*) The amounts of taxes to be paid in the years 1940–59 by employees (with the equal amounts paid by employer) who will never qualify for any benefits either for themselves or for survivors.

(*c*) What percentage of lapses must there be for the fund to remain solvent with the present tax schedules?

Mr. ALTMEYER. (*a*) It is impossible to estimate this amount in view of the lack of adequate information which we have on the in-and-out movement, and the level of employment and pattern of employment in those future years.

(*b*) It is impossible to estimate this amount in view of the lack of adequate information which we have on the in-and-out movement, and the level of employment and pattern of employment in those future years.

(*c*) The answer to this question depends on what other assumptions are made with respect to the many variable factors which go into making the cost estimates such as the retirement rate, future mortality, future wage trends, the amount of in-and-out movement, interest rates, and so forth. Based on the cost estimates made by the Committee on Economic Security in 1935, the system could be self-supporting even if no lapses occurred while under higher cost assumptions an exceedingly high lapse rate might be necessary to maintain self-sufficiency.

Senator LA FOLLETTE. 102. Take a man born in 1930. He has a wage record as follows: 1951–55, $1,800 in each calendar year; 1956–60, $2,400 in each calendar year; 1961–65, $3,000 in each calendar year.

On January 1, 1966, he goes into business for himself and remains self-employed until 65, when he retires. (Had he done so as much as a year earlier, he would not be eligible for primary insurance benefits at 65.)

(*a*) What will be his primary insurance benefit at 65?

(*b*) How much in taxes will he himself pay?

(*c*) What amount of life annuity deferred to age 65 could be purchased from an insurance company at present rates with those taxes paid as premiums in the years of tax payment?

Mr. ALTMEYER. (*a*) His primary insurance benefit at 65 would be $25.09 a month.

(*b*) He, himself, will pay in pay-roll taxes $1,080 on the assumption that the combined tax rate reaches 6 percent by 1949 and is equally shared by the employee and the employer.

(c) A life annuity of about $26 to $27 per month would be payable at age 65. However, if the probability of his being married and leaving a widow when he dies is taken into consideration and the insurance-company policy undertakes to cover these contingencies, his individual life annuity would be much less.

Senator LA FOLLETTE. 103. As I understand, an amount equal to taxes is to be appropriated permanently to the trust fund and there will be appropriated from the trust fund amounts for the administrative expenses of the Social Security Board. Is that correct?

Mr. ALTMEYER. The managing trustee of the fund is merely directed to repay to the general fund the amount which will be expended during the month from the general fund as authorized by the annual appropriation legislation. The administrative expenses of both the Social Security Board and the Treasury Department are to be paid from appropriations made by Congress each year in the regular annual appropriation acts.

Senator LA FOLLETTE. 104. But such appropriations from the trust fund are limited to expenses of the Social Security Board? (See sec. 201 (f) and (g).)

Mr. ALTMEYER. No. The appropriations from the trust fund are to cover expenses of the Treasury Department as well as of the Social Security Board.

Senator LA FOLLETTE. 105. Then if the Administrator of the Federal Security Agency wants to have a single legal or research division, he could not use any of these funds for that purpose, even though such divisions were performing mainly social-security work? He would have to get other appropriations?

Mr. ALTMEYER. We do not believe that this follows any more than it would be impossible for the Bureau of Internal Revenue in the Treasury Department, for example, to separate the expenses of collecting pay-roll taxes for the Federal old-age and survivor insurance trust fund from the cost of collecting other taxes and performing other functions incident to tax collection. The problem is merely one of cost accounting.

Senator VANDENBERG. May I ask a question?

The CHAIRMAN. Yes, Senator.

Senator VANDENBERG. Dr. Altmeyer, I wish you would straighten out some figures for me that we had yesterday. I am speaking now about the reserve under title II.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. When you freeze the pay-roll taxes under title II for 3 years, how much do you reduce the income of the reserve as originally contemplated?

Mr. ALTMEYER. About $825,000,000—half of that payable by employers and half by employees.

Senator VANDENBERG. I understood you to say yesterday, when you applied the rule of three—I am using that as a simple definition of Secretary Morgenthau's suggestion that the reserve should be three times the maximum benefit required in any one year.

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. When you apply the rule of three it will produce a maximum reserve of only $15,000,000,000 instead of $47,000,000,000 as originally contemplated; is that correct? Is not that what you said yesterday?

Mr. ALTMEYER. I think that is what I said. That might be subject to correction. You see, there is a range there depending on whether you take the high or low estimate of costs.

Senator VANDENBERG. Well, what puzzles me is I do not see how an ultimate reduction of $32,000,000,000 in the reserve is produced by an initial pay-roll tax reduction of only $825,000,000.

Mr. ALTMEYER. Because the benefits payable in the early years are so much greater, and you would use a greater proportion of the contributions collected in the earlier years for benefit payments than you would under the present law. You see, the present law has a sharp tilt like that to the annual cost [illustrating] of benefits paid, and this revised plan would tilt the upper end down and lower end up of the annual benefit cost. Therefore, you do not accumulate the same reserve that you would under the present law. That is why you automatically solve the large reserve problem at the same time that you liberalize benefits in the early years.

Senator VANDENBERG. So you still stand on the proposition that you require all of the increased pay-roll taxes beyond 1943 in order to maintain the rule of three in respect to the reserve?

Mr. ALTMEYER. Yes, sir.

Senator LA FOLLETTE. Now, I want to ask you about the trust fund that is being created under title II. You have not said anything about that.

Mr. ALTMEYER. I just mentioned it.

Senator VANDENBERG. What is the purpose of the trust fund?

Mr. ALTMEYER. Well, to allay the unwarranted fears of some people who thought Uncle Sam was embezzling the money.

Senator VANDENBERG. Well, if there was any fear of embezzlement it was unwarranted. The fact remains, does it not, that the creation of the trust fund does not actually change the routine and the formula under which this money comes into the Treasury and goes over to you and then comes back and you get the I O U and the Treasury expends the money?

Mr. ALTMEYER. I think it changes it, but you will have to ask the Treasury Department officials to explain exactly how it changes the existing procedure.

Senator VANDENBERG. I think it is a step in the right direction, although it seems to me the process is called by a different name and has a little more favorable window dressing.

Mr. ALTMEYER. Of course, the whole discussion about the investment of these funds has been on a very unfortunate and uninformed basis. Under any conceivable system of social insurance operated by the Government, in the final analysis it is the credit of the Government that supports the system.

Senator VANDENBERG. That is correct.

Senator CONNALLY. May I ask a question right there?

Senator VANDENBERG. Sure.

Senator CONNALLY. Is it not true, Doctor, that there has been a great deal of propaganda throughout the country that these taxes were being collected and that the Federal Government was squandering them on general expenditures of the Government, without conveying the additional information that they were really being invested in Government bonds in a special account?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. It seems to me sometimes folks insist on putting every dollar in cash money in there, marking it, and keeping it there. We would soon exhaust all the money we have got. We could not carry a cash reserve of $15,000,000,000. I know that is true because I got some letters from them in the last few days. We are told the pay-roll taxes we are paying in are being spent by the Government for W. P. A. relief, and what not.

Senator VANDENBERG. That is correct, but it is inherent in the system. There is an I O U that offsets it.

Senator CONNALLY. It is not being spent at all; it is simply being invested in Government bonds, which is about the best security we know of.

Senator VANDENBERG. Dr. Altmeyer, at the present time this investment is in 3-percent special bonds?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. Does this language on page 8 of the bill change that in any particular? It seems to prescribe a totally different interest rate on bonds.

Mr. ALTMEYER. Yes. It makes the provisions as regards this old-age- and survivor-insurance trust fund (as this fund would be called under this bill) with respect to the investment of that fund the same as is now the case regarding the unemployment-compensation trust fund. In other words, instead of a fixed rate of 3 percent it is provided that the fund shall be invested at the average rate yielded by all Government obligations to the next lowest one-eighth percent.

Senator VANDENBERG. That will substantially reduce the income of the reserve fund, will it not?

Mr. ALTMEYER. Well, it depends upon what the future will bring forth.

Senator VANDENBERG. Well, at the moment.

Mr. ALTMEYER. At the moment; yes.

Senator VANDENBERG. For the long-time future it might not.

Mr. ALTMEYER. I say it all depends upon what the interest yield will be in Federal obligations. Of course, the fact that you do provide that these obligations shall bear the average rate of interest enables you to go into the market more readily and purchase outstanding obligations if the market rate happens to be lower than 3 percent. As it is now, when the market rate is below 3 percent you could not possibly go in the market and purchase the obligations to be placed in this trust fund.

Senator VANDENBERG. Of course, that is entirely correct. From the standpoint of economical financing, this provision is an advantage.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. But from the standpoint of one who believes that the general tax structure should bear a share of the contribution for the maintenance of this system, the maintenance of the 3-percent interest rate would represent a degree at the present time of a contribution, would it not?

Mr. ALTMEYER. Yes, sir; a concealed subsidy.

Senator VANDENBERG. Yes.

Mr. ALTMEYER. This is better for that reason. If there is ever going to be a Government subsidy it ought to be one that is recognized as such rather than concealed in an arbitrary rate of interest.

Senator VANDENBERG. Does not this one section of the proposed law—does not this change in the interest rate upset all of the actuarial calculations of the entire system?

Mr. ALTMEYER. No; we just recalculate it on a little lower interest yield, at 2½ instead of 3 percent, but since your reserve is a smaller item in your actuarial calculation, that difference is not as important as if you stayed under the present system.

Senator VANDENBERG. That is obvious.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. But if you maintain the standard 3-percent rate and do not reduce the interest on the bonds which are put into the reserve fund, would that make any difference in your answer to the question as to whether or not you have got to have these pay-roll tax increases?

Mr. ALTMEYER. No. The amount involved is not sufficient to make a difference in the answer.

Senator VANDENBERG. Are you in favor of the change in the interest-rate provision?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. It would seem to me it takes a steel beam out from under your actuarial calculations. You know what you can count on under the existing law, and you do not know what you can count on under the amendments.

Mr. ALTMEYER. Yes; but there are so many other incalculables, unknowns of far greater importance than this slight variation in the interest rate.

Senator VANDENBERG. There is just one other question that I want to ask you. On page 8 of your statement yesterday you made the point that under the old-age-insurance provision the schedules were so formulated—

> that every worker will receive more in protection for at least the next 40 years than he could purchase from a private insurance company with his own contributions.

Does that mean his own pay-roll tax alone, not counting his employer's contributions?

Mr. ALTMEYER. Yes, sir; not counting his employer's contributions.

Senator VANDENBERG. Does that invite the implication that if his contribution and the employer's contribution were put together that he could buy a better bargain from a standard insurance company than he can get from the Government?

Mr. ALTMEYER. In some cases, in these long-time high wage earners' cases; yes. There is no question, as I think I pointed out in that statement, and pointed out on other occasions, that there is a larger proportion of the employer's contribution used for the purpose of paying benefits to the short-time worker and the low-wage earner.

Senator VANDENBERG. Speaking generally, after you get past this first hump, would it be true that private insurance companies could give the insured a better bargain than this Social Security Act will?

Mr. ALTMEYER. Not if you count only the employee's contribution.

Senator VANDENBERG. But if you count the whole thing that is collected for this purpose?

Mr. ALTMEYER. In some cases; yes.

Senator VANDENBERG. You could make a better purchase by going to the private insurance company?

Mr. ALTMEYER. Yes.

Senator KING. Could you not in all cases?

Mr. ALTMEYER. No.

Senator KING. Except in the early stages of the development?

Mr. ALTMEYER. No; even in the later years many employees will get more under the revised plan.

Senator KING. Excuse me for interrupting you, Senator.

Senator VANDENBERG. I am all through, anyway.

Mr. ALTMEYER. If you turn to page 14, Senator, even after 45 years the $50-a-month man could only purchase, with his own contributions, an annuity of $10.68. Now, if you counted the pro rata part that his employer paid for him, that would still be slightly over $21, as contrasted with the $29 that he would draw under this suggested plan. That is for a single person. If he were a married person he would draw 50 percent more than that.

I do not think, Senator, that the employer's contribution should be calculated on a per-employee basis in this case any more than in the case of workmen's compensation. The employer makes his contribution on his pay roll and it goes into the fund. A larger proportion, as I have said, is used for the low-wage earner and short-time wage earner than for the high-wage earner and long-time wage earner.

Senator VANDENBERG. I was simply challenged by the scrupulous caution in basing your analogies solely on half of the money we are raising on the pay rolls.

Mr. ALTMEYER. Because in any social-insurance system you have to recognize the principle of individual equity. We do try to construct a socially adequate system, but in so doing, unless you maintain the principle of minimum individual equity, you are doing an injustice to certain classes. Even though this is a Government compulsory system, nevertheless it is dependent upon the acceptance of the people, and the continued acceptance of the people. Now, in the early years, when you are paying out much more in proportion to contributions, that is not so much of a point, because even the high-wage earner that Senator La Follette pointed out in his illustration, benefits. In fact, the high-wage earner benefits, in dollars and cents, if not proportionately more, than the low-wage earner in the early years. However, as the system gets older if the high-wage earner can say "some of the dollars I, myself, am putting in are being used for other people's protection," the system could not be sustained.

Senator VANDENBERG. Let me ask you one other question about the reserve-fund investment. What happens to the 3-percent bonds that are already in the reserve fund? Is it contemplated that those go out and these lower-return bonds come in?

Mr. ALTMEYER. They are transferred over to the fund, but I do not know whether the rate changes or not. I can get that information from the Treasury.

Senator VANDENBERG. That is all.

Senator KING. Are the bonds callable at any time?

Mr. ALTMEYER. They are special obligations, Senator, for the reason that since they bear 3 percent there were not outstanding obligations or series that could be purchased, as I understand.

Senator KING. Then there is no time fixed for the maturity?

Mr. ALTMEYER. That is my understanding. I may be mistaken in that regard.

Senator VANDENBERG. I think you are right. I think it is contemplated in the original law that they stay there for 40 years, or indefinitely.

Mr. ALTMEYER. I am told that they do have a maturity date.

Senator CONNALLY. Doctor, let me ask you on the interest rate, if we insisted on paying the 3 percent, or getting only 3 percent special obligations, of course the Government would have to pay the 3 percent?

Mr. ALTMEYER. Yes.

Senator CONNALLY. The bill provides that the Government get the money at a lower rate of interest, and therefore, even if we should pay, as you suggest, an indirect subsidy, it would be offset by the saving to the Government in interest, would it not?

Mr. ALTMEYER. There would not be any indirect subsidy if you change the language as suggested in this bill, because it would be the average rate; but, as I said, there is an indirect subsidy when you have these obligations drawing 3 percent when the average rate is 2½ percent.

Senator CONNALLY. Well, the Government is paying that, of course, in an increased interest rate?

Mr. ALTMEYER. Yes.

Senator CONNALLY. The point I am making is if the fund is reduced by the fact you are going to have to buy 2½-percent bonds instead of 3-percent bonds, or 3½-percent bonds, the Government gets the advantage of that reduced interest rate?

Mr. ALTMEYER. Yes.

Senator CONNALLY. And, therefore, even if it did pay a comparable sum into the fund it would not lose money; it would simply take the money out of one pocket and put it in another?

Mr. ALTMEYER. Yes.

Senator VANDENBERG. May I ask him one further question?

The CHAIRMAN. Yes.

Senator VANDENBERG. As I understand it, in response to my inquiry about the relative advantage of a private and public contract, you said that there are some sections of the formula under which a private company would give the insured a better bargain; is that right?

Mr. ALTMEYER. Not if you count only his own contribution.

Senator VANDENBERG. No, no; I mean if you count the whole thing.

Mr. ALTMEYER. Yes.

Senator VANDENBERG. Suppose you take it as a whole—suppose you take the high cost, the low cost, the early maturities, and late maturities—could the private insurance companies of the country give the insured a better bargain?

Mr. ALTMEYER. Could not possibly.

Senator KING. Could or could not?

Mr. ALTMEYER. Could not. In addition, the administrative costs under the Federal old-age-insurance program are much less than for private insurance. The only comparable private insurance, so far as cost is concerned, is group annuities, where the insurance company enters into a contract with an employer and gets paid in a lump sum for all of his employees; but even on that basis the insurance companies' administrative costs, I think, for the country as a whole,

would be greater, even if you could conceive that all of the employees could be put under group annuity policies, because when it is operated by the Government you can centralize all of your bookkeeping and you can collect your contributions more economically. For example, the actuaries, when they calculated the cost of administration of this present plan, estimated, as I recall, that it would run an average of 8⅓ percent in the early years, and we have been able to operate, even with the fact that it is only on the 1-percent-contribution rate per employer and employee, on about 4½ percent.

Senator VANDENBERG. Are you speaking now of title II alone, or the whole act?

Mr. ALTMEYER. I am speaking now of title II.

Senator VANDENBERG. Alone?

Mr. ALTMEYER. Yes. That is also in spite of the fact that we have had these large initial expenses setting up this record system in Baltimore and issuing these social-security account numbers, and so on.

Senator LODGE. Doctor, I would like to ask you a few questions. Permit me first to congratulate you on the way you withstood the fire here this morning. I direct your attention to that part of your remarks concerning the variable grants to the States.

Mr. ALTMEYER. Yes.

Senator LODGE. Am I right in my belief that that is the same proposition that was in Senator Byrnes' bill, that we had in the special committee on unemployment relief?

Mr. ALTMEYER. We only expressed ourselves on the principle of variable grants, suggesting that variable grants, if variable grants are adopted, be geared to the relative economic capacities of the several States. We have not suggested what the range should be in the variable grants, if a system of variable grants is adopted. The President in his message suggested that any system of variable grants should not operate to increase the cost to the Federal Government.

Senator LODGE. I notice in your supplementary statement you say that there should be established an objective standard, such as per capita income.

Mr. ALTMEYER. Yes.

Senator LODGE. That is the same proposal you have?

Mr. ALTMEYER. Yes. In that respect it is the proposal contained in Senator Byrnes' bill.

Senator LODGE. Did you propose this to the House?

Mr. ALTMEYER. In my opening statement, just as I did here.

Senator LODGE. You did propose it to the House?

Mr. ALTMEYER. Yes. It is contained in our report, and I merely summarized our report for the Ways and Means Committee, as I did for this committee.

Senator LODGE. On the basis of the per capita income figures, which I obtained from you earlier in the year, this proposal would not help an old person in Arizona, California, Colorado, Connecticut, Delaware, Illinois, Indiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Washington, Wisconsin, Wyoming, and the District of Columbia because those States are supposed to have what you would describe as economic capacity.

Mr. ALTMEYER. Yes.

Senator LODGE. Now, when you mention economic capacity, you do not mean the things that are in the ground, that are put there by nature, do you?

Mr. ALTMEYER. No. You have got to take into consideration not only natural resources but also the economy of the State as a whole.

Senator LODGE. Maybe I can illustrate the point I have in mind.

The CHAIRMAN. Senator Lodge, may I inquire whether there is a table here that shows what each State now pays on this Federal assistance business?

Mr. ALTMEYER. The total.

The CHAIRMAN. I thought it was in the record.

Mr. ALTMEYER. I do not think it is in the record.

Senator LODGE. Here it is. I would like to put the table in the record, Senator.

The CHAIRMAN. It is printed somewhere. It ought to be before the members of the committee.

Senator LODGE. With the per capita income by States. I have got them in parallel columns. I would like to have that placed in the record.

The CHAIRMAN. Without objection, it may be placed in the record.

(The table referred to is as follows:)

AVERAGE OLD-AGE ASSISTANCE PAYMENT PER RECIPIENT (TITLE I), DECEMBER 1938

United States	$19.55
California	32.43
Colorado	29.99
Massachusetts	28.56
Connecticut	26.66
Nevada	26.46
Arizona	26.10
New York	24.18
New Hampshire	23.08
Ohio	23.01
Washington	22.10
Wyoming	21.62
Idaho	21.55
Oregon	21.30
Pennsylvania	21.19
Wisconsin	20.78
Maine	20.71
Montana	20.48
Utah	20.45
Minnesota	20.42
South Dakota	20.04
Oklahoma	19.94
Iowa	19.82
Kansas	19.62
New Jersey	19.32
Rhode Island	18.78
Illinois	18.52
Missouri	18.48
Maryland	17.51
North Dakota	17.38
Nebraska	17.12
Michigan	17.11
Indiana	16.53
Vermont	14.47
Texas	13.84
Florida	13.84

PER CAPITA INCOME BY STATES 1935

United States	$432
New York	700
Connecticut	607
California	605
Delaware	590
Rhode Island	561
Nevada	545
Massachusetts	539
Wyoming	526
New Jersey	517
Illinois	500
Montana	482
Pennsylvania	478
Michigan	473
Maryland	473
Wisconsin	467
Ohio	460
New Hampshire	438
Washington	434
Minnesota	416
Maine	414
Colorado	406
Indiana	402
Arizona	401
Oregon	394
Iowa	370
Missouri	366
Vermont	366
Kansas	365
Nebraska	361
Florida	353
Utah	348
Idaho	344
New Mexico	322
West Virginia	318
Texas	316
Virginia	305

AVERAGE OLD-AGE ASSISTANCE PAYMENT PER RECIPIENT (TITLE I), DECEMBER 1938—continued

West Virginia	$13.79
Tennessee	13.23
New Mexico	11.15
Delaware	10.84
Louisiana	10.26
Virginia	9.54
Alabama	9.51
North Carolina	9.36
Georgia	8.76
Kentucky	8.73
South Carolina	7.40
Mississippi	6.92
Arkansas	6.15

PER CAPITA INCOME BY STATES 1935—continued

Louisiana	$300
South Dakota	275
North Dakota	260
Oklahoma	259
North Carolina	253
Georgia	253
Kentucky	240
Tennessee	232
South Carolina	224
Alabama	189
Arkansas	182
Mississippi	170
District of Columbia	966

Senator LODGE. Let me return to the point that I would like to have you clear up for me. If you go into one of the towns where all of the industries have left, where the bottom was taken right out and you see the unemployed people there with nothing to turn to at all, and then compare them with people out on a ranch, or on a farm, it is somewhat of a shock to be told that the economic capacity of those people is high and the economic capacity of the people who have access to the resources of nature is low. Does it not go back to the fact that in an agricultural community the wealth of the income of the people is not measured entirely in dollars, and consequently, if you try to say that the economic capacity of an agricultural State is low simply because the dollar income does not show it to be high you are not making really a just measurement, isn't there something in that?

Mr. ALTMEYER. I think you have got to bear in mind you are taking the State as a whole. You should not just look at the situation in one of those ghost towns to determine what the economic capacity of the State as a whole may be.

Furthermore, I think there is too much made of the differences in cost of living between one part of the country and the other. The studies that have been made by the Bureau of Labor Statistics, and I think the Department of Agriculture Home Economics Division indicate that the variation in the cost of living between a city in the South and a city in the North is very little, if any, and likewise comparing a rural area in one part of the country with the rural area in another part of the country. There is a considerable difference between the rural and urban areas within the same State, a greater difference than as between States within comparable territory.

Senator LODGE. The income difference between the rural area and the city is on the same basis as the cost of living differences, is it not?

Mr. ALTMEYER. Yes; but the technicians who worked on this per capita income proposition advised the Board—and I do not know whether they testified before the Byrnes Committee or not—that the variations in the cost of living as such between States would not affect materially, even if you tried to work that into your formula, the rank of the States on a per capita income basis. Particularly is that so if your variation in the ratio between the minimum and maximum is so small that the rank of the State is all moved together anyway.

Senator LODGE. Now, in determining this so-called per capita income, the principal basis that you used was the income tax returns; is that not true?

Mr. ALTMEYER. No; it was based on a great amount of data. I should say we did not calculate the per capita income figure. That is calculated by the Income Section of the Bureau of Foreign and Domestic Commerce.

Senator LODGE. Do they not take the income tax returns into account?

Mr. ALTMEYER. As one of the factors.

Senator LODGE. As I recall it, they sent me one of the big books. Of course, that, to my mind, is an injustice, because you can have 10 or 12 millionaires living in the State that will give the State a high ranking on income, and yet the people living in the State make very little. There are people in the States that never saw a $2 bill, and to give them a rank based on the income of the people living in that State, including the millionaires, is not fair. I am not proposing to take away anything from what is proposed for that State, all I am asking for is that the States that are not benefited be given an advantage on the basis of living costs.

Mr. ALTMEYER. I think the statisticians could demonstrate, by taking into consideration the difference in living cost, that the variation in the matching ratios, particularly if the range between the minimum and maximum is small, would not be much.

Senator LODGE. That is as may be. The W. P. A. survey has been made, and the National Industrial Conference Board survey, and the other surveys that I have been able to see, and which I hope, in a day or two, to put in the record, Mr. Chairman, which indicates that there is a substantial difference. I do not understand why there would be any objection, if we are going to have a variable system, if they are going to treat one different from another, I do not understand why we do not give equal justice to everybody.

Mr. ALTMEYER. I do not think, as a matter of fact, you could establish what the average cost of living is by States.

Senator LODGE. You can establish it as accurately as you can establish the per capita income.

Mr. ALTMEYER. I do not think you could do it as accurately as that.

Senator CONNALLY. May I ask a question there, Senator?

Senator LODGE. Yes.

Senator CONNALLY. Take a city that is right on the State line, it would be a little difficult, the cost of living would probably be the same on both sides of the line in that particular city.

Mr. ALTMEYER. I do not know.

Senator LODGE. Senator Connally, I think this objection is just as strong there, as to the cost of living.

Senator CONNALLY. Not necessarily, because you would average it up over the rest of the State. Take Texarkana, Tex., where Senator Sheppard lives, it is right straddling the State line, and the same thing applies to a number of towns in the country.

Senator LODGE. If you have got a millionaire that happens to live at Texarkana, Tex., and his income would be computed in the average, in the per capita income of one State and across the line it would not.

Senator CONNALLY. I am not advocating that.

Senator LODGE. It seems to me you are always going to be up against the question of drawing a line. I would like to know whether you would object to adding on to this proposal a provision that the States, where the cost of living is above the average, would receive an

extra variable amount. It seems to me that is not a selfish position to take at all.

Mr. ALTMEYER. My understanding would be that it would make for an unnecessary complication. I think that question ought to be decided on the testimony of the people who are familiar with these per capita income figures, and I am not familiar with them, because, as I say, they are compiled by the Department of Commerce.

Senator LODGE. Yes; under this proposal you would be the one to administer it.

Mr. ALTMEYER. I say our information is that the introduction of this cost-of-living factor would not change the ranking materially, and if that information is correct it would just be an unnecessary complication. If that information is not correct then you would want to give consideration to how much effect there would be.

Senator LODGE. It is obvious if you are going to take an old person and take care of him in a State where the weather is moderate all the year round it is not going to cost as much as where you take him to a climate, where you have got to heat his dwelling. That is fair, is it not? That is a method of measuring by temperature.

Mr. ALTMEYER. Yes.

Senator LODGE. That is just one illustration.

Mr. ALTMEYER. Of course, that does not have to do with this per capita income or variable grants, that has to do with the size of the allowance that is made in each individual State.

Senator LODGE. But it affects the cost of living, Doctor. If you have got to buy a ton of coal it is going to cost you more to take care of that old man.

Mr. ALTMEYER. That is taken into consideration in the amount that the State agency allows that person under their State old-age assistance.

Senator LODGE. That is true, but a State where the weather is cold has got to allow for providing heat and a State where the weather is moderate does not have that expense.

Mr. ALTMEYER. Therefore, that State would expend more and would receive a larger dollar matching from the Federal Government.

Senator LODGE. It could still receive it, could it not?

Mr. ALTMEYER. As regards the difference in the size of the allowance that is made to these individual recipients, but I say that it is not anything that is involved in this matching ratio.

Senator LODGE. I know it is not. I am saying it ought to be. If you are going to make it variable in one section of the country because their income is low I say you ought to make it variable in another section of the country because the cost of living is high.

Mr. ALTMEYER. Let us take States A and X.

Senator LODGE. All right.

Mr. ALTMEYER. State A, we will say, would receive a matching of 66⅔ percent, and it is a State with a low cost of living.

Senator LODGE. Yes.

Mr. ALTMEYER. And the average grant is $21?

Senator LODGE. Yes.

Mr. ALTMEYER. Now, two-thirds of $21 would be $14. State X is a State that has a high per capita income and therefore gets, we will say, only one-third matching, but that State is paying out an average

of $45. Now, that State would get from the Federal Government $15, or one-third.

Senator LODGE. There is no State that is doing that.

Mr. ALTMEYER. No. Thirty-two dollars is the highest.

Senator LODGE. Yes.

Mr. ALTMEYER. I want to mention this speciousness of the average in just a second, but on that average basis that State with the high per capita income, even though the matching ratio was less, one-half, as a matter of fact, the matching ratio of the other State, it is getting $15 in that case as compared with $14 in the other case. So it is getting $1 more.

Regarding this average grant, and regarding the table that the chairman requested be put in the record, I think many people are misled by forgetting that these are averages, and that means that there is a wide range in each State in what is being received per case in that State.

Senator LODGE. Because of individual need?

Mr. ALTMEYER. Yes. If you had a perfect distribution it would mean you had 50 percent of the people getting more than the average and 50 percent getting less than the average. In some States it is up to $60 and $70 per case.

Senator LODGE. There are not very many of those.

Mr. ALTMEYER. I mean the range, although the average might work out only $32, as is the average in the high State.

Senator LODGE. I do not disagree with what you said there, but I do not think anything you said shows we should not make an allowance for living costs just as much as we do for low incomes.

Mr. ALTMEYER. I was just pointing out that while your matching ratio might vary from the State with the high per capita income to the State with the low per capita income, the fact that the State with the high per capita income is paying larger allowances may well mean that the State with the high per capita income will receive more in dollars from the Federal Government per case than the State with the low per capita income.

Senator LODGE. And it puts up more?

Mr. ALTMEYER. Yes.

Senator CONNALLY. Let me ask you a question there. A rich State that is able to pay high State benefits gets a matching up to $15, does it not?

Mr. ALTMEYER. Yes.

Senator CONNALLY. Here is a poor State, on the other hand, that is not able to pay, it only gets a matching for its smaller ratio, does it not?

Mr. ALTMEYER. Yes.

Senator CONNALLY. Therefore, the rich and powerful State gets more proportionately from the Federal Government than the State which is economically in not such good shape; is that not true?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. The State that is rich and has a high income, it can, by its own State measure, raise relatively a good deal more money than the poorer State and it ought to, ought it not?

Mr. ALTMEYER. Yes, sir.

Senator CONNALLY. This whole thing is an economic thing, it relates purely to economics.

Mr. ALTMEYER. Yes.

Senator CONNALLY. What would you say to this: Instead of undertaking this so-called variable in proportion to the income, suppose the Federal Government would make a flat contribution of two-thirds out of the first $15, the Federal Government pay $10 and the State pay $5?

Mr. ALTMEYER. I think anything like that is very dangerous.

Senator CONNALLY. Why?

Mr. ALTMEYER. If you provide a higher variation of the matching on the first $15, or $20, or $25, you will have cases of partial dependency or even total dependency in the low-cost area being treated probably more liberally in proportion to the cases of people in need above that amount. Because the State is receiving a higher matching on certain payments there is a tendency for the State to concentrate upon those sort of cases where they can get the higher matching ratio. In other words, I think there would be a considerable tendency to freeze at or below any figure such as that which is set.

Secondly, I would say that with so much of the revenue of the Federal Government being derived from nonprogressive taxes, that is, not from income and inheritance taxes but from taxes of a more or less regressive character (and more than 50 percent of the revenue of the Federal Government is of that character) it would mean that under any formula like that, while the intent would be to put more money into the poorer State, that intent might be offset to a considerable extent by the fact that those same poorer States are paying into the Federal Government these nonregressive taxes of one sort or another.

Senator CONNALLY. This would not vary, this $10 would be unanimous everywhere.

Mr. ALTMEYER. But it would increase the cost to the Federal Government.

Senator CONNALLY. Yes; it would, probably. My purpose in suggesting it is it would take care of these lower-income folks, would it not?

Mr. ALTMEYER. Yes.

Senator CONNALLY. It would encourage the States to give the fellow that only was getting $8 or $10 now, it would encourage them to give him $15, would it not?

Mr. ALTMEYER. I think it would.

Senator CONNALLY. And would not they need it much more than the people that are getting the entire rate?

Mr. ALTMEYER. I do not think that necessarily follows, because, as I pointed out, people who are partially dependent are receiving their old-age assistance allowances, and they may be in need from a couple of dollars all the way up the line.

Senator CONNALLY. If they do not need but a couple of dollars, I do not think you need fool with that at all.

Mr. ALTMEYER. There are a great many of those cases that enter into this average, all the way up to $15, $20, and $25, whatever the border line may be in that matching ratio.

The other point I wanted to make was, since any plan like that would probably increase the over-all cost to the Federal Government, that would likely necessitate increased taxation, and as long as we have the major portion of the revenue of the Federal Government derived from nonprogressive taxes, those very States that you are

intending to help will pay an undue proportion, because at the same time you are giving more money to the States with the high per capita income through the operation of that formula.

Senator LODGE. You would not be giving them any more than you are giving them now, would you?

Mr. ALTMEYER. Yes.

Senator LODGE. You are matching exactly now, are you not?

Mr. ALTMEYER. I mean, if you take two-thirds of the first $15, and 15 percent over that, that would mean every State in the Nation today, the States that are well off as well as the States that are not well off, would get an increased grant from the Federal Government, and that would increase the over-all cost. That would have to be through Federal Government, which, as I suggested, was to a considerable extent nonprogressive in character.

Senator LODGE. You admitted that the rich States are now getting more money.

Mr. ALTMEYER. They would get still more money under that.

Senator LODGE. I don't know about that.

The CHAIRMAN. You mean that they could reduce the amount so that they could come in and comply with that requirement as to the $15.

Mr. ALTMEYER. Yes.

The CHAIRMAN. Above that there are only a few that could pay it?

Mr. ALTMEYER. Yes.

The CHAIRMAN. I notice from these tables here, Doctor, that Arkansas seems to be the lowest average old-age-assistance-payment State at $6.15. That means that the State puts up $3.07½ and the Government puts up $3.07½.

Mr. ALTMEYER. Yes.

The CHAIRMAN. New York, under this figure I see here, is $24.18. They put up $12.09 and the Federal Government puts up $12.09; is that right?

Mr. ALTMEYER. On the average; yes, sir.

The CHAIRMAN. So if there is going to be something to help the poorer State, you think it ought to be an economic proposition?

Mr. ALTMEYER. Yes.

The CHAIRMAN. After a survey?

Mr. ALTMEYER. Yes.

The CHAIRMAN. You do not anticipate great trouble, after an economic survey, in ascertaining the income wealth of the State?

Mr. ALTMEYER. My understanding is that these figures that the Department of Commerce have collected over a period of years were just published within the last 30 or 60 days, and they are on a very comprehensive basis.

Senator VANDENBERG. Am I wrong in assuming, from all of the things you said, that you think it is pretty dangerous to enter the field of variables at all?

Mr. ALTMEYER. I would put it this way: You have got to look at it from a short-range as well as a long-range point of view. If the Federal Government is going into a larger and larger program of matching of State expenditures of one kind or another, whether it is in this field or education, or health, unless there is some sort of a variable matching, the cost to the Federal Government will mount so steeply that it will place a great strain upon the Federal finances and credit. Whether you reach that point now or not, that is a matter

for Congress to decide, it seems to me. You do have, however, the problem Senator Connally pointed out, that the poorer States are having difficulty matching their end of it.

Senator VANDENBERG. Does willingness to pay have anything to do with it along with the capacity to pay?

Mr. ALTMEYER. I think it is something, but by far the greater factor is the capacity to pay.

Senator LODGE. Is it not true, Doctor, that there is more bleak and desperate poverty and poorer people in rich States than in any other States?

Mr. ALTMEYER. I do not think so.

Senator LODGE. Take the slums of New York, Boston, Chicago, or Detroit, take the cotton-mill cities, take the hopeless conditions where they have no natural resources at all, how can you imagine any poverty that can compare to that?

Mr. ALTMEYER. On absolute terms you are probably right, but I say regarding the general level of prosperity you will not reach the same conclusion. You might in certain sections of your State find poverty equal to or worse than in certain sections of another State, but over all in Massachusetts the general level of well-being is up toward the top. I think you should be congratulated.

Senator LODGE. That is a matter of opinion. What you are trying to do is to average the rich with the poor. You are sitting here in your office in Washington with a piece of paper and pencil and averaging it, but there is not any real averaging going on, so the poor people in the rich States are going to take it on the chin, they are going to carry the freight of this whole thing.

Mr. ALTMEYER. But the taxes in those States ought to be adjusted.

Senator LODGE. They ought to be, but they are not. The tax system in these so-called poorer States ought to be adjusted so that they would do a little more, but it is not.

Mr. ALTMEYER. That is within the province of the State.

Senator LODGE. Yes; it is in the province of the State. The economic capacity of the State is purely a relative term, Doctor. It all depends on what you want to put in it. You can define it in any one of a million ways. There is nothing absolute about that.

Mr. ALTMEYER. I think you can take a half dozen different criteria to measure economic capacity, or economic well-being, whatever you choose to call it, and they check up with a great degree of similarity.

Senator BYRNES. Dr. Altmeyer, may I ask you a question? Who prepared the statement for the Department of Commerce?

Mr. ALTMEYER. Robert Nathan.

Senator BYRNES. It is a book that contains the factors used in determining the per capita income?

Mr. ALTMEYER. Yes.

Senator BYRNES. Are you familiar with it?

Mr. ALTMEYER. Yes, sir; in a general way, Senator.

Senator BYRNES. Could you state those factors, or do you prefer that we wait until we ask him?

Mr. ALTMEYER. There is a report issued in May of this year. It is entitled "State Income Payments, 1929–37." On page 11 there is set forth the following items as being taken into account in determining per capita income: (*a*) Salaries and wages; (*b*) other labor income and relief (that includes direct and work-relief payments); (*c*) entrepreneurial withdrawals, which may be defined as that portion received

from the operation of any corporate enterprise which the owners withdraw for personal or nonbusiness uses; (*d*) dividends, interest, and net returns and royalties.

Senator BYRNES. Mr. Chairman, I suggest if the committee decides to go into this particular phase of the inquiry, I would like to make a statement as to the provisions of the bill reported by the Unemployment Committee, and would also, in connection with that, like to have Mr. Nathan make a statement for the record as to how he arrives at the per capita income of the Nation and the per capita income of the various States.

The CHAIRMAN. The committee will be glad to hear you, Senator Byrnes, at that time, and we will have Mr. Nathan come down at that time.

Senator CONNALLY. Pardon me, Senator, are you through?

Senator BYRNES. Yes.

Senator CONNALLY. I want to ask you just one question, Doctor. The table read by Senator Harrison a moment ago showed that New York was paying $24 a month and Arkansas was paying $6. The Federal Government, out of its own Treasury, is paying the man in New York four times as much as is being paid on the average in Arkansas, is it not?

Mr. ALTMEYER. Yes.

Senator CONNALLY. That is not right, is it?

Mr. ALTMEYER. No, sir.

Senator CONNALLY. So we ought to adopt—I do not know the details—but we ought to adopt more equitable and fairer methods, a fairer system than Uncle Sam has adopted, with one man, an old-age pensioner in New York, getting $12, and over here on the left-hand handing the old-age pensioner in Arkansas $3. They are both citizens of the United States. If there is any obligation on the part of the Government to do anything for either one, I think the obligation is to treat them both alike, is it not?

Mr. ALTMEYER. Yes.

Senator JOHNSON. The Government treats them both alike, because it gives them both the same opportunity to share in the pensions, if they meet the requirements of the pension. It depends on the State. The purpose of this matching program is to encourage the State to pay old-age pensions.

Senator CONNALLY. That is true.

Senator JOHNSON. It is an inducement to them. That is the purpose of it.

Senator CONNALLY. It does not seem to work in some cases.

Senator JOHNSON. Whose fault is it?

Senator CONNALLY. It is the fault of the State. This poor, ragged fellow in the brush, he does not know anything about that.

Senator JOHNSON. Why throw the system into the discard simply because some State is not progressive enough to go ahead and make the provision?

Senator CONNALLY. I grant you it would be entirely desirable if it would. We are responsible for our legislation and the State is responsible for its legislation. If we make it possible for the Government to hand one man, who is in the same condition as the other man, four times as much, we are not doing justice and equity.

Senator LODGE. Is it not true, Senator, that these payments are not handled by the Federal Government?

Senator CONNALLY. It comes out of the Treasury.

Senator JOHNSON. These are grants to the States.

The CHAIRMAN. Doctor, have you given any thought to the idea, in regard to this economic set-up, that the Federal Government makes it possible to give greater assistance to the poorer States, to raise the level, say, to $15 to each individual, and then above that we come back to what the bill has done here, increased the maximum on the 50–50 basis, $20 for the Federal Government and $20 for the other?

Mr. ALTMEYER. That is along the line of Senator Connally's suggestion?

The CHAIRMAN. Yes.

Mr. ALTMEYER. As I said in answer to Senator Connally's questions, that has a tendency to freeze payments below the $15 level and to pay disproportionate benefits in the case of those below that level as compared with those whose needs exceed the $15, and, secondly, it means automatically that larger sums are paid out by the Federal Government to the States that are already receiving these large amounts, and that then brings you around to where you started. Through our present system the poorer States are paying a considerable proportion through these taxes of one kind or another.

Senator GERRY. Dr. Altmeyer, do you take into account also the benefits that the agricultural States get from the Federal Government that the more thickly populated States do not? I am just wondering how you collected the statistics.

Mr. ALTMEYER. I am not making the argument that the poorer States are getting more or less in total.

The CHAIRMAN. I would like to place into the record in this connection this table that appeared in the Congressional Record, which I presume is authentic. It shows the average old-age-assistance payments per recipient (title I) December 1938, by States.

(The table is as follows:)

(All figures from Social Security Board)

Average old-age assistance payment per recipient (title I) December 1938

United States	$19.55	New Jersey	$19.32
		Rhode Island	18.78
California	32.43	Illinois	18.52
Colorado	29.99	Missouri	18.48
Massachusetts	28.56	Maryland	17.51
Connecticut	26.66	North Dakota	17.38
Nevada	26.46	Nebraska	17.12
Arizona	26.10	Michigan	17.11
New York	24.18	Indiana	16.53
New Hampshire	23.08	Vermont	14.47
Ohio	23.01	Texas	13.84
Washington	22.10	Florida	13.84
Wyoming	21.62	West Virginia	13.79
Idaho	21.55	Tennessee	13.23
Oregon	21.30	New Mexico	11.15
Pennsylvania	21.19	Delaware	10.84
Wisconsin	20.78	Louisiana	10.26
Maine	20.71	Virginia	9.54
Montana	20.48	Alabama	9.51
Utah	20.45	North Carolina	9.36
Minnesota	20.42	Georgia	8.76
South Dakota	20.04	Kentucky	8.73
Oklahoma	19.94	South Carolina	7.40
Iowa	19.82	Mississippi	6.02
Kansas	19.62	Arkansas	6.15

Per capita income by States, 1935

United States	$432	Iowa	$370
		Missouri	366
New York	700	Vermont	366
Connecticut	607	Kansas	365
California	605	Nebraska	361
Delaware	590	Florida	353
Rhode Island	561	Utah	348
Nevada	545	Idaho	344
Massachusetts	539	New Mexico	322
Wyoming	526	West Virginia	318
New Jersey	517	Texas	316
Illinois	500	Virginia	305
Montana	482	Louisiana	300
Pennsylvania	478	South Dakota	275
Michigan	473	North Dakota	260
Maryland	473	Oklahoma	259
Wisconsin	467	North Carolina	253
Ohio	460	Georgia	253
New Hampshire	438	Kentucky	240
Washington	434	Tennessee	232
Minnesota	416	South Carolina	224
Maine	414	Alabama	189
Colorado	406	Arkansas	182
Indiana	402	Mississippi	170
Arizona	401	District of Columbia	966
Oregon	394		

Senator CONNALLY. May I ask one question? What is the average now all over the United States of the Federal payment, of the Federal contribution for old-age pensions?

Mr. ALTMEYER. The average that is paid out to the recipient is a little bit over $19, and the average that the Federal Government would share would therefore be about $9.50.

Senator CONNALLY. So this proposal, if you give them $10, would be practically the same amount, would cost practically the same amount of money that we now pay.

Mr. ALTMEYER. If you do not pay anything more, you mean, just the flat amount?

Senator CONNALLY. $10; say, the first initial $10. I want to take issue with you on it, with all due respect to your theory, that would tend to discourage and hold them down below the $15. It seems to me if the State would have to put up only $5 in order to get $10 from the Federal Government, it would stimulate them and inspire them to be more generous and give them a larger amount, because it only costs the State $5.

Mr. ALTMEYER. What about the States that need more than $15?

Senator CONNALLY. That is the same proposition. It would be easier to put up $10 out of $25 than $12.50 out of $25. A man would get $25 then and the State would only put up $10. It would be much easier to get the measure through the legislature on that basis.

Mr. ALTMEYER. We have the same situation in the case of aid to dependent children, Senator, where the maximum per child, for only one child, is $18, and for more than one child $18 for the first child and $12 for successive children. We have had experience under that sort of a program with the States. The statistics we got from the States showed a clustering around and below that maximum; in other words, indicating that there is a great tendency not to go beyond the maximum that is matched by the Federal Government.

The CHAIRMAN. Have any of the States matched the full maximum, that is $15 and the Federal Government $15?

Mr. ALTMEYER. There are 1,800,000 cases, and about 14 percent of them are getting over $30 per month.

The CHAIRMAN. But that is individual cases?

Mr. ALTMEYER. That is individual cases.

The CHAIRMAN. We were speaking of the average in the States.

Mr. ALTMEYER. Yes. The only State that has an average of over $30 is California.

Senator GERRY. Dr. Altmeyer, don't you find in a depression, especially in the agricultural States in the North, that you have to allow also for the children and the cost of living of the big family, where they are not able to raise their products, as they are in an agricultural State where they have all that the Senator from Massachusetts has pointed out?

Mr. ALTMEYER. Yes, sir.

Senator GERRY. That the payments in proportion, in the destitute cases, have been very much larger?

Mr. ALTMEYER. Yes, sir.

Senator GERRY. And if you have got a depression there the wealth decreases proportionately?

Mr. ALTMEYER. That is true.

The CHAIRMAN. The committee will adjourn until 2:30.

Senator DAVIS. Mr. Chairman, may I ask a question before you adjourn?

The CHAIRMAN. Yes.

Senator DAVIS. Are these special contractors, life-insurance solicitors brought in under this bill?

Mr. ALTMEYER. Yes; there is a provision in the bill, under the definition of "employee."

Senator DAVIS. Are not they sort of individual contractors? They have been excluded heretofore.

Mr. ALTMEYER. Yes; some kind of life-insurance agents have been excluded heretofore. The industrial-life-insurance agent has been covered, because it has been held that the relationship of employer and employee exists, but in the case of certain types, at least, of ordinary life-insurance agents it has been held the relationship of employer and employee did not exist. There is a definition of employee in there that undertakes to cover the life-insurance agent, and similar occupations, when that is the principal occupation, but excludes it when it is just incidental to some other occupation. The bank teller, for example, might write a policy, but he would not be covered under the proposed definition; but the man whose principal occupation is that of salesman is intended to be brought under the definition of employee.

Senator DAVIS. Mr. Chairman, we will have an opportunity again to discuss this matter with him in an executive session, will we not?

The CHAIRMAN. Yes; you will have several opportunities.

Mr. ALTMEYER. May I add one further sentence to my statement? I am speaking only of the definition of employee in the old-age-insurance titles, it is not in the unemployment compensation title.

Senator DAVIS. I have another question. I do not know whether Dr. Altmeyer has given any consideration to this, but I am in re-

ceipt of information from Pennsylvania, especially those that are interested in the production of coal, and they desire to amendment to this particular bill covering the act passed in the Seventy-fourth Congress, they want a proviso providing that in those industries or occupations where the wages paid represents 50 or more percent of the wholesale value of the articles processed, fabricated, or produced, the taxes above enumerated shall be reduced 50 percent.

They make this statement: For instance, the coal industry is a labor-employing industry, and for that very reason it is being severely penalized. As nearly as I can figure it out the average 5-percent pay-roll tax attaching to the mining of coal amounts to $63,500 per million tons. The same taxes under the Social Security Act, in the case of an equivalent amount of fuel oil, amounts to $34,000. The same taxes, in the case of an equivalent amount of natural gas is $4,000, and when you come to the hydroelectric power, equivalent to a million tons of coal, the social-security tax is only $500. Coal must carry this unusually disproportionate tax load in the open competitive market.

I would like to have you give some consideration to it, and furnish me, before we go into executive session to consider amendments to this bill, such information as you have for or against this amendment that I expect to propose to the committee.

Mr. ALTMEYER. Yes.

Senator CONNALLY. May I ask you right there, the only reason the coal people pay more taxes is because more of them have jobs?

Senator DAVIS. Of course more of them have jobs, but we are measuring this on a consumptive power basis.

Mr. ALTMEYER. I might say generally, Senator, as Senator Connally indicates, that there are more employees to become unemployed, and more to become aged and entitled to the old-age-insurance benefits.

The CHAIRMAN. Well, the committee will meet here in this room at 2:30.

(Whereupon at the hour of 12:15 p. m. the committee recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:30 p. m.)

The CHAIRMAN. The committee will be in order.

Is Mr. Higgins here?

Senator DAVIS. In yesterday's discussion you happily referred to the Moose. Knowing your friendly views on all things fraternal I sent a telegram to Supreme Secretary Malcolm R. Giles, of the Moose fraternity, asking him to send me material showing how the Social Security Act affects the Moose and others having schools and homes for the dependent aged. The Moose does not ask exemption for the employees of the supreme lodge or coordinated bodies, for we are doing our best to live under the act. We do believe, however, that our charitable, educational, and religious work should be exempt. I ask that the letter I have just received from Mr. Giles, together, with his statement, be made a part of the committee record, so that it may be available to the members of the committee on this problem.

(The documents are as follows:)

SUPREME LODGE OF THE WORLD,
LOYAL ORDER OF MOOSE,
June 12, 1939.

Hon. JAMES J. DAVIS,
Director General, Loyal Order of Moose,
National Bank of Washington Building, Washington, D. C.

MY DEAR SENATOR: Complying with your telegram of even date, the enclosure will give you our views with regard to the proposed amended Social Security Act.

You will observe that we have treated the subject from three angles: First, our knowledge of the history and purposes of the Social Security Act; secondly, the effect of the act as it is now operated, and thirdly, the operations of the act in its effect upon the Moose should the proposed amendments be adopted.

It is my studied judgment that, as a matter of policy, we should not take the position of claiming exemption for any of the employees of the supreme lodge or coordinated bodies, but to the contrary, should give all our employees the full benefits of all features of social security as provided by the act.

With kind regards and all good wishes, I am,

Sincerely and fraternally,

MALCOLM R. GILES, *Supreme Secretary.*

THE SOCIAL SECURITY ACT—THE STATE UNEMPLOYMENT COMPENSATION ACT—THE PROPOSED AMENDMENTS THERETO AS IT PERTAINS TO THE SUPREME LODGE OF THE WORLD, LOYAL ORDER OF MOOSE, AS AN EMPLOYER, AND THE INDIVIDUAL LODGES, LEGIONS, AND CHAPTERS OF THE ORDER

HISTORY

With the enactment of the Social Security Act by Congress in August 1935 legislation for taxes and other purposes affected a large number of organizations, corporate and otherwise, to a far more reaching extent than had been the experience of those organizations during the past century and a half. While it is true that these organizations were more or less subject to local property taxes, they had been completely free from the effects of legislation previously enacted for revenue from commercial enterprise, with the result that with the enactment of the Social Security Act very few individuals actively interested in these organizations realized that the provisions of the Social Security Act were such as to deny exemptions by reason of its nonprofit character. Consequently, when the act became effective as of January 1, 1936, fraternal societies, as well as organizations of a like nature such as the Rotary, Kiwanis, American Legion, etc., found themselves subject not only to the Federal Social Security Act, but the respective State unemployment compensation acts as well.

Both the Federal Social Security Act and each of the State unemployment compensation acts do exempt certain types of organizations that can qualify under the following provisions of these acts:

"Services performed in the employ of a corporation, community chest, or foundation, organized and operating exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual."

In the above quotation from the respective acts, it will be noted that it provides that the organization must be "organized and operating exclusively" for the specified purposes. Consequently, exemption has been denied to all fraternal societies, as well as other like organizations on the theory that they were not organized and operating exclusively for the purposes stated. The fact that the organization operated not for profit was in itself not enough to grant exemption. It had to be organized and operating exclusively for the specified purposes.

In the enactment of the Federal income-tax laws, however, fraternal societies and similar organizations organized not for profit and operating under a lodge system were specifically exempted from the payment of income taxes, but that exemption was extended to fraternal organizations as such and the statutory test was not as explicit in demanding that the organization be organized and operating exclusively for specified purposes. Likewise the Social Security Act did not follow in its entirety the philosophy of exemptions as contained in the Federal income tax laws.

The net result insofar as the Supreme Lodge of the World is concerned was that even though the charter of the supreme lodge specifically provided that in addition to acting as the agent for the lodges of the society, known in the aggregate as the

Loyal Order of Moose, it could also engage in such charitable and philanthropic enterprises which permitted the establishment of Mooseheart and Moosehaven. None can deny that both of these, in the ordinary sense, are charitable enterprises, but it must be remembered that they are merely an activity incident to the corporate entity known as the Supreme Lodge of the World, Loyal Order of Moose. Neither Mooseheart, Moosehaven, or any of the other so-called branches of the Supreme Lodge of the World, are legal entities in themselves and as such have no situs in law. Consequently, the only legal entity recognized and subject to law is the corporate being known as the Supreme Lodge of the World Loyal Order of Moose.

The courts have long established the meaning of the words "charity" or "charitable" and have excluded from that meaning such enterprises wherein a requirement is exercised to obtain the benefits of that charity by reason of a membership in the organization extending the charity. Thus we find that such organizations like the Red Cross and the Salvation Army are recognized as charitable institutions, but that organizations like the Moose, Eagles, Masonic orders, etc., are not, for the simple reason that their charitable program is for the benefit of their dependent members only and is contingent upon their membership.

Therefore, there is no question but what the Supreme Lodge of the World, Loyal Order of Moose, and other similar organizations, especially those who are engaged in providing homes and schools, are subject to the provisions of the Social Security Act and the respective State unemployment-compensation acts.

EFFECT ON THE SUPREME LODGE AND AFFILIATED UNITS

The effect on the Supreme Lodge of the World insofar as cost of operation is concerned has resulted in tax payments to the Federal and State Governments as follows:

1936	$5,134
1937	16,640
1938	21,650
1939	[1] 22,000

[1] Estimated.

Of the above amounts between 60 and 65 percent is chargeable to the cost of operating Mooseheart school-home itself and the balance split up among the other activities of the supreme lodge; Moosehaven home for aged men and women dependent members of the order.

The tax expense for the next 3 years—1940–42—will be approximately the same as that estimated for the present calendar year, namely, $22,000.

Beginning with January 1, 1943, however, there is a possibility of a reduction through the operation of the merit-credit plan enacted by the State unemployment-compensation acts, which has the effect of reducing the tax rate if the employer has maintained a satisfactory stabilization of employment. Based on our present pay roll it is estimated that our taxes will be as follows:

1943–45	$14,000
1946–48	16,000
1949 and thereafter	20,000

The above estimates are, as stated, based on our being able to so stabilize our employment to be subject to the merit credits as provided by the State unemployment-compensation acts and also takes into consideration the increases in the Federal social-security taxes as provided in the Social Security Act and in the proposed amendments.

EFFECT ON THE INDIVIDUAL LODGES, CHAPTERS, AND LEGIONS OF THE ORDER

The most far-reaching effect of the Federal Social Security Act, as well as the State unemployment-compensation acts, has been on our lodges, chapters, and legions, for the reason that these acts were interpreted that the unit was liable for the taxes, regardless of how much or how little was the compensation of the officers of these units, together with an interpretation that even though an officer received absolutely no compensation he was still to be counted as an employee in determining whether there were eight or more as required by the unemployment-compensation provisions of the act. However, this latter situation was considerably clarified in February of this year when the Internal Revenue Department issued a regulation, which in effect rescinded its previous regulation and resulted in eliminating from the definition of the word "employee" and "employ-

ment" those individuals who performed purely ritualistic duties and incidental noncompensated administrative duties. Likewise, most of the States followed suit, with the result that it exempted all of our chapters from the provisions of the unemployment section of the Federal Social Security Act, as well as most of our lodges and legions, and leaving only those lodges subject to the act that had eight or more employees who were actually compensated for their services. The lodges were so notified and we believe their claims for refund of taxes previously paid will be allowed. However, this exemption in no way affected the old-age-benefit section of the Social Security Act and it continues to be necessary for the lodges to pay the taxes and to deduct the 1 percent from all payments made to individuals for services rendered their lodge.

The very noticeable effect of the requirements of the Social Security Act, as well as the State unemployment compensation acts, was to place upon the shoulders of our secretaries a greatly increased amount of detailed work and it has been found increasingly difficult to secure competent and willing secretaries.

EFFECT OF PROPOSED AMENDMENTS AS CONTAINED IN H. R. 6635

The present Congress is now considering proposed amendments to the Social Security Act as the result of report No. 728 of the Social Security Board and has considerable bearing on the Supreme Lodge of the World itself and also with reference to the lodges, chapters, and legions.

With reference to its effect on the individual lodges, chapters, and legions attention is directed to the provisions of the amendment as follows:

"Paragraph A: Services performed in any calendar quarter in the employ of any organization exempt from the income tax under section No. 101 of the Internal Revenue Code if—

"1. The remuneration of such services does not exceed $45, or

"2. Such services is in connection with the collection of dues or premiums for a fraternal benefit society, order, or association and is performed away from the home office, or is ritualistic service in connection with any such society, order, or association."

The above section is interpreted to mean that there will be either of two statutory tests that must be met by the unit in order to gain exemption. The first test being that the remuneration or compensation does not exceed $45 in any one quarter, and the second alternative test is that the services that are to be rendered consist solely of the collection of dues for the unit and that service is performed away from the home office. In this connection it is presumed that the term "home office" means the home office of the society itself and in the case of the Moose is Mooseheart, Ill. If this construction is correct it would appear that the greater majority of our lodges, chapters, and legions will be exempt from the provisions of the Social Security Act as amended. It would also appear that such lodges that operate clubs in connection with their lodge activities would not be exempt if they have in their employ club stewards, etc., who would be amenable to the act. It would also appear that in the case of lodges that operate clubs that the $45 quarterly earning test would operate to exclude such temporary employees that lodges may engage, as for example waiters, janitors, musicians, entertainers, etc., provided the total payments to each individual does not exceed $45 in a calendar quarter.

It should be pointed out here that these amendments apply to the Federal act only and will not affect the State unemployment compensation acts until such time as the respective State legislatures can correspondingly amend their own individual unemployment compensation acts. It is reasonable to assume, however, that each and every State will follow the lead of the Federal act. This assumption is based on the fact that it has been found that the administrative bodies in the respective States, generally called the unemployment compensation commissions, have, in addition to so recommending to their legislatures, actually issued regulations which exempt most of the fraternal and other similar units from the provisions of the State acts.

The justice, reasonableness, and good sense of the above section cannot be denied. It will be a distinct benefit to the units of fraternal societies and like organizations, not only in the small savings in taxes involved, but more so in the elimination of the necessary detail work in connection with the preparation of the required forms and reports.

EFFECT OF THE PROPOSED AMENDMENTS ON THE SUPREME LODGE OF THE WORLD AND ITS AFFILIATED UNITS

The proposed amendments will not materially affect the Supreme Lodge of the World and its affiliated units. It may be necessary to change somewhat our administrative procedure in our office.

However, the tax expense will be somewhat increased. This is due to the following reasons:

1. The proposed amendments provide that even though a person reaches the age of 65 his income is still taxable and will continue to be so until he actually retires. The increase caused by this factor will be very small during the next 4 or 5 years and after that, provided, of course, our present employees continue, the number reaching the age of 65 will increase and result in increased taxes. Naturally, if they retire at the age of 65 there will be no further taxes due. It is estimated that the maximum increase in tax cost to the Supreme Lodge due to this factor will not be over $500 per year.

2. The proposed amendments amplify the meaning of the term "employee" as follows:

"The term 'employee' includes an officer of a corporation. It also includes any individual who for remuneration (by way of commission or otherwise) under an agreement or agreements contemplating a series of similar transactions secures application on orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business (but who is not any employee of such person under the law of master and servant)."

Under the Social Security Act and State unemployment compensation acts, as originally enacted, the Commissioner of Internal Revenue issued a specific ruling based on information furnished him by us that the following services were not in "employment" within the meaning of the act? General counsel and other legal services, physicians, dentists, regional directors and membership directors.

It was contended on our part that the above were independent contractors and as such were not employees within the meaning of the act. Our contention was sustained by the Commissioner of Internal Revenue. It appears that the Commissioner had established a general rule whereby insurance agents, salesmen, etc., employed on a strictly commission basis were, in fact, independent contractors and not employees within the meaning of the act, particularly so if there was an absence of a relationship of master and servant. Generally speaking, the courts had sustained such rulings based upon similar rulings and court opinions in the various State workmen's compensation acts.

The result of this philosophy of construction was to eliminate from the benefit of the act a large number of individuals, as well as create situations in which there developed controversies as to whether the services performed by the individual were so performed under a degree of direct or indirect control on the part of the employer. A number of controversies were carried on appeal to the higher courts, particularly so in the case of the State unemployment compensation acts, and conflicting opinions developed, with the result that an individual performing a given type of service was considered a subject employee in one State and was excluded in another.

It appears because of these conflicting opinions that the proposed amendments to the Social Security Act as defining an employee as given above was for the purpose of standardizing and simplifying the interpretation so that there would be no further question, as well as to extend the coverage to a greater number of individuals.

It would seem that the only construction that can be placed upon this amended definition of the word "employee" is that those previously classified as independent contractors will not be excluded from the provisions of the act when the amendments become effective. If such a construction and interpretation is correct there will be an increase in our taxes of approximately $3,000 per year, most of which will be in the enrollment department covering the regional directors and membership directors. This increase may not reach this amount as it is felt that in the case of membership directors other provisions of the proposed amendments might apply, namely, the possibility of applying the aforementioned provision with reference to the remuneration not exceeding $45 in a calendar quarter. During the calendar year for 1938 the total payments to membership directors alone was around $33,000. This item included full time membership directors, as well

as others who receive in total varying amounts, a large number of whom received total annual payments of less than $45 per quarter, or $180 for the calendar year.

Against these anticipated increases there will be savings through the application of the proposed amendments, which provide that the tax for unemployment compensation insurance shall apply only to the first $3,000 earned by the individual in any calendar year. This provision, in reality, makes the taxable pay roll in both the old age and the unemployment sections the same, whereas formerly the entire pay roll for unemployment purposes was taxable at 3 percent. It is estimated that this savings will be approximately $1,800.

Summing up the increase and savings it is found that there will be a probable net increase in our taxes in the amount of approximately $2,000.

AGRICULTURAL WORKERS

With reference to the few employees of Moosehearts whom we call in the ordinary sense, farm workers, that have been included as regular employees in the past. This subject was discussed with the Commissioner of Internal Revenue, who ruled that inasmuch as it was a difficult administrative problem to segregate those employees' services, as between strictly agricultural services as defined in the act, and other incidental services, that their entire services could be deemed ordinary services and therefore taxable. Our so-called farm employees are employed both as strictly agricultural workers, as well as performing other services such as work on the parks and grounds, general maintenance, etc.

The proposed amendments with respect to the classification of agricultural workers would not necessarily change our present set-up. There appears to be no question but what our so-called agricultural workers would continue to be included as heretofore.

THE POSSIBILITY OF EXEMPTING ALL OR PART OF THE ACTIVITIES OF THE SUPREME LODGE

It has already been pointed out that heretofore the Supreme Lodge, as such, and its related activities are not exempt. It might be well to state at this point that in the case of corporations or associations it is the corporation or association itself, and not any of its particular activities, that may or may not be exempt, with the result that it would not be possible to secure the exemption of say, for instance, the services of the individuals who are actively and exclusively engaged in religious, educational, or charitable activities within the structure of the Supreme Lodge. Consequently, if it is desired to exempt those services so classified it would be necessary to exempt the entire organization or corporation.

The thought has been advanced that those sections of the act, as amended, could be further amended by leaving out the word "exclusively." It does not appear that this would be sufficient to obtain the desired results, as that would seemingly tend to permit organizations to be exempt that were not so intended by Congress.

It would appear that if it is desired to exempt part or all of the services performed for the Supreme Lodge or any of its affiliated units, that it would be necessary to add a complete exemption clause to the proposed amendments similar to that section of the Federal Internal Revenue Act which specifically exempts fraternal societies. In other words, section 209 of the Social Security Act and sections 1426 and 1607 of the Internal Revenue Code would have to have paragraph 10 of these sections amended by eliminating subparagraph (i) reading: "The remuneration for such services does not exceed $45." It would appear that if this sentence was eliminated it would tend to exempt all employment or services rendered by Supreme Lodge or any of its affiliated units.

There is no question but what such an amendment would defeat the apparent intent of Congress in its desire to include those employees of fraternal organizations either of the grand lodge or the subordinate lodges, whose entire employment is with such organizations.

Also to be considered as a matter of policy is whether the Moose who have been pioneers in social security wish to go on record in seeking exemptions. The employees, by reason of being covered, are creating for themselves security in their old age, and they, naturally, will be interested and concerned when they better understand and appreciate what social security means to them.

THE CHAIRMAN. Mr. Higgins. How much time will you want, Mr. Higgins?

Mr. HIGGINS. About 10 or 15 minutes.

The CHAIRMAN. I wish that you would be as brief as you can. Did you appear before the House committee?

Mr. HIGGINS. No, sir.

STATEMENT OF ALLAN H. W. HIGGINS, ATTORNEY, BOSTON, MASS., REPRESENTING THE BOSTON REAL ESTATE EXCHANGE

Mr. HIGGINS. I represent the Boston Real Estate Exchange and a number of real estate management offices in Boston who handle real estate through the medium of the so-called Massachusetts Real Estate Trusts. Among this group are Minot, Williams, & Bangs; De Blois & Madison; Meredith & Grew; R. M. Bradley & Co.; Sleeper & Dunlop; William Dexter; and others.

When the act was first passed, it was believed that these trustees would be held to be employers for the purpose of taxing compensation paid to employees that they might have in the buildings that they were operating, but it was not held at first that the trustees themselves were taxable on the compensation which they paid to themselves as trustees, because that would put the trustees in the position of being both an employer and an employee themselves. The Social Security Act is based upon wages paid by an employer to an employee, and you must have both an employer and an employee to have the basis for the tax.

In 1937 the Commissioner of Internal Revenue came out with a ruling, S. S. T. 136, which is referred to in the second paragraph of our brief, holding that the trustees of a Massachusetts trust were taxable on their compensation to the extent that the compensation was paid to them separately for services rendered not as trustees.

A similar ruling came out a little bit later in the year, and in 1938 the Commissioner of Internal Revenue ruled that all of the compensation paid to trustees in Massachusetts trusts by themselves was taxable as wages under the Social Security Act.

We filed a request for a hearing with the Commissioner of Internal Revenue, and the hearing was granted, and a further ruling was made in April of this year, on the 4th of April, to the effect that the compensation of trustees of Massachusetts trusts was partly taxable and partly nontaxable—that is, to the extent that they performed services like the officers of a corporation, the compensation was taxable; to the extent that they performed services such as the directors of a corporation, the compensation was not taxable.

Of course, the trustees' compensation in these real-estate trusts is usually based on a certain percentage of the income, 6 percent of the income of the trust, we will say, and it is not severable, and it means that if this present ruling of the Commissioner's office prevails, that there will be an argument in every single one of these trusts as to how much of the compensation is paid for services like the director of a corporation and how much is paid for services like that of an officer of a corporation, and every one of these trust instruments differs. They are not like joint-stock companies that may be set up under an act of the legislature, but they are strict trusts which are created by separate declarations, and there is no justification for treating the compensation of trustees of a so-called Massachusetts trust any differently from that of trustees or executors under a will. The powers and the duties of the trustees may vary considerably, and the

type of service which they perform may vary considerably. It is our position that these trustees, although they are employers with reference to the people whom they ask to perform services for them, they are not employees, and that they should be classed the same as partners. Partnerships, as you know, are taxed as employers, but what the individual partners withdraw from the partnership is not subjected to social security tax.

The difficulty in the mind of the Commissioner of Internal Revenue is that quite a large percentage of these so-called Massachusetts trusts are taxed as corporations under the income-tax law—that is, the income as it comes into the trust for purposes of the income tax is subjected to the corporate rate—but the mere fact that that is true should not be a reason for going contrary to all well-understood law other than the income tax, namely, that these trustees are individuals and not entities. The fact that they pay themselves fees or commissions as individuals certainly cannot mean that they therefore become employees of themselves.

It has been argued by the Commissioner's office that these trusts carry on business enterprises. The very same argument can be made as to individuals or partnerships. Partnerships carry on businesss enterprises. The fact that a business enterprise is being carried on is no ground for saying that everybody engaged in that business enterprise is an employee because somebody has to be the employer.

The provision which we are suggesting is that the definition of "employee" in the act be clarified so as to provide, as we have set forth in the appendix B, which is the proposed amendment to the bill, that after the part of the definition which says that an officer of a corporation is an employee, that we go on and state that a trustee holding title to property in his own name as trustee be not regarded as an employee within the terms of the act.

I do not think that the amount of tax involved is very material or very large. I have tried to ascertain, so far as Massachusetts is concerned, how many of these trusts there are, and I understand from the Massachusetts commissioner of taxation that they have under the provisions of Massachusetts law about 700 of these trusts in Massachusetts. I understand that that form of holding of real estate is used to some extent in other States, but not as widely as it has been in Massachusetts. I think that there are some real-estate trusts in Minnesota and some out in Chicago, Ill., because I have happened to see cases involving such trusts under the internal-revenue law, and I think that that form is also used to some extent with reference to real-estate holdings in the South, but not very widely.

The difficulty of exempting these trustees does not seem to us very great. It was suggested in conferring with the Treasury Department, and some of the social-security officials, that it might be well to limit the exemption if it were granted, to those trusts where there are no more than five trustees, so that the amendment as drawn states that a trustee holding, either alone or with no more than four other persons, a legal title to property, that their compensation should be exempt and they would not be regarded as employees. The reason for that limitation is that it was suggested that possibly if there were five trustees of a real-estate trust, and they had several persons in their employ, bookkeepers and clerks, and what not, that they might make them co-trustees in order to avoid the payment of the tax.

I do not think there is any great danger of that, for the reason that the average real-estate trust has as its trustee some outstanding person in the community. These men who handle these real-estate trusts are usually men of considerable means and well known in the community, and I do not think that they would take as their co-trustees a clerk or a secretary or a bookkeeper in the office; but if it is felt that there is some possibility of evasion on that ground, we are perfectly willing to set the limitation to five trustees, because the usual trust has three trustees, and there are very few that have five, but I have not seen a Massachusetts trust with more than five trustees; so I think that provision will be adequate.

Along that line, there is no more danger that these trustees will take in their cashier or their bookkeeper in order to avoid the payment of the tax than there is in the case of a partnership. You could argue the same way that in a partnership you could make two or three employees special partners or junior partners and thereby avoid paying social-security tax.

I want to assure the committee that the position that we are taking on this is not because we are attempting to defeat the law or that the amount of the tax is so particularly onerous. We do not not think that we ought to be subjected to it, because the trustees are not employees.

Our first intention was to bring a test case on the subject, but the amount of the tax involved for any one trustee was rather small, and also the question of the Social Security Act at the time of this final ruling of the Commissioner in April was then before the Ways and Means Committee of the House, and we felt that possibly the best thing to do was to immediately ask for clarifying legislation to make it clear that these trustees were not employees within the meaning of the act.

The CHAIRMAN. Was this matter presented to the Ways and Means Committee?

Mr. HIGGINS. We submitted this proposed draft to the Social Security Board and to the Commissioner of Internal Revenue, and tried to present it to the Ways and Means Committee, but at that time they had terminated their public hearings. You see, this ruling did not come out until the 4th of April, and by the time we had consolidated our forces, it was pretty close to the 1st of May, and the House committee felt that the Social Security Board and the Commissioner's office had not had enough opportunity to study this amendment nor had they time for further hearings. The Ways and Means Committee suggested that we submit it to the Senate Finance Committee, as they were going to send their proposed bill to the printer within a few days after we first raised the question. That is the reason that it is being brought up before you gentlemen in the first instance.

I think it is important in connection with this to establish some of the differences between these trustees and the officers of a corporation. The Commissioner in his ruling, first says that these trusts are taxed under the income-tax law as corporations, then goes on from there and says, that these trustees perform substantially the same duties as officers and directors of a corporation. We maintain that their situation is very different. To begin with, in the Massachusetts trusts, the trustees are usually self-perpetuating, that is, they are

not elected or appointed by the shareholders as are directors. There is usually a provision in the event of the decease or death of one trustee that the two or three remaining trustees will nominate a succeeding trustee, so that there is no control of the trustees by the beneficiaries, as there is control of officers or directors of a corporation by the shareholders of a corporation.

Secondly, these trustees who are holding legal title to the real estate—the title is held in their own names as trustees; it is not held in the name of an entity. That thereby makes them personally liable for taxes and other things, and under Massachusetts law unless they specifically contract with everybody, including a man who may fix a window, that they shall not be personally liable and he will look only at the assets of the trust, they are personally liable for any debts which they contract.

Senator BROWN. As a matter of fact, the trust pays those debts, does it not?

Mr. HIGGINS. Yes; the trust pays those debts.

Senator BROWN. They may be liable personally, but the trustees pay it out of the trust fund?

Mr. HIGGINS. That is right; they may reimburse themselves. Furthermore, in connection with liability for malfeasance, they are liable as fiduciaries for breach of trust, and their liabilities are very much greater than the liability of a director or the officer of a corporation, and in situations where they have not specifically contracted themselves out of liability and there was not any particular authorization for them in the trust instrument, they have not been able to reimburse themselves from trust assets.

The CHAIRMAN. Is there anything further?

Mr. HIGGINS. There are one or two other points that I would like to bring out with reference to the difference between the partnership end of it and the trust. A partner withdraws money from the partnership, and part of what he withdraws is for services, part of what he withdraws, we will say, is a return on his capital, and he draws it out as one fund. That part which he withdraws for services is not subjected to the social security tax, and the reason they give for that is that he is not an employee and he cannot be both an employer and an employee.

The very same reasoning should apply to these trustees. When they withdrew their trustees' fees, there is no reason why this compensation should be taxed on the ground that the trustees are employees, because they are also the employers. The only reason that the Commissioner's office has taken this position is because of the income-tax law, and the fact that that income is taxed at the corporate rate under the income-tax law.

The second point which I wish to make is that if this amendment with reference to defining employees should not pass and the trustees are forced to litigate the matter, we feel that Congress should make some provision for their obtaining the credit for payment to the State, because Massachusetts has not claimed any tax on this compensation for these trustees. If we should now be held liable and the Commissioner has now issued a ruling saying that these trusts are liable, we would be forced to pay taxes for the past 3 years to the Federal Government, and once we have paid them to the Federal Government, there is a very good chance that that having occurred,

the State Government will then say that since the Federal Government is collecting this tax, "We are going to tax the compensation of trustees, and you will have to pay twice as far as the 90 percent is concerned."

I think if the committee would read the series of rulings that the Commissioner of Internal Revenue issued on this for the past 3 years, they would see that we were not put on notice in the first instance that the compensation of these trustees was subject to the tax, and not having been put on notice, we naturally filed no returns. Even this spring we asked the Commissioner's office to hasten a ruling on it so that we could perhaps pay the tax within the 60-day extension period which terminated on March 31, and instead of issuing a ruling in March so that we would know where we stood, the ruling was issued on the 4th of April, so that we have not paid any tax to the State government. Under the act as amended by the House, we would now be able to get our 90-percent credit if we should now pay the States.

The amendment to the 90-percent-credit provision in the bill as passed in the House provides that you can get the 90 percent credit if in fact instead of paying by January 31 you paid before July 1 of the year in which the tax was due or if you pay within 60 days from the passage of the act. The so-called liberalizing amendment with reference to the 90-percent credit as it has been passed in the House should be retained by the Senate. If we are not to be granted the relief on the definition of "employee," we request the committee to uphold the liberalizing of the 90-percent-credit provision. We think it should be generally liberalized, but certainly it should be liberalized in the case of these trustees in view of the fact that they were not put on notice in the early years, that they might be subjected to this tax, and by failure to be put on notice they might be deprived of this 90-percent credit.

We have submitted a brief which I think the members of the committee have, under the title of "Memorandum submitted in behalf of the Boston Real Estate Exchange in support of certain amendments of the Social Security Act," and I have additional copies to give to the members of the committee if they should wish it.

The CHAIRMAN. It will be inserted in the record, and the committee requests Chairman Altmeyer and the other members of the staff here to consider this proposition. We want to get their views and reactions to it.

(The brief is as follows:)

MEMORANDUM SUBMITTED IN BEHALF OF THE BOSTON REAL ESTATE EXCHANGE IN SUPPORT OF CERTAIN AMENDMENTS OF THE SOCIAL SECURITY ACT

The present statutes and regulations: The social-security tax is an excise exacted with respect to employment. Title VIII of the original act (secs. 801 and 804) imposes a tax on employees and employers with respect to employment (for purposes of the so-called old-age benefits). Title IX of the original act (sec. 901) imposes a tax upon each employer with respect to having individuals in his employ (for purposes of the so-called unemployment benefits). The pertinent sections of the original act and regulations and of the act as embodied in the Internal Revenue Code (Public, No. 1, 76th Cong., 1st sess., ch. 2, H. R. 2762, approved Feb. 10, 1939 [1]) are set out in appendix A to this memorandum.

[1] The Internal Revenue Code is referred to as I. R. C.

Construction by the Commissioner: The Commissioner has construed title IX as purporting to tax trustees of a Massachusetts trust with respect to the compensation or commissions paid to them as fiduciaries under certain circumstances apparently on the ground that they are "employees" analogous to officers of a corporation. (See S. S. T. 136; C. B.—1937—1, p. 377; see in general to same effect, S. S. T. 284; C. B.–1938–1, 474.)

Argument against the Commissioner's construction: Trustees of such trusts almost invariably hold legal title to the trust property and are subject to numerous fiduciary obligations, for the assumption of the risks for which they receive compensation or commissions. They do not in any real sense "employ" themselves. Many such trustees, therefore, have objected vigorously to the Commissioner's construction in S. S. T. 136 and similar rulings on the ground that, since no employer-employee relationship exists between the trustees and themselves, they are not within the terms of the taxing statute, which imposes taxes with respect to *employment*. Equally plainly there is no employer-employee relationship between the beneficiaries of the trust and the trustees. It is submitted also that the trust cannot properly be viewed as an entity separate from the trustees in such a way as to make it the "employer" of the trustees.

The duties of such trustees are not different in character, either in legal theory or in fact, from those of an ordinary testamentary trustee, who is obviously not "employed" by himself. As tax statutes are to be construed strictly, it is submitted that, without more specific language than is found in the Social Security Act, it should be held that Congress did not intend to tax trustees' compensation which would not normally be regarded as being paid with respect to any employer-employee relationship.

It is submitted also that the trustees of a "Massachusetts trust" occupy a wholly different legal position from that of officers of a corporation, and are not employees in any sense. Trustees are owners of property administering it themselves under a fiduciary duty. (Their position is not unlike that of *partners* in a partnership, who are not treated as "employees" for social-security tax purposes. See S. S. T. 23, C. B. XV–2, 405 (1936).) Officers of a corporation are clearly employees of the corporation. The many distinctions between such trustees and corporate officers may be summarized:

TRUSTEE	OFFICER OF A CORPORATION
1. Subject to no control by the beneficiaries.	1. Subject to control by stockholders and directors.
2. The legal owner of the trust property.	2. In no sense an owner of the corporate property.
3. As owner subject to the duties and responsibilities of an owner not only in framing policy but in protecting and dealing with the trust property, subject to an obligation to account.	3. As an officer merely executes policy determined by directors.
4. Himself by contract a fiduciary subject to liabilities of a fiduciary nature by reason of his trust position and not as the consequence of any "employment."	4. An employee of a legal entity created by statute.
5. Personally liable upon the contracts made in behalf of the trust estate, unless he exempts himself from liability by contract with persons with whom he deals.	5. Not liable for the contracts of the corporation, except in those cases where he himself acts illegally or in excess of his authority.
6. Personally liable for his own torts and for those of his agents.	6. Liable only for his individual acts constituting torts. In general not liable for those of other corporate agents unless he has participated actively in them or caused them.
7. Liable for taxes upon the trust property.	7. Not so liable.

The apparent rulings in S. S. T. 136 and S. S. T. 284 that a trustee of a Massachusetts trust is to be treated as analogous to a corporate officer disregards these important distinctions. Trustees holding legal title to trust property, in the management of which they are subject to fiduciary obligations and personal liabilities, should not be held to be employees of the trust.

Administrative problem: The Commissioner has ruled that the trustees fees must be allocated between those services performed like those of an officer of a corporation and those services like those of a director of a corporation. Officers' salaries are subject to the tax. Director's fees are not. This ruling involves a controversy in every case, putting both the trustees and the Government officials to great trouble and expense to allocate the gross fees paid between these two types of services.

The new $3,000 limitation does not give relief. The House bill now limits the tax to the first $3,000 paid by any one employer to an employee. We contend no trustees' fee should be taxed because no employer-employee relationship exists. The $3,000 limitation is not helpful because the trustees are frequently trustees of several trusts, and rarely get more than $3,000 from any one trust. Corporate officers on the other hand are almost never officers of more than two or three corporations and therefore get the greatest benefit.

Necessity of legislation: Because of the Commissioner's rulings in S. S. T. 136 and S. S. T. 284, referred to above, many trustees are forced to make contest of assessments of social-security taxes on the trust and on themselves with respect to their fiduciary commissions. The amounts involved in each of these numerous cases are small and the expense involved in a multiplicity of protests, claims for refund, actions at law, etc., is disproportionate. It is an appropriate case for a congressional amendment making it plain that the Commissioner in S. S. T. 136 and S. S. T. 284 misconstrued the original congressional intent and has acted erroneously. A draft of suitable amendments is annexed as appendix B. The amendments relate not only to titles VIII, IX, and XI of the original Social Security Act, but also to those titles as incorporated without substantial changes in the recently enacted Internal Revenue Code.

POSSIBLE AMENDMENT TO AVOID FORFEITURE IN EVENT AMENDMENTS PROPOSED IN APPENDIX B ARE NOT APPROVED

If the Commissioner's rulings in S. S. T. 136 and S. S. T. 284 are not either reversed by the courts or by departmental ruling or abolished by the amendments proposed in appendix B, trustees who have not paid State contributions on their trustees' commissions prior to the date of filing their Federal return under title IX for 1936, 1937, and 1938 will lose the 90 percent credit against the Federal tax on employers under title IX, because that 90 percent credit is given by title IX, section 902, only with respect to State contributions paid by an employer "*before* the date of filing his return for the taxable year." (Italics supplied. The word "return" refers to the employer's Federal return with the filing of which the tax must be paid, and "date of filing his return" is interpreted to mean the date the return was due.)

The social-security taxes are novel and fraught with various problems of construction. If the forced construction of the act made by the Commissioner is upheld, trustees should not be required to forfeit their 90-percent credit against the tax on their trustees' commissions merely because they could not anticipate what the construction of the act would turn out to be. If the amendments suggested in appendix B are not adopted, in all fairness, at least, the following amendment should be:

That section 902 of title IX of the Social Security Act be amended by adding at the end thereof the following:

"In addition to the credits provided elsewhere in this section, a trust may credit against the tax imposed with respect to employment during 1936, 1937, and 1938 by section 901 the amount of contributions with respect to employment of trustees during 1936, 1937, and 1938 paid by the trust within 60 days after the enactment of this amendment into an unemployment fund under a State law approved by the Social Security Board, as provided in section 903."

The House bill incorporated substantially such amendment and extends the liberalizing provision to all taxpayers. This should be upheld by the Senate.

APPENDIX A.—I. PERTINENT PORTIONS OF ORIGINAL SOCIAL SECURITY ACT

The pertinent provisions of title VIII are:

"SEC. 801.—In addition to other taxes, there shall be levied, collected, and paid upon the income of every individual a tax equal to the following percentages

of the wages (as defined in sec. 811) received by him after December 31, 1936, with respect to employment (as defined in sec. 811) after such date:

"1. With respect to employment during the calendar years 1937, 1938, and 1939, the rate shall be 1 percent."

* * * * * * *

[NOTE.—Codified in substantially the same form in Internal Revenue Code, (I. R. C.) sec. 1400.]

"SEC. 804.—In addition to other taxes, every employer shall pay an excise tax, with rexpect to having individuals in his employ, equal to the following percentages of the wages (as defined in sec. 811) paid by him after December 31, 1936, with respect to employment (as defined in sec. 811) after such date:

"1. With respect to employment during the calendar years 1937, 1938, and 1939, the rate shall be 1 percent."

* * * * * * *

[NOTE.—Codified in substantially the same form in Internal Revenue Code, sec. 1410.]

Internal Revenue Code, section 1426 (a) and (b) (relating to former title VIII taxes) reads in part as follows:

SEC. 1426. DEFINITIONS.—When used in this subchapter:

"(a) WAGES.—The term 'wages' means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include that part of the remuneration which, after remuneration equal to $3,000 has been paid to an individual by an employer with respect to employment during any calendar year, is paid to such individual by such employer with respect to employment during such calendar year.

"(b) EMPLOYMENT.—The term 'employment' means any service of whatever nature, performed within the United States by an employee for his employer, except—

* * * * * * *

(Exceptions in sec. 1426 (b) are not here pertinent.)

The pertinent provisions of title IX are as follows:

"SEC. 901.—On and after January 1, 1936, every employer (as defined in sec. 907) shall pay for each calendar year an excise tax, with respect to having individuals in his employ, equal to the following percentages of the total wages (as defined in sec. 907) payable by him (regardless of the time of payment) with respect to employment (as defined in sec. 907) during such calendar year:

1. With respect to employment during the calendar year 1936 the rate shall be 1 percent; * * *."

[Cf. I. R. C., sec. 1600, which reads:

"SEC. 1600. RATE OF TAX. "On and after January 1, 1939, every employer (as defined in sec. 1607 (a)) shall pay for each calendar year an excise tax, with respect to having individuals in his employ, equal to 3 percent of the total wages (as defined in sec. 1607 (b)) payable by him (regardless of the time of payment) with respect to employment (as defined in sec. 1607 (c)) during the calendar year 1939 and subsequent calendar years."]

"SEC. 907. When used in this title—

"(a) The term 'employer' does not include any person unless on each of some 20 days during the taxable year, each day being in a different calendar week, the total number of individuals who were in his employ for some portion of the day (whether or not at the same moment of time) was eight or more.

"(b) The term 'wages' means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash.

"(c) The term 'employment' means any service, of whatever nature, performed within the United States by an employee for his employer, except * * *."

(Exceptions in sec. 907 (c) are here immaterial.)

[Codified in substantially the same form in Internal Revenue Code, sec. 1607.]

Title XI of the Social Security Act contains the following provisions which may be relevant:

"SEC. 1101. (a) When used in this act—

* * * * * * *

"(3) The term 'person' means an individual, a trust or estate, a partnership, or a corporation.

"(4) The term 'corporation' includes associations, joint-stock companies, and insurance companies.

"(5) The term 'shareholder' includes a member in an association, joint-stock company, or insurance company.

"(6) The term 'employee' includes an officer of a corporation."

[The definitions of "employee" and "person" listed above are codified in substantially the same form in Internal Revenue Code, sec. 1426 (c) and (e), respectively, for old title VIII taxes and in Internal Revenue Code, sec. 1607 (h) and (j), for old title IX taxes.]

Regulations 91 (relating to old title VIII taxes), article 2 reads in part as follows:

"ART. 2. *Employment.*—All services performed within the United States by an employee for his employer, unless specifically excepted by section 811 (b) of the act or section 11 of the Carriers Taxing Act, constitute 'employment' within the meaning of title VIII of the act. To constitute an employment the legal relationship of employer and employee must exist between the person for whom the services are performed and the individual who performs them, and the services involved must be performed within the United States, that is, within any of the several States, the District of Columbia, or the Territory of Alaska or Hawaii. (See articles 3 and 4 as to who are employees and employers, respectively, and articles 5 to 13, inclusive, relating to excepted services.)"

* * * * * * *

Regulations 91, article 3 reads as follows:

"ART. 3. *Who are employees.*—Every individual is an employee within the meaning of title VIII of the act if he performs services in an employment as defined in section 811 (b) (see article 2).

"However, the relationship between the person for whom such services are performed and the individual who performs such services must as to those services be the legal relationship of employer and employee. Generally such relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished. That is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if he has the right to do so. The right to discharge is also an important factor indicating that the person possessing that right is an employer. Other factors characteristic of an employer, but not necessarily present in every case, are the furnishing of tools and the furnishing of a place to work, to the individual who performs the services. In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result, he is an independent contractor. An individual performing services as an independent contractor is not as to such services an employee.

"Generally, physicians, lawyers, dentists, veterinarians, contractors, subcontractors, public stenographers, auctioneers, and others who follow an independent trade, business, or profession, in which they offer their services to the public, are independent contractors and not employees.

"Whether the relationship of employer and employee exists will in doubtful cases be determined upon an examination of the particular facts of each case.

"If the relationship of employer and employee exists, the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. Thus, if such relationship exists, it is of no consequence that the employee is designated as a partner, coadventurer, agent, or independent contractor.

"The measurement, method, or designation of compensation is also immaterial, if the relationship of employer and employee in fact exists.

"Title VIII of the act makes no distinction between classes or grades of employees. Thus, superintendents, managers, and other superior employees are employees. An officer of a corporation is an employee of the corporation, but a director, as such, is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance at and participation in meetings of the board of directors."

Regulations 91, article 4, reads as follows:

"ART. 4. *Who are employers.*—Every person is an employer who employs one or more individuals in an employment, that is, for the performance within the United States of services not specifically excepted. The number of individuals employed by the employer and the period during which any such individual is so employed is immaterial. (For definition of employment see art. 2 and for excepted services see arts. 5 to 13, inclusive.)

"An employer may be an individual, a corporation, a partnership, a trust or estate, a joint-stock company, an association, or a syndicate, group, pool, joint venture, or other unincorporated organization, group, or entity. An employer may be a person acting in a fiduciary capacity or on behalf of another, such as a guardian, committee, trustee, executor or administrator, trustee in bankruptcy, receiver, assignee for the benefit of creditors, or conservator."

Regulations 90 (relating to old title IX taxes), article 205 provides in part:

"ART. 205. *Employed individuals.*—An individual is in the employ of another within the meaning of the act if he performs services in an employment as defined in section 907 (c). However, the relationship between the individual who performs such services and the person for whom such services are rendered must, as to those services, be the legal relationship of employer and employee.

* * * * * * *

"The words 'employ,' 'employer,' and 'employee,' as used in this article, are to be taken in their ordinary meaning. An employer, however, may be an individual, a corporation, a partnership, a trust or estate, a joint-stock company, an association, or a syndicate, group, pool, joint venture, or other unincorporated organization, group, or entity. An employer may be a person acting in a fiduciary capacity or on behalf of another, such as a guardian, committee, trustee, executor or administrator, trustee in bankruptcy, receiver, assignee for the benefit of creditors, or conservator.

"Whether the relationship of employer and employee exists, will in doubtful cases be determined upon an examination of the particular facts of each case.

"Generally the relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished, that is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done.

* * * * * * *

"If the relationship of employer and employee exists, the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. Thus, if two individuals in fact stand in the relation of employer and employee to each other, it is of no consequence that the employee is designated as a partner, coadventurer, agent, or independent contractor.

* * * * * * *

"An officer of a corporation is an employee of the corporation, but a director, as such, is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance and participation in meetings of the board of directors."

APPENDIX B.—PROPOSED AMENDMENTS OF SOCIAL SECURITY ACT

A BILL To provide for the clarification of certain provisions of the Social Security Act and of the Internal Revenue Code with respect to trustees of Massachusetts trusts and other fiduciaries and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1101 (a) (6) of Title XI of the Social Security Act be amended by adding after the word "corporation" the following: "but a trustee holding either alone or with others legal title to trust property for the management of which he is subject to any of the personal liabilities of a fiduciary is not an employee of the trust, whether or not the trust is an association taxable as a corporation. This amendment shall apply with respect to the years 1936, 1937, and 1938."

And also that section 1426 (c) of subchapter A and section 1607 (h) of subchapter C of chapter 9 of the Internal Revenue Code be amended by adding after the word "corporation" in each subsection the following: "but a trustee holding either alone or with others legal title to trust property, for the management of which he is subject to any of the personal liabilities of a fiduciary, is not an employee of the trust, whether or not the trust is an association taxable as a corporation. This amendment shall apply on and after January 1, 1939."

The CHAIRMAN. The next witness is Mr. C. B. Robbins, of Chicago, Ill. You represent the American Life Convention, Mr. Robbins?

Mr. ROBBINS. Yes, sir.

The CHAIRMAN. How much time do you want?

Mr. ROBBINS. I will make it just as brief as possible, Senator. It will not take over 10 or 15 minutes.

The CHAIRMAN. All right; you may proceed. Have you a brief?

Mr. ROBBINS. I have a formal brief, but I do not want to follow it exactly in the presentation.

The CHAIRMAN. Proceed in any way that you wish.

STATEMENT OF C. B. ROBBINS, CHICAGO, ILL., GENERAL COUNSEL, AMERICAN LIFE CONVENTION

Mr. ROBBINS. We are concerned with the recent amendment in the bill as it appears in the House, the amendment being to section 1426 (d) of the Internal Revenue Code. That is the section enlarging the definition of "employee" and bringing into the provisions of the act men and institutions selling various goods on a commission basis. It is the one that Senator Davis referred to this morning.

The CHAIRMAN. What page is that?

Mr. ROBBINS. That is on page 98 of the bill, and it is section 801 of the bill as introduced by Mr. Doughton. I will read it if you like:

(6) The term "employee" includes an officer of a corporation. It also includes any individual who, for remuneration (by way of commission or otherwise) under an agreement or agreements contemplating a series of similar transactions, secures applications or orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business (but who is not an employee of such person under the law of master and servant); unless (A) such services are performed as a part of such individual's business as a broker or factor and, in furtherance of such business as broker or factor, similar services are performed for other persons and one or more employees of such broker or factor perform a substantial part of such services, or (B) such services are not in the course of such individual's principal trade, business, or occupation.

That is the amendment of the bill that I am concerned with. While I spoke to the Ways and Means Committee on this matter, this amendment was not then before them, and it was after my presentation that this amendment appeared in Mr. Doughton's bill.

The American Life Convention is an association of life insurance companies. There are 150 of them domiciled in 40 different States of the Union. For the most part, they are western and southern companies and situated west of the Allegheny Mountains and south of the Mason and Dixon line. There are a great many companies in this organization—they are of medium size and smaller companies.

This matter first arose before the Bureau of Internal Revenue some 2 years ago under the original act. The opinion of the Bureau first was that life-insurance agents selling life insurance on commission were employees within the meaning of the act. Presentation of the contracts of life insurance companies was made with the Bureau during practically all of the year 1937, and after consideration of some of the contracts of some 50 or 75 companies in which separate hearings were held, the Bureau of Internal Revenue ruled that the agents of life insurance companies writing business upon what is known as the ordinary plan were not employees within the meaning of the act, and therefore not subject to the provisions either of the unemployment compensation or the old age insurance.

I do not want to tire the committee with citations of authorities, because those were all made before the Bureau of Internal Revenue

and the thing was thoroughly thrashed out from the legal standpoint at that time, and in consequence of those hearings, the following decision was made by the Bureau:

> Individuals performing services as independent contractors are not employees. Generally, physicians, lawyers, dentists, veterinarians, contractors, subcontractors, public stenographers, auctioneers, and others who follow an independent trade, business, or profession, in which they offer their services to the public, are independent contractors and not employees--

within the meaning of titles VIII and IX of the Social Security Act.

Since the ruling of the Treasury Department, 40 States have followed that ruling, and at the present time in the 40 States it has been held that life-insurance agents writing ordinary business are not employees under various unemployment compensation laws of the States. There is only one State at the present time in which there is an adverse decision, that of North Carolina; the other States that have ruled on the matter have ruled favorably.

Our contention is that the relation of employer and employee does not exist between the life-insurance company and the agent. The business of the life-insurance company agent is his own independent established business resulting wholly from his own independent activity and effort. Life insurance is a profession in its nature and the life-insurance agent must build up his own clientele. This clientele usually remains with him even though the agent may sever the relationship with one insurance company and enter into a contract with another.

The business of soliciting insurance is recognized in the States as an independent business. In all States, life insurance agents are placed under the control of the insurance department and can be licensed by the department only after the insurance commission has found them to be qualified and fit persons to deal with the public in respect to life insurance. No life insurance company nor any of its agents may contract with an agent until he has first been approved and licensed by the State insurance department. Likewise, the insurance commissioner may revoke the license of an agent on grounds specified in the law without the consent and against the protest of the company. The agent's activity is an independently regulated occupation.

There is one thing that is particularly bad for the life insurance companies in this, and that is the almost absolute impossibility of administration in the payment of the tax. A life insurance agent, at least in our western and southern companies, writes an application for life insurance, and the first year's premium is payable to him and not to the company. He may take a note for that premium, he may or he may not be able to collect the note and may lose the entire premium, but the premium less his commission is charged to him by the company, and he must settle with the company whether he collects the amount from the man who applies for the insurance or not; in other words, it is a relation of debtor and creditor between the agent and the company on the collection of the first year's premium or so much thereof as he remits to the company after deducting his commission. The company has no means of knowing what his net income is out of that. He has an office which he pays for himself, he has clerk hire and stenographer fees, and he has an automobile in which he pursues his business, and all of those are expenses of his business which the company has no means of determining, and the company would not be

able to determine what they could pay him in the way of a 1 percent or 2 percent or whatever it was of his old-age pension.

A great many of these men engage in other lines of activities as well as life insurance, and there are a great many men in the life-insurance business who spend only a small part of their time of the year in writing life-insurance, and the company does not care how much time they spend or do not spend in soliciting business just so that they produce the business. One man may write as much in a week as another man may write in 6 months, and it is not the time that he spends but it is the results he accomplishes that the company is interested in.

One might ask, what is the agent going to do in the event of old age? Well, under nearly all of the contracts writing ordinary life insurance, the agent has an interest in the policy which he writes over and beyond the first year's commission which he collects at the time he writes the policy. It is what is known as the renewal commissions. That is a small percentage of the premium paid by the company after the first year's business is written and after the first year's premium is paid. That frequently runs for 20 years. Take for example a 20-payment life policy for $1,000 on which the premium would be $30 a year, and there would be a total of $600 paid in. Of the first year's premium, the agent would get a substantial proportion—perhaps 50 or 60 percent. Of the succeeding premiums, he would get say 5 percent, or even 7½ percent in some companies—it varies. That is his protection in old age against unemployment or anything of that sort. Those run regardless of whether he stays with the company or not.

These commissions have been considered a chose in action that the courts have recognized and are assignable and transferrable and salable the same as any other chose in action, and in that way of course differ from wages to be earned in the future.

The entire history of the Social Security Act from the President's message recommending the legislation down to the present time, indicates that the act was intended solely to apply to the relationship of employer-employee and it was sustained by the Supreme Court as an excise tax on the privilege of employment. The tax upon commissions paid to an insurance agent who is not an employee would not be a tax on the privilege of employment, but a naked tax on the right to contract with the insurance agent. Should the amendment stand in its present language we would find that it applied to implement dealers in towns handling farm implements, representatives of automobile manufacturers who sell automobiles upon a commission basis, or anyone else whose profits from a business depend upon commissions he earns upon the sale of any article which he may handle.

8. The Social Security Board in its report to the President of the United States, forwarded to the Congress through the President's message, dated December 30, 1938, said:

Self employment.—The Board has given considerable study to the possibility of including self-employed persons under the old age insurance system. However, the Board is not prepared at this time to recommend what it considers a practicable method for extending coverage to such persons.

We believe that the present proposed amendment to the act should be so revised that it will not include within its definition of employee

one who is not an employee, and we particularly request that insurance agents be excluded from the classes covered by the definition.

We want to be understood so far as the life insurance companies are concerned that we are not in any way opposed to the Social Security Act. The whole business of life insurance is social security, and it has been for years gone by and is now the greatest social security which the Nation has. There are 64,000,000 policyholders who hold $110,000,000,000 of life insurance, and the life insurance companies themselves hold $28,000,000,000 to guarantee their contracts. The life insurance companies are perfectly willing and glad to pay upon their employees and they are doing so, but they feel that the men with whom they enter into business relations through the agency of contracts should not be brought in and called employees of the company when they are in fact self-employed or independent contractors, whichever use of the name you might make.

I noticed in the debate in the House on this bill that Mr. McCormack who was in charge said that the present definition was defective in answer to a question from Mr. Carlson of Kansas. Mr. Carlson spoke about the section dealing with outside independent salesmen and said that they are paid solely on a commission basis and not furnished with an expense or drawing account. "It is my contention that this section if adopted will throw thousands of people out of work," he said. Then he cites a manufacturer who had outside salesmen and thought that the market was so low that on the basis of paying the additional tax it would throw a lot of people out of work. And Mr. McCormack said:

> I agree with the gentleman that there is a question where there are some who should be included and some who should not be, but it is difficult to define it. As my friend from Kansas stated, we hope it will be taken care of in the interim between the time the bill passes the House and the time the conference report is agreed to, and the amendment that I have offered is an amendment along the line we all want.

That is to further clarify the sweeping amendment which I read you in the first place which would undoubtedly bring in practically everyone in the United States selling goods on a commission as well as insurance agents. Fire and casualty agents operate on practically the same basis as the life insurance agents do.

What we would like to do is have a specific amendment to the act which would bring within its exemption men who are selling life insurance on commission.

Now I will be very glad to answer any questions.

Senator BROWN. Do you represent the views of the agents or of the companies?

Mr. ROBBINS. This is a company organization, Senator. I think that some of the agents have some representatives coming on this matter, but my organization is an organization of the companies themselves.

Senator BROWN. What is the attitude of these men?

Mr. ROBBINS. Of the agents?

Senator BROWN. Yes; do you know what it is?

Mr. ROBBINS. The attitude of the agents is somewhat divided. I think the great majority of them favor the attitude of the companies, and I think that there will be someone here perhaps to speak on that subject.

Senator HERRING. I have several petitions from agents organizations opposing it and taking your position.

The CHAIRMAN. They take the same position as the witness?

Senator HERRING. Exactly.

Senator GEORGE. Do I understand you to say that this would apply to persons selling automobiles on commission?

Mr. ROBBINS. This is a good deal the same way. An automobile dealer buys a car from a manufacturer and he is obliged to pay for the net cost of that car f. o. b. factory to the manufacturer, and then he is permitted to sell it at a certain advance figure which represents his commission on the sale.

Senator GEORGE. Then he would be under this amendment?

Mr. ROBBINS. In my opinion he would; yes.

The CHAIRMAN. Has Mr. Altmeyer anything to say in reference to this?

Mr. ALTMEYER. No; I think it is a very technical question. I think the lawyers are in a better position to advise the committee than I am.

Senator VANDENBERG. Is it your intention to cover life-insurance agents?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. That is, the law stays as written in the House bill?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. That would be true whether they were selling on commission or working for salary?

Mr. ALTMEYER. Yes, sir.

The CHAIRMAN. All right. Now, the next witness is Mr. P. M. Estes, of Nashville, Tenn., representing the Industrial Insurers Conference.

STATEMENT OF P. M. ESTES, NASHVILLE, TENN., REPRESENTING THE INDUSTRIAL INSURERS CONFERENCE

Mr. ESTES. The Industrial Insurers Conference is a group of about 45 companies engaged in writing insurance upon the industrial plan, although all of them also write ordinary life insurance, and the insurance in both cases is written through the same agents, and these agents have the same character of qualifications and they have to have the same license and have to pay the same license tax that the ordinary life agents do.

The bill as it came from the House under the old-age insurance (p. 63) includes all classes of salesmen, ordinary life, fire, industrial as well as those engaged in other vocations. When it comes to the unemployment part (p. 85) however, there was no such inclusion in the House bill, but in title VIII (p. 98), there is a definition that applies to all parts of the House bill which includes them again.

There is that ambiguity, which should be resolved. Mr. Altmeyer has stated here this morning, as I understood him, that both ordinary and all other classes of companies were covered under the old-age insurance. That is true, and I am not raising any question with regard to that inclusion. He said that the ordinary-life agents' compensation was not taxed under the unemployment-compensation part, but that it was his opinion that the industrial companies would be required to pay on their agents' compensation. I wish to discuss that feature.

There is no principle growing out of the unemployment part of the bill that could possibly differentiate industrial agents from an ordinary-life agent. They are engaged in the same character of license and business; each of them has to have the same character of license and the same character of training. The industrial business, as the committee understands is a business that is written upon the industrial class of people in which the premiums are collected weekly, and it is necessary that there should be an agent to go out every day or during every week and collect these weekly premiums, and therefore particularly with regard to an industrial agent there can be no unemployment. These collections on the part of the agents are designated as debits, and it may mean that an agent has $100 or $200 in premiums upon his book, that he must collect weekly. That must be collected as I say, every week. It is an expensive business to put on, and it would be very disastrous to the company if during any week there should be a failure upon the part of their representatives to call upon these policyholders for these collections.

If a company, for example, has a thousand of these debits, it must at all times employ a thousand agents. The business is not in anywise seasonal, and it is not subject to depression hazard. As a matter of fact, during depressions or during the portions of the year in which employment should be slack, instead of these industrial agents being laid off, they have to redouble their efforts, and the company has to redouble its efforts in order to see that none of the policyholders are allowed, through inattention or not being called upon—to lapse their policies.

These companies that I represent are nonparticipating companies; that is, they do not charge any excess premium which might serve as a cushion against which they could charge a tax or any extraordinary expense. They have a net premium, and in calculating it, there has been no inclusion of any additional tax over those that existed at the time that the policies that these companies have outstanding were written. Therefore it is impossible for this tax to be absorbed in any way by these companies that I represent. They cannot charge it against any excess premium, they cannot reduce the amount of the policy that they have to pay, they cannot increase the requirements on their policyholders.

That being true, we wish to ask that the committee should resolve the ambiguity that exists in the act by putting in an express provision excluding from the old title VIII—that is, the unemployment-compensation part of the law—insurance agents generally. If it happens that for any reason, by the interpretation of the common-law definition of "employer," "employee," or "independent contractor," that industrial agents cannot classify themselves as independent contractors, that ambiguity or that question could be settled by expressly excluding them in the law, because there is no more reason for the tax in one case than in the other.

This situation also exists: In many of the States, Michigan, Tennessee, Colorado, South Carolina, Alabama, and Louisiana, for example, there is an express exclusion of the insurance agent, all insurance agents, from the unemployment tax. In Tennessee, the companies are not required by the State law to pay upon their industrial agents.

The CHAIRMAN. That is true whether they get a fixed salary or not?

Mr. ESTES. Yes, sir; it is immaterial as to the basis of compensation. I do not think, so far as the principle of the tax is concerned, that there is any reason for a distinction between a commission basis of payment and a fixed salary, or a combination of both.

The CHAIRMAN. Do you believe that the traveling salesman on the road that gets a salary ought to be excluded from the operation of this act?

Mr. ESTES. I think so; yes sir; that is, there is no more unemployment in the one case than the other; they both are self-employed.

The CHAIRMAN. In other words, you see no difference in having an agent working for an industrial concern or these insurance companies, even if they did not work on commission and got a fixed salary, as compared to the traveling agent who might be selling groceries or something else?

Mr. ESTES. I see no distinction as to the principle, so far as this legislation is concerned. The point that we desire to make, and it pertains in both cases, it matters not what the basis of compensation is, although I will say that the compensation is generally upon a commission basis, and if the committee should happen to think that the exclusion should be confined simply to agents working on commission, I would have to accept that, and the companies could adjust themselves accordingly. After all, it is a question of whether there is any unemployment in the business—not how the agents may be paid. There is none one way more than the other.

And the further question is as to the possibility of companies protecting themselves from having their capital stock impaired, and their financial position impaired by this tax through their inability to pass it on to the customer. The committee will understand that so far as the insurance company's business is concerned, there is already on the books contracts in many cases that go back 10 or 15 or 20 or 30 years, and it is impossible for them to be varied, so that the company cannot either increase the amount of the premium or decrease the amount that they pay out under the policy, or alter any other provision of the policy.

What I started to say just now in regard to Tennessee, for example, that has excluded insurance agents, is this—that they are now required to pay under the Federal law. The money comes up here to Washington, and it cannot be returned to the State, because there is no provision for it; and those States that I have mentioned, Louisiana, South Carolina, Tennessee, and others, cannot get the benefit of the tax that is being paid by the companies, and there is an injustice with respect to those States and all others that might desire in the future to exclude insurance agents; and it could only be made to work equitably if this committee should adopt the amendment either excluding insurance agents from the unemployment operation of the tax, or exclude insurance agents in the States in which they are excluded by State law from the operation of the unemployment-compensation tax, otherwise the companies in those States will have to continue to pay the money under the Federal law, although they cannot get any benefit from it nor can the State get any benefit by reason of it being returned to those States.

We therefore ask that the act be made consistent, that discrimination not be practiced, where no reason for same exists, and to accomplish

this we urge that the bill be amended by adding as a new subsection between lines 15 and 16, on page 90, the following:

(14) Services performed as insurance agents.

This being done the bill is uniform and all companies and agents are treated alike.

Thank you very much.

The CHAIRMAN. The next witness is Mr. C. S. Craigmile, of Chicago, Ill., representing the Belden Manufacturing Co.

STATEMENT OF CHARLES S. CRAIGMILE, CHICAGO, ILL., VICE PRESIDENT, BELDEN MANUFACTURING CO.

Mr. CRAIGMILE. Mr. Chairman and gentlemen of the committee, in appearing before this committee I wish to state at the outset that I am not one of the so-called experts on the subject of social security. I am a manufacturing executive struggling to operate a business under new and complicated legislation.

Senator VANDENBERG. In other words, you are the forgotten man?

Mr. CRAIGMILE. I think so; yes.

We have heard much of "business appeasement" measures in the past several weeks. Just what is meant by this term is subject to some debate, but my interpretation is that business, and particularly employers, might reasonably have expected to receive some assurance from Congress and the administration that the status quo would be maintained, and wherever possible some relief from excessive taxation might also be expected.

Thus far the administration has not materially assisted the employer but our own representatives in Congress have taken the initiative and given to employers a measure of tax relief in the proposals contained in H. R. 6635. So far as the House has gone along this line, only commendation of the highest is in order. I refer particularly to freezing employer-employee old-age-insurance taxes. This is a measure of tax relief. I refer also to the employers' unemployment tax on the first $3,000 of compensation. This, too, helps.

But along with the good things, we, as employers, are offered, in the guise of a "business appeasement measure," a $200,000,000 bait. I refer specifically to section 1602 (a) and (b) of the House bill.

Written with extreme cleverness and great subtlety, and accepting the statements contained in the House report, it is stated the paragraphs mentioned—

may save employers between $200,000,000 and $250,000,000 during the calendar year 1940.

In truth and in fact, the bill as now written constitutes a very serious threat to all employers paying unemployment-compensation taxes. Experience ratings will of necessity be abolished and reduced contributions utterly unattainable. There are enough strings tied to these "estimated potential" savings to make a real net for sucker employers.

The data applied to Congress by the Social Security Board as to how many States have a sufficient reserve to qualify for reductions, in 1940, relates only to the first years, before the cost of the proposed "minimum" standards would be felt. What will happen after that?

In short, Congress is being asked to exchange permanent and certain savings in taxes, now permitted under most State laws, for temporary and nebulous savings.

Now I do not believe the Social Security Board is in position to make recommendations to Congress concerning "benefit standards," be they "minimum" or "maximum."

The CHAIRMAN. May I inquire there: Was that provision written at the recommendation of the Social Security Board? That is what is called the McCormack amendment, is it not?

A VOICE. Yes, sir.

In the first place, the Social Security Board is not directly in touch with the administration of unemployment compensation. The Board acts in a supervisory capacity and as a trustee of each State's administrative funds. But the State boards know their problems, and you have heard or will hear from State agents on this subject. If you are interested in benefit standards, go not to the Social Security Board for information, but examine the laws of the several States. See what they provide and be governed accordingly. But let me repeat, do not seek your advice from the Social Security Board, because they do not yet know what to recommend. Before the Byrnes committee, Chairman Altmeyer said [reading]:

> The Social Security Board considers that this period has been far too short to provide an adequate basis for determining the proper balances between contributions and benefit payments.

But on Monday, before this committee, he said:

> The Board does not wish to be understood as considering the benefit standards contained in section 610 to be adequate.

Please understand we favor unemployment benefits, but if the committee is going to consider reasonable benefit standards, look over the State laws and find what the majority of them contain on this subject. That is all I want to say on benefit standards, but if you want to produce an everlasting headache for yourselves, include in this bill provision for benefit standards. But if you would prefer not to have this subject rise like Banquo's ghost and haunt you year after year, leave it to the State legislatures to reasonably liberalize unemployment-compensation benefits in the light of local conditions.

The CHAIRMAN. As I understand, you are opposed to the so-called McCormack amendment?

MR. CRAIGMILE. I am.

Now I shall discuss another of Chairman Altmeyer's proposals. In part I agree with him 100 percent. On Monday, Dr. Altmeyer in response to a question by Senator La Follette, stated that he preferred no amendment to the unemployment-compensation law except as to require an average State-wide yield of 2.7 percent of total pay rolls. I am in complete accord with his recommendation that the Unemployment Compensation Act remain unchanged. But permit me to show how ridiculous his 2.7 percent-average provision really is.

Suppose, Senator Vandenberg, or Senator George, or any of you, that your own State offered the perfect example. Let us take Georgia. Assume that in Georgia there was no unemployment. Everyone has a job. Consequently, there are no payments made from the unemployment-compensation fund, because there is no one to whom benefits could be paid. Everyone is working. Would you recommend that the employers in Georgia be compelled to pay a tax of 2.7 percent on

their pay rolls ad infinitum, merely to create a whale of a fund and take out of circulation all that capital? Ah, no; your employers in Georgia would soon let you know that all was not peaches in that State.

But with that well-deserved reputation Georgians have for generosity and hospitality, let's assume a little further. Suppose the employers in Georgia were happy to contribute 2.7 percent of their pay rolls to this ever-increasing fund, and suppose further that in some other State or States, unemployment has been overwhelming.

Remember the administrative funds are under the control of the Social Security Board. So what would be the next step? It should be obvious. The Social Security Board will come to Congress and seek permission to throw all State unemployment-compensation funds into one jackpot. Then there will be money available for the distressed State or States, the employers of Georgia will be hailed as great benefactors, and everyone will be happy. Or the Board might not go so far as to toss all funds into a jackpot but merely seek authority to use Georgia's surplus as insurance against some other State's deficiency. Either way, the Social Security Board rules, and the States have no further authority over their funds.

But I just gave you the perfect example. Suppose Georgia employers are paying the 2.7-percent average proposed by Dr. Altmeyer and they have only a little unemployment. The fund builds up and soon the pressure groups are at work on the State legislature with an unanswerable argument for more and more benefits without regard to system or needs.

But do you know what will happen there in some instances? Instead of trying to stabilize employment and keep men at work the year around and also be compelled to pay a pay-roll tax of 2.7 percent, some employers will be busy figuring out a way to lay off employees, be relieved of the pay-roll tax with respect to those laid off, and try to get back in unemployment benefits as much of the 2.7 percent as possible. In other words, they will lay off men, let them wait 2 weeks without any income, and then use unemployment benefits as a subsidy wage.

That's pretty tough treatment, but that's what the Altmeyer proposal will bring about.

Now let us examine this unemployment-compensation law a bit further. You will recall when the social-security bill was before this committee, in order to reduce employer opposition to the measure, it was suggested that an employer "merit" rating be incorporated in the bill. This provision was adopted in the act and helped reduce employer opposition in the States when they first began considering unemployment-compensation laws. And rightfully so.

At that time the employer was justified in opposing a flat tax, just as he is now justified in opposing the Altmeyer proposal of a State-wide 2.7-percent yield. The President said the purpose of the unemployment-compensation system was to aid employment stabilization. The report of this committee on the social-security bill recognized the principle of lower contribution rates to employers that stabilized employment. And so the law as enacted recognized "merit" or experience rating, the States enacted similar provisions, and employers generally endeavored to take advantage of this feature of the act.

Please remember, gentlemen, the law is new, the States are working out their problems, and if left alone will be able to adapt unemployment compensation in a manner best suited to State and regional conditions. Keep in mind always that provisions already required by the Social Security Act exist in State laws to guard against unwarranted tax reductions and insolvency of State unemployment-compensation funds.

At first blush the Altmeyer proposal of an average 2.7-percent yield seems harmless enough. But one must beware of Greeks bearing gifts, for this proposal is deceptive and misleading.

The proposal would seem to provide for a reduction in the rate of contribution for employers, individually or collectively, which will be allowable offsets against the Federal tax.

Actually, however, the required 2.7 percent average yield effectively destroys experience rating. The 2.7 percent average is not necessary. It cannot be shown that State funds are or will be imperiled by existing experience rating provisions, unless perhaps they are still struggling to throw off the yoke of the "model bill" forced upon them by the Social Security Board. The present or existing law contains no requirement for a fixed percentage that must be raised by any State. So if, under the present law there is no requirement for a fixed percentage to be raised, and there is no danger to existing State unemployment-compensation funds, why now incorporate such a requirement unless it be to destroy experience ratings?

That experience rating will be destroyed by such a requirement as that proposed by Dr. Altmeyer follows as surely as night follows day for these reasons:

To maintain a general State average of 2.7 percent, the employer in an unstabilized industry will be required to assume the burden caused by his own labor turnover and pay a tax as much in excess of 2.7 percent as the employer in a stabilized industry, by his consistent employment of labor, will pay a tax less than 2.7 percent.

Thus tax differentials will be negligible. Interest in experience rating will disappear. With its disappearance goes the incentive of employers to stabilize employment. Then you are back to where the employer will try to get as much as he can out of the unemployment-compensation fund.

All this is just what the President recommended against 4 or 5 years ago. So did your committee at that time. Now do you want to accept Dr. Altmeyer's proposal, upset the cart before we have had an opportunity to give the law a fair trial; or as we believe, would you not prefer to abide by the decision you made only a few years ago when you said:

> The States may determine their own compensation rates, waiting periods, and maximum duration of benefits. Such latitude is very essential because the rate of unemployment varies greatly in different States, being twice as great in some States as in others.

Gentlemen, I sincerely recommend the elimination of paragraphs (a) and (b) in section 1602.

The CHAIRMAN. Thank you very much.

The next witness is Mr. John Doesburg, of Chicago, Ill., representing the Lakeside Press.

Mr. Doesburg, do you have a brief that you want to put in the record?

Mr. DOESBURG. Yes, sir; I have handed that to the clerk.

The CHAIRMAN. Just state your points to the committee and your brief will be inserted in the record.

Mr. DOESBURG. Thank you, sir.

STATEMENT OF J. H. DOESBURG, CHICAGO, ILL.

Mr. DOESBURG. In speaking of House bill 6635, I wish to say that the authors are to be congratulated on the work which they have done on technical subject matter in a field so new that there must be very little source material on which to form a base for the legislation. I wish to say at the outset that we believe the bill represents constructive thought on this subject. Our remarks are directed to only one section of this bill, namely, the unemployment-compensation amendments embodied in section 1602. We hope to make constructive suggestions to this committee that will aid in providing a law acceptable to all parties affected.

In the report of the Ways and Means Committee, page 115, it is stated that—

> Due to the fact that the proposal was not discussed during the public hearing and that the specific language of the plan has only been available for examination by State authorities since May 24, it is possible that some adjustment will have to be made. * * *

As a consequence, this is the only opportunity we have to express our views in connection with this bill. Section 1602, on which we will center our attention, has to do with the conditions for additional credit allowances, whereby a taxpayer is allowed full credit against the Federal tax, despite reduction in his contribution payments under a State law pursuant to provisions in the State law allowing reduced rates to stable employers.

This principle has been called "merit" rating or "experience" rating in most State statutes.

President Roosevelt, in his message to the Seventy-Fourth Congress, stating the objective of the law, said:

> An unemployment-compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization. Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment.

This was further recognized by the Senate Finance Committee in their report No. 628 where they said:

> To effectively carry out this purpose, we propose, as a further amendment, a provision that the Federal Government shall recognize credits in the form of lower contribution rates which may be granted by the States to employers who have stabilized their employment. Provisions for such credits are included in the New Hampshire, Utah, and Wisconsin laws. In his message dealing with the subject of social security, the President urged that unemployment compensation should be set up under conditions which will tend toward the regularization of employment. All unemployment cannot be prevented by any employers, but many employers can do much more than they have done in the past to regularize employment. Everyone will agree that it is better to prevent unemployment than to compensate it.

This is the principle of experience rating.

Employers can contribute largely to employment stability by planning their production; advertising; diversifying their products; providing a no-work budget; and other types of stability plans.

The effort to stabilize costs money, and employers and the States should be encouraged to make these expenditures to stabilize employment. If, however, it is necessary to pay the maximum tax, then there is no incentive to cooperate on the program of stabilization.

It is therefore particularly important that employers should be permitted to have some long-time expectation of consistency and uniformity in the provisions under which they are to be encouraged to make substantial adjustments or commitments for stabilized employment.

For this reason is is proper to say that there is a burden of proof against any change in the additional credit provisions of the Social Security Act, because the confusion and uncertainty resulting from a policy of frequent or continuous change will reduce any willingness to make changes or expenditures for the sake of stabilized employment.

We feel there is scant justification at the present time for making any change in the additional credit provision of the Social Security Act which would require any change in the experience rating structure of the State unemployment compensation laws. Experience rating has not become generally operative as yet, and it is far too early even for the States themselves, the operating units, to attempt to revamp the entire experience rating structure on any basis of practical experience. The Social Security Act was by necessity formulated entirely on theoretical considerations, applying the best actuarial data available, but this does not justify the continued amendment of the law on the same theoretical basis.

The State laws are now in operation and sufficient data will soon be available on the basis of which sound practical consideration may come to the fore, upon which the States may work out provisions applicable to their requirements while in no way deliberalizing or negating the purposes of this legislation.

Only in this way can we have immediate constructive progress in social legislation.

Mr. Altmeyer has said, and the House report contains a statement that the States would not have to alter their present laws nor abolish experience rating provisions in order to comply with the requirements of section 1602 of this bill. It was said that States which did not meet the minimum benefit standards or whose reserve was inadequate, could continue under the present laws, provided they maintained the contribution rates producing a total amount equal to 2.7 percent of the taxable pay rolls of the State. In this connection, let us briefly state our position.

Any provision which will require an average yield of 2.7 percent on State pay rolls would, as a practical matter, require the abandonment of any system of individual employer experience rating.

This would be so, because, in order to produce an average yield of 2.7 percent, at least 50 percent of the pay rolls would have to be assessed at a rate more than 2.7 percent, in order to grant any reductions to the other 50 percent without regard to the stability of employment or the size of the reserves accumulated.

As a result of this arbitrary discrimination between the parties concerned, no such provision could long withstand attack in any State legislature.

Neither is such a requirement warranted. Let us assume an ideal State in which there was perfectly regular employment, as the pre-

ceding speaker has called to your attention; and no benefits were paid from the State fund. In spite of the absolutely stable condition of employment, this provision would require that each year every employer would pay a contribution of 2.7 percent of his pay roll into the State fund. So you can see that there is no correlation between this requirement and the funds needed to meet the benefits paid.

What, then, is the alternative which has been offered in the bill to this provision? Section 1602 (b) provides that, in order to have a yield other than 2.7 percent of the total pay rolls of the State, certain standards must be met, that is:

The State fund must equal at least 1½ times the greatest amount of contributions or benefits paid in the highest of the last 10 years; and the State law must incorporate benefit standards not less favorable than the 2-week waiting period, $5 minimum benefit, $15 maximum benefit, 16-week duration, or one-third of the wages paid in the base period, and so forth.

This we feel represents a Hobson's choice, because one (the 2.7-percent provision mentioned above) will effectively prevent the successful operation of the experience-rating provision, and the other for the following reasons:

First, because the incorporation of State benefit standards would effectively kill progress of experimentation by the States themselves to meet their particular needs and we would lose the benefit of new ideas and tried experience in this legislation.

Second, we are opposed to State benefit standards because they ignore State differences and economic needs. For example, while a $5 benefit rate as a minimum might be desirable and practical and sufficient in many industrial States, it might impose an unnecessary hardship and unwarranted burden in certain other States. This is recognized by the Senate Finance Committee in their report No. 628, where it is stated at page 13:

> Except for a few standards which are necessary to render certain that the State unemployment-compensation laws are genuine unemployment-compensation acts and not merely relief measures, the States are left free to set up any unemployment-compensation system they wish without dictation from Washington. Likewise, the States may determine their own compensation rates, waiting periods, and maximum duration of benefits. Such latitude is very essential because the rate of unemployment varies greatly in different States, being twice as great in some States as in others.

This, gentlemen, was the last expression of opinion of this committee on this subject.

Third, we are opposed to State benefit standards because we feel that the incorporation of such standards in a Federal act at this time would be premature, as Mr. Altmeyer agreed Monday. As you will remember, he said we do not have sufficient data or knowledge of the practical operation of unemployment compensation to set fair, just, and equitable standards.

Within the next few years there will be considerable data available in most States which may entirely change our concept as to what such standards should be.

Fourth, we are opposed to the incorporation of State benefit standards because it would place the power for the determination of compliance and definition of such standards in the hands of a nonoperating agency, which does not have direct contact experience to form a basis for such judgments. We feel at this time the State boards themselves

are better able to meet the problems which arise because they are facing the problems directly in the field and have an opportunity for rendering their decisions in the light of local conditions.

Fifth, we are opposed to the incorporation of State standards because the compliance would result in freezing unnecessarily large reserves in some States while at the same time these benefit standards might bankrupt the funds in other States, the inevitable result of which would be a reinsurance program between the States. For example, the State of Massachusetts might maintain the benefit standards and accumulate large reserves. Michigan, in attempting to comply with the same standards, might exhaust their fund and be unable to continue payment of benefits. Immediate pressure would undoubtedly then be brought to bear to transfer surplus funds from Massachusetts to pay benefits in Michigan through some Federal reinsuring agency.

For all of these reasons, we agree with the preceding speakers that the incorporation of State benefit standards with which the States must comply in order to avoid a flat 2.7 percent contribution rate is undesirable, and the 2.7 percent average yield is undesirable, and neither should be included in this bill at this time.

However, in the consideration of this subject of such vital importance to employers and employees alike, if in spite of the objections I have stated the Congress still believes it desirable that some standards must be incorporated in the Federal act, such standards should be reasonable, practical and equitable. On this basis we submit to you a redraft of section 1602 which we feel meets some of the objections and clarifies the intention expressed in the draft of the bill presently before you.

The CHAIRMAN. That will be inserted in the record.

(The proposed amendment will be found at the conclusion of Mr. Doesburg's testimony.)

Mr. DOESBURG. As we have said, section 1602 of the bill contains the alternative under which the States may adjust contribution rates without regard to average yield. The major conditions imposed are an amount in the State fund as of the calculation date equal to at least one and one-half times the largest contributions collected or the largest amount of benefits paid out from the State fund, whichever is the greater, within any one of the preceding 10 years. This restriction is objectionable per se because it also would discourage employers from making adjustments or commitments necessary to stabilize employment. The uncertainty involved in the status in the general fund would give rise to fear that any money laid out for the purpose of stabilizing employment would be wasted. As little variation as $1 might completely destroy any advantage employers had anticipated on the basis of their individual record for stable employment. That is, the State might have operated on an individual experience rating basis with the one and one-half times requirement met for several years. Employers have made adjustments and expenditures to keep their employees regularly on the job. Business conditions change and benefit drains on the fund increase to the point where, at the end of the year, the fund is slightly less than the one and one-half times requirement. Immediately the State must require all employers to pay the standard rate of 2.7 percent or it must amend its law to conform to the provisions of section 1602 (a) (1) to yield an

average of 2.7 percent. In either case, it is clear that the employers' anticipated advantages are lost and likewise their investment in stabilized employment.

That refers particularly to the no-work budgets which many of your manufacturers have inaugurated as a good personnel policy.

Provision should therefore be made which will permit States to replenish their funds by additional contributions within a reasonable time in case they fall below the one and one-half times requirement. This is provided for in our suggested amendment to the House bill, as a new section 1602 (b). This, briefly, is a funding provision so that if there is an excessive drain on the fund in any one year, as the funds would go up, obviously the balance coming down, you would have an increase in the measure which is going to calculate whether or not you have the one and one-half times and a decrease in the amount of money that you have to equal it, and as a result, we believe that if that should happen in any one year, a State should be allowed to assess 0.5 percent or 1 percent, or whatever may be necessary in order to bring that fund up to the one and one-half times requirement without requiring all of the employers to pay 2.7 percent. As an example, suppose that the average yield in a particular State was 2 percent, and that it fell below the one and one-half times requirement, an assessment of 0.5 percent would cover all of the deficiency, and the State law could continue to operate on the individual employer experience differentials, but under this provision you would require immediately that the higher employers, regardless of their individual differences, must pay an average yield of 2.7 percent, and regardless of the amount necessary in order to build that fund up to the measure which you have set at the one and one-half times level.

The special conditions governing reductions in contribution rates on the basis of individual experience should be retained as they appear in the House bill, section 1602 (a) (2), (3), (4), and (5). The rearrangement which we suggest as dealing with these sections merely clarifies the evident intention of the House committee.

As for the benefit standards as set up in the House bill we feel that they constitute a contradiction in terms, for so-called minimum benefit standards to be such standards as few States have ever had the temerity to adopt. No State has had any experience upon which to determine the effect on its funds of such a formula. A minimum standard should be, at the highest, a standard which could be adopted and conformed to by a substantial proportion of the State unemployment compensation laws. A practical approach to the problem demands that amendments requiring State action should be such amendments as can be evaluated on the basis of practical experience.

In connection with the requirement for the benefit duration of 16 weeks or benefits equal to one-third of the wages in a base year, we find that many State unemployment laws now provide for a maximum period of duration of benefits of 16 or more weeks, and this bill recognizes this practice of the majority. However, there are but very few State laws which would pay benefits in a ratio equal to one-third of the employee's wages for a year, and no State has had any experience with such a provision or requirement in their law. Those States which have adopted it have adopted it so recently that they have no benefit experience of the provision.

In this regard, the proposed bill is not in line with the practice of the States, nor has such a requirement been tested in actual practice. Several States have had a ratio of one-eighth of wages. Most States have had a ratio of one-sixth of wages, and only a few which have adopted base periods of 1 year instead of 2 years have recently changed to a ratio of one-fourth or one-third of wages.

In the amendment, we suggest a duration factor of not more than one-sixth or one-fifth of wages because we feel that States should not be induced in order to save their experience rating provisions to comply with standards their fund could not support.

In considering the cost of a change in ratio of benefits to wages, it is important to look at certain practical considerations which have apparently been unavailable or have been ignored in connection with the drafting of these standards. Most of the States started paying benefits on a basis of one-sixth of the previous 2 years' earnings. This bill proposes to require benefits to be paid on a basis of one-third of 1 year's earnings. This appears to make no change in the benefit provisions. Experience shows this to be definitely untrue. It is to be remembered that this fractional figure of one-third or one-fourth or one-sixth applies only to workers whose earnings in a year are so low as to not be entitled to a full 16-week duration of benefits. Roughly, only those workers earning between $250 and $750 a year are in any way affected by this requirement. Generally these workers are the ones who are unemployed frequently enough so as to exhaust their benefit rights each year without accumulating benefit rights over a period as long as 2 years. With respect to these employees, benefits on a 1 to 6 ratio would amount to just the same on a 1-year base period as on a 2-year base period. With respect to these individuals who regularly exhaust their benefit rights, a change in ratio increases the amount of benefits in direct proportion to the extent of change of ratio.

For instance, an employee who earns $600 in each of 2 years and exhausts his benefit right in each year, will receive twice as much on a 1 to 3 ratio and a 1-year base period, as a 1 to 6 ratio and a 2-year base period. In this instance, on the 1 to 6 ratio, he would receive approximately $100 in each year as benefit, or a total of $200 for the 2 years. But on a 1 to 3 ratio, he would receive $200 per year, or a total of $400. Thus, it is evident that the length of the base period has no effect on this class of worker, but the increase in the ratio represents a 100-percent increase in the drain on the unemployment compensation fund of the State.

Statistics are available in the State from which these costs can be computed, and it would seem that States should have been asked to report on this question before standards so vitally affecting their laws are adopted. We should not rely entirely on estimates prepared by an agency only indirectly in touch with operating problems.

Let me, in conclusion, therefore, restate our position:

First, we recommend that there should not now be inserted any State benefit standards in the Federal act.

Second, that if the Congress does adopt some such provisions, they should be modified to:

(*a*) Allow States to require additional contributions over a short term, making up any deficiency in their fund so as to not eliminate desirable experience rating provisions; and

(*b*) Adopt reasonable benefit standards proved practical in operation by the States to which they are to be applied.

Third, a rearrangement of provisions for clarity and simplification.

The CHAIRMAN. Thank you very much.

Dr. Altmeyer, may I ask you a question in this connection? This section 1602, the Board did not recommend it, did they?

Mr. ALTMEYER. No, sir; we made no recommendation concerning unemployment compensation.

The CHAIRMAN. And these provisions in here with reference to setting standards for States were placed there by virtue of the fact that they were asking for a credit from these reserves which had accumulated in certain States?

Mr. ALTMEYER. Yes, sir.

Senator VANDENBERG. What is your attitude?

Mr. ALTMEYER. As I stated yesterday, we think that the benefit experience to date is insufficient to determine just what the cost of the benefits will be over a long time period. Judging from the amount of unemployment in the past for the period 1922 to 1933, inclusive, and judging from what it has cost in Great Britain, we think that adequate benefit standards cannot be maintained on less than the 2.7 percent rate, if even on that rate. We therefore recommend that if Congress is going to legislate on this matter, because of the request of some States and jurisdictions which feel that they have excess reserves, that to do so on the basis outlined in the McCormack proposal, which briefly is that the States—well, I should say that that is the lesser of the two evils. There may be other proposals alternative to the McCormack proposal, but I mean as regards the question of permitting a flat reduction in the Federal rate from 3 percent to something less, as against the McCormack proposal, we think that the McCormack proposal is less dangerous. There may be alternatives to the McCormack proposal that have not yet been considered, and as I said yesterday, the gist of the McCormack proposal is this, that a State may elect to do one of two things. If it does not believe that it can finance the minimum-benefit standards set forth, it may continue to operate as is, with a levy of 2.7-percent average rate. That average rate—that requirement of a 2.7-percent average does not go into effect until January 1, 1942, so that until that time there need be no change whatsoever in the present State laws. It may elect either to do that or if it believes it can finance those minimum-benefit standards, it may amend its law so as to permit a general State-wide reduction below the 2.7 percent.

Senator VANDENBERG. Do I understand that you would be satisfied to do nothing on this subject with the present amendment?

Mr. ALTMEYER. Yes, sir; because we do recommend—we did not have it in our original recommendations, but we think one of the strong points in this change that the Ways and Means Committee has made is the requirement of a 2.7 percent average rate until we have more benefit experience than we have now.

The CHAIRMAN. So that recommendation is based on the action of the House Ways and Means Committee in adopting the McCormack amendment?

Mr. ALTMEYER. It did not come up—it is not included in our report, but if you ask our advice now, it would be to the effect that the requirement of the average 2.7 percent is a desirable requirement.

Senator VANDENBERG. What would be your advice as to whether we should do anything at all?

Mr. ALTMEYER. Well, we recommended that you do nothing except put in that 2.7 percent requirement for the time being.

Senator VANDENBERG. Suppose we leave the subject alone entirely for the present until your experience is more comprehensive, is that satisfactory?

Mr. ALTMEYER. Well, it is not a question of our being satisfied.

Senator VANDENBERG. I am asking your point of view?

Mr. ALTMEYER. I say that we do not know enough about the benefit experience. If you want to be on the safe side, it is best to collect that 2.7 percent rate so that you do have the funds available to pay adequate benefit standards.

Senator VANDENBERG. Still I do not know what the answer is to my original question.

Mr. ALTMEYER. We recommend putting in the 2.7 percent standard.

Senator VANDENBERG. Would you be satisfied if we did not do anything?

Mr. ALTMEYER. I do not know what you mean by "satisfied." I just said that I think it would be better to put in the 2.7 percent.

The CHAIRMAN. But it does not go into effect until 1942?

Mr. ALTMEYER. Yes, sir.

Senator BYRNES. Would the effect possibly be that in order to secure a reduction of the tax or the contribution, there may be a reduction of the benefits paid?

Mr. ALTMEYER. Yes; if you did not have in these alternative provisions.

Senator BYRNES. If you did not have the minimum?

Mr. ALTMEYER. Yes, sir.

Senator BYRNES. But if a State were paying even more liberal benefits, if they had a reserve and they wanted to secure reduced taxation, might they not reduce the benefits, and when they reduce the benefits it reduces the reserve?

Mr. ALTMEYER. Yes, sir. An alternative to the McCormack proposal is to put in the required benefit standards which would be more drastic and take out your average 2.7 percent and merely require the 1½ times the contribution or benefits, whichever is higher, and the observance of these minimum benefit standards. The McCormack proposal is an option proposal.

The CHAIRMAN. All right.

(Following is the proposed amendment submitted by Mr. J. H. Doesburg:)

PROPOSED AMENDMENT

SEC. 610. (a) Section 1602 of the Internal Revenue Code is amended to read as follows:

"SEC. 1602. CONDITIONS OF ADDITIONAL CREDIT ALLOWANCE.

"(a) State standards: A taxpayer shall be allowed an additional credit under section 1601 (b) with respect to any reduced rate of contributions permitted by a State law, only if the Board finds that under such law—

"(1) The total annual contributions will yield not less than an amount substantially equivalent to 2.7 per centum of the total annual pay roll with respect to which contributions are required under such law, or

"Compensation will be paid to any otherwise eligible individual in accordance with general standards and requirements not less favorable to such individuals generally then the following or substantially equivalent standards:

"(A) The individual will be entitled to receive, within a compensation period prescribed by State law of not more than fifty-two consecutive weeks, a total

amount of compensation equal to not less than sixteen times his weekly rate of compensation for a week of total unemployment or one-fifth the individual's total earnings (with respect to which contributions were required under such State law) during a base period prescribed by State law of not less than fifty-two consecutive weeks, whichever is less,

"(B) No such individual will be required to have been totally unemployed for longer than two calendar weeks or two periods of seven consecutive days each, as a condition to receiving, during the compensation period prescribed by State law, the total amount of compensation provided in subparagraph (A) of this subsection,

"(C) The weekly rates of compensation payable for total unemployment in such State will be related to the weekly earnings (as defined and with respect to which contributions were required under such State law) of such individual during a period prescribed by State law and will not be less than (i) $5 per week if such weekly earnings were $10 or less, (ii) 50 per centum of such weekly earnings if they were more than $10 but not more than $30, and (iii) $15 per week if such weekly earnings were more than $30; and

"(D) Compensation will be paid under such State law to any such individual whose earnings in any week equal less than such individual's weekly rate of compensation for total unemployment, in an amount at least equal to the difference between such individual's actual earnings with respect to such week and his weekly rate of compensation for total unemployment; and

"(2) The amount in the unemployment fund as of the computation date equals not less than one and one-half times the highest amount paid into such fund with respect to any one of the preceding ten calendar years or one and one-half times the highest amount of compensation paid out of such fund within any one of the preceding ten calendar years, whichever is the greater (excluding contributions made by employers now subject to the provisions of the Railroad Unemployment Compensation Act): *Provided, however,* That when the balance in the Unemployment Compensation fund as of the computation date is less than one and one-half times the highest amount paid in to such fund with respect to any one of the preceding ten calendar years or less than one and one-half times the amount of compensation paid out of such fund within any one of the preceding ten calendar years, whichever is the greater, provision is made in such State law for additional contributions designed to yield such an amount as will substantially restore such a balance within the next successive twelve months from such computation date.

"(b) Other State standards: Variations in reduced rates of contributions, as between different persons having individuals in their employ are permitted under a State law only if the Board finds that—

"(1) No reduced rate of contributions to a pooled fund or to a partially pooled account, is permitted to a person (or group of persons) having individuals in his (or their) employ except on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk during not less than the three consecutive years immediately preceding the computation date; or

"(2) No reduced rate of contributions to a guaranteed employment account is permitted to a person (or a group of persons) having individuals in his (or their) employ unless (A) the guaranty of remuneration was fulfilled in the year preceding the computation date; and (B) the balance of such account amounts to not less than 2½ per centum of that part of the pay roll or pay rolls for the three years preceding the computation date by which contributions to such account were measured; and (C) such contributions were payable to such account with respect to three years preceding the computation date; or

"(3) Such lower rate, with respect to contributions to a separate reserve account, is permitted only when (A) compensation has been payable from such account throughout the preceding calendar year, and (B) such account amounts to not less than five times the largest amount of compensation paid from such account within any one of the three preceding calendar years, and (C) such account amounts to not less than 7½ per centum of the total wages payable by him (plus the total wages payable by any other employers who may be contributing to such account) with respect to employment in such State in the preceding calendar year.

"(4) Effective January 1, 1942, paragraph (3) of this subsection is amended to read as follows:

" '(3) No reduced rate of contributions to a reserve account is permitted to a person (or group of persons) having individuals in his (or their) employ unless (A) compensation has been payable from such account throughout the year preceding the computation date, and (B) the balance of such account amounts to not less than five times the largest amount of compensation paid from such ac-

count within any one of the three years preceding such date, and (C) the balance of such account amounts to not less than 2½ per centum of that part of the pay roll or pay rolls for the three years preceding such date by which contributions to such account were measured, and (D) such contributions were payable to such account with respect to the three years preceding the computation date.' "

The CHAIRMAN. The next witness is Mr. Orville S. Carpenter, Austin, Tex.

STATEMENT OF ORVILLE S. CARPENTER, AUSTIN, TEX., CHAIRMAN, TEXAS UNEMPLOYMENT COMPENSATION COMMISSION

Mr. CARPENTER. I am also concerned about these benefit standards for the reason that they do not fit the conditions in our State and do fit our present State law.

The CHAIRMAN. You mean as written in the House bill?

Mr. CARPENTER. Yes, sir; now the House bill. We have a law in Texas that provides for what is known as merit rating, that is, individual tax rates are based on individual employer experience and on State experience. It will provide for tax reductions in 1941 according to that experience; in other words, it conforms to the present Social Security Act, and we think it is a good law. The inclusion now in the Federal law of standards to which a State law must conform is most objectionable. First, the condition requiring that the contribution rate be such as will yield an average of 2.7 percent of the pay rolls is objectionable to us because we do not need that much money, yet we must either collect it or we must reduce tax rates on a flat basis without any regard for the individual employer experience. That basis completely nullifies our merit rating, and we think removes the incentive to the employer for stabilizing his employment.

The second, requiring the payment of 16 weeks of benefits, or one-third of the wages in the base period will cost us, based on our experience up to date and an actual study of our experience, about 30 percent more in benefits to be paid to about 10 percent of our actual covered workers on a basis that is not in accord with the general benefit structure of our law.

When we go into those minimum benefit standards, we leave our general relationship of benefits to wages and pay benefits greatly out of proportion to the wages earned to, as I said, about 10 percent of our covered workers.

Our objections are further based on the general proposition that the inclusion of these standards, or any other standards, in the Social Security Act simply extend the control of the Federal Government over the administration of the State law. The original idea was, and it has been expressed here today, that the States were the best judges of the details of their laws and the details of the administration. We are supposed to have a Federal-State administration; actually we have today an administrative monstrosity. The administration of our State laws is controlled almost down to the last detail by the Federal Government. The inclusion of these standards or any other standards further extends the control of the Federal Government over the details of the State law and the administration of the State law.

I think that is bad, and that is one basis for my objection to these standards or any others.

The conditions under which unemployment compensation is paid must vary from State to State, and the kind of plan that fits Texas may not fit some other State. We hope that the States will be left free very largely to determine details of their laws.

The CHAIRMAN. Has Texas accumulated a reserve now in its unemployment insurance fund?

Mr. CARPENTER. Yes, sir; our reserve at this moment would be a little over this 1½ times provision.

The CHAIRMAN. You would be able, then, to give relief to the taxpayers of Texas?

Mr. CARPENTER. Not if we must turn around and pay it over to the 10 percent of the covered workers through these other standards. Under this proposed bill, we would be able to give some relief to the taxpayers, but it would be a horizontal relief without any regard to individual employer experience, leaving out entirely the question of the ability or willingness of the individual employer to do something about stabilizing his own employment.

The CHAIRMAN. Don't you have hopes that this unemployment situation under the reorganized plan and the social security agencies being created, would harmonize some of the differences and difficulties that you have had?

Mr. CARPENTER. I am a fisherman, Senator, which is another way of saying that I am an optimist.

Senator GERRY. Would you rather be left alone to work out your own personnel rather than have regulations from Washington? Is that what I understand?

Mr. CARPENTER. Very definitely; yes, sir. Not only to work out personnel, but also all of the other details of the law and the benefit structure.

Senator GERRY. In other words, you would rather pick out your own personnel rather than have someone come down from Washington who is not too familiar with the conditions there?

Mr. CARPENTER. You did not understand me that this is being done now, did you?

Senator GERRY. Yes.

Senator BYRNES. Do you have a merit system?

Mr. CARPENTER. For the personnel?

Senator BYRNES. Yes.

Mr. CARPENTER. No, sir; we have personnel standards, but our employees are not selected on the basis of examination.

The CHAIRMAN. Do you think it would be wise to have a merit system invoked in Texas?

Mr. CARPENTER. No, sir.

The CHAIRMAN. You did not have any political consideration in your set-up?

Mr. CARPENTER. Of course there is.

The CHAIRMAN. All right, proceed.

Mr. CARPENTER. I therefore want to urge this committee to take out from this bill anything relating to benefit standards, and I hope that the committee will also consider the possibility of returning to the States the administration of their laws rather than extending the control of the Federal Government over it.

That is all I have to say.

The CHAIRMAN. Are there any questions?

(No response.)

The CHAIRMAN. Thank you very much.

The next witness is Mr. Sterry R. Waterman of Montpelier, Vt.

STATEMENT OF STERRY R. WATERMAN, MONTPELIER, VT., CHAIRMAN, VERMONT UNEMPLOYMENT COMPENSATION COMMISSION

Mr. WATERMAN. Mr. Chairman; in view of the excellent explanations of unemployment compensation and what the proposed amendments with respect to unemployment-compensation standards would do to the law, I am going to make a short talk and not make as exhaustive a statement as I had intended to make with reference to what these proposed amendments would have done.

I, too, appear in opposition to section 610 of the bill, found on pages 70 through 80, being amendments proposed to section 1602 of the Internal Revenue Code.

These, as has been explained by preceding speakers, set forth standards for additional credit allowances to employers with respect to the excise tax of 3 percent originally imposed under title IX of the Social Security Act, and section 1600 of the Code.

These amendments and their purposes are explained in the report of the Ways and Means Committee on pages 24 and 25.

The basic objection to the passage of the proposed bill with these amendments in it as expressed by individual State administrators of unemployment compensation arises from the introduction into this cooperative Federal-State program of this new set of Federal standards which must be complied with before employers contributing to State funds may obtain additional credit offsets against the payment of the Federal unemployment excise tax of 3 percent.

These standards are to be interpreted by the Federal Social Security Board under the provisions of this bill. The certificate of the Social Security Board issues to the Secretary of the Treasury with respect to whether or not a State law complies with these standards. The State, therefore, if it desires to experience-rate employers has lost its right to determine for itself the basic or minimum provisions of its own law relative to the amounts and kinds of payments of benefits it shall make to unemployed persons.

These proposed standards are not standards for the proper administration of a State law but are standards of what a State law must be in order to give an employer an experience rating within that State, and were evidently designed, or so it seems to me, to begin a compression into one common pattern of all of our respective State approaches to the theories of unemployment compensation. We do not need to tell this committee that there are many theories of unemployment compensation itself, of its effect on industry, of its effect on the relief load, of its value to society generally, and there are many more theories as to what is a proper compensation law in a State and what are the proper methods of payment, what are the proper amounts of payment, and what are the proper durations of payment of unemployment compensation in order to best promote the obviously good social objectives of the legislation.

The imposition of these new standards definitely prevents us State administrators from continuing on in the experimental field which

this legislation obviously is. It definitely compresses us to within certain minimum standards which we must comply with, and we submit that this program is altogether too young at this time to definitely pattern its objectives and the method of approach to those objectives by the setting up of these standards. In other words, we do not admit that all of the good thinking on unemployment compensation is on the Federal level.

Senator CONNALLY. Did you have a State unemployment-compensation law before the Federal law?

Mr. WATERMAN. No; we did not, Senator, and I might say that probably we would not have one were title IX repealed. I mean by that that title IX and the passage by this Congress of the Social Security Act was a definite step forward in encouraging the States to enact this desirable legislation.

Senator CONNALLY. My question was provoked at your suggestion that the Federal Government did not know any more about it than the States, and I was just wondering why the States had not adopted some of these plans before the Federal Act was enacted?

Mr. WATERMAN. I mean simply, sir, that good administration——

Senator CONNALLY (interposing). Oh, there was no offense.

Mr. WATERMAN. Thank you, sir. Specifically, I object to the following standards—the standard set-up in section 1601 (a), subsection (1), found on page 70, lines 7 through 10. This standard requires that each State receive for its unemployment fund for each year contributions equaling 2.7 percent of the covered pay roll of the State. This means that each State administration, before it may reduce the employer contribution paid by any given employer as a premium to that employer for having stabilized his employment, must levy taxes upon other less fortunate employers in excess of 2.7 percent of the pay rolls of those less fortunate employers, so that the taxable yields from these last-named employers in excess of 2.7 percent of their pay rolls, equals the amount of taxable savings given the first-named employer.

Senator CONNALLY. May I ask you a question there?

Before, you did not have a requirement of 2.7 percent and you fixed the rate yourself; if you gave the man who stabilized his employment something, you would also have to increase the rate on the others?

Mr. WATERMAN. No; Senator, if I understand your question. The 2.7 percent is basic, the basic or standard tax rate——

Senator CONNALLY (interposing). Suppose we did not put that in at all, what would you do in your State?

Mr. WATERMAN. We would merit rate when an employer had 7.5 percent of his last annual pay roll, and we would give him a reduction below 2.7 percent.

Senator CONNALLY. That is just what I am talking about. Whenever you give him a reduction, in the nature of things that has got to come out of somebody else paying a higher rate, hasn't it?

Mr. WATERMAN. No, Senator.

Senator CONNALLY. Where are you going to get the money?

Mr. WATERMAN. We submit that 2.7 percent as a standard rate is high enough to pay unemployment compensation in my State and also give premiums to some employers under 2.7 percent.

Senator CONNALLY. I was going to ignore 2.7 percent as you wanted to; and then what would you do in your State? Suppose there were no requirement in here of that kind, what would you do under the present law?

Mr. WATERMAN. Senator, I am not objecting to the 90 percent offset section of the law, section 1601.

Senator CONNALLY. You can ignore that question. All I meant was that whenever you give anybody a premium, it has got to come come out of somebody else, doesn't it?

Mr. WATERMAN. No, sir; it does not need to.

Senator CONNALLY. Then it is not a premium. If there is no discrimination, there is no premium.

Mr. WATERMAN. There would be a discrimination because those employers with unfavorable employment experience would have to continue to pay 2.7 percent.

Senator CONNALLY. Exactly; that is what I am talking about.

Mr. WATERMAN. But not more than 2.7 percent, which is Dr. Altmeyer's suggestion that he just made, that the total should be 2.7 percent.

And this provision obviously penalizes employers in the competitive market who are already penalized in the competitive market in their industrial operations by putting an added tax burden onto them, so that this new standard may be met.

At the same time you give the man with the favorable competitive position a tax relief.

Now, with reference to the McCormack provision, so-called, I object specifically to the inclusion of the McCormack provision at all, although I appreciate that there is a demand for the opportunity to reduce taxes in the larger States when they have 150 percent in. I have 150 percent of contributions in my fund, and I could take advantage of the McCormack provision. If the McCormack provision had been left alone as they were originally proposed under the so-called Massachusetts plan, it might have been dangerous to the fund, but I do think that it would have been perhaps fully as healthy an experimentation as the present proposal of permitting the McCormack p'an to go through and telling employers, as one State did, that it was a business-appeasement program, and then at the same time attach to the McCormack provision such benefit standards that it will be impossible for us State Administrators to honestly accord merit rating to employers on that State-wide horizontal scheme, because of the excessive benefit load as pointed out by Mr. Carpenter of Texas.

For instance, in my State I would have no quarrel with meeting the Federal standard or any other standard that I should have a waiting period of 2 weeks. It so happens that my law provides for 3 weeks and I would have to have my law amended to meet this standard, but I recommended 2 weeks to my legislature and it was turned down. I would have no quarrel with the partial benefit provisions found on page 74, because I already pay them, but I have prepared a slight technical amendment for the benefit of this committee if you care to use it tying in to that provision as it now appears in the law the fact that partial benefits should be paid to people who are working less than full time. That does not appear in the law, and this law could

be interpreted therefore to provide benefits for unemployment to fully employed persons. The House Ways and Means Committee report has in it the words which in my opinion should be in the law. The House Ways and Means Committee report states that it is for partial——

The CHAIRMAN (interposing). It is one thing in the report, and in the bill it is another thing?

Mr. WATERMAN. That is right, Senator. But the combination of these things is dangerous. Sixteen weeks of unemployment benefits with a 2 weeks' waiting period, with a step-up in the amount of benefits customarily paid in States as provided on the bottom of page 73, plus partials are a combination which no State at the present time has. I think a majority of the States perhaps have each of these, but no State has the combination. I would like, and I am sure that most of my brother administrators would like, to see all reference to Federal benefit standards deleted from this bill. One of the gentlemen who has preceded me made a point, however, that section 610 (a) (2), (3), (4), and (5) should remain as definitions of the types of funds, and they should remain even though the standards appearing in the same paragraphs might be deleted by the committee.

As Mr. Carpenter has stated, there is, of course, an extension of the authority of the Social Security Board in the determination of the definitions of these standards. Under title III with reference to fiscal control, there is a tightening of the power of the Board over the States. With reference to these things, I know that Congress will legislate wisely and well and according to what you think proper, but I might say that there is a growing tendency, as Mr. Carpenter has stated, for the Federal Social Security Board to control our administrations down to the very last details, which we do not think healthy, because we are the ones who have been on the front in this thing, and the ones who have been having the practical experience, and we feel that we should have some freedom in connection with our State administrations.

The CHAIRMAN. Have you the merit system in Vermont?

Mr. WATERMAN. We have no provision in our law which says that we shall appoint our employees on a nonpartisan merit basis. We do not have what is called by some people a merit system.

The CHAIRMAN. No examinations?

Mr. WATERMAN. No, sir; our employees are picked on merit, however, and, strange though it may seem, politics have extremely little to do with it, Senator.

Senator BYRNES. What provision in the standards do you object to? You do not object to the waiting period?

Mr. WATERMAN. I object to the combination of standards.

Senator BYRNES. I heard you say that, and I was just wondering if you would take them separately.

Mr. WATERMAN. I would not object to a 2 weeks' waiting period in my State. I recommended it to my legislature.

Senator BYRNES. Do you have a minimum provision at all in your State? A minimum payment of $5 a week or any other amount?

Mr. WATERMAN. Yes; $5 a week, and if less than that, three-quarters of the full time weekly wage.

Senator BYRNES. You have that?

Mr. WATERMAN. Yes.

Senator BYRNES. Therefore you do not object to that? That is, if it was not in here, you would not object to paying $5 as the minimum?

Mr. WATERMAN. Senator, I do object to it. The wording is very unfortunate here and I would correct it. Line 23 at the bottom of page 73 states "or will be determined on the basis of such fractional part of an individual's total earnings * * * as will produce a reasonable approximation of such full-time weekly earnings and will not be less than $5 per week if such full-time weekly earnings were $10 or less." In other words, under this law it will be possible for a man with a full-time weekly payment of $3 if he were otherwise eligible to receive $5, or $2 more than he would get if he were working.

Senator BYRNES. But so far as the $5 minimum is concerned, you do not think that is excessive if a minimum were provided?

Mr. WATERMAN. In the case that I just stated, I think it would be excessive.

Senator BYRNES. What would you fix?

Mr. WATERMAN. $5 a week if such full-time earnings were more than $5 and less than $10, and at the end of the section I would put "and three-quarters of such full-time weekly earnings if such earnings were $5 or less."

Senator BYRNES. What other standard to you object to?

Mr. WATERMAN. Sixteen weeks will increase my benefit load. I might state that our law was liberalized by the insertion of the 1-year provision for the base period which has been previously explained, and my statistical figures show that the State of Vermont itself liberalized its own law to the extent of 46 percent. Paying 16 weeks where I now pay 14 weeks, making an added 2 weeks, would increase the amount of benefits that I would pay over the legislative increase, 10 percent more according to the best figures I have available, and the reduction of the waiting period of 3 weeks to 2 weeks which was accurately figured would increase payments by $66,000 on $940,000 or would increase it about 4 percent.

Senator BYRNES. You have 3 weeks now and you have recommended 2 weeks yourself?

Mr. WATERMAN. Yes, sir. I think, Mr. Chairman, that that explains in some measure our feeling. That is what the State Legislature of Vermont desires; and if they desire to have 3 weeks' waiting period, certainly, while this is in the experimental stage, it would seem to me that they should be permitted to continued to have a 3 weeks' waiting period. And so far as tightening up on the payment of benefits in order to take advantage of a 150 percent horizontal reduction State-wide is concerned, as has been suggested here this afternoon, such a postulate is absolutely contrary to proven facts, because the great majority of the States have without the introduction of Federal standards for benefit payments substantially liberalized their benefits, including my own State.

The CHAIRMAN. Thank you very much. The next witness is Mr. John S. Stump, Jr., of Charleston, W. Va.

STATEMENT OF JOHN S. STUMP, JR., CHARLESTON, W. VA.; WEST VIRGINIA UNEMPLOYMENT COMPENSATION COMMISSION

Mr. STUMP. Mr. Chairman and gentlemen of the committee, I think a great deal of what I had hoped to say to this committee has already been said, and where that is true I will try to avoid any repetition of the positions taken by other State administrators. I want to say to the committee that the appearance here of a number of State administrators is not so much a question of the desire to interfere at the Federal level with legislation as a feeling on our part that we do have first-hand experience of some matters that might be helpful to Congress in dealing with this question.

As we start out to look at the unemployment compensation in this country, the original Social Security Act started out on a Federal-State program with the Federal end of the program excluding the tax and credit provisions of the law designed apparently to be supervisory in a broad sense to insure that, as one of the witnesses this afternoon has said, that the unemployment-compensation laws adopted by the States were genuine unemployment-compensation laws rather than mere colorable attempts to comply with the credit provision in the tax and credit feature of the Federal law. We think that the plan originally adopted was a wise plan; we think that the State administration of unemployment compensation is an important element in what we hope will be the eventual success in this country of unemployment compensation, and we do not think that it can safely be administered as a Federal program, because of the wide variation in industrial conditions and other conditions in the different States.

In the bill which you now have under discussion, there is a definite tendency toward federalization in the sense that the controls accorded to the Social Security Board are strengthened. I use the word "strengthened"—perhaps that is an unfortunate word—I should say that they are extended. That is true both in the addition of subsections 8 and 9 to section 303 of the act which appears at page 49—at the bottom of page 49 and the top of page 50, and it is true in the suggestion made by Mr. Altmeyer that the parenthetical language should be stricken out where it relates to selection, tenure, and compensation of personnel, and it is true in the inclusion of minimum standards.

So far as the minimum standards are concerned, I have nothing to add to what previous witnesses have said except to stress the opinion that I think is shared by the Board itself that at the time is premature to consider the adoption of Federal standards. This program has after all only had 1 year of benefit-paying experience if we exclude that State of Wisconsin, and as this committee knows there is a wide variance between the pattern of the Wisconsin law and the pattern of the laws that have been adopted following the Social Security Act, so that in effect with only 1 year upon which to base our calculations and at a time when 48 States in good faith, as we believe, are endeavoring to fit their own particular laws to the needs of their own particular State and to liberalize benefit payments as far as that can be done and to keep the fund solvent, we are now considering taking a step which makes a rigid pattern out of a whole business. I say it makes a rigid pattern out of it, because there is

always a tendency to make a minimum in effect a maximum. There is always the possibility that when a State will undertake to liberalize beyond the minimum standards that are put in the Federal law, that you add great weight to the arguments that will be advanced against it "why if we are already complying with everything that the Federal Government considers is necessary to have a satisfactory unemployment-compensation law, and we have done that, and here you would have us go beyond that and just pass out money without regard to an established Federal standard and of the proper amount of compensation."

On this minimum standard, there is not so much to quarrel with with the standards themselves. I do want to point out that the proposition of the minimum of $5 places every State administration in a rather embarrassing position. For example, the State of West Virginia just recently amended the law and adopted a $3 minimum in place of the old definition of $5 or $6 or three-quarters of the full-time weekly wage whichever of those two was applicable. We would like to have had a $5 minimum, but our investigation of our actual cases of benefit payments during the preceding years showed that there were thousands of cases of persons who would qualify for a benefit rate of between $3 and $5 but who would not qualify for a $5 rate, and our only real objection to paying them the smaller benefit rate was the administrative problem concerned. We felt that we could get over that problem and that we could therefore afford to pay those people the benefit which might be just as important to pay as the larger benefit to those who qualified for a larger amount. Of course, there is the other alternative that instead of disqualifying persons who were not eligible for a $5 benefit, that we might pay a $5 benefit to all of those who came in between the $3 and the $5 mark, but the West Virginia fund which paid out last year between three and four million dollars more than it took in—that was between 33⅓ and 40 percent net loss for the year to our fund—hardly warrants our taking on the additional financial burdens.

It seems to me that while it is certainly desirable that every State should be able to pay a minimum benefit of $5, that since a great many of the States cannot pay that benefit of $5, this minimum standard should not be here even though it is now an optional standard in the sense that no State has to take it unless they want to achieve that flat reduction.

There is one other proposition in these minimum standards which I think would meet with almost unanimous disapproval of the State administrations, and that is the provision in C of the weekly rates of compensation payable for total unemployment in such States as will be related to the full-time weekly earnings. That proposition of dealing with the full-time weekly wage has proved administratively unworkable everywhere. The employers do not themselves understand what a full-time weekly wage is, much less the employees. In most cases where a full-time weekly wage has been reported, perhaps I am wrong in saying in most cases, but in a substantial number of the cases where full-time weekly wage has been reported, it has been a mere mathematical average of the wages in a particular quarter, and in other cases, the full-time weekly wage has been a wage that has never been reached by the particular individual at any time.

By that I mean where there may have been a contract providing for a workweek of 35 hours and an hourly wage of so much, even

though the person may never have achieved the 35-hour week except in the contract, that will have been the full-time weekly wage as reported, with the result that we would be paying benefit on a theoretical wage on which we never collected contribution.

My attention has just been called to a modification of that benefit standard C which I had not seen, but even the addition of the proposition "or will be determined on the basis of such fractional part of an individual's earnings" will cause a revision of a number of State laws which have recently undertaken—at least West Virginia has—to go to the annual earning basis as the determining factor in the benefit rate.

I do want to say just a word or two about sections 8 and 9 that are added to section 303, and in offering a mild objection to those sections I would like it clearly understood that we are not objecting to proper fiscal control of our expenditures, nor are we objecting to them being exercised by the Social Security Board. As the matter now stands, each State submits a line item budget in advance of receiving a grant. Under the fiscal regulations which are extremely detailed, if a State desires to expend any part of that money for a purpose not covered and earmarked in that line item budget, it may obtain a transfer of funds. There are occasions in which an emergency has caused the regulations for transfer of funds to follow the expenditure. Not only that, but the Social Security Board now makes a post audit of expenditures. In addition to that, each State, I think without exception, is required to conform to the laws of the State itself regarding the expenditure of funds. The more particularity that you put into the control exercised by the Social Security Board, the more possibility you have of having an actual conflict between State fiscal regulations and the Social Security Board fiscal regulations.

It may be necessary or a state of facts may exist in some State without my knowledge that might warrant the inclusion of those subsections 8 and 9 at the bottom of page 49 and on the top of page 50, but so far I have heard of no showing of any facts that would indicate that, and I want to illustrate what the situation is on the basis of our last post audit in West Virginia, and if that is comparable with other States, I would submit that this is unnecessary.

We were last audited covering the period ended March 15, 1938, which included 15 months of operation of the West Virginia law. At the conclusion of that audit, the only outstanding exception taken by the Social Security Board to any expenditure made by the State of West Virginia is an item of 3.51 which is made up of sales tax, West Virginia sales tax, paid on the expense account of an employee whom we had discharged and from whom we were not able to recover the amount, and which was paid by us under an executive order of the Governor of the State requiring us to pay sales tax, and prior to a definite ruling from the Social Security Board that sales tax could not be paid and allowed as expense in the administration of unemployment compensation. Of course, we have had a period from March 1938 until the present time as to which we have not been audited. There may be, although I do not think there are, serious exceptions there, but I know of no State experience that has not been substantially comparable to ours, and it seems to many of us that it is unwise to undertake to make a grant to States in aid or for purpose of administration when that grant must necessarily be administered

in the States in accordance with State law and then to require with too much particularity that it must be supervised again to an extent that is not already being done by the Social Security Board.

There is one angle to the flat reduction proposition or the McCormack amendment which may only exist in my own mind, but it seems to me very clear that a flat reduction in taxes, no matter how desirable a reduction in taxes, is, that a flat reduction as between States opens the road to competitive bidding by States for each other's industries, and even to an unwise restriction of benefit payment by a State in order to reach the 1½ measure where they could make the flat reduction.

In West Virginia, for example, we have steel mills in our northern panhandle that are within just a very few miles, just across the river from comparable steel mills in Ohio, just a few miles from the steel mills in western Pennsylvania. West Virginia, by no stretch of the imagination, could comply with the McCormack amendment. Instead of having 1½ times, we have a good bit less than one time as much as we paid out in benefits in 1938. I don't know what the condition of Ohio-Pennsylvania funds might be, but if Ohio were able to qualify and did qualify for a flat reduction with all employers, the plants of the Weirton Steel Co., for example, in Ohio, I think might very reasonably be expected to fill the orders of the Weirton Steel Co. rather than the Weirton Steel Co. plant in West Virginia, for the simple reason that they would have to pay over there but 2 percent theoretically or whatever rate was fixed by the Ohio legislature, whereas in West Virginia they would be paying 2.7 percent.

Senator BYRNES. You could do this, could you not—you could reduce the payments made in West Virginia so as to bring yourself in to where you could get a reduction?

Mr. STUMP. Senator, we could not under the law. We might change the law.

Senator BURKE. It would be an inducement to West Virginia in order to protect its industries to change this law.

Mr. STUMP. That would certainly be an inducement. But there would be counter pressure there. I do not think in West Virginia we could do it. We really believe in unemployment compensation in West Virginia, and we really hope to and we paid out more than $12,000,000 last year, and took in less than $9,000,000.

Senator BYRNES. The employer in West Virginia would be anxious to be on the same competitive basis with the employer in Ohio and Pennsylvania?

Mr. STUMP. Granted.

Senator BYRNES. He would be seeking to have the legislature reduce the benefits to put him on the same basis with his competitors.

Mr. STUMP. That would be precisely the kind of pressure and the kind of action that we would fear if this flat reduction were there. If the reduction were on an experience rating, presumably this steel mill in Weirton, W. Va., and the steel mill across in Youngstown, Ohio, operating in precisely the same territory and under substantially the same freight rates and everything else, if one of them could qualify for the experience rate, the other could also, so there would be no particular competition as between States for each other's industries, and that point of view was very forcibly expressed by the director of the Arkansas Commission in a letter which I will send down here by

another witness tomorrow, but he brought that out to a large extent the States which would not have enacted an unemployment compensation law by themselves if that had placed them in a noncompetitive position with the industry of other States had been encouraged by the Social Security Act to enact these laws under the impression that the tax burden would be substantially equal throughout the country as far as the law was concerned, so that no State would be placing itself in a noncompetitive position with its sister States by enacting a law, and certainly the possibilty of a noncompetitive position exists in contemplating flat reductions in some States where flat reductions are not made in other States.

So far as this 2.7 percent weighted average is concerned, section 610 (a) requiring that no merit rating be granted unless the rates are calculated to yield 2.7 percent, does seem very definitely that that means no merit rating at all. That does not particularly concern West Virginia and won't for several years for two reasons. One is that our own law already says that we shall grant no merit rating—that the combined rates of all employers shall be calculated to yield approximately 2.7 percent, but that is recognized to be a feature of the West Virginia law that if we are eventually going to adopt a workable merit rating, it must be amended. We cannot do that now because we do not have the reserves, but certainly as an administrator in West Virginia, if an employer having a thousand men, we will say, and an annual pay roll of $1,200,000 were to qualify for a merit rating and there was any way that I could avoid granting him that merit rating, if in order to grant him that merit rating I had to go through and hunt through all our lists of contributors and find another employer or group of employers whose combined pay roll would yield another $1,200,000 and raise that employer's rate to 3.6, if we had reduced the other to 1.8, I am afraid that it would take a lot more backbone than I have got to administer that particular feature of the law without fear or favor.

It is hard to penalize a struggling industry in order to help another industry, and when you bear in mind that the merit rating provisions of every State law that I have seen require an adequate reserve before the merit rating is extended, it seems to me that the merit rating should be a reward for employment stabilization rather than merely a reward to the one employer to be accompanied by an automatic penalty to another.

So far as the suggestion that has been made that that parenthetical expression should be struck out and that the States should be required to select their personnel in accordance with the affirmative requirements of the Board, whether they take the form of objective standards or what not, I would like to express just mild objection to that, although I realize that not having the merit system in West Virginia I am on rather dangerous ground. Our law requires selection of our employees on a nonpartisan, merit basis. We do undertake in good faith to select our employees on a merit basis, and I think you will find that substantially every administrator who actually has to administer a law and who is going to either make or break his reputation by the manner in which his law is administered, is going to be conscientious and undertake to obtain good employees, but it is right hard for a State department to set itself outside of the regular pattern of the State departments. West Virginia has been working on a civil-

service law through an interim committee of our legislature. That interim committee was not ready to report at our last session on the civil-service part of its program. It probably will report at the next legislature, and if we are to become in advance of the comparable action by the remaining State departments—if we are to place our department in the position where we must conform to an examination program, or anything else that comes to us from Washington, and that is foreign to the experience of our people, it seems to us that you put us in an unfortunate position.

The CHAIRMAN. You do not have any politics in West Virginia, do you?

Mr. STUMP. Yes, sir; of course we have politics in West Virginia, Senator. I do not think that we have any worse politics in West Virginia than at least——

The CHAIRMAN (interposing). You had better not go on and be specific. [Laughter.]

Senator BYRNES. You would not have any objection to selecting employees for your organization through a merit system, would you?

Mr. STUMP. Senator Byrnes, if a merit system means a formalized examination personnel, I would. I do not think there is any substitute for the honest selection of employees on a basis of their personal fitness and particularly their experience and record by investigation rather than by an examination.

Senator BYRNES. Can you eliminate political considerations though, with the pressure that is brought to bear upon you, or any other official of the State department?

Mr. STUMP. Not entirely, sir; although I think if you would walk around some places and hear me cussed in West Virginia for not giving effect to political considerations, you might think we tried to do it. I am perfectly free to assume that as between two equally qualified persons, one a friend of the administration that after all is responsible for a program, and another who is an avowed enemy of the administration, I would rather have the friend, because this program as it now stands is a program of that administration, and in West Virginia also the West Virginia administration.

Senator BYRNES. And when the administration changes, you would expect considerable changes in your organization?

Mr. STUMP. I would expect considerable changes, but not so quickly as to disrupt it, nor would I expect those changes to be particularly——

Senator BYRNES (interposing). Personal. I hope they will not be.

Mr. STUMP. As far as I am concerned, I would certainly be gone and would not stay.

Senator BYRNES. I think you have made a very good statement. And when they make the change, you would be gone? You have already reached that conclusion?

Mr. STUMP. I do not think it makes very much difference whether qualified Democrats, for example, or qualified Republicans administer a program.

Senator BYRNES. It is important that they be qualified, however?

Mr. STUMP. Yes.

Senator BYRNES. Don't you think that experience qualifies them?

Mr. STUMP. Experience in this job?

Senator BYRNES. Yes.

Mr. STUMP. Unquestionably experience helps.

Senator BYRNES. You are a little better qualified than when you first entered it, are you not?

Mr. STUMP. I hope so. If not, I am in bad shape.

The CHAIRMAN. Thank you very much. The next witness is Mr. James W. Tisdale, of Asheville, N. C.

STATEMENT OF JAMES W. TISDALE, ASHEVILLE, N. C.

The CHAIRMAN. Whom do you represent, Mr. Tisdale?

Mr. TISDALE. I am just here on my own initiative; I am not representing anyone.

The CHAIRMAN. How much time do you desire?

Mr. TISDALE. I would probably want about 15 minutes.

The CHAIRMAN. We wanted to adjourn at 5 o'clock, so be as brief as you can. If you desire something put in the record, that will be done.

Mr. TISDALE. I have no prepared statement; I am just speaking from notes.

Lines 13, 14, and 15 of section 102 of House resolution 6635 apparently raise the final limit so as to permit contributions—this is the old-age assistance section—up to $20 a month per person should a particular State match or exceed the Federal contribution. That section also requires so-called matching of one-half to one-half. There are two features in that with which I personally cannot agree. The first is that the States should match the Federal contribution dollar for dollar—I cannot agree with that; and second, that the maximum Federal contribution at this time should be increased to $20 a month.

As to the first, that is the matching, I do not agree because I believe there should be a minimum monthly contribution by the Federal Government irrespective of the contribution of the individual State. The reason why I say that is because this is in accord with the social insurance principle that the range of application of the percentage benefits should be between a minimum and a maximum, this being a partial averaging of the benefits of those with more wealth and those with less, to the end that those with less shall not sink to near pauperism, to avoid which, with respect to the beneficiaries is the objective of this assistance.

I am stating that on the basis of 19 years' experience with workmen's insurance. I worked for two of the insurance companies, with one of which as a claim manager, and I have helped to write some of the insurance laws of North Carolina. I have been on numerous committees on workmen's compensation problems, and have written briefs on the subject and especially on my experience with that, which is perhaps the oldest form of social insurance. In the State of North Carolina, for example, the minimum benefit under the workmen's compensation act is $7 a week and the maximum is $18. A man may make only $7 a week, and if he is injured, he draws $7, whereas the law says 60 percent of his average weekly wage but not less than $7. You will note the tax on the pay roll may be paid on a man that is making $40 a week. Sixty percent of that would be $24, but, as a matter of fact, the maximum is $18. That principle of social insurance has been carried along, as far as I know—it is incorporated in your old-age benefits to the extent that there is a minimum and a

maximum, and I think in the unemployment insurance there is a minimum and a maximum.

In any event, it has been the old American principle that there should be a minimum below which you should not go, since social insurance has its purpose, and therefore I would suggest that on line 15, page 3, after the figure "$40", there be inserted the following: "and provided in cases of such needy individuals who are considered as being from 75 to 100 percent dependent for financial support upon old-age assistance, the amount of contribution to be paid by the Secretary of the Treasury to each State on account of each such needy individual shall in no event be less than $6 for any 1 month."

I would also suggest that $40 be eliminated and that the $30 be retained. The reason that I suggest that is that from my experience again, I have no doubt that a maximum in social insurance is never reduced. The entire tendency in social security is always larger and larger and larger and broader and broader and broader. The workmen's compensation laws, for example, are nothing today to what they used to be. I am not saying that they should not be, because I favor adding some of the things which were not originally included, such as occupation diseases, but there are other features in connection with social insurance that undoubtedly will have to be taken up in the future, and perhaps in the near future, and that being true, I would think it unwise to raise that maximum at this time until Congress has perhaps looked into other features which I have no doubt they will be called upon to do in the very near future.

In that respect, I could cite to you here from the public press of April 26 that the President urged a broad Federal-State program of child welfare, warning the Nation that the safety of democracy is in proportion to the degree it provides for the health and education of its children. Usually those speeches are followed by some proposal within a year or so, and for that reason, as I say, I would recommend that the $40 be eliminated, and that it should be left at $30, as I understand it now is.

The CHAIRMAN. That $6 minimum that you suggest, is that out of the Federal Treasury?

Mr. TISDALE. Yes, sir; that would come out of the Federal Treasury. In other words, it is possible that a State under those circumstances might pay only $2 or $3. The State of Arkansas which I think you heard this morning—which now pays a total of $6 and something—without increasing their contribution would give $9 total to an aged person.

Senator CONNALLY. In other words, you would not require matching on that $6?

Mr. TISDALE. No, sir. Matching in the sense of not having a minimum is not exactly in accordance with social-insurance principles. We have had minimums in the past. You have a range between an absolute minimum and an absolute maximum, and since the theory has been that those who have more shall contribute a little bit to those who have less, and that there shall be an irreducible minimum, the whole theory holds true as applied to the so-called wealthy States as opposed to those who are not so wealthy.

Senator CONNALLY. What would you say to the proposal that on the first $15 the Federal Government should put up $10 and the $5 matched?

Mr. TISDALE. I think when you do that, you are just giving to the wealthier State as well as to the poorer, and thus increasing the general load, and you are achieving a result by an increase in the expense greater than by the other method that has been tested.

Senator CONNALLY. Under the present law, you are doing that, because the State which is able to match a high rate gets a higher rate from the Federal Government.

Mr. TISDALE. Yes, but you are giving them a larger proportion of the smaller payment, and I judge the object of that is to give a larger proportion of the smaller payment to the poorer States, whereas what is proposed here or suggested is the same result based upon social principles used in the past, and not as much expense.

Senator CONNALLY. You do not require the matching of the $6. Would you require matching on any of it?

Mr. TISDALE. Oh, yes; you require matching when you come within the range, the minimum of $6 to the maximum of $30. In other words, above the $30 you do not match under the present law, and below the $6 you would not match. You have the range in between $6 and $15, I should say, because $30 is the aggregate total. Which in a sense is comparable to the $7 and the $18, and I think from workmen's compensation acts—and I handled quite a few of them in the past—I think you will find a relative range of about the same theory of 2 to 5 or 6, to 2 minimum or 5 maximum, and that is that range that has worked out as practical in that particular form of social insurance.

Senator CONNALLY. Under your plan, suppose the State put up $10, how much would the Federal Government have to put up?

Mr. TISDALE. The Federal Government would put up $6, and the State would put up 60 percent—no, it would put up $10. Because that is matching. But if the State put up $4, the Federal Government would put up $6.

The CHAIRMAN. In other words, you would assure a minimum?

Mr. TISDALE. Yes, sir.

Senator CONNALLY. Regardless of whether the States put up anything?

Mr. TISDALE. On three-quarters—I am assuming that all of the States are putting up something. I did not have that information as to the minimum States, but I am assuming that all of the States are putting up something—while it may be only $2 or $3, after all they are all putting up something and you will get in the way I say $6 for the 75 percent——

Senator CONNALLY (interposing). I do not get your view. The Federal Government gives $6 and the State gives $3 and you have $9?

Mr. TISDALE. That is right.

Senator CONNALLY. Suppose the States pay more than $6, would you match that additional amount?

Mr. TISDALE. You would match that. When the State contribution exceeds $6, then you begin to match, which I say is the old theory of compensation.

Another thing that I would like to bring before you is that social insurance and social security are terms which I think are pretty broadly used and pretty broadly misunderstood. Social insurance as I understand it, is a form of financial security for specified groups of workers within specified limits against losses from specified contingent events. That is the definition more or less of social insurance. On

the other hand, social security encompasses the whole economic system, and social insurance is only an adjunct to social security, which is merely a state where you keep your liberty and are afforded a reasonable opportunity to make your contribution to society and are accorded as a result of such contribution a fair and reasonable income for the support of yourself and your family in whatever your status of life may be.

Social insurance is usually invoked only when the effort of the individual does not avail to cope with the problems in question, and for that reason you have had compensation and old-age benefits on the theory that otherwise people would become indigent, and you have old-age assistance taking care of practically the same theory, and unemployment insurance and the like.

There are three phases in life, and during each phase in life everyone would like to have reasonable security. Those three phases of life are your youth and infancy, when you are economically unproductive, in your productive adult years, and your nonproductive old age. There is a type of social insurance for each phase.

The CHAIRMAN. Are there any other particular features of this bill that you want to call to our attention?

Mr. TISDALE. Senator, there is one other feature there that I would like to call to your attention, and that is the fact that on page 11 of House Resolution 6635, that you have child-insurance benefits, and on page 52, which is title VI, dependent children, you have a definition of "dependent child." Those two definitions together—the first definition under the old-age benefits section defines a dependent child as the minor child of an aged deceased. The section in "dependent child," title V, defines a dependent child to be one who is deprived of parental support or care by reason of the death, physical of mental incapacity of a parent or continued absence from home. In other words, dependency as used in social insurance is broader than that narrow restricted definition that you have there. It would appear to me that a certain definition has been arbitrarily picked out for dependency. A dependent child is one who depends upon his parents for support or upon one who stands in loco parentis, or who is sustained by or relies upon another for support or favor, and in view of the very statement by the President which I have just read and in view of other research work, I would also suggest that this committee incorporate an amendment in this bill to the effect that research be made on the subject of dependent children in their relationship to social security in the broad sense of the dependent child. Because, while a child may depend upon his father for support, if his father is only making $7 or $8 a week, and especially if there are two or three children in the family, that child is financially better off if the father is dead than if he is living; that is, assuming they are in a State that is giving any appreciable amount of child benefits, and in that respect while it was after the public hearings closed in the House, I filed quite a long brief on that subject, which brief incidentally I had taken up and consulted with Mr. Leven, of the Brookings Institution, and which he suggested in a letter to me——

The CHAIRMAN (interposing). We will be very glad to read the letter.

Mr. TISDALE. The letter is only two or three lines.

The CHAIRMAN. I mean the brief you filed in the hearing with the Ways and Means Committee of the House.

Mr. TISDALE. Yes, sir. I haven't gotten a copy of the hearings.

The CHAIRMAN (interposing). We have the hearings.

Mr. TISDALE. I haven't had a copy of that, and I do have here what I would like to file with you, though, certain statistical data in support of that brief, merely for your information. I am not asking you to amend the act and include the broad terms at this time, because I do not believe that things of serious import should be taken up quickly, but I do think that it should be gone into. The brief, as I say, was filed there, and this table of statistics which has been worked out by me—and the notations are all there—was worked out from Consumer Incomes in the United States.

The CHAIRMAN. Thank you very much. You will file that with the committee?

Mr. TISDALE. As source material, and all of the references are there, I think you will find, in statistical form.

(The material referred to is as follows:)

TABLE 1.—*Distribution of families and of aggregate income received by them, by income levels; divided into families not receiving any form of relief and families receiving relief in whole or in part*

[Income given in thousands of dollars. Income level in dollars]

Income level	Number of families		Aggregate income	
	Not on relief	On relief	Not on relief	On relief
$1 to $249	703,705	459,125	87,970	47,866
$250 to $499	1,950,545	1,064,849	731,454	436,055
$500 to $749	2,818,654	980,501	1,761,658	622,359
$750 to $999	3,337,160	939,888	2,920,015	817,999
$1,000 to $1,249	3,277,862	604,582	3,687,594	660,835
$1,250 to $1,499	2,689,634	175,838	3,698,247	209,518
$1,500 to $1,749	2,255,368	88,000	3,064,956	112,614
$1,750 to $1,999	1,829,835	67,202	3,430,940	37,803
$2,000 to $2,249	1,361,403	59,480	2,892,981	109,101
$2,250 to $2,499	1,006,568	37,409	2,300,599	81,073
$2,500 to $2,999	1,304,010	10,189	3,540,387	28,237
$3,000 to $3,499	743,559	.....	2,385,993	.....
$3,500 to $3,999	438,428	.....	1,625,887	.....
$4,000 to $4,499	249,948	.....	1,048,368	.....
$4,500 to $4,999	162,647	.....	719,447	.....
$5,000 to $7,499	322,950	.....	1,900,091	.....
$7,500 to $9,999	187,060	.....	1,605,632	.....
$10,000 and over	283,791	.....	6,424,409	.....
Total	24,913,177	4,487,123	44,516,718	3,162,520

NOTE 1.—Number of families not on relief for each income level is taken from table 8B, p. 97, Consumer Incomes in the United States.

NOTE 2.—Number of families on relief for each income level computed by subtracting number of families per income level not on relief from number of all families in similar income levels as set out in table 3, p. 18, of same study.

NOTE 3.—Aggregate income each income level of nonrelief families, computed by multiplying the number of such families for each income level by midpoints of corresponding income levels except as set forth in notes 4, 5, and 6 below. Aggregate total income of nonrelief families so computed is practically the same as the total for nonrelief families set out in table 4, p. 21 of Consumers Incomes, the total in that table being 99.4 percent of the total in this table, a variation of only 0.6 percent.

NOTE 4.—Since use of midpoint (2,750) of 2,500 to 2,999 income level gives a result greater than total for that level as set out in table 3, p. 18, Consumer Incomes; absolute average of that income level (2,715) computed from table 3, p. 18, Consumer Incomes, was used.

NOTE 5.—Beginning with 3,000 to 3,499 income level, since that level and the larger income levels contain no families receiving relief, the figures used in this table for income for each level is the same as is set out for such levels in table 3, p. 18, Consumer Incomes.

NOTE 6.—In this table, aggregate nonrelief income for the 10,000 and over income level is the sum total of 10,000 to 15,000 income level and all higher income levels as set out in table 3, p. 18, Consumer Incomes.

NOTE 7.—Aggregate income this table each income level for families receiving relief is the difference between the total income for each level as set out in table 3, p. 18, Consumer Incomes, and the income set out in this table for each such income level for nonrelief families.

TABLE 2.—*Estimated number of children and youths under 16 years of age by income levels; for 3 sizes of families with respect to nonrelief families*

[Income levels in dollars]

Income level	Relief families	Nonrelief families			
		3 to 4 persons	5 to 6 persons	7 persons and over	Total
$1 to $499	2,285,961	445,477	902,397	896,448	4,590,283
$500 to $999	2,880,673	1,286,418	2,865,362	2,541,712	9,574,165
$1,000 to $1,499	1,170,299	1,355,181	2,863,496	2,133,876	7,522,851
$1,500 to $1,999	235,275	983,805	2,018,735	1,363,360	4,559,175
$2,000 to $2,499	145,333	670,597	1,228,077	771,960	2,715,967
$2,500 to $2,999	15,283	324,307	708,367	484,052	1,532,009
$3,000 to $3,499		180,387	413,606	271,844	865,836
$3,500 to $3,999		108,328	258,037	151,076	518,641
$4,000 to $4,499		54,432	171,982	103,652	330,066
$4,500 to $4,999		34,791	80,465	70,064	185,940
$5,000 and above		101,462	439,822	289,068	920,352
Total	6,730,824	5,535,185	12,010,944	9,078,332	33,355,285

NOTE 1.—Table shows that nearly two-thirds of all children are in families with less than $1,500 a year income; that nearly 58 percent of the children in nonrelief families are in families with less than $1,500 a year income.

NOTE 2.—(*a*) On nonrelief families, consideration was given the method, outlined on p. 43 of Consumer Incomes, which was used in classifying families by size in the study of consumers' incomes; an average of 3 adults is then allowed to each family, beginning with 3 to 4 families and midpoint between the lower limit of grouping less 3 and upper limit of each grouping less 3, is considered the average number of children per family in each grouping. For example, in 3- to 4-family grouping, the average number of children per family is considered to be the midpoint between 3 minus 3 and 4 minus 3, or 0.5 per family; in 5- to 6-family grouping, midpoint between 5 minus 3 and 6 minus 3, or 2.5; on 7 persons and above grouping, average number of children per family is arbitrarily taken as 4.

The respective factors for each grouping were then applied to the aggregate number of families in the respective groupings and income levels as shown in chart 8-B, p. 97, Consumer Incomes, and the results are tabulated in this table. (*b*) On relief families, since the average-sized family is given as 4.5 in chart 6, p. 8, Consumer Incomes, I have arbitrarily used average of 1.5 children per relief family.

The factor for relief families was then applied to total aggregate number of relief families as set out in table 5-B, p. 96, Consumer Incomes, no break-down apparently being given in Consumer Incomes for families of relief workers by size groupings. From the viewpoint of income level, children of relief families were divided on the basis of assigning to each income class that proportion of the total of all relief children that the number of relief families in that income level (my table 1) bears to the aggregate total of all relief families. Thus there may be some variation in the number of relief children, since the number of adults per relief family may average more or less than 3, the number used.

TABLE 3.—*Income by nonrelief families, for various income levels, of more than 2 persons (such families being assumed to have minor children); benefits by income levels from family allowances; tax for family allowances by income levels; change in aggregate income of each income level as result of family allowances; percent of change, each income level and average change per family*

[Income, benefits, tax, and aggregate change per level in thousands of dollars]

Income level	Income before applying tax	Benefits, at $100 per child	Tax (rate shown in notes)	Increase or decrease, income level (aggregate)	Increase or decrease per family	Percent of increase or decrease of income level
$1 to $499	493,951	230,432	19,758	+210,674	+131	+42.6
$500 to $999	3,311,501	669,349	132,460	+536,889	+123	+16.2
$1,000 to $1,499	5,708,673	635,255	228,347	+406,908	+92	+7.1
$1,500 to $1,999	5,412,315	436,590	216,493	+220,097	+70	+4.1
$2,000 to $2,499	4,068,357	257,064	162,734	+94,330	+51	+2.3
$2,500 to $2,999	2,800,000	151,673	113,685	+37,988	+36	+1.3
$3,000 to $3,499	1,908,794	86,583	81,699	+4,884	+8	+.2
$3,500 to $3,999	1,330,271	51,864	60,532	−8,668	−22	−.6
$4,000 to $4,499	855,468	33,008	41,049	−8,043	−40	−.9
$4,500 to $4,999	567,984	18,594	30,126	−11,532	−75	−2.0
$5,000 to $7,499	1,543,199	37,734	95,506	−57,832	−179	−3.7
$7,500 to $9,999	1,245,008	21,168	93,424	−72,256	−386	−5.8
$10,000 and over	5,107,817	33,133	522,922	−489,789	−1,725	−9.6
Total	34,353,338	2,662,445	1,798,795	+863,650		

Note 1.—Aggregate increase to families with under $1,500 a year income, $1,154,471,000; percentage of increase to families with under $1,500 a year income, 12 percent.

NOTE 2.—Aggregate increase to families with under $3,500 a year income $1,511,770,000; percentage of increase to families with under $3,500 a year, 6.4 percent.

NOTE 3.—Benefits of 92,035 for 5,000 to 7,499; 7,500 to 9,999 and 10,000 and over income levels (computed by applying benefits of $100 a child to total children such classes shown in table 2 hereof) divided between those classes in the proportion that the number of families (excluding 2-person families) per income level bears to total number of such families of those 3 levels (computed from chart 8–B, p. 97, Consumer Incomes).

NOTE 4.—It is considered that total income of all nonrelief families (see table 1, hereof) for each income level, is divided among 2-person families and more than 2-person families in the relative proportion that 2-person families and more than 2-person families each bear to the total of all nonrelief families for each income level, such proportion being derived from table 8–B, p. 97, Consumer Incomes.

NOTE 5.—Number of children and youths under 16 years of age in each income level taken from table 2, hereof; such number for each level is multiplied by $100 and product is the aggregate benefit for each income level.

NOTE 6.—For tax purposes in this table, no part of income of nonrelief families has been excluded although plan exempts from tax pensions, workmen's compensation benefits, etc., a total sum of sum size. Neither has imputed value of rent been excluded totaling $2,378,000,000 (see note 4, p. 35, Consumers Incomes), but that total may include imputed rental value for families drawing relief in whole or in part. Income of State and municipal employees (who may not be subject to tax) has also not been excluded but this is offset to an extent by the inclusion of the children of such employees.

NOTE 7.—Tax is computed on following basis: 4 percent on income up to $2,499; 5 percent on income from $2,500 to $2,999; 6 percent on income from $3,000 to $3,499; 7 percent on income from $3,500 to $3,999; 8 percent on income from $4,000 to $4,499; 9 percent on income from $4,500 to $4,999; 10 percent on income from $5,000 to $7,499; 11 percent on income from $7,500 to $9,999; 12 percent on income above $10,000.

TABLE 4.—*Income by income levels of nonrelief 2-person families (as defined on p. 43, Consumer Incomes) and of single persons; family-allowance tax thereon computed as set out in note 7 of table 3, hereof*

[In thousands of dollars]

Income level	Income 2-person families	Number 2-person families	Tax 2-person families	Income, single persons	Number, single persons	Tax, single persons
$1 to $499	325,473	1,054,264	13,019			
$500 to $999	1,370,172	1,801,405	54,807			
$1,000 to $1,499	1,677,168	1,578,267	67,087	5,219,645	6,605,337	208,786
$1,500 to $1,999	1,683,581	968,258	67,343	1,628,623	945,531	65,145
$2,000 to $2,499	1,215,223	542,556	48,609	1,098,039	493,751	43,921
$2,500 to $2,999	740,387	251,036	30,739	436,150	161,275	17,724
$3,000 to $3,499	477,199	149,381	20,411	349,494	108,360	14,466
$3,500 to $3,999	295,016	80,397	13,458	237,497	63,731	10,689
$4,000 to $4,499	192,900	46,378	9,402	154,458	36,105	7,663
$4,500 to $4,999	151,463	33,208	8,720	122,319	25,491	6,547
$5,000 to $7,499	356,892	61,912	21,755	344,315	57,316	21,493
$7,500 to $9,999	360,624	41,995	27,069	242,188	28,582	18,064
$10,000 and over	1,316,682	58,773	122,732	1,141,994	46,949	118,259
Total	10,153,380	6,668,850	505,151	10,974,722	8,572,428	532,957

NOTE 1.—(a) Income of 2-person families and (b) number of such families, in each income level, obtained (a) by subtracting 2-person families each income level from total number of families that level as shown table 8-B, p 97, Consumer Incomes and (b) by subtracting from total nonrelief family income each level (table 1, hereof) the income of more than 2-person families for such income level (table 3, hereof).

NOTE 2.—(a) Incomes of single persons for each income level and (b) number of single persons each income level, both for above $1,500 a year income, are taken from table 13, p. 30, Consumer Incomes.

NOTE 3.—Since all single persons receiving any form of relief (1,485,572 in all) received annual incomes of less than $1,450 a year (table 3-B, p. 95, Consumer Incomes; since all incomes up to $1,500 would pay 4 percent tax, from the total number of single persons with incomes 1 to 1,499 (table 13, p. 30, Consumer Incomes) has been subtracted the total number of single persons receiving relief and the remainder (5,219,645) placed in the table; and, from the aggregate total income of the same income levels has been deducted the income of single persons drawing relief in whole or in part (computed by applying arithmetic mean shown in table 5-B, p. 96, Consumer Incomes to number of single persons drawing relief) and the remainder ($5,219,645 expressed in thousands of dollars) has been entered in the table and a tax computed thereon accordingly at rate of 4 percent.

TABLE 5.—*Comparison of income by income levels of all nonrelief families before receipt of family allowances and after receipt thereof; change in income each income level and percentage of change each income level, both as result of family allowances*

[In thousands of dollars]

Income level	Aggregate income before tax and payment family allowances	Aggregate income after tax and payment family allowances	Change		Percentage of change	
			Plus (+)	Minus (−)	Plus (+)	Minus (−)
$1 to $499	819,424	1,017,079	197,655		24	
$500 to $999	4,681,673	5,163,755	482,082		10.2	
$1,000 to $1,499	7,385,841	7,725,662	339,821		4.6	
$1,500 to $1,999	7,095,896	7,248,650	152,754		2.1	
$2,000 to $2,499	5,283,580	5,329,301	45,721		.8	
$2,500 to $2,999	3,540,387	3,547,636	7,249		.2	
$3,000 to $3,499	2,385,993	2,370,466		15,527		0.6
$3,500 to $3,999	1,625,887	1,603,761		22,126		1.4
$4,000 to $4,499	1,048,368	1,030,923		17,445		1.6
$4,500 to $4,999	719,447	699,195		20,252		2.8
$5,000 to $7,499	1,900,091	1,820,505		79,587		4.2
$7,500 to $9,999	1,605,632	1,506,307		99,326		6.2
$10,000 and over	6,424,499	5,811,978		612,521		9.5
Total	44,516,718	44,875,217	1,225,282	866,783		

NOTE 1.—Aggregate increase to families under $1,500 a year income (in thousands of dollars) is 1,079,558 or average increase of about 8 percent to approximately 59.3 percent of all nonrelief families.

NOTE 2.—All income levels up to $3,000 a year in income show increase, or an increase to approximately 90.4 percent of all nonrelief families (percentage of families obtaining increase to total families computed from table 5, p. 22, Consumer Incomes, in conjunction with increases shown in above table to various income levels.

TABLE 6.—*Tax income paid by (a) families with minor dependents, (b) 2-person families, and (c) single persons—all 3 groups being those not receiving any relief—and estimated expenditures excluding administrative expenses, to minor children of nonrelief families*

[In thousands of dollars]

Income:		
(a) Families with minor dependents (table 3, hereof)		$1,798,795
(b) 2-person families (table 4, hereof)		505,151
(c) Single persons (table 4, hereof)		532,957
Total income		2,836,903
Expenditures:		
26,624,461 children of families not on relief (table 2, hereof) at $100 each	$2,662,446	
1,600,000 births per annum to nonrelief families, medical allowance of $75 each	120,000	
Total expenditures		2,782,440
Balance for administrative expenses and as offset to overestimation of income		54,463

NOTE 1.—Estimated number of births, 2,000,000; ratio applied of births in nonrelief families to total births, is relatively equivalent to number of children nonrelief families to total children (computed from table 2, hereof), namely 80 percent. Estimated number of births in future is naturally merely an approximation, however, on basis of estimated population 1935-36 of 128,024,000 (table 1, p. 4, Consumer Incomes) and a birth rate per 1,000 of population of 16.7 percent (according to U. S. Census Bureau estimates) the above figure seems fair and reasonable, for while the above birth rate applied to the above-estimated population would give an actual total number of 2,138,000 births, it must be borne in mind that the trend of the national birth rate has been steadily downward since 1915, hence, assuming the trend continues, an estimated total, national number of births per annum of 2,000,000 seems in line.

TABLE 7.—*Amount and percentage of annual income of family allowance taxes (tax rate shown in note 7 of table 3, hereof) for various incomes*

Income	Tax	Percentage of tax to income
$500	$20	4.0
1,000	40	4.0
1,500	60	4.0
2,000	80	4.0
2,500	100	4.0
3,000	125	4.1⅔
4,000	190	4.75
5,000	275	5.5
6,000	375	6.25
7,000	475	6.78
7,500	525	7.0
8,000	580	7.25
9,000	690	7.67
10,000	800	8.0
25,000	2,600	10.4
50,000	5,600	11.2
100,000	11,600	11.6

The CHAIRMAN. Thank you very much. The committee will recess until 10 o'clock in the morning.

(Whereupon, at 5:30 p. m. the hearing was recessed until 10 a. m. Wednesday, June 14, 1939.)

SOCIAL SECURITY ACT AMENDMENTS

WEDNESDAY, JUNE 14, 1939

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

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

The CHAIRMAN. The committee will come to order.

Senator DAVIS. Mr. Chairman, yesterday there were some statements made here with reference to exempting insurance solicitors, and I would like to put into the record here a number of telegrams, and so forth, that I received from Pennsylvania along this line, from some of the mutual societies doing business in Pennsylvania.

The CHAIRMAN. Very well.

(The telegrams, etc., referred to are as follows:)

CLEARFIELD, PA.,
June 13, 1939.

Hon. JAMES J. DAVIS,
United States Senate:

Whereas amendment to Social Security Act defining "employee" makes definition to include agent. We urgently request your vote and influence to amend title 8, subsection 6, of said act to limit employees to salesmen of tangible and intangible property, thus exempting insurance agents.

Very respectfully,

CLEARFIELD COUNTY GRANGE MUTUAL FIRE INSURANCE CO.

EASTON, PA.,
June 13, 1939.

JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6, of Social Security Act which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

FIRE INSURANCE CO. OF NORTHAMPTON COUNTY,
A. C. RODENBOUGH,
Executive Secretary, Easton, Pa.

PHILADELPHIA, PA.,
June 13, 1939.

JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6, of Social Security Act which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

B. P. MANSFIELD,
National Petroleum Mutual Fire Insurance Co.

160883—39——11

PHILADELPHIA, PA.,
June 13, 1939.

Hon. JAMES J. DAVIS,
Senate Chamber.

In considering amendment, title 8, subsection 6, of the Social Security Act, insurance agents representing a number of companies should not be classified as employees, inasmuch as they are independent contractors paid on a commission basis. I trust that you will use your influence exempting insurance agents as they are in no sense salesmen of tangible or intangible property.

CHARLES T. MONK,
President, Philadelphia Insurance Agents Association.

WILKES-BARRE, PA.,
June 13, 1939.

Hon. JAMES J. DAVIS,
The Senate.

Please amend title 8, subsection 6, of Social Security Act which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

PENNSYLVANIA MILLERS MUTUAL FIRE INSURANCE CO.

NORRISTOWN, PA.,
June 13, 1939.

Hon. JAMES J. DAVIS,
United States Senator.

Amend title 8, subsection 6, of Social Security Act which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

Very truly yours,

UNION MUTUAL FIRE AND STORM INSURANCE CO.

ALLENTOWN, PA.,
June 13, 1939.

Hon. JAMES J. DAVIS.

Amend title 8, subsection 6, of Social Security Act, which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

THE JORDAN MUTUAL FIRE INSURANCE CO.

BOYERTOWN, PA.,
June 13, 1939.

JAMES J. DAVIS,
United States Senator.

Please amend title 8, subsection 6, of Social Security Act which defines employees so as to limit employees to salesmen of tangible and intangible property, thus exempting insurance agents.

B. M. FREED,
Secretary, Boyertown Mutual Fire Insurance Co.

KENNETT SQUARE, PA.,
June 12, 1939.

Hon. JAMES J. DAVIS,
Senate Chamber:

Urge adoption of following amendment. Amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit employees to salesmen of tangible or intangible property, thus exempting insurance agents.

HALLETT INSURANCE SERVICE.

HUNTINGDON, PA.,
June 13, 1939.

Senator JAMES J. DAVIS:

In all fairness to insurance companies and agents you should amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents who in reality are self-employed and in 90 percent of the cases employers themselves.

STATE MERCANTILE MUTUAL FIRE INSURANCE CO.

LEBANON, PA.,
June 13, 1939.

HON. JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

LEBANON MUTUAL INSURANCE CO.

PHILADELPHIA, PA.,
June 13, 1939.

Senator JAMES J. DAVIS.

DEAR SIR: Please amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

Very truly yours,

JAMES F. HUGHES,
Secretary, Frankford Mutual Fire Insurance Co.

NEWCASTLE, PA.,
June 13, 1939.

JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

OLIVE MILLER,
Secretary, Western Pennsylvania Mutual Fire Insurance Co.

ALBURTIS, PA.,
June 13, 1939.

JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6, of Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

FARMERS MUTUAL FIRE INSURANCE CO. OF PENNSYLVANIA.

LEBANON, PA.,
June 13, 1939.

HON. JAMES J. DAVIS,
United States Senator:

Amend title 8, subsection 6 of Social Security Act, which defines employees so as to limit the employees to salesmen of tangible and intangible property, thus exempting insurance agents.

W. A. BACHMAN,
Secretary, Countrymens Mutual Insurance Co.

THE MUTUAL FIRE INSURANCE CO. OF BERKS COUNTY, PA.

AND

THE SCHUYLKILL VALLEY MUTUAL WIND, STORM, AND LIGHTNING INSURANCE CO. OF BERKS COUNTY, PA.

READING, PA.,
June 12, 1939.

Hon. JAMES J. DAVIS,
Washington, D. C.

DEAR SIR: May we ask you to support the following:

Amend title 8, subsection 6, of the Social Security Act, which defines employees, so as to limit the employees to salesmen of tangible or intangible property, thus exempting insurance agents.

Your active support of this amendment will be very much appreciated.

Very truly yours,

(Signed) E. D. HAHN, *Secretary.*

The CHAIRMAN. Mr. Daugherty.

STATEMENT OF PAUL J. DAUGHERTY, DIRECTOR, SOCIAL SECURITY DEPARTMENT, OHIO CHAMBER OF COMMERCE

Mr. DAUGHERTY. Mr. Chairman and gentlemen of the committee, I am Paul J. Daugherty, director of the social security department of the Ohio Chamber of Commerce, which is the oldest and second largest State-wide business organization in the country. The Ohio Chamber of Commerce represents all types of business—manufacturing, banking, agriculture, public utilities, insurance, retailing, and so forth, in the great State of Ohio, which ranks third or fourth in industrial production in all the States of the Union. Careful consideration to the proposed amendments to the Social Security Act has been given by our social legislation committee, and its recommendations have been passed upon by our board of directors.

It is my purpose today to limit my remarks to certain specific proposals contained in H. R. 6635, which have to do with unemployment-compensation experience rating. Employers in Ohio, as in most every other State, have looked upon unemployment compensation as a twofold program. That is to say, not only as a program designed to compensate for the loss of wages due to unemployment which is beyond the individual worker's control, but also as a program designed to stabilize employment.

In our opinion, the provisions of section 610, which amends section 1602 of the Internal Revenue Code, will have the effect of disturbing this balanced program, because the emphasis is placed so much upon the benefit side of the program that it will seriously limit the effective use of experience rating in stabilizing employment. This section places upon the States a series of so-called minimum requirements which are in reality liberalization provisions. Specifically, I refer to the requirement that the duration of benefits shall be for 16 weeks, or the equivalent of 33⅓ percent of the individual's annual wage, the payment of partial benefits, a 2-weeks waiting period, the payment of benefits on a full-time weekly wage basis, or an approximation of it, and the creation of a minimum benefit amount of $5,000. It has been stated by previous speakers that these would call for disbursements estimated at from 10 to 40 percent higher than the present State laws. Since the taxpayers must, in the long run, pay at

least as much in taxes as the disbursements, these State standards would mean increasing the taxes, over a period of years, by 10 to 40 percent. Certainly, these amendments are no gift to the taxpayers of any State. In effect, therefore, this bill says that unless a State increases its benefit payments and unless it maintains a fixed amount in its reserve, it cannot reduce its tax rate.

Present estimates regarding the Ohio unemployment-compensation fund indicate that this year we will pay out approximately $30,000,000 in benefits, providing business conditions remain at their present level. We now have a reserve fund of something over $115,000,000, and in all probability might qualify for the one and one-half times test which is contained in this bill. The reduction of the State tax for unemployment compensation would be welcome, but the imposition of the new minimum requirements is an excessive price to pay for this appeasement.

For example, the requirement that a State agency must use the full-time weekly wage theory, or a reasonable approximation of it, as permitted by the House amendment adopted June 10, will be the source of extreme administrative difficulty in all the States. The situation in Ohio at the present time substantiates this, inasmuch as we have been attempting in our State to administer the requirement that the benefit rate be based upon a full-time theory. It has been unofficially estimated by persons connected with our State bureau that at least 80 percent of the determinations now being made are based upon an actual earnings calculation. The reason for this is that the full-time concept is theoretical. It is not exact. The employer's idea of full-time wage may not coincide with that of the individual worker. The result can only mean numerous contested cases, and, in the final analysis, the determination is thrown into the lap of the State administration or the Social Security Board for a decision.

The numerous States which have amended their laws during the recent sessions of their State legislatures have all been exhibiting a trend toward the adoption of some method which is truly mensurable; that is, an actual earnings basis.

An alternative provision of section 1602 will require a State to collect the equivalent of 2.7 percent of the total taxable pay roll in any year. This may be done with a level tax rate or with experience rates based upon individual employer experience. In plain application, however, we believe that this will destroy the effective experience rating formulas and schedules which are about to begin operating. In our State the tax rate may vary from 1 to 4 percent, depending upon the taxpayer's experience. We maintain that there is nothing sacred about the 2.7 percent amount merely because it is 90 percent of the Federal tax. If, under the present provisions of the Ohio law and the present Federal act, all employers should secure a reduction in their tax rates and the gross return to the Ohio fund would not equal 2.7 percent, we would not be particularly concerned. We believe that this would mean one thing: That employers were succeeding in stabilizing their employment, that workers had jobs and were not drawing benefits. This is based on the fact that an employer can secure a reduced tax rate only if his employees have little compensable unemployment.

In other words, we do not believe that the 2.7 percent average is necessary, nor that it will insure the solvency of any State fund. Furthermore, it places upon every State an arbitrary requirement which, in effect, says that a specified average must be collected without regard to the local conditions of employment. If in any year surpluses arise under this fund, the tendency will be to unduly liberalize benefit payments beyond a schedule that can be maintained in a recession period.

In summary, may I state that we believe that Federal restrictions should not be placed upon the operation of State unemployment compensation laws which will induce excessive liberalization of benefits or unnecessarily restrict the operation of experience rating and its resultant stimulus to unemployment stabilization. These amendments to section 1602 have been presented as reducing the tax load upon employers. Actually, the reverse is true. The present law permits the States to reduce taxes when the State funds or the employer's reserve accounts are adequate, and nearly all of the States have such provisions. No further congressional action is necessary to secure these lower taxes. The States, after all, are the agencies which are responsible for the payment of unemployment-compensation benefits. We have accepted this responsibility. Each State is building up its own experience and can be relied upon to meet the obligations which it has assumed under its unemployment-compensation law. We ask that the proposed Federal restrictions upon experience rating and the so-called "State standards" be eliminated from this bill. We believe that the present experience schedule in our State, with the present additional credit offsets permissible against the Federal tax, will do more to maintain a proper balance between the payment of benefits and the stabilization of employment, and, in the last analysis, give jobs to workers instead of benefits.

Senator KING. Did you testify before the Ways and Means Committee?

Mr. DAUGHERTY. No, sir; I did not.

Senator KING. Or did your organization?

Mr. DAUGHERTY. No, sir; it did not.

Senator KING. This is the first time the views of your organization have been presented during the hearing?

Mr. DAUGHERTY. That is correct.

Senator JOHNSON. I would like to ask the witness a question.

The CHAIRMAN. Go ahead.

Senator JOHNSON. As I understand it, you are objecting to the provisions in title III?

Mr. DAUGHERTY. No; to the provisions in section 1602, sir, which relate to the State requirements on unemployment compensation.

Senator JOHNSON. What title is that?

Mr. DAUGHERTY. That is in title IX and in title III.

Senator JOHNSON. In title IX and title III?

Mr. DAUGHERTY. Yes. It is an amendment to the Internal Revenue Act, under the new arrangement of those taxing provisions.

Senator JOHNSON. Are you satisfied with the present law?

Mr. DAUGHERTY. With regard to the unemployment-compensation provisions, and crediting the offsets against that tax; yes, sir.

Senator JOHNSON. You do not want any change?

Mr. DAUGHERTY. That is right.

The CHAIRMAN. Some of the views of this witness were expressed yesterday by about five or six witnesses, who elaborated at length on that question.

Mr. DAUGHERTY. Yes, sir.

The CHAIRMAN. Thank you very much.

Dr. Brown.

STATEMENT OF J. DOUGLAS BROWN, PRINCETON, N. J., FORMER CHAIRMAN, ADVISORY COUNCIL ON SOCIAL SECURITY

The CHAIRMAN. Dr. Brown, the committee invited you here. We thought you might want to give us some of your views with reference to this House bill.

Mr. BROWN. Thank you, sir.

The CHAIRMAN. We will be very glad to hear you.

Mr. BROWN. I want to say, first of all, on the part of my colleagues and myself, that we appreciated the honor and privilege of serving on the Advisory Council, which of course was advisory to the Senate special committee and to the Social Security Board.

Senator VANDENBERG. I would like to interrupt you Professor Brown, to say the obligation is all the other way. You and your group did a superb piece of work in a patriotic and unselfish way, without compensation, and we are greatly indebted to you.

Mr. BROWN. Thank you, sir.

First of all, I would like to say that I feel the House Ways and Means Committee has done a very fine job in revising the old-age-insurance provisions of the act, and while I will raise certain points, I do want to say, from my personal point of view—and of course I am speaking entirely personally—that it seems to me these revisions are an outstanding contribution.

I would like to emphasize again that the Advisory Council felt strongly, in my estimation, that it was important to conserve the contributory principle in old-age insurance, and that in order to do so it was necessary to make certain revisions in the program, particularly in the sale and scope of benefits, to make it a workable, attractive program of old-age protection.

It seems to me that we face a very tangible problem of mounting dependency in old age on account of the shifting balance of aged groups in our population. There are two methods of meeting that problem. One is the method of relief which is old-age assistance, and the other is the method of contributory old-age insurance. I think these are the only two distinctive methods that are workable.

Now there are, of course, many plans offered which are either hybrid plans, involving both relief and contributory insurance, or the method of free pensions, where pensions are awarded entirely because of being a certain age rather than because of need or because of past contributions. I would like to reiterate, and the Advisory Council report followed definitely that line throughout, that we must use the method of contributory insurance, and the method of assistance, rather than any mixed methods, or any method of free pensions.

It seems to me that the method of contributory insurance is vital in order to maintain the self-reliance of our people, that men will be permitted, provided they have the time and opportunity to come within the scope of the act, to contribute toward their own old-age

protection, with that old-age protection related to their past contributions.

Senator BROWN. I do not quite see where you can call it self-reliance where it is compulsory.

Mr. BROWN. In this sense, Senator: It is self-reliance as to the relation between the amount of work performed, wages earned, and the benefit received; that is, there are variations, according to what a man is able to earn, through his own efforts. If he earns, say, $100 a month for a considerable period of his life, he receives a better benefit than a person who does not earn so much.

I feel very definitely that that method is in parallel with the economic system under which we are working, and that it is likewise parallel to the political system under which we are operating in this country. Everything must be done to maintain individual incentive and self-reliance under a democratic system, because mounting dependency is both an economic and a political hazard.

Now of course we will have many people in old age who will be unable to come within the system and develop adequate benefits. Certainly for them old-age assistance is absolutely necessary and should be worked out by such means as to be adequate in meeting needs, but it is a needs-test proposition and not a matter of free pensions regardless of need.

In the revision of the old-age-insurance program there are bound to be certain adjustments necessary as time goes on to avoid anomalies and certain exclusions which may be at the border line between the right to receive benefits, and the omission of that right. But in my study of social insurance I have never seen or read about an old-age, unemployment, or any other system of social insurance in which anomalies did not occur. The process of administration is one of gradually and intelligently removing anomalies. Naturally, of course, it is necessary to remove as many anomalies at the beginning as possible, but perfection is impossible and there is need for this evolutionary method of eliminating grievances as they occur.

It seems to me we are bound to have objects on the part of individuals here and there. Whenever you are dealing with a method which involves rights, there will be some persons who are entitled to those rights and will be happy. There will be others slightly removed, for some reason or other, who will be unhappy, and as long as you base it on a matter of right there is bound to be objection from some quarters.

In regard to the financial provisions I would like to say that the Ways and Means Committee have followed the recommendations of the Advisory Council, except for, in particular, three recommendations, of which in two there might be an implied relationship but nothing definite. I will read the recommendation of C–I of the Advisory Council, which is:

> Since the Nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than pay-roll taxes.

And C–II is:

> The principle of distributing the eventual cost of the old-age-insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax provisions are amended.

Of course, the matter of establishing the principle of Government contributions in a revised law may be somewhat difficult of draftsmanship, but as a matter of principle the Advisory Council unanimously upheld the principle that there should be Federal contributions eventually in this system. I feel personally that that is bound to come.

The CHAIRMAN. You did not pass upon the proposition of the proportion that the Federal Government should contribute, did you?

Mr. BROWN. Not in any fixed terms, Senator. That is, the recommendation was one of principle, and I will read later on recommendation X, which referred the matter to future study, as to when such Government contributions would come in, and my purpose is to emphasize the point that with the liberalization of the program we change the relationship of contributions to benefits. As I see it, there will eventually need to be Federal contributions.

Senator BROWN. I read your report. I understood you recommended that the Government, the employer, and employee share approximately equally, one-third each.

Mr. BROWN. That is right. I will read this again, sir.

The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees, and the Government is sound and should be definitely set forth in the law when tax revisions are amended.

Senator BROWN. I did not understand you to answer Senator Harrison's question that way, as to whether you made a definite recommendation as to the amount the Federal Government should contribute, and I supposed your recommendation was the same as this is, one-third by the Federal Government, one-third by the employer, and one-third by the employee.

Mr. BROWN. I made a mistake.

Senator LODGE. Do you have any recommendation as to how that money should be raised?

Mr. BROWN. We did not feel it was within our province to go into specific taxes, except to say "other than pay-roll taxes." I might read, however, X here, which is:

The problem of the timing of the contributions by the Government, taking into account the changing balance between pay-roll-tax income and benefit disbursements, is of such importance as to require thorough study as information is available.

In other words, while the Council went on record as to the principle, it did not recommend immediate action as to this tripartite method of financing, but I do want to say, in fairness to the Council, that the language in the report says: "Should be definitely set forth in the law when tax provisions are amended."

Senator VANDENBERG. The general taxpayer, the General Treasury, do make contribution under the existing system, do they not, when they pay the interest on the bonds in the reserve fund?

Mr. BROWN. Provided it is 3 percent.

Senator VANDENBERG. Yes.

Mr. BROWN. Of course, in the revisions of the Ways and Means Committee that goes down to an average rate.

Senator VANDENBERG. That is what I was going to ask you about. How do you feel about that?

Mr. BROWN. I do not feel that that is highly important either way, Senator. I have no objections to using the average principle. I feel

that that is more a question of the planning of the system. That 3 percent constant rate is, perhaps easier to administer.

Senator VANDENBERG. What I want to know is whether the fluctuating rate does not disturb the actuarial stability of the system.

Mr. BROWN. I would say, as I just mentioned, it is an added problem, because in making forecasts of income over against disbursements, interest income is, of course, in a long-range plan like this, an important item. As interest income varies you have a greater disparity in your estimates. I would say that probably the interest rates would approximate 3 percent closely enough that it would not be a serious financial difference.

Senator BROWN. Private insurance companies are up against the same proposition.

Mr. BROWN. Yes.

Senator BROWN. There would not be any difference in a case of that kind.

Senator LODGE. Do you think that if Federal taxes had to be levied to make up the Government share they would be accepted much more readily if it could be said they were being imposed for the sake of old-age security?

Mr. BROWN. I am sorry, Senator, I did not get the very first part of it.

Senator LODGE. The point is this: If you could say these additional taxes were being levied for the purpose of old-age security they would be more readily accepted?

Mr. BROWN. Yes; I understand your question now.

Senator LODGE. Don't you believe you can get a much more ready acceptance of the tax if you do that?

Mr. BROWN. I feel there are dangers there. I would not like to see the general fiscal policy of the Government affected by specific taxes, that is, other than pay-roll taxes, for old age. It seems to me sound fiscal policy would mean that you determine your tax source according to an over-all program, and that it might be unwise to establish a new tax specifically to provide additional means for meeting the old age problem.

Senator LODGE. You want to take it right out of the general Treasury?

Mr. BROWN. I would like to see the over-all tax policy decided and the funds taken from the general resources of the government for supplementing the pay-roll taxes for old-age insurance.

Senator KING. Doctor, don't you think you are undermining the theory upon which this law is predicated, namely, that the employer and employee are meeting this requirement of old-age insurance, when you insinuate, or indicate, or prognosticate that probably the Federal Government, the Treasury of the Federal Government must be resorted to to meet part of the expense?

Mr. BROWN. Sir, if we had started many years ago when this problem was small we could probably have relied upon employer and employee contributions alone, but we are starting in the middle of the stream, we have many people already in middle age. It is a question of equity of large groups over against other large groups; as to whether we should expect the employers and employees alone to meet not merely the case of the employee now middle aged, but also that of many others who are still older. Since we are starting in the middle

of the stream it seems fair that the public as a whole help bear the problem of giving adequate benefits to those already old. Now should we be able to start a contributory insurance scheme which, say, takes only those that are now 20 or 22 and carries them to age 65, it would certainly be probable that the employer-employee share would be enough, but since we have many cases already over 40, already over 50, which through their own employer-employee contributions alone cannot build up adequate benefits, then it seems to be fair that the public assist in making those benefits more adequate.

Senator KING. Haven't you met the question, in part at least, of old-age assistance by the contributions which will be made directly out of the Federal Treasury after they have reached a given age and are in need—that is, the old persons to whom you refer now—as a justification for intervention of the Government in the pay-roll plan?

Mr. BROWN. I will say, sir, I think it would be the belief of the Council—I am speaking, however, really for myself alone—that the method of contributory insurance is so desirable as a social mechanism that it is better to enhance its adequacy and effectiveness by having benefits more adequate in the early years than to appropriate the same, or lesser funds even, to old-age assistance, which is still a relief method. In other words, to get away from the needs test, to give people benefits as a matter of right, to make those benefits regular and to relate them to past wages and employment, that it is a sound use of public money, along with the employer and employee money, to enhance that system rather than have those benefits very small for long years to come and encourage the growth of the relief method or of the free pension method.

Senator KING. I think that is very sound philosophy. What I had in mind was that provisions are made in this bill for old-age assistance, so that those persons that are along farther down the stream, to which you referred, will get benefits, if not from the provisions which we are now discussing then from other provisions of the bill.

Mr. BROWN. Yes.

Senator KING. So that they are cared for.

Mr. BROWN. I feel that we are in agreement, sir. This method of having the contributory insurance lift out more and more people from assistance, but at the same time to have the assistance program, the relief program as a cushion, particularly in the early years, that that is a sound philosophy of old-age protection.

Senator KING. Well, you would not encourage, would you, the thought intimated by my friend from Massachusetts, if I understood him correctly, that it might be wise to indicate that we intend to supplement these contributions made by the employer and employee by direct appropriations immediately, or in the near future, from the Treasury of the United States?

Senator LODGE. I was not making that recommendation. I was inquiring as to whether the witness favored the special tax, if it was decided to do that.

Senator KING. Of course any plan would meet with less resistance if you are going to have the public obtain the benefits out of the direct appropriation. The employer and employee perhaps would prefer to have Federal subsidies rather than tax themselves.

Senator VANDENBERG. Dr. Brown, in reading your financial recommendations—unless you are coming to it later—I want to also ask you about your fourth recommendation on financing, reading as follows:

> The financial program of the system should embody provision for a reasonable contingency fund to insure the ready payment of benefits at all times and to avoid abrupt changes in tax and contribution rates.

I wonder if you would be prepared to say what would be a reasonable contingency fund?

Mr. BROWN. I believe the arrangement in the House bill is sound.

Senator VANDENBERG. You mean the so-called rule of three?

Mr. BROWN. That is three times over the next 5 years. That is, you need more than just 3 years, you need a 5-year span upon which to base your three-times rule. Of course any such rule is a matter of judgment, in relation to the various demands which may be made on the system. I would say personally that that rule is about as sound a rule as I can develop from my own thinking.

Senator VANDENBERG. You think it is necessary to go that far in the rule of three?

Mr. BROWN. I think, sir, particularly for some years to come, it is certainly necessary to play safe on a thing which promises benefits to such a huge number of people, that involves billions of dollars, and that that rule is, you might say, as low a figure as I would like to see it go.

Senator VANDENBERG. I agree with you that we must play safe, because we must not fool anybody with this legislation.

Mr. BROWN. Yes.

Senator VANDENBERG. On the other hand, there is another menace that I see, namely, that a sudden increase in pay-roll taxes by 100 percent in 1943 may fall with such an impact on the smaller businesses of the country that you might invite a revolt against the whole system. So it is to the advantage of the system and its perpetuity not to make these pay-roll tax impacts any heavier than they should be.

Mr. BROWN. Of course you are always balancing between the safety of the system and the reaction of the taxpayers.

Senator VANDENBERG. That is right.

Mr. BROWN. I have felt from the beginning, and do uphold the majority recommendations of the Council, that it would be safer to step from 1 percent to 1½ in January, and then from 1½ to 2, making a decision as to the future progress of tax rates as of 1942.

Now, my reasons for that are several. One is just the reason that you indicate there. It is a matter of public education as to a contributory social insurance system. By stepping up gradually, moving from 1 percent to 1½ percent, to 2 percent, it is not as probable that people will suddenly wake up and say, "Well, now, I am jumping from 1 percent to 2 percent." It is a gradual adjustment. I think a good many industralists have already looked forward to certain tax changes in regard to old-age insurance. It comes to a question of economics as to how much stimulus on business ½ percent of the pay roll will bring about. I would say it is probably much more a symbolic effect than an economic effect, if they feel ½ percent difference as an indication that they will not be pressed for any more than is absolutely necessary. But, on the other hand, I do not feel that ½ percent on pay rolls, is of itself, a very strong stimulus to business.

Senator VANDENBERG. In the investigations which your Advisory Council made did you inquire at all into the delinquency in the payments on the existing 1 percent? In other words, to measure the difficulty that certain sections of American business have had in even meeting the 1-percent tax? Did you make any inquiries into that situation?

Mr. BROWN. I know in my own case I have followed that, and I feel that a good deal of that, Senator, is a psychological resistance, as would always be the case, perhaps, to a new form of tax.

Senator VANDENBERG. No doubt about that.

Mr. BROWN. To a tax which is not understood. For example, I could cite the case in my own town of a small building contractor. He was a man who had come to this country relatively recently, he did not understand our arrangements, and he was most upset when he discovered he had to pay unemployment-insurance taxes. There was an emotional reaction there.

Senator VANDENBERG. On the other hand, there is nothing emotional about the statistical demonstration that literally thousands of small businesses in this country have had their margin of profit absorbed by their social-security taxes, and they have been scared to death over the contemplation of an increase.

Mr. BROWN. I would say, Senator, that this is a case of planning a way of taking care of old-age security by a device which, in the long run, I feel very strongly is to the interest of business. It will permit them to adjust their own private pension plans; it will permit them to retire persons as they become older; it will avoid the dangers of a runaway type of free pensions; and so on.

Senator VANDENBERG. I agree with everything you are saying. The only point I am making is I think it is important, at the point where we are setting aside current revenue for reserve purposes, while keeping the reserve safely adequate, not to make it any more burdensome than absolutely safely necessary, so as to avoid this very impact that we are talking about.

Mr. BROWN. As to that word "burdensome," I would certainly not want to see these taxes any more burdensome than necessary, but there is one point I would like to emphasize, and that is I think there is an advantage of itself in a regular program of tax increases. Now the Advisory Council thought it would be better to go to 1½, and then as of 1942 establish a future program of taxes. It seems to me that, by and large, it is better to let businessmen particularly, and labor as well, but businessmen do more elaborate planning, to know what their taxes will be over a period rather than to make it uncertain and to vary it from time to time, either pulling them down or raising them up.

Senator VANDENBERG. Well, there were some strong voices in the Council that thought it was all right to freeze the taxes.

Mr. BROWN. Yes.

Senator CONNALLY. May I ask you this question? Is it not true that the newness of the tax was largely responsible for the relative amount of nonpayments, and as we go on businessmen will become more accustomed to them and there will be a larger percentage of taxes actually paid than right at the beginning? Is it not also true that being new the businessmen had not planned and had not figured for the absorption of the taxes, but if we look forward and gradually

step them up that they will be in position then to plan their business with a view to the absorption of these taxes and there will be less of that thing that the Senator from Michigan calls "impact" as we go along over the program?

Mr. BROWN. I feel, sir, that is definitely a factor. Of course, to be realistic, none of us like taxes, per se.

Senator CONNALLY. No taxes should be any more burdensome than necessary. The Senator used the word "burdensome." No taxes should be any more burdensome than the necessities of the case require, the income tax, corporation tax, old-age pension tax, or any other tax, that is true, isn't it?

Mr. BROWN. Yes.

Senator JOHNSON. Isn't it also true as the pensions are being paid the businessmen paying these taxes will receive the benefits? At the present time they are paying taxes and no benefits are being paid back.

Mr. BROWN. I agree heartily with that, sir, that should this bill be passed, as of January 1, 1940, as employers not only see their former employees receive the benefits that these taxes permit but likewise have an added facility of adjusting their personnel as time goes on, that that in turn will increase the acceptance of this particular measure.

Senator JOHNSON. Right now we are in the most difficult time of the whole procedure.

Mr. BROWN. Yes.

Senator JOHNSON. Because we are making the payments and no payments are coming back. If we get over this particular period it will be easier from then on.

Mr. BROWN. It is as if you paid your installments in advance before you got the automobile.

Senator JOHNSON. That is true.

Senator KING. Proceed, Doctor.

Mr. BROWN. It seems to me that this added cost over the years in the future does require conservative planning as to other payments for old-age protection, and for that reason I do object to raising the assistance grants, for which the Federal Government will pay 50 percent, up to $40. I feel that that does not do much in the way of helping particular individuals at this time. Of course at the present time there is not a great deal of money involved. It seems to me that it is more, perhaps, a gesture than moving any long distance in meeting the problem. I would prefer, therefore, to see the $30 remain as the maximum to which the Federal Government would contribute 50 percent. Should there be a necessity of changing the plan of assisting States in meeting the old-age relief problem I would certainly rather see that assistance be at the bottom of the scale rather than at the top. It seems to me that changing from $30 to $40 is adding at the top, where the need is less, and if there is to be any method at all of assisting States, other than the present method, that it should be to assist at the bottom. However, my own personal position is that I would decidedly prefer to see the present 50–50 arrangement maintained, because over the last year I have attempted to study every other method of providing ratios of Federal to State money and I found objections to every method I studied. I can well see the desire to have arrangements which would be a benefit to persons of lower income, or in those parts of the country where there is need, but at

the same time our financial resources are not as great as may be desired. So far, at least, I have not discovered any method with which I am entirely satisfied.

Senator CONNALLY. May I ask you a question there?

Mr. BROWN. Yes, sir.

Senator CONNALLY. If I get your viewpoint, you think it is much more important, whatever we do toward changing this, if we do change it, that it should be for the very lowest group that we give the old-age assistance to?

Mr. BROWN. Yes, sir.

Senator CONNALLY. In other words, you would rather see a great many get $15 than a few get $40?

Mr. BROWN. I would say, as a matter of principle, sir, that it is my position, that if the old-age assistance arrangements as between Federal and State are altered from the present 50–50 arrangement, that I would prefer to see it arranged to assist in the lower part of the bracket rather than in the higher.

Senator CONNALLY. What would you say to this sort of proposition, that up to $15 of joint contributions the Federal Government could pay two-thirds and the State one-third, and match from there on up? In other words, the Federal Government pay $10 and the State pay $5, and from then on match it even. Wouldn't that take care of a larger number of the smaller brackets, the lower brackets?

Mr. BROWN. I have studied that method a good deal and I would say that, by and large, to my mind it would be preferable to certain other methods, because it is an exact arithmetic ratio, and I think in this case that arithmetic ratios are preferable to more complicated statistical determinations, but there are certain disadvantages there I would like to raise.

Senator CONNALLY. I was trying to direct your attention to these variable rules. If you adopt a variable ratio based on any sort of statistics, will not those statistics change from time to time?

Mr. BROWN. Yes.

Senator CONNALLY. And will it not be very difficult, really, of administration?

Mr. BROWN. I would say it would be very difficult, and that there would be perhaps a great deal of suspicion and uncertainty.

Senator CONNALLY. That the figures were juggled?

Mr. BROWN. That the figures were not thoroughly objective.

Senator CONNALLY. Would it not contribute toward the formation of groups and blocks, pressure groups in certain States and industries to change that ratio and make it higher, to benefit those particular sections from time to time, in Congress?

Mr. BROWN. I would say there would be a great deal of study of statistics in order to make recommendations of elements in the statistical determination which would affect the interest of one State over against another.

Senator CONNALLY. That is what I am talking about.

Mr. BROWN. Yes.

Senator CONNALLY. The States with the most votes would get the best ratio.

Mr. BROWN. I would like to say this, that if that method could be operated with utter scientific objectivity it offers a very attractive program, but that my reaction is, as I have said, that it would be

much safer that there be no change. I would like to see the present plan continued until there has been an improved plan developed, if that is possible, but if there is to be a change I would rather see it a change based on arithmetic ratios than on statistical determinations.

Senator LODGE. Following Senator Connally's thought one step further, don't you think if we were to adopt a statistical variable that we ought to set forth in the statute exactly what elements go into arriving at that variable?

Mr. BROWN. Well, sir, as somewhat of a student of statistics, I do not see how a bill could determine precisely such statistical variables. In other words, you do get into degree classifications, you get into judgments at the firing line. For example, take income. Income is an extremely difficult thing to determine. For example, what is a farmer's income? How do you decide how much his produce is worth? Is it at the retail price or at the price at the farm? No matter what method you use there would still be variables, no matter how carefully you tied it down in the law.

Senator LODGE. My point is somebody has got to decide those moot points.

Mr. BROWN. Yes.

Senator LODGE. In arriving at that formula.

Mr. BROWN. Yes.

Senator LODGE. That somebody ought to be careful.

Mr. BROWN. As careful as Congress could possibly be.

Senator LODGE. Then if there were changes in the economic situation the next year they could come up here to get Congress to change it for them, but we cannot adopt that responsibility by letting somebody else determine how much you want to give for salaries and dividends, how much you want to give for the price of crops, how much you want to give for the cost of ice in Arizona, and things like that.

Mr. BROWN. That reminds me of the cost-of-living index which has been developed over the years by the Department of Labor, where they have had certain rigidities in their determination, and until relatively recently they had women's button shoes as an item to be priced in the cost of living. It may be unfair to the Department of Labor to mention that, but there are those dangers in all statutory determinations of elements that are to go into a statistical computation.

Senator VANDENBERG. You want to stick to mathematics and avoid metaphysics.

Mr. BROWN. I would rather stick to arithmetic than to statistics.

Senator KING. Doctor, don't you think we are losing sight of the fact that we have dual form of government, that there are obligations resting on the States? One State might be willing and desirous of making a larger contribution for old-age benefits than some other State. Why should we insist, by the rule which is suggested by my friend, on imposing upon the Federal Government a larger percentage than that which is provided in the present law? Why not leave it to the States to determine what they would like to contribute, but with the understanding that the Federal Government, which is in a subordinate position with respect to the primary and paramount duty of the State, that the Federal Government make a smaller contribution, $15, and the State, if it wants to make a larger contribution, do so?

Mr. BROWN. Well, sir, I would agree with you that old-age assistance, being a matter of relief, should be determined as to amount locally.

Senator KING. Exactly.

Mr. BROWN. Because relief should be administered locally as far as possible. Now the problem does arise as to what proportion of a State's income it cares to put into old-age assistance over against the public-school system, over against dependent children, and many other things. I do think there is a danger if the Federal Government offers very attractive ratios to a State for its old-age assistance group that it will tempt the State to expand old-age assistance at the expense of other necessary social services.

Senator CONNALLY. Let me ask you a question. Senator King asked you a question as to whether or not it was not the business of the State to say how much it should put up for old-age assistance.

Mr. BROWN. Yes.

Senator CONNALLY. Of course it is the State's business as to how much it would put up. It is the Federal Government's business as to how much the Federal Government would put up, isn't it?

Mr. BROWN. I would certainly have to agree.

Senator CONNALLY. All right. Here are two men, one living in Vermont and one living in New Mexico, they are both on old-age assistance: Why should the Government give the man in Vermont $15, we will say, and the man in New Mexico $5? That is why I suggest to your thought, in these lower brackets that you want to take care of, and ought to want to take care of, why wouldn't it be fair for the Federal Government to give a certain fixed percentage, say two-thirds, up to $15, and the State would give $5, and if they wanted more they would match from there on? Put the Federal Government in the attitude of treating every one of its citizens alike, wherever he may reside.

Mr. BROWN. Well, sir, I would like to raise my particular objection.

Senator CONNALLY. That is what I want.

Mr. BROWN. I studied that particular method very sympathetically, not merely to find trouble with it but to find how it would operate. There are certain problems. One is this: There are a good many assistance grants which supplement other income. Say a man has $10 to $15 of other income, it is necessary to give him $5 or $10 additional to give him adequate income, say for himself, or whatever the proper sum is for his wife. This ratio of two-thirds on the first $15 would tend to help all those cases where it was merely $5 additional or $10 additional, as well as the man who had no other income which you wanted to lift up to $15. That means that a great deal of added money would be going to wealthier States as well as to States that should receive assistance, let us say, on the first brackets of old-age assistance. So it would cost a very considerable amount of money, and the question is whether your money would be going where you wanted it to go.

If you use the average basis, that is 2 to 1 on the first $15 of average, then there is the danger that State assistance authorities might encourage the addition of many of these partial cases, they might go into cases where they only need $5, where they only need $3, where they only need $7, and add them into their total number of cases covered to pull down their average to get the best ratio as between State money and Federal money, because as they can pull down their average to

$15 by adding many of these small cases they can get a ratio of 2 to 1 rather than the ratio of 1 to 1, which would be in the next segment. So it means, sir, as you study the method there are problems which I think even a person who believed in the principle would have to consider seriously.

Senator CONNALLY. On the other hand, we had statistics here yesterday showing that, I think it was New York, or Massachusetts, one of the big States, the average was $24, I believe it was.

Mr. BROWN. Yes.

Senator VANDENBERG. New York.

Senator CONNALLY. In other words, the Federal Government is paying to a man in New York in the old-age group $12, and the man in Arkansas who is getting $6, or something, the Federal Government is paying $3.

Now you spoke about more money under this $10 and $5 plan going to the rich States. What is happening now under the present system? Here is the great State of New York that is able to pay a higher rate, the Federal Government is giving the old-age assistance man in New York four times what it is giving the same fellow if he happens to move to Arkansas. I do not apprehend any of them will move to Arkansas under that comparison of $12 to $3. Do you think it is fair? We are extending largess, call it largess, gifts to our citizens, and here is one American citizen living in New York, he is getting $12 of Federal money for the same necessities that you give to another American citizen in Arkansas $3.

Mr. BROWN. A good many times, sir, if you take a case and abstract it entirely you get the comparison of $4 to $12.

Senator CONNALLY. I took these extremes to illustrate it.

SENATOR JOHNSON. I believe the Senator from Texas is making the mistake of thinking the Federal Government is making payments to individuals. Under this plan the Federal Government is making payments to States. As Senator King has brought out, we have a dual system of government here. These payments are not going to individuals, they are going to States.

Senator LODGE. Doesn't a dollar go four times further in Arkansas than it does in New York?

Senator CONNALLY. It has to, under this system. On the other hand, talking about the dual system, who gets this $12? Who spends it? Who buys food with it? The State government or the man that is on the rolls? The State is merely a conduit through which we pass this money out to the benficiary, isn't it?

Mr. BROWN. Well, sir, I would like to reiterate the point which the Senator mentioned, which I was going to state in answer to your question. It seems to me that you can abstract the individual cases and say $4 in Arkansas looks very small compared to $12 in New York, but I think we must keep in mind that we are dealing here with the Federal system of government. There are both advantages and disadvantages to the State in having the Federal Government take over more and more prerogatives in regard to local arrangements, and the best method so far worked out, it seems to me, is this 50–50 arrangement, which does give independence, freedom to the State to decide how far it shall go.

I would like to just say a few words on coverage. I know your time is limited, sir.

Senator KING. No, no, proceed. We are very much interested in your observations.

Mr. BROWN. As far as coverage is concerned, the Advisory Council, of course, recommended the coverage of employees of nonprofit institutions. I feel strongly that that will come. I feel the attractiveness of the recommended benefit scales are such that a larger and larger proportion of the employees of such nonprofit institutions will want to come into coverage. My own observation is that the feeling has shifted very considerably and that probably now the group which objects most strenuously are some Protestant churches, that, by and large, the groups that are in education, in charities, hospitals, and so on, are coming around to the feeling that the old-age insurance provisions of the Social Security Act are attractive to them. As time goes on and their own internal old-age problem tends to grow and they face the cost of meeting the problem I think there will be encouragement toward coming under that system.

Senator KING. Would you favor compulsory legislation at this time to compel many of those organizations to come in?

Mr. BROWN. I feel probably at this time that it is best to let self-education proceed, but that that time may be relatively short. It may perhaps be another year or two after these benefits are payable when you will find that they will want to come in. One exception that might be made to make the total elimination of the exemption attractive would be to exclude ministers of religion. I think that is the one sticking point, the most important sticking point, that there is the feeling in all churches probably that ministers of religion are in a class by themselves. I do not know just how far I go along with their philosophy, but it seems to be a practical matter that that objection is pretty strongly felt. Farm labor and domestic servants it seems to me must eventually be covered. One of the means of providing an adequate total program and to avoid anomalies is to avoid exclusions. Probably the stamp-book method will be necessary to do it. As to the self-employed, they will be more difficult to cover, but there again it is in the wood, it seems to me, eventually.

Senator CONNALLY. Right there, may I ask you a question? I had an employer here a few days ago, he was on his way to New York, or somewhere, and he made that very point that you are speaking of now. He said that while they paid all their employees, and all that, that they themselves could not get the advantages of this act. That is true, isn't it?

Mr. BROWN. Yes.

Senator CONNALLY. What is your view on that?

Mr. BROWN. During the last 2 years I have gotten a great many letters on old-age security. One employer in a small town in the Midwest said he had canvassed every small employer in the community and they unanimously favored coverage under the Social Security Act. I think that is rather typical of small shop owners, garage owners, and so forth. They are paying for employees and they cannot see why they should not be protected themselves.

Senator VANDENBERG. You spoke about the stamp-book administration in these particular groups.

Mr. BROWN. Yes.

Senator VANDENBERG. Would there be any advantage, economically, of extending the stamp-book method into some of the existing groups?

Mr. BROWN. Small employers?

Senator VANDENBERG. Small employers.

Mr. BROWN. Yes. It seems to me as the method is developed primarily, let us say, for farm labor and domestic servants, that it might well be used for employers of less than 10 or less than 5, provided they wish to come under it.

Moving along, I would like to say that I do oppose, under the unemployment insurance part of the bill, the method of "State" experience rating under 1602 (b), that is where the States would be permitted to lower the over-all tax rate according to the amount of money in the reserve one and a half times, and so on. I feel very strongly that experience has been too short. We have had about a year and a half of experience, if we can say we have had that, in the payment of benefits. It seems too soon to provide arrangements for reducing tax income to the State systems. It seems to me rather that further study should be made of making these benefits more adequate, and that in those States which have adequate reserves particular measures should be taken to make benefits more adequate.

In my own State, New Jersey, we have a high reserve. That is partly due to employee contributions. We are one of the relatively few States that has employee contributions of 1 percent. It seems to me that it is entirely reasonable that New Jersey should proceed now to providing a more adequate benefit structure rather than to immediately cut down on tax contributions, when we have not had adequate experience.

The CHAIRMAN. Now, that is the so-called McCormack amendment?

Mr. BROWN. Yes, sir.

The CHAIRMAN. What would you say as to the other part of that section?

Mr. BROWN. The 2.7 requirement?

The CHAIRMAN. Yes.

Mr. BROWN. I feel very strongly, sir, that 2.7 on the average is the least income that will provide adequate benefits. I was with the Committee on Economic Security when this act was first being considered, and I feel that since that time, given the experience in other countries, and with the wide variations of experience in our country, that 2.7 is probably the least average figure that would provide for adequate unemployment benefits.

The CHAIRMAN. Would you advocate any change in the present law with reference to these standards that are prescribed in legislation of the States with reference to this problem?

Mr. BROWN. May I put it this way: I would rather see the act remain unchanged than to bring in both new standards and the "State" merit rating. The one standard that I would favor is this 2.7, which I feel in a way fills a gap in the present legislation, but rather than see the State merit rating come in I would rather not see the 2.7, if that were a necessary quid pro quo.

Senator CONNALLY. I other words, you are in favor of putting in the 2.7 and leaving out all the rest of the formula?

Mr. BROWN. I believe that would be the best position, as far as I can see.

Senator VANDENBERG. Is there any relationship between the reserve necessary for unemployment insurance and the reserve necessary

for old-age pensions? In one instance you are talking about the rule of three and in the other the rule of one and a half. Is there any relationship between the two?

Mr. BROWN. I would say you must figure far more closely in the case of old-age insurance than you must in unemployment insurance, especially if you have 48 State systems of unemployment insurance. I would say this, Senator, that if there is an arrangement for cutting down possible tax income in these various State plans there is a very definite trend there, in my mind, toward a national system.

Senator VANDENBERG. Is there anything inherent in title II which requires a larger reserve ratio than there is inherent in the unemployment insurance?

Mr. BROWN. I am not sure that I got your question clearly, but I would say this, that the unemployment insurance risk can be estimated only crudely, and particularly in the early years of a system one must play safe. It seems to me that adequate benefits is the vital thing here, that in the long run will mean the advantages of general employment stabilization, the stabilization of business, reduced relief costs, and, for that matter the reduction of industrial unrest, which we will not have if we do not have an adequate unemployment benefit program.

Senator VANDENBERG. I just want to get this reserve question, which particularly interests me, straight in my head. If I understand you correctly, there might be a need for an even greater ratio for the unemployment reserve than there is in the old-age pension reserve, is that correct?

Mr. BROWN. There might well be need for a greater ratio of reserve. It varies, as long as you are dealing with 48 jurisdictions. You might say in your own State, Senator, the variations of employment are certainly different than they would be in my State, New Jersey, with more diversified industry, therefore the reserve ratio as between what shall be built up in good times to be available in bad times in your State over against mine would be different.

Senator VANDENBERG. I am speaking abstractly. If you need the rule of three for old-age pensions you need more than the rule of one and a half for unemployment insurance?

Mr. BROWN. But there are other variables, sir. In the case of old-age insurance, once a man is on benefit he remains on benefit continuously for maybe an expectancy of 13, 14, or 15 years. Therefore when your trends depart one from the other, that is, with contributions declining and benefits increasing, you have a much greater volume of money involved, even though the variation is less.

Senator VANDENBERG. Yes.

Mr. BROWN. I would like to emphasize this point as to when do we get the real benefits of an unemployment compensation program. It seems to me we get them when we are able to pay adequate benefits, and it is only then that we get this advantage in the stabilization of business and in the reduction in relief costs. The thing which concerns me very definitely is the elimination as far as possible of industrial unrest. It seems to me that in those States in which we have had more serious industrial unrest, that if we had had during the depression a sound program of unemployment insurance, that unrest definitely would have been less. Any intensive study of the situation, and I have been in it quite a bit, begins to indicate to one

that this insecurity factor has been one of the things that has led to more violent attitude, such as toward sit-downs, and things of that sort. If there is the possibility of adequate protection as a matter of right, as far as possible, the attitude of men is different than where a man in desperation has to accept relief over longer periods of time.

I believe that covers the material I would like to bring before you, sir.

The CHAIRMAN. Are there any questions from other members of the committee?

Senator CONNALLY. I just want to say I enjoyed his testimony very much.

Mr. BROWN. Thank you.

Senator KING. By and large, do you think that the system under the present law has been vindicated by our experience?

Mr. BROWN. The old-age insurance?

Senator KING. Yes.

Mr. BROWN. The total situation?

Senator KING. Yes.

Mr. BROWN. Very definitely, sir. I have followed it as closely as it can be followed and I feel very definitely that experience has vindicated the advantages of the system.

Senator KING. Has it been entirely vindicated in Great Britain?

Mr. BROWN. I feel so, sir. Great Britain, of course, like all other countries, has made certain mistakes of policy, but in my experience over there, in talking with various administrators, labor employers, and so forth, I think every one of them feels that it has been a very important part of their social-service mechanism. I do not think a single one would give it up.

Senator KING. Hasn't it broken down, in part at least, by reason of the constant assaults which were made to increase the benefits and a resort to the treasury of Great Britain rather than the contributions made by the employers and employees?

Mr. BROWN. There has always been that danger in a democracy, sir. I think there is always, in a democracy, the feeling that there must be just a little magic in a social-insurance system, that in some way it can pay more out than it takes in.

Senator VANDENBERG. Quite a standard delusion in these days.

Mr. BROWN. I think as individuals we are all subject to it.

Senator KING. To delusions?

Senator VANDENBERG. Yes.

Mr. BROWN. So of course England has faced the problem of continuing benefits beyond what might be called actuarial limits. Now they have recovered from that and have revised their system. I feel they are on a very sound basis now.

Senator KING. They had to resort to the treasury, however, on a number of occasions?

Mr. BROWN. Yes.

Senator KING. The same is true of Germany?

Mr. BROWN. Those countries have gone through some pretty serious times.

Senator GERRY. I do not think I am very clear on this McCormack amendment. In computing the amount of the reserve for unemployment insurance you must take into account the number of weeks that are set forth in the statute in which the amount is paid?

Mr. BROWN. Yes. Of course, there are certain standards as to weeks, 16 weeks, and there are certain standards as to waiting periods, that is 2 weeks, and so on.

Senator GERRY. That is all defined in the amendment?

Mr. BROWN. Yes. You might say it is a quid pro quo. That is, if you want to get a reduction over-all in your average rate you must have thus and thus standards. I feel that the over-all reduction in rate is so dangerous that even though granting it gives a chance on the part of the Federal Government to impose certain standards, I would rather not see either.

Senator GERRY. Even taking into account the number of weeks that it runs?

Mr. BROWN. Yes. I would naturally prefer to see a liberalization in the weeks of duration of benefit, but it is a question of what comes in the same package. In my own State I have been technical adviser to the Social Security Commission there and worked on the bill and naturally may be interested in the revisions of the bill from the State side. I think at this time I would certainly prefer to see us in the State of New Jersey decide to liberalize the duration of benefits and shorten the waiting period, rather than to see the package planned in Washington, where the package planned in Washington involves the principle of "State" merit rating, which I would certainly oppose.

Senator GERRY. Thank you.

The CHAIRMAN. Thank you very much, Doctor Brown. Senator King wants to know if business will take you back to Princeton immediately; otherwise he hopes you can remain.

Mr. BROWN. I can remain here today, sir.

The CHAIRMAN. All right, Mrs. Caraway.

STATEMENT OF HON. HATTIE W. CARAWAY, UNITED STATES SENATOR FROM THE STATE OF ARKANSAS

Senator CARAWAY. I just desire to make a brief statement to the committee in support of my bill, S. 1800, a bill to increase the Federal contribution to States for old-age assistance by amending section 3 of the Social Security Act, approved August 14, 1935, and for other purposes.

(The bill is as follows:)

[S. 1800, 76th Cong., 1st sess.]

A BILL To increase the Federal contribution to States for old-age assistance by amending section 3 of the Social Security Act, approved August 14, 1935, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3 of the Social Security Act is amended to read as follows:

"PAYMENT TO STATES

"SEC. 3. (a) From the sums appropriated therefor, the Secretary of the Treasury shall pay to each State which has an approved plan for old-age assistance for such quarter, beginning with the quarter commencing July 1, 1939, (1) an amount, which shall be used exclusively as old-age assistance, equal to $15 for each month during such quarter with respect to each individual to whom old-age assistance of more than $15 is paid during such month under the State plan (in part at least out of funds not paid to the State under this clause or clause (2)) and who at the time of such payment is sixty-five years of age or over and is not an

inmate of a public institution, and (2) 5 per centum of such amount, which shall be used for paying the costs of administering the State plan or for old-age assistance, or both, and for no other purpose.

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

"(1) The Board shall, prior to the beginning of each quarter, estimate the amount to be paid to the State for such quarter under the provisions of clause (1) 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 clause, and stating the amount appropriated or made available by the State and its political subdivisions for such expenditures in such quarter, and if such amount is less than the total sum of such estimated expenditures reduced by the Federal contribution under such clause, the source or sources from which the difference is expected to be derived, (B) records showing the number of aged individuals in the State, and (C) such other investigation as the Board may find necessary.

"(2) The Board shall then certify to the Secretary of the Treasury the amount so estimated by the Board, reduced or increased, as the case may be, by any sum by which it finds that its estimate for any prior quarter was in error, except to the extent that such sum has been applied to make the amount certified for any prior quarter greater or less than the amount estimated by the Board for such prior quarter.

"(3) The Secretary of the Treasury shall thereupon, through the Division of Disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, pay to the State, at the time or times fixed by the Board, the amount so certified, increased by 5 per centum."

Senator CARAWAY. The need for this amendment and the relief which it would grant, it seems to me, is so readily discernible that a long statement is not necessary. Under the present law the Federal Government matches the contributions of the States for old-age assistance up to the sum of $15 per month. Because of the fact that some of the poorer States are unable to raise an appreciable amount, the qualified aged in those States do not receive very much assistance. My bill would require the Federal Government to pay its full sum of $15 per month and allow the various States to add to this amount whatever amount it could raise for that purpose.

I take the position that so far as the Federal Government is concerned each of its citizens is entitled to equal treatment at the hands of his government, regardless of imaginary geographical State lines. Under the present law it is possible for two persons living on opposite sides of a State line but within a few feet of each other to receive unequal treatment at the hands of the Federal Government.

One of the objections to my plan would be the added cost. I do not believe it is possible to give anything like an accurate estimate as to this amount. I do believe that it would be impossible to get these figures because of the aid which my bill will give. A savings would result from relief, charity, and other forms of public assistance.

The enactment of this amendment, I think, would go far to quiet much of the present unrest over the old-age pension law, do justice to the worthy aged, and at the same time give equal treatment to the citizens of the United States who qualify under the old-age pension law. The amendment is simple, and I think it would be very effective.

The CHAIRMAN. Senator, I notice it has been put into the record that Arkansas is one of the lowest States in the matter of contributions.

Senator CARAWAY. Yes.

The CHAIRMAN. Mississippi is low, too, I will say, so I am not trying to pick on Arkansas.

Senator CARAWAY. Yes.

The CHAIRMAN. What is your opinion as to whether Arkansas is doing its utmost to increase this from a State standpoint?

Senator CARAWAY. Well, the question of whether it is doing its utmost or not is rather questionable, I think. We might do a little more if we had people who were inclined to do more. They cut it down to $6, and finally raised it to $7, or $8, I think, and that is the total amount that they get, and it is not very much help.

The CHAIRMAN. The average in your State is $6.25.

Senator CARAWAY. Yes.

The CHAIRMAN. Federal contribution together with the State contribution.

Senator CARAWAY. Yes. It has been lower than that. I think it was $4.50 back a while.

The CHAIRMAN. Thank you very much, Senator.

Senator CARAWAY. Thank you, Senator.

The CHAIRMAN. Your bill will be considered in connection with this bill when we go into executive session.

Senator CARAWAY. All right; thank you.

Senator JOHNSON. Mr. Chairman, I desire to submit the following amendments to the pending bill.

Amend section 610 of H. R. 6635 as follows:

On page 69, in line 22, strike out the letter "(a)".

On page 70, strike out all of paragraph (a) (1) in lines 7 to 10, inclusive.

On page 70, in line 17, strike out the words "the three consecutive years" and insert in lieu thereof the words "a one-year period," and in line 18, after the word "date" and preceding the semicolon insert a comma and the following words "throughout which compensation has been payable under such law".

On page 72, beginning in line 10, strike out all of subsection (b) down to and including line 24, on page 74.

On page 80, strike out all of pagargaph (b) in lines 11 to 16, inclusive.

Redesignate sections and subsections and references thereto to conform with the provisions of the foregoing amendments.

My amendments to the pending measure eliminate the controversial requirement of a 2.7 percent average tax rate and eliminate also the alternative requirements that the State law must meet Federal standards as to the amount in the fund and meet or exceed the Federal benefit formulas on waiting period; minimum of 16 weeks of benefits or one-third of base year pay; benefits based on full-time weekly wages or fraction of the high quarter, equivalent to full-time weekly wages; and weekly benefits for partial employment.

My amendments make no change in the present law, except to permit States with pooled-fund laws to make their experience rating plans effective as soon as the State has been paying benefits for 1 full year, as to employers who have been paying contributions throughout that year.

Each State is still required to have had 2 years of contributions before any benefits can be paid. All States will have satisfied that requirement by July 1, 1939. All States but two will have had a year of benefit experience by December 31, 1939.

The change advancing the date when experience rating can become operative puts a pooled-fund law on the same time basis, for beginning the variable tax rates provided under experience rating, as reserve-fund laws have been since 1935, i. e., 3 years of contributions and 1 year of benefits.

The Federal Act now requires pooled-fund States to postpone the operation of their "experience rating" provisions, until after 3 years of benefit experience. As a result, employer contribution rates cannot be reduced in most States until 1941 or 1942, even where large reserves are accumulating.

The proposed change in section 1602 (a) (2) will permit any such State to advance the date on which its "experience rating" provisions may become effective. Under this change most States, through appropriate action by their legislatures, could begin reducing employer contribution rates in 1940, based on experience during 1938 or 1939 or both.

This should make possible substantial tax savings for employers in those States which take advantage of this change.

The CHAIRMAN. Mr. Teets.

STATEMENT OF BERNARD E. TEETS, EXECUTIVE DIRECTOR, DEPARTMENT OF UNEMPLOYMENT COMPENSATION AND EMPLOYMENT SERVICE, STATE OF COLORADO

Senator JOHNSON. Mr. Chairman, this witness, Mr. Teets, is going to testify relative to an amendment I am submitting to the committee, a very brief amendment.

The CHAIRMAN. You will explain the amendment?

Mr. TEETS. Yes, sir.

Senator JOHNSON. You have the amendment before you, Mr. Teets?

Mr. TEETS. Yes.

The CHAIRMAN. All right, Mr. Teets.

Mr. TEETS. Speaking in support of Senator Johnson's amendment: Subsection (a) (1) of section 1602 should be deleted because it does not appear desirable to require that all States should be compelled to collect an average of 2.7 from employers if, as a matter of fact, it is demonstrated that the States can pay unemployment compensation benefits without collecting this amount.

Speaking for our own State, we do not have enough benefit experience to determine whether or not this amount would be required, and we will pay benefits based upon the standards herein proposed.

With regard to the second portion of the amendments, it is my opinion that most, if not all, of the standards are desirable, but can the several States afford to pay benefits upon the basis of these standards and at the same time insure the solvency of their funds? The experience of some States for the past year clearly indicates that they would not be able to pay benefits based upon such standards, while other States could adopt if they so desired, even higher standards. I do not believe that standards of this kind, that are so far reaching, should be matters of guesswork, but rather we should base them upon statistics, and, for that reason we do not feel that this part of the bill should remain.

The CHAIRMAN. Do you endorse the views expressed yesterday by the State directors of other States?

Mr. TEETS. Yes; we are all in accord on that point.

Senator CONNALLY. Just one question. Do you agree with the testimony of the gentleman who was on the stand just awhile ago, that if anything at all is to be retained of the so-called McCormack amendment that we strike all the standards and retain the 2.7?

Mr. TEETS. I should say at this time they should even strike the 2.7. It depends upon from whose viewpoint you are considering the 2.7. Probably experience will show that some States will be able to maintain the standards herein proposed and still not collect the 2.7. Now that is my guess. Another guess might be that no State can, but we do not have the figures, nor does anyone else, to determine it.

Senator CONNALLY. So you would strike it all out?

Mr. TEETS. Yes.

Senator CONNALLY. And leave the present law?

Mr. TEETS. Yes, sir.

Senator CONNALLY. All right.

The CHAIRMAN. Thank you.

The next witness is Mr. Abraham Epstein of New York City.

STATEMENT OF ABRAHAM EPSTEIN, NEW YORK CITY, EXECUTIVE SECRETARY, AMERICAN ASSOCIATION FOR SOCIAL SECURITY

Mr. EPSTEIN. I am very glad, Mr. Chairman, to come before you today for the first time in over 4 years and to feel myself more or less in unison with the Social Security Board. I have come to say to you that the House bill has real and genuine possibilities.

Senator KING. Which bill?

Mr. EPSTEIN. The bill that you have before you. For me, I think that is quite a change. Some of you may recall, I was the first one to criticize the Social Security Act before you and the entire country, and I am glad to say that the bill you have before you, especially the old-age insurance program, is something that you may well be proud of, because, if you do adopt it, it will be a program of old-age insurance such as no country on earth has ever had.

The thing that stands out to me from the hearings this morning, and in the bill, is that we are very intelligent, or we have acquired intelligence in the old-age insurance program. We have not acquired any intelligence, on the contrary, we are regressing in our unemployment insurance and also in our old-age assistance program. That, I think, to me indicates one thing, that the only reason we are intelligent on the old-age insurance and not on the others is because you, this committee in the Senate, sponsored an advisory council composed of some of the best people and representative of all groups that spent over a year's time studying the question of old-age insurance.

Congressional committees are harassed with a thousand and one things. In the same month you have to act not only on this bill but you have to act on the tax bill, and a thousand other things. You cannot be expected, and I do not expect it of you, to go in detail into all these technical problems and really formulate a constructive program. So before going any further I would plead with you that if you cannot do anything else you should continue with what you have done before—the Senate Finance Committee should sponsor another advisory council to study the question of unemployment insurance. Senator Vandenberg, you who introduced the resolution, I could not urge you more strongly to introduce a similar resolution to create a similar body to study unemployment insurance and old-age assistance. Only then will we have an intelligent appreciation of the problem and act right as we are doing today in old-age insurance.

Senator CONNALLY. May I ask you there, don't you think we have done pretty well? We have approved the bill; it is working.

Mr. EPSTEIN. I approve the old-age insurance program, Senator.

Senator CONNALLY. You started out by saying we made more progress and had a better social-security bill than any nation on earth today.

Mr. EPSTEIN. I refer to the old-age insurance amendments. I did not mean on unemployment insurance. May I correct the record?

Senator KING. That is what he said, we made more progress on old-age insurance.

Senator CONNALLY. If we have done good on that might we not also do good on this?

Mr. EPSTEIN. You are not now, Senator. That is what I am saying.

Senator CONNALLY. You are here to help us fix it up?

Mr. EPSTEIN. Yes.

Senator CONNALLY. If we adopt your views don't you think we would do a good job?

Mr. EPSTEIN. If you adopt my views you will do a good job. What you are doing in old-age insurance is really adopting my views of 4 years ago. I told the House committee if they had listened to me 4 years ago they would have spared themselves all this trouble.

I would like to get to the concrete things on a few of these great changes. First as to old-age assistance, section 3 (a) page 3 of the bill. Dr. Brown touched on that point and I want to touch on the same point with a little more emphasis. The basic change you are making there is to raise the Federal grant from $15 to $20, permitting a $40-a-month pension in some States.

Now it is very difficult for me to speak on the subject without being misunderstood, although I am fairly convinced that after my 22 years in this work nobody can accuse me of not being interested in the welfare of the aged. More than any other person I have been concerned with their welfare for over 20 years.

What you are doing in that change, if you adopt it, will be nothing of fundamental social value. You will be making nothing but a gesture, a political gesture, and it will bring us nowhere, for that change will solve none of the existing problems.

Now what are the existing problems? I heard Senator Connally making the point about the States, and he is correct; I agree with that point.

Senator CONNALLY. Thank you very much. Put that in the record.

Mr. EPSTEIN. That is in the record. The point is that the problem today is not the inadequacy of $30 monthly pensions. The fact is there is only 1 State in the Union that pays over $30. The problem lies in the fact that most of the States, 47 of them, do not take advantage even of the $15. Now what is the use of being generous about giving them $20 when they do not even take advantage of the $15? You cannot tell me that a State that will not take even $10 of the present $15 is going to take $20 just because it is there. In other words from the point of view of social accomplishments, you will accomplish nothing except the political gesture by transferring the pressure from the Congress to the States. There is only one State that can take advantage of it today, and that is California, and that is the last

State that I think needs higher pensions. The pension in California is not bad today. They are paying $70 to a couple. That is equivalent to at least $100 in Washington. That isn't a bad old-age assistance.

Now it seems to me that the problems of the poorer States can be met somewhat along the line that has been suggested by the Senator from Texas and the Senator from Arkansas, but in a little different way. The program we suggest is embodied in the Collins bill (H. R. 1643) and the Bilbo bill (S. 750). We say you can overcome this whole problem of the poorer States, but not so much by Senator Byrnes' proposal on the basis of economic measurements of the State. I am urging against it, because it seems to me to involve dangerous precedents. If you are going to set up certain economic standards God knows what Congress will consider economic standards next year or 2 years from now. You may consider economic standards to be judged by telephones, or radios, or any kind of a thing, which I think is dangerous.

I think the Collins proposal has the possibility of accomplishing the thing that you want to accomplish without any danger, and this is what we suggest: We say that the Federal Government should give on an average $10 or $15 to every State in the Union, not to each pensioner but on the average of all pensioners, whatever it is, provided that the State contributes at the same time at least an amount equal on the average to that they paid, say, in the last 3 months of 1938. We are assuming that in 1938 or the first 3 months of 1939 the State has done about what it could. By freezing it at that you will have gotten out from the States the best they can do. At the same time they would not be able to reduce their share, the wealthier States would not be able to reduce. By this method you will raise the level of all State pensions and you will not endanger yourself with any formula of one-third or two-third ratio, because you will have established at least a definite relationship to the exact possibilities in the State and the actual achievement in the State. It seems to me that is by far superior than any formula that you have before you.

Now the problem here is really a double one. There is also the problem of the wealthier States. The point has already been made, for instance, that even wealthy New York does not take advantage of the Federal $15. New York State pays an average of about $24 and still has $3 to go as far as the Federal Government is concerned.

Now it is, I think, a valuable thing to boost up the average grants paid by the richer States. You can do that by changing only one phrase in the present bill, and I am very sorry to say the House did not change that thing. At the present time the Federal Government pays up to $15 for each individual pensioner. That is, if a State gives anybody over $30 a month the State must pay the money by itself, with the result that a State like New York or Massachusetts does not want to pay too many pensions where the need is for more than $30. If you would change the present words to say that the Federal $15, up to $15, should be paid on the average rather than upon each individual pensioner, it would mean that New York would not hesitate to raise its average from $24 to $30. In other words, New York would raise the present standard by $6, and the States in the country could raise it by almost $11 today. This will essentially give you a system

of $30 a month on the average. To my mind, as the result of my many years' study, I am convinced that when we reach a pension of $30 a month on that average in this country we shall have done as much for our dependent aged as any country has ever done, and that is probably the most we can do under the present conditions. When we get richer we may do better, but it seems to me just this little change in formula can meet your problem in the wealthier States without adding any new difficulties and creating new problems.

The CHAIRMAN. What is the maximum New York pays to the individual?

Mr. EPSTEIN. New York has no maximum under the law, so there are a lot of $40 and $45 pensions in New York, but the average is still $24. My suggestion would just enable New York to raise that up from $24 to $30. Indeed, even if you make it to $40, that will still not meet the problem of the wealthier States. In the cases where New York will have to give $45 it will still have to pay the $5 alone, and therefore will not give them as much as the need will be, but under the average of $30 New York could raise the standards appreciably.

The CHAIRMAN. You mean the $30 including the Federal contribution with the State contribution?

Mr. EPSTEIN. That is right, attaining an average $30.

Senator CONNALLY. Wouldn't that involve a larger Federal outlay to New York?

Mr. EPSTEIN. Yes.

Senator CONNALLY. The average now throughout the country, the average contribution, as I understood yesterday, was $9, and $10 wouldn't change that very much.

Mr. EPSTEIN. I would change it rather to $15, you see. Under our suggestion it would be possible for more States to take the full $15.

Senator CONNALLY. Your plan would very substantially raise the Federal outlay of money.

Mr. EPSTEIN. Not substantially.

Senator CONNALLY. And the rich States would get more advantage from that than the smaller States.

Mr. EPSTEIN. To some extent, yes; but all States would gain. Once you get the Federal $10, let us say, in your State, or Arkansas, or Mississippi, you have got more than the Federal Government gives today.

Senator CONNALLY. Don't compare my State with Mississippi or North Dakota or Arkansas.

Mr. EPSTEIN. Your State average contribution also is not as high as $9. The average total Federal-State payment is less than $15 altogether in your State. Under any conditions, that is the problem you have got to meet, and you have got to meet it in some way by making it possible for the poorer States to give an average grant which is more adequate to meet the actual problems of the aged than is possible today.

Senator CONNALLY. Wait a minute. What I mean is by giving these larger Federal contributions to the States that are rich, that are able to pay more out of their own treasury, which New York is doing, say above the $30 average, you are thereby not leaving as much Federal money for the poorer States.

Mr. EPSTEIN. On the contrary, Senator; no. This is what happens today: New York gets $12 from the Federal Government, which leaves the Federal Government only $3. I should like to see New York take the full $15, you see, and New York will take the full $15 under these changes. On the other hand, Arkansas, which now takes only $3 from the Federal Government would, under my plan, take $10 or $15 from the Federal Government, at least.

Senator CONNALLY. Your plan would involve a very large increase in the Federal contribution.

Mr. EPSTEIN. Not more than about $75,000,000 a year.

Senator CONNALLY. Well, that is $75,000,000. That is a lot more than $50,000,000.

Mr. EPSTEIN. You realize you are spending about $400,000,000 today on that phase alone.

Senator KING. The Federal Government is?

Mr. EPSTEIN. No, all together. Perhaps it would not be $75,000,000 of the Federal Government, it would be less than one-third. What we need is to bring up the Federal average from about $9 to the average of $15, which would be just about one-third.

Senator CONNALLY. Half of what we are spending now.

Mr. EPSTEIN. You have got to raise it from the present $10 to $15, that is about one-third.

Senator JOHNSON. The $9 is State and Federal contribution combined, isn't it?

Mr. EPSTEIN. No; that is what the Federal Government pays on the average. The real problem, gentlemen, is that you must meet the present problem of the differences in pension grants in the different States. For what is most essential today is the fact that while California pays a monthly pension of $33, Arkansas pays only about $6.

That is the thing you have to eliminate—no matter which way you are going to do it you have to be ready to pay more money, and that seems to me certainly a worthwhile effort, because it is a plan where you can spend less money than on other things, and it has less danger of going further.

For instance, I am convinced that the bill before you, the present $40, is dangerous for a lot of reasons. While it will relieve the pressure from you and Congress, it will increase the pressure in States, and it will raise the pressure especially in those States which have had the best organized pressure groups and which have already gone beyond their abilities to pay. I don't want to mention any States here, but I think everybody knows them.

Senator KING. Mr. Epstein, you are not in favor of a policy, are you, of coercing the States by promises of additional grants from the Federal Government? Don't you think the States ought to be permitted to make such contributions as they desire?

Mr. EPSTEIN. I would not coerce them, Senator King, for anything in the world. But Federal grants-in-aid are not coercive measures, and only by doing so will you make possible the elimination of the very evil which everybody points to today, that you have such injustices as between Arkansas, Mississippi, and California, and Colorado, and so forth.

Senator KING. You realize, do you not, that there are climatic and other physical conditions in the United States that determine the cost

of living and therefore ought to be factors in determining the contributions to be made by the State and contributions to be made by the Federal Government?

Mr. EPSTEIN. Under my suggestion we would be doing that very thing because New York would take the full $15, whereas Arkansas and Mississippi would continue only the $3 and the Federal Government $10. They would only have $13, and that is where the difference would be.

Senator KING. You make the Federal Government pay the difference. That is, you relieve the State and increase the burden on the Federal Government.

Mr. EPSTEIN. To that extent; yes. The point is, though, how are you going to answer the argument made by Senator Caraway, and the argument made by everybody else? What are you going to say to the States? Here you are trying to provide a system of old-age protection and you give $6 a month to a fellow in Arkansas. You have got to answer that argument. That is the kind of argument that gives you the Townsend crackpot notions. If anything contributes to the Townsend crackpot notions it is this kind of injustice. You can relieve yourself greatly from a lot of these panaceas if you do the thing right.

Senator CONNALLY. You show us how.

Mr. EPSTEIN. I am showing you, Senator. That is what I am doing. I have been showing you that on old-age insurance—it took you 5 years to accept it. You might as well accept my present suggestion now, because 5 years from now you will.

Senator CONNALLY. You cannot guarantee it.

Mr. EPSTEIN. I will guarantee it.

Senator KING. Who will underwrite it?

Mr. EPSTEIN. Senator King, I do not think I can be accused of being loose with Federal money, or with anybody's money. I have fought in the last 4 years more than anybody in this country for the sake of preventing the throwing out of money. As I come to discuss the old-age insurance program you will find again I am about the only one that still cares about money. So when I am talking about this thing I am not asking you to spend money, I am asking you to do something that is fundamentally and basically right. I do not want to be accused as standing here and saying "Throw your money away."

If you keep the change to raise the Federal grant to $20, you will not raise the pension level but you will merely inform all and sundry that all you have to do is to organize another crackpot group and Congress will raise it to $50, or $60, or $70, or $80. When are you going to stop on this thing? Well, they will say "It is Dr. Townsend that did the job," and the Dr. Townsend movement will grow.

Senator JOHNSON. Isn't the way to stop it by putting the responsibility on the States to match it? Isn't that the way to stop it?

Mr. EPSTEIN. But if Arkansas and Mississippi say—and I think they have a good case—"We cannot do more than we have done," and the fact is they haven't done more——

Senator JOHNSON (interposing). That is up to them.

Mr. EPSTEIN. Isn't Congress responsible to the people of the United States in general?

Senator JOHNSON. It has responsibility to the States.

Mr. EPSTEIN. Not to the people?

Senator JOHNSON. It has responsibility to the States; yes.

Mr. EPSTEIN. And to the people, too. Congress is responsible to the people of the United States, if I read the Constitution right, rather than to the States.

Senator HERRING. Under your plan wouldn't you find more States like Arkansas and Mississippi?

Mr. EPSTEIN. What do you mean?

Senator HERRING. Would not the tendency be that way then?

Mr. EPSTEIN. No; because they could not—because I am providing that no State could reduce what they have contributed during the last 6 or 3 months. You see, they could not possibly reduce.

Senator HERRING. They are going to benefit by neglecting to pass it.

Mr. EPSTEIN. Well, you can put it that way. You know there is always a way of saying why a man is poor, why a man is this and that. You can interpret it in different ways. I do not want to put myself as a defender of Mississippi and Arkansas; I am from New York; but still I am willing to defend States whose economic ability is simply not there to carry out a certain program.

Senator HERRING. You would not include Texas in that class, would you? That is a big State.

Mr. EPSTEIN. I would not include Texas. The Senator is right. The point is this: In the old-age assistance program Congress is setting up a social program to protect the American people. Now it is either going to protect them or it isn't. If you don't protect them you are going to have Townsendism, you are going to have crackpotism to doomsday, and you are going to have a worse problem. One hundred men in the House voted for the Townsend plan, and that is not a small thing. That is a real danger.

Senator HERRING. They promised to do that before they came down.

Mr. EPSTEIN. True, more promised than voted, but nearly 100 remained, and that is bad enough. You have to see that menace, you have to take away the basic danger that lies there today in this fact that people say "You only get $6 a month in the States." So long as you have that, the poor people of this country are starving and we have got to do something for them, or they all will flock to Dr. Townsend's or other movements.

Senator KING. Why do they have to pay $75, $80, and $100 in New York? Many of the citizens in New York have a little house in which to live, and they can get the same accommodations in Arkansas or some other States for $5 or $6, or $7. You have got to take into account climatic, physical, and other conditions in various States. The States can better determine what they can do than Congress. I wouldn't force the States to pay something they do not want to pay. We have got a dual form of Government. It seems to me your philosophy is to throw the States into one great protoplasmic mass run from Washington rather than from their own organizations and their own State governments.

Mr. EPSTEIN. Senator, I agree with you 100 percent. If you can develop a formula, if Congress can develop a formula where you can actually differentiate and know the exact proportion that the cost of living is below in certain southern States as against New York, as

against California, then I would go along with that, but I do not think the difference is between $6 and $32, like California, Arkansas, and Mississippi. I do not think we can justify that. If you are going to apply your reasoning, the same argument applies to the present $15. Congress said we will pay $15 a month. What was the chief reason, Senator, why Congress went up to $15? Because it thought $30 a month would be about an equitable pension in the United States. That is exactly my reasoning. That is what I say. The problem is that today we do not have such a pension system, and the duty of Congress remains still undone until it has accomplished that purpose. We did think it would work theoretically, but it doesn't work practically. I agree with you it isn't a good think, but I think it is a far better formula than the formula suggested before of changing the ratio of the Federal grant; I think it is far less dangerous.

Now on the old-age insurance, this program is, frankly, too good to be true. I never dreamed that we would have a social-insurance program, an old-age insurance program as good as the one before you. As I said before, it will give us the best system of old-age insurance that any country in the world has ever had. I, as one who has been more critical of this program than anybody else, cannot but hail it as destructive.

At the same time, however, I do not think I would be true to myself if I did not caution, standing here as one who has advocated this program all his life, that there are limitations in social insurance as well as advantages. My stand on social insurance is like that of a doctor with the medicine bottle. He prescribes three teaspoonfuls at a time every 3 hours, but when the fellow takes a bucketful at breakfast, he just does something that isn't right. Now, I have the same feeling about social security.

The old-age-insurance program now proposed is one of the best in the world. Whether we will be able to afford it, however, whether we have calculated all its possibilities, is another. I could not, of course, remain true to myself and say that this is not the right program, but I could not again remain true to myself without saying that we are biting off a tremendous lot and we have got to be very cautious as to what we can do and what may happen in that program.

Senator KING. You foresee some governmental and economic problems in carrying out the program, as I interpret your remarks.

Mr. EPSTEIN. The problem, as I see it, is primarily an economic problem, whether we will be able financially to do it without hurting ourselves. There is such a thing as over-eating, isn't there, even though eating is good? There is such a thing, as I said, as taking medicine too much, although medicine in the proper proportion is all right.

I want to especially point out to you that this program represents the most revolutionary change in this country's attitude and congressional attitude. In this program you are literally attempting to abolish insecurity in old age. You are abolishing insecurity not only in old age, but you are saying that wives, widows, dependent children, dependent parents are to be secured to at least a minimum of security. That is as much as any government can possibly do.

But I want also to call your attention to the fact that in doing so you will be throwing out millions of dollars on people who are not

social problems, and at the same time you will be stingy with those who will be social problems. For instance, under this act the next year we will pay pensions to people that are of the Rockefeller type just because they are insured and we will pay annuities to their wives, their widows, and to their children, and so forth.

Now, nobody knows how many there are of these people. I am assured by the Board that there are not so many, but nobody knows. When it comes to getting free money there usually pop up many more people than there seemed before. I do want to caution, you, therefore, that this program is an enormous undertaking, it is a bigger one than that undertaken by any country in the world. It is socially worth while, it is socially desirable, but we must not lose our heads, we must face the realities of the extent of our possibilities and see what we can do.

Senator KING. What particular feature of it, if there was to be some modification, under a cautionary and precautionary plan, should be modified?

Mr. EPSTEIN. There is only one way of doing it, and that, I fear, you will not accept because of the emotionalism that springs into this question and the political complexities. The best way to do it is to eliminate from this program people with high incomes and salaries, who will be getting pensions at 65, and their wives and their widows, who do not need it. After all, this is a program to provide security, but John D. Rockefeller has not come to Congress to ask for his old-age security, has he? Nor do people of his type come to you. The problem of security is the security of the wage-earner, not the rich.

Now it is true there has been a statement made here about the small employers that want it, and they probably need it, and some day when there is a way of discovering how to do it we ought to do it, but certainly the man with $100,000 income, or even with $50,000, or even $10,000 does not need a governmental pension of $30 a month, does he? You will be throwing out $30 a month to him and taking it away from a man whose family is starving. That is a crime.

Senator CONNALLY. You say a man with $10,000 does not deserve taking out the old-age insurance, excluding Congressmen and Senators, I suppose. We might get beat, and then what happens? We might not have that income always. We might lose the money.

Mr. EPSTEIN. That is the story. A few of you will actually become poor in old age.

Senator CONNALLY. I am already poor.

Mr. EPSTEIN. At least you have got your $10,000 while you stay in Congress.

Senator CONNALLY. But I might not stay in it very long.

Mr. EPSTEIN. I think Congressmen ought to be excluded from that classification. I have never considered Congressmen rich. I mean people that really have larger incomes. Of course some of them will become social problems.

But as I said the other day to the House Ways and Means Committee, why not let future Congresses solve some of the problems? Why solve all the problems for all Congresses to come?

Senator CONNALLY. There is nothing ever solved. We are tinkering with it, and the next Congress will tinker with it. Whenever you

solve anything it never needs attention, but this needs attention as long as people live.

Mr. EPSTEIN. With reference to the old-age insurance system, Senator, you are taking on something that will be going a long, long way towards the solution of the problem of old age. I think I would leave some problems for the future to be solved. If this Congress and the next Congress will solve all the problems our children will have nothing to do but just read the Congressional Record.

Senator GEORGE. They might be reasonably busy in undoing some of it.

Mr. EPSTEIN. They may have to. That is the thing I am worried about, and that is why I am cautioning especially since we are undertaking the biggest system of old-age insurance without a penny of contribution from progressive taxation.

Now one provision that I would like to ask you to cut out in this section is the one which deals with receipts for employees. That is something new in the section which provides that employees should get a receipt from the employers, showing their wages, their contributions, and so forth.

Now I am against it, for this reason: That it can do no good, and it will do a lot of social harm. One of the most important things in social security is not to overload, overburden the employers and the people. Any time you can eliminate an administrative difficulty, do it, even though you have to sacrifice certain things. While this will not affect the large employers, it will harass the small employers and you will have a hundred thousand employers, or half a million of them, cursing you and saying, "The damned Government wants me to do this and wants me to do that and the other thing." What good will it do?

They say the employee wants to know. Well, the employee that wants to know his record knows it, I can guarantee you that, but the employee that doesn't know is the one that will throw the envelope away as soon as he gets it. I do not see any use in instituting that kind of annoyance; it has absolutely no social value and at the same time creates antagonism and hatred to this program, which is surely uncalled for and unnecessary. For the big concerns there will be no problem, they will do it anyway, but it does bother the small fellows, and they are the ones that shout the loudest.

Now I just want to say a few words on the unemployment insurance charges. I think I am pretty much in agreement with what Dr. Brown has said on this question. I am appealing to you to cut out, or to throw out the McCormack amendment for pretty much the same reasons, except again I want to make it more emphatic. No one today can defend our unemployment insurance laws as laws meeting any social problem at all. These are strong words, but I said them before and I am going to continue to say them. The present benefits under unemployment insurance are geared in a social vacuum, they have no relationship to the problem of unemployment. The fact is that, although this system seeks to do something better than relief, and to substitute for relief, in not even 10 percent of the cases has it affected the relief rolls, because our benefits are based not on the actual needs of the unemployed, but on the wages that they earned before. So the fellow who earns most get most, even though he may not need it, and the fellow who earns the least gets the least, and he

does need it. If that is a social system I do not know what an unsocial system could have been.

So at this time when we haven't gotten the first fundamental understanding of unemployment insurance, we could do nothing more foolish than to gear our system in addition to reserves accumulated thereby adding error upon errors. The reserves that exist in the States today are not due to the fact that the money that they get is sufficient for the benefits to be paid, the fact is that the benefits are worthless, the fact is that the laws do not accomplish anything.

So what should be our first consideration? Shall we make the law work in some place to meet actual conditions, or shall we gear it to something new and irrelevant, such as the reserve fund? Take the District of Columbia. The needs here are not met, because the relief rolls in the District have not declined. The same is true of any other State in the Union. What we want, therefore, is to have the system act as something better and in place of relief. But if you are going to continue relief and then gear this thing to a completely unsocial and irrelevant thing, you are just simply making it worse than it is today. So I would agree with Dr. Brown. I would say if you cannot do better retain at least the requirement of 2.7 percent of contributions, and if you cannot do that keep it at least the way it is today, and let us have a committee or a council appointed, the same kind you had before for old-age insurance to study the problem for a year, or two. We will then understand the problem of unemployment insurance as we understand today the old-age insurance question.

The McCormack amendment came in the last day. Nobody ever heard of it before. The hearings did not touch upon the problem. All of a sudden somebody in Massachusetts discovered an idea, and they came to Congress and in it goes into this bill. Nobody had time to discuss it. This is the first time that this issue has been raised by anybody before any committee of Congress.

All the present errors are due to the fact that we haven't a basic understanding of what we are after in unemployment insurance. I think if you cannot do anything else, gentlemen, leave the present act stand as it is and let us have a committee to study the problem and to enlighten you as to what really should be done.

I do not need to say much more, I think, on that, because Dr. Brown has covered most of the issues and we generally agree. I would, just in conclusion, like to make a few suggestions. I know that they will not have much effect on your committee, because you are not going to do very much more than what this bill says, and my suggestions involve basic changes.

I still believe that the whole present tax-credit system of unemployment insurance is a silly system. It is an administrative monstrosity. I think that the tax ought to be collected by the Federal Government at the same time when the old-age insurance tax is collected. It should be one tax. The employer should pay the same tax to the Government, and then the Federal Government could pay to the States the money as they are paying today. Nothing seems to me a greater insanity than for every employer in the country to carefully divide his tax dollar for unemployment insurance so that 90 cents of it goes to the State fund and 10 cents to the Federal Treasury and then for the States to ask the Treasury for the 90 cents and the Social Security Board for the 10 cents. I do not see anything more

monstrous administratively than this kind of a proposition. There is no reason why the Federal Government could not collect the money and give it to the States on the basis of proper standards. The standards, by the way, that are proposed in this bill are good; I am for them, except they are meaningless anyway.

I see there is quite an opposition to the standards. I do not see why people fight about vacuums. Even if you should accept all the new standards they will really not mean anything. For there will be no fundamental improvement in our unemployment insurance system until the benefits are graded in scale so that the man with seven children can get more than the single man. There is no use fooling ourselves. For the same man to get both unemployment insurance and relief is just silly and stupid.

You must meet the problem that you set out to meet. The fact whether a man gets $5 a week or $3 a week means very little. If the man in New York City, or in Massachusetts, is getting $5 a week and he has got 10 children, that standard doesn't mean anything. A period of 16 weeks at four or five dollars a week doesn't mean anything if he has got a family.

I am raising this matter merely, gentlemen, because I am simply showing you the problems that still underlie this program. It will not be corrected until a council like I suggest will be created, because the same problems, gentlemen, the same issues I raised before you on old-age insurance 4 years ago, confront us today with reference to unemployment insurance. Everyone called me every name on earth in the last 4 years, but today you are accepting the very suggestions I made in old-age insurance, largely because a committee of representative citizens, responsible people, was able to give time to study the subject.

After all, social security is entirely new in this country. Until 4 years ago there was not a university in this country that gave a course on that question; there wasn't anybody that knew anything about it. We are just beginning to learn, and we can learn only by very comprehensive and thorough studies.

Senator KING. It might be a good idea to continue this committee, the committee that has been making this study?

Mr. EPSTEIN. Perfectly. I think Dr. Brown made a real and genuine contribution. I would not want anyone better as a chairman.

I am not going to go into the minor standards, because I hope I will be able to talk about it to the committee that you will create. After all, these are technical things and ought to be discussed thoroughly. I do want to urge upon you, in conclusion, merely that, after all, the old-age insurance issue 4 years ago was as obfuscated as the issue of unemployment insurance is now. That the citizens' committee was created to recommend changes. I am saying to you that the bill before you today creates the same obfuscation in unemployment insurance, and creates dangerous trends in its assistance program and only a thoroughly responsible group, which can give the time to study the subject, can really enlighten Congress as to what should be the right step.

There is also this: When you do something everybody jumps at you and says this and that, but when a thoroughly responsible committee recommends something, it silences everybody.

We have all noticed one of the most astounding things regarding the advisory council report. I read at least a thousand editorials on it. I have to do it, not for pleasure—and the most astounding thing was the unanimous acceptance of that report, and yet that report was the most revolutionary thing. For 4 years I preached the very recommendations and everybody called me names, and even a sell-out to the Republicans. [Laughter.] Then the advisory council endorsed it, and Dr. Brown and the advisory council even endorsed a Government contribution, which has been one of my main contentions, yet the country accepted the council report with almost one voice.

I am saying to you Congress could not do better than get a corrected understanding by having a committee like that. Let them take the responsibility, and I am sure a responsible committee will be able to really make genuine corrections in the present system.

Thank you very much.

The CHAIRMAN. Thank you. The committee will recess to 2 o'clock this afternoon.

(Whereupon, at the hour of 12:15 p. m., the committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

Mr. Fred S. Wilson. Mr. Wilson represents the American Institute of Laundering.

STATEMENT OF FRED S. WILSON, SAN JOSE, CALIF., PRESIDENT, AMERICAN INSTITUTE OF LAUNDERING, JOLIET, ILL.

Mr. WILSON. Mr. Chairman and fellow members of the Senate Finance Committee, before I go into this discussion I would like to make it very plain that I am simply a businessman from California. I own and operate two laundries out there, and in making this presentation I am making it from the standpoint of a man operating laundries in the laundry business and in no sense from a professional standpoint.

I have been traveling throughout the United States for several months past and contacting hundreds of laundry owners at State conventions, both in the East and the Central States, and in the West, and the ideas that I shall put forth today are ideas that I have gathered, and are endorsed by the industry covering the entire United States.

I will present first a brief picture of the standing of the laundry industry as compared with other industries, and particularly as it relates to the standpoint of workers involved compared to other industries, and how our profits have declined over the past several years, and how our industry is affected by the unemployment taxes, and particularly how the assessment of the unemployment taxes on the present basis in our opinion is unfair to all high-pay-roll industries.

Senator KING. You mean large-pay-roll industries?

Mr. WILSON. Yes; large-pay-roll industries. I called it "high" and thought it would be the same. By "high," I mean a large or high percentage of sales paid out in wages.

And finally to offer a suggestion as to how that could be eliminated partially at least to assist those industries having a large pay roll in proportion to sales.

My name is Fred S. Wilson. I operate the Red Star Laundry of San Jose, Calif. As president of the American Institute of Laundering with headquarters at Joliet, Ill., I am speaking for the commercial or power-laundry industry of the United States.

Senator KING. What do you mean by "power laundries"?

Mr. WILSON. Laundries operated by machinery, other than hand laundries.

The American Institute of Laundering was originally organized as the Laundryowners' National Association in 1883. Its active membership is made up of more than 2,100 power laundries located in every State in the Union and in every city large enough to support a laundry. Individually, its units for the most part may be regarded as small, but collectively they represent an industry employing more than 200,000 workers regularly. The 1938 sales volume of power laundries is conservatively estimated at $420,000,000. Of the more than 200,000 workers employed by the power-laundry industry, 75 percent are women. From an annual sales revenue of $420,000,000, approximately $231,000,000 are distributed as wages and salaries.

It is the considered opinion of the power-laundry industry that the purposes to be accomplished by the Social Security Act are sound and should be provided for by legislation. We furthermore are in sympathy in principle with the old-age-benefit sections of the act. However, we do contend that the present basis for collecting unemployment-compensation taxes is inequitable for the power-laundry and other high-pay-roll industries.

I will not read the rest of this brief, but I would like to submit it for the record.

The CHAIRMAN. Very well.

(The remainder of the brief submitted by Mr. Wilson is as follows:)

INEQUITY OF UNEMPLOYMENT-COMPENSATION TAXES

This contention of inequity is borne out by statistical information compiled by the Department of the Census. In the 1935 Census of Manufacturers, covering 280 manufacturing industries, it will be found that the total pay roll of these industries averages 21.5 percent. The 1935 Census of Power Laundries shows that the total pay roll for the power-laundry industry averaged 55 percent. With wage increases that have occurred within the industry since that time, as reported in a survey taken in 398 laundries in all parts of the United States, in 1938, 58 cents of each dollar received was expended in pay roll.

The unemployment-compensation tax imposed on industry is a pay-roll tax. It is measured solely by total wages. The act fails to recognize the well-known and accepted distinction between a service industry, like laundering, and a manufacturing industry. A service industry sells labor; wages are definitely its raw material. A manu-

facturing industry buys and sells goods; commodities are raw material. Because laundries by the very nature of their work, buy and sell labor, a much larger percentage of their revenue dollar is consumed by pay roll.

Since pay roll in the laundry industry is such a high percentage of revenue, and inasmuch as unemployment compensation is based on pay roll, it is a fact that the tax burden is greater for laundry owners than for the vast majority of other employers. For example, if the 1939 unemployment-compensation tax rate of 3 percent paid by the employer is applied to total pay rolls as shown by the 1935 census reports for manufacturing and laundering, it is found that while the average unemployment-compensation taxes paid by 280 manufacturing industries amount to only 64 cents of $100 of revenue received, the taxes paid by the laundry industry amount to $1.65 for each $100 of sales, more than 2½ times the average percentage paid by all manufacturers. This is the inequity which we believe should be corrected.

A LOW-PROFIT INDUSTRY

For the 10-year period of 1928–37, the average profit of the power laundry industry averaged 1.2 percent. The 1938 profit of the laundry industry from statistics just compiled was 0.51 percent. When the total social-security taxes for employers reach their maximum of 6 percent, they will amount to an increased cost of more than 3 percent of sales, or 1.8 percent more than the industry's average profit over a 10-year period. If the effect of such taxes will be to increase the number of nonprofitable laundries, the result will be to the detriment of the industry as a whole. Laundries forced out of business will add to the already serious unemployment problems.

PRICES CANNOT BE INCREASED

Peculiarly, this tax discrimination cannot be passed on to the consumer by means of increased prices. Experience has taught the laundry industry that increased prices result in drastically decreased volume. It should be realized that laundering can be done in the home, and when prices reach a level that consumers feel is too high, they do the laundering themselves. In other words, the major competition of our industries is not other laundries but rather the home itself. Laundries cannot recover increasing tax costs by increasing prices.

UNEMPLOYMENT IS A GENERAL PROBLEM

The fact that service industries have a higher ratio of employees is no justification for the unequal tax levy now being paid. To hold otherwise is to penalize an employer because he chose to sell service rather than goods.

As far as the proceeds of the tax are concerned, no attempt has been made to earmark them for any special group. The funds collected go into a general fund to furnish compensation to the unemployed of all industries. There is no theory behind the general law that each industry should be required to care for its own unemployed. If there were, then the Federal law would have to recognize many factors other than total wages or number of employees. In the laundry

industry, for example, there would have to be a compulsory recognition of its remarkable record of stabilized employment. According to the 1935 census, employment by power laundries for the peak month of August was only 2.8 percent above the average for the entire year and employment for the low month of January was only 2.5 percent under the yearly average.

The law, however, recognizes unemployment as a general problem. For this reason, no one type of industry should be required to bear an unequal burden. The measurement of taxation should be such as to require each employer to contribute fairly equally to the general fund.

THE REMEDY

The laundry industry believes that the remedy is fairly obvious. The statute should reflect the universally recognized distinction, between a service and a manufacturing industry. There is ample precedent for this distinction. The tax measurement should either be changed to recognize this distinction, or the tax rate on unemployment compensation for high pay-roll industries should be reduced to wipe out such a serious discrimination as now exists. This latter proposal can be accomplished by amending paragraph (3) of section 901 of the act to read substantially as follows:

With respect to employment after December 31, 1938, the unemployment-compensation tax rate shall be 3 per centum, except that where the total wages paid by any employer are in excess of 30 per centum of his gross sales the rate on such excess shall be 1 per centum.

Mr. WILSON. I think it is well to know something about an industry if we are going to talk about it, and speaking of the laundry industry from a standpoint of employees, from a list of 280 industries, a list taken from the United States Bureau of the Census, we stand eighth in number of employees. That is, taking into consideration 5,981 separate plants, the average plant doing a business of about $1,400 a week.

We have here [referring to charts] the cotton manufacturing industry, 383,000; steel and rolling mills, 359,000; women's apparel, 259,000; lumber, 255,000; printing and publishing, 245,000; knit goods, 219,000; bakery products, 218,000; and laundries, power laundries, and that does not include the Orientals and small hand laundries, 208,000. For instance, in New York City, I think there are three or four thousand small hand laundries, and many of them are the Orientals. So we stand eighth with 208,000.

Now, part of our trouble is due to the fact that our profits have been continually decreasing. The trend of the laundry profits has been downward. In 1928 they were 9.5 percent; in 1930, at the beginning of the depression, they decreased to 2.23 percent; and in 1932, the depression caught up with us and we took a loss of 4.81 percent; in 1934, 1.44 loss; and in 1936, with a little increase in volume, and higher, perhaps, efficiency in some of the plants, due to the necessity, 1.9 profit. In 1937, a drop again, perhaps due to increased taxation, and it was 1.35; and in 1938 we only made a half cent out of each dollar of income.

To explain that further, that half cent on each dollar of sales or income is more than on the invested capital, because the last figures

that I know of, the invested capital is about 1.15 for every dollar of business that we do.

This is a graph [indicating] which shows the rapid decline of the profits, social-security taxes alone for laundries, exceed the average 10-year 1.12 percent profits of our industry.

Beginning in 1928 we have that 9.5 cents profit on each dollar and that immediately dropped to 8.5 in 1929; took a very fast drop to 2.5 in 1930, and down to practically zero or 0.1 cent on each dollar in 1931. Then we took a big drop in 1932 and 1933. It shows a loss, as I showed on the other page, of 4.8. Then we started to go up with an increase in the volume and more efficiency, and now we are going down again until we arrive here at a loss, or rather a profit in 1938 of only one-half of a cent or 0.51 out of each dollar of business.

This chart [indicating] shows a loss in profits or the decline in profits compared to the decline in the volume of our business. Starting in 1929, over a 10-year period, we finally land here, and the serious part here is the fact that our volume is down only 26 percent in 1938, but our profits have dropped 95 percent. In other words, with a decreased volume of only 26 percent, we are only able to make a half of 1 percent, where 10 years ago we made 9.5 cents out of each dollar of business.

Now, what do these taxes mean to our industry? If you will question the philosophy of old-age-benefit taxation paid by workers and employers alike, and certainly we do not, we are perfectly satisfied that old-age benefits and help to the needy is absolutely all right, and we have no contention whatever, but it is all based on unemployment insurance that I am talking about today.

Since unemployment taxes are based on pay rolls, high pay-roll industries are taxed inequitably. The tax is on the pay roll, so if you have a high pay roll, naturally your tax is more.

This contention of tax inequity was stressed before the House Ways and Means Committee on March 7. At that time we furnished them with a statement of our contention, and we also had this statement, extra copies of it, and we will be very glad to submit it to the members of this committee if they so desire.

Senator KING. What do you seek to indicate by that red circle?

Mr. WILSON. That is a little dramatics to bring out that paper.

In proof of our contention of inequity, let us examine the record. First, what is our record of employment, and second, what is our tax compared with that of the other fellows?

Government census figures of 1935 show first: Our lowest employment month was 97.5 percent of the average month's employment of 100 percent. In other words, the employment for the entire year, taken as 100 percent, at no time did we drop more than 2.5 percent below the average for the year.

And secondly, our highest employment month was 102.8 percent of the average, which means we only had a variation of 5.3 during the entire year of 1935, demonstrating clearly that we run a business of very stable employment, and therefore do not need, of course, or do not consume, at least, so much of the relief money as some other businesses do that have a big variation in their employment record.

The laundry industry is a high pay-roll industry. Over a 10-year period 55.1 percent out of every sales dollar was expended for

pay roll. Out of every dollar that we took in from the sale of our service we spent 55.1 cents to the worker.

The percentage out of every sales dollar expended for pay roll by laundries during the past 3 years has been:

1936, 55.3 percent; 1937, 55.8 percent; and 1938, 57.7 percent.

And that is why we are worrying at the present time, it is continually going up.

Now, this is where I want to bring out, partially, at least, the reason for the point I am trying to make. The total pay roll for 351 manufacturing industries in 1937 was only 21.1 cents on every sales dollar. While in the laundry, as I said before, and as shown in this graph, it was 55.8 cents, against the average of 351 manufacturers, large manufacturers, and these manufacturing industries are taken from the Census Bureau figures, 21.1 against 55.8.

Thus, a 3-percent unemployment compensation tax for 351 manufacturing industries, averaged only 0.63 percent of the total revenue.

That is, in the class that had a 21.1 average pay roll.

Power laundries pay an unemployment compensation tax in comparison to the one you just looked at of 1.65 of total revenues, and this is definitely a case of inequity and is the basis for our contention today that the tax, insofar as the laundry industry is concerned, is applied unfairly, or other high pay-roll industries. This is 2.5 times the tax of 351 manufacturing industries.

Senator KING. Will you explain, before you conclude, why there is this discrimination or, rather, how it arises, this disparity?

Mr. WILSON. I think that will be cleared up by the time I get through.

Social-security taxes paid in 1938 by laundries amounted to two-thirds of their total taxes. All our taxes represented by the circle and the red lines here [indicating] represent what we pay for social security. So it is to us becoming a very serious matter.

Profits of laundries in 1938 amounted to 0.51 percent of the sales; laundries paid social-security taxes in 1938 amounting to 2.32 percent of the sales, or 4.5 times the amount of our profits.

I ought to make this clear: Your first thought might be, why not raise your selling price. Well, to speak plainly, we are between the devil and the deep sea on that subject. If we raise our price, our volume drops immediately because we have definitely uncontrolled competition in the home and in the small hand laundry by Orientals. If we raise our price to offset these increased taxes, our volume drops immediately, and we don't get anywhere. So that on that account we cannot collect it from the consumer, we have to take it out of what we are already getting, and it is becoming too burdensome to stand, and certainly it is becoming burdensome on the entire industry, and it is a question whether the industry is going to survive very well in the next few years if it continues in that way.

But we seriously question the ability of high pay-roll industries to survive if the existing schedule of taxes is permitted to remain unchanged.

In going through the country, I know the condition that exists in our business. I have visited many plants and talked with many thousands of laundry owners, and I know that the condition of their plants is becoming very alarming; in other words, they have been consuming their depreciation set-up to pay taxes, and other new

expenses, increased labor and all that, and when our volume goes down, naturally our overhead goes up in proportion. So these plants have been at a standstill, and when the time arrives when replacements must be made, the money won't be there with which to make it.

Unlike most industries, power laundries cannot pass such a tax on to their customers. Our customer is our own competitor. I commented on that a few minutes ago. That is the housewife, the maid, home equipment, the Oriental. The minute we reach a certain level in the charge for our service, it doesn't come in.

Now, the American Institute of Laundering, the national trade association of our industry, recommends amending the unemployment compensation provisions of the act, and this is the recommendation.

The CHAIRMAN. Before you get to that, may I ask you if, in the last 10 years there has been any increase in the services rendered by laundries on the articles that they have laundered?

Mr. WILSON. Do you mean different kinds of services?

The CHAIRMAN. Did they increase the prices charged?

Mr. WILSON. No; the prices are less.

The CHAIRMAN. Today?

Mr. WILSON. Yes.

The CHAIRMAN. There has been no increase then?

Mr. WILSON. No; no increase in prices; the price is down 15 to 20 percent. We recommend applying the present 3 percent tax to the first 30 percent of gross sales to total pay rolls, and reduce the tax to 1 percent for any pay roll percentage in excess of 30 percent of gross sales. This would apply to every industry.

In other words, if you had a pay roll over 30 percent, anything over 30 percent, to reduce from 3 percent to 1 percent. I would like to make a few figures on this paper.

Take the present weekly laundry sales in both of these cases of $1,000. Now, then, our pay roll today is 57 percent of our total income. So, we will take a pay roll at 57 percent, and we get $570. Now, then, according to the recommendation we are making, we take 30 percent of the $570, which equals $17.10. Now, that is the present tax we are paying, unemployment tax. Now, again, we will take the same $1,000 and we will take $570—I won't write this all out.

Senator CONNALLY. You mean 3 percent, don't you, instead of 30 percent?

Mr. WILSON. Yes; that is correct.

Now, then, we will take the same $1,000, but a 57 percent pay roll will again be $570, and 3 percent on the first 30 percent would be $300; 30 percent of $1,000 is $300, which would be $9. Our sales are $1,000, and we take 3 percent on the first 30 percent of sales. Then we take 1 percent on the 57 percent, which would be $2.70, or $11.70 against $17.10, or a difference of $5.40, or a reduction of 31 percent.

That is the recommendation that we make for high pay-roll industries.

Senator KING. What industries would be included in that category?

Mr. WILSON. Well, that is one thing I can't furnish you with—a very large list. One is the coal industry, and that runs up, I think, close to 68 percent, or something like that. I think I do have some here, not the highest, however.

Clay products are 39 percent; foundries are 46 percent; furniture is 33 percent; hardware is 37 percent, machinery, not classified elsewhere, 34 percent; printing and publishing, 35 percent. Coal products are 68 percent, I think. I can't think of any more at the present time.

Senator KING. I have had a number of letters, several hundred, I think, from the lithographers, and what not. Would they come within this classification?

Mr. WILSON. They come under printing, I think, as 35 percent; that is, printing and publishing, 35 percent.

Senator KING. Your suggestion, then, applies not to your industry alone, but to all of those that you have included in that last statement?

Mr. WILSON. That is right, those who have a pay roll in excess of 30 percent of their total sales would be the benefactors, and that would be quite a list, but we haven't got that list here, we haven't really referred to it.

Senator KING. Wouldn't that be rather an uncertain and fluctuating standard to write into a law, and to apply in the ascertainment of the taxes which will be paid, and the benefits which will be received?

Mr. WILSON. I don't know about the benefits, but I don't think it would be cumbersome to assess it on that basis because we pay the 3 percent on a certain figure, and we know what our pay roll is. If it is 57 percent at the present time, it is 3 percent of that 57 percent. If we pay 3 percent and 1 percent, it is 3 percent on the $30 and 1 percent on the $27. That is how simple it would be.

The CHAIRMAN. Have you anything else to add, Mr. Wilson?

Mr. WILSON. No; I think that is all I have. If there are any questions I would be glad to attempt to answer them.

On behalf of the industry I wish to express our appreciation for being able to appear here today.

Senator KING. Did you make a similar statement before the Ways and Means Committee, Mr. Wilson?

Mr. WILSON. No, sir; our vice president, Mr. Warren, did, though. His brief is on file.

Senator KING. Did he utilize the charts to which you have invited our attention?

Mr. WILSON. No; he didn't have charts, he read briefs very similar to the one that I have filed here for the record.

The CHAIRMAN. Thank you very much.

Our next witness is Mr. Walter D. Fuller, representing the National Association of Manufacturers.

STATEMENT OF WALTER D. FULLER, CHAIRMAN, ECONOMIC SECURITY COMMITTEE, NATIONAL ASSOCIATION OF MANUFACTURERS, AND PRESIDENT, CURTIS PUBLISHING CO.

Mr. FULLER. I speak as a businessman speaking for a business organization. I have appeared before the Ways and Means Committee on this same subject, and I touched on certain matters in connection with the Social Security Act in that testimony which I shall only touch on very briefly here, in order to conserve your time.

It seems to our association and to most businessmen that one of the major problems that we all face is the problem of unemployment;

the getting of people back to work. Almost everyone agrees with that; I don't think there is any argument about it. Business makes jobs; that is one of the things that business has to do in society, to make jobs, and everything ought to be done to make it just as easy for business to make jobs as possible.

Obviously, the more business, the more jobs, and therefore anything that can be done to stimulate business makes more jobs, such an accomplishment is better for all of us, while anything that affects disadvantageously the creation of work, works to the detriment of our economy as a whole.

In that connection, of course, the whole question of taxation arises. I am not going to go into that matter today because you gentlemen are in it, I know, all the time, but I do want to point out the importance of taxation as a factor in our present business economy.

I appear before you today in my capacity as chairman of the economic security committee of the National Association of Manufacturers. It is my purpose to comment very briefly on certain items in the pending legislation which were considered during the public hearings before the House Ways and Means Committee and to then discuss some important items in the pending bill which were not discussed during the previous public hearings.

We believe that the bill enacted by the House of Representatives is a distinct improvement over the present one in at least two important respects. In the first place by freezing the old-age annuity tax at its present level until 1943 it definitely abandons the theory that an eventually huge reserve should be built up out of which old-age benefits would be paid and likewise avoids an increased tax next year which would amount on the average to an estimated 15 percent additional tax burden on industrial taxpayers. The second distinct improvement over the present act which appears in the House bill is the provision limiting the unemployment compensation tax to the first $3,000 of individual salary. This tends to bring uniformity by putting the old-age and unemployment compensation taxes on the same basis.

Basing our opinion on the statement of the Social Security Board that the changes proposed in the old-age benefit structure over the long period will cost no more than the original schedules, we feel that such changes are a step in the right direction.

I may say, gentlemen, if you are not already aware of the fact, that I was a member of the Social Security Advisory Board. I signed the report of that committee, although I disagreed on certain points, as is outlined in the actual report.

Senator VANDENBERG. You were one of the minority that favored the freezing immediately of the pay-roll taxes?

Mr. FULLER. That is correct.

I now propose to present to this committee criticisms concerning some provisions of the pending bill and definite suggestions relating thereto which we hope will prove helpful to this committee in its deliberations. Permit me to say, as positively as I can, that the suggestions we make are designed to be fair to the taxpayer, to the employee, and the public. Certainly we have no desire to reduce in any way the existing or subsequent rights of eligible persons to either old-age annuities or unemployment benefits.

Before I go on with my comments in connection with the unemployment portion of this act, I would like to say that the comments which were made this morning by one of those who testified, with relation to the maintenance of the present 1-percent rate for several years, is not included in any statement which I have made here because it was covered in my statement before the Ways and Means Committee. I only mention it because I totally disagree with the gentleman who made the statement. I think it is most important to business as a whole that we should maintain the present rate during the present days of stress. As a matter of fact, I would have covered this in the statement which I am making today, if I had not supposed that this change was accepted by Congress. I only mention the matter because my reasons are outlined in the statement I made to the Ways and Means Committee.

Senator VANDENBERG. Of course, I entirely agree with that attitude I am just wondering when, in 1943, we are suddenly confronted with a 100-percent increase in these taxes, what happens to your psychology then.

Mr. FULLER. I think we have to face that condition in the light of what may happen to our business economy in the next year or two. As a matter of fact, I am hopeful that there will be a condition which may make it possible for us to look at that situation quite practicably when that time comes along. I don't know the answer, I do know that the increase in 1941 might throw us back into a business decline again.

The statement was made this morning that the amount of money involved was small. Well, it is about $800,000,000, and $300,000,000 in this day is a very serious factor in the business picture. You have just heard a gentleman from the laundry industry tell you something of the profits of that business. I could tell you a lot more about other businesses if you gentlemen wanted to hear them.

Senator VANDENBERG. The rate of tax inevitably is related to the amount of reserve which we conclude is necessary.

Mr. FULLER. That is right, sir, and you have very adequate reserves at the present time to handle your needs.

Senator VANDENBERG. Do you agree with the suggestion that the rate of reserves should be three times the maximum load in any one year?

Mr. FULLER. I wouldn't want to answer that, Senator; I haven't studied it. I do know this, we will have by January 1941, probably somewhere in the neighborhood of a billion and a half dollars reserve; in addition the annual income will probably be somewhere in the neighborhood of half a billion dollars a year. The cost of pensions in the earlier years will probably run well under that $500,000,000. Under the circumstances, it seems to me foolish to talk about an increase at a time when we have adequate reserves, when our annual income is more than we are going to need, and when we are in a serious depression, and perhaps just beginning to pull ourselves out of it.

Why take a chance on throwing ourselves back again when we are in that position? However, this is impromptu, I hadn't expected to even talk on the subject.

Senator KING. Your contention is that increased taxes, whether through the social security or through the operation of our revenue laws, are deterrents to business revivals?

Mr. FULLER. Senator, I can prove that to you backwards, forwards, and around the corner, if I had time to do it. There is no doubt about it. It is the principal reason for the present unemployment situation. However, that is another subject.

I direct your attention to the fact that in section 1426 the definition of "employee" in connection with the old-age annuity tax has been changed so that outside salesmen are included even though no employee relationship actually exists. This is made very clear in the report of the Ways and Means Committee which says concerning this particular section:

> In the case of salesmen, it is thought desirable to extend coverage even where all of the usual elements of the employer-employee relationship are wholly lacking, and where accordingly even under the liberal application of the law, the court would not ordinarily find the existence of the master and servant relationship.

We believe there can be no justification for inserting in the Social Security Act a provision imposing taxes on employers with respect to individuals in cases where it is specifically recognized that there is no actual relationship of employer and employee.

I would like to step out of my character as representing the National Association of Manufacturers for a moment at this point, and present myself as vice president of the National Publishers Association, because this is of very serious importance to the publishers of this country. It is a long story and it would take too much of your time to justify my going into it in full detail, but in the early days of the Social Security Act, there were many problems that were presented to the publishers of this country in connection with this very type of definition. The matter was taken up with the board, and ultimately an agreement was reached as to who were employees and who were not. It took several years to do it. Today it is operating successfully and is satisfactory. The change which is suggested would immediately upset that whole situation once more.

It is not alone in the publishing business that that is true, but in others; it is particularly true in the publishing business where we have large groups of commissioned employees who work for very small commissions. A housewife takes two or three subscriptions during the year and sends them in, perhaps, around Christmas. She gets a small return for that, perhaps a dollar or two a year. The record keeping, if it were necessary to record these persons as employed would be far in excess of the value of the work done.

As far as we can tell, in a very hurried computation, there are about 500,000 people in the United States who get some very small income in that fashion. Probably 400,000 of them run only a few dollars a year. It is impossible for us to go back to those people and find out whether they also take subscriptions for another magazine, let's say, because if they do, they are agents and not employees. On the other hand, if they take subscriptions only for one publisher, then under this interpretation, they are employees. It is an exceedingly complex situation, one I am sure you don't want to take time to go into, but if some arrangement could be made by which this could be adjusted, in conference, as we have adjusted it in the past,

I am sure it would result in satisfaction to everyone. We have no desire to do anything except that which is best for all concerned. We believe the present arrangement is in that capacity.

Senator KING. I received a number of letters and telegrams this last week protesting against this modification or this change in the law, and two or three of the persons I know. They are employed during the day for 6 or 7 hours. Then at night, or in the evening, or after their dinner, they accept some sort of a commission to go out and sell soap or sell this or that, or write insurance; they may work 1 day a week, or 2 or 3 or 4 days.

Mr. FULLER. Or a few hours once a week.

Senator KING. Yes; it would seem very difficult to classify them, name them as employees and subject them to the provisions of this act.

Mr. FULLER. That is exactly my point, sir, plus the fact that it isn't even as much as you speak of. At times they spend only an hour or 2 a month. If they sell something else, they automatically become an agent. If they only sell that one thing, they are an employee.

Senator CONNALLY. Wouldn't the test be more of the character of the relationship, rather than whom they worked for or how many they worked for?

Mr. FULLER. Well, the rule, as I understand it, would be: If they worked for more than one person they would be an agent.

Senator CONNALLY. Suppose they are working on a commission basis, they ought to establish a standard, if they are on a commission basis or a salary. If they are on a commission basis, they are more or less of an independent operator themselves.

Mr. FULLER. Yes, sir. Senator, I am sure there is no question about this, but I would be sorry to see a rigid rule in there that couldn't be handled flexibly by the attorneys or representatives of the Government, because I know it could be easily adjusted and yet, on the other hand, if it is made rigid, we might be in a position that would be exceedingly awkward.

Now, I will step back as the representative of the manufacturers. There seems to be considerable sentiment in Congress for further relief for the employer in the way of additional tax reductions as as regards social-security taxes. Specifically, an attempt has been made in the House bill to afford the taxpayer some relief in the payment of his unemployment-compensation tax. While we naturally would welcome any reduction in the present unemployment-compensation tax, nevertheless, we do not feel that a reduction should be made in such a way as to endanger the ultimate success of the program. The amendments to section 1602 provide two alternatives: (1) That the State tax should be an average 2.7 percent or (2) that a State could by action of its legislature make a reduction in its unemployment tax providing it adopted certain minimum Federal standards regarding benefit payments. In regard to the first of these it is our feeling that we have not yet had enough experience to know just what average rate of tax will be necessary to finance a reasonable schedule of benefits. It would be unfortunate, if not disastrous, to have the law require a 2.7 average, if adequate benefits could be financed at a cost of 2 percent. On

the other hand, if a greater amount than the 2.7 were required it would again need the action of the legislature to increase the tax.

As to the second alternative, on the face of it, it would seem that this would provide for a reduction, which both the majority and minority members of the House Ways and Means Committee have estimated might amount to $250,000,000 annually in those States which now have the required reserves. This reduction, however, might obtain for only 1 year in view of the fact that it is based upon experience under the present schedule of benefits. This alternative provides a Federal standard of benefits which must be adopted by the individual States before such tax reduction can be made. It is our feeling that if the individual States in order to avail themselves of this supposed tax reduction adopt the standards set out in the bill as reported by the House, that after a very short time increased cost certainly will result which would offset or possibly more than offset the supposed reduction.

It is reported that the Social Security Board's own estimate of the average increased cost of the benefits in the several States under the Federal requirements would approximately be 20 percent. The Board's estimates would mean between $100,000,000 and $200,000,000 additional annual cost, thus offsetting the alleged and widely advertised tax savings. Estimates made in some States indicate an extra cost of 30 percent, rather than the Board's estimate of 20 percent. The intent of the original act was to leave the question of benefits entirely to the States. It is our feeling that it should be left there.

Either of these alternatives would effectually endanger the free operation of experience rating which is definitely provided for in the present act. At this point I would respectfully call attention to the statement of your committee which accompanied the original bill referred to the floor of the Senate:

> Everyone will agree that it is much better to prevent unemployment than to compensate it.

And gentlemen, again I say what I said before your committee last spring, that the incentive principle is of vital importance in this whole affair, and just so far as that can be established and carried forward the plan will be successful.

In other words, the underlying purpose of such acts is to regularize or stabilize employment and only secondarily to pay benefits. We feel that this can best be accomplished by giving experience rating a fair trial. In the State which first began the payment of benefits it has been definitely demonstrated that sound experience rating operates to the advantage of both the employee and the employer.

Again may I say what I know you will all agree with, that our major problem is to get the people back to work. In my State of Pennsylvania we have still got 900,000 people looking for jobs; it is deplorable. I have spent much of my spare time for the last year, in trying to help in that situation. I think I have done something, but we have got to get people back to work, gentlemen, there is just no question about it. It is the fundamentally necessary thing. If we can just get people working, so many of our problems will vanish; they just won't be there if we have people holding jobs.

In addition to the objection that such Federal standards would result in increased cost to the various States we feel that there is an even more fundamental reason why such standards should not be included in the act. The Ways and Means Committee reports that only 22 States and the District of Columbia have had benefit-paying experience for more than 1 complete year. On this basis alone, it is in our estimation too early to say which of the various plans in the different States is better.

In fact, it may well be that one standard or plan may be best for one State and an entirely different standard or plan may be best for another State. It is highly questionable whether there is sufficient uniformity and similarity in the employment, social and economic conditions in the several States to justify nationally imposed standards. As a matter of fact, the intent of the original act was that it was felt advisable to have 48 State laboratories in which to test out these various benefit schedules in the hope that as experience was gained that eventually several "best" formulas might be discovered which could be applied in the various States. By setting up Federal benefit standards this prerogative would be taken away from the States and a long step be taken toward the ultimate federalization of the plan. Moreover, it is our feeling that the proponents of longer and larger benefits—who seek to turn a cushion against the shock of unemployment into a feather bed—have lost sight of the fundamental purpose of this legislation to provide regular jobs. So that there will be some regard for the ultimate cost of an enhanced program, they should continue to plead their case in their individual States, based upon conditions and requirements in those States. If Federal standards are imposed, then the full responsibility for the added cost must be accepted by Congress. Any standards now adopted would be only the beginning of an unending urge for larger and more expensive standards. It is obvious that under either of these alternatives experience rating cannot operate freely. Any tax-saving incentive to the employer to stabilize his employment is lost.

Gentlemen, clearly we want standards in many places, we want standards of product, standards of method, standards of routine, but there is one place we certainly will all agree that we don't want any standards, and that is in people's minds, and people's thinking. We want as much independence as we can have, and one of the tremendous advantages of our American system has been the fact that we have these 48 laboratories in which to test these things. It would be unfortunate if we were to take away from the institution which has given us our freedom of thought in this country, and attempt to standardize thinking. We don't want standardization in that regard.

There has seemed to be a fear in some quarters that the original act was not sufficiently strict in its protection of funds against insolvency. In order to meet this objection we suggest that the basic standard provided in section 1602 (b) be retained for experience rating in a pooled fund. Experience rating of whatever type a State desires, with its resultant tax credit, should probably be operative only if the amount in the State pooled fund as of the computation date equals not less than one and one-half times the highest amount of compensation paid out of such fund within any one of the preceding 10 calendar years, whichever is the greater. There is thus eliminated any need for the 2.7-percent average limitation as pro-

vided in the amendments contained in the House bill, page 70, lines 7 to 10.

It has been suggested that Federal standards are needed to protect the employees from State reduction of benefits. During the past 4 years, when there have been no Federal standards, States have passed many amendments. The net effect in every State that has come to my attention has been to liberalize the benefits. I haven't been able to find a single one that hasn't liberalized the benefits. There may be some, but I haven't found them. Experience thus shows no need for Federal standards to protect.

It is obvious that if your committee accepts the suggestion made with reference to amendment of section 1602 (b) that this would necessarily imply the rejection of the proposal for imposition of Federal standards contained in the Byrnes bill or any of the other proposals in the Byrnes bill which would affect the unemployment-compensation provisions of the Social Security Act.

The CHAIRMAN. Thank you.

Senator KING. Generally speaking, Mr. Fuller, you subscribe to the report of the Advisory Council?

Mr. FULLER. With the exceptions that are taken, which are relatively minor, and which I have already covered.

The CHAIRMAN. We think you did a great job on that Council.

Mr. FULLER. Thank you, it has been a great pleasure.

Senator KING. Is the committee defunctus officio, or are you still alive?

Mr. FULLER. I think it has been discharged.

The CHAIRMAN. Mr. Raushenbush, director, unemployment compensation department, Industrial Commission of Wisconsin.

STATEMENT OF PAUL A. RAUSHENBUSH, DIRECTOR, UNEMPLOYMENT COMPENSATION DEPARTMENT, INDUSTRIAL COMMISSION OF WISCONSIN, MADISON, WIS.

Mr. RAUSHENBUSH. Mr. Chairman and members of the committee, I want to add my voice to those who have opposed the enactment of the so-called McCormack amendment.

In the first place, I need hardly remind this committee that when the Social Security Act was passed, this committee, the President, and everybody concerned promised that the States would have wide latitude to adopt such benefit systems and such contribution rates and the like as they might see fit. That is all spelled out in detail in the report that this Senate Finance Committee made on the original Social Security Act. On that promise the States have gone ahead and have tried to use their own best judgment. They have had a lot of good advice from the Social Security Board, and that advice, I think, is very much in point. Advice is one thing, gentlemen. However, coercion is another.

I might say in that connection that the advice originally was to go slow on enacting laws which would be too liberal and which the States could not in fact live up to. You have heard objections that some of the laws in the field of unemployment compensation do not now pay adequate benefits, they are too modest, they started out on too low a scale.

Well, I think the primary reason for that—if it is true, and it is ceasing to be true rather rapidly—the primary reason for that was that the Committee on Economic Security and the Social Security Board said: "Now put in an adequate waiting period. Don't promise too many weeks of benefits; whatever you do, start this program out on a conservative basis that we can be sure to pay out on."

You will find abundant evidence of that in the publications of the Social Security Board at the time when States were being urged to enact laws. So the States started off conservatively. Now mind you, gentlemen, there has been very little experience in this field aside from Wisconsin. Aside from that State there is no State that has been paying unemployment benefits for as much as a year and a half yet. There are about 18 States that only started this year, 1939, to pay benefits. There are 2 States which have not begun yet, and at this stage of the game the bill H. R. 6635 proposes to completely change the picture and say: "Now we know enough about this, and we are satisfied that all these State laws are inadequate, or many of them are, and we are going to impose new Federal standards; we are going to put the Federal Government in this business, and we are going to have Congress sitting on this in the future." If you follow this general line or general lead, you are going to have the whole problem of who shall be eligible, and for how long, and all the complicated conditions that the State legislatures are now discussing, and that the advisory committees which function in many of the States are now discussing, with labor and employers jointly sitting down together and threshing this thing out for months.

I can speak for my own State on that, and I know many other States follow the same or similar procedure. We have had an advisory committee representing employers and labor functioning for a period of about 5 months, on our 1939 amendments. We have had about 15 all-day meetings in which every angle of the possible amendments to our law has been taken up.

Mr. Altmeyer, who comes originally from Wisconsin and can say unkind things about it more than he can about other States, took occasion on Monday to tell you he didn't think much of our law. What he didn't know was that our State senate was considering our amendments last Friday and adjourned before taking action. They came up Tuesday morning at 9 o'clock and went through the senate, by a unanimous vote, and went over to the assembly, and were concurred in by unanimous vote; so that our law, I should say, has been liberalized between 20 and 25 percent by the passage of those amendments when they become effective.

Senator KING. Then they were changed in accordance with Mr. Altmeyer's ideas?

Mr. RAUSHENBUSH. Hardly that.

Senator BYRNES. What you do mean is that the legislature had the same opinion about the prior law as Mr. Altmeyer had?

Mr. RAUSHENBUSH. Let me say that the employers themselves held the same opinion in some respects, but not universally, because some features of the Wisconsin law will stand favorable comparison.

Senator BYRNES. All Mr. Altmeyer said was that your legislature said that it ought to be changed?

Mr. RAUSHENBUSH. Then he is in agreement with our Wisconsin Legislature; let it go at that.

But my point is that State after State, so far as it believes that its experience will justify, is proceeding to liberalize.

You heard Mr. Waterman, of Vermont, yesterday, who said they had proceeded to liberalize somewhere in the neighborhood of 40 percent, here recently, as near as they can estimate. That is the picture as long as you leave this in the hands of the States. They have the interest in liberalizing benefits, and I think—I don't need to tell any member of this committee, surely—that the history of this type of legislation over a period of years is that each successive State legislature tends to liberalize a little at least.

That is the trend, rather than moving downward. I don't believe that anybody here need worry about the States deliberalizing their laws; I think they are bound to liberalize them as time goes on.

As it now stands, each State has a direct responsibility to its people, both employers and workers, not only to liberalize benefits to the point where they think they safely can, but to see that the accumulation of reserves is not unreasonable, that they are not imposing premium rates or contributions or pay-roll taxes, whatever you choose to call them, beyond what is genuinely needed.

You have left that responsibility with the States, and you will find that State after State has provisions not required by the Social Security Act, in the absence of any Federal standards, under which they attempt to protect the solvency of their funds.

Not only State agencies but State legislators and State administrations are necessarily and properly concerned with the solvency aspect, with the liberal aspect, with the attempt to keep reserves from accumulating unduly so that you do not charge excessive contribution rates. There is a matter of balancing those various considerations.

I think it would be sound and proper for the Congress of the United States to say, at least in this field, although it isn't practical in the field of old-age-retirement insurance, but in the field of unemployment compensation, where the employment occurs locally, where the pay-roll records are kept locally, where the man lives locally, where he becomes unemployed locally, where you can deal with the problem of unemployment compensation, to leave that field for the direct contact that is possible on a State scale that you will never, in my opinion, get on a Federal scale. A Federal agency just wouldn't hear from the folks back home as directly as we do. If anything goes wrong we get it from the employers and from the workers, and the State legislators get it directly.

It seems to me that you might stop and think two or three times before you decide that the Congress is ready to consider the standards and the eligibility conditions and a lot of other things that are to apply in the field of unemployment compensation. In my opinion, gentlemen, if you start on the McCormack amendment line, and you try to put in substantive standards as to benefits, that immediately has an effect, then, on the eligibility conditions; and these things are complicated, because any little change in one direction is going to affect something else, and you can really spend a lot of time trying to figure out just what the best combination of conditions is.

Furthermore, if you take that line, Senator, you are going to discourage the States who now feel some responsibility and some desire to initiate what they regard as desirable changes; you are just going

to virtually discourage that; you are going to say, in effect, to the States, to employers, to workers, to State federations of labor, to State associations of employers: "This is going to be handled by the Congress from now on."

True, these standards don't go that far, but that is the trend involved in this bill, as I see it.

Senator KING. Do you think that the States, including your own, have been sufficiently resistant, as they should be, to the encroachments of the Social Security Board itself, here in Washington, and to the Congress of the United States?

Mr. RAUSHENBUSH. Well——

Senator KING (interposing). I think that you haven't been resistant enough.

Mr. RAUSHENBUSH. Well, I am willing to accept criticism on that score, Senator, but you have seen several of the State administrators here at least raise the question: Do you really want to turn this into a straight national program, and take all the consequences that go with that?

Do you believe in a regimented, centralized system of government in every field, whether national action is necessary or not? I would be the first to concede that there are many fields where the National Government has got to act. The fact that the Social Security Act was passed with encouragement to the enactment of State laws was excellent, but that doesn't necessarily mean that you have got to dictate all the details.

Senator KING. You don't want to Hitlerize our Government and have the Federal Government take over the States and their functions and deprive them of their responsibilities?

Mr. RAUSHENBUSH. Not where the States can properly and efficiently function. Now, that is a matter of different fields. I mean in some fields the Federal Government has got to do it, and in other fields it can properly and effectively be left to the States. Here, it seems to me, is a field where it can properly be left to the States.

Even if you made the decision that the Federal Government ought to do more about this field of unemployment compensation, there isn't enough experience available, it seems to me, and to my fellow State administrators almost unanimously as far as we have heard from them in the brief time we have had. Action at this time would be premature and not based on adequate experience, and might properly be deferred, even if the eventual decision was to federalize or nationalize the program.

I would like to make that point in passing, that there has been such little experience that even the estimates that are made aren't much good as to what the effect of these standards will be. In other words, you wouldn't know, if you passed this, what the effect would be. Nobody in this room could tell you, as far as I know. The Chairman of the Social Security Board admitted that it was a pretty rough estimate, and he couldn't break it down by States; and I will go on in a moment to indicate that at least a few of the estimates that have come from the Board, with the best of intentions and figures available, don't seem to be terribly accurate in this field, because it is so new. And it is difficult to make calculations in it.

Let me come to the principal idea behind the McCormack amendment as I understand it. I think it was a desire to afford some

measure of tax relief or reduction to employers in this field, on the ground that maybe the balances and surpluses and reserves were building up unduly.

I would like to make clear that the present act as it stands on the books now, the present Federal Social Security Act, and over 30 State laws are going to take care of that problem if you leave them alone. In other words, the proposed amendment is not offering a new type of tax reduction where there is no tax reduction in sight at present.

On the contrary, the proposition is really this: That instead of the tax reduction that is already permitted under the Social Security Act as now on the books, and that is permitted in over 30 State laws as now on the books, to become effective within the next few years gradually as the States feel their way along, you are going to wipe that out in effect or make it very much more difficult, much more problematical and uncertain, and you are going to substitute for that something else that is perhaps still more uncertain—namely, a flat rate-reduction plan; I mean a State-wide lowering.

Now, let me take time out, gentlemen, to say that the State administrators, I think, would be almost unanimous—I can't speak for every one of them—but I think they would be almost unanimous in saying to this committee or to the House Ways and Means Committee, if they had had the chance, which they didn't, that we are opposed to any lowering of the 3-percent Federal tax against which State contributions or premiums for unemployment compensation can be offset. We don't want that level lowered. Why not?

Because we feel that experience is much too limited, that perhaps 2.7 will be needed, and perhaps more than that might be needed, in maybe a dozen or more States. Aside from the 13 States or so whose experience has been pretty unfortunate in the year 1938, it may be that there will be additional States, half a dozen or a dozen—we can't tell yet—who, as they are liberalizing their laws will find that they need pretty close to 2.7. In view of the fact that there may be a very substantial group of States, I think it would be very unfortunate for Congress to try to drop that Federal tax rate. But Congress has already made provision that if and when experience demonstrates, and the State so chooses, it may make reductions based on the actual experience of its individual employers in preventing unemployment, and therefore not needing to pay so high a premium rate for unemployment protection.

Now, that is in the present law, that is the Federal law, and over 30 State laws so provide, and the effect of the McCormack amendment would be to try to wipe out all of that, which, by the way, is one of the things that sold this whole program to employers the country over.

I am speaking not as an employer representative but as a State administrator, in good standing with both sides, as I have to be.

The CHAIRMAN. What do you mean by "both sides"?

Mr. RAUSHENBUSH. Both sides, labor and employers, directly affected by this legislation. I mean I try to be a public representative.

Senator KING. And a good one.

Mr. RAUSHENBUSH. And I happen to be chairman of our joint advisory committee, and my job is to see that they do, if possible, after understanding the whole thing, reach an agreement eventually which we can take to our legislature. We have had some success. We have

passed our bills, usually by unanimous votes. But that is just incidental.

I say that this whole program has in part been sold to employers because of the experience-rating features. In a great many of these States the laws were originally passed because even representatives of the Social Security Board said:

> Well, here is a law which permits eventual rate variation between employers based on their actual experience.

Not that they were urging experience rating. I wouldn't accuse them of that for a moment. But they did say, when a State was considering this type of law, that employers would eventually be able to look forward to rate variations based on their individual experience and that these laws would offer some inducement and encouragement to private industry to provide more regular employment for their workers.

The laws were accepted on that basis, and employers have cooperated with their administration. I don't need to tell any member of this committee that those laws would break down if the employers ceased to cooperate with their administration.

This type of law touches very closely the employment of workers by industry. A certain minimum amount of reporting is necessary, and it is something of a burden. Cooperation is essential to the administration of this type of legislation, both by employers and by workers. A large reason why employers in many States have cooperated is because of the experience rating provisions, under which they could look forward, after a period of years and a little experience, to rate variations and a reduction, if their record justified it.

Now, if you are going to wipe that out, I think you will hear a howl from all over the country, and I wouldn't blame the employers for howling, if you break faith in that respect, by wiping out, in effect, the experience rating provisions in over 30 State laws. You would not wipe them out at a stroke of the pen, but you would discourage them and make them very much more difficult.

You would remove, in large measure, whatever emphasis is now placed on more regular employment by private industry, on a more nearly year-round basis, of people who constitute the bulk of our wage earners and citizens.

Now, by way of comment on the McCormack proposal, as against a differentiated reduction based on the actual record of the individual employer in terms of stability of employment, the McCormack proposal moves in exactly the opposite direction. I personally would feel that it is just about as bad a type of reduction, as compared to what we have got now, as anyone could propose. In other words, you merely take the State-wide experience, and then say, well, if there is any possibility that this reserve is adequate, make a flat-rate reduction. And how are we going to do it? We are going to do it by a lot of ballyhoo that if all the States acted that could possibly do it, all but five, I think, is the basis of the calculation, $200,000,000 to $250,000,000 might be saved. How do you get at that estimate? You say, "Let's assume that all but five States could reach the one and one-half times, and that they would hastily call special sessions under pressure to get tax reductions right away by special sessions." If they all acted, all but the five, and dropped their rate

from 2.7 to a flat 2 percent for everybody, regardless of whether this employer had a bad experience, and this employer had a good experience, then perhaps there might be some such savings. Well, those are speculative savings.

I hope the States would have sense enough not to call such special sessions. I can say, for myself, frankly, I certainly won't recommend it; and I don't believe Wisconsin will do it, because we have got something better, which is actually operating. We, as you know, started a year and a half before the other States. So we have experience rating in actual operation. We have at the present time about 2,700 employers in Wisconsin who have gotten reduced rates, and we have also got about 600 employers who are paying more than the standard rate because of their experience not being so good, so that their premium went up just as it does in accident compensation.

In the other States experience rating will be coming along. There are about four or five of them who may be in this picture in 1940. Then there are a dozen or more of them, about 20 or so, who will be in the picture in 1941 or 1942.

This committee might hasten that process, which seems to me to be on the constructive side. Rather than any flat rate reduction for a whole State, which then doesn't give an employer the advantage of his own record at all, you could hasten State experience rating variations, and thereby reduce unnecessary collection of contributions. If you want to hasten that in States which do not need to collect the full amount, you can, instead of the McCormack amendment, perhaps change, on page 70 of this bill, line 17, the words "3 consecutive years" to "2 consecutive years," which I think would not be unreasonable, especially in view of the fact that in some States the keeping of the necessary records has been made impossible by the inability of the Social Security Board to provide any necessary funds for that type of record keeping.

So that is a possible suggestion. If you do want to achieve a closer timing, I mean a nearer timing, in the more immediate future, of some of the experience rating provisions, let them come into operation if the State sees fit after 1 or 2 years of experience instead of 3.

The CHAIRMAN. You made a statement that no one appeared before the House Ways and Means Committee with regard to this matter. It had not been proposed, had it, until the hearings closed?

Mr. RAUSHENBUSH. So I understand, and I would like to raise the question whether Massachusetts itself, from where the proposal came, is really in favor of the McCormack amendment, with all the conditions that were then attached in the course of the executive sessions of the Ways and Means Committee by the Social Security Board, if one is to believe the report of the Ways and Means Committee. With all those conditions attached, I question whether Massachusetts wants the proposal.

The CHAIRMAN. We haven't time to take a Gallup poll.

Mr. RAUSHENBUSH. All right, I think there is fair doubt about it. Let me go on to a few of the specific provisions.

Senator KING. Generally speaking, would the provisions of the act which you have been directing your attention to, as they are now in force, meet with your approval?

Mr. RAUSHENBUSH. Yes; but let me say specifically that there are some clarifying amendments and some very good changes in this bill. I am not against the whole business by a long shot. I would say that, on page 70 of the bill—and I think I have the same form that you have before you, as passed by the House—if, on page 70, you strike out section 1602 (a) (1), that is lines 7 to 10, inclusive, on page 70; that is, I think the same proposition that Senator Johnson made this morning—strike out lines 7 through 10. That strikes out the first subsection there, which is completely new. That is a restriction on experience rating that is not now in the act. It is a restriction, I regret to say, that the Special Committee on Unemployment and Relief also advocated. The effect of it would be, if you let that stand alone as a 2.7 percent weighted average requirement, that you then require instead of discourage the building up of unnecessary reserves in some States at least.

So that proposition, taken alone or in conjunction with anything else, seems to me thoroughly vicious and undesirable.

Then I would skip over to page 72, and on page 72, starting at line 10, strike out the balance of that page, strike all of page 73, and all of page 74.

The CHAIRMAN. I hope the legislative draftsman is making notes on those propositions so we can consider them.

Mr. RAUSHENBUSH. Anticipating, Senator, even if this committee shows its wisdom by striking these, you still have a conference committee ahead of you. If it won't impose too much on your time, I would like to make specific comments on the specific wording of these provisions.

Senator KING. You suggest the complete elimination of this.

Mr. RAUSHENBUSH. Yes.

Senator KING. Some of us haven't had a chance to fully analyze the provisions which you are striking out.

Mr. RAUSHENBUSH. That is all new material, Senator, and none of it is in the present law.

Senator KING. State in a word what the effect of this new material would be.

Mr. RAUSHENBUSH. As to the effect of the new material, let's start with the 2.7 weighted average requirement, which has been suggested by several individuals here within the last day or two as a sufficient standard unto itself. Just leave that in and you can forget—they don't say forget all about experience rating—they say that you can forget all about benefit standards because the effect will be that the State will keep on collecting 2.7 on the average, whether it collects 5 percent from some employers and 1 percent from others. At any rate, it will get 2.7 on the average, and throw that into the pot, and if you build up your reserves high enough in the various States the States will find some way to hand out the money.

Now, of course, the practical effect of that is, regardless of the whole experience of a given State, you are just going to say that you must collect 2.7 percent on the average, whether or not you need it to pay a reasonable and comparable benefit in your State, as compared to other States. I mean you have got to collect 2.7 percent under that proposition. Such a change would make the present experience

rating provisions much more difficult, and would hold the tax yield up instead of permitting the possibility of reduction.

Such a change would make it very uncertain for any individual employer, whether he can count on a reduced contribution or premium rate under his State law. Why? Because it doesn't depend solely on his record, but it has got to depend on the bad record of other employers, too. Whether he goes at the top or bottom of this shuffle, in order to come out with a 2.7 average, he cannot bank on the certainty that his good record or fairly good record will yield him any recognition at all, because he doesn't know what other employers have done. He can't safely invest in capital improvements which in some cases are necessary, warehousing facilities, for instance, if he is building to stock in order to keep his men steadily employed. He can't count on that. He just hasn't got any certainty in the picture, and certainty is one of the things he needs if he is going to make long-range plans.

So the 2.7 average, taken alone, seems to me thoroughly objectionable.

Now, I would like to make clear at this time that I don't happen to be one of those who believe that the rates should only go in one direction. I believe that the employer should pay a lower rate than the standard 2.7 premium rate in the State, he should pay a lower rate if he has a good experience, and he might pay a higher rate if he has a bad experience, letting the State adjust that as it sees fit and within what limits it sees fit. As a matter of fact, as I think I mentioned, under our Wisconsin law the rates do go up. There are about 600 employers now paying more than the standard rate.

But there is no assurance in any given State that the group of employers who should pay more will exactly equal the group who should pay less. And yet what does the 2.7 average do but require, regardless of your individual experience and your actual experience in paying out benefits, that you just freeze that whole thing. In other words, what that provision does is to veto any possibility of reduced average rates for employers, even where their experience and the State-wide experience would otherwise permit a reduced average yield.

I mean it would make that reduction virtually impossible, and it would sound a death knell to the whole idea of experience rating in this country. Perhaps not, theoretically. I can see where Mr. Altmeyer can make a theoretical argument that you don't discourage experience rating, you just say the average has got to be 2.7, and you will have some above and some below, and theoretically you don't discourage it. Practically, I think, it is perfectly clear from the reaction you have heard here in the last couple of days, the reaction I heard before I came down here, that if that 2.7 weighted average requirement is passed, you have killed off experience rating just as effectively as if you had said that there shall be none. That is for practical purposes. I could make a theoretical argument that you wouldn't kill it off, but I think I know better on the practical side.

So that is the effect of the 2.7 weighted average requirement. It is new, different from anything that is in the Social Security Act now. It is an additional standard, which would make experience rating more difficult.

Senator KING. It is compulsory standardization?

Mr. RAUSHENBUSH. It would be compulsory standardization of rates or of averages, regardless of differences in State experience.

It is putting them all into one identical category, though you yourselves, gentlemen, at one time said that there are wide variations in the experience of the States, they may vary as much as three times in the rate of unemployment they have.

So I think you might wisely leave that whole question to the States to adjust under the law as it now stands.

Then when we get to pages 72 through 74, we get into these other State standards. Here is where you are offered an alternative to this 2.7. It says you can have a flat-rate reduction for all the employers of your State under the McCormack or Massachusetts plan. But may I say right now that these other State standards are applied not only to a State that takes a flat reduction for all its employers, but they apply equally to every experience-rating State there is, and there are more than 30 of them. The effect of these standards is that you can't escape from that 2.7 weighted average unless all these other standards are met. Otherwise you can't have a lower average yield under an experience-rating system which does differentiate between employers; you can't have a lower average yield, under experience-rating systems now authorized by the Federal act and by State laws; you can't do it unless you do these things.

So these are new standards to strait jacket the States. For all practical purposes, they are saying, "Now somebody here in Washington knows well enough exactly what all this amounts to, and has got the answers." Now we are not sure of that out in the States. We think we have got a lot to learn, but we are the fellows who are doing the actual operating of all these laws.

Senator KING. I may add that Wisconsin had a progressive Governor and a progressive government for some time, and they did develop, and many of the States and the Federal Government ought to be taught by some of the experiences and activities of your State.

Mr. RAUSHENBUSH. Thank you, Senator, that is very kind of you. We aren't always right, but we do try to go ahead sometimes.

May I say on these other State standards, the first standard is a fund-balance requirement, one and a half times the highest amount paid into such fund with respect to any one of the preceding 10 years, one and one-half times the highest amount of compensation paid out, whichever is greater. I am not reading that in full detail.

Let me point out a few peculiarities in that provision. If it comes down to any consideration, which I hope it won't, of these specific standards, then I would like you to be aware of one or two points.

In the first place, what would that do? Let's take—I hope the State of Illinois isn't represented on this committee—let's take the State of Illinois, adjoining the State of Wisconsin. I don't think they would object to being used as an illustration.

Illinois starts paying unemployment benefits in July of this year. They start after accumulating 3½ years of contributions, partly through the generosity of Congress, which gave them the 1936 tax collections they didn't make themselves because they didn't pass this law very promptly. Here is Illinois, with 3½ years of accumulated contributions, and benefits not yet payable. There is nothing in that standard, as I understand it, which would prevent the State of Illinois

from saying, "All right, we have a flat rate reduction now under this McCormack proposal, at this time, before we have any benefit experience at all." This provision does not say that there must be a certain amount of benefit experience.

In contrast, if you are going to bring an individual employer's rate down, you do have certain standards. Benefits must have been payable a certain length of time. If you have a reserve law, the employer's account must equal 7½ percent of his last year's pay roll, and 500 percent of his largest benefits in any of the last 3 years.

But under this flat-reduction proposal, Illinois, with no benefit experience at all, would be in a position, presumably, to go ahead and reduce its rate for all employers. That is a theoretical possibility. I don't think Illinois would play the game of cricket that way.

Senator CONNALLY. Could it do that under the present law?

Mr. RAUSHENBUSH. No, sir; this bill would make possible this flat-rate reduction scheme, with a lot of pressure for special sessions, not only in Illinois. I took that as an extreme case, Senator—but there are about 18 States that only began the payment of unemployment benefits in 1939, whereas others acted more promptly, passed their laws early, and began paying benefits, about 23 of them, in January 1938, nearly a year and a half ago. The States that acted more promptly, and met that drain in 1938, would be in a less favorable position to take advantage of this one and a half times proposition, than the States which didn't pass their laws promptly, and which postponed the start of benefit payments.

So that there are grave inequities involved in that proposition, as I see it.

There are two other minor points I would like to make in connection with that particular standard of one and a half times. The first change seems to me, in justice to some of the far Western and Southern States which have a large volume of railroad employment, the least you can do, after saying to the States that they have got to say goodbye to the money they have collected from railroad employers, because you have set up a national system for that one industry. The States must take that money out and pay it over to the Railroad Retirement Board; so the least you could do, if you were really seriously considering any of these detailed standards, which I hope you are not, would be to say, "We will exclude from the calculation of contributions and benefits, the amount of railroad contributions and payments to railroad workers."

Now that latter item in some States might have to be estimated; but it is unreasonable, where 20 or 30 percent of the total receipts of a State constituted railroad contributions, to figure one and a half times on the basis of those contributions and those benefit payments.

Another point is that it might be a lot simpler to take contributions paid within a year, instead of contributions paid with respect to a year, the same idea as your present change from wages payable, to wages paid, for administrative simplicity.

Let me take the next point.

Paragraph No. 2 there, under (b), starting at line 22 on page 72. That purports, at least, to give the Social Security Board rather wide discretion in approving various types of State provisions in

order to leave some little vestige of flexibility in the picture. As a matter of fact, there are three words in there which just negative completely any such intention, because they say, "requirements not less favorable *to such individual*." It is singular; each individual must be as favorably treated. That means that you take these standards and have no flexibility at all. That may be a typographical error, but my information is that it is not. I would suggest that you strike the words "to such individual" in line 24, because if there is going to be any such imposition of standards, if you are going to have any variation or experimentation in the States with different administrative methods, then I am afraid the Social Security Board will have to be given more discretion than this clause gives them.

The next point I would like to take up is standard (A), on the top of page 73, that whole first paragraph. Now this is one of the most important in the lot, and I will read it:

(A) The individual will be entitled to receive, within a compensation period prescribed by State law of not more than 52 consecutive weeks, a total amount of compensation equal to not less than 16 times his weekly rate of compensation for a week of total unemployment or one-third the individual's total earnings (with respect to which contributions were required under such State law) during a base period prescribed by State law of not less than 52 consecutive weeks, whichever is less.

Well, 16 times, as a maximum, is not an unreasonable requirement certainly. Most of the States meet that. I think in time probably all of them will who can afford to. And I think it is commendable that in this bill there is no attempt to impose a flat duration requirement that every individual who qualifies at all must receive any given number of weeks. You have an alternative here, which says one-third—I am coming back to that particular fraction in a moment—but at least you do give the States an alternative, other than barring large numbers of people who have only limited earnings, and whom they might be tempted to disqualify entirely. You were talking the other day about the high hurdle that may be set up, and if a person just gets over it he gets all the benefits there are, and if he just falls under it, he gets nothing. That is the kind of a thing we would like to be able to avoid in the States. If there were a flat duration requirement, that everybody who qualifies must receive, that would be inviting the States to disqualify. The individuals who now, at least, get some benefits are certainly, from our point of view, administratively worth bothering with. We should not disqualify all people who have only limited benefits coming.

Now as to that one-third proposition. That fraction of one-third of the individual's total earnings in the base period of 1 year. That is one of the most important provisions in here, it is one of the most important provisions in any State law, that particular ratio or fraction.

It may interest you to know that the majority of State laws provided for one-sixth. I think maybe the majority still provide for one-sixth, as against this one-third proposition. In other words, on its face it might appear that this was doubly as liberal as the majority of State laws, a 100-percent increase. I don't know whether these purport to be minimum benefit standards or whether the attempt is now to say, "We will raise the whole level of benefits"—I am not sure which is intended.

True, most of the States that have a one-sixth provision take a 2-year base period, and some months ago the Social Security Board put out some material saying that now if you shift, in order to simplify the administration of your law, from a 2-year base period, to a 1-year period, then in order to get exactly the same results, you must change your fraction from one-sixth to one-third.

In other words, they did a nice piece of arithmetic for the States, and told them that that would give them the exact equivalent, and some of us said, when we first saw that, "What do you mean, equivalent? Are you trying, under the guise of equivalence, to liberalize this?" And they acted surprised, and I think they were surprised. Apparently it hadn't occurred to them that there was one factor they had forgotten, and that is, that the people who exhaust their rights every year, who are unemployed each year long enough to draw whatever rights they have got, would get just double the benefits on the one-third for 1-year basis that they would on the one-sixth for 2 years.

In slight support, perhaps, of that statement which was spelled out, I think, in Mr. Doesburg's testimony yesterday, I would like to call your attention to what a student of unemployment compensation says.

Mr. Matscheck, in a study of "Problems and Procedures of Unemployment Compensation in the States," and within the last few months, in a publication published in 1939, on pages 42 to 43—for half a page or so he discusses this thing, this particular point I was just referring to, and he comes out with this conclusion:

> Consequently, the change from one-sixth of earnings in an eight-quarter base period to one-third of earnings in a 1-year base period would involve an increased drain on the unemployment compensation fund which might exceed its capacity.

Skipping down, he talks about the possible use of a fraction between one-fourth and one-fifth of 1 year's earnings, one-fourth and one-fifth, not one-third, not as liberal as that:

> Whether so generous a formula is actuarially possible would seem doubtful.

Well, he wrote that before this whole question came up. I think it is entitled to a little weight; and you remember Mr. Waterman, of Vermont, said the other day that they figured that their change from one-sixth to one-third—and there are a few States that have changed, Vermont among them—that that change would probably cost them around 46-percent increase, not double, because not everybody exhausts every year, but that would be about a 46-percent step-up, or some such matter. That was my impression of the figures I heard him give.

Senator KING. Was there a consultation with the various States before that change was recommended?

Mr. RAUSHENBUSH. Before this simplification——

Senator KING (interposing). No; from one-sixth to one-third.

Mr. RAUSHENBUSH. I don't recall whether that particular proposition was referred to us. If it was, we objected on the ground that it wasn't so, that it was not an exact equivalent.

Now, I am not objecting to reasonable liberalization. I happen to believe in unemployment compensation, both on the benefit side and perhaps even more strongly on the side of encouraging steadier em-

ployment. I worked my head off to get the Wisconsin law passed originally, so I think I can fairly claim to have been in on the ground floor of trying to push unemployment compensation in this country. I do believe in reasonable liberalization, but let's be sure we know what we are doing and move no faster than we can safely move, because I would rather not increase the benefits in a whale of a hurry and have the States go broke in a year from now. This program is going to be with us for a long time to come.

The next standard on waiting periods—this is not an unreasonable standard, in my opinion. I think it is rather desirable to shorten waiting periods and it gets down to 2 weeks per year. I have no personal objection to that particular standard, but let's not deceive ourselves that that is going to be inexpensive, either.

Senator Byrnes, before your committee you had a representative of the Social Security Board make some estimates as to what the cost of lowering waiting periods would be. I have here the hearings of your Special Committee to Investigate Unemployment and Relief, held early this year, and on pages 147 to 148 there is a table inserted there by a representative of the Social Security Board estimating the increased cost resulting from changes in waiting periods. They make a separate estimate as to the reduction to a 1-week waiting period, which was, I believe, included in the bill that you had under consideration.

Now, mind you, that is a reduction to 1 week, not to 2; and the estimate seems to average, for all States, about 2 percent. Just a 2-percent increase in the cost by dropping the waiting periods from what they were, some of them having been amended in the last couple of months. Some States have dropped to two, but I am going back to the situation as it was when these estimates were made, and the estimated increase was around an average of 2 percent; and I notice that there isn't a single State, as far as I can see here, in which the estimate was more than 2.9. No; here is a 3.2 figure. All right, 3.2 percent was the top increase estimated, to drop the waiting period down to 1 week.

Now, it happens that the Social Security Board, along about the same time—a little earlier I think—put out a social-security bulletin, this monthly publication. I borrowed this from their library, so I guess it is an official copy. They put out a study on the possible effect of reducing waiting periods and they made some estimates there, and they made some estimates which indicated a change from a 3-week waiting period to a 2-week waiting period increased the cost for a period of years, on the average, of about 7.6 percent.

Now, then, there were some other figures over here, but the point I am coming to is that they also say that it would be higher, relatively, in good years than in bad years, if I am not mistaken.

At all events, they make an estimate in this publication as compared to what they put in these hearings, which is at variance at least a hundred percent. I was a little puzzled by that, and I thought maybe it might be interesting to check the figures for Wisconsin, where, after all, I have more figures available as a result of a recent study than the Board had in making those estimates.

Senator CONNALLY. Irrespective of cost, don't you think that 2 weeks would be preferable?

Mr. RAUSHENBUSH. I tried to say that at the beginning, Senator, Connally, that I personally believe in 2 weeks, but not by Federal legislation.

Senator CONNALLY. Aside from the cost, don't you think that it is well for a man that loses his job to have a little realization of it, and have a little time; if he goes on this unemployment right away, it relaxes him? [Laughter.]

Mr. RAUSHENBUSH. I would say, Senator, 2 weeks is long enough—you know he has got to relax for another week after that, because the third week would be the week for which his first benefit check is payable, and he can't give the evidence on that until the beginning of the fourth week, and then it takes a day or two to get a check to him.

Senator CONNALLY. I am talking about most men; they will have a little bit of leeway to live a short period of time, and I think it is desirable for a fellow, from a philosophic standpoint, that he have 2 weeks rather than 1.

Mr. RAUSHENBUSH. I am not advocating 1 week at this particular time. I think 2 might be more reasonable, but at any event I wanted to make clear that there are some problems, of course, that when you reduce your waiting period you may cut short your duration. You have got to weigh different objectives against each other. This committee has got it on your doorstep if you are considering these standards. I am sorry to trouble this committee about it. You are getting involved in the complications of unemployment compensation if you go along this path.

The CHAIRMAN. I have promised two gentlemen who are going to leave, one of them to catch a plane, that they might be heard. I wonder if it would bother you to desist for a moment.

Mr. RAUSHENBUSH. I would be glad to, and if you are willing to hear me further later on, I would be glad to come back.

Senator KING. I insist that he shall come back. [Laughter.]

The CHAIRMAN. Is General Ansell in the audience?

General Ansell, you represent the American Federation of Musicians, and I understand that you want to make a brief statement?

General ANSELL. Yes.

STATEMENT OF GEN. SAMUEL T. ANSELL, WASHINGTON, D. C., REPRESENTING THE AMERICAN FEDERATION OF MUSICIANS

General ANSELL. Mr. Chairman and gentlemen of the committee, I am and have been for 15 years the general counsel of the American Federation of Musicians, which is a labor union affiliated with the American Federation of Labor. Its membership is about 140,000 and consists of all or very nearly all American musicians who get their living by playing commercial music. Now, that is music for hotels, cafes, clubs, radio, and like entertainment.

All the members of this organization must be American citizens or must have taken out their first papers, and only a few members now are of this latter class.

These musicians are covered by the Social Security Act, that is by its letter. They wish to remain covered because this committee and everybody knows the attitude of labor, certainly the American Federation of Labor, upon social security, and the president of that

organization that I represent was upon the advisory committee of Mr. Green.

But the musicians are really, as I see it, worse off than if they had been exempted. They are denied the benefits of employees. Worse than that, they are made in large numbers to pay taxes as employers. The purpose of the act, as it applies to musicians, is really turned upside down. As to unemployment compensation, they have suffered terribly by reason principally, however, of the transient or multi-State character of their employment and, of course, by reason of casual labor exemptions or exemptions of like character they are performing very much casual labor.

And musicians who are taxed as employers are burdened with such taxes, but musicians classified as employees really get short shrift as to benefits.

Now, as to these matters just mentioned, they are inherent in the existing structure of the act, and the present is regarded as an inopportune time for a discussion of them, but I need only say that we have about 38,000 musicians engaged in traveling orchestras, in multi-State employment. We have many thousands more who may play part time in multi-State engagements.

The orchestras don't play in any one State long enough to amass enough credits to receive any benefits. If musicians' unemployment had been no worse, and we think we know it was much worse, than that obtaining in general among those covered by the act, 14,300 should have received unemployment compensation last year, and as a matter of fact only about 1,630 did receive benefits. In any typical 3-week period during the year, there were about 22,000 musicians totally unemployed for the entire period.

Now, gentlemen, the employer-employee relationship is the very basis of this act. Upon its correct determination, as to who is employer and who is employee, depends on who pays the employers' taxes, and who receives the benefits. Congress, in the act, has used the terms "employer," "employee," and "employment," and administrative agencies have proceeded to inject into the employer-employee relationship the concept of independent contractor standing between the employee and he who otherwise would have been the employer.

In the very beginning the Bureau of Internal Revenue did a Corrigan. It held, ex parte of course, in the case of orchestras playing in a hotel, that the leaders were the employers of the men in the orchestra, not the hotels. When apprised of this, the union—I mean the Federation—fought this ruling which we then regarded, and now know to be absurd.

After long reconsideration the Bureau turned back but it went only a part of the way back. It then held, first, that in case of ordinary orchestras—it called them "nonname" orchestras—the employing establishments, called the purchasers of the music, were the employers, but that in the case of "name" orchestras, the leaders and not the purchasers of the music were the employers of the other men in the orchestra.

The Bureau admitted the great difficulty of distinguishing between name and nonname orchestras, but nevertheless it insisted upon the concept which it took, and undertook to put what we regard as the impossible distinction into practical execution.

The American Federation of Musicians is a labor union. Like other labor unions it has no employers, it recognizes no status of employer, it recognizes only this, the status of the employee.

The union makes no distinction whatever between name and non-name bands. It knows of no such distinction, and it is the opinion of the union, as it is mine, that no such distinction can be made either in fact or in law.

Certain it is that if such a distinction ever becomes firmly established in the law, this union will be destroyed, and such economic security as the union has obtained for its members over a period now of more than 50 years, will be converted into chaos and disaster.

Now, gentlemen of the committee, the Bureau ruling does not employ the term "independent contractor" in its ruling, but the ruling nevertheless is to the effect that the leader of a name orchestra is an independent contractor. The Bureau probably meant those better-known orchestras, identified in the public mind at least with a relative degree of stability, relative fixedness of personnel, and of such actual standing that the Bureau presumed that the purchaser would, in practice, hardly deign to exercise over the orchestras the right of control that he might actually and legally does possess.

But the constitution and bylaws of this union do not recognize these uncertain and ephemeral distinctions. All orchestras are treated alike, all are subject to the same union laws, all are required to make the same kind of contracts with the purchasers who employ them.

Such elements of distinction as the Bureau had in mind as a matter of fact are not substantial enough to create or suggest to the union any union distinction, because, according to the long-existing union law, any musician may be a leader; he may lead for a thousand performances, or only one; he may be a leader one night and back in the ranks of the orchestra the next. A leader is simply necessary as a foreman of any group or crew; he is but a musician.

Even if the uncertain law of independent contractor—I wish to stress "uncertain law of independent contractor"—has any place in social-security legislation at all, none of the myriad conflicting and unsatisfactory judicial tests can place that concept in the field of music. The Bureau's ruling strains to grasp some conception of an independent contractor's place in the field of musical employment, and strains even harder to select as applicable some of the uncertain, varying, constantly fluctuating judicial tests, but it only succeeded in confusing a situation which, to the common-sense mind, would seem to be as clear as daylight, that the purchaser of the music is the employer of the performing musicians.

Now, the Bureau, as I said, did not use the term "independent contractor," but used the term "name band," synonymously, and that was a distinction that was extremely unfortunate, indeed, to us; indeed, it is disastrous. Nearly all orchestras have names for purposes of business identification or perhaps personal pride.

Now, revenue agents and collectors in the field know what a name is, of course, but they do not know anything about the law of independent contractors. Consequently, our leaders are, as a matter of fact, held and continually harassed and try to fight themselves free

of Government fetters imposed by the collectors and these field agents.

Now, after a long contest up to and in the Bureau, they usually succeed, but it is only at great expense to the union and very great general confusion to the Federation.

Now, gentlemen, I wish to make this declaration to the committee, on principle, as I see it, as I have undertaken to make it from the beginning, to the administrative agencies executing this law, and also to the Ways and Means Committee.

I say that on principle—and I think it will be shown in practice—that the law of independent contractor has no place in the master-servant or employer-employee status in social-security legislation.

The law of independent contractor was, as every lawyer refreshing his memory knows, a judicial creation in the field of tort, and it is of rather modern origin. It was, I think, never heard of until the English case of Loughen against Pointer in 1826. It was made, as we all know, to place the guilt for a tortious act upon him who was really responsible for it by reason of his immediate control of the servant who committed the tort; that is, upon the one who in all conscience and justice should be made to answer in damages. And it has never been, to my knowledge, extended beyond the field of tort.

Now, I have tried to hammer home this point, but I confess to the gentlemen of this committee, so far without much success. I observe, as I understand the report, that the Ways and Means Committee in effect in its report cautions against the injection of this tort principle into the master-servant status of the Social Security Act. I regret that the committee of the lower House failed to carry through even this timid suggestion and, sadly enough, the bill carries no construction clause.

Senator KING. It wasn't even an admonition; is that what you contend?

General ANSELL. It was a timid admonition.

Now, I say it was a mistake for the Bureau of Internal Revenue to erect the independent contractor between the actual common-sense purchaser of the music and the musicians, including the leader, performing for that purchaser's benefit. It should have gone all the way in the right direction. After holding that the purchaser was the employer, reversing its first view, it should have stopped and not added that the purchaser was the employer up to the point where he could shift his burden to an imaginary independent contractor.

Two orchestras performing for the same entertainment place, the same purchaser, the same hotel, for the same purpose, and in one case the purchaser is the employer of the leader, and all the men in the orchestra, and in the other case the leader of the orchestra is the employer of the men in the orchestra, and, of course, is not himself an employee but an independent contractor.

I say it is my view, expressed with all deference, that it is a difficult matter to construe and to execute an act of this kind, and we all know it, but I say common sense concurs with legal principles in saying that there is no rational ground for such an attempted distinction.

The mechanics of the act that are before you now, gentlemen, it seems to me are rather disconcertingly artful, more so than the substance which seem to require.

Senator KING. You mean the whole bill or just this particular subject?

General ANSELL. I will have to confine myself to this particular subject, the master and servant relationship. I myself wish to submit to this committee, and pray with all deference respectful consideration of it, an amendment which in my opinion simple justice requires to be placed in this act, and that amendment is this:

That any person who for remuneration plays instrumental music or otherwise performs in or with an orchestra or other group of musicians, including the leader thereof, shall be deemed the employee of the purchaser as such term is used in the ruling of the Commissioner of Internal Revenue dated August 31, 1937.

On behalf of the president and executive council of the American Federation of Musicians, who are engaged in a convention at Kansas City, whither I go now, and who can't be here, I desire to thank the committee, and for myself I desire to thank the committee for their courtesy and especially the chairman in letting me come on while another gentleman was being heard, and I thank the other gentleman for his courtesy in giving way to me.

The CHAIRMAN. Thank you very much, General.

Mr. Hutzler, of Baltimore, chairman, social security committee, American Retail Federation.

STATEMENT OF ALBERT D. HUTZLER, BALTIMORE, MD., CHAIRMAN, SOCIAL SECURITY COMMITTEE, AMERICAN RETAIL FEDERATION

Mr. HUTZLER. I am here individually because the American Retail Federation has a unanimous-consent rule, and although the committee met, we hadn't a chance to get out a questionnaire between the time the committee met and this hearing.

I am going to make this very brief. The committee—and I am representing my own views which are in consonance with the individual members of the committee—wishes to approve these features of the amendment:

1. The beginning of old-age benefit payments in January 1940.
2. The retention of 1 percent old-age insurance tax through 1942.
3. The provision which limits the unemployment-compensation tax to the first $3,000 of individual wages.
4. The elimination of some of the unemployment-compensation tax penalties, which bore pretty heavily on some of our members.

Now, the one thing that we are opposed to is the proposed State standards as a condition for experience rates, the thing that Mr. Raushenbush was talking about, and he is talking about that at such great length that I do not want to go into anything except the reason for it.

The CHAIRMAN. Generally you approve his views?

Mr. HUTZLER. On that particular feature, yes; and, as you know, I appeared before this committee some years ago, when the original

act was in, and approved of unemployment insurance and approved the experience rating, and I think the reason for that is very evident.

We approve of both experience rating and unemployment insurance because it will keep a level of purchasing power. We are not anxious to just pay a man who is unemployed some money; we are anxious to get the employers of the country interested in stabilizing employment.

Now, the minute you put into effect provisions, as Mr. Raushenbush has shown, which prevent the States from electing merit rating, then at once you take away from the individual employer the financial incentive, and that is, I am sorry to say, often the biggest incentive, to stabilize employment.

Now, we are not interested only for what benefits we might get from stabilizing our own employment, but we have an interest along with the rest of the country in trying to stabilize purchasing power and not have big years one year and small years another. We believe that if you put a financial incentive onto the employer to stabilize employment, you have given a big help to the whole economy of the country over a long period.

Now, it is remarkable what can be done in those directions.

I was comparing the other day, with someone in a Milwaukee store, and there in Wisconsin they have experience rating longer than anyone, and the effects of it are already being felt. We in Baltimore thought we had a very well-run establishment, but under this financial incentive they have discovered methods of stabilizing employment that we never thought of. We are going to try to put them into effect, because we hope to get merit rating for our establishments some day. Now don't let us just throw that right out of the window by putting in minimum standards which are so high that no State will elect them.

The whole question of minimum standards of payment (under the different standards in every State) ought to be investigated, as well as the whole question of merit rating. This investigation should not only be from an administrative standpoint. I know the administrative question is a difficult one, but if we want to get that object of stabilized employment, we must overcome these difficulties. We should get a committee within the next year to do just a little study of this project (a committee with not only administrative, but labor and employer representatives on it) and make a very thorough detailed study of it. If we get the better leaders throughout the country on this committee, I think we could do a real constructive job for the country as a whole, because what we really want and need is stabilization of employment.

Thank you very much for giving me the opportunity of coming here.

The CHAIRMAN. Mr. Raushenbush, will you continue?

STATEMENT OF PAUL A. RAUSHENBUSH—Resumed

Mr. RAUSHENBUSH. I was speaking on the difficulty of estimating the costs of changing waiting periods. Now I realize that the two figures I quoted from two different sources, from Social Security Board staff members, are not 100 percent comparable, but yet I think it is very difficult to explain a 100-percent variation, and I was saying

that in order to check these figures we made a little special study in Wisconsin. Our figures, on the basis not of theoretical estimates, but an actual count of waiting period weeks by individuals and the like, indicated that the seven-and-a-fraction-percent estimate was about half of what we figured it to be.

So you have got quite a variation there, from the lowest figure which was used before the Special Committee on Unemployment and Relief, taking that as 100 percent, with another estimate of the Board about 200 percent, and our own estimate for Wisconsin about 400 percent. So that is a pretty wide range.

It indicates that there are some difficulties in making estimates as to what these standards would really amount to, when actually applied to specific State laws, and I mention it merely for that reason. I am not blaming the Board at all. I am sure they did the best they could, but the figures aren't available to make adequate estimates as to these various standards at this early stage of the game.

I was speaking to specific standards on page 73 of the bill as passed by the House, and I want to skip over now from the waiting period, which I have just briefly touched on, to the proposition that weekly rates of compensation in the various State laws should be related to full-time weekly earnings, or in the alternative—and this was a provision put in on the House floor—be based on some fractional part of an individual's total earnings with respect to which contributions were required under such State law during that calendar quarter within such period in which such earnings were highest. Well, I have two observations to make about that suggested full-time standard.

In the first place, we tried it out ourselves for 2 years, a lot of the other States have tried out something along the full-time weekly earnings idea. Some of them have had, fortunately, an alternative escape to a fraction of a high quarter or the like. I think they are pretty nearly unanimous, with perhaps one or two exceptions. I think almost all State administrators would say that the full-time weekly earnings standard, however theoretically perfect and ideal it may be, is unworkable, and that no such standard ought to be written in, even if Congress decided it wanted to write in a standard of some sort.

I think you might reasonably say, instead of that, if you do get down to any standards at all, weekly earnings as defined by the State law, and then quit there, instead of saying "full-time weekly earnings." Nor is this fractional part of a high quarter an entirely satisfactory alternative. I might just note that this fractional part is by no means defined, but is left to the Social Security Board's discretion. Much though I admire members of the Board, and many of its staff, I think that is pretty wide discretion to give them over State laws, by saying, "You roll your own fraction, and if you change your mind from one year to the next, then that is it, and all the State laws must conform."

The use of a high quarter in itself doesn't appeal to me as being the last word in this field. There are some States that are now using a fraction of the year's earnings. I personally don't favor that, and yet I wouldn't deny to the States that have already got it in their laws the possibility of experiment with it. In Wisconsin we use still a different basis. We realize that if you take any fraction of a high

quarter earnings, whether that is fair and equitable depends on whether the man's peak earnings did happen to fall, all within a calendar quarter, and you have to use the calendar quarter. Not all industry conforms to calendar quarters. Their season may spread over the middle of two calendar quarters, and then you have only got 6 weeks in one and 7 or 8 weeks in the other, and you divide by a fraction that assumes it is 1/13 or 1/10 or something, and you get wide variations as to individual cases.

We think a man's earnings, divided by his workweeks, is a better standard than that. I think that some further experience along these various different and possible lines that the States are now following, might well be permitted, and that any suggestion of full-time weekly earnings, or such fractional part of a high quarter as the Board thinks is all right, isn't a very satisfactory standard.

It certainly doesn't permit State experimentation, and it leaves awfully wide discretion as to what that fraction ought to be in order to produce a reasonable approximation of full-time weekly earnings.

Senator KING. Your conclusion is that these matters with respect to standards are for the States to determine?

Mr. RAUSHENBUSH. Exactly.

Senator KING. What would suit one case would be unsuitable by reason of many conditions in another?

Mr. RAUSHENBUSH. Precisely.

Senator KING. One State is an agricultural State, one a mining State, and one a manufacturing State, and there are different factors to be considered?

Mr. RAUSHENBUSH. Yes; but even in addition to that, and apart from that, I would say that the different States are trying out somewhat different approaches, different ways of getting at the same thing. Nobody knows which is the best; but if and when experience demonstrates that one is better, then I say it might be the proper function of the Social Security Board, if the States don't do it among themselves, to persuade the various States, here is experience demonstrating that this would be a good standard, why don't you consider it in your State? They have got some very persuasive salesmen, and I think their salesmanship perhaps ought to get a little better workout, rather than saying, "You must." They don't usually use their control over grants as an argument, but lots of States are very much aware of it, and I think education is better than just putting your foot down and saying, "You must."

There is a difficulty here in connection with this proposed minimum weekly benefit rate, $5 per week if such full-time weekly earnings are $10 or less. Now it has already been called to your attention that that means that you pay $5 even where the person normally earns three or four dollars, and I think that is at least of questionable wisdom, as a universal, country-wide requirement.

Oh I know that none of these standards are required of any State, they can all ignore them and just collect 2.7, but that is not a satisfactory answer either. For practical purposes these standards would apply to a great many States, and I question a $5 minimum regardless of the earnings of the individual, and I give you one specific illustration for questioning that.

Aside from the States which have rather low wage rates as compared to this $5, which would be bothered by it, and I think there are quite a number of those, aside from that every State, even those

with higher wage levels, have a great many thousands of people who work part time in stores, say on Saturdays, so-called part-time extras. I think there is a fair question, under the language of this bill, as it stands, whether they could be disqualified from eligibility for partial unemployment benefits or total, because it is otherwise eligible individuals who have wages or earnings of $10 or less. There is at least a question as to how that fits in with eligibility and partial unemployment.

On the partial unemployment, of course, we have always been for it in Wisconsin, most of the States have got it, but New York, for three successive legislatures, has postponed the enactment of it, one time because they thought it might bankrupt their fund. I don't think it would, but they, after all, know better than I do as to what their conditions are, and I would hesitate to prescribe; and I think they will eventually come to it, even without any Federal compulsion.

So that I say there are things about these particular standards, if you are going to enact any standards at all, that ought to be gone over very carefully, indeed, to make sure you are not imposing standards that are prohibitive or administratively unworkable.

But I urge you again, to make my position clear, that you delete the whole business and leave the law the way it stands in respect to State and Federal standards and relationships and experience rating.

I want to come back again to the 2.7 suggestion. I think that is just as vicious as anything, and I want to conclude by two things.

One, I want to read you just one letter from a Wisconsin employer to give you a little idea. Of course, most of the States haven't gotten along this far, but they are just moving toward the date when they can hold out a variation in contribution or premium rates as an inducement to employers.

Just to give you one employer's letter, recently written to an employer member of our advisory committee, who showed it to me, and I cottoned on to it long enough to at least give you some of these figures and comments.

The letter is from Cudahy Bros. Co., Cudahy, Wis., and is dated June 12, 1939.

I will skip the first paragraph which is irrelevant.

The percentages of lay-offs to the average number of employees for 1926 through the first 5 months of 1939 are as follows:

	Average number of employees	Total lay-offs	Percent of lay-offs
1926	1,032	918	88.95
1927	1,013	905	89.34
1928	1,059	520	49.10
1929	1,322	612	46.29
1930	1,192	879	73.74
1931	960	689	70.31
1932	920	504	54.78
1933	1,035	557	52.30
1934	1,154	653	56.59
1935	1,014	666	65.04
1936, 6 months [1]	1,009	261	25.87
1936, 6 months [1]	1,135	1	.09
1937	1,199	58	4.84
1938	1,194	138	11.56
1939, 5 months	1,312	33	2.51

[1] Benefits became payable July 1, 1936.

All right, for quite a long period of years, they happen to have records, and they give the figures year by year. I am not going to cover them all, but I will comment on several of them.

In 1926 they had an average number of employees of 1,082, and they had a total lay-off within that year of 918, or a percentage of lay-offs compared to average number of employees of 88.95 percent.

Well, it went along that way, not quite that bad. In 1928 they had 49 percent of lay-offs, and it varied along, in 1931 and 1932 they had a smaller number of employees, but about the same percentage of lay-offs. We come along to the first 6 months of 1936. They split that year for us, happily. Their figures permit them to do so.

The first 6 months of 1936 they had 1,009 on the average, employees, and 261 lay-offs for a percentage of 25.87. Now, at that point, on July 1, 1936, Wisconsin started to pay unemployment benefits, and the experience rating of this employer was going to be involved in his future operations and conduct. Well, at that point he has this kind of a record for the last 6 months of 1936. He has about 100 more employees, an average of 1,135 during the last 6 months, and he has one lay-off, as compared to 261 the first 6 months, and he comes out with a lay-off percentage of less than 1 percent.

It hasn't stayed quite that low. For 1937, 1938 and 5 months of 1939 the lay-off percentage was 4.84 and 11.56 and 2.51 percent. At any rate a very substantially improved picture.

Senator KING. The word "lay-off" connotes an indefinite period?

Mr. RAUSHENBUSH. Probably for some period of time, they don't explain what they mean by that.

Senator KING. It might be a week or 2 weeks or a month?

Mr. RAUSHENBUSH. It might be a short or a long lay-off.

They note that benefits became payable July 1, 1936, because they realized that anybody who looked at these figures would be struck by them. They go on to say:

> We believe these figures speak for themselves as to whether or not the Wisconsin merit rating plan has played a large part in the regularizing of employment in our plant. When the Wisconsin law went into effect, we thought it impossible to stabilize employment in the packing industry due to its seasonal nature.
>
> The figures above indicate what can be done and the merit-rating system under the Wisconsin unemployment compensation law deserves all the credit.

Not every employer can furnish that type of figures. We don't begin to have figures, but we have got here, if you care to have them for the record, selected excerpts on this particular point, from a couple of dozen employers, again written to an employer member of our advisory committee.

I wouldn't attempt to read those all to you, but they all tell about the same story, the various efforts they have made in view of the experience rating provisions of the law.

By the way, a previous witness talked about the laundry industry. Some employers who have gotten reduced rates in Wisconsin under our experience rating system, laundries where they have in fact provided steady employment, and the experience rating provisions of the State laws should presumably give them some recognition.

On the other hand, if they have got larger numbers employed, which is what they mean by high pay roll, and they really need lots of people to do their services, then there has got to be some protection for those, whether under old age or unemployment compensation. But if they have a steady record of employment, then they are apt to get, in the experience rating States, a recognition of that in terms of reduced State premium or contribution rates.

I merely wanted to add to that testimony, and I cannot urge you too strongly that you do not discourage the emphasis that State laws are now able to give to steadier employment by a direct monetary inducement to private industry to employ their people more steadily and therefore by creating less unemployment benefit costs, permitting a reduced contribution rate in those cases. I would like to file these letters.

The CHAIRMAN. They may be filed with the committee.

(The letters are as follows:)

EXPERIENCE RATING ENCOURAGES STEADIER EMPLOYMENT

[Excerpts from April 1939 letters by Wisconsin employers]

The Falk Corporation (heavy machinery), Milwaukee, Wis., by Harold S. Falk, vice president-works manager:

"Since 1936, the Falk Corporation has inaugurated a complete planning and production department for the purpose of securing better production control and for the elimination, as much as possible, of annual peaks and valleys in our shop employment. Quite naturally, one of the primary incentives was the reduction of unemployment compensation insurance costs. All of our employment activities have been centralized with a view to limiting excessive hiring and lay-offs.

"During the early part of 1938, a number of employees were transferred from departments experiencing slack working conditions to departments where work was available. As a result, we have developed a squad of workers who can be transferred from one department to another, thus reducing unemployment to an appreciable degree.

"Our foremen have been given considerable training in the proper methods of spreading work and hours, with the result that when reduced business forces us to work short hours, the distribution is made in an equitable manner. The existence of a pooled fund in Wisconsin would nullify all of our previous efforts because the incentive to stabilize employment conditions would be removed.

"We feel that perhaps by next year, granting that business conditions are not too unfavorable, we will be able to reduce our contributions to 1 percent, and in that manner benefit from our previous stabilization efforts."

The Tuttle Press Co., Appleton, Wis.:

"Ever since this law has been in effect, we have been changing our policies and bending our best efforts to stabilize employment and keep our plant running as steadily as possible; and as a result of these efforts and expenditure of money, we have accomplished a fair result.

"This company is in a highly seasonable business. We manufacture tissues, holly papers, and gift wrappings for the Christmas holiday trade. One can readily understand that there is no sale ordinarily for our product of this nature for the first 9 months at least of a year. Heretofore our Christmas orders would begin to come in along in August and September, and upon receipt of those orders we would begin to produce, which meant that we would put on a lot of extra help for 3 or 4 months.

"Since this law has been in effect our entire program has been changed. We now start producing Christmas papers as early as January 2. Our pressmen are busy steadily from January 2 on, instead of being laid off for 6 weeks to 2 months and then in the fall of the year working 10 and 12 hours a day as was formerly the case. In order to accomplish this it has been necessary for us to rent two additional warehouses, which we use for our inventory; and, by the same token, it means a large expenditure of money to build up these

inventories in anticipation of the Christmas trade. The benefits to us, however, have been better relations insofar as our skilled workmen have had steadier operation and all of our employees are naturally much better satisfied.

"This has, in turn, given us a very much better experience rating. We have been able to reach the 7½ percent this year and feel well rewarded. However, if the experience or merit ratings were dropped, there would certainly be no incentive for us to carry these inventories and rent additional warehouses to carry our stock.

Truesdell Fur Coat Co., Inc., Berlin, Wis., by C. W. Smith, president:

"We have a very seasonable business. It starts in May, rises to a peak in August, and tapers to December 1. December to April is practically blank as far as the factory employees are concerned. However, with the exception of a few of the women, we have made work for them. In the case of the men, they have been employed 44 hours per week. This is how it was done:

"We started a mink ranch, and have been able to take the men into this work from December to March. We can get short-time help, perfectly able to do this common labor at a much lower wage, but by using the regular factory employees, they have not drawn from the unemployment fund.

"Pool the fund and there would be no incentive to keep our people employed during the slack period. If we are to pay a fixed rate regardless, we might as well go on the policy of letting them get all that they can from the fund, as it would make no difference to us, and it is our belief that the attitude would be general and the fund would stagger under the load."

C. Starkweather & Son, Inc., Beaver Dam, Wis., by C. A. Starkweather, president:

"We operate a retail lumber and fuel yard and in the last few years have put in a contracting department for the building of complete homes and barns, which necessitates the employing of approximately 50 men.

"Of course, contract work is seasonable and spasmodic. We have attempted to provide regular work for the employees by planning our contracts and their expiration dates, thus spreading the work over as long a period as possible without the necessity of employing additional men.

"During the winter 1937 we took on the construction of milk houses for Kraft-Phenix Cheese under Chicago inspection. Most of this work could be done under cover, building them in sections and erecting them on the building site. This method of procedure was costly and we realized little or no profit, but we felt that it would enable us to keep our fund up so that we might obtain a better experience rating.

"Had it not been for the provision of the law which provides for the reduction of a rate based on this experience rating, we would have laid the men off, turned down the contract, and let our fund become depleted. Of course, you realize that with from 20 to 25 carpenters unemployed over a 3- to 4-month period, it wouldn't take very long."

Oscar Mayer & Co. (meat packing), Madison, Wis., by A. C. Bolz, vice president:

"We believe these experience-rating provisions constitute the most constructive features of the law, holding forth for the employer the greatest of incentives for eliminating lay-offs and unemployment—that of a reduction in tax on his annual pay roll from 2.7 to 0 percent, holding forth for the employee in turn the maximum expectancy of realizing one of his greatest desires—that of job security and continued employment (far more satisfactory than any unemployment compensation), and hence in turn holding forth a real promise for sound economic and social stability—a thing so frequently lacking in similar legislation of the past few years.

"Although our industry is definitely seasonal due to its immediate dependency on agriculture as a source of supply for raw materials, we are making every effort to level our annual work curve and maintain continual employment of our force.

"We have expanded and are continuing to expand those phases of our business which will increase plant operations during our normally slack periods. This expansion has not only furnished more steady employment for our older employees but has required the hiring of additional new help as well.

"We have also undertaken a program of educating and training our foremen and supervisors to the desirability of maintaining continuous work for our employees. This has brought about better planning of work, better cooperation between departments in transferring help, and as a result more steady work for

employees. This program has also given employees an opportunity to learn other jobs, to become more flexible in occupational ability, and hence more valuable to us.

"As a result of this program not only are more of our employees being given steady and continuous employment each year but labor turn-over has been reduced. We also know that our program has helped in reducing labor costs and that our general employees' morale has improved appreciably."

The Van Brunt Manufacturing Co. (agricultural implements), Horicon, Wis., by F. H. Clausen, president:

"This company has endeavored from the first to take full advantage of this part of the Wisconsin compensation law. In the employment of men we have given full consideration to the possibility of making that employment regular and avoiding lay-offs.

"For nearly 2 years we were able to do this without incurring liability and only a pronounced falling off in demand for our product overcame our efforts in that direction.

"We have adopted the following means to promote continuity:

"1. Do not hire men when there is little likelihood of continuing them on the pay roll indefinitely.

"2. Reduce the peaks and valleys of operation by building for stock and storage in warehouse during periods of least demand.

"3. In the selection of new employees try to get the kind of men who will be able to take up work in different departments.

"4. Continue our efforts to round out our line of goods to promote sales in different seasons of the year.

"Based on the above program we are satisfied that we have made substantial progress and that the existence of the experience rating provision in the Wisconsin law has been one of the principal incentives."

Neenah Foundry Co., Neenah, Wis.:

"We are most pleased to state that the provisions of the experience rating have greatly benefited our employees. Since this company has become liable for benefits under the law, we have had only one case where benefit payments were made to an employee and this only due to a misunderstanding. However, the above was brought about due to careful placements of the employees to the various divisions in the plant; and after their work was completed for the current week rather than lay them off work was found for them in another department.

"By placing these employees in the various departments it gave them a full week's pay check rather than the amount of what their benefit check would have been.

"From the above you will clearly determine that it has been to our best advantage to have experience ratings because we have stabilized our employment and have not had a single case of lay-offs. We believe that it is only through a medium of the experience rating that an employer can honestly be compensated for his effort in trying to stabilize employment.

"During the years of 1937 and 1938 we had numerous occasions to lay off workers due to lack of work, but instead have kept them on our pay roll for a longer period until such time as they could be permanently placed as an employee.

"There is no possible incentive in doing this except for the fact it will have an effect on our experience rating."

The Whiting-Plover Paper Co., Stevens Point, Wis., by J. H. Miller, general manager:

"We have arranged to plan our production much more carefully than ever before in order to make employment more regular, and we have very definitely succeeded in accomplishing this.

"Furthermore, there have been several occasions during both 1937 and 1938 where we have kept employees at work on special jobs which were not entirely necessary rather than mar our record. Many of our employees, both informally and at committee meetings, have commented favorably upon the greater regularity we have achieved."

Thilmany Pulp & Paper Co., Kaukauna, Wis., by Karl E. Stansbury, president:

"* * * In order to conserve reserve funds and decrease the rate of contribution, it is our practice to arrange for transfer of employees between departments with the end in view of reducing lay-offs to a minimum. In this

way we have been able to schedule many jobs so that surplus employees can be utilized in slack periods to equalize unemployment.

"This policy has resulted in keeping employees on the pay roll during 1938 and thus far in 1939, who otherwise would have been laid off."

Malleable Iron Range Co., Beaver Dam, Wis., by H. T. Burrow, president:

"Although business was none too good during 1938, we did not lay off a man or a woman in our entire organization during the year, and all of them were given 3 days or more of work per week for at least 40 weeks during the year.

"It was not an easy matter to carry out this program and it would have been much more convenient to have laid off some of our employees or to have worked fewer days some weeks or to have shut down entirely for some weeks during the year.

"The busy season in our different lines varies somewhat and, therefore, we shift employees as much as possible from one line of production to another.

"When all available warehouse space was taken up, we kept as many employees as possible busy on plant repair jobs.

"It was very difficult to keep everybody occupied at times and very likely we did not receive full value for some of the work which we had done, but we believe that the experience we gained in carrying out this program was worth the cost, and as time goes on we should be able to learn from experience and eventually be able to work out a plan whereby we can keep all employees busy and secure full value for all work which we schedule."

American Excelsior Corporation, Chicago, Ill., by E. A. Mavis, treasurer:

"During 'peak times' we have held our crew to a minimum, and during dull periods we have staggered our crew in an effort to give the newest employees at least sufficient work to equal their benefit rate.

"We have trained our employees for interchangeability in different departments.

"Employees in the low seniority rights bracket appreciate that they have been given employment during dull times.

"We have practically no labor turnover at any of our plants, and while it is difficult to measure the results gained therefrom, we do know that we have a steady crew of apparently contented employees, and we count this a very much worth-while asset."

Chicago Rubber Clothing Co., Racine, Wis., by F. F. Sommers, president:

"Due to a difficult situation existing in one department which works only about 6 months of the year, we are one of that group of employers whose rate was raised at the first of this year. This has served to bring home to us the incentive feature of the law. This has caused us to redouble the efforts which we have made during the past few years along the following lines.

"Better planning of production has enabled us to operate two departments of the plant for over 2 years now without any lay-off of regular help. Centralization of employment control has permitted us to transfer from one department to another instead of laying off as might have been the case if we had not been watching the situation so carefully.

"Several of our people have been trained in two departments with the result that some of them have had steady work the year around for the first time in several years.

"The favorable impression among the employees in the departments where we have been able to offer steady employment has just recently been the cause of some splendid employee cooperation in an effort to obtain the same results in another department which has heretofore been subject to seasonal lay-offs.

"In the department first mentioned above the prolonged lay-off for 6 months of the year has resulted in a high labor turn-over with a correspondingly high labor cost as compared with the low labor cost and low turn-over which we enjoy from the departments operating steadily. This combined with the fact that the lay-offs in this department have been the direct cause of the increase in our compensation rate is causing us to make every possible effort to keep this department running more regularly and eventually offer year around employment."

Curtis Cos., Inc., Wausau, Wis., woodwork, by W. E. Curtis, general manager:

"At the outset we recognized the need for carefully watching the various angles of this problem and two of our very good men having to do with the employment problem have spent much of their time to see that things worked out to the best advantage for the employees as well as the company under the law, and the results have been very satisfactory, especially to the employees who have remained on the pay roll much more steadily than in past years when the regularization of employment was virtually no problem.

"By planning our production and training many of our men for interchangeability on several different jobs we have very greatly reduced the labor turn-over and more equitably arranged for the spreading of work among the employees on the pay roll during the several difficult periods since the law went into effect.

"While actual figures are not available and in our business it would not be easily possible to make a comprehensive statement to demonstrate the point, there is no room for doubting the fact that as the result of more careful planning of production and the other things which have been done as an indirect result of the way the Wisconsin law is set up to work, our labor costs have been less, while at the same time the individual employees have been much better satisfied with the way matters of this sort have been handled."

Tomahawk Kraft Paper Co., Tomahawk, Wis., by H. L. Fitze, assistant secretary-treasurer:

"* * * The first 2 years served as a period to get our house in order. This was done and, consequently, our rate was dropped on January 1, 1939, from the normal 2.7 to 1 percent. In these critical times we are truly grateful for any lowered expenditures. Our aim is to build the reserve to a figure, and hold it, sufficient to eliminate the State tax entirely.

"Of course, it has not been easy. Everyone knows that in practically every line of endeavor the past 18 months have been most trying. Planning of operation was necessary and the versatility of individuals was called upon in order to regularize weekly earnings. The result is apparent. Not one cent has been drawn from our account to pay partial benefits. Unfortunately, due to circumstances beyond our control, during the latter part of 1937 a few lay-offs could not be avoided, and some total unemployment benefits were paid accordingly."

Wisconsin Agriculturist and Farmer, Racine, Wis.: "* * * Even though we are an agricultural magazine operated upon a biweekly basis, we have earned a rate reduction due to our efforts to provide work for our employees in our off weeks.

"In 1937, instead of working 26 weeks each year to publish our own magazine, we were able to obtain outside printing work for 15 extra weeks; and for 1938, 19 extra weeks, thereby reducing benefits and increasing our reserve to a point where we earned a rate reduction. This proceeding also materially inured to the benefit of our employees, because their earnings during these weeks which ordinarily would have been idle were in excess of what their benefits would have amounted to.

"Because of our printing and publishing a biweekly magazine, it would appear we would welcome a 'pooled' type of compensation, whereby the more fortunate employer would carry some of our burden of benefits. In our opinion, the purpose of the law might be defeated under those circumstances, as we would have no incentive to reach out for more work to keep our workers employed. The net result, also, would be that our employees would not earn as much in 52 weeks as they do now."

Badger Malleable & Manufacturing Co., South Milwaukee, Wis., by C. M. Lewis, secretary-treasurer:

"At the outset we might state that we are a jobbing foundry, and despite our sincere efforts to keep a uniform flow of business in our plant it is practically impossible to do so. Therefore, if anyone would benefit by the pool system of unemployment compensation, it would be companies in a line of business such as our own. Yet, despite this fact, we feel sure that if any type of unemployment insurance is economically correct, this (experience rating) is the best plan.

"We know that we have made an effort wherever there was anything we could do to keep our employees at work rather than to put a strain on our unemployment-benefit fund. Many times we have found odd jobs around the plant at repair work or maintenance work, or in cases where we have anticipated that our customer at a future date might need certain castings we have provided this work rather than allow the employees to be laid off.

"Also we have tried to develop some items of our own that we could build up a stock on when the jobbing business was slack. However, it is difficult to find enough items of this nature that produce volume enough to be of help when there is a violent curtailment of purchases, such as occurred during the latter part of 1937 and the first part of 1938."

Brillion Iron Works, Inc., Brillion, Wis., by R. D. Peters, general manager:

"Experience rating, in general, is an incentive for every employer to improve his own working conditions, and there is no question but that it causes him to prevent or try to prevent unemployment.

"Our own experience reveals we have created additional employment because of this feature. Up to approximately a year ago we operated on a very good schedule and had not paid out any benefits for unemployment. Unfortunately, conditions were such that it was necessary for us to reduce our operating schedules. One of the large manufacturers we had been serving suffered a sharp cut in sales, which, in turn, caused us to reduce our employment, and we paid out a sizable sum in benefits. This experience is now causing us to pay 3.2 percent at this time.

"Referring to the conditions mentioned above, together with our experience rating, it has caused us to develop further products and to diversify in an attempt to avoid heavy unemployment during certain periods of the year. With a program of diversified and varied items to manufacture, we are trying to maintain an even employment throughout the year. Even though we do manufacture different kinds of equipment, we are checking into new articles to manufacture which will offset the seasonable items we make.

"We might also relate that about a year ago we built additional factory space and had approximately 30 more employees whom we expected to employ gainfully in the manufacture of our regular product after the building program was completed. These men were kept on the pay roll approximately 60 days while we waited for business conditions to change and thus avoid paying benefits if things should improve. Furthermore, we carried them over for this period to give these particular employees a chance to obtain work on farms or some other occupation.

"Because of experience rating, we in turn provided additional work for those employees whom we maintained on our pay roll in order to avoid partial benefits. In general, without this experience rating, there would have been no incentive for us to take steps of this kind. It would have been well for us to accept unemployment as soon as the work dropped off and things did not look favorable for continued employment. At the same time, it would have had its ill effect; but in the event of an unexpected spurt in business additional employees could be put on, but not for any great length of time, whereas now we seek to carry additional inventory and try to protect the laborers we have by providing continued employment.

"Even though we are penalized at the present time, we greatly favor the experience rating, and we naturally are looking forward to correcting our own conditions in order to avoid similar circumstances. If we had to pay into a general fund and there was no incentive in general for industry to maintain steady employment, we could readily see that the entire motive in mind with reference to stabilizing employment would be cast off."

Phoenix Products Co., Milwaukee, Wis., laundry machinery, by G. B. Larson, secretary-treasurer:

"The old saying 'Charity begins at home' is equally true as regards an employer's responsibility to his employees.

"An employer's first duty as to workers' welfare is toward those that he employs and who are fully dependent upon his management for their well-being.

"The experience-rating provision or merit-rating system gives an employer an opportunity to discharge that duty, by so planning his operations that a minimum of involuntary unemployment is experienced. After all, what the employee wants is work and not unemployment benefits.

"We have made every effort to keep our people employed by interchanging and spreading of work and have had very few lay-offs during 1937 and 1938.

"Contrary to expectations increased wages and lower selling prices have not increased our labor cost, which is no doubt due in a large measure to small labor turn-over.

"It would seem only fair and just that the individual employer's effort to keep his employees receiving regular pay checks merits some recognition, and that is what the experience rating provisions give by effecting a nice saving in unemployment contributions as we are now in the 1-percent bracket."

The Burdick Corporation, Milton, Wis., by G. E. Crosley, secretary-treasurer:

"* * * It is no longer a question in Wisconsin whether or not 'merit-rating' will stimulate regularizing of employment. It does, as anyone of average intelligence would expect. It is not only 'possible,' it has been done.

"It is reasonable to expect that the additional expense involved in unemployment insurance without merit-rating would be many times the small additional expense experience shows involved in record keeping under merit-rating."

The Sisson Co., La Crosse, Wis., wholesale grocers, by C. P. Galligan, secretary-treasurer:

"During 1937 and 1938 we employed several employees every week of the year that ordinarily we would have laid off during the slack periods, for the reason that we were trying to build up our reserve fund so our contribution rates would drop to 1 percent.

"If the pool fund was in effect we would have laid the employees off when not needed, as we would not have been interested in building up a pool fund that would be drawn on by other employers."

Yerly Coal Co., La Crosse, Wis., by F. E. Yerly, secretary:

"Our experience has been we have kept our men employed at periods of time when we could far easier have laid them off and allowed them to draw unemployment benefits. We have had possibly only two cases of unemployment benefits being drawn from our fund, and I doubt if the withdrawals thus far exceeded a total of $50.

"If our contributions went into a general pool I know personally that the withdrawals would without doubt be over $500. It would be far easier for us to lay our men off 2 and 3 months at a time between April 1 and October 1 and allow them to draw unemployment benefits from a general pool than to carry them as we have on our pay roll in order to protect our own fund."

Marathon Battery Co., Wausau, Wis., by E. D. McEachron, assistant secretary and treasurer:

"In 1934 our nonproductive labor cost us about 50 percent as much as the productive labor. In 1938 it was but 40 percent. The reasons for this are various, not the least among them being regularization of employment, causing smaller labor turn-over.

"We enclose some figures which will perhaps be of interest showing how in 4 years we have been able to level employment. The figures shown are the percentage of productive capacity:

	January	February	March	April	May	June	July	August	September	October	November	December
1934	42	46	30	18	12	16	21	43	62	83	65	61
1936	56	58	38	38	28	35	60	80	84	100	69	46
1938	78	69	58	56	52	51	60	60	54	60	76	77

"We are very much interested in our own fund, but we doubt very much if we could contrive the same interest in a pooled fund.

"We have succeeded * * * in bringing our rate down to 1 percent. We feel that if last year's experience is typical, we will continue at this rate or less despite the fact that we are in a highly seasonal industry. We are competing with firms located in States where labor is considerably cheaper than in Wisconsin, and a 1.7 percent saving on labor will enable us to compete. Any saving that a manufacturer can make is always reflected in a better pay roll and a cheaper product. We feel that this result will be achieved under the Wisconsin law."

Jung Shoe Manufacturing Co., Sheboygan, Wis., by Otto Jung:

"* * * We wish to state that the 'merit' rating provision in our law has been an incentive to us to provide steady employment by careful production planning and spreading of work to attain the reduced contribution rate, with the result that by making a comparatively small additional payment we are now enjoying a 'zero' 'merit' rating.

"Providing steady employment has resulted in definitely less labor turn-over, benefiting not only our employees but also ourselves through a reduction of operating figures."

Holt Lumber Co., Oconto, Wis., by D. R. Holt, vice president:

"In July 1936, when unemployment-benefit payments started in Wisconsin, we immediately set up a more centralized employment control, based upon the policy that it is better to prevent unemployment than compensate it.

"The merit rating was the incentive, as was the desire to have our firm secure the reduced rate.

"Whenever production was considered, unemployment insurance was likewise considered. Employment records were centralized. Weekly summaries of

unemployment experience, partial and total, were given to every department foreman, which enabled interchanging of labor at the time, spreading of work, and an unemployment mindedness on the part of our entire organization. We understood the advantages of experience rating and had our policies work to that result. We did this with the thought to provide more regular work and more regular weekly wages for our employees and to be compensated by a reduction in future tax rates. It enlisted our thoughts to careful attention of our individual reserve and not toward a careless or wasteful dissipation of our accumulated unemployment funds.

"This actually worked. In 1936 we paid out no unemployment benefits. In 1937, with a summer lay-off, we paid out less than 10 percent of our contributions. In 1938 we were forced to lay off, by the exhaustion of raw material, over which we had no control."

McNeany's Department Store, Beloit, Wis., by A. F. Reesman:

"Ever since the passing of the unemployment-compensation law in the State of Wisconsin we have very diligently attempted to stabilize our employment, and we are very proud of the fact that since the begining of paying of benefits we have had a very low withdrawal from our account. Even though at times we should not have maintained our employees on regular employment, we have attempted to give our regular people regular full-time work.

"We employed a personnel director, something entirely unheard of previous to this time, hoping to make our people more productive and flexible so that they could be placed in other positions during dull periods in their particular department."

Edison Wood Products, Inc., New London, Wis.:

"Since this law became effective, we have gone out of our way to try and level out our production and in that way create steady employment for our employees. The results of our efforts speak for themselves, and while not as favorable as a lot of other employers that we know, yet at this writing we have only one person drawing unemployment insurance. This employee will not be rehired, and that is the reason he is drawing unemployment insurance today.

"The present Wisconsin law has resulted in less labor turn-over, making our employees more experienced, reliable, and conscientious, and this has resulted in lower costs for us. Our financial statement will bear out this fact."

Gateway Grocery Co., La Crosse, Wis.:

"We would dislike very much, after making conscientious efforts to keep our men employed the year around, to be penalized by paying the high rate each month which we are now saving, and which we believe is a just reward for our efforts."

The Union Dye Works, Kenosha, Wis.:

"Had we not stabilized our employment with this incentive of a lower rate in view, we possibly would now be in the higher bracket of contribution."

Kramer Sheet Metal Works, Milwaukee, Wis., by Frank Kramer:

"Our firm is on the basis of keeping employees on a full-time basis, or very near so. In slack periods, work such as repairs to the building, improvements, and stocks are built up. This was not a practice for a period of 12 years previous."

Allen Edmonds Shoe Corporation, Belgium, Wis., by E. W. Allen, treasurer:

"* * * Since this law has been in effect, 1936, we have not used any of the funds to pay unemployment benefits. Just as soon as this law was enacted we rearranged our plans and working details so as to balance our production throughout the year, maintaining a continuous run of employment.

"Sometimes, of course, this caused an increase in our finished stock. Nevertheless, we have been able to maintain a clear record insofar as paying unemployment benefits are concerned, and the writer cannot speak too highly of our present State law as to its merits in providing an incentive both to the employer and employee to plan the work and execute these plans in a cooperative manner. And, of course, this has practically entirely eliminated labor turn-over."

Andis Clipper Co., Racine, Wis., by M. Andis, Jr., secretary:

"Since July 1, 1936, when benefits were first payable from the fund, will state that on account of stabilization only two persons have received benefits which have been charged up to our account.

"We feel that where an employer stabilizes his employment and keeps his employees working throughout the year that he is entitled to a much better rate than one whose employment is not steady or where there exists a continual labor turn-over."

White Rock Mineral Springs Co., Waukesha, Wis., by R. O. Compton, vice president:

"* * * We are entirely in favor of merit rating, since this plan is of substantial benefit to the individual employer and to society as a whole.

"Ever since the inauguration of the Wisconsin unemployment insurance plan we have made every effort to keep our employment uniform. We build up a large stock of finished goods during slack-sales periods so that temporary help will not have to be taken on during the busy season. Furthermore, we have taught our employees to do more than one job, so that if there is no work in one type of business the employee can be given another job. When production needs are low, we use the surplus help to do maintenance work which ordinarily would not be done."

Scanlan-Morris Co., hospital furniture, Madison, Wis.:

"We have maintained a distinct pride in not having to call upon this fund. That it has been a stabilizing influence, goes without question. Time and again, hiring and lay-offs would have taken place, were it not for this stabilizing influence.

"In other words, we have tried consistently during that length of time to see that regular employment was made available for all the employees which we have. This has been possible so far; but what the future holds, no one can foretell. At times we have been sorely tempted to increase the number of employees considerably, but other times our force was used in building up stock, which was a surplus of finished products to be sold later.

"Unfortunately, our product does not permit the building ahead of quantities of finished articles because of the engineering required in connection with our sterilizer installations. This requires special building to meet the individual jobs. This is true in many instances of our operating tables, our operating-room lights, and all that, so that we have all of these uncertainties to contend with. It has meant that when we were slack in orders we would make an effort to get additional business, even though the margin was much smaller.

"In other words, the incentive is to have sufficient volume of work in the plant to keep the force going. Our employees do appreciate and benefit by this planning, and especially so when overtime is paid rather than putting on a greater number of employees."

The Paramount Photo Shop, Reynolds & Hoeft, La Crosse, Wis., by Helen Mae Hoeft:

"We have been subject to this act from the very beginning; and this last year, by building up our fund, we have reduced our contributions to 1 percent. We have also by planning extended the employment over our dull period and have kept at least 25 percent more employed than we did in the peak and the low of 5 years ago. This is reflected in our employees being more efficient, more satisfied that their employment is steadier than it was before unemployment insurance came into effect."

Appleton Woolen Mills, Appleton, Wis., by A. H. Wickesberg, treasurer:

"In centralizing our control of employment and production, we are able to know in slack times to whom employment should be given and how much, both in hours and in value. This provides a steadier income, averaging much higher than the spasmodic employment plus benefit payments.

"Without merit rating there would be no incentive to spread or stagger labor. In season or cyclical industry employers would have no individual responsibility to reduce unemployment to a minimum. Unemployment would increase and benefit payments would exceed contributions in a very short time."

Wisconsin Machinery & Manufacturing Co., Milwaukee, Wis.:

"* * * We do all we can to cooperate to make the law accomplish the purposes for which it was originally enacted. Holding the job means more than receiving just temporary benefits for the job that has been lost. Job holders are happier and better off than people on relief. Our law compensates the employer who spreads his available hours of work, thus keeping more men in their jobs, even though on reduced hours and less pay.

"* * * If our law lacked its present features and if instead we had a pooled account system we would probably be forced to resort to the old hire-and-fire methods for we would have a higher tax on our pay roll to maintain the pooled account at its proper level and also the additional expense entailed in spreading the work.

"* * * Since our law became effective (1) we have not caused a single one of our employees to lose his job, (2) we have not paid one cent in benefits, (3)

we have built up our reserve fund to a point where our contributions have now reached the zero point, and (4) we find the reporting so simplified that the amount of work required is almost negligible, for whereas we formerly made weekly 'low earings' reports we now make such reports only four times a year."

H. C. Prange Co., department stores, Sheboygan, Wis., by H. Carl Prange, president:

"We have been able to avoid lay-offs by transferring our help from one department to another wherever it was possible. This problem is probably most acute in January and February in our line of business. During these months we have transferred men from regular departments to the maintenance department for a general store house cleaning.

"Before dismissal of an employee, a thorough study is made of the particular individual to be affected. If at all possible several transfers to different work are arranged for this employee before actual dismissal. This has naturally kept a good many people on our pay roll where otherwise they might have been dismissed if they were found unsuited for the work in which they were placed.

"We have not found it necessary to contest the payment of benefits to any employee who was dismissed.

"We believe that any change in the merit-rating provisions of the Wisconsin Unemployment Insurance Act would discourage the type of operation that we have tried to carry out."

Century Photo Service, La Crosse, Wis.:

"This last year, by building up our fund, we have reduced our contributions to 1 percent. Moreover, during 1937 and 1938, by careful planning, we have extended the employment over our dull period, keeping at least 25 percent more workers on our pay rolls than we had previously."

West Bend Aluminum Co., West Bend, Wis., by W. E. Malzahn, treasurer:

"While we always gave some consideration to the matter of stabilizing employment, it is most certain that the Wisconsin unemployment compensation law provided added incentive for stabilization. In order to bring about greater stabilization of employment we adopted the following practices which we felt had made for stability:

"1. Tried to build up off-season demand for our products.

"2. Tried to secure advance customer commitments.

"3. Tried to learn enough about a customer's business so that we could anticipate our customer's requirements if our customer did not give us a definite commitment.

"4. Develop new items and new lines in order to produce a more steady flow of business. Attempted to develop new lines in every field of distribution.

"5. Accumulated inventories during slack periods.

"6. During slack seasons utilized production employees for renovation and repairs.

"7. Have a number of employees who during our slack periods take a leave of absence to engage in their regular occupations in building trades, golf-course maintenance, farming, etc., who return to their employment with us when our busy season starts.

"8. Development of a large group of employees who can be shifted from one department to another, who are trained to do work in several different departments so that production bottlenecks can be eliminated without the addition of extra hands and the subsequent laying off of such help.

"Since the adoption of the Wisconsin Unemployment Compensation Act we have continually given thought to the matter of giving employment rather than laying off any employees. The result of all this will naturally be not only the ultimate elimination of the tax, but we have definitely found a substantial reduction in production costs."

Fey Publishing Co., Wisconsin Rapids, Wis., by M. R. Fey:

"We were able to reduce our contribution rate to 1 percent for 1939 and also kept employment at such a level that no employee suffered any lay-offs involving financial distress.

"This method is an incentive for the employer to spread work, and our case will result in an opportunity to reduce our contribution rate to 0 percent for 1940, and at the same time will benefit the employee with better assurance of steady employment."

Moritz & Winter Co., Milwaukee, Wis., clothing manufacturer:

"It is strange that some should claim that the only purpose of unemployment legislation is to pay out the largest possible benefits to unemployed workers, when it is so clear that one of the purposes of legislation for the unemployed

was to create a steady employment situation. Such concerns who do not care to spread their work, it is no more than right and just that they should pay for this in unemployment compensation, without trying to throw this burden upon such concerns who are endeavoring to give steady employment.

"During the past years that we have been working under our unemployment compensation laws we have made every effort to spread our work as much as possible, which resulted in more steady employment by our help. In many instances we have kept quite a number of employees at work, which otherwise we would have laid off had not experience rating provided the inducement.

"We are very firm in the opinion that it is unjust and unfair to burden such industries who are gradually working toward steady employment of their help with a burden which should be rightfully assumed by industries who prefer to rush their work through in the shortest possible time and sidetrack their responsibilities to their help."

The Lincoln National Life Insurance Co., Fort Wayne, Ind.:

"I know that merit rating has encouraged us to plan work well in advance of its performance in such a way as to keep our staff at a uniform level. If there were no incentive in this respect we would undoubtedly have a tendency to do our work as it arises even though it means considerable hiring and firing that is not now necessary.

"Several times during the last 2 years we have been confronted with claims for unemployment benefits that we felt were improper and we went to considerable length to see that they were not paid. I doubt very much if we would have done so in the absence of a merit-rating provision."

The Frank Pure Food Co., Franksville, Wis., by E. G. Sheriff, treasurer:

"* * * We have been able in the past several years to provide more work and wages for our regular employees for a greater period during the year. This has been done by adding new products to our line and attempting to level off the peaks and valleys in our operating schedule. This is particularly hard for us to accomplish inasmuch as the major portion of our work is seasonal. However, we have made some strides forward, and we feel that as each year appears we will be able to accomplish more toward creating additional work for our employees.

"We feel that the merit-rating provision is an essential part of our unemployment compensation set-up; without it there could be no incentive for industry to attempt more regular employment. As each industry accomplishes this regulation of employment, they are rewarded in comparison to their own effort to that end."

Mr. RAUSHENBUSH. I wanted also to indicate the final point, that we did send out a hasty questionnaire to all the State administrators on unemployment compensation, just over the week end. We haven't heard by any means from all of them; about a dozen or more have replied, and virtually all of them are in favor of the elimination of all the McCormack amendment, the 2.7 and these other State standards. I mean there seems to be a nearly unanimous reaction of those State administrators we have heard from. I don't know whether the committee wants to be burdened with these summaries of replies or whether you want to burden the record with it, but I will be glad to have any members of the committee who care to examine the indication of pretty general State sentiment by the responsible State administrators look these over.

Senator KING. I suggest that you leave them with the secretary of the committee.

Mr. RAUSHENBUSH. These are the only copies we have, but I would be glad to make them available in that way.

The CHAIRMAN. We thank you.

Mr. RAUSHENBUSH. I am sorry to have taken so much of your time, but you are dealing with a problem that covers 600,000 employers and 25,000,000 workers.

The CHAIRMAN. Mr. Edwin E. Witte, Madison, Wis., former Executive Director, President's Committee on Economic Security.

STATEMENT OF EDWIN E. WITTE, MADISON, WIS., FORMER EXECUTIVE DIRECTOR, PRESIDENT'S COMMITTEE ON ECONOMIC SECURITY

Mr. WITTE. Mr. Chairman and gentlemen of the committee, at this late hour I am going to be very brief. I had hoped to discuss with you some other features of this bill, but I will confine my remarks at this late hour to the old-age insurance features.

My general position on this bill is the same as I took on the Social Security Act in 1935.

I then, as Executive Director of the President's Committee, appeared before you to urge the passage of that bill. I stated that the bill was not perfect, that in the course of the years it would undoubtedly have to be amended on numerous occasions, that in many respects it didn't incorporate my own ideas, but that I thought that it was a proposal with which a beginning should be made, because unless you make a beginning there never can be improvement.

I think Congress was correct in passing that act by an almost unanimous vote. Circumstances have shown that improvement can be made, but it stands as one of the great acts of recent years that have been enacted by Congress.

On this bill I have the same general attitude. I have had much less to do with this measure. I was a member of the Social Security Advisory Council, and some recommendations of our Council are incorporated in this bill but about an equal number have not been incorporated.

The bill as a whole, I think, represents under present conditions a forward step. There are many features of the bill that I would like to see changed. There are some features that I think are bad, but under existing circumstances, and having in mind the alternatives that are really presented at this time, I think that the enactment of this bill, with amendments, will promote social security and the further development of social security.

Old-age insurance is the part of the Social Security Act in which the changes are the most extensive. Many of the changes I most heartily approve, but some of them seem to me to be very unsound. These are the changes proposed in the bill which scrap sound social-insurance principles, and substitute therefor the unsound financing methods of private assessment insurance, and the restrictive and illiberal provisions of group contracts of private insurance companies and of many industrial-pension plans.

The advocates of these changes have claimed that the present law is based too closely on private insurance company principles, but what they are actually proposing is to substitute for social-insurance principles, the policies and practices of group insurance and of many industrial pension systems, which are almost diametrically opposite those of social insurance.

Specifically, I believe the reduction in the title VIII taxes to be unsound; also, that the net effect of the qualifications for retirement and other benefits, combined with the new benefit formula, is antisocial so far as the younger workers are concerned, unless the coverage of the system is broadened to include all workers.

I, of course, strongly recommend extended coverage to protect agricultural workers, domestic workers, self-employed people, and others who are now excluded.

Let me first explain my criticism that the bill as it now stands is unjust to the younger workers. My objections center in the definitions of "average monthly wages," "fully insured individuals," and "currently insured individuals," which occur on pages 24 to 44 of the bill.

These definitions are significant because benefits hereafter are to be based on "average monthly wages" and retirement benefits are to be paid only to "fully insured individuals"; and widows' and orphans' alowances only to "currently insured individuals." Collectively, these new definitions, while much more liberal for those now approaching age 65, will deprive many millions of prospective beneficiaries in future years of all benefits in the Federal old-age insurance system.

Senator CONNALLY. Your complaint is, as I see it, that this is more on the plan of these private insurance plans rather than a large, comprehensive social legislation plan that would take in those that were less fortunate and less able to pay under the private system?

Mr. WITTE. If I may summarize what I mean, Senator: Private industrial pension systems have been characterized by very liberal benefits to the people who remain with the employer until retirement age, but, generally, they give no surrender values whatsoever to the 90 percent or more of the employees who do not remain with the employer until they reach retirement age. As I see it, much the same result is produced through the changes in the definitions that are included in this bill. They will have the net effect of greatly liberalizing the benefits for those now approaching age 65 and for the regularly employed younger employees who meet these qualifications, but also the result of denying benefits to many employees who under the present law would get benefits.

Senator LA FOLLETTE. Despite the fact that they may have paid in, in many instances, taxes, both on their own behalf and also the employers may have paid in taxes?

Mr. WITTE. That is very clear.

Collectively, these new definitions will deprive many millions of prospective beneficiaries in future years of all benefits in the Federal old-age system, although they will continue to have to pay the title VIII taxes.

To make clear what I mean, I must first correct a popular misimpression as to the coverage of the Federal old-age insurance system as it now stands.

It is loosely said that the present system does not include employees in agriculture, private domestic service, public employment, and so forth. That is correct to the extent that no one is taxed upon his earnings from such excluded employments. What must be understood, however, is that benefit rights in the Federal old-age insurance system rest, not on industry, but on an individual basis. This difference has significance because most people do not remain in either covered or uncovered employment all their lives, and under the present law benefit rights, once acquired, are never lost.

Agricultural workers, private domestic servants, public employees, and so forth, in almost all cases will work in covered employments at

some times during their lives. Even proprietors and self-employed people usually are employees for a part of their lifetime.

Millions of people work both in covered and uncovered employment each year. The Census of Agriculture reports that one-third of the owning farmers have some income from wages, to say nothing of the tenant farmers and the earnings of agricultural laborers in covered employments.

It was a failure to understand the basis of benefit rights under the present law which led the actuaries to greatly underestimate the cost of benefits under the present system and to grossly overstate the future reserves. The imaginary $47,000,000,000 reserve, which is not provided for in the present law but which has been concocted by its critics, was based on the assumption that people remain in covered and uncovered employments, respectively, all their lives. It was based on an estimate that there would be less than 26,000,000 individuals in the old-age-insurance system at the outset, and a gradual increasing number thereafter, reaching a peak of 35,000,000 individuals in 1980.

Actually there are now 44,000,000 Social Security accounts, and more than 32,000,000 individuals had wage credits by the end of 1937, the first year of tax collections. The truth of the matter is that under the present law, within 10 years, we will have more people with some rights in the old-age-insurance system than there are gainfully occupied persons in this country.

The ultimate number of individuals with benefit rights is likely to be 75,000,000 or more, not 35,000,000 as the actuaries who estimated a reserve of $47,000,000,000, forecast.

Another important feature of the present law which the great majority of the critics have missed is that everybody who is employed in covered employment, even for one day, is entitled to some benefit, and that benefit rights, once acquired, are never lost.

People not entitled to retirement benefits, get lump-sum benefits, which, in the average case, are approximately equal to the taxes they pay, with interest.

Moreover, the conditions governing retirement benefits are extremely liberal. To qualify for a retirement allowance, an individual that has paid taxes under title VIII must be 65 years of age, retired from his usual occupation, have earnings in covered employment on at least one day in 5 different years, and total earnings in covered employment of $2,000. These conditions are so liberal as to render it certain that practically all of the younger workers of today, whether now primarily in covered or uncovered employment, will be entitled to some retirement benefits when they reach the age of 65. So will the great majority of all the middle-age workers.

The new definitions and the benefit formula will increase the number of people entitled to retirement benefits in the early years, but will decrease their number very greatly later on.

The full effect of these definitions can best be appreciated if the situation of a worker who is now 21 years old is considered. Such a worker will not be entitled to a retirement benefit until he is 65, that is, in 1983.

Under the definitions as they stand, he will not get any retirement benefit unless in at least each of 15 years, he has earnings in covered

employment of at least $200. Such a worker may have paid taxes on a total of more than $15,000, or even $20,000—I think the absolute maximum, theoretically, is something like $45,000 that a man might have paid taxes on, without becoming entitled to retirement benefits or to any lump-sum payment whatsoever.

A man who was 63 in 1937, under this bill, can retire in 1940 on a monthly annuity of $10.20 if he has had total taxable earnings of $600. An executive, who has earned $3,000 per year for 3 years, can retire for life in 1940 with a retirement allowance of above $40 a month, but a younger worker in many instances, unless the coverage is broadened to include all workers, will get no retirement allowance although he pays taxes on amounts vastly in excess of these sums.

I call your attention particularly to the inequity of these provisions in relation to women employees. Women employees customarily are married after having been in employment for 5 or 10 years. They pay taxes, of course, under this plan, but if they are the young women of today, the women who are becoming married in these years, unless they can show the required years of earnings in covered employment, they get neither a retirement allowance in their own right, nor any lump-sum payment. This is also very inequitable to the people like farmers, for instance, who in their younger days work in covered employment, or partly in covered employment, then become self-employed people.

I grant that when you have in mind only the older workers, these provisions are extremely liberal, but if you take into account the younger workers of today, the formulas work out in such a way that gross injustice will be done in many instances unless the coverage is greatly broadened.

Senator LA FOLLETTE. That happens, too, doesn't it, as far as the older people are concerned? I mean, these arbitraries necessarily must exclude certain people?

Mr. WITTE. The eligibility requirements for some years are more liberal than under the present law, liberal as those are. This is a plan which treats the present older workers extremely liberally.

The point I want to make, why I am urging you to enact this bill in any event, is this: For quite a few years to come there won't be any trouble with this formula. I think you must not deceive yourselves, as I am sure the Senators do not, with your vast experience, that this is final legislation on social security. As in all countries of the world, social-security legislation is subject to constant change. This legislation, despite the unanimity with which it has been approved, will be found to have at least as many defects as have come to light in the original act. Subsequent Congresses will correct those defects.

I think that these definitions, so far as they concern younger workers, follow practices which are contrary to sound social-insurance principles, adopting the practices of the private insurance companies in writing group insurance and group annuity contracts and of the less liberal private industrial pension systems. Of course, as I have already stated, a broadened coverage would largely overcome this criticism.

I think that these definitions will have to be changed in the course of time to be fairer to the younger workers. A system in which, in many instances, the person who has contributed longer, paid more in taxes, will, when he reaches the retirement age, either get no benefit at all or a lesser benefit than people who have contributed only for a few years, is not a system that can endure.

But while you will have to change the formula in the course of the years, for the immediate future the effects, I think, are not harmful. You do take care of a great many people who, in the early years of this system would not be eligible under the present formula.

Coming to the other major objection to the changes in the old-age insurance provisions that I have, and I am talking—let me now discuss financing. On this connection I want to make quite clear what Senator Vandenberg suggested in a question today, that the Social Security Advisory Council did not recommend that the increase in taxes in 1940 should not take effect. The Council made the contrary recommendation. So did the Social Security Board in its report to Congress and the President. In the Council of 25 members, only 5 members voted for the proposal that the tax increase in 1940 should not take effect. Only 2 members noted their dissent on the record. All the labor people, a majority of the employer and public groups, favored the report of the Council, which was that the tax increase should not be disturbed. I believe that the change is unsound, primarily because even the present taxes do not cover the entire accruing cost of the future benefits.

Were the present system financed as insurance companies are, by law, required to finance annuity contracts, the actuaries figured in 1935 that taxes of 5.06 percent would have to be collected from the outset. Because the actuaries underestimated the number of beneficiaries, overestimated the average wages, and because life expectancy has already improved very greatly beyond the estimates that the actuaries made, this original estimate is now recognized by all actuaries to be an understatement of the future cost. Some of the actuaries' estimates now run as high as 7.88 percent. That amount of money would have to be collected in taxes from the very outset each and every year to pay the full costs if the Social Security Act followed the method of financing which private insurance companies must adopt.

Of course, the Social Security Act has never provided for full reserve financing, despite the statements of critics to the contrary. If it did provide for full reserve financing, it would have required payments of at least 5.06 percent from the beginning, on the basis of the original calculations, and of 7.88 percent on present calculations.

I will acknowledge that it is theoretically possible to finance an old-age insurance system on the assessment or "pay-as-you-go principle." The term "pay as you go" in relation to old-age pensions means exactly the same thing as assessment insurance meant in life insurance and in industrial pension systems, and in other types of insurance. "Pay as you go" means disregarding your accruing liabilities and taking account only of your current disbursements.

In any old-age insurance system, you can meet the costs of the current disbursements for many years at a very low figure. You can meet the current disbursements under the present act at a good deal less

than 1 percent for many years to come. By 1980, on the original calculations, however, you would have to have 10 percent, and on the newer calculations, 12 to 13 percent.

Senator CONNALLY. Was that the experience of all these assessment companies, or insurance companies, that in the earlier years they were prosperous, and easy going, and later on they had to increase their rates and some of them went broke?

Mr. WITTE. That is my understanding, and that is my fundamental objection to the system of financing that we call "pay as you go" which is a most peculiar sort of a concept of pay as you go that we have ever had—a concept of "pay as you go" in which you disregard your liabilities and take account only of your current disbursements.

I am conceding that it is possible to have assessment insurance in theory. But I call your attention to the fact that this bill involves the same sort of an increase in costs as does the present act. In that connection, I hope you will look at the table which was inserted in the report of the Ways and Means Committee on this bill, page 8. If you will examine that table, the cost under the revised plan in the first year, 1940, is $88,000,000. In 1954, which is only 15 years hense, it will be $1,843,000,000, or 21 times as much. And this table very significantly ends with the year 1954. Increases in costs continue thereafter. The person who is 65 years old in the year 1954, is 49 years old now, and the situation of the persons who are less than 49 years old now isn't depicted in these tables, unlike the tables on which the misleading calculation of a $17,000,000,000 reserve was arrived at in 1935. Those tables carried the younger workers of today through to age 65. These tables end in 1955 and don't show the picture of anybody who is below 49 now.

Senator LA FOLLETTE. Have you made any calculations to show what that would be?

Mr. WITTE. I am assuming that the actuaries are both honest and competent. I haven't the slightest doubt about it. I recognize that any calculations as to what the costs will be in 1954 or 1980, involve many assumptions that may prove wrong. I recognize that costs have to be recalculated at intervals of 3 or 5 years, but the point I want to make is that the assumption, which apparently underlies the present proposal, that all you have to do is to look ahead 5 years, is an unsound assumption as applied to old-age insurance. It is my belief that assessment insurance will prove a failure in this field as it has proved a similar failure in life insurance, as it proved a failure in private industrial pension systems, that you must take into account accruing liabilities as well as current disbursements.

There is no trouble for quite a time ahead. By 1943, if you adopt this financing principle, you are apt to conclude that the 2-percent rate isn't needed. It won't be needed if you are only meeting current disbursements. But, as the Ways and Means Committee points out, by 1955 this system, as proposed to be financed in this bill, will run into a deficit.

But what happens when there is a deficit? There are four possibilities, as I see them.

One is further increase in public debt—and I presume that has a limit at some time.

The next would be governmental contributions. In that connection I again want to call attention to the fact that there is a great departure in this bill from the recommendations of the Social Security Advisory Council in this bill. Mr. Epstein, who has championed governmental contributions to old-age insurance funds, apparently was under the impression that because the Social Security Advisory Council recommended governmental contributions, they were incorporated in this bill. There is nothing of the sort; there is not even a mention of it in the Ways and Means Committee report, and as far as I have been able to follow the debates, no Member of Congress has yet stated that he believes that when deficits occur in this system, general taxes should come in to meet those deficits.

The third possibility is, of course, increased contribution rates, and undoubtedly the people who advocate this new method of financing, expect contribution rates to be increased. They must be. Everyone who is honest knows that you can not run this system indefinitely on 1-percent contributions. If you build up no substantial reserve you will have to increase the rates within the next 45 years, from the present combined 2-percent rate to a 12-percent rate. Can that increase be made? If it isn't made, the younger workers of today are going to lose at least part of their promised benefits.

That is the fourth alternative, decreased benefits.

As I view this entire matter of financing, the question isn't settled. I think there is going to be a very serious conflict within the next 10 years over this issue. Shall general governmental conributions be brought into the picture, not merely talked about but actually made? How high shall contribution rates be stepped? And as an alternative, shall the promised benefits to the present younger workers be reduced?

That is where the conflict is going to come. I won't predict what will happen. It is an issue that future Congresses will have to settle.

But, while I do not like this slight recognition of the pay-as-you-go principle that you have in the present bill, I am willing to recognize that there are able, honest people who hold contrary views to those that I do. There are people who believe, and they are just as competent as I am, that it is possible in a national old-age insurance system, to operate on what is essentially an assessment principle. I don't believe it, but they may be correct. I will concede that.

Next I recognize that there is need for a stimulation to business and investment at this time, and it may be that businessmen in making investments are more concerned with the profits of the next 2 or 3 years than with the prospect of greatly increased taxes in the future. I am not sure that it will work; it may be worth trying. That is for Congress to determine.

Also, I am of this opinion, that it may be necessary in old-age insurance for us to have some experience with assessment insurance before we are willing to apply the experience we had in life insurance and in private industrial pension systems to a national old-age insurance system. We incidentally also had it in public employees' retirement systems. But until we have experience, it is probably true that the word "pay-as-you-go" is so attractive that the public can't apply the lessons of life insurance and realize that they apply also to this type of insurance.

The present bill only postpones payment for 3 years. As it has developed, due to the underestimates of costs and benefits, the present system isn't fully financed. The postponement of the tax increase to 1943 operates merely to bring the crisis a little earlier than it would come under the present law.

Now let me say that as an offset to the points that I don't like about this bill, there are very distinct improvements in the old-age insurance provisions in this measure.

Mr. Epstein said that it gives us the best old-age security system in the world. That may be covering a lot of territory, but, if I were satisfied that the promised benefits are fully financed, and if the provisions were such that so many of the younger workers would not be excluded in future years, I would endorse what Mr. Epstein said.

Certainly the principles of paying widows and orphans of the one-third of all workers who die before age 65, widows' and orphans, benefits, in lieu of a small lump sum, is a great improvement. It is these families that need protection, perhaps, more than any other group in society—normal families with young children, in all respects like other children, but with the great misfortune that the father died young. When the wage earner dies young, we know from experience that in the great majority of cases, it means an unprovided-for family. The provision in the present law under which you give that family a small lump sum certainly doesn't take care of that situation, and I call your attention to the fact that of all wage earners of age 20, one-third die before they reach age 65. It is a very large group; it is a group that needs protection and which, under this bill, will get a much better type of protection than we have been affording it heretofore.

Then, beyond question, it is good sense to give an additional allowance to the man that has a wife when he reaches old age. He has additional responsibilities. That holds true, too, of the dependent children, and we know now from experience that even men of 65 often have dependent children under 16 or 18. Many of them are supporting the grandchildren of a daughter that died, many of them married or remarried late in life and have children of their own. They are responsible for the support of these children, and this bill makes it possible for them to support those children in decency when they can no longer work. I also think there is everything to be said for widows' allowance. A man tries to make provision not merely for his own life but does, and rightly so, bear in mind the wife and the dependent children who also must live from what he gets.

Above all, I urge enactment of this legislation because I feel that Congress, in this session, must pass some type of old-age security legislation, and of all of the likely alternatives, this alternative which preserves the contributory principle, this alternative which emphasizes that people get protection in old age, indeed as a matter of right, but also by reason of the fact that they have borne part of the costs, is a sound one.

The only alternatives to this bill really are these. One is the alternative which I think Mr. Epstein suggested today—although I may not be correctly stating his idea—that in old age we should take care only of the people who are in need. In other words, tax all the working people for the benefit of the people who, in old age, need assist-

ance, and in that manner shift from general taxes to pay-roll taxes the burden of old-age assistance.

This seems to me a very unsound proposal. There may be people who think that all that we should do is to take care of the people need, but if that is the right principle, then certainly we should continue to make that a charge upon all of the taxpayers of the country, and not get the money for old-age assistance out of pay-roll taxes.

The other alternative is a universal pension. I am not discussing merely the Townsend plan. I submit that any universal pension whatsoever, of any amount that you may concede, in all probability will prove financially impossible and will also very likely mean a complete overturn of our economic system.

There are 8,200,000 men over 65 years of age today. There will be 22,000,000, on the best estimates we now can make, in 1980. Above 60 there are 12,500,000 people, and by 1980 there will be over 30,000,000 people. Give these people, give everybody over 60, $60 a month, and assume that 500,000 of the 12,500,000 that you now have are rich people; whom you might exclude from pensions.. If you do a little multiplying, you will find that the cost is $8,400,000,000 per year. That would be the cost today, and the number of old people is increasing in this country at a rate between 2 and 3 percent each year.

There is still another aspect that I want to emphasize. You may want to start under very severe restrictions. I submit that no matter where you start, pressure upon Congress to increase the amount of the free pensions will be so great that ere long, even if you start conservatively, you will have a system in which you cannot possibly find the governmental revenues to meet the cost. There are a very large number of old people, they are politically important, and rightly so. The pressure that large numbers of old people can exert for increased pensions is going to be many times the pressure that the veterans have exerted.

There is one further factor. No matter how liberal you make this pension, there always will be some old people for whom the pension is not a sufficient amount. If you make the pension on the basis of the individual, as you would be very apt to do, you run at once into this situation. Seventy percent of the men at age 65, or approximately that number, are married. In the average case the wife is 7 years younger than the husband. Where the husband is 65, the wife is 58. She is not entitled to a pension for 7 long years after the husband gets a pension. It follows that for 70 percent of the total number of the men this pension must support not one person, but two persons. In many cases it will have to support more than two persons—children and grandchildren and other dependents as well as the pensioner and his wife.

No matter how liberal you make the pension, you will always have this problem that there will be thousands of people for whom the pensions are not sufficiently liberal; and the pressure that can be exerted because in some cases the pensions are not liberal and are not sufficient will be such that Congress will not be able to resist that pressure.

The danger of a break-down of the economic system—the possible threat of a break-down of the economic system—if we provide for

universal pensions, lies in the fact that the pension becomes not a matter of payment of an insurance contract, but a hand-out. I think you gentlemen have had enough experience to know the dangers of the hand-out. If you put pensions to old people on the basis of a hand-out, there will be other pressure groups that will also be asking for hand-outs, and with at least equal claim to that which can be made by many of the old people.

I think that we must preserve the insurance principle, the essential idea that the recipient of the pension must consciously realize that he bears part of the cost. If that is not the case, I am afraid you will have a runaway system that cannot possibly be financed, that will mean a break-down of our economic order.

In conclusion, because the alternatives are exceedingly dangerous, because this bill has many good features, and because most of the features that I consider bad are not immediate in their effects nor irremedial, I urge approval and passage of the bill, with amendments correcting the weakest points.

I thank you for this opportunity.

Senator KING. Have you suggested any amendments that you desire to offer?

Mr. WITTE. My suggestions for amendments with reference to old-age insurance, concern primarily the matter of coverage and financing. I have stated that even if you do not see fit to adopt my suggestions I still support the bill. I think that it has good points, despite the fact that this bill is unjust to the younger workers and is unsoundly financed. I am willing to let the future decide whether I am right that the assessment principle doesn't work in old-age insurance any more than life insurance, and the injustices to younger workers in the present bill can be corrected by extending the coverage of the act.

In old-age assistance, I very much doubt the wisdom of the increase in the maximum Federal aid to $20 per month. I believe that there is a strong case, a just case, for varying the Federal aid in accordance with the financial need of the States. That is again, I acknowledge, a matter of controversy, but, as I see it, the principle on which we are paying aid to the States is that the States cannot themselves finance the entire cost of old-age assistance. If that principle is sound, then we also much take into account how much of the cost each State can bear, and certainly the States differ immensely in their ability to bear the cost of old-age assistance.

I want to conclude with just one more observation which I hadn't at this late hour intended to make, Senator.

I want to urge strongly that the changes made in title IV of the Social Security Act, relating to dependent children, be left in the bill—particularly the increase in the Federal aid to a one-half basis, in lieu of the present one-third basis. There never was any logical reason why the aid for old-age assistance and blind pensions should be one-half, and for aid to dependent children, one-third. I think the main explanation, if I may be pardoned for making the suggestion, is that the dependent children have no organization that speaks for them. Even Mr. Epstein's Association for Social Security interests itself in the aged but not in the dependent children. There are at least a million dependent children in this country, entitled to

aid under our laws, that are now not getting aid. Increasing the Federal aid may do something to improve that situation for this very large group whom I hope you will not forget, although they are not clamoring at your doods.

Senator KING. Thank you very much. Senator Wiley.

STATEMENT OF HON. ALEXANDER WILEY, UNITED STATES SENATOR FROM THE STATE OF WISCONSIN

Senator WILEY. I am not a member of this committee. I want to say that the contributions made by Mr. Raushenbush of our State, in which he suggested the amendments striking out paragraph 1 to section A of section 1602, and striking out paragraph B on page 72, and 73, and 74, agree with the amendments that I suggested to the Byrnes' bill. I can say that I have had wires from practically every section of our State, from employers, and none object, but rather insist that something be done along the lines suggested by this gentleman, and that is simply my contribution at this time, and I am very much in favor of the amendments as suggested.

Senator KING. Senator Wiley, if you desire to submit any further observations tomorrow, you will be given ample opportunity.

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

(Whereupon, at 5:25 p. m., a recess was taken until the following day, Thursday, June 15, 1939, at 10 a. m.).

SOCIAL SECURITY ACT AMENDMENTS

THURSDAY, JUNE 15, 1939

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

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

The CHAIRMAN. The committee will be in order.

Mr. Iglauer.

STATEMENT OF JAY IGLAUER, CLEVELAND, OHIO, CHAIRMAN, TAXATION COMMITTEE, NATIONAL RETAIL DRY GOODS ASSOCIATION

Mr. IGLAUER. Mr. Chairman and gentlemen of the committee, I am here substituting for Mr. Hugo Kuechenmeister, of the Edward Schuester Co., Milwaukee, who is the chairman of the social security committee.

Before I present the formal part of my talk, I hope it will not be in bad taste if I make a few comments concerning some of the matter that came before you yesterday, because I, too, together with Professor Witte, was a member of the Advisory Committee of the Social Security Board, and I gave up my time to him, and therefore lost my chance to fly home this morning. I think he might just as well have gone home, because I do not think there was much contribution in what he had to say. I take issue with him in the matter of the accuracy of the figures that were quoted by him. He quoted from memory, and I regret that there is at the moment not a written record by which we could check with some of the figures supplied to us by the actuaries to the Social Security Board.

The CHAIRMAN. I think we requested the Chairman of the Social Security Board to give us those figures.

Mr. IGLAUER. Yes; I think it is important that you should get them, because of the fact that a wrong inference can be drawn from the statement concerning the young people coming into the system, because a great majority of these young people are going to marry and get into the married status under the act, as it is proposed to be amended, and will actually receive more than they would have received under the former act, and to even intimate that the benefits for single persons are inadequate I think is stretching the fact a little bit. Of course, we recognize that the benefits for the single man are scaled down somewhat, but that, I think, is good social legislation.

Professor Witte also spoke of the inadequacy of the care for children. I think a pretty good case can be made by the relief agencies, public

and private, in the country with respect to the care of children throughout the country. It would be pretty difficult, and perhaps a little unfair, to attempt to prove that there are as many as a million or more children that are inadequately nourished and inadequately clothed. As a matter of fact, there may be instances where the family may have enough money but foolishly may spend more money in paying the interest on the mortgage than taking it out in necessary clothing and food for the children. That has happened in families above the subsistence level. One of my side lines in my home town is social works, and I am familiar with some of the problems connected with them. Besides that, we had the relief directors of a number of States in our conferences in the advisory committee, and they had some first-hand information concerning the relief situation.

From Professor Witte's comments, I believe he was sincere but a bit inaccurate in his quotation of figures. He was a member of the committee which approved the suggestions which we are very happy to say are pretty largely embodied in this measure.

Now, one word with respect to the representative of the laundrymen's organization. I suggest that before we attempt to have a series of tax rates by classifications, which I think would be unwise, in the statute, that it would be well for the Laundrymen's Association to have some actuarial calculations made to determine whether under an experience rating the Laundrymen's Association, with 90 to 95 percent regularization of employment, would not actually obtain a lower all-around rate than would be the case with the 3 percent on the first 30 percent, and 1 percent on the excess over 30 percent. I think it is very important for them to study that before they arrive at the conclusion that they ought to have a special classification.

One word more about Dr. Epstein's suggestion that there be an advisory committee on unemployment compensation similar to that which studied the old-age benefit scheme. I suggest that that should be carefully considered; but I also suggest that it would be better for that committee to be working about a year hence than it would to start working now, because there are so many States that have had absolutely no experience in payment of benefits. That committee, if it wants to act intelligently and does not want to depend upon actuarial estimates, should have the benefit of perhaps 1 year more of the payments of unemployment benefits.

Senator JOHNSON. Would you also recommend that the Congress should go slowly in making changes in the unemployment law, pending further experience by the States?

Mr. IGLAUER. I would as to benefits and rates of tax, because we do not have enough experience on which to base anything intelligently. It is a guess at best. It would be better, and I think it is very wise, to have an advisory committee. If the committee will have its suggestions as carefully listened to as the suggestions were listened to by this committee of the Senate and House, I am sure they would be encouraged to do a constructive piece of work, because I know from my own knowledge how thoroughly, how deeply and how expertly all questions on old-age benefits were studied by the advisory committee.

Senator JOHNSON. You know that many serious changes are proposed in the bill?

Mr. IGLAUER. Yes.

Senator JOHNSON. And you suggest that we go a little slowly?

Mr. IGLAUER. We are perfectly willing to see some of the changes that were made, but there are other changes that we think are somewhat dangerous in their effect upon the adoption of adequate acts in the States, and which I shall present in this formal paper. Being the representative of a committee, I, therefore, have put this in writing, so I will not go beyond the confines of the dictum given me by the committee.

The National Retail Dry Goods Association, composed of 5,700 member stores throughout the United States, was one of the first trade groups to recommend the adoption of a comprehensive social-security program, including old-age security, and unemployment compensation. A resolution to this effect was unanimously adopted in 1935 at the January convention, which, it should be noted, was considerably prior to the passage of the Social Security Act. The National Retail Dry Goods Association, through its committees on social security and its staff, has always endeavored to keep itself and its membership informed on major developments in this field.

Speaking for the association and its social security committee, I desire to express our views on H. R. 6635, which is the measure to which you referred, Senator, which amends the provisions of the Social Security Act, and which is now before the Senate for consideration.

Addressing ourselves first to the provisions affecting title II and VIII of the present act, dealing with old-age benefits we are gratified that the House of Representatives voted for the earlier operation of the monthly benefit provisions, the payment of increased benefits in earlier years, and the provision for supplementary benefits to aged wives, widows, and dependents.

This association approves the provision of the bill which would delay until 1943 the increase in the taxes for old-age insurance, which employee and employer are required to pay.

The provisions for setting up a trust fund are indeed meritorious and, we believe, will also meet with the general approval of business.

The administrative changes, particularly those that bring about uniformity of definition between various terms used in the section of the act referring to old-age insurance and unemployment compensation, we are confident will solve a number of administrative problems and lessen the burden of reporting.

It is our sincere desire to see all of the provisions of H. R. 6635, upon which we have commented above, enacted.

Unemployment compensation:

With respect to the requirements of H. R. 6635, which affect the operation of the unemployment-insurance system, we desire to make various critical statements; particularly to voice our opposition to certain sections of title VI of the bill. We refer specifically to section 610 of the bill (or 1602 of the Internal Revenue Code).

Requirements for merit or experience rating plans:

This section, in our opinion, will entirely defeat the purposes of merit or experience rating. The proposed requirements are such that it would be practically impossible to meet them and permit an experience rating plan to operate. The proposed standards fix a rigidity of requirements which prohibit States from making such adjustments as would be available to meet local conditions.

Section 1602 (a) (1) of the code sets up the condition that total annual contributions of a State must yield 2.7 percent of pay roll.

This would seem to imply that after the short experience which the country has had with unemployment compensation, 2.7 percent is definitely the required and fixed rate to meet all conditions; whereas, in fact, we are still in the experimental stage with much to learn. That bears it out.

Senator JOHNSON. Yes. I offered an amendment to delete section (a) (1), to which you just referred.

Mr. IGLAUER. Both sections (a) and (b).

Senator JOHNSON. Yes; I have an amendment in to delete (b) also.

Mr. IGLAUER. The original act was designed to allow individual States to experiment; the program should be continued in that way until more definite data are available upon which to base conclusions for legislative action. Who can say that 2.7 percent is the correct rate of tax? In Wisconsin, where experience rating has been in effect since January 1, 1938, the fund remains large compared with benefit payments, yet no over-all or average contribution of 2.7 percent is mandatory by law; nor does it appear to be necessary.

Each State has its own peculiar problems and since State lines are followed for other legislative purposes, it is recommended that the rights of States to legislate on unemployment insurance matters be continued as was originally contemplated by the Social Security Act.

Section 1602 (b) of the code sets up additional standards under which States may continue experience rating without a 2.7 percent over-all requirement, or may grant a State-wide reduction in the contribution rate, generally.

These standards, however, are, in our opinion, an almost perfect deterrent to the operation of any type of experience rating—and it must be agreed that a State-wide reduction is equivalent to merit rating by States.

Reductions in the tax are permitted, provided the State fund equals one and a half times the largest amount paid in or withdrawn from the said fund in any one of the previous 10 years. Because of the higher requirements of other standards in the bill, which must also be complied with, it is doubtful whether a State fund can ever reach such a height after the second or third year of the systems operation. Of course, we do not know any more about that then the rest of the country, or than you do. Moreover, it is entirely possible that business conditions may be so good within any 1 year that the contributions paid into the fund, because of large pay rolls, will automatically serve to make compliance with this provision more difficult for a considerable period thereafter.

Furthermore, a provision making the reduction of the individual employer's tax contingent upon the basis of State-wide performance will act as a deterrent to employers who, under individual merit rating, would otherwise expend considerable sums to maintain their staffs in employment during slack periods. Adjusting personnel and operating programs to insure a definite individual tax saving to offset the cost of such adjustments is one thing; making similar adjustments in the hope of realizing a saving on the basis of a State-wide reduction would be regarded as a hazardous gamble.

The bill contains no standard of requirement respecting eligibility for benefits, such as a minimum amount of annual earnings, in order that an individual be qualified for benefits. It does say, however,

that unemployed workers shall receive 16 weeks of benefits or one-third their annual wages, whichever is lower. Are we to assume that workers who are not regularly attached to the labor market, and who have small annual earnings, are to receive 16 weeks of benefits or one-third of their earnings? Are benefits to be paid to employees who, of their own accord, work only now and then, or workers who, because of home conditions do not wish and would not take full-time employment? For example, suppose that a former employee wishes to work as a sales person in a department store for 6 weeks of work before Christmas. Assume that her salary for this period is $20 per week; her total earnings $120. Are we to understand that this person would be entitled to benefits of one-third of the total compensation received—that is, an additional $40 as unemployment benefits? There are many individuals of this kind who wish work only at Christmas time, but who, by reason of household duties, could not accept full-time jobs. These same individuals would not refuse the unemployment benefits under the proposed plan. These payments could be considered unwarranted and discriminatory, and lead to justified complaint on the part of regular employees.

With regard to the waiting period, we believe the States have had insufficient experience with the system and should not be required to make any changes in their State laws at this time. However, if study and statistics reveal that the reduction of the waiting period to 2 weeks, where 3 weeks is now established, will not place an excessive burden upon the fund in any individual State, there would be no objection to such reduction. We are opposed, however, to a reduction of the waiting period to less than 2 weeks because we fear this would without doubt place an excessive burden upon the State funds. It appears to us that those who normally are attached to the labor market should be able to care for their needs for the initial period of 2 weeks' unemployment, without drawing upon the fund.

Calculation of benefit rates, based on full-time weekly earnings, as provided for in this bill, has been abandoned by all or most States which had alternative methods provided for in their State laws. In Ohio, where I come from, where they have tried to operate under this provision, a great deal of confusion and difficulty have resulted. What, it may be asked, are full-time weekly earnings? In department stores there are any number of different groupings of full-time weekly hours. I think there were 40 classifications in the Allis-Chalmers Co., for example. Our sales people are on one basis; our drivers, another; our carpenters and painters on another; porters on still another, and so forth. Often employees are transferred from one classification to another. What is full time? The provision will involve complicated calculations, further delay in benefit payments, many disputed payments, and countless errors. The language of the bill is not clear as to just the right relationship between full-time weekly earnings and the benefit rates. It leaves to interpretation and controversy the intention of Congress as to the meaning. If a State's interpretation of a full-time weekly wage was not satisfactory to the Board, the latter could refuse credit for contributions paid by employers to a State because of failure to meet Federal standards, and require full contributions of 3 percent of pay roll to the Federal Government.

If any provision is to be put into the Federal law for a basis of Federal rates, we believe the simplest, fairest, and most satisfactory way of determining the amount of benefits would be by establishing a benefit rate based on average annual earnings. Such a principle takes care of "regular" wages, commissions, bonuses, and so forth. Furthermore, the old-age benefits section of the bill recognizes average earnings as the basis of calculating benefits. That was a great improvement in the old-age section.

With respect to partial unemployment benefits, we do not object to the payment of partial unemployment benefits by the States, provided funds are available and the administrative procedure can be developed to handle the payments. Most State laws already contain provisions for the payment of partial benefits, but administration is difficult. However, attention is called to States, such as Pennsylvania, where the State law does not provide for partial benefits and where, during 1938, for every $1 collected, $1.02 was paid out. Now, if one adds partial benefits of 10, 20, or 30 cents, where is the additional money coming from?

In New York the advisory commission and an employers' organization have, for 2 years, been studying various partial benefit plans but have been unable to arrive at any procedure that seems capable of being fairly and expeditiously administered.

The requirement that payment of partial benefits be included in the State unemployment systems in order that merit rating, without a 2.7 percent over-all requirement, be permitted, or in order to allow State-wide reductions, is an element of great force, which will effectively sabotage the whole principle of experience rating.

Because of peculiar conditions in many States due to the type of local industries resident therein, partial payments will prevent the accumulation of funds to the extent required in order to permit lower rates to become operative.

Experience rating:

This association is a firm believer in the principle of experience rating. We are of the definite opinion that granting an incentive in the way of a lower tax rate to employers who stabilize employment is a most effective way of reducing unemployment.

Experience rating aids in the development of desirable personnel policies, within an organization. With effort on the part of employers, inspired by the incentive it can be made to accomplish a great deal even in so-called instable industries. Experience rating provides security for workers on the job, and in turn, permits the State or other social agencies to provide more precise planning for the others, who in a period of business recession, may become unemployed for a period of time, long or short. Under a system of experience rating this group will be smaller in number than otherwise. It thus crystallizes the social problem, growing out of unemployment. These unemployed may more easily be separated from the mass, and thus be given a special consideration, such as a course of training that would make them suitable for new work, after they become permanently detached from their previous jobs.

We might draw an analogy between experience rating under unemployment compensation laws and experience rating under accident compensation. I do not recall that anyone has made this comparison, in the hearings I have attended. Can anyone deny that industrial

accidents have decreased over the past 25 years? Can anyone argue that the inspiration for the development and installation of accident prevention programs in industries has not been stimulated by the reduced rates to compensate for good accident experience? It is true we know very little about the causes or fluctuation in the general business cycle. However, experimentation and incentives are necessary, particularly, if we hope to minimize the effect of peaks and valleys of employment within any one industry. Let us take pattern from what has happened in the field of industrial accidents and give industry and trade a chance to study the causes of and the remedies for fluctuations in employment.

Senator VANDENBERG. You can use the same analogy in connection with fire insurance.

Mr. IGLAUER. Exactly. That is perhaps a better analogy, but not quite to the point, because it does not involve human beings so much.

The insurance companies have made possible the construction of buildings and the use of sprinkler equipment and protection, which has greatly reduced the cost of the insurance.

Senator VANDENBERG. It is the incentive of the reduced cost which invites the cooperation of the property owner.

Mr. IGLAUER. We never consider a new type of insurance, or insurance on a new structure without making a comparison of full sprinkler protection, full supervisory protection, to see whether we would save more by taking the rate than we would by not doing the particular thing.

We believe that the standards set up in section 1602 will sound the death knell of stabilization and experience rating by "changing the rules in the midst of the game."

In conclusion, we are opposed to the new State standards contained in the unemployment section of this bill because they are not timely. The period of experimentation implied as necessary by the present act should not be terminated. The States have experienced a great deal of difficulty in setting up the administrative machinery to collect the employers' contributions, and to pay promptly the benefits to eligible individuals. In spite of this known situation, the proposed provisions fail to simplify any of the existing complexities. In fact, they tend to increase the administrative difficulties and to make ineffective the operation of experience rating. We earnestly urge the rejection of the proposed State standards as addition to or modification of present requirements.

Thank you.

Senator VANDENBERG. I would like to ask you, if I may, just one or two brief questions as to your experience on the Advisory Council, with respect to the changes that are being made in title II. You are aware of the fact that instead of fixed 3 percent investment in the trust fund we are now to have a fluctuating rate of return which follows the rate of general Government securities?

Mr. IGLAUER. Yes.

Senator VANDENBERG. Does that affect the actuarial stability of this system?

Mr. IGLAUER. I think that cannot now be determined, because the rate might be 2½ now, it might be 2, but it may later be 3⅛ or 3¼ or 3⅜, if the situation was changed as to the return on money, on the use of money, and it is too early to say whether it would actually affect the stability of the fund.

Senator CONNALLY. Let me ask you right there what kind of investment you would have to put this money in?

Mr. IGLAUER. I would confine it to self-liquidating business.

Senator CONNALLY. Stocks and bonds?

Mr. IGLAUER. Yes. I have written out and published a monograph that illustrates it. I got some support, but not very much support, from the economists.

Senator CONNALLY. What stocks and bonds? Do you know any bonds that are better than the Government bonds?

Mr. IGLAUER. Government bonds only produce interest from income derived from the people, from taxation.

Senator CONNALLY. Certainly.

Mr. IGLAUER. But the interest on industrial, railroad, and real-estate bonds produces income, which would be income to the governments not from taxation.

Senator CONNALLY. How much are railroad bonds producing now in interest, do you know?

Mr. IGLAUER. I am not enough of an expert financially to say how much they are producing now. Some of them are producing and some are not. I would not invest in the ones that are not producing.

Senator CONNALLY. Do you favor taking the money that we collect by taxation from unemployment insurance, and this old-age insurance, and putting it in industrial and commercial, and other bonds? Are you in favor of manipulating on Wall Street?

Mr. IGLAUER. I am in favor of this, since it has many of the aspects of a private insurance plan. We have ample experience with respect to private insurance systems in this country, and this fund could be put into the hands of trustees, as provided in the new amendments, and they could have such expert investment counsel as is available in the country, perhaps as good as any that there is in any of the insurance companies today. A part of that money, of course, would be invested in the Government bonds, as part of the portfolio, the balance would be invested in self-liquidating public projects, would be invested in real-estate bonds, in transportation bonds, in various kinds of industrial bonds, all meeting certain very high standards, just as they do with respect to life-insurance investments, and that would produce an income to the Government coming from industry itself, instead of from interest on bonds, Government bonds, which is produced out of taxation, and I believe that it would be just as safe, practically, as the financial structure of the country permitted, which means if the Government bonds were good, they were good, and if Government bonds proved to be bad, the rest of the country would suffer likewise. The advantage of it is this, that if such a system were adopted and we should come into a period of great depression, and the market prices of such bonds were greatly depressed, still we would have the Government security behind those bonds, they would not have to be sold to pay the benefits until such time as the market had resumed a more normal situation, and then they could be disposed of, if it were necessary, if there were not enough taxes coming in to pay the benefits.

Senator CONNALLY. You know good and well if the depression came those bonds would go flooey, don't you. You anticipate that. You say if we did have a depression then we would fall back on the Government again.

Mr. IGLAUER. The mere fact that a depression happened, a company has had a long history of excellent earnings, it would not affect the earning power of that particular company, except to a very minor degree. The depression in the prices, in the stock or market prices of those bonds, would, of course, affect their liquidity—that is, in order to sell them—but the Government would not have to sell them.

Senator CONNALLY. Somebody would have to get some money out of them some time if the old-age and unemployment compensation people got any money.

Mr. IGLAUER. Yes; that is right. Might I answer that question in more detail?

Senator CONNALLY. Just a moment before you come to that. I was not here when you started. What business are you in?

Mr. IGLAUER. Department store in Cleveland, Ohio, the Halle Brothers Co.

Senator CONNALLY. You may proceed.

Mr. IGLAUER. Well, we had a savings bureau in our store which had several hundred thousand dollars of our employees' money in it. It was conducted entirely by the employees; we had nothing to do with it. We advised them. The depression came and those bonds were greatly reduced in value, bonds and mortgages.

Senator CONNALLY. Were they Government bonds?

Mr. IGLAUER. Beg pardon?

Senator CONNALLY. Were they Government bonds?

Mr. IGLAUER. Some were; yes.

Senator CONNALLY. The Government bonds were not reduced?

Mr. IGLAUER. Oh, they dropped as low as 85.

Senator CONNALLY. During the depression?

Mr. IGLAUER. Yes.

Senator CONNALLY. What bonds?

Mr. IGLAUER. United States Government bonds went down to 85. If you will look up the stock market quotations you will see for yourself.

Senator CONNALLY. Government bonds since the depression of 1932?

Mr. IGLAUER. Not since the depression of 1932.

Senator CONNALLY. That is what I am talking about. You said when the depression came these industrial bonds went down and I asked you if Government bonds went down, and you said yes, down to 85.

Mr. IGLAUER. They went down at some time during the period.

Senator CONNALLY. I am talking about some comparable period.

Mr. IGLAUER. I cannot answer that without looking at the records.

Senator CONNALLY. You know they did not go down to 85 since the depression started, don't you?

Mr. IGLAUER. Of course, not since 1933 or 1934.

Senator CONNALLY. The other bonds did violently go down, did they not, the industrial bonds, when the depression came?

Mr. IGLAUER. Some of them, yes; most of them.

Senator CONNALLY. All of them. Do you know any that did not?

Mr. IGLAUER. Oh, yes; I know some that never went below par.

Senator CONNALLY. But they went down?

Mr. IGLAUER. Two or three points, but never went below par.

Senator CONNALLY. All right.

Mr. IGLAUER. What we did was this: Our company stepped into the picture, paid every employee his full deposit plus interest at 6 percent and kept those bonds and mortgages, and I am very happy to say that after 6 years, or 7 years, considering that this was a liquidating period for that particular portfolio, we came out something like $25,000 to the good. In other words, we were able to sell those bonds, dispose of them without loss to ourselves or to our employees. That was quite an accomplishment. As I say, it is of great advantage to the Government to have access to some income from industry through the investment of part of the portfolio in a portfolio of industrial, railroad, transportation, and utility bonds.

Senator VANDENBERG. I just want to ask you one other question. Out of your experience on the Advisory Council, do you approve of the proposed rule which fixes the essential limit of the reserve fund under title II to be three times the necessities in any 1 year over a 5-year period?

Mr. IGLAUER. I think that is a fair temporary arrangement, until we have accumulated more data. The committee had in mind that perhaps in 1942 or 1943, when you have 5 years of taxes, we will say, and 3 years of benefits paid, that you will have accumulated sufficient information on which to base definite actuarial calculations for 10, 20, or 30 years in advance, much more definitely than any of the information we have.

Professor Witte's endeavor to show how poor these calculations were I think was a bit unfair to the Treasury Department and Social Security Board, because they were actuaries who came out fully trained, out of their fields—insurance fields. Their actuaries did a perfectly splendid job. Every time we had a meeting we had full actuarial calculations based on the 20 or 22 assumptions that were originally set up, when the calculations were first made. It was the best which would be done, they could not have done any better. When you have 5 years of taxes and 3 years of benefits behind you, you can then call together another committee, such as ours was before, and have the same thing studied with the view of making calculations for the next 5, 10, or 15 years, and you will have much better data to look at.

Senator VANDENBERG. During this temporary period, do you think it is necessary to go as high as the rule of three in order to be safe?

Mr. IGLAUER. Oh, yes.

Senator VANDENBERG. All right; that is all.

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

Mr. IGLAUER. Thank you.

The CHAIRMAN. Senator Hayden, did you desire to present some amendments for the consideration of the committee?

STATEMENT OF HON. CARL HAYDEN, UNITED STATES SENATOR FROM THE STATE OF ARIZONA

Senator HAYDEN. I would like to have the benefit of the attention of the committee for a few moments. I want to discuss an amendment to add a new title to the bill in regard to aid to Indians.

From the beginning of the Government Indians have been considered to be wards of the United States. When the original Social Security Act was passed I am sure few Senators from States having a large number of Indians realized that an effort would be made to trans-

fer the care of old and dependent Indians from the Federal Government to States.

When it was determined that the enactment of the Social Security Act might have that effect I took up the question with the Bureau of Indian Affairs and the Social Security Board. If you will look at page 21 of the President's message transmitting the recommendations of the Board you will find this recommendation:

> A number of States have a considerable Indian population, some of whom are still wards of the Federal Government. The Board believes that in cases where such individuals are in need of old-age assistance, aid to the blind, or aid to dependent children, the Federal Government should pay the entire cost. If this provision is made, the Board should be authorized to negotiate cooperative agreements with the proper State agencies so that aid to these Indians may be given in the same manner as to other persons in the State, the only difference being in the amount of the Federal contribution. The Board believes that it should also be given authority to grant funds to the Office of Indian Affairs for this purpose, if that appears more desirable in certain circumstances.

The text of the amendment which I am now submitting specifically carries out that recommendation made by the Social Security Board, as contained in the President's message.

I want to be frank with the committee by saying that the Bureau of Indian Affairs has never been enthusiastic about this proposal. The Indian Office takes the position that an Indian should have all the benefits that come from being a ward. That is, his land should not be taxed, his livestock should not be taxed, his home should not be taxed, and at the same time he should have all the privileges and immunities of a tax-paying citizen.

Let me show how the existing law affects my own State. Arizona has the largest full-blood Indian population in the United States. It comprises a little over 10 percent of our population. We have 435,573 people in Arizona of whom 43,726 are Indians. Indian reservations comprise 19,000,000 acres, or 26 percent of the area of the State. We simply cannot take care of 1 Indian out of every 10 persons by State taxation, when the cost has always heretofore been borne by the Federal Government.

The situation in Arizona is extraordinary. The other extreme is the State of New York, where the Indian population is less than one-twentieth of 1 percent, 6,900 Indians out of 12,500,000 people. In New York it would make little or no difference one way or the other as to what plan is followed.

Therefore the amendment leaves it optional with any State, as to whether or not it is to care for Indians the same as any other citizen. If the State cannot afford to do so, then an arrangement can be made whereby the Federal Government would carry the burden, as it always has. That is the sum and substance of the amendment. By either method the Indians entitled to assistance would receive the same benefits.

Senator KING. Senator, may I ask you a question?

Senator HAYDEN. Certainly.

Senator KING. You recall that the Indians, for a number of years, have been receiving appropriations, that is, the Indian Bureau, for distribution among the Indians, of very large sums, ranging from $25,000,000 to $37,000,000 and $38,000,000. There has been a constant increase, notwithstanding the expression by the Indian Bureau that they would reduce the expenses. Now, the Indians are getting approximately $38,000,000 out of the Treasury now. Part of it, of

course, is pursuant to treaties which have been entered into, but it does seem to me that they are receiving very large gratuities. Schools are being maintained for them I think independently of grants, and they are receiving many other advantages. Large appropriations have been made for the building of reservoirs for them, and the acquisition and reclamation of lands.

Senator HAYDEN. The point is, Senator, that the Constitution itself recognizes that Indians are not taxed. Arizona would have two Members in the House of Representatives instead of one if the 43,000 Indians were counted. Indians can not be taxed and never have been taxed. Their aged and sick have been cared for, but whatever is done for them has always been done by the Federal Government. The Social Security Act transfers practically one-half of the cost of such care from the Federal Government over to the States. This was not realized when that act was passed, but if you read the act the way it now stands, you will see that it must be amended to shift the burden back to the Federal Government where it has always belonged. Where the Indian population, as in my own case, amounts to 1 out of 10, the State simply cannot do it, and should not be required to do it. Certainly the original Social Security Act never would have been passed with the consent of the Senators and Representatives from the West if any considerable number of them had fully realized that it would be interpreted in that way. But it has been so interpreted, and to correct the mistake the Social Security Board recommends the enactment of this amendment, which is in the exact form as they have approved it.

Senator KING. Would it not be wise to treat the Indians sui generis, outside of the operation of the bill, and let Congress deal with them as it has been dealing with them, by making the direct appropriations and gratuities amounting to $38,000,000?

Senator HAYDEN. Of course Congress would not have to appropriate money as it has been doing for a long period of years, for the aged Indians, the care of dependent children, and so on. Such appropriations could be eliminated and the payments under the Social Security will be substituted.

That is all I care to say with respect to the Indian matter, except I would like to include in the record the text of the amendment and a memorandum that gives an explanation of what is sought to be accomplished by it.

(The amendment and memorandum are as follows:)

[H. R. 6635, 76th Cong., 1st sess.]

AMENDMENT Intended to be proposed by Mr. Hayden to the bill (H. R. 6635) to amend the Social Security Act, viz: At the end of the bill insert a new title as follows

TITLE X

The Social Security Act is amended by adding at the end thereof a new title as follows:

"TITLE XII—AID TO INDIANS

"SEC. 1201. The Social Security Board shall not approve any State plan under titles I, IV, or X of this Act, nor, for any quarter after the last quarter of the calendar year 1939, certify any amont for payment to a State under said titles or under this title, unless such plan applies to and includes Indians upon the same conditions as other persons covered by the plan.

"SEC. 1202. (a) From the sums appropriated for titles I, IV, and X, respectively, the Secretary of the Treasury shall pay to each State which has, under any such title, an approved plan that includes Indians, for each quarter, beginning with the quarter commencing July 1, 1939, (1) an amount, which shall be used exclusively as aid to Indians, equal to the total of the sums expended during such quarter as aid to such Indians under such State plan, such amount to be in addition to the amount paid the State with respect to sums expended for other persons.

"(b) The Board, in making the estimates and certifications provided for in sections 3 (b), 403 (b), and 1003 (b), respectively, shall include therein the amounts to be paid the State under subsection (a) of this section; and the Secretary of the Treasury, in making the payments provided for in said sections, respectively, shall include therein the amounts so certified.

"SEC. 1203. In the case of any State plan which has been approved by the Board under titles I, IV, or X, if the Board, 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 apply the provisions thereof to Indians under the same conditions as other persons covered by the plan, the Board shall notify such State agency that further payments will not be made to the State under this Act with respect to such plan until the Board is satisfied that there is no longer any such failure to apply the provisions of the plan to Indians. Until it is so satisfied it shall make no further certification with respect to such plan to the Secretary of the Treasury with respect to such State.

"SEC. 1204. The term 'Indian', as used in this Act, shall include (1) all persons of Indian blood whose permanent home is on land owned by the United States or held by the United States in trust for Indian use or on tax-exempt land owned by such persons or by an Indian tribe or pueblo, and (2) all other persons of one-half or more Indian blood, including Eskimos and other aboriginal peoples of Alaska.

"SEC. 1205. The amounts paid pursuant to this title shall, except for the percentage, be determined upon the same basis with respect to individual awards paid by a State as though such assistance were paid to persons other than Indians under plans approved pursuant to titles I, IV, or X.

"SEC. 1206. The Commissioner of Indian Affairs of the Department of the Interior is hereby authorized to enter into arrangements with any State agency charged with the administration of a State plan approved by the Board under titles I, IV, or X to use any agency or agencies of the Office of Indian Affairs in the administration of any such plan with respect to Indians."

MEMORANDUM BY SENATOR HAYDEN FOR THE COMMITTEE ON FINANCE

The attached amendment proposing to amend the Social Security Act to provide aid for Indians was drawn more than a year ago jointly by the Social Security Board and the Office of Indian Affairs and provides that in States where the Indian population is so large as to make their care a burden upon the white population of such State, the Federal Government shall pay the entire cost of social-security benefits for such Indians. The amendment carries out the recommendations of the Social Security Board as contained in the President's message to the Congress dated January 16, 1939. The administration of the plan is in the alternative, and benefits may be paid directly by the State, or by an appropriate Federal agency such as the Office of Indian Affairs.

The amendment is designed primarily to assist reservation Indians in the Western States and properly places the care of such Indians in the hands of the Federal Government, whose wards they are. In a State like New York, where the Indian population is only 0.0553 percent of the total population (6,973 Indians out of a total of 12,588,066, 1930 census), the problem of caring for Indians under the Social Security Act is not acute and could easily be continued to be handled by the existing State agencies. The extreme situation, however, can be illustrated in my own State of Arizona. According to the 1930 census, the population of Arizona was 435,573, of which more than 10 percent, or 43,726, were full-blooded Indians living on vast and isolated reservations occupying a total land area of 19,039,964 acres, or 26.14 percent of the land area of the State.

It is obvious from these figures that only the Federal Government can be properly charged with the care of these Federal wards and that to require the State to make provision for them would be an unwarranted burden. Because of their isolation on their remote reservations, penetrated only by representatives of the Office of Indian Affairs, it is further obvious that in Arizona the Office of

Indian Affairs and not the State Social Security Board would be the proper agency to administer the proposed plan.

Arizona is, of course, an extreme example but the situation in other Western States is different only in degree.

Senator VANDENBERG. How much money is involved in that contemplation?

Senator HAYDEN. Frankly, I do not know. I am more concerned about the principle than I am about the money. It depends upon the number of Indians.

Senator VANDENBERG. I agree with that. It is not inappropriate to inquire as to how much it costs, I hope.

Senator HAYDEN. We have in Arizona, as I stated, 43,000 Indians. Certain numbers of them are old, dependent, or crippled children, whatever it may be. The cost of taking care of the Indians who come under the Social Security Act is a burden that the Federal Government always had, and should continue to bear.

Senator VANDENBERG. Why should they be under the Social Security Act at all, since they are in a class by themselves? Why should they not be continued to be cared for by the Government under the original program?

Senator HAYDEN. The only thing I can say to the Senator is that the act, as it now is on the statute books, has been construed to mean that Indians are entitled to the same benefits as any other individual living in the United States. If that is to remain the law then the whole burden of that expenditure should be borne by the Federal Government.

Senator VANDENBERG. You are proposing one method of correcting that?

Senator HAYDEN. Yes.

Senator VANDENBERG. I agree it should be corrected. Would it equally correct it if you lifted the Indians entirely out from under the Social Security Act?

Senator HAYDEN. The Indians have always been cared for at the expense of the Federal Government. I do not think you could get the Indian Bureau to agree to deny them the benefits of the Social Security Act, because they figure they get more money this way than was obtained before.

Senator VANDENBERG. We would probably face it both ways. Would not that be about where we would wind up?

Senator HAYDEN. I do not see how the Bureau of Indian Affairs can ask for an appropriation by Congress to care for indigent Indians when at the same time Congress appropriates money to take care of them under the Social Security Act.

Senator VANDENBERG. Would you be satisfied with the alternative that lets them come out from under the law entirely?

Senator HAYDEN. I would be satisfied with any arrangement that this committee may make, which leaves the Indian in the same legal status that he has been in since the beginning of Government.

Senator VANDENBERG. Your answer would be "yes" to my question?

Senator HAYDEN. Yes, the committee can follow either route that it chooses.

Senator CONNALLY. Mr. Chairman, may I ask the Senator a question?

The CHAIRMAN. Yes.

Senator CONNALLY. As long as they are inclined to be wards of the Government why not appropriate money to feed them, take care of them, look after them? I think the Government ought to do that.

Senator HAYDEN. When the original Social Security Act was passed but few, if any, of us from the West contemplated anything else, but when you read the law the way it now stands, Indians are clearly entitled to all the benefits of the act, and I have no objection to that. My entire contention is that it is an obligation of the Federal Government and not an obligation of any State.

Senator BARKLEY. Being entitled to the benefit of the act, has that in any way changed their status originally in the fund they have gotten heretofore, or is this an additional allowance that they get?

Senator HAYDEN. I have not followed it through, but obviously the Indians will not get money from both sources. In some States, like New York, where they have a few Indians, it would not make much difference, but in my State it would make a great deal of difference.

Senator CONNALLY. If you exempt them entirely, put them in the same status, that would satisfy you, would it?

Senator HAYDEN. It might satisfy me by relieving my State from a heavy burden but whether it would satisfy the friends of the Indians who would like to get as much money out of the Treasury as possible, is something else.

Senator CONNALLY. If your plan is adopted, the Government puts up what it would cost, anyway. It is six in one and half a dozen in the other.

Senator HAYDEN. I would not want to pass on the absolute merit of such a proposal without knowing all the facts, that is, whether it would be best to care for the Indians under the Social Security Act, or whether they would be better off in the end to have Congress appropriate sums of money to take care of them, as it has in the past. I cannot make a positive answer to the question as to which method is best for the Indians.

The CHAIRMAN. Senator, has the Commissioner of Indian Affairs passed on this amendment?

Senator HAYDEN. When I took up the matter about a year ago I had a conference with representatives of the Indian Office, and the Social Security Board. None of them liked the way I had it fixed and they jointly drafted a provision to cover this matter. The text of the bill was agreed upon by the two agencies I have mentioned. I want to make it clear that when this was done the Indian Office said, "If you are going to do it, this is the way to do it, but we prefer that the States pay one-half."

Senator LA FOLLETTE. Senator, may I ask you if this amendment intended to be proposed to H. R. 6635 is identical with S. 17?

Senator HAYDEN. No; the amendment contains changes suggested by the Social Security Board, which are not in S. 17.

The CHAIRMAN. Without objection, I think there ought to be inserted in the record at this time a letter received April 13, 1939, from the Secretary of the Interior touching this matter.

(The letter referred to is as follows:)

THE SECRETARY OF THE INTERIOR,
Washington, April 13, 1939.

Hon. PAT HARRISON,
Chairman, Committee on Finance,
United States Senate.

MY DEAR MR. CHAIRMAN: This Department has given consideration to the proposed bill S. 17 which would amend the Social Security Act to provide that the Federal Government reimburse to the several States the total of all sums expended by the States under this act for aid to Indians, plus an additional 10 percent for administrative expense. This bill would relieve the States of their obligation under existing law to extend the benefits of the Social Security Act to the Indians under the same conditions as to all other citizens. It would, in effect, sanction the right of States to withdraw from Indians the benefits which the States extend to their other citizens. This Department is opposed to such legislation.

Those who favor this bill argue that the Indians are wards of the Federal Government, and are the sole responsibility of the Federal Government. I do not believe any solution of the problems of the Indians can be worked out upon the theory that the Federal Government alone has a financial responsibility toward them and a concern for their welfare. While the Federal Government admits a special obligation to Indians, the States, too, have an interest not merely altruistic in the fair treatment and development of the Indians who reside within their borders and are their citizens, voters and taxpayers. The future of a State which has a large Indian population is in a considerable degree bound up with the welfare and progress of its Indian population, and any contribution, financial or otherwise, which it makes to their welfare is a contribution to its own enlarged future. An enlightened and successful Indian program cannot be left either to the Federal Government or to the State Government, but must be the outcome of cordial cooperation and mutual assumption of responsibility on the part of both.

The guardianship over the Indians which the Federal Government has exercised has been chiefly directed toward supervising his restricted property and protecting his rights from infringement. The Government has not assumed, by virtue of its guardianship, to provide for all the needs of the Indians and is under no legal obligation to do so. It is of doubtful benefit to the Indian to be extended the protection of the Federal Government if he is thereby deprived of the interest and help of his State and local governments. When citizenship was conferred upon the Indians the States necessarily assumed a share of the obligation toward these people and a responsibility to accord to them rights equal to those enjoyed by other citizens.

It is no new thing for the States to spend money for the benefit of Indians. In varying degrees, many States have extended educational, health, medical, welfare, and other services to Indians for years. Naturally the States are not averse to being relieved of these costs, and if the Federal Government takes over the total cost of Social Security assistance to Indians, it may be assumed that the States will look upon this as a declaration of policy, and they may be expected to withdraw services heretofore given to Indians without question unless they are reimbursed by the Federal Government. Unless Congress is prepared to carry out such a policy by making larger appropriations to meet increased demands, the Indians, in the long run, are likely to be more harmed than benefited by such a policy. This prospect should be considered in relation to the hope of this administration that the policies now being carried out by the Office of Indian Affairs will ultimately result in the transformation of that office from an administrative bureau to a service agency. The tribal corporations being established under the authority of the Indian reorganization and other acts should develop over a period of years until they control and administer tribal affairs with a minimum of Federal supervision, or with perhaps no supervision whatever. If this ultimate goal is desirable, the Congress should give consideration to the possibility that the policy inherent in the proposed bill may retard or prevent this development.

From the point of view of the States, the problem of cost of Indian assistance is not insurmountable. States that want to work out this problem in an equitable manner can make provision, through legislation if necessary, to relieve poor counties upon which an undue share of the cost of Indian assistance may fall. This relief to counties has been provided, for example, in Minnesota and Montana.

The objection that Indians do not pay a real property tax is a weak argument indeed in States where the major or total cost of assistance is from sources other than property taxation. An examination of the enclosed multilithed table on

social-security assistance to Indians will show that the States with the highest percentage of nontaxable Indian land are Arizona (26.17 percent), South Dakota (11.26 percent), New Mexico (8.43 percent), Montana (6.76 percent), Washington (6.22 percent), Oklahoma (5.81 percent). Of these only in Washington and, except for Indian assistance, in Montana, are the assistance programs financed in part by the counties from revenues raised by taxation upon property. Taxation upon real property is becoming increasingly less important as a tax base in this country. The need to find other more productive and more equitable forms of taxation is not confined to States having large areas of nontaxable Indian land. It is equally pressing in States with large areas of taxable land belonging to farmers and other individuals unable to bear the tax burden imposed upon their lands. To look upon this problem of public finance as directly related to the nontaxation of Indian lands is to fail to recognize the core of the difficulty.

Nor should the ability of the individual to pay taxes be a determining factor as to the State's contribution. Indians usually contribute to sales taxes, and if they do not contribute appreciably to luxury taxes and severance taxes and the like, it may be asked whether the needy, dependent whites, Spanish-Americans, or Negroes receiving assistance are contributors to these taxes from which the funds for their assistance are derived. In all classes of citizens who receive assistance under the Social Security Act are large numbers who are not tax payers except in an indirect way. The truth is that huge sums of Federal money are being granted to the States to assist in the various programs which should and must of necessity include its Indian citizens, and therefore any amount expended for any one class or group (in this instance Social Security assistance for the Indian) or the failure of any one class or group to pay taxes is no justification for requiring reimbursement to the State for any such sum expended for the one class or group of its citizens. A comparison of the figures on the enclosed tabulation, which shows the total of certain Federal grants to the States during the fiscal year 1938 and, in an adjoining column, the estimated cost of Indian assistance, shows how myopic is the point of view of the States which base their objection upon the cost to the States without reference to or acknowledgment of the assistance given their programs by the Federal Government.

In this connection it should not be overlooked that certain Federal grants to States (vocational education, vocational rehabilitation, Federal aid highways, and, under the Social Security Act, maternal and child welfare and public health work) are allotted wholly or in part on a basis of population, and that this population includes Indians, who often enough benefit little or not at all from the allotments. Furthermore, the area of nontaxable Indian lands and other public lands, exclusive of forest reservations, is made the basis for an allotment of $2,500,000 for public lands highways to the States with an appreciable acreage of nontaxable Indian lands. To be wholly logical, States that find their Indian population a burden when it comes to the needs of Social Security assistance should not profit by their numbers when it comes to receiving Federal grants based upon population.

There is enclosed a copy of each of the tabulations referred to: "Federal contributions to States, which may be Considered Offsets to State Contributions for assistance to Indians, fiscal year 1938" and "Social security assistance to Indians."

The latter study shows that 11,162 Indians were receiving Social Security assistance as of November 1, 1938. The figures in red pencil indicate that 6,417 Indians were receiving this assistance a year previously. This is a gain of 4,745 Indian recipients. Although this increase shows progress, it will be noted that the States of New Mexico, Colorado, and Arizona are not assisting Indians (except for 15 recipients in Arizona) although neither Arizona nor New Mexico finances its programs through property taxation. It will be noted further that the estimated total of Indians in need of assistance is 17,946. An estimated 1,347 of these are dependent children and blind living in States without approved plans for these groups. This leaves an estimated 5,437 Indians in States with approved plans who are presumably eligible for assistance, who have not yet been included in the State programs.

In the circumstances, therefore, it is recommended that this bill be not enacted.

The Acting Director of the Bureau of the Budget advises that there is no objection to the presentation of this report to the Congress.

Sincerely yours,

HAROLD L. ICKES,
Secretary of the Interior.

The CHAIRMAN. This amendment should be referred to the Department of the Interior for a report.

Senator HAYDEN. Yes, and it should also be referred to the Social Security Board.

The CHAIRMAN. The Chairman of the Social Security Board, and other members of the Board, are here, I believe. We will ask for a report on the amendment so that it may be considered in executive session.

(Subsequently the following letter was received from the Secretary of the Interior regarding the amendment offered by Senator Hayden.)

JUNE 23, 1939.

Hon. PAT HARRISON,
Chairman, Committee on Finance, United States Senate.

MY DEAR MR. CHAIRMAN: Your committee, through its secretary, has made an oral request for a report on an amendment intended to be proposed by Senator Hayden to the bill, H. R. 6635, to amend the Social Security Act.

This proposed amendment is substantially identical with S. 17 introduced January 4, 1939, and discussed by me in my letter to you of April 13, last. My views upon the subject have not changed since that date. The question, however, is one of policy for the Congress to decide. Should the decision by the Congress be adverse to the recommendation in my letter of April 13, the language of the proposed amendment would effectuate the policy. I suggest, however, that section 1204, defining an Indian for the purposes of this act, be amended to read as follows:

"For the purposes of this Act the term 'Indian' shall include all persons of Indian blood who are members of a tribe, pueblo, band, community, or other group now or hereafter recognized by the Congress or the Secretary of the Interior: *Provided*, That all such persons at the time of filing their applications shall reside on a reservation or on other lands set aside or established for Indian use and occupancy, and shall meet such other residence requirements as are provided for by the laws of the State in which they reside: *Provided further*, That the term 'Indian' shall also include all Indian and Eskimo natives of Alaska who are of one-half or more Indian or Eskimo blood, certified as such by the Secretary of the Interior or by any other officer duly designated by him; *Provided further*, That the amounts paid under this section shall not include any sums with respect to payments to Indians who reside in any State created out of the area embraced within the Original Thirteen Colonies unless there has been a reacquisition of Indian lands or reaffirmation of title to Indian lands within such State by the United States. The records of the Department of the Interior and of the Indian Service shall be prima facie evidence of the facts shown thereon as to tribal membership, age, sex, and degree of Indian blood."

Whether the Congress decides to accept this amendment, or prefers to leave the law affecting Indians as it now stands, I urge that social security benefits for Indians be administered as a part of the general plan for the citizens of the United States. I should regret any changes which would lead to a special pension system for Indians.

Sincerely yours,

HAROLD L. ICKES,
Secretary of the Interior.

Senator HAYDEN. The only point I am concerned with is the principle involved, and how we can come to a solution.

TEMPORARY RELIEF TO CERTAIN STATES

Another matter I want to bring to your attention is that the Railroad Unemployment Insurance Act of June 30, 1938, provided that the Social Security Board shall withhold the certification to any State of grants for the administration of State unemployment compensation laws, unless such State, prior to July 1, 1939, shall have, by legislative action, directed the Secretary of the Treasury to transfer from its

account in the unemployment trust fund to the railroad unemployment-compensation account an amount equal to the moneys heretofore collected from the railroad employers under the unemployment tax provisions of the Social Security Act. The law, in effect, directs that the money so collected be taken out of one column of the accounts of the Treasury and put into another column. Such change must be agreed to by the State legislatures, because it is a trust fund.

Unfortunately, as Mr. Latimer of the Railroad Retirement Board can tell you, a few of the States will have failed to enact the necessary changes in their laws by the first day of next July, and everything will be tied up. That affects my State and a few other States.

I submit that the amendment should be adopted, and call the attention of the committee to the fact that it is approved by the Railroad Retirement Board, the Social Security Board, the Treasury Department, the General Accounting Office, and the Bureau of the Budget.

The CHAIRMAN. Was it presented to the Ways and Means Committee?

Senator HAYDEN. No; it was not in shape to be presented to that committee. The amendment was only drafted and agreed to last week.

The CHAIRMAN. So it was not considered by the Ways and Means Committee?

Senator HAYDEN. No; the Governor of Arizona came to Washington very recently and stated his difficulty. Governor Jones said that if he were compelled to call a special session of the State legislature before the first of July, a burden of at least $60,000 would be placed upon the State, which he considered unnecessary. I understand there are some other States in a similar situation, particularly Illinois.

The text of the amendment is rather involved. One Senator can draw a provision that is perfectly clear to him, but if five Senators help him to draw it the language is generally expanded. This amendment is approved by five different Federal agencies, and each one of them has put into it everything deemed to be necessary. Nothing more is actually involved than simply moving some figures from one column in the account books of the Treasury Department to another column. The money is now in the United States Treasury. The States are penalized for the delay at the rate of 2½ percent. I shall submit the amendment and the text of a memoradum regarding it for the record.

The CHAIRMAN. Without objection it may be put in the record.

(The amendment and memorandum are as follows:)

[H. R. 6635, 76th Cong., 1st sess.]

AMENDMENT Intended to be proposed by Mr. Hayden to the bill (H. R. 6635) to amend the Social Security Act, and for other purposes, viz: At the end of the bill insert a new section, as follows:

SEC. 904. If the Social Security Board finds with respect to any State that the first regular session of such State's legislature which began after June 25, 1938, and adjourned prior to thirty days after the enactment of this Act (1) had not made provision to authorize and direct the Secretary of the Treasury, prior to thirty days after the close of such session or July 1, 1939, whichever date is later, to transfer from its account in the Unemployment Trust Fund to the railroad unemployment insurance account in the Unemployment Trust Fund an amount equal to such State's "preliminary amount", or to authorize and direct the Secretary of the Treasury, prior to thirty days after the close of such session or

January 1, 1940, whichever date is later, to transfer from its account in the Unemployment Trust Fund to the railroad unemployment insurance account in the Unemployment Trust Fund an amount equal to such State's "liquidating amount" or both; and (2) had not made provision for financing the administration of its unemployment compensation law during the period with respect to which grants therefor under section 302 of the Social Security Act are required under section 13 of the Railroad Unemployment Insurance Act to be withheld by the Social Security Board, notwithstanding the provisions of section 13 (d) of the Railroad Unemployment Insurance Act the Social Security Board shall not begin to withhold from certification to the Secretary of the Treasury for payment to such State the amounts determined by it pursuant to section 302 of the Social Security Act and to certify to the Secretary of the Treasury for payment into the railroad unemployment insurance account the amount so withheld from such State, as provided in section 13 of the Railroad Unemployment Insurance Act, until after the thirtieth day after the close of such State's first regular or special session of its legislature which begins after the date of enactment of this Act and after the Social Security Board finds that such State had not, by the thirtieth day after the close of such legislative session, authorized and directed the Secretary of the Treasury to transfer from such State's account in the Unemployment Trust Fund to the railroad unemployment insurance account in the Unemployment Trust Fund such State's "preliminary amount" plus interest thereon at 2½ per centum per annum from the date the amount thereof is determined by the Social Security Board, and such State's "liquidating amount" plus interest thereon at 2½ per centum per annum from the date the amount thereof is determined by the Social Security Board. Notwithstanding the provisions of section 13 (c) of the Railroad Unemployment Insurance Act, any withdrawal by such State from its account in the Unemployment Trust Fund for purposes other than the payment of compensation of the whole or any part of amounts so withheld from certification with respect to such State pursuant to this Act shall be deemed to constitute a breach of the conditions set forth in sections 303 (a) (5) of the Social Security Act and 1603 (a) (4) of the Internal Revenue Code. The terms "preliminary amount" and "unliquidating amount", as used herein, shall have the meanings defined in section 13 of the Railroad Unemployment Insurance Act.

MEMORANDUM BY SENATOR HAYDEN FOR THE COMMITTEE ON FINANCE

The attached amendment has been drafted and informally approved by the following Federal agencies: Railroad Retirement Board, Social Security Board, Treasury Department, General Accounting Office, Bureau of the Budget.

Section 13 (d) of the Railroad Unemployment Insurance Act of June 1938 provides that the Social Security Board shall withhold the certification to any State of grants for the administration of State unemployment-compensation laws unless such State, prior to July 1, 1939, shall have by legislative action directed the Secretary of the Treasury to transfer from its account in the unemployment trust fund to the railroad unemployment-compensation account an amount equal to the moneys heretofore collected from railroad employers under the unemployment-tax provisions of the Social Security Act.

For one reason or another several States, while perfectly well intentioned, are likely not to have complied with this provision of law by July 1, 1939, and if such States have not complied as of that date, then the Social Security Board will have no option but to withhold administrative grants to such States.

My amendment is designed specifically to relieve this situation and to allow the orderly payment of unemployment compensation in the several States after July 1, 1939, without in any way jeopardizing the Federal Treasury or either of the Federal agencies concerned, the Railroad Retirement Board and the Social Security Board.

The CHAIRMAN. Senator Byrnes.

STATEMENT OF HON. JAMES F. BYRNES, UNITED STATES SENATOR FROM THE STATE OF SOUTH CAROLINA

The CHAIRMAN. Senator Byrnes, the committee has no desire to keep you here all the time, although we are very glad that you and other members of the Unemployment and Relief Committee have found it convenient to be here. Do you desire at this time to present your views on this matter?

Senator BYRNES. If the committee would permit me to do so, I would like to.

First, I wish to thank the committee for its kindness in inviting the members of the Unemployment and Relief Committee to sit with this committee during its sessions. Last year, when the Committee on Unemployment and Relief was appointed, we were charged with the duty of investigating the subject of relief, as well as unemployment.

In the consideration of that question we necessarily considered many of the matters contained in the pending bill. There was no desire on the part of the Committee on Unemployment and Relief to usurp the jurisdiction of the Committee on Finance. We simply found that in investigating the question of unemployment and relief, we necessarily had to consider all of the acts of the Congress pertaining to employment or relief, and we found that during the last 5 years we had made many appropriations for various types of assistance, as well as appropriations to provide work. These acts were necessarily passed hurriedly, without relation to each other. We determined that the picture should be considered as a whole.

We approached the subject from the standpoint of determining the effect these various appropriations would have upon the number of people seeking employment upon public works. Our appropriations for public works had reached more than two billion dollars last year. We concluded that unemployment compensation had to be considered our first line of defense against unemployment and that if it was to be effective it had to be adequate enough to remove people from the field of work relief. Contributing to the same result would be the grants made through the Social Security Board to States for old-age assistance, old-age insurance, for the dependent children and the blind.

When the committee reported and incorporated in a bill its recommendations, we learned that the House took the position that it affected revenue, and that the legislation should be introduced first in the House.

We had specifically refrained from making any recommendation as to taxes, but we found anyway that the gentlemen on the other side of the Capitol were sincerely of the opinion that it affected revenue, and rather than have any dispute about the matter, we determined to abandon any effort to secure action by the Congress upon that bill and look to this committee to act upon amendments when the bill came over here.

I might say that before we even drafted the bill, we increased the membership of the committee, and I specifically asked that members of this committee be added to the committee, and five members of the Finance Committee were added. Now, I do not intend to ask you to consider all of the views of that committee upon the various provisions of the bill, technical as they are, but I do wish to comment upon a few questions.

We found that the question of old-age assistance was a controversial one. Now, I think, I can say that so far as the action of the House is concerned, it has taken the same position that the Senate Committee on Unemployment took with reference to assistance for the blind, and for the dependent children.

In the case of the dependent children we recommended last January that the contribution of the Federal Government be increased from one-third to one-half, and I think it is rather generally agreed now

that there is no good reason for having the contribution one-third while the contribution is one-half for other purposes.

In the case of the old-age insurance benefits, we recommended that the payments commence as of January 1, 1940. I think the House has done a very splendid job in the determination of the payment of benefits under that section. It will, in my opinion, relieve to some extent the demands upon W. P. A., and when we think of how expensive the public works program has been per individual, I think it is well that, inasmuch as these taxes have been paid by the employers and employees of the country, that the payments should begin at an earlier date.

I think the definition of "dependent child" adopted by the House, is a splendid forward step. By extending assistance to the dependent child not over 18, attending school, the effect will be that many women who are now employed upon W. P. A. projects will have adequate assistance to permit them to remain in the home and take care of the children. Whether it be right or wrong, we know that sympathetic officials of local government who certify persons for jobs upon W. P. A. projects, when confronted with the case of a widow with dependent children, even though she does not possess the qualifications to perform the particular work, will often certify her for a job upon W. P. A. because of her need. The result has been that the citizen seeing her at work and not performing her work in an efficient manner would criticize the W. P. A. and the Congresss for making appropriations for work relief. Therefore, this more adequate provision for dependent children will serve a splendid purpose, as will the more adequate provisions of the old-age insurance section.

Now, when we get to the appropriations for old-age assistance——

Senator BARKLEY (interposing). Senator, do you include in your remarks about dependent children, crippled children, or is that separate?

Senator BYRNES. That is a separate section in the bill.

Now, as to the old-age assistance, while many men of 65 years and over possess the physical qualifications for efficient work, many others do not. Because of the inadequacy of the amount paid in some States for old-age assistance, men and women over 65 and in need, have been certified by local officials for jobs on W. P. A. While the number is not very large in the cases of the persons over 65 it, nevertheless, is one factor to be considered when we are considering the effect upon the relief load of these various provisions.

In enacting the social-security law, the Congress determined that providing assistance for the aged who are in need was not the problem solely of the State, but was a national problem, or at least a dual problem of the United States and of the States. Because we did not regard it as the problem solely of the State, we provided that the appropriations should be based upon a 50–50 basis, with the maximum contribution by the Federal Government not to exceed $15. Now, under this provision the amounts paid in the States vary all the way from $32.43 in California, to $6.15 in Arkansas. The number of persons being aided varies from 54 percent of the population over 65 years of age in the States with the highest proportion to 7 percent in the States with the lowest proportion.

When a State pays an average of $6.15 to an old man, it means 20 cents a day, and it means that the contribution of the Government of

the United States to the assistance of that old man is a dime a day. If no more than a thin dime is to be paid, so far as my opinion is concerned, we might just as well withdraw and save the administrative costs necessary in that State to contribute a dime to the old man or the old woman in need.

Now, we considered what was the best thing to do about this problem. No one is satisfied with the existing conditions. We considered whether the failure to pay a larger sum in so many States in the Union was due to inability or unwillingness. My own opinion, and the opinion of the majority of that committee was that while in some few States the legislatures may not have provided all the funds possible for this specific purpose, that there could be no doubt that the failure was due to inability and not to unwillingness.

Senator VANDENBERG. May I ask you a question there, Senator?

Senator BYRNES. Yes.

Senator VANDENBERG. What is the experience in these same States in respect to matching other Federal funds in connection with other Federal activities, like roads? Have they all followed through?

Senator BYRNES. In the endeavor to match appropriations by the Federal Government, the States have been increasing taxes. The argument is made by candidates for the legislature that if the State fails to raise sufficient revenue to meet them the State will be paying to the Federal Government and getting no benefit. As a result we have about reached the limit of State cooperation. I cannot say that a State could not raise an additional dollar a month, but the additional dollar a month may be just about the last straw. Congress has preempted in great measure the field of taxation. You gentlemen, having framed the tax bills are far more familiar with them than I am. We have in great measure restricted the States, the counties, and the cities to taxes upon real estate. They have income taxes, taxes upon intangibles, and sales taxes, but, after all, our cities and our counties have come to rely in great measure, upon taxes upon real estate. In most of the States they have been contributing to the funds for roads and other purposes. Now they have reached the stage where they are unable to match on a 50–50 basis additional appropriations by the Federal Government.

Senator VANDENBERG. I am not quite clear that I understand your answer, Senator.

Senator BYRNES. I know of no State that is not securing the funds appropriated for roads by matching the 50 percent. I cannot specifically answer your question because I have not investigated it. I understand that in some instances States have declined to make the contributions to match the Federal contribution as to dependent children, because that matter was before us. Still I think that was due, in great measure, to the fact that the Federal Government was not contributing one-half, but was contributing one-third. When we contribute one-half I believe the sentiment in favor of caring for dependent children, will cause those States to come in. But I cannot answer your question.

Senator CONNALLY. Is not one of the reasons for matching the road money that some of the States have a special gasoline tax which goes in your through roads?

Senator BYRNES. Of course that is true. It is as high as 7 cents in some States, that is 1 cent Federal and the other 6 cents State. As

we drive through the States, we know how high the Federal and State tax is on gas. That is the reason we are able to keep up the road contribution.

Senator LODGE. May I ask you a question, Senator?

Senator BYRNES. Yes.

Senator LODGE. Is it not true that many of the States with the low per capita income do not have an income tax?

Senator BYRNES. All of the low-income States have income tax laws except Oklahoma and Texas, and Oklahoma has what is called a gross income tax, a tax upon intangibles.

Senator LODGE. Thank you.

Senator BROWN. In some of the low-income States is the inability of the State to raise sufficient money based upon the constitutional amendment, the constitutional provision in the State constitution which prevents the imposition of higher taxes?

Senator BYRNES. State constitutions have made provisions restricting taxes, restricting the tax upon the homestead, and other things.

Senator BROWN. There would be more sympathy, I think, on the part of the committee in the case of those States that were unable, because of financial difficulties, to raise the money, than in the case of the State where some constitutional provision prohibited them.

Senator BYRNES. There would be no question then about the willingness at all. It is interesting, in connection with it, gentlemen, to note that when you look at the list of States with the low per capita income you find that it includes the States with the very small appropriations for old-age assistance. I looked at it with some interest, to see how many of them there were. It follows very generally.

Senator LODGE. May I ask you a question there, Senator?

Senator BYRNES. Yes.

Senator LODGE. I have got this list, and there are some exceptions to the statement. A State like Utah, that is thirty-first in per capita income is eighteenth in old-age assistance; Colorado, twenty-first in per capita income and second in old-age payments; Arizona is twenty-third in per capita income, and sixth in old-age payments; Delaware is thirty-ninth in old-age assistance payments and fourth in per capita income.

Senator BYRNES. Yes. I noticed about a half dozen out of the entire list. I did not want to mention the States, to single them out, but I will put into the record a statement of the per-capita income of the various States as determined by the Department of Commerce in its recent bulletin dated May 1939 and follow it with the statement of the amounts of old-age assistance paid by the various States.

The CHAIRMAN. I think that is in the record, Senator.

Senator BYRNES. I was only wondering if the committee had the figures as to the income of the States, as published by the Department of Commerce in its recent bulletin, or whether it was the table that appeared in the Congressional Record of last week.

The CHAIRMAN. The last was of December 1938.

Senator BYRNES. I am familiar with the figures the Senator is looking at.

The figures to which I refer are later figures and are contained in a publication of the Department of Commerce.

Senator LODGE. I did not quite understand, Senator, whether you were going to comment on these discrepancies that I referred to. Is that the statement you plan to put in?

Senator BYRNES. I say the statement will show that there are five or six States that are exceptions to the rule which I have stated. I was not singling out the various States at this time.

Senator KING. Senator, if you will pardon me, I do not want to lead you into a bypath, but is it not true that in the South there is remarkable industrial development, many factories are moving from the New England States to the South, and there is a remarkable activity there in industry, in trade, and in commerce, and the people of the South are manifesting those fine qualities which they have manifested in the past, and which have led to the formation of strong, independent communities, and strong, independent States?

Senator BYRNES. For many years there has been an improvement in the industrial situation in the South. I was not discussing the matter, though, as affecting the Southern States alone, because I would prefer not to do it. Under this proposal if the per capita income of a State increased, its contribution would increase.

The States of the Union having a per capita income less than the national per capita income number 28. Therefore if you speak of the South as the 13 States, which were included in the figures of the economic council, when the South was described as economic problem No. 1, there are 15 States outside of the South in the low-income group.

Senator LODGE. As of what year is that, Senator?

Senator BYRNES. The bulletin is as of May 1939, based upon 1937.

Senator LODGE. These figures of the Department of Commerce show very considerable fluctuations from year to year. The number out of the average may vary a great deal.

Senator BYRNES. There were 20 States and the District of Columbia in which the average income per man, woman, and child in 1937 was above the United States average of $547. That is how I arrived at my figures that there are 28 States below the average.

Senator LODGE. For that particular year?

Senator BYRNES. Yes; for 1937. I think it ought to be considered on the basis of 3 years. I would not think 1 year would be fair.

The Social Security Board recommended to the President, as a solution of this problem, that there should be a variable grant based upon the economic capacity of the States, and the President, in submitting that report to Congress, likewise urged variable grants to the States, stating:

> I particularly call attention to the desirability of affording greater old age security. The report suggests a twofold approach which I believe to be sound. One way is to begin the payment of monthly old age insurance benefits sooner, and to liberalize the benefits to be paid in the early years. The other way is to make proportionately larger Federal grants-in-aid to those States with limited fiscal capacities, so that they may provide more adequate assistance to those in need. This result can and should be accomplished in such a way as to involve little, if any, additional cost to the Federal Government. Such a method embodies a principle that may well be applied to other Federal grants-in-aid.

I admit that in considering this matter, although we are all agreed as to the desirability of doing something, we found it difficult to agree upon what should be done. I have no conviction that this is the last word and that there is no better plan. I am entirely open-minded on

it, but I am of the opinion that this committee should give careful consideration to this proposal at this time.

We recommended this, that where the per capita income of a State was less than the average national per capita income, that the contribution of the State should be proportionately reduced but that in no case should the contribution of a State be less than one-third, or the contribution of the Federal Government be greater than two-thirds. Few States would contribute only one-third. Quite a number would contribute between 45 and 50 percent. We provided that the determination of the per capita income of the State should be based upon the figures for 3 years and not for 1 year.

Because of the fact that many of the States would contribute between 45 and 50 percent, others between 40 and 45 percent, the cost to the Federal Government of this variable formula would not be very high. The representative of the Social Security Board testified, when asked by the committee for an estimate, that the increased cost should range between $20,000,000 and $34,000,000, the variance being due to the difficulty of determining how many additional persons would be granted aid as a result of the more liberal grant.

I must say, in justice to the representative of the Board who testified before our committee, that he said that necessarily it was a difficult estimate to make, as we can all readily see, but his estimate that it was $20,000,000 to $34,000,000, and I prefer to discuss it, therefore, as the outside estimate, an addition of $34,000,000.

Senator VANDENBERG. That is $34,000,000 as compared to what the total figure now is for this particular program?

Senator BYRNES. The total is now $250,000,000. It would add $34,000,000 to that sum.

Senator KING. That is, we are appropriating now $250,000,000 for the needy?

Senator BYRNES. My recollection is that the amount is approximately $250,000,000. Mr. Altmeyer can correct me.

Mr. ALTMEYER. That is correct, about $500,000,000 being paid by the combined Federal Government and States.

Senator BYRNES. Our contribution was approximately $250,000,000, as I remember it.

I am of the opinion that if the Congress granted this additional aid to the low-income States, that we should demand in return for that increased relief, that they pay to the aged persons in need an average of at least $15 per month.

It should be stated as an average for this reason: Grants are made by the State of a supplementary nature. There is a man who has got a son working and he, therefore, can stay in the house with his son, but the old man hasn't got any money, he has great difficulty in securing enough for food, and $5, or $7.50 would be of great assistance to him, when it would be entirely inadequate to another man who has to pay rent.

Of course, we meet the argument that if we require a minimum payment it would force a larger contribution by some of the States, even under this variable formula. That is true. I dislike to single out the State of Arkansas, and I do so only because it is at the bottom of the list, as we single out California, it being at the top of the list. Arkansas is $6.15. Now that would mean the contribution of Arkansas would have to be increased to $5, in order to get $10 and

reach the average. Immediately it is said, "Well, if you say they are unable to pay any more, how can they pay the $5?"

Senator JOHNSON. The Senator from Arkansas testified yesterday that they were not paying all that they were able to pay.

Senator BYRNES. I think that could be true. I think there could be an argument as to many States. It will be a controversial question in many States.

Senator JOHNSON. She said it was partly unwillingness on the part of Arkansas.

Senator BYRNES. That may be true. In some States it was due to an unwillingness, because of lack of sentiment in favor of it. We had in mind that fact. But while it may be true in one State, we had to take the rule, and when you take the States as a whole and compare the States with small benefits with those having a low per capita income it is surprising how it dovetails. In some States there would be a lack of desire on the part of the State.

Senator VANDENBERG. Senator, would it be possible, on this question of capacity versus willingness, to obtain a table to put in the record showing the experience of the States and Government in connection with other matching grants for the last 5 years, say?

Senator BYRNES. Yes; I will try to get that. I will make a memorandum of it.

Senator VANDENBERG. If you will, it will be a very valuable contribution.

Senator BARKLEY. It is difficult to arrive at a definite conclusion as to the ability, I mean the two equations of ability and willingness of any particular State, unless you take the tax rate, value the property and a whole lot of elements that go into it. As a member of the committee, I felt that more of the States were failing because of their unwillingness than because of their ability. I think that is true. As to the exact number, it is hard to figure it out. I still entertain that opinion.

Senator BYRNES. I tried to consider the matter in a judicial way, and I went to the trouble of seeking information about the States that are in the low-income group, and I found some very interesting things.

I said I dislike to discuss the thing from a sectional standpoint, but one is forced to do so, because while there are 28 States that are low-income States, less than the average, it is a fact that every one of the 13 southern States is in that class. Therefore I tried to check up on the accuracy of the figures as to low per capita income and I found some very surprising figures on that subject. I took the deposits in the banks of the State, the dividends received in those States, in order to get at the income. I took the wage of the tenant farmer of the 13 States, and the wage of the sharecropper, I took the assessed value of the property of the States, and other factors, and with the permission of the committee, I will insert it as part of my remarks.

Senator LODGE. May I ask, Senator, whether you took the farm income not in cash, did you attempt to evaluate it?

Senator BYRNES. No.

Senator LODGE. It is a very big part of the farmer's income, though, is it not?

Senator BYRNES. I realize that it amounts to something if a man has his own vegetable garden, but when it comes to his ability to pay

taxes it is not material. The tenant farmer and share cropper cannot well pay taxes out of annual cash income of $100. It matters not what he gets in the way of vegetables, so far as the taxable capacity of the State is concerned. You cannot get much in taxes from a man whose cash income per year is $75 or $87. From the figures published by the National Emergency Council I quote the following:

The 13 Southern States had an average income of $314 while in the rest of the country it was $604.

In determining the amount of revenue that can be raised by taxes upon real estate, we must realize that the assessed value of the taxable property in the South in 1935 averaged $463 per person, while in 9 Northeastern States it averaged $1,370, or three times as much as in the Nation.

When we consider the ability of the people of the Southern States to pay either income taxes or excise taxes, we must realize that in 1929 southern farmers received an average gross income of $186 as compared with $528 for farmers elsewhere.

The average tenant farm family received in cash $73 per person for the year's work.

Sharecroppers' cash earnings ranged from $38 to $87, a recent survey showed.

The average wage in industry in the South was $865, while it averaged $1,219 in other sections. Although the South contains 28 percent of the Nation's population, its banks in 1937 held less than 11 percent of the Nation's bank deposits or only $150 per capita as compared with $471 for the remainder of the United States.

Savings banks deposits in the South were less than 6 percent of the Nation's total.

Of the 66 banks in the United States having deposits of $100,000,000 or more, only 2 are in the South and they barely qualify.

Southern insurance companies hold 2.6 percent of the $28,418,000,000 of assets held by the life-insurance companies of the Nation.

These figures only confirm the figures of the Department of Commerce as to the per capita income of these 13 States. There are 15 other States outside of the South where the per capita income is less than the average national income and where the raising of additional revenue is equally as serious a problem.

As long as I have been drawn into a discussion of conditions in the South we must realize that we have in most of those States, a difficult problem. Take the State of Mississippi, the State of the chairman. It has, as I recall, a population divided between the races about 50–50. They have a compulsory education law. I am glad to say that is true in every one of the southern States. They must secure, by taxes upon real estate and other direct taxes sufficient revenue for educational purposes. When you have one-half of your people who have little or no cash income, and little property upon which you can draw for taxes, it is exceedingly difficult to raise enough revenue for the ordinary activities of government without trying to match Federal appropriations.

I cannot agree with the statement that it is unwillingness on the part of the States to tax themselves. The States can levy sales taxes and they will be paid. The poor people will pay and will doubtless live, but there comes a time when it is existence and not living.

Senator LODGE. May I ask you another question?

Senator BYRNES. Yes.

Senator LODGE. Take the case of a State which contains a financial center. Massachusetts contains Boston, Michigan contains Detroit, they get a lot of dividend payments in checks, and so on, coming into the financial center. There are just a few big ones, really, but in the computation of per capita income the poor people in those States are credited with those dividends that they never got, and consequently the poor people in the States with the financial centers are being given the rating as being rich, without ever having any of the advantages of being rich. Isn't that true?

Senator BYRNES. Yes; in a way. I will discuss that in a moment. Insofar as the poor in the States with the so-called high income is concerned, this provision recommended by the committee on unemployment and relief would not in any way affect the right of that State with the high per capita income to provide a contribution of $15 and thereby receive the Federal contribution of $15, making the total amount paid $30; it would in no wise affect the right of the State to contribute more than $15 to add to the $15 contribution by the Federal Government. It would simply give assurance that in every State the average contribution would be at least $15.

It is urged that this variable grant would be unfair to the States with a higher per capita income. Let me discuss that a minute. The only justification that I see for that statement is that the additional cost estimated at somewhere between $20,000,000 and $34,000,000 would be paid out of funds collected by the Federal Government from all of the people, and therefore from the States with high incomes as well as those with low incomes. I think that would be a fair argument.

The funds in the Federal Treasury, come from the people of the entire Nation. I not only agree to it, I assert it. It has been regrettable to me that it has not been more uniformly appreciated. It matters not whether the tax is collected on gas by the Standard Oil Co. of New Jersey, or upon cigarettes by the R. J. Reynolds Tobacco Co. of North Carolina. The tax is paid not by New Jersey or North Carolina, but by the individuals who buy gas or cigarettes in Massachusetts, Mississippi, and every other State.

Senator LODGE. That is my point.

Senator BYRNES. The price of a manufactured product is fixed to provide not only cost but to earn a profit, after allowing for taxes and depreciation. The corporation tax paid in New York is collected by the corporation from New Mexico as well as New York.

Twenty-eight States have a per capita income less than the average per capita income of the Nation. These States would benefit by the variable grant, some very slightly, some materially. But today, when the person in Arkansas or in New Mexico pays the same taxes upon gas, cigarettes and beer, that money goes into the Federal Treasury, and by that Treasury is paid out in the form of grants to the aged. The Federal Government from these taxes contributes $12 to an aged person in New York and $3.07 to an aged person in Arkansas. The State with high per capita income benefits at the expense of the State with the low per capita income. The objective is to assist those in need, and seek to attain that objective by providing that the more money a State has, the more assistance will be given for its needs.

In considering the fairness of it, we must remember that even if the variable grant is provided and the State of Arkansas, for instance, should increase its contribution to $5 and thereby secure a Federal contribution of $10, making the payment to the beneficiary $15, the taxes collected from the people of Arkansas by the Federal Government, together with the taxes from all other States, will still be paid to the States with high income, and California would still receive, from the Federal Treasury, $15 a month instead of the $6.30 received by Arkansas. The man, however, who buys gas and cigarettes in Arkansas, will pay just the same tax as the man in California, or Massachusetts.

The CHAIRMAN. You have a limit of two-thirds percent?

Senator BYRNES. Yes; two-thirds. The relief bill was reported to the House yesterday. In the discussion it was stated that if a man is entitled to social-security benefits he cannot get a W. P. A. job. If we are going to do that, we should not say to a man, "We are passing something to help you, we will give you $3.15 for old-age assistance, and because you are eligible for that, you cannot get a W. P. A. job that will pay $30 or $40 a month."

Senator BARKLEY. If I understand it, he does not have the option of deciding which he will take. He cannot, and come under the provisions of the bill.

Senator BYRNES. No. I read it this morning, and I know it has been the thought that a man should not be permitted to receive any more. Where a man receives $30 a month, I agree, but I cannot agree that the United States Government will take the position that if a man lives in a State where the legislature is unable or is unwilling to raise more revenue to pay old-age benefits of more than $6 or $7, that he must accept one-half or $3.50 from the United States Government and because he is eligible for this $7 he cannot get a W. P. A. job.

Senator JOHNSON. Why bother about State participation? Why don't you make it all come out of the Federal Treasury?

Senator BYRNES. That, of course has been argued?

Senator JOHNSON. Is it your argument?

Senator BYRNES. Oh, no. I have been an advocate of requiring a State to match. You must require them to match. As long as they administer it, it is our safeguard to assure that it is going to be wisely and economically administered. I think you should make a State pay to the extent of its full capacity.

Senator JOHNSON. Does the statistical records show that the States are contributing more and more as time goes on, or less and less?

Senator BYRNES. I am unable to answer. I would assume, with the agitation on this subject in the States, that some of them may have increased. It would be the natural tendency even in these lower-income States, to seek to divert funds from other purposes to this old-age assistance in order to secure Federal funds.

Senator JOHNSON. Was not that the purpose of Congress in making this provision in the first place, to encourage the States to pay pensions?

Senator BYRNES. I think so. I repeat that only by requiring the States to match to the greatest possible extent can you insure the best administration. It is only a question, when we get to the matching, whether we will take into consideration the ability to pay. We all know some States are more able than other States to levy additional taxes. Now shall we say that we are going to administer something for the needy by providing that the greater your need, and the poorer you are, the less you get?

I will call the attention of the committee to one thing that we discussed, and that was whether we could ascertain, with any degree of accuracy, the per capita income of the States.

Senator CONNALLY. May I ask a question, Senator?

Senator BYRNES. Yes.

Senator CONNALLY. Along the line of Senator Johnson's remarks, he said "why should the States contribute anything to it; why not make it all a Federal contribution? If the Federal Government

hasn't got an interest and an obligation with regard to this matter, why pass the Federal law? Why not let the States do it themselves?" I agree with the Senator. This is Federal money. These are all American citizens, whether they live in Arkansas or Maine. It seems to me the Federal Government, as far as its own contribution is concerned, ought to strive to arrive at something that will be fairly equitable and just as between the citizens in those ages.

Now, as far as the State contribution is concerned, that is a matter of its own. If the State cannot or will not contribute, that will not relieve the Federal Government of doing it.

Senator BYRNES. That is really the viewpoint that many of us have on it. If you say we have a dual responsibility, can we discharge our responsibility to the aged in these 28 States by paying $4 or $5 per month?

Senator VANDENBERG. Do I understand your formula would increase the Federal payments in 28 States?

Senator BYRNES. Yes; it would increase the Federal payment. And it would decrease the State payment by the percentage which the State per capita income was less than the national income.

Senator VANDENBERG. And that, under your calculation, includes 28 States?

Senator BYRNES. Yes.

Senator VANDENBERG. And that includes all of the Southern States to which you referred? Does that include States like Virginia, Texas, and North Carolina?

Senator BYRNES. Yes; I am sure that it includes North Carolina and Texas. Texas is slightly below the per capita income average.

Senator VANDENBERG. The Senator from Texas violently complained the other day when he was listed with Mississippi and Arkansas.

Senator BYRNES. I must say the State of Texas is not quite as low in the list as the States of Arkansas and Mississippi, but I do remember that it was below the average per capita income.

Senator LA FOLLETTE. He is closer to the surface?

Senator BYRNES. Yes; he is closer to the surface, as the Senator from Wisconsin said.

Senator LODGE. May I say that I have some figures that I would like to put into the record later showing that 24 States——

Senator BYRNES (interposing). I never quarrel with anybody about figures, because I am liable to be wrong if I make them myself, but in this case I want it to be understood I am referring to this Department of Commerce bulletin issued 3 weeks ago. It impresses me as being a most comprehensive document. I think it was prepared at the instance of the Senator from Wisconsin.

Senator LA FOLLETTE. I was the one who introduced the resolution which started that work. It has been carried on since.

Senator BYRNES. I think if the Senator has not seen the document, if he will read it he will feel well repaid for his efforts, because it is far better than the figures we had before our committee when we were considering this question.

Senator VANDENBERG. Without regard to the statistical result, it is rather startling to me to think abstractly why great States like Virginia, North Carolina, and Texas were not competent to meet the situation fully as well as Michigan or any other State.

Senator BYRNES. I could not agree with the Senator that any one of them has the taxpaying capacity of Michigan, and as long as they continue to buy automobiles from Michigan you are going to be better off than the three of them put together. You can levy taxes directly upon the corporations they support.

Senator VANDENBERG. Still they cannot buy these automobiles unless they have something to buy them with.

Senator BYRNES. You make it so easy for the fellow to buy on the excitement plan (laughter), that it is a painless transaction. They do not know what is happening to them.

Senator LODGE. Senator, in a very interesting colloquy yesterday between Senator Connally and Professor Brown from Princeton, the point was brought out that any kind of variable based on statistics, whether it is based on per capita income, the cost of living, or whatever it may be, is open to the objection that arbitrary decisions have got to be made, and that there is always a tendency to manipulate and change things around. Of course, that might react unfavorably to the very States you are trying to help, with the kind of administration that may come around some time in the future. They may in the future have somebody in there who was prejudiced against certain sections. I would like to ask whether you have any objection, assuming this formula is adopted, to have a definition right in the statute of what per capita income is.

Senator BYRNES. Not at all. Of course I will say to the Senator I have been in the Congress, with the exception of 6 years, since 1911, and I have not the slightest fear, regardless of the party in power, that the officials in the Department of Commerce, would deliberately, because of prejudice against the 28 States, change that. If the Democratic Party is not in power the Republican Party would be, and I would not have the slightest fear of their having such prejudice against a whole section, as to affect these figures.

I think a study of this document by the Department of Commerce would interest you. I asked the chairman to call before the committee the gentleman who compiled it, and after the Senator has interrogated him I think you will reach the conclusion that this man is not only able but can be trusted to utilize the best thought of the experts of the country on this question.

Senator LODGE. I did not think there was going to be any skullduggery, but Professor Brown made the point you have got to make arbitrary decisions on statistics. It seems to me when arbitrary decisions have got to be made, we ought to make them, it is our responsibility.

Senator BYRNES. It might be well to do it, so as to remove it from doubt. It could be done very easily.

Senator LODGE. Then it could be amended from year to year?

Senator BYRNES. Yes; it could be done.

Senator LA FOLLETTE. I would like to interpose there, Senator. I think we ought to hear from Mr. Nathan before you determine that we are going to write a statistical formula upon which this complicated statistical work is to be done.

Senator BYRNES. It should be done only after hearing.

Senator LODGE. Oh, yes.

Senator BYRNES. I realize I cannot argue in favor of this variable grant without having many persons say that I am making the argu-

ment merely because my own State happens to come within the States that are affected. I have to ask this committee to believe that the conclusion I reached was reached only as the result of my study as to how we could bring about more equitable action on the part of the United States Government in distributing this fund for assistance to the aged citizens of the Nation.

The House bill provides for an increase of the Federal contribution from $15 to $20, where the State provides an equal amount. I think it would be exceedingly unfortunate if the needy aged people of the Nation were led to believe that this meant the payment to them of $40 per month under the present system. With only one State now paying as much as $30, there is no justification for the belief that this legislation will result in increasing the amount of old-age assistance in any State unless it is in the State of California. Certainly, it is evident that, as to most of the States, the Congress might just as well provide that it will pay $100 per month when that amount is matched with $100 by a State. When we provide, as is done in the House bill, that we will pay $20 when the State puts up $20, it is absurd to believe that the State that cannot match the $15 is going to be able to match the $20.

Today the old people in the low-income States are reading that Congress is increasing the assistance for the needy aged from $15 to $20 per month. I dislike to think of the disappointment of these people in a State like Arkansas when next year, because of the inability of that State to raise revenue, the United States Government will continue to pay them a dime a day, instead of the $40 about which they read in the newspapers. If it should result in increasing the Federal contribution in any States, certainly it would be only in a few States with a high per capita income. This increased Federal contribution will come from Federal taxation levied upon the people in the poor States as well as those in the wealthy States, and the only result will be to make the rich State richer and the poor State poorer.

Senator LODGE. May I ask you a question, Senator?

Senator BYRNES. Yes.

Senator LODGE. Would you object to having a variable added onto this proposal of yours so as to give extra amounts to States where the cost of living is above the national average?

Senator BYRNES. No. I heard the Senator ask that question yesterday, and, of course, we did give considerable study to that. We did not do it because we did not see how it was practical.

During the consideration by our committee of this question, I always knew it would be difficult to agree upon a formula.

Now, the Senator referred to some figures by the W. P. A. I secured those figures some months ago, when they were published, a very interesting document. The cost of living, according to that survey in 59 cities of the country was about 12 percent difference between the highest and lowest. It is interesting to note they had two levels, the maintenance level in normal times, and the average emergency level, the amount that in an emergency, a man could get along with.

The cost in Boston, Mass., per year was $1,352.77. The cost in Little Rock, Ark., the State at the bottom of the list of benefit payments was $1,139.06.

I looked at the statistics from the Department of Labor because I must say I thought there was a greater difference in the cost of living,

but I found that the figures of the Department of Labor, the National Industrial Conference Board, and other agencies are all very much alike.

I was not surprised to find, in going into the factors, that rent is the chief factor in the increased cost of living, and the city of Washington is the highest in rents of any place in the United States.

It is an interesting study, and I think the committee might well put this table into the record.

The CHAIRMAN. If there is no objection, that may be included.

Senator LODGE. Fuel is a big factor.

Senator BYRNES. Yes.

Senator BROWN. Don't you think, Senator, that the figures, in order to be intelligible to us, the effective set-offs should be based not upon cities, but upon the cost of living in the cities and rural community?

Senator BYRNES. The Senator is exactly right.

Senator BROWN. Massachusetts probably has an urban population, offhand, of something like 60 percent, while Arkansas would have a rural population of probably something like 80 or 90 percent.

Senator BYRNES. The Senator is exactly right. As soon as I looked at those figures, I saw how absolutely useless they were in ascertaining the taxpaying capacity of a State. I haven't the slightest doubt that the cost of living in Boston is greater than in the smaller cities and the rural districts in Massachusetts. The difference is greater than the difference between the city of Boston and the city of Little Rock, Ark. The same is also true of the city of New York, and the rural districts.

I am more familiar with the conditions in my own State, and I see the city of Columbia, S. C., one of the 59 cities, and the cost there was $1,192.60 as against $1,352.77 in Boston. Columbia has a population of about 65,000, as against the very large population of the city of Boston. There is a vast difference between Columbia and the rural towns.

I say to the Senator from Massachusetts, that I have no objection to considering that factor at all, but I know we could not arrive at it fairly for the reason the Senator from Michigan suggests. If the appropriation or grant is to a State and you take the cost of living factor into consideration you would have to ascertain what would be the cost of living in the entire State, and not in one section or one city.

Senator LODGE. In the State?

Senator BYRNES. Yes. I inquired to see if I could get any figures as to cost of living by States, and I could not.

Senator LODGE. But it can be done, of course, can it not?

Senator BYRNES. I asked that. An official of W. P. A. said it could be done, but I did not know whether we wanted to have another statistical project. It would take, they said, about 2 or 3 years to do it.

I will say to the Senator from Iowa that I was interested in seeing that the cost of living was rather high in his State. At Cedar Rapids, Iowa, the cost is $1,186 per year as against $1,352 in Boston. The statistician has endeavored to give the reasons for some of these high figures in sections where ordinarily cost of living is not assumed to be so high.

Senator LODGE. That section of the country is higher than the average?

Senator BYRNES. I was rather surprised to find Cedar Rapids was, because I had not thought of it as having such a high cost of living.

Senator HERRING. They live pretty well out there.

Senator BYRNES. I am speaking of the high cost of living, not the cost of high living. [Laughter.]

Senator LODGE. Senator, you would not be opposed to doing something for the needy aged in the 28 States on the basis of high cost of living, if it is shown that the high cost of living is equally a factor with the low per capita income?

Senator BYRNES. No; on the contrary, I would not change this.

From California to Carolina, we pay a tax of 1 cent a gallon on gas. When a little farmer whose annual cash income may be $150, rides up to the filling station, he is properly told he must pay 1 cent tax to the Federal Government and he pays the tax. He is not allowed any discount or a reduction because he comes from a low-income State. But when it comes to paying him old-age assistance we tell him we will pay him only one-fourth of what is paid in California because he lives in a State that is poor and cannot pay $15 to match our contribution.

Senator LODGE. I am clear in my mind on the poor man in the poor State and the rich man in the rich State, but how about the poor man in the rich State? There are poor men in rich States, millions of them.

Senator BYRNES. Yes; all of us must have that in mind. The poor man in the rich State will not, by this formula, be hurt, except insofar as the $34,000,000 additional cost would come out of the Federal Treasury, and the man in the rich State, whether he be rich or poor, by paying taxes to the Federal Government would contribute along with all the taxpayers in the poor States to that $34,000,000. And the same way the man in the poor State is going to pay to the Federal Treasury taxes which will be used to pay $15 to the aged in California or Massachusetts instead of the $3 paid to the aged in Arkansas. We can all agree on that.

Thank you very much.

The CHAIRMAN. Thank you.

(The table heretofore referred to is as follows:)

TABLE 4.—*Costs* [1] *of living per year, per month, and per week, 4-person manual worker's family, 59 cities, March 1935*

City	Maintenance level			Emergency level		
	Per year	Per month	Per week	Per year	Per month	Per week
Average, 59 cities	$1,260.62	$105.05	$24.24	$993.27	$75.27	$17.37
Albuquerque, N. Mex.[1]	1,299.14	108.26	24.98	947.57	78.96	18.22
Atlanta, Ga	1,268.22	105.69	24.39	911.25	75.94	17.52
Baltimore, Md	1,300.65	108.39	25.01	926.71	77.23	17.82
Binghamton, N. Y	1,243.19	103.60	23.91	878.10	73.18	16.89
Birmingham, Ala	1,168.85	97.40	22.48	835.81	69.65	16.07
Boston, Mass	1,353.77	112.73	26.01	958.45	79.87	18.43
Bridgeport, Conn	1,296.35	108.03	24.93	920.39	76.70	17.70
Buffalo, N. Y	1,261.21	105.10	24.25	901.72	75.14	17.34
Butte, Mont	1,283.69	106.97	24.69	932.11	77.68	17.93
Cedar Rapids, Iowa[1]	1,185.18	98.85	22.81	849.35	70.78	16.33
Chicago, Ill.[1]	1,356.11	113.01	26.08	972.59	81.05	18.70
Cincinnati, Ohio[1]	1,311.74	109.31	25.23	935.54	77.96	17.99
Clarksburg, W. Va.[1]	1,190.02	99.17	22.89	852.87	71.07	16.40
Cleveland, Ohio[1]	1,348.33	112.36	26.93	964.71	80.39	18.55
Columbia, S. C	1,192.60	99.38	22.93	844.02	70.41	16.25
Columbus, Ohio[1]	1,178.70	98.23	22.67	840.68	70.06	16.17
Dallas, Tex	1,188.97	99.08	22.86	853.98	71.17	16.42
Denver, Colo.[1]	1,246.07	103.84	23.96	895.24	73.77	17.02
Detroit, Mich.[1]	1,317.53	109.79	25.34	944.00	78.67	18.15
El Paso, Tex	1,153.58	96.13	22.18	832.05	69.34	16.00
Fall River, Mass	1,271.51	105.96	24.45	898.09	74.84	17.27
Houston, Tex	1,209.06	100.33	23.27	899.23	72.44	16.72
Indianapolis, Ind	1,198.08	99.84	23.04	859.04	71.59	16.52
Jacksonville, Fla	1,217.27	101.44	23.41	868.57	72.38	16.70
Kansas City, Mo	1,246.42	103.79	23.95	899.85	74.99	17.30
Knoxville, Tenn	1,166.75	97.23	22.44	844.37	70.36	16.24
Little Rock, Ark	1,139.06	94.92	21.91	819.97	68.33	15.77
Los Angeles, Calif.[1]	1,308.11	109.01	25.16	935.85	77.99	18.00
Louisville, Ky.[1]	1,220.20	101.68	23.47	871.62	72.64	16.76
Manchester, N. H	1,254.03	104.50	24.12	889.61	74.13	17.11
Memphis, Tenn	1,221.40	101.78	23.49	877.27	73.11	16.87
Milwaukee, Wis	1,353.34	112.78	26.03	970.64	80.89	18.67
Minneapolis, Minn	1,387.79	115.65	26.69	1,013.88	84.49	19.50
Mobile, Ala	1,129.81	94.15	21.73	814.92	67.91	15.67
Newark, N. J	1,300.86	108.41	25.02	920.84	76.71	17.70
New Orleans, La	1,233.08	102.76	23.71	883.80	73.67	16.98
New York, N. Y.[1]	1,376.13	114.69	26.44	982.11	81.84	18.89
Norfolk, Va	1,251.38	104.28	24.07	891.57	74.30	17.15
Oklahoma City, Okla.[1]	1,217.80	101.48	23.42	874.17	72.85	16.81
Omaha, Nebr	1,258.26	104.86	24.20	908.71	75.73	17.48
Peoria, Ill.[1]	1,274.30	106.19	24.51	913.39	76.12	17.57
Philadelphia, Pa	1,297.69	108.14	24.96	924.56	77.05	17.78
Pittsburgh, Pa	1,310.52	109.21	25.20	930.45	77.54	17.89
Portland, Maine	1,275.48	106.29	24.53	921.94	76.83	17.73
Portland, Oreg	1,221.72	101.81	23.49	884.31	73.73	17.02
Providence, R. I	1,245.26	103.77	23.95	885.17	73.76	17.02
Richmond, Va	1,268.06	105.67	24.39	910.36	75.86	17.51
Rochester, N. Y	1,287.63	107.30	24.76	925.16	77.10	17.79
St. Louis, Mo	1,339.55	111.63	25.76	956.48	79.71	18.39
Salt Lake City, Utah[1]	1,243.07	103.59	23.91	890.84	74.24	17.13
San Francisco, Calif.[1]	1,389.87	115.82	26.73	1,001.12	83.43	19.25
Scranton, Pa	1,312.39	109.37	25.24	932.21	77.68	17.93
Seattle, Wash	1,283.35	102.78	23.72	886.58	73.88	17.05
Sioux Falls, S. Dak	1,290.60	107.55	24.82	938.27	78.19	18.04
Spokane, Wash	1,228.62	102.39	23.63	894.02	74.50	17.19
Tucson, Ariz.[1]	1,287.25	107.27	24.76	920.05	76.67	17.69
Washington, D. C	1,414.54	117.88	27.20	1,013.98	84.50	19.50
Wichita, Kans	1,131.30	94.28	21.76	809.04	67.47	15.57
Winston-Salem, N. C.[1]	1,222.18	101.85	23.50	873.04	72.75	16.79

[1] Include sales tax where levied (appendix tables 15 and 16).

(Subsequently the following letters were incorporated in the record at the request of Senator Byrnes:)

JUNE 19, 1939.

Re variable grants.

Hon. PAT HARRISON,
Chairman Senate Finance Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR HARRISON: Some time ago I sent copies of H. R. 5763 to the public-welfare directors of 48 States and 100 of the largest cities and counties. This bill, to grant Federal aid to States for general public assistance, included the following provison relative to variable grants:

"That in any case in which the average per capita income of any States is less than the average per capita income of the United States, as found by the Board, the amount to be paid by the Secretary of the Treasury to such State for general public assistanc for each quarter during a period of 24 months, beginning on July 1 of the year in which such finding is made, shall be an amount which bears the same ratio to that part of the total sum so expended which is derived from State sources as such average per capita income of the United States bears to such average per capita income of such State, but in no event shall the amount paid under this provise to any State for any quarter be more than two-thirds of the total sums so expended in such State for such quarter."

Enclosed are the replies received. They indicate that 91 percent of the public-welfare directors favor this bill. None of them expressed disapproval of the variable grants provision, and some of them specifically expressed approval of this feature, for example:

Harry O. Page, commissioner of public welfare for New Hampshire, writes: "I am in favor of the plan for variable grants to States in accordance with their ability to pay. As a society of States we cannot afford to let individuals fight for a living on a below-minimum standard simply because they happen to be living in a State which has a below-average share of the Nation's wealth and resources."

W. A. Little, director of the Texas Old Age Assistance Commission, states: "We feel that the sound policy would be that of making variable grants to the States on the basis of need in the States."

Miss Pearl Salsberry, director of public welfare for Hawaii, states: "The participation on the basis of per capita income with a two-thirds maximum seems to me exceedingly sound and if applied to other parts of the social security program would bring grants more nearly in line with local needs."

Sincerely,

GLEN LEET.

JUNE 20, 1939.

Re merit system

Hon. PAT HARRISON,
Chairman, Senate Finance Committee, Senate Office Building,
Washington, D. C.

DEAR SENATOR HARRISON: The Washington News Letter on Social Legislation has been conducting a series of polls of expert opinion on social legislation currently before Congress. Because of the fact that State administrators of unemployment compensation and public assistance, seem to be the group most directly concerned we have asked them for their evaluation of the recommendation of the Social Security Board, that the Social Security Act be amended to require that State plans for the administration of unemployment compensation and public assistance be administered in accordance with merit systems.

Replies received to date indicate that 96 percent of these State officials favor such an amendment.

Voting in favor of this requirement are:

Miss Loula Dunn, commissioner of public welfare, Montgomery, Ala.

Harry O. Page, commissioner, department of public welfare, Concord, N. H.

E. A. Willson, executive director, public welfare board of North Dakota, Bismarck, N. Dak.

Neil C. Vandemoer, director of assistance, Lincoln, Nebr.

J. W. Williams, executive director, unemployment compensation, Casper, Wyo.

William J. Ellis, commissioner, New Jersey Department of Institutions and Agencies, Trenton.

J. Milton Patterson, director, State department of public welfare, Baltimore, Md.

Thomas J. Daniel, State director, department of public welfare, Columbia, S. C.

Braswell Deen, director, department of public welfare, Atlanta, Ga.

Howard L. Russell, secretary of assistance, Harrisburg, Pa.

P. D. Flanner, director, public welfare department, Madison, Wisc.

Dr. William H. Stauffer, commissioner, department of public welfare, Richmond, Va.

Charles F. Ernst, director, State department of social security, Olympia, Wash.

David C. Adie, commissioner, department of social welfare, Albany, N. Y.

J. W. Gillman, director, State department of public welfare, Salt Lake City, Utah.

George W. Leadbetter, commissioner of health and welfare, Augusta, Maine.

W. E. Bond, commissioner, department of public welfare, Jackson, Miss.

Voyta Wrabetz, chairman, industrial commission, Madison, Wis.

R. B. Waters, administrator, unemployment compensation commission, Columbia, S. C.

H. G. Hoffman, executive director, unemployment compensation commission, Trenton, N. J.

Dr. Charles M. Wharton, executive director, unemployment compensation commission, New Castle, Del.

Howard S. Myster, acting director, unemployment compensation, Bismarck, N. Dak.

Amos N. Kirby, chief of unemployment compensation and employment service, Montgomery, Ala.

J. W. Beckwith, secretary, unemployment compensation, Aberdeen, S. Dak.

Peter J. Kies, commissioner, unemployment compensation, Des Moines, Iowa.

The one administrator voting against this proposal is Charles G. Powell, chairman, unemployment compensation, Raleigh, N. C.

These State officials made the following comments on this proposition:

Miss Loula Dunn, commissioner of public welfare, Montgomery, Ala.: "Public assistance has always been administered in Alabama under a merit system. Its present merit system is being integrated into the new State-wide merit system. Public-welfare officials are unalterably committed to the administration of public assistance in Alabama on a merit basis."

Harry O. Page, commissioner, department of public welfare, Concord, N. H.: "I would welcome the inclusion of a requirement that State plans must be administered in accordance with a merit system. If public-assistance programs are to be administered efficiently and economically, and if people's needs are to be adequately met, then qualified workers must be employed."

William J. Ellis, commissioner, New Jersey Department of Institutions and Agencies, Trenton, N. J.: "I, of course, believe that this should endorse certain safeguards as to the nonpartisan control of a merit system."

J. Milton Patterson, director, department of public welfare, Baltimore, Md.: "Maryland already does."

Thomas H. Daniel, State director, department of public welfare, Columbia, S. C.: "I do favor the requirement that State plans must be administered in accordance with a merit system, with the proviso that such merit system be established by the State, in such form as may be generally acceptable to the Federal Security Agency."

Dr. William H. Stauffer, commissioner, department of public welfare, Richmond, Va.: "With the promise that such plans will be administered by the States on the basis of agreement with the Social Security Board and shall not be controlled by the latter agency."

Mr. Charles F. Ernst, director, State department of social security, Olympia, Wash.: "A State department serving as the single State agency linking local governments with Federal agencies can best perform its supervisory function through objective budgetary and personnel arrangements with local governments. Some form of merit system has already proven its value and workability and is consequently gaining public acceptance."

W. F. Bond, commissioner, public welfare, Jackson, Miss.: "This will be a step in the right direction."

Sincerely yours,

GLEN LEET.

Senator LODGE. Mr. Chairman, I wish to submit for the record certain tables respecting costs of living in the country.

Annual costs [1] of living, by major budget groups and principal subgroups, in 9 geographic divisions, 4-person manual worker's family, 59 cities, March 1935, in dollars

[Source: Intercity Differences in Cost of Living in March 1935, 59 cities—Works Progress Administration, Division of Social Research]

Budget group	Average, 59 cities	Geographic division								
		New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Total cost of living	$1,260.62	$1,282.57	$1,298.58	$1,292.27	$1,262.73	$1,258.32	$1,181.40	$1,190.41	$1,271.84	$1,276.35
Food	448.18	463.93	453.37	442.21	435.16	461.65	436.00	449.18	453.08	441.37
Clothing, clothing upkeep, and personal care	184.35	185.48	179.69	193.02	185.23	176.56	171.91	173.24	195.66	203.78
Clothing	145.93	146.82	142.39	153.05	148.31	140.19	135.57	136.50	152.16	161.52
Clothing upkeep	13.55	13.73	12.70	13.23	13.62	12.55	12.82	12.93	17.02	14.94
Personal care	24.87	24.93	24.60	26.74	23.29	23.83	23.52	23.81	26.48	27.33
Housing, including water	221.89	221.00	247.88	236.26	229.69	231.87	193.62	199.70	212.64	193.68
Household operation	153.54	172.09	151.77	147.48	161.87	147.26	134.77	134.67	169.05	169.33
Fuel	57.98	76.90	61.58	60.54	72.39	52.55	44.20	35.93	58.47	54.75
Coal or wood	47.00	64.72	52.54	54.35	64.77	36.69	31.11	26.83	46.74	39.10
Gas	10.98	12.18	9.05	6.19	7.62	15.86	13.09	9.10	11.73	15.65
Ice	22.40	18.68	18.46	18.26	16.52	24.15	22.33	25.15	28.15	35.87
Electricity	18.68	21.11	20.01	15.88	18.03	17.90	17.01	20.76	22.10	16.21
Household supplies	18.82	19.23	17.95	18.45	18.39	17.31	17.47	18.38	22.25	22.09
Furniture, furnishings, and household equipment	31.10	31.37	30.15	31.28	29.89	31.62	30.70	29.64	33.75	32.31
Refuse disposal	[2] 1.50	1.75	.56	[3]	3.60	.67	[4]	1.75	1.28	5.04
Unspecified essentials [4]	3.06	3.05	3.05	3.07	3.05	2.06	3.06	3.05	3.07	3.06
Miscellaneous	252.67	240.07	265.88	273.30	250.79	240.99	245.10	242.62	241.41	268.17
Medical care	52.32	54.38	52.91	49.31	50.05	51.58	48.78	49.58	58.97	58.37
Transportation	53.96	41.08	65.83	73.39	60.90	42.78	47.07	45.59	32.92	67.74
School attendance	[5] 6.87	1.87	3.91	9.98	5.90	8.08	11.68	8.73	6.57	5.07
Recreation	75.18	76.74	79.93	77.03	70.43	73.54	71.91	73.33	77.82	75.18
Newspapers	10.84	11.79	12.22	12.09	9.55	9.94	10.40	9.40	10.79	11.08
Motion picture theater admissions	33.80	34.55	37.26	34.13	30.42	33.09	30.98	33.50	36.31	33.50
Organizations, tobacco, and toys [4]	30.55	30.40	30.45	30.82	30.46	30.52	30.53	30.44	30.71	30.61
Life insurance [4]	46.40	46.40	46.40	46.40	46.40	46.40	46.40	46.40	46.40	46.40
Church contributions and other contributions [4]	15.40	15.40	15.40	15.40	15.40	15.40	15.40	15.40	15.40	15.40

[1] Includes sales tax where levied (appendix table 15).

[2] Though only 18 cities had a direct charge for refuse disposal, an average for 59 cities is used in order to balance the table. The 18-city average is $4.90. The averages for the geographic divisions are based on the total number of cities in each division included in this study.

[3] Not a direct charge.

[4] Budget allowance identical in all cities, plus sales tax where levied.

[5] Though only 55 cities had a direct charge for school attendance, an average for 59 cities is used in order to balance the table. The 55-city average is $7.37. The averages for the geographic divisions are based on the total number of cities in each division included in this study.

Annual costs of living, by major budget groups and principal subgroups, in 9 geographic divisions, 4-person manual worker's family, 59 cities, March 1935, in dollars—Continued

[Source: Intercity Differences in Cost of Living in March 1935, 59 cities—Works Progress Administration, Division of Social Research]

Budget group	Average, 59 cities	Geographic division								
		New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Taxes [6]	[7] $2.54	$4.20	$1.49	$1.79	$1.71	$3.22	$3.87	$3.60	$3.33	([8])
Personal property	[9] 1.10	2.37	([9])	1.41	1.14	.89	1.07	.93	2.53	([8])
Capitation	[10] 1.44	1.83	1.49	.38	.57	2.33	2.80	2.67	.80	([8])

[6] Exclusive of sales tax.
[7] Though taxes were payable in only 36 cities, an average for 59 cities is used in order to balance the table. The 36-city average is $4.17. The averages for the geographic divisions are based on the total number of cities in each division included in this study.
[8] None payable.
[9] Though personal property taxes were payable in only 22 cities, an average for 59 cities is used in order to balance the table. The 22-city average is $2.96. The averages for the geographic divisions are based on the total number of cities in each division included in this study.
[10] Though capitation taxes were payable in ony 25 cities, an average for 59 cities is used in order to balance the table. The 25-city average is $3.40. The averages for the geographic divisions are based on the total number of cities in each division included in this study.

NOTE.—Owing to the necessity for rounding numbers in computing averages, there are slight discrepancies between certain totals and the sums of their component items.

Relative costs [1] *of living, by major budget groups and principal subgroups, in 9 geographic divisions, 4-person manual worker's family, 59 cities, March 1935, in percentage*

Budget group	Average, 59 cities		Geographic division								
	Amount	Percent	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Total cost of living	$1,260.62	100.0	101.7	103.0	102.5	100.2	99.8	93.7	94.4	100.9	101.2

[1] Includes sales tax where levied (see appendix table 15).

59 cities included in the study of costs of living, March 1935

City and geographic division	Population 1930	City and geographic division	Population 1930
New England:		South Atlantic—Continued.	
Boston, Mass.	781,188	Atlanta, Ga.	270,366
Providence, R. I.	252,981	Richmond, Va.	182,929
Bridgeport, Conn.	146,716	Norfolk, Va.	129,710
Fall River, Mass.	115,274	Jacksonville, Fla.	129,549
Manchester, N. H.	76,834	Winston-Salem, N. C.	75,274
Portland, Maine.	70,810	Columbia, S. C.	51,581
Middle Atlantic:		Clarksburg, W. Va.	28,866
New York, N. Y.	6,930,446	East South Central:	
Philadelphia, Pa.	1,950,961	Louisville, Ky.	307,745
Pittsburgh, Pa.	669,817	Birmingham, Ala.	259,678
Buffalo, N. Y.	573,076	Memphis, Tenn.	253,143
Newark, N. J.	442,337	Knoxville, Tenn.	105,802
Rochester, N. Y.	328,132	Mobile, Ala.	68,202
Scranton, Pa.	143,433	West South Central:	
Binghamton, N. Y.	76,662	New Orleans, La.	458,762
East North Central:		Houston, Tex.	292,352
Chicago, Ill.	3,376,438	Dallas, Tex.	260,475
Detroit, Mich.	1,568,662	Oklahoma City, Okla.	185,389
Cleveland, Ohio.	900,429	El Paso, Tex.	102,421
Milwaukee, Wis.	578,249	Little Rock, Ark.	81,679
Cincinnati, Ohio.	451,160	Mountain:	
Indianapolis, Ind.	364,161	Denver, Colo.	287,861
Columbus, Ohio.	290,564	Salt Lake City, Utah.	140,267
Peoria, Ill.	104,969	Butte, Mont.	39,532
West North Central:		Tucson, Ariz.	33,506
St. Louis, Mo.	821,960	Albuquerque, N. Mex.	26,570
Minneapolis, Minn.	464,356	Pacific:	
Kansas City, Mo.	399,746	Los Angeles, Calif.	1,238,048
Omaha, Nebr.	214,006	San Francisco, Calif.	634,394
Wichita, Kans.	111,110	Seattle, Wash.	365,583
Cedar Rapids, Iowa.	56,097	Portland, Oreg.	301,815
Sioux Falls, S. Dak.	33,362	Spokane, Wash.	115,514
South Atlantic:			
Baltimore, Md.	804,874		
Washington, D. C.	486,869		

Source: *Fifteenth Census of the United States: 1930*, Population, vol. I, pp. 10 and 10 and 22 ff.

Indexes of the cost of living of a wage earner's family, by geographic region, Mar. 15, 1938

[Average cost in 74 cities=100]

Item	East	South	Middle West	Far west
Total:				
Including upkeep of automobile	104.1	95.5	98.8	102.5
Excluding upkeep of automobile	104.5	94.8	98.7	103.0
Food	103.3	99.8	97.9	100.5
Rent	108.1	85.1	99.7	106.3
Clothing	102.6	96.2	97.8	108.6
Fuel and light	118.6	90.4	94.4	88.7
Coal	121.6	77.8	98.4	86.2
Gas	117.0	102.0	90.4	90.9
Electricity	112.8	104.7	90.9	93.7
Sundries:				
Including upkeep of automobile	100.4	100.2	99.1	101.9
Excluding upkeep of automobile	101.1	98.9	98.8	103.9

The 74 cities are grouped as follows: East, 21; South, 14; Middle West, 32, far west, 7.

Source: National Industrial Conference Board; printed in the Conference Board Bulletin, Oct. 17, 1938.

Senator LODGE. I desire also to have included in the record telegrams I have received from Mr. John E. Daniels, Associated Industries of Massachusetts, Boston, Mass.; the New England Cranberry Sales Co., Middleboro, Mass.; and Mr. Phillips Ketchum, of Boston, Mass., relative to provisions of the pending bill.

BOSTON, MASS., *June 15, 1939.*

Senator HENRY CABOT LODGE: We are not in favor of House amendments 1602 (a) and 1602 (b). We oppose 2.7 percent average. We oppose minimum standards. We favor amendment allowing a flat rate reduction, but not if tied up with 2.7 percent average and minimum standards.

JOHN E. DANIELS,
Associated Industries of Massachusetts.

MIDDLEBORO, MASS., *June 15, 1939.*

Hon. HENRY CABOT LODGE, JR.: This cooperative membership organization representing about 250 cranberry growers hopes that you may find it possible to support the definition of agricultural labor as contained in H. R. 6635, reference to social security.

NEW ENGLAND CRANBERRY SALES CO.

BOSTON, MASS., *June 14, 1939.*

Senator HENRY CABOT LODGE,
Washington, D. C.:

In my opinion application of unemployment compensation provision of Social Security Act to charitable hospitals would be most unfair, because such hospitals do not have anything like the unemployment of business. Also the application of old-age pension provisions to such a charity should be deferred pending further study. Believe most charitable hospitals have no way of collecting the cost of such insurance or pensions from charity patients so that this new change might endanger the vital service rendered.

PHILLIPS KETCHUM.

The CHAIRMAN. Senator Wagner, of New York, has submitted amendments which he intends to offer to the pending bill. I will insert in the record at this point Senator Wagner's amendments, as well as a statement submitted by him in explanation of his proposal.

[H. R. 6635, 76th Cong. 1st sess.

AMENDMENTS Intended to be proposed by Mr. Wagner to the bill (H. R. 6635) to amend the Social Security Act, and for other purposes, viz:

On page 6, line 1, after the word "OLD-AGE" insert ", DISABILITY,".
On page 6, line 3, after the word "OLD-AGE" insert ", DISABILITY,".
On page 6, line 7, after the word "Old-Age" insert ", Disability,".
On page 6, line 25, after the word "Old-Age" insert ", Disability,".
On page 10, line 3, after the word "OLD-AGE" insert ", DISABILITY,".
On page 10, strike out lines 5 to 13, inclusive, and insert in lieu thereof the following:

"SEC. 202. (a) (1) Every individual, who (A) is a fully insured individual (as defined in section 210 (h)) after December 31, 1939, (B) has attained the age of sixty-five, and (C) has filed application for primary insurance benefits, shall be entitled to receive a primary insurance benefit (as defined in section 210 (c)) for each month, beginning with the month in which such individual becomes so entitled to such insurance benefits and ending with the month preceding the month in which he dies.

"(2) Such individual's primary insurance benefit for each month shall be reduced by 20 per centum thereof if, for any of the twenty-four months immediately preceding the month in which he attained the age of sixty-five, he was entitled to receive a primary disability benefit under subsection (d) of this section in respect to a disability which began after he attained the age of fifty-five: *Provided*, That this reduction shall not operate to increase any insurance benefit payable to such individual and computed pursuant to the provisions of subsections (b) (2), (f) (2), (g) (2), or (h) (2) of this section, over what such insurance benefit would be if there were no reduction of such individual's primary insurance benefit as provided in this paragraph, nor shall it operate to entitle such individual to any insurance benefit under subsections (b), (f), (g), or (h) of this section, to which such individual would not be entitled if there were no reduction of his primary

insurance benefit as provided in this paragraph: *Provided further*, That any reduction under this paragraph shall be applied prior to any computation for a reduction or increase under section 203: *Provided further*, That nothing in this paragraph shall operate in any way to reduce any insurance benefit payable with respect to such individual's wages under subsections (b), (c), (f), (g), or (h), or any lump-sum death payment so payable under subsection (i)."

On page 10, line 15, strike out "209 (i)" and insert "210 (h)".

On page 11, line 14, strike out "209 (k)" and insert "210 (l)".

On page 11, line 17, strike out "209 (g) and (h)" and insert "210 (h) and (i)".

On page 13, after line 9, insert the following subsections.

"Primary Disability Benefits

"(d) Every individual who (1) has attained the age of eighteen but has not attained the age of sixty-five, (2) has filed application for primary disability benefits, (3) at the time of filing application and after December 31, 1940, was disabled (as defined in section 210 (n)), (4) has been currently disabled for not less than six consecutive calendar months, and (5) at the time of filing application was a fully and currently insured individual, shall be entitled to receive a primary disability benefit as defined in section 210 (f) for each month beginning with the month in which such individual becomes so entitled to such disability benefit, and ending with the month immediately preceding the first month in which any of the following occurs: He ceases to be disabled, attains the age of sixty-five, or dies.

"Child's Disability Benefits

"(e) (1) Every child (as defined in section 210 (l)) of an individual entitled to primary disability benefits, if such child (A) has filed application for child's disability benefits, (B) at the time such application was filed was unmarried and had not attained the age of eighteen, (C) was dependent upon such individual at the time such application was filed, and (D) is not entitled to receive child's insurance benefits under subsection (c), or is entitled to receive such child's insurance benefits each of which is less than one-half of a primary disability benefit of such individual (as that may be reduced pursuant to section 210 (f)), shall be entitled to receive a child's disability benefit for each month, beginning with the month in which such child becomes so entitled to such disability benefits and ending with the month immediately preceding the first month in which any of the following occurs: Such child dies, marries, is adopted, attains the age of eighteen, becomes entitled to receive a child's insurance benefit under subsection (c) which is equal to or greater than one-half of a primary disability benefit of such individual (as that may be reduced pursuant to section 210 (f)), or such individual ceases to be entitled to primary disability benefits.

"(2) Such child's disability benefit for each month shall be equal to one-half of a primary disability benefit of such individual (as that may be reduced pursuant to section 210 (f)), except that, if such child is entitled to receive a child's insurance benefit for any month, such child's disability benefit for such month shall be reduced by an amount equal to such child's insurance benefit for such month. When there is more than one such individual with respect to whose wages the child is entitled to receive a child's disability benefit for a month, such benefit shall be equal to one-half of whichever primary disability benefit is greatest (as it may be reduced pursuant to section 210 (f)).

"(3) The dependency of a child for the purposes of this subsection shall be determined in the same manner as is provided in subsection (c) of this section for the purpose of determining the dependency of a child upon a living parent under that subsection."

On page 13, line 11, strike out "(d)" and insert "(f)", and strike out "209 (j)" and insert "210 (k)".

On page 14, beginning with line 11, strike out all down to and including line 15 on page 15, and insert in lieu thereof the following:

"(g) (1) Every widow (as defined in section 210 (k) of an individual who died a fully or currently insured individual after December 31, 1939, if such widow (A) has not remarried, (B) is not entitled to receive a widow's insurance benefit, and is not entitled to receive primary insurance benefits or primary disability benefits, or is entitled to receive primary insurance benefits or primary disability benefits each of which is less than three-fourths of a primary insurance benefit

of her husband, (C) was living with such individual at the time of his death, (D) has filed application for widow's current insurance benefits, and (E) at the time of filing such application has in her care a child of such deceased individual entitled to receive a child's insurance benefit, shall be entitled to receive a widow's current insurance benefit for each month, beginning with the month in which she becomes so entitled to such current insurance benefits and ending with the month immediately preceding the first month in which any of the following occurs: No child of such deceased individual is entitled to receive a child's insurance benefit, she becomes entitled to receive a primary insurance benefit or a primary disability benefit equal to or exceeding three-fourths of a primary insurance benefit of her deceased husband, she becomes entitled to receive a widow's insurance benefit, she remarries, she dies.

"(2) Such widow's current insurance benefit for each month shall be equal to three-fourths of a primary insurance benefit of her deceased husband, except that, if she is entitled to receive a primary insurance benefit or a primary disability benefit for any month, such widow's current insurance benefit for such month shall be reduced by an amount equal to such primary insurance benefit or such primary disability benefit."

On page 15, line 17, strike out "(f)" and insert "(h)".

On page 17, line 10, strike out "(g)" and insert "(i)".

On page 17, strike out line 15 and insert in lieu thereof the following: "sections (b), (c), (f), (g), or (h) of this section, an amount".

On page 18, line 24, strike out "(h)" and insert "(j)".

On page 18, strike out line 25 and insert in lieu thereof the following: "benefit under subsections (b), (c), (e), (f), (g), or (h) for any".

On page 19, strike out line 7 and insert in lieu thereof the following: "under subsections (a), (b), (c), (f), (g), and (h) of section 202, payable for a month with respect to an".

On page 19, line 11, strike out "209 (f)" and insert "210 (g)".

On page 19, strike out lines 13 and 14 and insert in lieu thereof the following: "shall, prior to any deductions under subsections (e), (f), or (i), be reduced to such least amount".

On page 19, after line 14, insert the followng subsection:

"(b) Whenever the benefit or total of benefits under subsections (d) and (e) of section 202, payable for a month with respect to an individual's wages, exceeds (1) $85, or (2) an amount equal to twice a primary disability benefit of such individual, or (3) an amount equal to 80 per centum of his average monthly wage if his current disability began before he attained the age of fifty-five, or an amount equal to 64 per centum of his average monthly wage if his current disability began after he attained the age of fifty-five, whichever of such three amounts is least, such benefit or total of benefits shall, prior to any deductions under subsections (e), (f), or (i), be reduced to such least amount."

On page 19, line 15, strike out "(b)" and insert "(c)".

On page 19, line 16, after "(a)" insert "or (b)".

On page 19, strike out line 19 and insert in lieu thereof the following: "tions under subsections (e), (f), or (h), be increased".

On page 19, line 21 strike out "(c)" and insert "(d)".

On page 19, strike out line 22 and insert in lieu thereof the following: "benefits for a month is made under subsection (a), (b), or (c)".

On page 20, line 1, strike out "(d)" and insert "(e)".

On page 20, line 14, strike out "(e)" and insert "(f)".

On page 20, line 20, strike out "(f)" and insert "(g)".

On page 20, line 24, strike out "(g)" and insert "(h)".

On page 20, strike out line 25 and insert in lieu thereof the following: "tion under subsection (e) or (f), because of the occurrence".

On page 21, strike out line 7 and insert in lieu thereof the following: "imposed under subsection (e) or (f)".

On page 21, line 8, strike out "(h)" and insert "(i)".

On page 33, after line 14, insert the following section:

"DETERMINATION OF DISABILITY AND REHABILITATION OF DISABLED BENEFICIARIES

"SEC. 207. (a) The Board shall make provision for determination of disability and its redetermination at regular intervals or at specified periods.

"(b) The Board may make provisions for furnishing of medical, surgical, institutional, rehabilitation, or other services to individuals entitled to receive primary disability benefits if such services may aid in enabling such individuals to return

to gainful work. Such services shall be furnished by qualified practitioners and through governmental and nongovernmental hospitals and other institutions qualified to furnish such services: *Provided*, That nothing herein shall authorize the construction of any such hospitals or other such institutions: *Provided further*, That expenditures for the purposes of this subsection shall not, in any fiscal year, exceed 2 per centum of the total amount which the Board estimates will be expended during such fiscal year for the payment of benefits under subsections (d) and (e) of section 202.

"(c) The Board may refuse to make certification or recertification under section 205 for any person claiming benefits in respect to disability, if the disabled individual refuses to submit himself for examination or reexamination."

On page 33, line 16, strike out "207" and insert "208".

On page 33, line 23, strike out "208" and insert "209".

On page 34, line 15, strike out "209" and insert "210".

On page 36, line 12, strike out "(1)" and insert "(n)".

On page 42, after line 8, insert the following subsection:

"(f) The term 'primary disability benefit' means an amount equal to an individual's primary insurance benefit except that if such individual's current disability began after he attained the age of fifty-five, his primary disability benefit shall be reduced to 80 per centum of this primary insurance benefit: *Provided*, That this reduction shall not operate to increase any widow's current insurance benefit which may be payable to such individual and computed pursuant to the provisions of section 202 (g) (2) over what such insurance benefit would be if there were no reduction of such widow's primary disability benefit as provided in this subsection, nor shall it operate to entitle such individual to any widow's current insurance benefit under section 202 (g) (2) to which such individual would not be entitled if there were no reduction of such widow's primary disability benefit as provided in this subsection."

On page 42, strike out lines 9 to 18, inclusive, and insert in lieu thereof the following:

"(g) The term 'average monthly wage' means the quotient obtained by dividing the total wages paid an individual before the year in which he died or became entitled to receive primary insurance benefits, whichever first occurred, or if he is currently disabled, before the year in which he became entitled to receive primary disability benefits in respect to such current disability, by twelve times the number of years elapsing after 1936 and before such year in which he died or became so entitled, excluding any year prior to the year in which he attained the age of twenty-two during which he was paid less than $200 of wages: *Provided*, That if such individual has been at any time entitled to receive primary disability benefits in respect to any disability from which he has recovered, any year in which he was so entitled to any such disability benefits, and any wages earned during any such year, shall not be included for the purpose of this computation: *Provided further*, That in no case shall such total wages be divided by a number less than thirty-six."

On page 42, beginning with line 19, strike out all down to and including line 5 on page 44, and insert in lieu thereof the following:

"(h) The term 'fully insured individual' means any individual with respect to whom it appears to the satisfaction of the Board that—

"(1) (A) he attained age sixty-five prior to 1940, and

"(B) he has not less than two years of coverage, and

"(C) the total amount of wages paid to him was not less than $600; or

"(2) (A) within the period of 1940–1945, inclusive, he attained the age of sixty-five, or died before attaining such age, or if he is currently disabled, his current disability began prior to the year 1946, and

"(B) he had not less than one year of coverage for each two of the years specified in clause (C), plus an additional year of coverage, and

"(C) the total amount of wages paid to him was not less than an amount equal to $200 multiplied by the number of years elapsing after 1936 and up to and including the year in which he attained the age of sixty-five or died, whichever first occurred, or if he is currently disabled, up to and including the year in which his current disability began: *Provided*, That if he has been at any time entitled to receive primary disability benefits in respect to any disability from which he has recovered, any year in which he was so entitled to any such disability benefits shall not be included for the purposes of this computation; or

"(3) (A) the total amount of wages paid to him was not less than $2,000, and

"(B) he had not less than one year of coverage for each two of the years elapsing after 1936, or after the year in which he attained the age of twenty-

one, whichever year is later, and up to and including the year in which he attained the age of sixty-five or died, whichever first occurred, of if he is currently disabled, up to and including the year in which is current disability began, plus an additional year of coverage: *Proviaed*, That if he has been at any time entitled to receive primary disability benefits in respect to any disability from which he has recovered, any year in which he was so entitled to any such disability benefits shall not be included for the purposes of this computation: *Provided further*, That in no case did he have less than five years of coverage; or

"(4) he had at least fifteen years of coverage.

"As used in this subsection, the term 'year' means calendar year, and the term 'year of coverage' means a calendar year in which the individual has been paid not less than $200 in wages. When the number of years specified in clause (2) (C) or clause (3) (B) is an odd number, for purposes of clause (2) (B) or (3) (B), respectively, such number shall be reduced by one."

On page 44, strike out lines 6 to 10, inclusive, and insert in lieu thereof the following:

"(i) The term 'currently insured individual' means any individual with respect to whom it appears to the satisfaction of the Board that he has been paid wages of not less than $50 for each of not less than six of the twelve calendar quarters, immediately preceding the quarter in which he died, or if he is currently disabled, the quarter in which his current disability began. An individual whose right to primary disability benefits is terminated by his death shall be deemed to have died a fully and currently insured individual."

On page 44, line 11, strike out "(i)" and insert "(j)".

On page 44, line 14, strike out "(j)" and insert "(k)".

On page 44, line 16, strike out "(g)" and insert "(i)".

On page 44, beginning with line 19, strike out all down to and including line 2, page 45, and insert in lieu thereof the following:

"(l) The term 'child' (except when used in section 202 (i)) means the child of an individual, and a stepchild of an individual by a marriage contracted prior to the date upon which he attained the age of sixty and prior to the beginning of the twelfth month before the month in which he died, and if he is entitled to primary disability benefits in respect to a current disability, prior to the beginning of the twelfth month before the month in which such disability began, and a child legally adopted by an individual prior to the date upon which he attained the age of sixty and prior to the beginning of the twelfth month before the month in which he died, and if he is entitled to primary disability benefits in respect to a current disability, prior to the beginning of the twelfth month before the month in which such disability began.".

On page 45, after line 2, insert the following subsection:

"(m) The term 'disability' means total and permanent inability to work by reason of illness or injury not arising out of, or in the course of, employment. A person is totally and permanently unable to work when he is afflicted with any impairment which continually renders it impossible for him to engage in any substantially gainful work and which is founded upon conditions which render it reasonably certain that it will continue to be so impossible throughout the remainder of his life. For the purposes of this subsection, the term 'employment' means any service, of whatever nature, performed by an employee for the person employing him."

On page 45, line 3, strike out "(l)" and insert "(n)".

On page 46, line 12, strike out "(m)" and insert "(o)".

On page 47, line 1, strike out "(n)" and insert "(p)".

On page 100, line 12, after the word "birth" insert ", health".

STATEMENT SUBMITTED BY HON. ROBERT F. WAGNER, UNITED STATES SENATOR FROM THE STATE OF NEW YORK

Explanatory Statement on Proposed Amendment to the Social Security Act to Provide Annuities for Employees Permanently and Totally Disabled

Our social-security program must continue to increase the protection of men and women against risks which threaten their loss of earnings and their social and economic independence. At this time, when the

Congress is giving careful consideration to the liberalization of the Social Security Act, it is desirable that it make provision to protect workers and their families against loss of earning capacity because of permanent disablement due to illness or accident.

OBJECTIVES OF THE AMENDMENT

There is great tragedy, largely unseen and unrealized, in the word "unemployable." That word, now so often used, reflects the plight of men and women who cannot hold their footing in the labor market. It summarizes the tragedy of unemployed workers who cannot keep or even seek a job.

Though we have had the unemployables with us for a long time, we are only now beginning to provide for them on a decent and self-respecting basis. The Chairman of the Social Security Board has recently estimated that, on an average day of the year, there are probably about 7,000,000 persons who are disabled and unable to go about their work or schooling or other usual occupation. It is estimated that of these 7,000,000 about half have disabilities which last more than 6 months, with about 2,500,000 suffering from disabilities which last more than a year. In 1937 the total loss of earnings on account of disability probably exceeded $1,000,000,000, without giving weight to the loss of earnings among those workers who, being already permanently disabled, are out of the labor market. In years when employment conditions are better, the loss of wages on account of disability is even larger.

Among those who are permanently disabled, it is estimated that more than 750,000 are between the ages of 16 and 65. These are the people who, if they were not disabled, would be among the gainfully occupied workers of the country. These "unemployables" are today among the most tragic group in our society, because many of them are in the younger ages of life, and their disability has destroyed not only their own economic independence but also their capacity to support their wives, their children, and their aged parents.

Many workers who become sick and disabled soon exhaust their own resources, and many of them are compelled to fall back on public relief. Disability is one of the most important reasons why people are being supported at public expense through various kinds of relief and assistance programs—Federal, State, and local.

There is some provision now to help the "unemployables" through public assistance for the needy aged, the needy blind, dependent children, and for those disabled through work accidents and occupational disease. All told, however, these existing provisions care for only a very small fraction of those who become disabled during the active working years of life.

The old-age insurance system developed under the Social Security Act provides annuities for workers at age 65 and over, thus recognizing that working capacity ordinarily ends at that age. The same reasoning which has led us to protect workers who lose their earning capacity at age 65 because of their age compels us to recognize the needs of those who lose their working capacity at earlier ages through disablement. Voluntary insurance against permanent disability has been widely developed, but such voluntary insurance for wage earners applies for the most part only to comparatively rare dismemberments

and to blindness, and does not provide anything like adequate protection to the majority of the workers of the United States. Voluntary insurance of broader scope is apparently impossible to achieve. Only the national insurance which we have developed under the Social Security Act can furnish to the workers of the Nation the essential protection they need against permanent disability.

The proposed amendment would provide such basic protection to all who are already or who will be insured against old age, and it would furnish this additional protection at a moderate cost.

DISABILITY INSURANCE RECOMMENDED BY PUBLIC BODIES

In the report on proposed changes in the Social Security Act, transmitted by the President to the Congress in January, the Social Security Board said it had given much thought to the expansion of the old-age insurance system to include benefits for workers who become permanently and totally disabled before reaching age 65 and to their dependents. The Board pointed out that with the single exception of Spain, every country which has a system of old-age insurance has made provision for permanent disability. Although the Board recognized that the administrative problems involved are difficult, it did not believe these problems to be insuperable. The Board pointed out that the administrative problems could be met and that the additional costs would not be large if a fairly strict definition of disability were adopted, at least at the outset. The proposed amendment takes careful account of the recommendations made by the Social Security Board.

The provision of annuities for workers who become totally and permanently disabled was strongly recommended by the Interdepartmental Committee to Coordinate Health and Welfare Activities in a report transmitted by the President to the Congress on January 23, 1939. This interdepartmental committee was appointed by the President in August 1935, and was composed of representatives of the departments and agencies of the Federal Government concerned with health and welfare problems. After long and careful study of the Nation's health needs, this committee recommended the development of social insurance to ensure partial replacement of wages during periods of permanent disability. The committee further recommended that insurance against permanent disability should be established through liberalization of the Federal old-age insurance system so that benefits would become payable at any time prior to age 65 to qualified workers who become permanently and totally disabled. I have already introduced a bill (S. 1620) to implement the other recommendations made by this interdepartmental committee; at the present time, when the liberalization of the old-age insurance system is under consideration by the Congress, it is appropriate to consider legislation providing permanent disability benefits.

The provision of permanent disability benefits was also studied by the Advisory Council on Social Security. This council, consisting of representatives of employers, employees and the public, reached the unanimous conclusion that the provision of benefits to an insured person who becomes permanently and totally disabled and to his dependents is socially desirable. There was some difference of

opinion as to when these benefits should be introduced. Some members favored the immediate inauguration of such benefits; others believed that, on account of additional costs and administrative difficulties, the problem should receive further study.

The Social Security Board has reported that it is prepared to meet the administrative problems, provided a reasonable time is allowed to make the necessary preparations between the amendment of the legislation and the date when benefits first become payable. Furthermore, the financial analyses recently made available by the Secretary of the Treasury and by the Social Security Board before the House Ways and Means Committee indicate that the estimated costs for disability benefits are moderate and well within our means.

The proposed amendment takes into consideration both the administrative and the financial problems.

PROVISIONS OF THE AMENDMENT

The definition of disability is of crucial importance in determining the number of workers who would become eligible to receive benefits. The amendment restricts disability benefits to those who are permanently and totally disabled by reason of illness or injury not arising out of or in the course of employment. It is a strict definition; benefits would be payable only to those who have lost substantially all of their earning capacity and for whom it is reasonably certain that the total disability will continue throughout life. I am prepared to admit that it is, if anything, too strict. It has the advantage, however, that it would protect those workers and their families who most seriously need protection, while holding the number of beneficiaries and the cost of the benefits to a modest level until experience has accumulated. After there has been a few years' experience, it would be possible to determine the extent to which the definition should be liberalized.

Disability benefits would be payable to the disabled workers who are over 18 and under 65 (when workers become eligible for old-age annuities), who have met the basic eligibility requirements that are required of all workers who are to become eligible to old-age benefits (fully insured individuals), and who, in addition, have also been engaged in insured occupations shortly before they become disabled (currently insured individuals). The benefits would be calculated on the same basis as is proposed for the calculation of old-age annuities, using the same average earnings, the same benefit formula and the same minima and maxima, except that the benefits and the maximum benefits are reduced by 20 percent for workers who become disabled after attaining age 55 when, progressively, the distinction between disability and old age becomes more difficult to draw.

The amendment also provides supplementary allowances for the dependent children of disabled workers. Similar allowances for the wives of disabled workers when they attain age 65, and annuities for their widows, are provided under the old-age and survivorship amendments already being considered by the Congress.

The amendment authorizes the Social Security Board to make provisions for determining disability and for the furnishing of such services as may aid in rehabilitating disabled workers so that they can return to gainful work. This authorization is limited so that

rehabilitation services shall be furnished through qualified practitioners and through existing hospitals and institutions. The expenditures for rehabilitation are limited to an annual maximum of 2 percent of the disability benefit payments.

The amendment excludes disability arising out of or in the course of employment. Disability due to work accidents and injuries and occupational disease remain a responsibility to be met under the workmen's compensation acts of the several States and of the Federal Government.

The amendment does not deal with compensation for those who suffer loss of wages during periods of temporary disability. That is another, though related problem, met by title XIV of S. 1620, the National Health Act of 1939, which is now pending. The provisions of this amendment would, however, fit smoothly and reasonably with such provisions as may be developed by the States to partially compensate temporarily disabled workers.

The amendment provides that permanent and total disability benefits first become payable January 1, 1941. This permits a sufficient and reasonable lapse of time between the enactment of this legislation and the date when the Social Security Board must be prepared to certify the payment of disability benefits. It would make the disability benefits first payable 1 year after old-age and survivor benefits would first become payable under amendments now being considered by the Congress. Such a temporary delay is important in order that the Board shall have an adequate interval during which, knowing the specifications for permanent disability benefits, it can develop the necessary administrative procedures. The Chairman of the Social Security Board recently reported to the House Committee on Ways and Means that:

> The Board is reasonably certain that it can handle the administrative end (of a permanent disability program) if such program goes into effect January 1941, and more certainly if it goes into effect January 1942 (hearings relative to the Social Security Act amendments of 1939, vol. 3, p. 2431).

ESTIMATED COSTS

It is difficult to forecast accurately the costs for disability insurance. Many of the difficulties which have been encountered in commercial and in nonprofit voluntary insurance schemes are not applicable to the disability insurance system that would be established by the proposed amendment. Many voluntary insurance systems have suffered from difficulties inherent in any insurance in which an individual or a small group has the privilege of insuring or not insuring. Also, many administrative problems in disability insurance are much more readily solved by governmental insurance with compulsory coverage than by nongovernmental systems. In addition, we have available to us the successful experience of other countries of the world which have had disability insurance for as long as 50 years.

Because of the conservative definition of disability as well as other restrictions, the amendment proposes a system of disability insurance that is carefully safeguarded. The costs are bound to be relatively small in the early years so that there will be ample opportunity to reinspect the provisions after sufficient actuarial experience has accumulated. We shall never know much better than we now know what the costs will be until we have experience from actual operation of an

insurance system. No amount of further study, without such practical experience, will resolve the major uncertainties that now confront us. Cautious and conservative practice will, however, give us the correct answers.

There are no detailed estimates available at this time which exactly fit the specifications of this amendment. However, in the hearings before the House committee, there is available pertinent information on a substantially identical system of disability insurance—with the exception that under this amendment, benefits would first become payable January 1, 1941, instead of January 1, 1940. The Secretary of the Treasury, when testifying before the House committee, submitted some estimates of total benefit payments to be expected for the years 1940–55 under title II, amended so as to provide disability as well as survivorship and old-age benefits. These estimates, later supplemented by the Chairman of the Social Security Board (hearings p. 2173), included the following "intermediate" estimates for disability benefits:

	Disability benefit payments (in millions of dollars)		*Disability benefit payments (in millions of dollars)*
1940	27	1945	162
1941	67	1950	246
1942	96	1955	304

These figures will need some adjustment, when applied to the proposed amendment, because no disability benefit payments would be made thereunder until 1941. In consequence, though the total expenditures over a period of years would be reduced, somewhat larger benefit payments would probably be made in 1941 (and perhaps for a year or two thereafter) than is anticipated for the corresponding years (1940 and following) in the estimates quoted above.

These estimated disability benefit costs are based on actuarial assumptions which allow for liberalization of the specifications as the insurance system progresses. With such liberalization, the addition of disability benefits to the old-age and survivorship insurance system now being considered by the Congress would only slightly increase the long-range (i. e., "level premium") cost of all the benefits, combined, over and above the costs of the original provisions of title II. It may well be, however, that if the disability insurance system adheres to the specifications of this amendment, there would be no substantial increase in the long-range costs of the insurance system over those already involved in the present old-age insurance.

CONCLUSION

Disability insurance, developed in conjunction with old-age and survivor's insurance, is needed; it is practical; its costs are well within our means. The added protection will be an almost incalculable boon to millions of workers and their families who now live in dread of illness and accident that may deprive the breadwinner of his working capacity. The enactment of this proposal would constitute another major step toward achieving for the American people the full blessings of social security.

The CHAIRMAN. I desire also to submit for the record a telegram I have received from Mr. Jay C. Hormel, of Austin, Minn., concerning certain provisions of H. R. 6635.

AUSTIN, MINN.

Senator PAT HARRISON,
United States Senate; Chairman, Senate Finance Committee,
Washington, D. C.

With reference to H. R. 6635, I have long been convinced that regularization of employment is outstandingly important, both socially and economically. A group of employers, who have embraced that belief to the extent of having worked out over a period of years methods of regularizing their own employments, agreed among themselves that any inducement to employers to give more thought to stabilizing their employment would have important national significance, and this group accepted the experience-rating provisions of the unemployment-compensation laws as satisfactory inducement which would become effective when the working of the experience-rating provisions become widely known and understood.

Last fall I was appointed a member of the American Legion national committee on employment. At a meeting of that committee in Indianapolis on December 12 there was adopted an employment-stabilization resolution which I shall quote to you presently. Pursuant to that resolution, there was adopted an employment-stabilization program which, it was agreed, should be undertaken on an experimental basis by the Legion in Minnesota before attempt should be made to organize it on a national scale. The Minnesota Legion thereupon established an employment-stabilization committee, which has undertaken, through the Legion posts, to contact employers to show them how the experience-rating provisions might work to promise stabilized employment; whereas otherwise the law affords only temporary compensation in periods of unemployment, and to contact employers to explain the workings of the law and to emphasize the experience-rating provisions as an inducement to employers for greater effort in the direction of employment stabilization.

This work is now under way. The lack of knowledge respecting the law is astonishing, and the response to this Legion effort to clarify understanding of it is gratifying and indicates that, as understanding of the law becomes general, the merit-rating provisions will indeed become the inducement which the statement of public policy in the law indicates as one of its major purposes.

In addition, the Minnesota Legion employment-stabilization committee has engaged the services of competent persons, headed by Professor Emerson Schmidt of the University of Minnesota, to compile, in detailed case-history form, a manual presenting the experiences of various employers operating under varying circumstances in their efforts toward employment stabilization. The outlines of this manual already are completed and actual compilation of it will begin next week, thus furnishing a guide to employers who accept the merit-rating provision as an inducement, and thereby, we hope, materially accelerating general progress in the direction of stabilization.

Meanwhile, sections 1600, 1601, and 1602 of H. R. 6635 are represented to me as containing language which would mean the probable loss of any merit-rating plans that have been adopted, including Minnesota's.

Although it would seem to me in my own lay reading of it that the prohibition expressed in subsection a (1) which starts on line 7, page 70, is offset by the provisions of subsection b (1) which starts on line 15, page 72. I am assured by technical staff members of the Minnesota unemployment-compensation division and by lawyers who assisted in the drafting of the Minnesota law that it is by no means clear that this language protects existing experience-rating plans.

Some say at best this wording postpones the effectiveness of experience ratings until the 10-year period is up, and several point out other unsatisfactory language in these sections. I shall forward some of these specific comments to you separately.

The language of the Legion employment committee's resolution is as follows:

"1. Whereas the first step in securing the employment of men and women over 40 is to maintain that employment which already exists for and is enjoyed by them, and as fluctuations in employment in industry, with their attendant lay-offs, are a continuing threat to the employment of that age group, it is deemed any gain in the stability of employment in this country would be an outstanding contribution to the security of employment now held by them; and

"Whereas, the savings to employers who qualify for merit ratings under various State unemployment-compensation acts are substantial, which potential savings opportunities apparently are not generally known to, and appreciated by, all employers, it is deemed that any action by the American Legion which leads to a wider attempt on the part of industry to attain stabilization of employment

would not only be of service to persons over 40 and to society as a whole, but would also increase the profits and the stability of industry; Therefore be it

"*Resolved*, As a part of our national-employment program, that we advocate the immediate conduct, by the American Legion, in cooperation with all interested agencies, of a research of the possibilities of this stabilization program and the distribution of the information so obtained, to industry."

Experience clearly shows that the unemployment-compensation law, without merit rating, induces unemployment for, where the employers have not understood the merit-rating features, we find instance after instance in which borderline cases were decided in favor of lay-offs on the basis that the men would be paid unemployment compensation.

However, if the merit-rating provisions are protected, the results will be reversed. With that as an inducement, and with a well-integrated plan for telling employers how the law works and for giving them assistance in finding ways and means of regularizing their employment, I am convinced that the experience-rating plans, if protected, will serve to contribute much, and quickly, toward increased employment stabilization.

I urge that no changes be made in the law without making certain that the experience-rating features are protected and definitely stated as having been intended by the committee in approving the bill.

JAY C. HORMEL.

The CHAIRMAN. Senator Downey, would you like to make a statement to the committee?

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

Senator DOWNEY. Senator, at some subsequent stage of the proceedings, I would like to make a more extensive statement, but I think it would be appropriate for me at this time to support the suggestion made by Senator Byrnes. I would like just a very few minutes to do that.

In order that I may not be misunderstood, Mr. Chairman, I want to say this, that I am a supporter of the Townsend plan, and of course believe in a national plan, and upon the floor of the United States Senate I shall attempt to convince the Senators, as well as the Social Security Board, that this State-Federal plan is so involved and works out so many injustices that we must shift to a wholly Federal plan, but expressing my own ideas, which I believe would be supported by the people of the State of California, I want to say that I think the present plan is wholly unfair to the poorer States. I go further than Senator Byrnes.

If the people of the State of California receive $15 or $20 for each citizen entitled to a pension, I think every other State in the United States ought to have that same privilege.

It is generally considered that fair taxation relieves the burden of the weaker States, or the weaker individual, and transfers it to the stronger States. The tendency of this law is at least to throw the heavier burden upon the weaker States and to favor the stronger States.

Now, I realize, Senator Lodge, that it is not altogether true in the State of Colorado, which now pays the second largest pension. It is not one of the richest States. Generally, however, there is a marked correlation between the high payments and the wealth of the State and the lower payments and poverty of the State. The Senator's own State, one of the richest in the Union, ranks third. Illinois and New York are high up, and generally the payments tend to increase according to the well-being of the State.

I believe that we have reached a state in our civilization when the stronger and wealthier States should endeavor to sustain the poorer and weaker.

There is one thing I want to say to this committee that I regret to say, and I only say it because my own father was a colonel in the Northern and Federal Army, and an enthusiastic Republican until the day of his death, but since the Civil War literally billions of dollars have gone from the Federal Treasury to the Northern States. Hundreds of millions of dollars have gone into the New England States, if not billions of dollars, and in my own opinion those payments were a tremendous help to commerce and prosperity in the northern States. I am not opposed to Civil War pensions. I am for them, but, nevertheless, the income that paid those pensions was drained out of the South, along with the rest of the Nation, and was allocated among the New England and Northern States, and the New England States were particularly fortunate in that, and it is my own belief that commerce and business were largely sustained in the smaller towns by those hundreds of thousands of payments flooding in to the widow and to the veteran, and to the orphan of the veteran. Now, nothing that we could do to assist the Southern States would compensate for the tremendous loss arising from Civil War pensions.

In addition to that, if I could point out to the distinguished Senator from Massachusetts, whose heart I know is open to any just argument, there is no doubt that the protective tariff has drained billions upon billions of dollars out of the South and into the northern manufacturing centers. Nobody can doubt it. No one can honestly read the economic history of America without coming to believe that a tremendous subsidy was paid to the manufacturing States by the rest of the Nation.

That is past and gone. We are on a different basis.

California, one of the richest States in the Union, now takes $15 per pension recipient out of the Federal Treasury while $2.50 or $5 per pension recipient is received in most of the Southern States and in some other of the poorer States.

I want to point out that this combined State-Federal system leads us into many irregularities, many illogical, unjust conclusions. I believe we must adopt some kind of a system under which the States will share equally in the Federal contributions. I want to go the whole way and have a national plan. I hope something will be done to at least ameliorate some of the marked improprieties in this act.

Just in connection with this subject, Mr. Chairman, let me point one thing out to you. If the Senate does provide for the $20 allocation for the Federal Government, I shall return to California and be partially instrumental, I know, in calling a special session of the legislature to take advantage of that extra $5 a month. We already pay $32.50. No other State even pays $30. The State of Colorado pays something like $29, and Massachusetts, I think, $28, something of that kind.

We have about 120,000 recipients. At $5 a recipient additional we will secure $600,000 a month, or about $7,200,000 from the Federal Government additional. Mr. Altmeyer estimated that this additional allocation would not increase the Federal disbursement more than $5,000,000 to $10,000,000. I can serve notice on Congress right now that California, by the 1st of January, in my opinion, will at least

claim $7,200,000, and we are not going to stop until we get our pensioners a decent, living, dignified social dividend.

Now, Mr. Chairman, that payment of $20 a month will go not only to a husband past 65 in California, but to the wife, so that the Federal Government will be contributing $40 a month to husband and wife in California. We will be matching it, and the husband and wife in California, if this law goes into effect, as now proposed, will be getting $80 a month. I think that is too small, although such sum becomes more dignified and possible to live on than present payments. Regardless of whether it is too small or too large, Mr. Chairman, consider this fact. A part of the Social Security law is the contributory system. Suppose a man worked for 40 years at an average wage of $100 and gives up 6 percent of his pay, as is contemplated by this act, and he is married and his wife is past 65. At the end of 40 years that husband and wife will only get $52.30, while another husband and wife in the State of California, and probably in many of the other wealthy States, will be getting $80 as a matter of charity under the present old-age assistance law. What an extraordinary thing that this so-called contributory plan will absolutely penalize the persons whose wages are taxed 6 percent every month. Indeed under this law as it works out, 80 to 90 percent of the persons in the United States, as a matter of charity, will get more than will be paid to those who pay the 6 percent of their wages under the contributory system.

Under the old-age assistance law the average paid is about $19.35. It is estimated by the Social Security Board that in 1942 the average single man will get $26.85, but this includes men with incomes up to $250 a month. If you take 80 percent of the smaller salaries, they will average about $20. Consequently, we have here created a system under which in the wealthier States the people who are getting charity without any contributions will get substantially more than the man who gets his as a result of contributions. I cannot imagine anything that seems more bizarre and strange to me than that.

I firmly believe we have got to get away from such inequalities, if we do not want to create tremendous confusion, bewilderment, uncertainty, and dissatisfaction in the United States.

While I am making this statement, I am speaking directly against the interests of the people of the State of California, yet I know the viewpoint of the people of the State of California. We vision a national, dignified, social dividend system in which every citizen past 60, retired from gainful employment, shall receive an allowance adequate to live upon in dignity. That is our vision.

We certainly do not want to take advantage of any of the poorer States, and I know I speak for almost every citizen of my State, when I say we would prefer to see every State given the same allocation in lieu of the present matching system.

Mr. Chairman, at some later time I will want to go into various other phases of the law, but while Senator Byrnes' testimony was fresh in your minds I just wanted an opportunity to support his argument.

The CHAIRMAN. Thank you very much, Senator.

The committee will now recess until 2:30 this afternoon.

(Whereupon, at the hour of 12:20 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:30 p. m., pursuant to the adjournment for the noon recess.)

The CHAIRMAN. The committee will come to order.

Is Mr. Millard W. Rice in the audience?

(No response.)

The CHAIRMAN. Mr. M. M. Walter.

Mr. WALTER. Yes.

The CHAIRMAN. You may proceed, Mr. Walter.

STATEMENT OF M. M. WALTER, HARRISBURG, PA., REPRESENTING THE NATIONAL REHABILITATION ASSOCIATION

Mr. WALTER. Mr. Chairman and members of the committee.

My remarks, which will be confined to section 503 of the amended act, the vocational rehabilitation of the physically disabled, may appear to be a sort of an interlude, because unlike the other testimony that has been presented to this committee in which the problem has been one of providing benefits to people who are either unemployable or have become unemployed due to economic reasons, our problem is one of putting people to work. We are concerned with a group of our society who are employable and can be put to work.

Again, our problem is one about which there is very little difference of opinion, Furthermore, from a quantitative point of view the amount of money involved in the program may appear insignificant, yet, from a qualitative point of view, the return to society and the benefit to individuals, the program is one which looms up as a major factor in social security as indicated by Congressman McCormack in a radio address last week when he was discussing the amendments to the Social Security Act and referred to vocational rehabilitation as follows:

> Small as this sum is in comparison to some of our other expenditures, it represents a very real contribution to security. Every crippled employee retrained to an occupation represents a definite gain in security. In reducing the cost of caring for him if he remained dependent, in returning him to society and to his family as a useful and self respecting citizen.

In 1920, the Federal Government passed the national civilian rehabilitation law to provide for the restoration of the physically handicapped. In 1935 this law was included in the Social Security Act, and in the present amendment 6635, provision is made for extending the function.

Now, in the light of our experience over 19 years, which would seem to affect the reliability of such experience, we feel that the program should be given further consideration by this committee, and by way of explanation I should just like to present a few facts for your attention.

You may not know that every minute of the day someone is either killed or maimed as the result of accidents. In this country alone we have over 10,000,000 accidents a year; in other words, the chances are 1 to 12 or 13 that you and I are going to be the victim of an accident. Without appearing to be personal in the matter, I might say that I was marked for an accident three times last year, and one resulted in anatomical loss, although fortunately it was not functional.

Again, each day of the year, there are 5,000,000 in this country who are required to remain home due to illness, and over 22,000,000 of the population each year is required to remain home at least 1 week due to illness. The National Health Survey tells us that there are at least 1,600,000 individuals in this country who suffer permanent disabilities each year as the result of accidents, and 50 percent of those are in industry. This survey also tells us that there are four times as many disabled persons on relief today as in the $3,000 brackets and over.

So from these figures I think you will agree that we are rather conservative when we estimate that there are in this country at any one time at least 4,000,000 persons with permanent physical disabilities, and that each year we have a new crop of 800,000, of which at least 260,000 are going to become members of our permanent relief rolls unless something is done for them to make it possible for them to return to work again and become economic and social units of the community in which they live.

Since the passage of the Vocational Rehabilitation Act of 1920, notwithstanding the limited funds available, it has been possible for the States to rehabilitate 120,000 physically handicapped persons and return them to remunerative employment. This was done at a cost of about $300 a case. When you consider that the Government spent $5,000 on each disabled veteran that was rehabilitated following the War, you can see that from the point of view of the expenditures we have been economical.

Now, from the point of view of the stability of this program, I should just like to present to you a few figures. We have studies that show that 90 percent of all of the persons that are rehabilitated here in this country are still employed at the end of the year, and over 50 percent get an increased wage. In another study of 1,000 cases, 69 percent were unemployed prior to the rehabilitation, and following rehabilitation 73 percent were employed at a wage of at least $15 a week, and 10 years later, notwithstanding the economic conditions in this country, more than 60 percent of those cases were still employed at a wage of at least $15 a week. It cost $300,000 to rehabilitate this particular group. Before rehabilitation, their wages were about $290,000; following rehabilitation their wages jumped up to $1,000,000.

In another study, it was shown that for every dollar spent on rehabilitation of a disabled person, more than 47 were returned to society. In another study made 10 years after the 1,000 cases were rehabilitated, the income of the group was more than 800 percent higher than at the time of rehabilitation.

We made a little study in Pennsylvania several years ago that was of particular interest. The question of the stability of a handicapped worker was the issue. We reviewed all of the automobile accidents in Pennsylvania that year, and this is what we found, that there were 29,000 crippled operators driving automobiles in Pennsylvania, and in that year only 175 were involved in an accident, while on the other hand there were 2,000,000 normal operators, and in that particular year over 92,000 were involved in an accident. The ratio was 0.6 of 1 percent to over 4½ percent. So you see from the point of view of stability, the return to society, the ability of a handicapped person to carry on if he is fitted for a suitable occupation, the money that is spent is worth while. It is a service that should not only be continued, but

in the light of the other developments in the program of social security, including unemployment compensation, employment provisions in the Byrnes bill for the handicapped who are unemployable, the disability insurance which is part of the Wagner bill, and the work for crippled children, it should be expanded. I think you will agree that since we are now only spending about $2,000,000 of Federal funds a year for this service, and although the Ways and Means Committee of the House saw fit to add another $1,000,000 to the authorization, we are justified in asking for a further extension of the program, because our figures show there are 45,000 handicapped persons now being served by the States, and there are over 60,000 handicapped persons now on the waiting lists who cannot be served on account of inadequate appropriations. The cost of maintaining this group at State and Federal expense is over $30,000,000 a year, while on the other hand they can be rehabilitated for $18,000,000.

Senator DAVIS. How much are they appropriating in Pennsylvania? What is the cost in Pennsylvania for this work?

Mr. WALTER. In Pennsylvania, our State and Federal appropriation today amounts to about $700,000 for the biennium, or $350,000 a year. The chief cost was about $350 a case to rehabilitate an individual in Pennsylvania.

Senator DAVIS. When you referred to these disabled ones driving an automobile, the percentage of accidents was in favor of the disabled?

Mr. WALTER. Of the disabled group, only 0.6 of 1 percent were involved in accidents, while more than 4½ percent of the normal group met with accidents. In other words, the percentage favored the crippled drivers. I simply bring this out to show the stability of the handicapped worker. The Western Electric Co., in a study of the handicapped from the point of view of sickness, absence from work, and accidents, discovered that those who were disabled were, as a whole, more reliable than the normal individual.

In order to take care of 60,000 persons who are now waiting on the lists and cannot be served, as I said it would cost about $18,000,000 a year, and the proposal which we are submitting to you and to your committee for consideration is much more conservative. We are suggesting that section 503 of the House bill 6635 be amended to read as follows:

SEC. 503. Section 531 (a) of such act is amended by striking out "$2,938,000" and inserting in lieu thereof "$5,000,000"; by striking out "$5,000" and inserting in lieu thereof "$25,000."

in order to increase the allotments for Hawaii, and by adding:

Provided, That the allotments of funds to any State shall not be less than a minimum of $30,000 for any fiscal year—

so that our minimum States can benefit from the increased appropriation.

We are also suggesting that the act be amended by striking out "$102,000" and inserting in lieu thereof "$200,000," to permit the Federal agency to take care of the necessary expansion growing out of the work.

The President in his message to Congress on social security had this to say:

We would be derelict in our responsibility if we did not take advantage of the experience which we have accumulated in the field of vocational rehabilitation to strengthen and expand its provisions.

In other words, the President has endorsed the expansion of this program, and from the point of view of the cost that is involved, I think you will agree that it is a very small amount compared to the other amounts of money that are being spent for social security, and that we are engaged in the problem of putting people to work and not providing benefits for those that are unemployable and cannot work any longer or who are unemployable for economic reasons, but our problem is to get them off of relief and get them back to work again, and as a constructive program I think it is sound.

The folders that we have left with you will cite a number of cases in your own particular States and will summarize and tell you what has been done, and I think with that brief statement, I will finish my remarks, Mr. Chairman.

Senator KING. Do the States as a rule make any important contribution?

Mr. WALTER. Last year, the States not only matched the Federal contribution, Senator King, but they also asked the Federal Government for $400,000 in additional appropriation; in other words, they had $400,000 of State money available to match with Federal money more than we actually got from the Federal Government. We are not only matching the Federal allotment now, but last year we could have matched at least $400,000 more.

Senator KING. How are the organizations integrated between the Federal Government and the States? Is there an organization here in Washington?

Mr. WALTER. There is a Division of Vocational Rehabilitation in the United States Office of Education, which is the Federal agency of administration. The State programs are under the supervision and control of the State boards for vocational education, as provided in the Federal law. Integration is provided through a plan of cooperation between the State board and the Federal agency.

Senator KING. Do you think it should be in the Bureau of Education or under the Social Security Board?

Mr. WALTER. The United States Office of Education is being transferred to the Federal Security Agency on the 1st of July, so it will be brought in under the Federal Security agency with the C. C. C., the N. Y. A., Health, and the other social security features. They will all be brought together the 1st of July.

The CHAIRMAN. Thank you very much. Is Mr. Nathan in the audience?

Mr. NATHAN. (Mr. Robert Nathan, Chief, Income Section, Division of Economic Research, Bureau of Foreign and Domestic Commerce.) Yes.

The CHAIRMAN. Probably a little later, Mr. Nathan, we will want to ask you a great many questions, but there are other witnesses here from various sections who should be heard, and I am asking you to step forward, please, because Senator Lodge would like to ask you a question now.

Senator LODGE. I just wanted to ask you if you would prepare for the future reference of the committee, a statutory definition of the per capita along the lines of the conversation that I had with Senator Byrnes?

Mr. NATHAN. Would it be all right to prepare it in several different alternatives?

Senator LODGE. Yes. And also a statutory definition of "cost of living", so that we can have both of those things before us.

Mr. NATHAN. That will be a little more difficult, because we have never done anything along that line. I will be glad to think about it, however.

Senator LODGE. Oh; you can do it all right.

Mr. NATHAN. Thank you, sir; I will try.

The CHAIRMAN. Next is Mr. Ray Murphy. Mr. Murphy represents the Association of Casualty and Surety Executives and the National Board of Fire Underwriters. We knew Mr. Murphy when he was national commander of the American Legion. All right, Mr. Murphy.

STATEMENT OF RAY MURPHY, REPRESENTING ASSOCIATION OF CASUALTY AND SURETY EXECUTIVES AND THE NATIONAL BOARD OF FIRE UNDERWRITERS

Mr. MURPHY. Mr. Chairman and members of the committee, the statement that I am about to make should be prefaced by saying that the organizations for which I appear are not here in opposition to the Social Security Act. As to the organizations' employees, they are of course fully complying with the act. My statements will be directed only to a proposed change in the act dealing with a comprehensive and as we believe an arbitrary broadening of the definition of "employee."

The Association of Casualty and Surety Executives is an association of 61 capital-stock insurance companies doing business in the United States, and writing approximately 79 percent of the casualty and surety business written by capital-stock companies in the United States.

The National Board of Fire Underwriters is an association of fire companies with a membership of somewhat in excess of 200 companies writing approximately 85 percent of the fire-insurance business written by capital stock companies in the United States.

There is no connection between the two organizations, but this statement is being made jointly for them because in this particular instance our interests are identical.

The association and the national board believe that the definition of "employee" as contained in amendments adopted by the House (pp. 63 and 97, H. R. 6635), may be construed by the administrators of the act to include insurance agents placing business in capital stock casualty, surety, and fire companies. It is the opinion of the association and the national board that such agents are not within and should not be placed within the classes for which the act is intended to provide.

The casualty, surety, and fire-insurance agent is not an employee, and not in the ordinary full sense even an agent; the business he does is his; he services it and looks after the interests of the insured, even though before the expiration date, he, the agent, no longer writes for the company issuing the policy. By usual provisions of his contract with the company the agent's right to the business written, to "expirations," is ordinarily protected, but even when the agent's contract with the company does not so provide specifically, such right for many years has been uniformly recognized by the company. The

agent's compensation comes from the insured, not from the company, though the rate of commission is determined by contract between company and agent.

The company has no voice or concern whatsoever in the manner or method by which the agent runs his office. He procures the business of the agency as he sees fit——

Senator KING. The agent does?

Mr. MURPHY. Yes; the agent does. And when he sees fit, and places it with such a company as he chooses, whose facilities are available to him.

Senator KING. He may choose such a personnel as he wishes to operate his agency?

Mr. MURPHY. Absolutely.

Senator KING. And he might be an employer of those who are soliciting for him?

Mr. MURPHY. Very definitely.

Senator KING. You have no objection to the employees of the agent coming within the category of employees?

Mr. MURPHY. No objection to those who are truly employees coming within that category and within the act.

Senator KING. But the agent himself you do not feel should be characterized as an employee of the company?

Mr. MURPHY. That is right.

Senator DAVIS. Are not most of those agents individual contractors?

Mr. MURPHY. We think so, Senator, and quite independent.

Senator HERRING. You feel that there is a difference between an agent that is compensated by a commission and one who is compensated by regular salary?

Mr. MURPHY. Very definitely, Senator. I think the question of control enters there to a large extent.

Senator HERRING. You think the method of his employment, whether it is on a commission or on a salary determines whether he is an employee or not?

Mr. MURPHY. In general I think that is true. There might be some additional factors that control which I would like to dwell on and will touch upon later if I may, and that phase is also covered in the samples of contracts between companies and agents which, with the permission of the committee, I will file.

Senator HERRING. These agents often represent 20 or 30 different companies, do they not?

Mr. MURPHY. I am sure that some of them represent as high as 40, and I understood some represent as high as 100 different companies in the same agency.

Senator HERRING. How would you determine who is the employer?

Mr. MURPHY. It would be something of a puzzle, I should think and would involve quite a little detail.

The company is without right or semblance of right to dictate where the business shall go, in other words, the agent may, if he sees fit, place new business with one particular company, or he may place it in the company whose facilities are available and, in the event of renewal, he may place the business with any company of his own selection.

Each agent is appointed for a specified territory. The company has no power to remove an agent from his territory or to assign him to another. He is under no obligation to collect premiums for, nor to service policies not written through him. The agent is not required to solicit or report on any list of prospects that the company may furnish, nor is he expected to report at any time for any reason at the company's office. The company has no power of supervision over its agents through field men or anyone else. Whether or not the agents advertise in their own name is a matter unknown to the company and over which it has no control. An agent is free to solicit business only in accordance with the license issued to him by the State in which he does business and only for the companies for which he is licensed. The agency agreement expressly provides that the business of the agent is his property. He is, of course, free to dispose of it as he sees fit.

Generally speaking, agents are often engaged in other activities, principal among which are real estate, banking, and law, although in the smaller communities they may be engaged in mercantile pursuits; and while the great majority writing property insurance do not represent life—that is, they confine their activities to fire and casualty and surety—yet there are many who represent all these branches.

The agency agreement provides that either party may terminate the contract at will. There is no way in which the company can discharge an agent. Our agents are compensated at a rate of commission, from time to time mutually agreed upon, on the business which they produce. They are never compensated on a guaranteed or salary basis.

The company reserves the right to refuse to accept contracts for insurance, because the form of the policy, the rate of premium or other matters incident to the policy contract are not satisfactory to it. In general, the rates and forms are prescribed by statutory supervising authority and promulgated by rating bureaus for which the various companies may be, but are not always members.

Senator KING. Under existing law, are these agents held to be employees?

Mr. MURPHY. They are not.

Senator KING. But this is a new provision?

Mr. MURPHY. This is a new proposal; yes.

Senator KING. Was there any testimony before the House Ways and Means Committee, so far as you know, that warranted this interpretation or this expansion of the law?

Mr. MURPHY. Senator, so far as I know, no opportunity was given to discuss the matter before the Ways and Means Committee, at least we had no information which would permit us to have been there in time to discuss it.

Senator KING. It just came out of the blue sky?

Mr. MURPHY. It did.

Senator CONNALLY. Does the bill include all agents, or only those who are working for one company?

Mr. MURPHY. It includes all.

Senator CONNALLY. Even though a general agent might represent a dozen different companies, would he be an employee of each one?

Mr. MURPHY. Under the amendment he would be.

Senator CONNALLY. I mean in the House bill.

Mr. MURPHY. In the House bill; yes, sir.

Senator CONNALLY. My thought was that an agent that devoted all of his time to a single company possibly ought to be included, but that an agent who was an independent operator and worked on purely a commission basis ought not to be included.

Mr. MURPHY. Well, Senator, I do not like to take exception to your thought, but it does not seem to me that that is quite the test.

Senator CONNALLY. It may not be, but that is just my tentative opinion.

Mr. MURPHY. I would not like anything I have said to prejudice the case of, say, the life companies whose agents generally represent but one company, although sometimes they represent more than one. It so happens that as to our particular type of agents, because of the nature of the business generally, the wide variety of contracts and the changes in conditions, that our agents usually write for almost any number of companies, but I do not think that changes the principle.

The agent of course is expected to conform to the statutory requirements, and in the event of divergence, it is customary for him to submit the proposition to the company for its acceptance or refusal. The sole right of the company is to accept or refuse the business, and it has no redress if the agent sees fit to place the business elsewhere.

The designation of "agent" is a statutory one; the laws of the various States prohibit a company from executing contracts covering property or risks located in a State except through an individual, partnership, or corporation which is licensed by the State to act as such for the company.

It is impossible to state with any degree of accuracy what percentage of local agents are individuals as distinguished from partnerships and corporations. Our estimate would be about 50 percent individuals, 25 percent partnerships, and 25 percent corporations. This inability for accurate estimate arises because generally the license required by the State is only issued to individuals. Where the agent is a corporation, each member of the corporation individually engaged in procuring insurance is required to hold an individual license.

The company has and can exercise no domination or right of control and direction over the business of the agent, and there is a complete absence of any right so to do. The sole concern of the company is with the results obtained in the form of business placed with it and not with the manner and method by which such business is procured or the expense of same.

Under the conditions stated it would seem highly inconsistent with fact, wholly arbitrary, and contrary to the intent of the act itself, to classify our type of agent as an employee. Wishing will not make it so, and no matter what the declaration of the statute to the contrary, the facts establish that our agents cannot be employees.

Nor do our agents wish to be defined as employees in the act. They are not asking either for the expected benefit or the certain expense. This will be made clear, as we are informed, by a statement to be made to this committee on behalf of the National Association of Insurance Agents.

It seems needless, because of the nature of the business and the relations between company and agent, because of the complete independence of management of the agent of his business and accounting, and among other things, because of the innumerable unrelated transactions between company and agent, that an unusually heavy

burden and a heavy expense of accounting under the act would result if the strained definition of "employee" as adopted by the House were to become law. The nuisance thereby created to administrators, agent, and company would far outweigh any benefits.

There are appended hereto as a part hereof three blank copies of typical agency contracts used by member companies, which we believe fully sustain the position we take herein.

With the permission of the committee, this statement with samples of contracts and policies will be filed for the record.

(The same will be found at the conclusion of the witness' statement.)

Mr. MURPHY. It is respectfully recommended that the provisions of H. R. 6635 insofar as they define "employee" be amended to exclude "an insurance agent compensated on a commission basis."

Senator KING. Thank you very much.

Senator CONNALLY. May I direct your attention to the language at the bottom of page 97 and the top of page 98, which has an exception to the general rule, and might exclude some of these parties, in section 801 of title VIII, which reads:

> Unless such services are performed as a part of such individual's business as a broker or factor, and, in furtherance of such business as broker or factor, similar services are performed for other persons and one or more employees of such broker or factor perform a substantial part of such services, or (b) such services are not in the course of such individual's principal trade, business, or occupation.

Senator KING. Mr. Calhoun, can you help us out on that? If the agent is the representative of a number of companies, would not the principal trade, business, or occupation come within that classification?

Mr. CALHOUN (Mr. L. J. Calhoun, Social Security Board). Correct; but if he had any employees working for him, he would not be an employee himself.

Senator KING. But if he did all of the work himself as an agent in obtaining contracts for the company, then he would be an employee?

Mr. CALHOUN. If he spent his full time doing it.

Senator KING. If he did it on commission?

Mr. CALHOUN. That is correct.

But if, for instance, there was a bank clerk writing some insurance at night of casualty insurance, or a real-estate man writing some fire insurance or something like that, his principal business would not be an insurance salesman, you see, so he would not be covered.

Senator HERRING. Assume that his principal business is that of an agent of insurance, an insurance agent, and he represents 20 companies, is he an employee?

Mr. CALHOUN. Depending upon whether he has employees of his own, the way this is drafted.

Senator HERRING. Who would be the employer if he were representing 20 different companies?

Mr. CALHOUN. Each one of them.

Senator HERRING. They would all have to report?

Mr. CALHOUN. That is correct.

Senator KING. Whether he is an employer or not depends upon whether he does the business himself or has somebody else help him?

Mr. CALHOUN. That is correct.

Senator KING. That may be a part of the concept of those who drafted this bill. Now, are there any questions?

(No response.)

Senator KING. Thank you very much.

(The three copies of sample contracts are as follows:)

AGENCY AGREEMENT

UNITED STATES FIDELITY AND GUARANTY COMPANY

Baltimore, Md.

This agreement, made this day of , A. D., 19 , between United States Fidelity and Guaranty Company, a corporation of the State of Maryland, with its principal office in the City of Baltimore, State of Maryland (hereinafter called the "Company") and.....

of.....

(Street and No. of P. O. Box) (Town) (County) (State)

(hereinafter called the "Agent")

Witnesseth:

In consideration of the mutual covenants and agreements herein contained the parties hereto agree, as follows:

1. The Company hereby grants authority to the Agent in the following territory, viz:.....

to solicit and sumbit applications for the classes of insurance and fidelity and surety bonds for which a commission is specified in the Commission Schedule which forms a part hereof; to issue and deliver policies, bonds, certificates, endorsements and binders which the Company may, from time to time, authorize to be issued and delivered; to collect and receipt for premiums thereon or therefor; to cancel such policies, bonds and obligations in the discretion of the Agent where cancellation is legally possible; and to retain out of premiums collected and paid over to the Company in accordance herewith, as full compensation on business placed with the Company by or through the Agent, commissions at the rates set forth in said Commission Schedule.

2. A report of risks assumed shall be made to the Company daily. Accounts of money due the Company on the business placed by or through the Agent with the Company are to be rendered at the end of each month; the balance shown to be due to the Company shall be paid not later than the 20th day of the second succeeding month to the.....office.

3. In the event the Company shall, either during the continance of this Agreement or after its termination, refund premiums under any policy or bond by reason of cancellation or otherwise, the Agent shall immediately return to the Company the commission originally retained by him on the amount of the premium so refunded.

4. Any policy and bond forms and other Company supplies furnished by the Company to the Agent shall always remain the property of the Company and shall be accounted for and returned by the Agent to the Company on demand. All accounting records of the Agent pertaining to the business of the Company shall be subject to inspection at any time by the accredited representatives of the Company.

5. The Company shall not be responsible for agency expenses such as rentals, transportation faulities, clerk hire, solicitor's fees, postage, telegrams, telephone, expressage, advertising, exchange, or any other agency expense whatsoever.

6. The Company reserves the right to cancel direct any contract of insurance or suretyship at any time, but in the event of such cancellation the Company shall not notify the Agent prior to giving notice thereof.

7. In the event of the termination of this Agreement, and provided the Agent has promptly accounted for and paid to the Company all premiums and other moneys or securities collected or held for or on behalf of the Company for which the Agent may be liable, the records of the Agent and the use and control of expirations shall remain the property of the Agent and be left in his undisturbed possession.

8. This Agreement supersedes all previous Agreements, whether oral or written, between the Company and the Agent, and may be terminated by either party at any time upon written notice to the other.

Signed, sealed and dated on the day and year first above written.

UNITED STATES FIDELITY AND GUARANTY COMPANY,

Attest: _____ By _____

AGENT

_____ [SEAL] _____

_____ [SEAL] _____

_____ [SEAL] _____

[The signature should agree with the agent's name shown at the beginning of the agreement. If agent is a firm, the signature must include the firm name and name of partner signing. If agent is a corporation, the signature must include the corporate name, the signature of the proper officers, with their titles, and the corporate seal affixed.]

COMMISSION SCHEDULE

		Percent
1.	Fidelity and Surety (Includes Fraud Bonds, Merchants' Protective Bonds and Crime Policies)	
2.	Bankers' and Brokers' Blanket Bond	
3.	Primary—Excess—Commercial Blanket Bonds	
4.	Bank Check (Includes Depositors' Forgery, Commercial Forgery, and Bankers' Limited Forgery)	
5.	Bankers' Blanket Forgery and Alteration	
6.	Securities Blanket Bond	
7.	Forgery and Alteration Bond (Supplementary to B. B. B. No. 8 Revised)	
8.	Blanket Position Bond	
9.	Bank Depository	
10.	Burglary (Includes Blanket Residence)	
11.	Securities Ins. Policy Covering on Insured's Premises	
12.	Securities Ins. Policy Covering Outside Messenger Hazard	
13.	Plate Glass (Includes additional 2½% for inspection)	
14.	Workmen's Compensation and Workmen's Collective	
15.	Employers' Liability	
16.	Public Liability	
17.	Physicians', Dentists', Druggists', and Hospital Liability	
18.	Beauty Parlors, Barbers, and Hair Dressing Establishments	
19.	Amusement Parks and Devices (Public Amusement Policy—AP Form)	
20.	Automobile Liability	
21.	Automobile Property Damage	
22.	Automobile Collision	
23.	Public Automobile Liability	
24.	Public Automobile Property Damage	
25.	Public Automobile Collision	
26.	Long Haul Truckmen Automobile Liability and Property Damage	
27.		
28.		
29.	Accident (and Health with waiting period of two weeks or more)	
30.	Health (Except as above stated)	
31.	Group Accident (Volunteer Fire Departments only)	
32.		
33.		
34.		

AGENCY AGREEMENT WITH THE FIDELITY AND CASUALTY COMPANY OF NEW YORK

AGENCY AGREEMENT

This agreement, made this ____ day of _____, A. D. 193__, by and between _____

_____

of _____, in the County of _____ and State of _____ hereinafter designated as "Agent," and the Fidelity and Casualty Company of New York, a corporation duly organized and existing under and by virtue of the

laws of the State of New York, and having its principal office in the City of New York, and State of New York, hereinafter designated as "Company":

Witnesseth that:

Pursuant to request that the underwriting facilities of the Company be made available to the undersigned, as Agent, the Company hereby grants authority to Agent to receive and accept proposals for such contracts of insurance covering risks on properties located in ----------

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as the Company has authority lawfully to make; subject, however, to restrictions placed upon such Agent by the laws of the state or states in which such Agent is authorized to write insurance business and to the terms and conditions hereinafter set out.

It is hereby agreed between the Company and the Agent as follows:

(1) Agent has full power and authority to receive and accept proposals for insurance covering such classes of risks as the Company may, from time to time, authorize to be insured; to collect, receive, and receipt for premiums on insurance tendered by the Agent to and accepted by the Company and to retain out of premiums so collected, as full compensation on business so placed with the Company, commissions at the following rates, viz:

SCHEDULE OF COMMISSION ALLOWANCES

	Percent
Liability—except as stated below	
Liability, Employers	
Liability, Automobile on Public Passenger-Carrying Risks	
Liability, Automobile Long-haul-Truckmen Risks	
Workmen's Compensation	
Workmen's Compensation, Volunteer Firemen's Section 205 N. Y.	
Property Damage and Collission, except as stated below	
Property Damage and Collision, Automobile	
Property Damage and Collision, Automobile on Public Passenger-Carrying Risks	
Property Damage and Collision, Automobile Long-haul-Truckmen Risks	
Burglary	
Securities Insurance Policy—Outside Messenger Hazard	
Securities Insurance Policy—Premises of Assured	
Plate Glass	
Plate Glass Inspection and Claim Service	
Steam Boiler, Engine, Flywheel, Machinery and Electrical Equipment	
Accident & Health	
Safe Depository Liability	
Compulsory Automobile Liability	
Combination Residence	

It is a condition of this Agreement that the Agent shall refund ratably to the Company, on business heretofore or hereafter written, commissions on cancelled liability and on reductions in premiums at the same rate of which such commissions were originally retained.

(2) For the convenience of the Agent the Company will send monthly to the Agent a record of the business of the month placed by the Agent with the Company, the premiums on which, if collected by the Agent, shall be paid to the Company promptly thereafter.

(3) Company shall not be responsible for Agency expenses such as rentals, transportation facilities, clerk hire, solicitors' fees, postage, advertising, exchange, personal local license fees, adjustment by the Agent of losses under policies issued by the Agent, or any other Agency expenses whatsoever.

(4) Any policy forms and other like Company supplies furnished to the Agent by the Company shall always remain the property of the Company and shall be returned to the Company or its representatives promptly upon demand.

(5) The Company reserves the right to cancel any policy or other contract of insurance or suretyship by direct notice to the insured or obligee.

(6) The Company may at any time, by written notice to the agency, change the schedule of commission allowances.

(7) This Agreement supersedes all previous agreements, whether oral or written, between the Company and the Agent and may be terminated by either party at any time upon written notice to the other.

IN WITNESS WHEREOF the Company has caused its corporate name to be subscribed hereto and the Agent has set ____ hand and seal on the day and year first above written.

THE FIDELITY & CASUALTY COMPANY OF NEW YORK,

By _____

_____

(Agent)

By _____

_____

ATTEST:

_____

ATTEST:

_____

_____

AGENCY AGREEMENT WITH THE CONTINENTAL INSURANCE COMPANY OF NEW YORK

AGENCY AGREEMENT

This agreement, made this ____ day of _____, A. D. 193__, by and between _____ of _____ in the County of _____ and State of _____ hereinafter designated as "Agent", and The Continental Insurance Company, a corporation duly organized and existing under and by virtue of the laws of the State of New York, and having its principal office in the City of New York, and State of New York, hereinafter designated as "Company":

Witnesseth that:

Pursuant to request that the underwriting facilities of the Company be made available to the undersigned, as Agent, the Company hereby grants authority to Agent to receive and accept proposals for such contracts of insurance covering risks on properties located in _____ as the Company has authority lawfully to make; subject, however, to restrictions placed upon such Agent by the laws of the state or states in which such Agent is authorized to write insurance business and to the terms and conditions hereinafter set out.

It is hereby agreed between the Company and the Agent as follows:

(1) Agent has full power and authority to receive and accept proposals for insurance covering such classes of risks as the Company may, from time to time, authorize to be insured; to collect, receive and receipt for premiums on insurance tendered by the Agent to and accepted by the Company and to retain out of premiums so collected, as full compensation on business so placed with the Company, commissions at the following rates, viz:

(2) In the event of termination of this Agreement, the Agent having promptly accounted for and paid over premiums for which he may be liable, the Agent's records, use and control of expirations shall remain the property of the Agent and be left in his undisputed possession; otherwise the records, use and control of expirations shall be vested in the Company.

It is a condition of this Agreement that the Agent shall refund ratably to the Company, on business heretofore or hereafter written, commissions on cancelled liability and on reductions in premiums at the same rate at which such commissions were originally retained.

(3) Accounts of money due the Company on the business placed by the Agent with the Company are to be rendered monthly so as to reach the Company's office not later than the _____ day of the following month; the balance therein shown to be due to the Company shall be paid not later than _____ days after the end of the month for which the account is rendered.

(4) Company shall not be responsible for Agency expenses such as rentals, transportation facilities, clerk hire, solicitors' fees, postage, advertising, exchange, personal local license fees, adjustment by the Agent of losses under policies issued by the Agent, or any other Agency expenses whatsoever.

(5) Any policy forms, maps, map corrections, and other like Company supplies furnished to the Agent by the Company shall always remain the property of the Company and shall be returned to the Company or its representatives promptly upon demand.

(6) This Agreement supersedes all previous agreements, whether oral or written, between the Company and Agent and may be terminated by either party at any time upon written notice to the other.

In witness whereof the Company has caused its corporate name to be subscribed hereto and the Agent has set ------ hand and seal on the day and year first above written.

THE CONTINENTAL INSURANCE COMPANY,
By ----------

ATTEST:

(Secretary)

[SEAL] ----------
(Agent)

By ----------

ATTEST:

The CHAIRMAN. Mr. William T. Reed, Jr., representing the National Association of Insurance Agents.

STATEMENT OF WILLIAM T. REED, JR., WASHINGTON, D. C., REPRESENTING THE NATIONAL ASSOCIATION OF INSURANCE AGENTS

Mr. REED. Mr. Chairman, and members of the committee: The National Association of Insurance Agents is an unincorporated, voluntary, nonprofit association of insurance agents placing all general forms of insurance, other than life and title, compensated on a commission basis. It was organized in 1896 and has been in continuous operation ever since. Its organization comprises underlying State units of insurance agents in the respective States. This membership is composed of over 15,000 firms and corporations commonly called "agencies." The number of individual licensed, commissioned insurance agents in this membership is approximately 75,000 persons.

This organization is opposed to sections in the bill H. R. 6635 now pending before this committee which define the term "employee" in such a way as to include the members of this association, and which at the same time recognizes in such definition that such a person so denominated by the amendment as an "employee" is not an employee under the law of master and servant.

The business of fire, casualty, and surety 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 local or general agents, as distinguished from salaried employees of insurance companies.

Because of the universal practice which prevails in this country, these insurance agents are vested with certain property rights, one of which is an ownership in the expirations of the business which they produce and place upon the company's books. There is in addition, a certain established value in such an agency, consisting of equipment and supplies and the goodwill attaching to such an agency. 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 oc-

cupation. He is not under the direction of any insurance company as to how he shall work, or where he shall go, or whom he shall see, or what he shall do. 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.

Senator KING. His employees would be employees?

Mr. REED. Yes, sir.

Senator KING. But the agent himself would not be?

Mr. REED. Yes.

Senator KING. That is your contention?

Mr. REED. That is our contention.

His compensation is a given percentage of the insurance business written by him and his solicitors. He also assumes a distinct liability in becoming the guarantor of the payment of the earned premium when carried beyond the usual cancelation date. 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.

While developing this business such insurance agent 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 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 company, or the employee of any company.

Upon the determination of such an agent to place a line in a given company he thereupon begins to exercise the insurance 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. He 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 he himself owns.

From the above description of the operation of an insurance agent, it is beyond the pale of reason to call such men "employees."

This proposed amendment to the social-security law will strike down the independent character of all insurance agents and runs counter to their well-known and legally established position of independent contractors.

It is not the intention of the National Association of Insurance Agents to object to the wise and wholesome provision of social-security

laws generally. The iniquity of this amendment lies in striking down and emasculating the independent status the insurance agents of the United States have enjoyed for a hundred years. For Congress to attempt to define as an "employee" a person who has not been, and cannot in the very nature of the case, be an "employee" is contrary to reason and common sense.

The insurance agents of the United States will suffer a great injury if this attempt to take from them their independent status is enacted into law. Any benefit they might secure under a tax levy is entirely negligible, compared to the harm that Congress will bring upon them by enacting this amendment as it is presently drawn.

It is, therefore, respectfully requested that the Senate Finance Committee will permit the definition of "employee" to remain as it is in the present law, or at least not to extend the definition so that it will include this large body of independent businessmen who vigorously object to being classed as "employees" when they are not.

Senator KING. May I ask you a question? What would be the status of one or more individuals who were commissioned by the agent to write insurance for that office—if I asked for permission to represent your agency and you assign that to me and I go out and work for myself on a commission, would I be an employee of your agency?

Mr. REED. I think if your relationship and your contract with me was on the basis that you have just suggested with a commission paid on such business as you brought in and I had no control over your operations, you would be an independent contractor, just as much as the agent would be, and the Bureau of Internal Revenue has so held.

Senator KING. But if I were working for a salary, I would be an employee?

Mr. REED. Yes.

Senator CONNALLY. As you have described this agent, he is nothing more than a broker.

Mr. REED. In the insurance business we have a different status for those whom we call brokers. They represent the assured. They place the business under a State license with any company in the State.

Senator CONNALLY. Don't you have insurance brokers?

Mr. REED. Yes. That is what I was trying to indicate.

Senator CONNALLY. How would you change the language in the House bill? Just strike it all out and go back to the present bill? It seems to exempt an agent where he has employees, and it seems to make it clear that he is not an employee.

Mr. REED. There was other language in the bill when it passed the House. It stated—

> The term "employee" includes an officer of a corporation. It also includes any individual who, for remuneration (by way of a commission or otherwise) under an agreement or agreements contemplating a series of similar transactions, secures applications or orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business (but who is not an employee of such person under the law of master and servant.)

It would appear from this language that even if you occupy the status of an independent contractor, where you are engaged in handling insurance, you might be considered to be an employee.

Senator CONNALLY. If you were an individual, it might be true. Later on, when you become an employer, you are no longer an employee?

Mr. REED. That is right.

The CHAIRMAN. Mr. T. J. Priestley, Jr., president of the Priestley Printers.

STATEMENT OF T. J. PRIESTLEY, JR., PHILADELPHIA, PA., PRESIDENT, THE PRIESTLY PRINTERS

Mr. PRIESTLEY. Mr. Chairman, I am astonished by the fact that business, particularly small business has not been more adequately represented at these hearings. There are some 2,000,000 of them employing over 20,000,000 wage earners. This bill affects them more adversely than any other class of our citizens. They are the underdogs. They are what the Government calls incompetent.

I am a charter member of the National Small Business Men's Association and if I may have your indulgence I will try to make up for the lack of adequate representation for the small-business men.

What I say will be my personal opinion, founded by contact with small-business men.

Senator KING. Do you speak for them and with their knowledge that you are representing them?

Mr. PRIESTLEY. I am not going to speak for them. I am going to speak for myself, and that will be because I know their general thoughts.

Mr. Chairman, I am in favor of a social-security bill, but I am not in favor of that part of this bill which is known as the employers' contributions, because it is unjust, dishonest, and it violates the spirit of the Constitution.

That is what I want to talk about. I would like to refer to Mr. Altmeyer's brief—quote:

> During the calendar year 1938, benefits amounting to almost $400,000,000 were paid to some 3,800,000 workers temporarily unemployed in the States then paying benefits.

This appalling army of 3,800,000 is but a fraction of the unemployed. I heard someone say that the beneficiaries received an average of $19 a month—that is $4.50 per week, or 10 cents per hour, assuming they were working—most of them received less than half of this amount, or 5 cents, while some received more, and as Senator Byrnes said, 3½ and 2½ cents an hour.

Senator KING. Persons on relief you say get that?

Mr. PRIESTLEY. Yes; if they get $6 a month, it would amount to that, assuming they worked each week for 45 hours.

I wonder if it has not occurred to every Senator and Representative that we should be ashamed of ourselves for not having tried long before this to correct the conditions which caused so much unemployment and distress. We not only have not bettered conditions as a whole, but we have indeed legislated more unemployment by fixing hours and wages, and have failed to protect the worker in his right to work.

Senator KING. Do you mean against strikes?

Mr. PRIESTLEY. Yes, sir.

Senator KING. And sit-downers too?

Mr. PRIESTLEY. Yes.

Referring again to the brief—

> With respect to taxes, the bill freezes the old-age insurance at 1 percent on the worker and on the employer for 3 years.

Under our present system of taxation, you may think you are freezing the employer's tax, the employer knows; the employers have come face to face with the fact that the privilege to tax is the privilege to destroy. This freezing process is like cutting a dog's tail off 1 inch at a time, instead of 3 inches at a time, so that it won't hurt him so much. The idea is wrong; the underdog would tell you so if he would but speak.

I do not know who is responsible for such phrases as employers' contributions; a contribution is a donation, a gift. This tax is the same kind of contribution which the gasoline man gives when he has a pistol pressed into his belly by a hold-up man.

Speaking about "agricultural labor," quoting:

> The extent of the exception is shadowy indeed where the producer also engages in processing and marketing.

The whole bill is shadowy if you have to take the employer's economic security away and give it to his competitor's employees as social security.

I would like to explain how that is done. I will use a little example here that I think you can comprehend very easily.

Senator CONNALLY. Make it awfully small. [Laughter.]

Mr. PRIESTLEY. Using the chicken business as an example, we find A and B so engaged on opposite sides of the street. A in using old methods employs 20 hands to clean and dress a certain quantity of chickens. B, using modern machines, employs 4 people to clean and dress the same number of chickens. They each pay a wage of $20 per week to each hand, and this leaves A with a pay roll of $400 each week and B with only a pay roll of $80. The pay-roll taxes for social security at this time are 4 percent, so we find A's tax is $16 each week, but B's tax for doing the same amount of business is only $3.20 each week. In 52 weeks A pays a total of $932, while B pays only $166.40 for doing the same gross business. Our question is whether our Government is forcing A to subsidize B's business; and if so, why?

This was a letter that I received from one of my friends:

> Why should our Government persist in causing so much unemployment?

We know that that condition as it exists would not exist very long, because it would not be very long before a man who was employing but 4 men would have 8 men, and the other fellow would be out of business, and you would have 16 more men unemployed, but that is not the big part about that. The part that is bad about it is that the Government steps in and helps to push him out by this tax. He would go out naturally if he did not buy some more machinery, but if he loses $932, it might be just enough to buy one machine, and the following year he might have just as many as the other on the other side and still there would be more people out. I don't object to that.

Senator KING. You are arguing against technology and its development and technical improvements?

Mr. PRIESTLEY. Oh, no; I am in favor of machinery. I claim that machinery to the manufacturer is like sun and rain to the farmer.

Senator KING. How would you meet what you contend to be, if I understand you—and pardon me if I do not—the disparity?

Mr. PRIESTLEY. You don't meet it that way. More people will eat chickens when there are more people working, so that both of

them are satisfied, and they could turn out practically the same amount with the new machinery, but other conditions back of it have to be understood so that they can both do that.

Senator CONNALLY. What you mean is that the Government imposes this tax on the man with 20 against the man with 4 and just hastens his exit?

Mr. PRIESTLEY. Yes, sir.

Senator CONNALLY. Your point is that you give him an exit push and get him out of the picture?

Mr. PRIESTLEY. Yes; that is what it does.

But I am trying to explain that there is a way to make it possible for everybody to have a job, and when everybody has a job——

Senator CONNALLY (interposing). You tell us that, and we will elect you to something.

Mr. PRIESTLEY. I think I will, but I could sell it to one man, I think. I have sold it to every man that I have spoken to, individually.

Mr. Altmeyer has presented a very intriguing brief—but remember that is his job—it is not so important to him that this bill be constitutionally right and fair, as it is that he present the best bill which he can think of to accomplish this purpose—that is his job. But the Senators and Representatives have a job or trust which is quite different. Their duty is to see that one part of our people is not hurt in order to benefit another part; and that any act of theirs should keep within the spirit and the lines of our Constitution.

If I did not know that this could be done I would have neither the strength nor courage to address you.

I have explained one of the reasons which are now defeating, and which will defeat, the very object we are trying to accomplish; but there is another reason vouched for by the statistics of the Census Bureau, Department of Commerce.

I will read this letter which I just received, dated June 12:

> The statistics promised in my letter of May 26 in regard to the size of establishments according to the value of products reported by the Census of Manufactures for 1937 are enclosed. These are advance data and are furnished to you only on the condition that you will keep them in strict confidence until they have been published by this Bureau. We hope to issue the report sometime this month, and I shall advise you of the release date as soon as it has been fixed.

I went to see Mr. Austin, Director of the Bureau of the Census, about these statistics in order to compare the latest statistics—that is, 1937—with 1929, 1925, and 1920. These statistics are the most appalling statistics that I have ever read, although I had in 1930 predicted something very much like what is now happening. I printed a little booklet called the Survival of the Fittest. In that booklet I went on to say that if all the large fish ate all of the small fish, the large ones would starve. These statistics have shown not only that small businesses are dying off, but it shows that the fairly large ones are now in process of decay.

I printed in that little booklet—"statistics, from year to year, and even month to month, are pointing to the fact that free and unbridled competition would eventually lead to the elimination of the small and gradually but surely to the larger businessmen and manufacturers" and these figures positively show that. In other words, this shows establishments doing business from $5,000 to $20,000, and from $20,000 to $50,000, and from $50,000 to $100,000 and so on. We were only

worried about businesses doing $20,000 to $50,000 and now it has gone up practically to the $1,000,000, those doing $1,000,000; it has affected them very adversely, I mean, the conditions as they are.

Senator KING. Do I understand that you are objecting to the competitive system in our industrial and business life?

Mr. PRIESTLEY. No; I am trying to help that condition.

Senator KING. Pardon me if I misinterpreted your observation, but I understood that you are attributing much of the bad competition that exists to the competitive system, and I was wondering if you favored regimentation?

Mr. PRIESTLEY. No; I am against it. In other words, I am in favor of equitable taxation. The small-business man by these figures pays 5 to 10 times as much on his dollar of sales in proportion to that which is paid by the larger concerns; therefore, while in the small concerns, the men will produce, we will say, $5,000, in very large concerns they produce up to $17,000. So it shows that the small concerns pay three or four times, by that illustration, as much in the dollar of sales as do the larger employers.

Senator CONNALLY. Do you mean that social-security taxes or general taxes indicate that?

Mr. PRIESTLEY. If I may read this——

Senator GEORGE (interposing). You are talking about general costs.

Mr. PRIESTLEY. In other words, you had here yesterday a gentleman——

Senator CONNALLY (interposing). You said through the payment of taxes. What kind of taxes?

Mr. PRIESTLEY. Any kind of taxes, and social-security taxes particularly. I would say that would cover it. In other words, the other taxes does not charge him anything unless he makes it. I mean the ordinary business taxes.

Senator KING. Corporation tax?

Mr. PRIESTLEY. Yes. Unless he makes it they do not charge him; but this tax, regardless of whether he makes anything or not, is taken away from him. Suppose the party who had to pay $932, supposing he did not make anything, he would still have to pay to the Government by a social-security method of taxation.

The point which I wanted most particularly to emphasize is that while this employers' tax is dishonest, it is doubly so to the small enterprises, because the Government statistics prove that small enterprises pay from two to five times as much for each employee's insurance as do the large corporations in proportion to their dollar of sales.

Those are facts, and we cannot get away from them.

I am not using the figures for 1937 which the Director told me not to use, but I will use figures for 1929, which show that a man produces in value for his employer, in the small concerns doing up to $20,000, $3,083. The man produces for his employer doing $20,000 to $50,000, $4,739, and if we keep on going up until we get to $5,000,000 and over, we find the man produces for his employer $11,789. It runs $3,083, $4,739, $5,544, $5,765, $6,102, $6,504, $7,089, $7,801, and in the largest one, $11,789.

In the first instance—that is, in the small concerns—man production has decreased from $4,777 in 1920, and it has kept on going down

so that in 1929, even when things were good, they only produced $3,089, while in the larger brackets they produced per man $7,870—and kept on going up until now it is nearly $13,000 per man.

Senator GEORGE. If you don't levy any tax to support the social-security system, how would you support it?

Senator KING. Before you answer Senator George's question, if you will pardon me, if I understood you, your contention is that the small man pays a larger tax under the social-insurance laws than the big manufacturer or the big-business man, because the big manufacturer and the big-business man produces cheaper or produces a larger quantity per man than the small manufacturer?

Mr. PRIESTLEY. Yes; in other words, you mentioned that on their sales, and that is the only thing that anybody has any profit in, is sales, and nothing else; therefore it is not equitable.

Senator GEORGE. If you put a tax on the value of the product of the labor that you employ, would you consider that a fair basis?

Mr. PRIESTLEY. I did not understand your question.

Senator GEORGE. If you placed the tax on the value of the employed labor——

Mr. PRIESTLEY (interposing). No. On sales. I will just give you some figures. If we place equitable taxation on sales, we have an income to the Government of $12,000,000,000 by this method.

Senator GEORGE. Are you talking about total sales?

Mr. PRIESTLEY. Yes; in other words, the total transactions would be $600,000,000,000, which would give an income to the Government of $12,000,000,000.

Senator CONNALLY. Do you mean a general sales tax on everything that is sold?

Mr. PRIESTLEY. No; a general sales tax looks something like this, but it is as different as a goose is to a swan. They look very much alike, but they are not.

Now, my way of figuring out this tax is that 60 percent of all of the enterprises would pay no more than one-fourth of 1 percent on their gross sales. That would bring an income of $960,000,000. Twenty percent of all enterprises would pay no more than 1 percent and bring in the same $960,000,000.

Senator GEORGE. You would have a different rate?

Mr. PRIESTLEY. Oh, yes; because if they are paying equitably on their sales, the sales are stepped up; in other words, take in my business, which is a printing business. In 1929 every printer could have done $114,000 worth of business to equalize the total amount of business done. Therefore, it is only right that any printer should do that much if he had an opportunity and ability, but there were very few that did that, but that is the fair amount. We start with a fair amount, and if a printer does $114,000 or any less, he pays one-fourth of 1 percent gross. If he does another $114,000, he pays one-half of 1 percent on that. And another $114,000, three-fourths of 1 percent, and stepped up at the rate of one-fourth of 1 percent.

Senator CONNALLY. A progressive tax?

Mr. PRIESTLEY. Yes; but it is an equitable progressive tax. In other words, this thing is not now, as far as the method of taxation is concerned, with the United States. You are doing practically the

same thing on personal incomes, but there is no scientific method back of that. You simply say to a man if he makes $100,000, you take $33,000 away from him; if he makes $1,000,000, you take $666,000; but if he makes $20,000,000, you take $15,000,000 away from him. Why that is worked that way I do not know, but I know it is worked that way. Do you quite understand what I mean by that? In other words, it is a progressive tax; it is a tax that you do not have to do very much other than start a little committee and find out what is equitable, and go to it, and you could do that at this session; and if you do, instead of having to worry about the unemployed, they will find their own social security and also their economic security.

Of this $12,000,000,000 which I am talking about, which is an income to the Government, $6,000,000,000 of that should be sent back to the States from which it came. For instance, if one State paid more than another, they should get it back in the same proportion, and they could take care of their own social security; but the fact of the matter is that there would be very little need for enacting social security laws, because everybody could get a job.

If one man in a small concern produced $3,000 and he goes to a larger concern, and he there produces $17,000, it is not long before that one man will eliminate five or six other men, and that is what has been happening.

All of the employment has gone to the larger concerns, but if we were taxed equitably, it would allow the little fellows to exist, and all could find employment; in other words, business men are afraid to do anything, but if they had some method by which they knew that they were going to be taxed fairly, they would start in business. But who wants to start in business now? Who would buy new machinery right now? But, put this equitable tax on, and you will find that every line of business will pick up.

I did not expect to appear before this committee. I appeared before the Ways and Means Committee, and when I learned that this bill was going to the Senate, I jumped on a car, half prepared, and came down to see my Senator, Senator Davis. He told me that the best thing that I could do was to come before this committee. He gave me a few minutes, and that is why I am here. On Saturday I learned of the passage of the bill in the House, and I drew up the letter which I was going to send to every Senator and every Representative. In the meantime, after I arrived here, my foreman sent this letter down to me, so this will give a fair idea of my plan. It will only take me, maybe, 10 minutes to read it.

Senator KING. You have had so much time now—can't you put it in the record?

Mr. PRIESTLEY. Yes; I could, but——

Senator KING (interposing). I do not want to interfere with your desire.

Mr. PRIESTLEY. The only thought is that I would like to be able—I may do it in less than 10 minutes.

Senator KING. We will be very tolerant.

Mr. PRIESTLEY. I wish you would because we have not been represented here by any other small-business man or by large-business men, either.

Senator KING. Proceed.

Mr. PRIESTLEY [reading]:

To the Honorable Senators and Representatives, Washington, D. C.:

GENTLEMEN: Since appearing before the Ways and Means Committee on March 13 and advocating a plan of equitable taxation as a cure for social insecurity, I have been trying to obtain from the Census Bureau advance copies of the forthcoming issue of manufacturing statistics, giving size of establishments according to value of products, in order to give the committee the benefit of my study.

The latest published edition contained the statistics for 1929, but the Census Bureau kindly promised to give me early in June the particular data I requested, provided I did not broadcast it until the latest edition was published. This precluded my request for a hearing; therefore, I am writing, trusting that my efforts may be of some benefit to you in your deliberations on taxation.

The Nation owes a debt of gratitude to our Congressmen for their treatment of the Townsend bill—

Senator KING (interposing). You mean the treatment in killing it?

Mr. PRIESTLEY. In killing it.

and I am sure that every Member of Congress has as profound sympathy for our unfortunate aged citizens as does Dr. Townsend.

I am also sure that this committee is anxious to be instrumental in making happiness possible for all our citizens and not only the aged.

It is this laudable objective which we have in common that prompts me again to advocate "one tax only for business" as a true solution for the unhappiness caused by our Nation's chaotic condition.

The most important and proper function of the Ways and Means Committee is not only to draft a tax bill to meet the needs of our Government, but to draft a tax bill that will be equitable in reference to the ability to pay.

The dire repercussions caused by inequitable taxes based on the net profits of corporations; the excess-profits tax; the undistributed-profits tax; the vicious capital-stock tax; and the dishonest pay-roll taxes which are so evidently unfair and detrimental to real social and economic security as to make an unbiased citizen wonder why such laws were enacted.

Since facts and government statistics prove that corporations increase their profit advantage very materially in direct proportion to their increased production and sales, it is evident that taxes should be based on gross sales in accordance to the wisely established principle that taxes should be levied in proportion to the ability to pay, and in proportion to the benefits received.

It proves that progressive taxation on gross sales is the only logical, fair, and honest method of taxation; but if we should fail to comprehend the importance and the necessity for establishing the base, or "fair amount," of business in each line of enterprise for the purpose of progressive taxation, our present chaotic condition would not be improved. Therefore, the total amount of business done in each different line of business throughout the Nation should be divided by the number of enterprisers or corporations following each line, and the quotient should be the base or "fair amount" in each line, for the purpose of taxation.

1. This tax should be one-fourth of 1 percent of the gross receipts not in excess of the base or "fair amount," and

2. One-half of 1 percent of the gross receipts in excess of the base amount, and not in excess of twice the base amount, and

3. Three-fourths of 1 percent of the gross receipts in excess of two times the base amount, and not in excess of three times the base amount, and

4. One-fourth of 1 percent for each additional base amount taxed progressively and cumulatively.

By this method of taxation the larger corporations will pay less in taxes than they will eventually have to pay if some such equitable tax plan is not enacted.

Mr. Knudsen of General Motors Corporation stated on January 6, 1938, before the Committee on Unemployment and Relief, that their increase in cost of production on account of labor and materials was 13½ percent more in 1937 than in 1936. He stated later that the increase was not added to the sale price of products. Mr. Knudsen made one other statement in reference to production which is pertinent for you to keep in mind, and that is, "You know, Senator, it is all labor, when you come right down to it. It is only a question of what we make and what somebody else is making."

My estimate of the probable first returns to the Government by this method of taxation is as follows:

Basing the figures on $600,000,000,000 total transactions, $12,000,000,000 would be the tax return, made up as follows:

Taxation percentages on gross sales

60 percent of all enterprisers will pay no more than one-fourth percent or 8 percent of total or	$960, 000, 000
20 percent of all enterprisers will pay no more than 1 percent or 8 percent of total or	960, 000, 000
10 percent of all enterprisers will pay no more than 2 percent or 9 percent of total or	1, 080, 000, 000
4 percent of all enterprisers will pay no more than 4 percent or 12 percent of total or	1, 440, 000, 000
3 percent of all enterprisers will pay no more than 7 percent or 14 percent of total or	1, 680, 000, 000
2 percent of all enterprisers will pay no more than 9 percent or 16 percent of total or	1, 920, 000, 000
1 percent of all enterprisers will pay no more than 12 percent or 33 percent of total or	3, 960, 000, 000
Total, 100 percent of all enterprisers	12, 000, 000, 000

Not having the latest figures, I am using the Government statistics for 1929 showing particularly how employees' production increases in direct proportion to the increased production and sales.

Establishments producing between	Number establishments	Wage earners	Value of production in dollars	Value of production per man
$5,000 to $20,000	69,423	202,958	$771,417,436	$3,083
$20,000 to $50,000	46,618	315,912	1,497,191,175	4,739
$50,000 to $100,000	28,617	377,243	2,090,506,101	5,544
$100,000 to $250,000	28,704	778,886	4,568,093,828	5,765
$250,000 to $500,000	15,449	894,097	5,455,677,825	6,102
$500,000 to $1,000,000	10,395	1,121,547	7,294,860,945	6,504
$1,000,000 to $2,500,000	7,430	1,606,221	11,384,840,599	7,089
$2,500,000 to $5,000,000	2,479	1,099,553	8,578,377,542	7,801
$5,000,000 and over	1,854	2,442,326	28,793,897,992	11,789
Total	210,959	8,838,843	70,434,863,443	

U. S. Fifteenth Census Report, manufacturers, 1929, vol. 1.

This takes in the aggregate of all manufacturers, but if we take identical business we find more pertinent facts.

Printing and publishing industry, United States Census of Manufacturers, 1929

Establishments producing between—	Number establishments	Wage earners	Value of production in dollars	Value of production per man
$5,000 to $20,000	12,370	25,815	135,145,841	$5,236
$20,000 to $50,000	5,606	26,950	175,084,396	6,496
$50,000 to $100,000	2,619	26,022	200,751,191	7,714
$100,000 to $250,000	1,994	39,201	309,185,006	7,838
$250,000 to $500,000	801	31,520	279,968,396	8,879
$500,000 to $1,000,000	446	34,069	308,150,368	9,045
$1,000,000 to $2,500,000	265	36,649	394,806,759	10,772
$2,500,000 to $5,000,000	79	21,126	277,259,716	13,122
$5,000,000 and over	56	38,948	667,624,967	17,447
Total	24,236	280,309	2,744,955,660	

The Federal Government should return about 50 percent of this tax to the States from which it originated, in order that but one tax be levied on business.

This tax would create parity prices for farm products and would cover social security objectives; in fact, with the enactment of a progressive gross tax our citizens could obtain their own rightful social and economic security, and there would be no need for Federal pauper legislation.

The net income tax.—It will be seen that an establishment producing no profit to itself is a menace to security and the Government receives nothing in taxes, while other corporations in like businesses are distressed by unfair competition, proving the net profit tax to be inadequate and incompetent for business.

The excess-profits tax.—This tax is inequitable and unfair. It accomplishes by subterfuge that which seems to be unconstitutional, namely, double taxation by the Federal Government.

The undistributed-profits tax.—This tax has all the points against it contained in the excess-profits tax, and has in addition malicious regimentation, so that profits honestly made may not be spent or divided in the best manner by the directors. This method of taxation will not put more men to work, but intensifies unemployment.

The capital-stock tax.—This vicious tax places a premium on stagnation by taxing improvements and additional capital goods regardless of the increase or decrease in production or sales.

The pay-roll tax.—(I have already commented on that.)

Why should our Government persist in causing so much unemployment?

Freezing this tax at 1 percent is like cutting a dog's tail off 1 inch instead of 4 inches at a time. In either case it is wrong.

Is there a Senator or Congressman who will contend that a progressive gross tax would not be an advantage to the Nation's welfare.

The CHAIRMAN. Thank you very much.

The next witness is Mr. Sherman H. Dalrymple, president, United Rubber Workers of America, and acting chairman, social security committee of the Congress of Industrial Organizations.

STATEMENT OF SHERMAN H. DALRYMPLE, ACTING CHAIRMAN, COMMITTEE ON SOCIAL SECURITY, CONGRESS OF INDUSTRIAL ORGANIZATIONS; PRESIDENT, UNITED RUBBER WORKERS OF AMERICA

Mr. DALRYMPLE. Mr. Chairman and gentlemen of the committee, we feel thankful to your committee for allowing us at this time to present a few of our thoughts on the social security program.

On behalf of the Congress of Industrial Organizations, I wish to present our views with respect to the amendments proposed to the social security system by this bill, H. R. 6635. While we recognize that a sincere attempt has been made by this bill to meet the demand for real security on the part of the American people, we must nevertheless submit our major criticism that the bill fails to provide adequate safeguards in the unemployment compensation laws, and fails to provide adequate pensions for our needy aged. I shall deal briefly with each of the major divisions of the social security system, namely, the general assistance programs, the unemployment compensation system and the old-age pensions.

ASSISTANCE PROGRAMS

1. We approve of the change made to increase the Federal grant for dependent children from one-third to one-half of the total funds appropriated in any State and to raise the age limit from 16 to 18 in the case of children still attending school. However, we feel that each of the assistance programs dealing with maternal and infant care, dependent children and needy blind should contain a guarantee against discrimination in the administration of the laws on account of race, color, creed, union affiliation or other reason. We feel that the $1,000,000 appropriation made by the bill for vocational rehabilitation is no substantial contribution to the problem of our disabled.

It has been shown that the cost of a program to take care of permanently and totally disabled would be relatively small and could be carried along as part of any program for old-age insurance benefits or pensions. There is no reason why it should not be done.

UNEMPLOYMENT COMPENSATION

2. Experience has already shown that the administration of a Nation-wide unemployment compensation system upon the basis of 48 States systems without adequate Federal standards has resulted in chaos and confusion leading to limitation of benefits and administrative complexities. The present benefits paid are by no means adequate either in amount or in duration.

The CHAIRMAN. Your organization approves, then, of the phase to which you just alluded? The McCormack amendment, for instance. The standards embodied in that, does your organization approve of them?

Mr. DALRYMPLE. I am going into that part of it now.

Instead of meeting this problem this bill authorizes the States to make a general tax reduction. To cover up this backward step the bill sets up certain standards with which the States must purportedly comply, before they can take advantage of the tax rebates. These standards provide chiefly for a 2-week waiting period, $5 weekly minimum benefit, and a 12- to 13-week benefit period. However, there is nothing in the bill concerning eligibility or coverage so that it is possible for States to set up high qualifications and to arbitrarily limit coverage as in the case of seasonal employment, with the result that many workers would be disbarred, few benefits would be paid and the States would be able to accumulate sufficient reserves to take advantage of the reduction. We consider this portion of the bill to be a fraud on the American workers.

OLD-AGE PENSIONS

3. Our criticism of the old-age pensions provisions in the social security program is fundamental. The amendments continue the present separation between the Federal and State system of old-age assistance and the Federal old-age insurance scheme. The bill increases the maximum Federal contributions to the State old-age assistance plans from $15 to $20 per month per recipient, thus permitting the States to pay a maximum of $40 per month, instead of the present $30 per month. However, the report of the House Ways and Means Committee itself estimates that there will be very few States who will be able to take advantage of the increased Federal grant, particularly where the need is greatest.

As to the old-age insurance program, the bill while extending coverage of the law to take in seamen and employees of national banks, also exempts a large group of persons who are employed in so-called agricultural pursuits and who are now covered by the law. In other words, the right to Federal old-age benefits has been taken away from a group of workers who badly need it and who had already begun to make contributions toward it on their pay roll and wages. This change is due to the high-powered lobbying of commercial cannery and packing interests masquerading in the name of the small farmer. It is absolutely without any justification.

The major changes made by the amendments are with respect to the computation of Federal old-age insurance benefits and the eligibility therefor. The bill recognizes the need for some immediate measure of relief to our aged people. It provides for the payment of benefits to commence on January 1, 1940, and for certain supplementary allowances to wives and children and dependent survivors.

But the eligibility requirements of the bill are impossible. These requirements are to be found in section 209 (g). Under these requirements, the eligibility conditions to the receipt of benefits increases each year, beginning in 1940 and successively thereafter. A person reaching the age of 65 must have larger total earnings and an increasing number of years during which he was engaged in covered employment, earning at least $200 a year.

We have three principal objections. First, these eligibility conditions are unnecessarily complicated, beyond the understanding of the average worker and are absolutely arbitrary.

Second, these eligibility requirements violate the principle of contributory payments upon which the bill bases the right to benefits. As a matter of fact, benefits will be paid to those who have made only a nominal contribution while a large number of persons who made substantial contributions will never be paid anything or be paid very little. We do not argue for the contributory principle, but we wish to point this out as showing that the bill itself recognizes the fact that a sound system of old-age pensions must be based not upon insurance principles, but rather upon the social principle of paying benefits to take care of the needs of our aged people out of public funds.

Third, the arbitrary eligibility conditions established by the bill will have the result of debarring each year hundreds of thousands of workers who cannot keep up with them. I wish to refer the committee to a memorandum introduced for the record which points out in detail how the bill will so operate.

(The same will be found at the conclusion of the witness' statement.)

CONGRESS OF INDUSTRIAL ORGANIZATIONS PLAN FOR $60 AT 60

Mr. DALRYMPLE. We believe that this bill does not meet the goal of making adequate payments of minimum benefits to our aged people immediately, and we have come to the conclusion that it is necessary to adopt a program that will accomplish this result.

The executive board of the C. I. O. at its meeting in Washington, June 13–14, unanimously adopted a resolution reading as follows:

Resolved, That the Congress of Industrial Organizations undertake a national campaign in cooperation with old-age and progressive groups to achieve real security for our aged people upon the basis of a pension of $60 per month at 60 years of age to individuals and $90 per month to married couples of 60 years of age.

Under this plan the $60 maximum benefits will be subject to deduction on account of outside income which an individual himself may receive. Thus this program will guarantee to every aged person and aged couple the minimum of security.

This plan will assure a single unified Federal system with universal eligibility for all residents. The present Federal and State funds available for payment of pensions will be combined. The use of pay-roll taxes will be continued, but only as a means of collecting

the funds for the payment of pensions rather than as a measure of the eligibility or the amount of benefits to which a person is entitled.

It is important to remember that at the present time there is approximately $1,050,000,000 being collected or spent for old-age pensions. This is represented by $500,000,000 collected under the Federal old-age insurance taxes of 1 percent on pay rolls and wages, $500,000,000 for existing Federal, State, and local expenditures for old-age assistance, and some $50,000,000 under W. P. A. and other relief programs reaching aged people.

The figures show that in 1940 there will be some 13,000,000 persons, including couples, who will be 60 years and over. If we estimate that 20 to 25 percent of these aged individuals will be eligible to receive the maximum pension provided under our plan, the total cost of this plan will run from $1,700,000,000 to $2,150,000,000. However, we must deduct from this cost the $1,050,000,000 already collected so that the net additional cost of this program will be between $600,000,000 to $1,000,000,000.

Senator VANDENBERG. May I ask you at that point if your executive board has suggested any way by which that balance would be raised?

Mr. DALRYMPLE. The question was discussed briefly, but there was no conclusion reached as to what they would recommend. I will cover that briefly, though, as I go forward here.

Senator VANDENBERG. I am wondering if you favored an increase in the pay-roll tax or a transactions tax?

Mr. DALRYMPLE. I will cover that.

Senator VANDENBERG. All right.

Mr. DALRYMPLE. I cannot too strongly impress upon this committee the necessity for some immediate action that will provide adequate minimum benefits to the aged of this country. I know from my own experience as president of a large industrial union in one of our major industries that the situation is rapidly becoming acute. Already developments are taking place. First, industry refuses to make any adequate provision for our aged people to maintain them in their advanced years; second, where these aged people are retained in their jobs, they are eliminating jobs for our young people. The result is that we have both a want on the part of large sections of our aged people and the lack of jobs for the young people who are thereby unable to marry and settle down and become responsible citizens in their communities. I say to you in all seriousness that I know from my own personal experiences that without jobs our young people will take to the streets and become criminals, and society, and not they, will be to blame.

We believe that it is only under such a program as we advocate that any substantial contribution can be made to the problem of security for aged people.

If the present Federal and State resources available for the payment of pensions are combined, the additional funds required to pay a $60 benefit at 60 years of age can be secured from the presently untapped resources of wealth and income in estate and gift taxes, and tax-exempt securities. We feel a goodly proportion of that could be raised along those lines.

There is one final thought which I wish to leave with the committee. We rest our program upon the assumption that this country will have a continuously expanding economic system, returning increasingly

larger yields of income to the Nation. We know that a program of this kind will require the determined development of a national plan and policy designed to bring about the maximum use of our productive capacities.

In enlarging on my written statement just a few minutes, I would like to point out where we can see the evil that is in some of the larger industries at the present time, especially in the rubber industry. Many companies are requesting of our organization the elimination of the seniority programs and the return of the merit system, and when we make our demands to preserve our seniority programs that protect the employees and give them job security, men that have been in the plant over a period of years and who are becoming in many cases between the age of 50 and 65 and some as high as 70, it appears to me that when they cannot get the employees to agree that the younger people be brought into the plant and the older ones put out of the plant, they immediately start some form of decentralization where they are establishing small subsidiaries in other communities where they will employ the younger people, bringing young blood into their industry. We believe that the sound policy is to relieve the aged people of this strenuous work, especially those that have raised large families and they are still compelled to support the family although they have a group of young men that they are still supporting. We claim that it would be much sounder policy for the aged ones to be relieved and the younger ones placed in that industry.

I cannot quite agree with some statements that I have heard that it would be an easy task to furnish employment for all of our people under our present form of industry, where automatic machines are taken logically displacing thousands and thousands of employees.

Senator CLARK. Let me ask you a question about that, Mr. Dalrymple. What do you say about the soundness of the proposition of putting a tax on labor-saving devices for the purpose of taking care of these technological unemployments?

Mr. DALRYMPLE. I think it would be fundamentally sound, because I do not think that it would stop progress, but I do think it would help the smaller-business man that was not financially able to install this automatic machinery and mechanize the plant.

Senator CLARK. Would it not have the effect of putting the cost of support of the technological unemployment upon the devices and upon manufacturers of the devices which brought about that technological unemployment? In other words, nobody wants to stop the progress of industry or invention and science or in any other possible way, but would not such a task both take care of those who are thrown out of employment by the introduction of labor saving devices, and at the same time permit the general public which are first to be considered, to enjoy the benefits of the advance of science?

Mr. DALRYMPLE. Yes; that is true, Senator, and even reaches further than that. It would be an inducement to the manager to keep more employees on certain operations where instead of laying them all off it would keep them on.

Senator CLARK. It certainly to a certain degree removes the temptation of the entrepreneur to introduce machines for the purpose of making economies and throwing people out of employment by the certainty that the people thrown out of employment will have to be

taken care of in some manner and ought to be taken care of to a large extent by those technological advances, does it not?

Mr. DALRYMPLE. I agree with you on that subject.

The CHAIRMAN. All right, Mr. Dalrymple, you may proceed.

Mr. DALRYMPLE. That is about all I have to say on the subject, Senator. I just know that there is a large number of our aged people depending on the State pension programs that are not receiving security. We are confronted with more of these being unemployed as time goes on, because over a period of a few years, industry apparently has made up their mind that once a man at the age of 45 is laid off, he is not coming back in the plant unless there is a strong militant organization there to see that he is returned to his job.

During the last 10 years, those that have been employed have been only partially employed. They have been compelled, as I just previously stated, to provide for large families in many instances where the children cannot get employment. They have not been able to lay aside any money for old age and all of that, and many of them have allowed taxes to accumulate on their property until it is about to be sold from under them.

So we are very serious about what is going to be done for the aged people of our country. Giving security to them and making a way for security for the younger people as well, because I believe we all realize the millions that are coming out of the high schools this year and out of the colleges, without any future, in my opinion, of securing employment, being gainfully employed, and earning an honorable living for themselves.

As I stated in my written statement, there are just too many of our young people resorting to crime because they become despondent, and I believe that many of us older people, and society in general, is going to have to accept the responsibilities of much of this crime.

The CHAIRMAN. Thank you very much, Mr. Dalrymple. This memorandum will go into the record.

(The memorandum referred to is as follows:)

MEMORANDUM ON H. R. 6635 SUBMITTED BY CONGRESS OF INDUSTRIAL ORGANIZATIONS, COMMITTEE ON SOCIAL SECURITY

The purpose of this memorandum is to show briefly how the eligibility requirements for old-age insurance benefits, H. R. 6635, will operate. These eligibility requirements of the bill as described in the report of the House Committee on Ways and Means are as follows:

A. An individual aged 65 or over on January 1, 1940, is fully insured for retirement benefits if he has 2 years of coverage and $600 total earnings before retirement (a year of coverage is a year in which $200 or more was paid for covered employment);

B. An individual who attains age 65 or dies in one of the years 1940 to 1945, inclusive, is fully insured with respect to all benefits if he has had at least the applicable coverage and earnings as follows:

Date	Years of coverage	Total earnings	Date	Years of coverage	Total earnings
1940	3	$800	1943	4	$1,400
1941	3	1,000	1944	5	1,600
1942	4	1,200	1945	5	1,600

C. An individual who attains age 65 or dies in or after 1946 is fully insured with respect to all benefits if he has had not less than 1 year of coverage for each 2 years after 1936 (or the year of attaining age 21, if later) plus an additional year, and not less than $2,000 of total earnings, subject to a minimum of 5 years of coverage, and in any case if he has 15 years of coverage.

Currently insured individual.—An individual who does not meet the above requirements is, however, currently insured (i. e., "widows' and orphans' current benefits" are payable) provided that he has had earnings of $50 or more in at least 6 of the 12 calendar quarters immediately preceding the quarter in which he died."

In addition it should be noted that until January 1, 1940, wages earned after reaching the age of 65 do not count.

The first class of those becoming 65 before January 1, 1940, deals with a group of individuals whose best years of employment have long since past. The fact is that such aged people probably have not had any employment during the past few years and they will not therefore be able to satisfy these requirements. It is estimated that about one-sixth of the employees who attain the age of 65 in 1939 will not be eligible to any benefits because they will be unable to meet the requirements as to years of coverage.

Indeed in view of the fact that earnings after 65 do not count before January 1, 1940, it may well be that even a larger percentage of these aged up to one-third of them will not be eligible for any benefits under the proposed bill.

In the second class, namely, the group who become 65 between 1940 and 1945, as each year passes, the eligibility requirements increase. Once again, this class is composed of a group of individuals who have passed the years of their employment, individuals who were between 55 and 60 in 1937. It can therefore be reasonably expected that in each year there will be hundreds of thousands of workers who will lose their eligibility for benefits because they will not be able to keep up with the increased amount of total earnings or with the increased number of years of coverage required.

The same thing is true with respect to the third class because although the total amount of earnings remains a flat sum of $2,000, the required years of coverage increases until the maximum of 15 is reached.

The provision for currently insured individuals suffers from the fact that it in effect establishes a period of 1 year and 9 months after which the right to benefits lapses. In other words, as soon as an individual suffers complete loss of employment he loses his right to current insurance benefits at the end of a year and 9 months.

Moreover, it should be noted that the computation of benefits is based on the average monthly wage and this is based upon the total number of years elapsing between the date when an individual first became covered and the date of his reaching the age of 65 or the date of his death. The result is that the longer an individual lives, after he loses his employment, the greater he is penalized.

That the bill abandons the so-called contributory principle is clear. This principle proceeds upon the assumption that old-age insurance benefits should be a matter of right and be based upon the contributions made thereto by the individual. But by reason of the arbitrary eligibility conditions established by the bill, individuals will receive varying amounts irrespective of their contributions depending upon the year in which they became 65, whether the total of their earnings fall within the calendar years, and whether they have a number of years of covered employment. For example, let us take the case of A and B.

A reaches the age of 65 on December 31, 1939, and earned $400 from wages in 1937 and $200 in 1938. The total taxes in his account would have amounted to $12. His monthly benefit would be $6.84, which would entitle him to the minimum of $10. If he had a wife of 65 or over or a dependent child as defined by the bill, his benefits would be $13.34 a month.

On the other hand, B receives wages of $3,000 in 1937 and $3,000 in 1938 and becomes 65 on January 1, 1940. But he will get no benefits of any kind although $120 in taxes have been paid in by himself and his employer. The reason why he will not receive any benefits is that he will not have had 3 calendar years in which he received wages of at least $200 per year.

On the other hand, the same individual if he had earned only another $200 in 1940 would be entitled to a benefit of $28.75, and if he had a wife or dependent child there will be a total benefit of $43.14 per month.

We do not see how it is possible for such a system as this to operate successfully because of the inequities that will develop and because of the fact that it will arbitrarily disqualify large numbers of aged persons from the benefits of the plan.

FIGURES IN SUPPORT OF $60 AT 60 PLAN

In support of our proposal for a maximum of $60 pension at the age of 60, and $90 per month to each married couple, we submit the following figures:

Estimate of number of persons age 60, number eligible for aid under various eligibility ratios, and cost of assistance to such persons at $60 per month to each individual and $90 per month to each married couple

	Number of persons age 60 and over, 1940	Assuming 20 percent of all persons are eligible		Assuming 25 percent of all persons are eligible	
		Number	Amount	Number	Amount
Unmarried persons and persons with spouse under age 60	8,000,000	1,600,000	$1,152,000,000	2,000,000	$1,440,000,000
Married persons both age 60 and over	5,200,000	1,040,000	561,000,000	1,300,000	702,000,000
Total	13,200,000	2,640,000	1,713,000,000	3,300,000	2,142,000,000
Minus:					
Federal, State, and local expenditures for old-age assistance			500,000,000		500,000,000
Tax yield under the Federal old-age insurance system at 1 percent			501,000,000		501,000,000
Amount aged persons receiving aid under Works Progress Administration and State general relief programs (rough estimate)			50,000,000		50,000,000
Total additional cost			662,000,000		1,091,000,000

The CHAIRMAN. Mr. Paul Scharrenberg, representing American Federation of Labor.

STATEMENT OF PAUL SCHARRENBERG, WASHINGTON, D. C., LEGISLATIVE REPRESENTATIVE, AMERICAN FEDERATION OF LABOR

Mr. SCHARRENBERG. Mr. Chairman, my distinguished chief, President Green, had intended to make a personal appearance here, but unfortunately, due to a number of more than ordinary appointments, he is unable to come himself, and he has asked me, with your permission, to read this statement in his behalf.

"The American Federation of Labor approves those amendments to the Social Security Act, now being considered by your committee, which would operate to increase the security of workers and their families against the hazards of old age and premature death. Particularly, the federation approves the extension of the old-age insurance coverage to seamen formerly excluded by the act. We heartily support the recommendations of the Advisory Council on Social Security that coverage should be extended to employees of nonprofit religious, charitable, and educational institutions, and as soon as administratively possible to farm and domestic employees, with the ultimate objective of including other excluded groups, and we urge that measures be taken to embody that recommendation in the law.

"We wish also to endorse the amendment which makes it obligatory for employers to furnish their employees with receipts showing the amount of wages and the amount of the tax imposed for old-age

insurance. Common honesty in handling the workers' money demands that they be supplied such receipts for amounts withheld from their pay and for which the employer is trustee until he pays the taxes under the act. We believe that receiving such notices will help general understanding of the act. No employer should object to rendering the employee an honest account of his wages and of the part withheld for the tax, in a form suitable for retention. The provision that the statement may be furnished either at the time wages are paid, or quarterly or annually makes it possible for the employer to arrange for the small amount of extra clerical work involved in furnishing such receipts at his convenience.

"In other respects the bill of amendments is definitely retrogressive. The federation believes that no classes of persons now covered by the old-age insurance or unemployment compensation laws should be excluded from coverage in the future. Not until coverage is extended to all workers can we have a satisfactory security program. Any changes in coverage should operate to enlarge, not to restrict coverage.

"The wholly unwarranted definition of agricultural labor would exclude thousands of workers who are engaged in labor not commonly considered 'agricultural labor,' not the ordinary work of a farm hand performed for the owner or tenant operator of a bona fide farm. It could include many occupations performed away from farms and in connection with processing of products even beyond the primary stage. There can be no justification for this new definition which would exclude many workers who have started to build up equities in the old-age insurance system and who need to have their security continued.

"Similarly, by new clauses in the definition of 'employment,' the amendments would exclude from social security in the future many workers now covered. The addition of the words 'local college club, or local chapter of a college fraternity or sorority' to the exclusion of domestic service in homes is unreasonable and wholly undesirable, excluding, as it would do, many employees of commercial service companies which cater to such clubs. The difficulties which are urged as reason for new exclusions are minor compared with the positive injustice of narrowing the security program already undertaken. The federation urges you rather to bend your best thought and effort toward making the program as broad and inclusive as is possible at this time and to refuse to withdraw the promise of security once held out to the affected classes of workers. Particularly because we believe all farm and domestic labor should be included as soon as possible we deplore any move to restrict still further coverage of those occupations.

"A change in definition of 'employer' was suggested by the Social Security Board in order to cover for unemployment-compensation tax purposes as well as for old-age insurance, employers of one or more persons. The federation believes that as a matter of policy as well as administratively this change would be desirable. The enlarged coverage would bring security to more workers, unfair competition now existing would be checked, and the tax basis of the two laws would be more nearly the same, and so administratively simplified.

"The federation cannot express too emphatically its opposition to any reduction in the Federal 3-percent tax for unemployment compensation. When the Social Security Act was passed, the 3 percent

rate was considered the smallest amount consistent with the establishment of any security against the risks of unemployment. It was recognized that the benefit scale which States could establish if they enacted laws based on 2.7-percent rates, giving their employers the advantage of the full credit offset, would be less than satisfactory. The experience to date certainly justifies no reduction in those rates.

"Benefit payments in every State have been far below adequate standards. In many jurisdictions in which reserves would have justified benefit increases, the expected liberalization has not materialized, or has been so meager and grudgingly granted as to shame the term 'social security.' Instead, on every side, we see employers' associations seeking to hack away the basis of benefits—the tax rate. The vicious system of so-called employer merit rating makes the employer directly interested in having benefits denied workers whenever possible. The result has been a drive in many States for a more severe and injurious catalog of 'disqualifications,' denying benefits for unreasonably long periods or permanently, under an increasing number of pretexts. Now, while benefits are still far too low and while experience with the system is limited, we are facing proposals for State merit rating, which would allow some States to reduce their tax rates and would put such competitive pressure on all States to follow suit that benefits would be permanently frozen at low levels.

"The only sound basis on which employment risks can be met is to have the risks spread by the use of a pooled fund into which taxes are paid by industries of heavy and light unemployment burdens alike. To permit individual 'merit rating' systems to deplete those pooled funds is to victimize the workers for whose benefit the system was designed. So long as individual States retain that anomoly of merit rating in the system of pooled risks, therefore, the federation believes the Federal Government should require the States to maintain an average 2.7-percent rate for certification of their laws.

"Because 'social security' is only a meaningless phrase unless reasonable benefits are paid the federation believes the Federal law should establish certain benefit standards, the adoption of which would be prerequisite to certification of State laws. The federation believes that the standards should not be inferior to the following: A minimum benefit rate of not less than $5, a maximum rate of not less than $15, weekly benefits not less than half the normal weekly wage for full-time employment, a waiting period not longer than 1 week, benefits to be paid for not less than 16 weeks in the year, partial benefit to be paid when the weekly wage is less than the full-time benefit rate, and no disqualifications to be more severe than an additional waiting period of 5 weeks. If these standards were written into the laws our security system for unemployed workers would take on positive meaning.

"The savings anticipated for business in the reductions of unemployment-compensation taxes are largely fictitious. Much of the tax is now passed on and so does not rest ultimately on business and cannot be 'saved' by tax reductions. The money paid in benefits is all spent by unemployed workers. The economy of larger markets demands benefits and there will be more profits for business. How can it be supposed that the Nation's economy will profit by pensions to the aged and not by adequate benefits to unemployed workers? The families of the latter, if receiving reasonable payments over the nec-

essary periods of time, will be good customers with every cent they receive. If any State has excessive unspent reserves let it raise its benefits above the minimum standards we ask for certification of all State laws. The gain to the community and to business will far outweigh that to be derived from tax reductions.

"The social-security program was enacted to bring some security to workers who are in no position to achieve it individually. It should not be emasculated by tax reductions, either for individual employers or for States, while benefits are admittedly so far from adequate.

"The federation urges this committee to strengthen the social-security program by recommending the establishment of Federal standards for unemployment-compensation benefit payments as a condition of certification of State laws, by refusing to approve the new exclusions from coverage, by supporting the liberalization of the program in those amendments affecting old-age insurance, and by providing for the extension of the program to uncovered groups as rapidly as possible, beginning now with defining the term 'employer' for unemployment-compensation tax purposes, as it is for old-age insurance—employer of one or more persons."

The statement is signed by Mr. Green, Mr. Chairman.

The CHAIRMAN. Thank you. I called Mr. Rice previously and he was not here.

Mr. RICE. I am here now.

STATEMENT OF MILLARD W. RICE, WASHINGTON, D. C., REPRESENTING THE VETERANS OF FOREIGN WARS OF THE UNITED STATES

Mr. RICE. Honorable Chairman and members of the committee: I appreciate very much the opportunity to appear before the committee concerning social-security legislation, and promise that I will take up as little time as it is necessary.

Let me say that at the last national encampment of the Veterans of Foreign Wars held in Columbus, Ohio, last August, it adopted four different resolutions which pertain to social-security legislation as such. One resolution would call for old-age assistance to all citizens after attaining the age of 50 who have become unemployable; another one would require entitlement to old-age benefits, that is the insurance benefits, to all American citizens who have passed the age of 50 and have become unemployable; another one would require liberalized assistance to dependent children, and in that respect specifically it endorsed the one-half contribution by the Federal Government instead of the one-third, as now provided for by law; and the fourth resolution called upon our organization to disseminate information concerning various social-security benefits so that the members of the organization and affiliates and friends might be aware of what they may be entitled to.

In order to carry out the specific recommendations of the resolutions, our first suggestion would be that section 3 of the act at present be amended by adding the following words; after the word "older" in line 13 on page 3 "who at the time of such expenditure are 65 years of age or older or who if more than 50 years of age, is unemployable and who" and then continue with the language as it is.

As to entitlement to old-age benefits after the age of 50 for those men who have become unemployable, I have become convinced that that would be impracticable on an actuarial basis, and therefore, even though it was endorsed specifically by the organization, I cannot specifically recommend any amendment to the act to accomplish that particular end, because it could not very well be attained and accomplish what was in mind.

The House committee did change the one-third matching of funds by the Federal Government to a one-half basis as recommended by our organization.

We are also very much concerned relative to the matter of the benefits which are payable in the various States, and concerning that, we have no specific recommendation to make such as proposed by either Senator Byrnes and Senator Caraway. I should like, however, to call to the attention of the Senate Finance Committee that there are other methods by which this can be accomplished.

This committee also has jurisdiction over legislation pertaining to veterans and the dependents of veterans and the question of benefits to the unemployable disabled veterans, and the dependents of deceased war veterans is very closely related to the question of social-security benefits to other citizens.

Senator CLARK. Let me ask you this, Mr. Rice. It is not your contention, is it, that the Veterans of Foreign Wars, of which I happen to be a member, or the American Legion or any service man's organization has any particular interest in this subject of social security other than the general interest of the public?

Mr. RICE. That is right.

Senator CLARK. In other words, you are appearing there simply as a body of citizens who have a right to pass resolutions on any subject of interest to your organization and to the public generally, but you are not appearing here as you ordinarily do before this committee or subcommittees of this committee with particular reference to veterans' legislation?

Mr. RICE. Not specifically; no.

Senator CLARK. This matter does not involve a veteran in any other way than it involves every other citizen of the United States?

Mr. RICE. The recommendation that I made specifically pertained to all citizens and not veterans. The reason we are interested in this is because we have veterans in the organization and the widows and wives and children of veterans.

Senator CLARK. All of whom are citizens?

Mr. RICE. Yes; and we did not feel that we were entitled to request anything for the veterans without asking for it for all the citizens. We have not attempted to go through all of the provisions of the social security law, because we did not think it would pertain sufficiently closely to our general program. In the respects I have mentioned, I think it does.

I wish to call the attention of the committee to the fact that the question of providing benefits for unemployable disabled veterans and the dependents of deceased veterans is one that is very closely related to social security benefits for other citizens. I call attention particularly to the fact the benefits for old-age assistance in the various States ranges from—all the way from $6.15 in Arkansas up to $32.43 in

California; one-half of which up to a maximum of $15 is matched by the Federal Government, which means that the Federal Government sends about $3.08 for each such case to the State of Arkansas and $15 for each such case to California, about five times as much. If the burden of taking care of aged unemployable disabled veterans and the dependents of deceased veterans were transferred from the local community and from the various States to the Federal Government through the Veterans' Administration, as now administered as to veterans of the Spanish-American War and the Civil War, then that would relieve the load in the various States and local communities. That in turn would enable such States to spend the same amount of money for a lesser number of citizens, which would then in turn result in a greater expenditure for each other person so entitled to such benefits, and that in turn would entitle such States as are now included in the range of the economic problem No. 1 States to a greater amount of the matched Federal funds from the Social Security Board, thereby providing more adequately for them. At the same time this would in part take care of the problem of the States which are now unable to match the amount available through the Federal Social Security Board.

Veterans are not now distributed throughout the country in the various States in the proportion as the number who enlisted from each State, and for the purpose of proving that, I would like to have this table inserted in the record which proves that the veterans have tended to concentrate in such States as Arizona, Colorado, California, the District of Columbia, Florida, Georgia, Illinois, Minnesota, Maryland, New Jersey, New York, Maine, Oregon, Texas, Washington, and Wyoming. We can explain that in some cases by reason of their search for health and as to others by reason of their search for jobs.

Senator CLARK. Why did they concentrate in the District of Columbia?

Mr. RICE. Because of their search for jobs.

Senator CLARK. Most people who come to Washington and stay here have jobs, don't they?

Mr. RICE. Yes; but many veterans acquired such jobs. I am talking about the number of veterans who reside in each State.

Senator CLARK. I understand that, but it seems to me that list does not very well hang together.

Mr. RICE. It seems to me that it does and shows that veterans have tended to concentrate in Washington, D. C., greater than the number who enlisted from the District of Columbia because of their search for jobs, and they have been somewhat successful in securing jobs in the District of Columbia, and that is the reason for it.

Senator CLARK. Through the assistance given them by Congress.

Mr. RICE. Yes; I am not complaining about it, but I am stating the fact that the veterans are concentrating more in some States than in other States and when they get to the age of getting unemployable, they thereby become a proportionately greater burden in some States than in others. And of course, in the natural course of events, they are all destined to become older. I have a table of the number who will be age 65 in certain years, which I would like to have also inserted in the record.

The CHAIRMAN. Without objection it will be.

(The same is as follows:)

Number of World War veterans age 65 in certain years

World War veterans now living [1] 4, 100, 000
Die each year 32, 000

Year—	Number	Year—Continued.	Number
1939	18, 500	1962	2, 208, 000
1940	21, 700	1963	2, 214, 000
1945	49, 000	1964	2, 195, 000
1950	104, 000	1965	2, 120, 000
1957	987, 000	1966	1, 991, 000
1958	1, 212, 000	1967	1, 847, 000
1959	1, 467, 000	1968	1, 693, 000
1960	1, 751, 000	1969	1, 545, 000
1961	2, 059, 000		

[1] 80 percent married.

Mr. RICE. This table shows, for example, that the average veteran will be aged 65 in the year 1957, at which time there will be 987,000 above the age of 65. The greatest number to pass the age of 65 will be in the year 1963 when there will be 2,214,000 estimated to be of that age. Those men will then be eligible for social-security benefits, or they would be eligible for pensions if Congress provided for such legislation. Because this committee also has jurisdiction of the matter of pensions for unemployable disabled veterans and the dependents of deceased veterans, I feel that that question is very closely related.

This committee has before it a bill introduced by Senator George, S. 2440, to provide a pension of $60 per month (instead of $30 as at present) for all war veterans who are so permanently disabled as to be unable to follow any substantially gainful occupation. Some 50,000 are now receiving the penurious pension of only $30 per month for their permanent total disabilities for themselves and families.

I might also call attention to the fact that there are now several thousand widows of deceased World War veterans and children to whom no pensions have been given. There are less than 2,000 dependent children now receiving Aid to Dependent Children under public assistance social security legislation. The statistics show that there are now about 376,400 dependent children of deceased World War veterans who are not now receiving any pensions whatsoever, that there are 193,400 dependent widows of World War veterans who are not now entitled to receive any pensions, and 43,000 dependent parents of deceased World War veterans who are not now entitled to pensions, a total of 612,800 dependents of deceased veterans at the present time who are not now entitled to any pensions.

This problem is also within the province of this committee to solve. By solving this particular problem, a problem which will have to be met by local, State, or Federal Government in some way, just as it has been previously met as to the veterans of the Spanish-American War and the Civil War, the committee might also help to solve one of the most perplexing problems as to the distribution of Federal funds in proportion to the population for social-security-benefit purposes.

VETERANS OF FOREIGN WARS OF THE UNITED STATES,
OFFICE OF THE LEGISLATIVE REPRESENTATIVE,
Washington, D. C.

Comparative study of World War veterans by State of residence

State of residence	Receiving compensation, pension, or retirement, June 30, 1938		Estimated living, June 30, 1938		Percent of estimated living receiving benefits	Individuals in service during World War	
	Number	Percent of total	Number	Percent of total		Number	Percent of total
Alabama	8,205	2.13	59,386	1.47	13.82	84,477	1.80
Arizona	3,271	.85	12,550	.31	26.06	12,582	.27
Arkansas	8,004	2.07	50,518	1.25	15.84	70,496	1.50
California	30,495	7.91	[1] 237,623	5.90	12.83	162,719	3.46
Colorado	5,560	1.44	39,326	.98	14.14	43,421	.92
Connecticut	5,273	1.37	50,846	1.26	10.37	67,746	1.44
Delaware	394	.10	5,750	.14	6.85	9,255	.22
District of Columbia	4,065	1.05	[1] 32,596	.81	12.47	27,051	.59
Florida	5,848	1.52	[1] 47,216	1.17	12.39	42,318	.90
Georgia	8,403	2.18	67,850	1.69	12.38	103,785	2.21
Idaho	1,310	.34	15,740	.39	8.32	22,357	.48
Illinois	18,546	4.81	293,580	7.29	6.32	325,307	6.92
Indiana	10,378	2.69	109,004	2.71	9.52	133,045	2.85
Iowa	5,968	1.55	90,851	2.26	6.57	114,292	2.43
Kansas	4,742	1.23	65,769	1.63	7.21	81,724	1.74
Kentucky	11,925	3.09	73,008	1.81	16.33	94,448	2.01
Louisiana	6,923	1.54	63,142	1.57	9.38	76,727	1.63
Maine	2,221	.58	24,682	.61	9.00	33,040	.70
Maryland	5,123	1.33	55,482	1.38	9.23	62,495	1.33
Massachusetts	17,622	4.57	156,534	3.89	11.26	199,364	4.24
Michigan	11,703	3.05	156,128	3.88	7.53	164,999	3.51
Minnesota	11,068	2.87	97,255	2.42	11.38	119,360	2.54
Mississippi	9,090	2.36	42,880	1.06	21.20	62,607	1.33
Missouri	12,974	3.36	[1] 128,099	3.20	10.08	163,172	3.47
Montana	2,551	.66	21,046	.52	12.12	40,160	.86
Nebraska	3,013	.78	40,048	1.14	6.54	57,329	1.22
Nevada	472	.12	[1] 3,794	.09	12.44	5,457	.12
New Hampshire	1,334	.35	14,130	.35	9.44	18,905	.40
New Jersey	7,713	2.00	[1] 135,348	3.36	5.70	144,704	3.08
New Mexico	2,568	.67	[1] 11,654	.29	22.02	14,361	.31
New York	28,884	7.44	440,032	10.93	6.52	494,020	10.52
North Carolina	6,959	1.80	[1] 73,374	1.82	9.48	86,998	1.85
North Dakota	[1] 1,698	[1] .44	[1] 18,539	[1] .46	[1] 9.15	27,591	.59
Ohio	21,001	5.60	[1] 219,100	5.22	10.28	241,483	5.14
Oklahoma	8,366	[1] 2.17	77,868	1.93	10.74	90,632	1.93
Oregon	[1] 4,345	[1] 1.13	[1] 41,817	1.04	10.39	43,630	.93
Pennsylvania	21,844	6.44	298,891	7.42	8.31	361,889	7.70
Rhode Island	2,113	.55	[1] 23,578	.59	8.96	27,865	.59
South Carolina	4,859	1.26	[1] 40,464	1.00	12.01	63,300	1.35
South Dakota	2,099	.54	[1] 26,039	.65	8.06	32,017	.68
Tennessee	8,662	2.25	[1] 67,049	1.67	12.92	90,295	1.92
Texas	17,259	[1] 4.47	174,185	4.33	9.91	193,829	4.10
Utah	[1] 1,395	.36	16,362	.41	8.53	21,555	.46
Vermont	1,236	.32	9,436	.23	13.10[1]	13,940	.30
Virginia	5,685	1.47	71,728	1.78	7.93	92,047	1.96
Washington	5,265	1.36	65,900	1.64	7.99	67,408	1.44
West Virginia	3,990	1.03	49,729	1.24	7.96	58,283	1.24
Wisconsin	9,785	2.54	[1] 100,110	2.49	9.77	120,976	2.58
Wyoming	1,022	.26	[1] 12,822	.32	7.97	12,348	.26
Total, United States	385,656	100.00	4,026,490	0.00	9.58	4,697,994	100.00

[1] Estimated number of living June 30, 1938, exceeds the number in service from these States.

Based on number of adjusted-service certificates in force in June 1936.

If the testimony of the representative of the Social Security Board, Dr. Altmeyer, did not include the various amounts being paid in the various States, I should like such a table to be included, although I assume it has been included.

The CHAIRMAN. It has been.

Mr. RICE. I desired to have the opportunity to present the relationship of these matters to the committee, and thank you for this opportunity.

The CHAIRMAN. Thank you.

Mr. Leach, of Milwaukee, Wis. I may say that we have three witnesses on the calendar that we want to hear this afternoon, and I trust they may be as brief as possible in making their statements as the committee expects to close these hearings this afternoon.

STATEMENT OF R. W. LEACH, MILWAUKEE, WIS., PRESIDENT, UNEMPLOYMENT BENEFIT ADVISERS, INC.

Mr. LEACH. My name is R. W. Leach, Milwaukee, Wis., president of Unemployment Benefit Advisers, Inc., a member of the Wisconsin Industrial Commission's unemployment compensation advisory committee.

I might add that, which my own company is one of the smallest companies subject to the Wisconsin unemployment-compensation law, I have been devoting full time to this subject of unemployment compensation for 6 years starting more than 2 years prior to the passage of the Social Security Act, and I am an employer representative of the Wisconsin Industrial Commission State advisory committee.

I am here, on behalf of Wisconsin employers, in support of the retention of certain principles which we adopted in Wisconsin, after 10 years of study, discussion, and debate—3½ years before the Social Security Act "encouraged" other States to enact similar legislation.

You have been told that the Wisconsin law is "illiberal" and that our conservatism is attributable to the principles on which our legislation is based. We have been used as the glaring example of evils which are to be corrected by section 610 of this bill. We naturally would be so used, since our law is the only one in which these principles have actually gone into effect.

The principles I am referring to, of course, are the experience-rating principles which find their most logical, simplest, and most effective embodiment in the Wisconsin Unemployment Compensation Act. Under our law we employers stand on our own feet with respect to our experience rating. No factor other than the contributions we pay and the benefits paid to our unemployed workers has any effect on our contribution rates. We know where we stand and what we can expect. There are no such indeterminate factors as are here proposed—to destroy our confidence in and certainty of experience rating. We can afford to initiate stabilization programs, because we know we will gain by doing so.

We are not ashamed to be held up before this body as a State which has a conservative unemployment compensation law. Neither are we irritated, because the attack is not on us but on the principles for which we stand, along with a majority of our sister States. While we started far ahead of other States in point of time, we started well behind them in point of liberality. What else could have been expected of a State enacting the only unemployment-compensation law in the country? What else, than greater initial liberality, could have been expected of other States force-fed draft bills in the hectic closing days of legislative sessions? Do these more liberal States deserve commendation for passing ready-made laws, in some instances with scarcely any knowledge of their provisions?

We have repeatedly enacted liberalizing amendments to our law. More often, I believe, than any other State. These amendments have

been sent to the legislature with the joint and active support of employers and workers. While we started behind the other States, we have been rapidly drawing abreast of them. Our senate and assembly on Tuesday of this week unanimously passed another bill of amendments which, when effective, will provide a further over-all liberalization of at least 25 percent in actual benefit costs over our present law. This bill has the active support of employers, without which it probably could not have passed the present Wisconsin Legislature.

In view of this record of progressive but thoroughly considered liberalization, do you believe that Wisconsin can properly be used to show that experience-rating will freeze illiberal benefit provisions?

Our average 1938 total unemployment-benefit check was within a half dollar of the country-wide average. Our average duration of benefits falls short of the average for the country by about 3 to 3½ weeks, but the changes just enacted put us on a par with other States in this respect.

All this is not in defense of Wisconsin. We still believe that our judgment (of our legislature and of our workers and employers in conference agreed) as to local needs and local resources is at least as good as that of others further removed. I speak of this point because we do not countenance the use of our situation and the principles embodied in our law and in those of more than two-thirds of the other States to support proposals which would, just as surely as outright and above-board repeal of section 1601 (b) of the Internal Revenue Code, mean the end of State experimentation in the field of experience-rating.

This bill proposes to give us two alternatives, one of which we must accept if we are to continue to benefit by our experience-rating provisions. This bill would give us no tax savings in exchange. The only thing it would do would be to kill our experience-rating and increase our costs, both individually and collectively. We don't want flat reductions in contributions. We don't believe in adjustments which ignore individual experience. Of course, if enough individual employers have good enough experience to have a reduced rate, then the total yield under our law will be less than 2.7 percent of our pay roll. Our yield could just as well go above 2.7 percent if there were enough employers who had an unfavorable experience and had to pay increased rates. In other words, our present law, and any other experience-rating law can now, under the present law, get certain and substantial tax savings, probably equal to any claimed to be possible under these proposed new standards. These new standards cannot fairly and honestly be sold to the public as an "appeasement" measure. Any savings which States might temporarily realize are likely to evaporate in higher over-all costs when the impact of the benefit standards has been felt.

Mr. Altmeyer has told you that the Social Security Board will not be greatly concerned if section 1602 (b) is not amended to permit flat reductions and impose benefit standards, provided the provision (1602 (a) (1)) requiring a 2.7 percent yield is added to the present law. This statement is welcome, because we are very decidedly opposed to incorporating benefit adequacy standards in the Social Security Act at any point. Uniformity between States, even as to so-called "minimum" standards, is undesirable.

However, we deplore his insistence upon a requirement that every State should be required to collect an average of 2.7 percent from all its employers, for the following reasons, which I merely enumerate, for the sake of brevity:

I. The sterilization of large funds through a constant yield of 2.7 percent in the more stable States is undesirable.

A. In the effort to disburse the surplus in the form of benefits, States may be forced into adoption of unwise and socially undesirable expedients. Such liberalization could result in an illogical situation under which the States which had the least unemployment paid the highest benefits.

The payment of extremely liberal benefits in stable States will tend to force less stable States to liberalize beyond their resources, and these differences in liberality will provide new arguments for those who, ignoring the complexity of the administrative problems involved, want a national system of unemployment compensation.

B. In case the stabler States refrain from wholesale and indiscriminate liberalization, the resulting surplus will doubtless invite diversion. Congress might soon be asked to allocate that surplus to a "reinsurance fund" to finance benefits in other, less stable States, or to set it up as a national reserve for some new form of social insurance, for the benefit of all States.

C. The fear of this eventuality may or may not further encourage the unreasoned and illogical disbursement of the State moneys.

II. It will be very complicated to so administer individual experience-rating laws as to comply with this requirement.

A. The yield must be substantially (in the judgment of the Social Security Board) equal to 2.7 percent. For practical purposes, this allows very little leeway and State agencies would have to be extremely cautious not to overstep the invisible line of substantiality.

B. This means that State laws would have to require that the administration estimates accurately at the beginning of each year each employer's pay roll for the ensuing year. (If there are State or Federal employees who can perform this feat, they are wasting their talents at that present employment.)

This estimate would have to be made before rates could be assigned to individual employers because the average yield requires that every dollar of pay roll subject to a reduced rate must be offset by another dollar subject to an increased rate. Thus, if contributions are to be collected currently (which is certainly desirable) and at the applicable rate (which is also desirable), the States will be faced with a difficult and expensive task indeed.

We favor simplification.

III. A flat 2.7 percent yield will reduce the effectiveness of the stabilization incentive.

A. No employer can be sure of a reduced rate to reward his plans and expenditures for stabilization. His reward will depend not on absolute factors as at present but purely on his relative position with reference to all the other employers in the State.

His good record will mean a reduced rate only if there are enough employers with bad records who must have increased rate. His rate may well be higher after a year of good experience than after a year of bad experience.

IV. A flat 2.7 percent yield will create employer opposition to experience-rating where there would be little occasion for it if this standard were not applied.

As soon as unstable employers realize that every dollar of reduced rate is gained at their expense, there will be a clamor for higher minimum rates and for repeal of experience rating. This is not a substantial factor at the present time because rate reductions will typically be offset in part by increased rates for some employers and in part by reduction in general yield.

The effect of these amendments would be to preclude any satisfactory or thorough test of the long-range constructive purpose for which experience-rating is intended. Since this will be the effect, the adoption of these amendments will be an admission of defeat, and unemployment compensation will merely become "something to quiet the patient" until he passed on into the unknown.

I say to you, experience-rating has a worthy purpose. Work and wages are more "socially adequate" than unemployment and benefits. We hope you will let us try this cure and not summarily consign us to sedatives and lingering death.

We, without any reservations whatsoever, approve the amendments introduced by Senator Johnson. I thank you.

The CHAIRMAN. Thank you very much. The next witness is Mr. Russell Seversen of New York, representing the National Association of Direct Selling Companies.

STATEMENT OF RUSSELL SEVERSEN, NEW YORK CITY, REPRESENTING THE NATIONAL ASSOCIATION OF DIRECT SELLING COMPANIES

Mr. SEVERSEN. Mr. Chairman and members of the committee; the hour is drawing late, and I know that you would like to close the hearing, and I have a memorandum prepared here with a brief, and if you wish, I can submit it to be copied into the record without reading it.

The CHAIRMAN. What are you discussing?

Mr. SEVERSEN. It is the independent contractor. I would like to read it if I may have permission.

The CHAIRMAN. We will give every consideration to it, because that is one of the questions that has been brought up here and which will be discussed and considered fully by the committee. If you put your brief in the record, it will receive the real consideration which it deserves.

However, if you want to read it, that is all right, but there are very few members of the committee present, and I am sure that if what you have to submit is placed into the record, there will be no necessity for your reading it now, as it will receive every bit as much consideration in that way as if you read it here.

Mr. SEVERSEN. I would merely like to add that Mr. George, who is the counsel for the association, was to appear here, but he could not do so and he asked me to make the appearance instead.

NATIONAL ASSOCIATION OF DIRECT SELLING COMPANIES,
Winona, Minn., June 16, 1939.

To the honorable MEMBERS OF THE COMMITTEE ON FINANCE,
United States Senate, Washington, D. C.

GENTLEMEN: We are primarily interested in the treatment of independent outside salesmen with respect to social security legislation. There are probably a million men in the direct selling field whose sales amount to approximately $1,000,000,000 annually. Independent outside salesmen sell a variety of products. Some of these are automobiles, farm machinery, bakery and dairy products, laundry supplies, newspapers, drugs, clothing, nursery products, oil burners, and electrical appliances such as refrigerators, sewing machines, vacuum cleaners, washing machines, etc. The very nature of the work in which independent outside salesmen are engaged renders it impossible to satisfactorily cover these individuals under the Social Security Act.

There has been referred to your committee H. R. 6635, which recently was passed by the House of Representatives. This bill purports to amend, among other provisions, those sections of the Social Security Act and the Internal Revenue Code which relate to covered "employees." For reasons which are herein discussed we firmly believe that these proposed amendments should be given additional study and consideration.

H. R. 6635 amends section 1426 (d) of the Internal Revenue Code, which originally was a part of title VIII (Old Age Benefits) of the Social Security Act and which relates to covered "employees," to include commission-paid salesmen. The comparable provision under title IX (unemployment insurance), which is section 1607 (i), is left undisturbed. Under that title, in its present form, independent outside salesmen are not covered. This is the construction placed on H. R. 6635 by the House Committee on Ways and Means, which, in its official report (H. Rept. 728), states with respect to the unemployment-insurance provisions of the act that "although the term (employee) is not broadened with respect to salesmen as was done in the definition for purposes of old-age-insurance coverage, the test for determining the employer-employee relationship laid down in cases relating to tort liability and to the common-law concept of master and servant should not be narrowly applied."

In view of the above statement, there can be little doubt that the Committee on Ways and Means intended to include commission-paid salesmen under the old-age-benefit provisions and to exclude such individuals from the unemployment-insurance provisions. Despite this fact, however, H. R. 6635 is inconsistent and in need of clarification with respect to its proposed amendments of section 801 (6) of title XI (which relates to general provisions). The bill amends this section in such a way as to make the term "employee," when used throughout the entire Social Security Act, refer to commission-paid salesmen. Obviously this was not the intention of the Committee on Ways and Means. As pointed out, the official interpretation of the proposed amendments to the unemployment-insurance provisions shows an intention to exclude commission-paid salesmen from the provisions of title IX (Unemployment Insurance), and in view of this interpretation, it would seem that the amendment to section 801 (6), title XI, was made a part of H. R. 6635 by mistake. We therefore respectfully request that the proposed amendment to section 801 (6) of title XI either be deleted from H. R. 6635 or the amendment clarified in order to make it refer only to the definition of "employee" under the old-age-benefits provisions and not to the comparable provisions under the title of unemployment insurance.

For the assistance of your committee we suggest that clarification of section 801 (6) of title XI can be accomplished by the following provisions annexed to the end thereof: "*Provided, however,* That nothing contained herein shall be construed to affect the definition of 'employee' contained in section 1607 (i) of title VI herein."

This, we believe, would accord with the intention of the Committee on Ways and Means.

Aside from the questionable application of H. R. 6635, there are compelling reasons why independent outside salesmen should not be covered under either title VIII (Old-Age Benefits) or title IX (Unemployment Insurance). These reasons are unique to the direct selling industry and apply to the independent outside salesman. They differentiate individuals engaged in this occupation from the ordinary "employed" salesman to such an extent that it would be im-

practicable to bring this type of worker under the Social Security Act. These reasons are as follows:

1. The inclusion of commission-paid salesmen fails to recognize the fact that "outside" salesmen are of a self-employed status and are utterly different, in the nature of their operations, from "inside" salesmen or "traveling" salesmen. The Social Security Act was never intended to cover self-employed individuals.

2. Under the proposed amendments, all classes of commission-paid salesmen are not to be covered. H. R. 6635 would appear to include only those salesmen dealing regularly with the same principal and excludes any salesman who performs personal services at irregular times and for a variety of principals. Such a provision puts a premium on irregularity and casualness of business relations and, in effect, is arbitrary and discriminatory.

3. Independent outside salesmen have heretofore been specifically excluded from other social legislation such as the N. R. A. codes and the Fair Labor Standards Act of 1938. The authors of these legislative measures recognized the self-employed nature of outside salesmen's activities and the impossibility of fairly and effectively extending to this class of salesmen the benefits of those respective measures.

4. If independent outside salesmen are to be covered by social security legislation, it would seem that other self-employed groups, such as lawyers, doctors, public stenographers, and small-business men, should also be included. In this respect also the specific inclusion of independent salesmen would seem to be discriminatory.

5. Another important item to be considered is the expenses of independent outside salesmen. These expenses vary considerably and are difficult of approximate determination. If such individuals are to be covered by the Social Security Act, how can their expenses accurately be accounted for in contribution reports? If the employer is unable to make such a determination, and pays the tax based on gross commissions, would not the act amount to a gross business tax?

6. Suppose an independent outside salesman has agreements with six firms for the sale of their respective products. When he calls on a customer he endeavors to sell not merely one of these products but all of them. In other words, the time which he devotes to selling a particular product varies considerably from day to day. Suppose, further, that his commissions at the end of each month vary from $100 for one product down to $50 for the other products, and the time which he has devoted to the sale of each varies in inverse ratio. It would be impossible for either the salesman or any of the six firms to accurately state how much time he spent on the sale of a particular product or how much of the expenses which he has incurred were entailed in trying to sell any particular one of these products. It would therefore be impossible for accurate contributions on this salesman's commissions to be made under the Social Security Act.

7. Independent outside salesmen are masters of their own time and efforts and cannot be supervised or controlled. They work when and where they please. Such an individual can hold back orders for goods and draw unemployment compensation for several weeks. At the end of that period, the accumulated orders are turned in and large commissions collected. There are several variations of this "racket"—all of them difficult, if not impossible, to stop.

8. The effect of covering independent outside salesmen—or other self-employed individuals—is to guarantee them a minimum wage or business profit. For example, the opportunity for the independent outside salesman to make a sale always exists because the outside selling market is, potentially, unlimited. Yet the independent outside salesman cannot be controlled or "made" to sell as can the ordinary inside salesman. Whether he sells or not, therefore, rests entirely in his own discretion. If he chooses not to sell he can draw unemployment compensation. The Social Security Act was never intended for this purpose. It was intended to cover only those individuals who were subject to supervision and control. It was not intended to cover independent individuals in whose discretion rested the decision to work or not to work.

9. To cover independent outside salesmen would be to lose sight of the original purpose of the Social Security Act. This measure was enacted to relieve and prevent economic distress due to involuntary unemployment which individuals, through no fault of their own, are, from time to time, forced to undergo. It was not intended to provide relief for voluntary unemployment—the only type of unemployment which the independent salesman may experience. If he wishes to sell, the opportunity is always available—his potential market unlimited. To grant unemployment relief to such individuals would work a distortion of the Social Security Act never intended by its authors.

In conclusion, and as a further basis for our contention that the proposed amendments of H. R. 6635 should be given further study and consideration, we quote the comments of Representatives Carlson and McCormack, at 84 Congressional Record, 9798, June 10, 1939, as follows:

"Mr. CARLSON. I thank the gentleman for the correction. I am speaking of the entire paragraph (d). The gentleman from Massachusetts [Mr. McCormack] has offered an amendment that I think greatly clarifies this particular section, but even with its adoption I am fearful we have not accomplished the desired result. I am speaking of paragraph (d), on page 63. The amendment offered by the gentleman from Massachusetts, I think, improves it, but I am not satisfied with it. I am willing to let it go to the Senate or hope to have it clarified in conference.

"The section (1426 (d), title VIII) deals with the independent outside salesmen. They are paid solely on a commission basis and are not furnished an expense or drawing account. It is my contention that this section, if adopted, will throw thousands of people out of work.

"It is estimated that this sales force is now distributing products from manufacturers doing a business in excess of $1,000,000,000 annually. Large businesses have been built by outside salesmen. They do not have a contractual relationship of employer and employee, and this section tries to establish that. I am afraid we have gone too far. This includes this group of citizens that sell newspaper subscriptions, insurance, and people who are now making a livelihood on a commission basis. One of my friends is engaged in business on a large scale; in fact, a national business. He hires people, regardless of age, to go out and sell his product on a commission basis. If this provision goes into effect he and other manufacturers and distributors will greatly limit their forces, and then we will have, in my opinion, thousands of additional people out of work—people who are now engaged in work as salesmen on a commission basis. Personally, I think this is a poor time to legislate in any way that will throw people out of work.

"I merely wanted to express my position on this. I do not care to offer an amendment to strike this paragraph from the bill, but the House should know what it is passing when this section is adopted.

"Mr. MCCORMACK. Will the gentleman yield?

"Mr. CARLSON. I yield.

"Mr. MCCORMACK. So the gentleman's position will not be misunderstood, the amendment I have offered as a committee amendment, the gentleman is absolutely in favor of? I agree with the gentleman that there is a question where there are some who should be included and some who should not be, but it is difficult to phrase it. As my friend from Kansas stated, we are hoping it will be taken care of in the interim between the time the bill passes the House and the time the conference report is agreed to, and the amendment I have offered is an amendment along the line that we all want."

There is submitted herewith a memorandum which purports to set forth in greater detail the points discussed in this letter. We believe that this memorandum establishes that independent outside salesmen and other self-employed individuals cannot properly or satisfactorily be extended the benefits of the Social Security Act.

Respectfully submitted.

RUSSELL SEVERSEN,
Representing National Association of Direct Selling Companies.

REASONS SUBMITTED BY THE NATIONAL ASSOCIATION OF DIRECT SELLING COMPANIES, WINONA, MINN., WHY INDEPENDENT OUTSIDE SALESMEN SHOULD NOT BE COVERED UNDER THE TITLES OF THE SOCIAL SECURITY ACT, OR THE INTERNAL REVENUE CODE, RELATING TO OLD AGE BENEFITS AND UNEMPLOYMENT COMPENSATION

Because of the unique nature of their occupation and the fact that their business activities are entirely different from those of the ordinary "employed" salesman, independent outside salesmen should not be covered under the provisions of title IX (unemployment insurance) of the Social Security Act.

The original reason for enacting the unemployment insurance provisions of the Social Security Act was a severe economic depression which had thrown millions of able-bodied workers out of their jobs. The President in his message to Congress and the debates prior to the enactment of this act called attention to the necessity for relieving and preventing economic distress due to involuntary unemployment which individuals, through no fault of their own, are from time to

time forced to suffer. In the enactment of State unemployment-compensation laws as supplementary to the Federal act this purpose was also expressed. In nearly every one of the State acts there is declaration of public policy which states that:

"Economic insecurity due to unemployment is a serious menace to the health, morals, and welfare of the people of this State. Involuntary unemployment is therefore a subject of general interest and concern which requires appropriate action by the legislature to prevent its spread and to lighten its burden which now so often falls with crushing force upon the unemployed worker and his family. The achievement of social security requires protection against this greatest hazard of our economic life. This can be accomplished by encouraging employers to provide more stable employment and by the systematic accumulation of funds during periods of employment from which benefits may be paid for periods of unemployment, thus maintaining purchasing power and limiting serious social consequences of poor relief assistance. The legislature, therefore, declares that, in its considered judgment, the public good and the general welfare of the citizens of this State require the enactment of this measure, under the police power of the State, for the compulsory setting aside of unemployment reserves to be used for the benefit of persons unemployed through no fault of their own."

In other words, the original purpose in enacting unemployment-insurance legislation was to alleviate involuntary unemployment as that term had become known during the depression, namely, the involuntary unemployment of previously employed workers.

Title IX was an emergency measure designed to encourage State legislatures to act immediately and pass unemployment-compensation laws. It is clear that title IX was not originally intended to specify the requirements which individuals must satisfy in order to receive unemployment benefits. That function was left to the State acts. The only purpose of title IX was to provide a broad framework within which State unemployment-compensation legislation could properly operate. To amend and revise the "employee" definitions in title IX would be a departure from the original scheme of unemployment insurance and an arrogation of authority to the Department of Social Security which more properly should remain within the jurisdiction of the respective State unemployment-compensation commissions. If the State legislatures desire to extend coverage of their respective unemployment-compensation acts, it should be left in their discretion to do so. That was the intention of the authors of the Social Security Act as it now exists.

At the time the Social Security Act was enacted there was no intention expressed in any of the comments or debates thereon to include individuals other than ordinary employees, who, together with their employers, occupied the legal status of employer-employee or master and servant. In the event that independent outside salesmen are included under the coverage provisions of the Social Security Act, the door will be opened to include independent businessmen and professional people, such as public stenographers, lawyers, and physicians, since independent outside salesmen, for all practical purposes, occupy the same status as these independent individuals. Furthermore, if independent outside salesmen are included, the original purpose of the Social Security Act will be defeated and it will become a distorted piece of legislation granting benefits to all classes of persons, irrespective of their actual employment status.

Salesmen are of various kinds. Some are what may be termed "inside" salesmen. Such salesmen are employees and are already included under the Social Security Act. There are reasons for this. Such an individual has his working hours prescribed and he can be controlled. It is known whether he works or not. If he absents himself from the place of employment, there is a record that he did not work. It is easy to determine when such an individual is involuntarily unemployed.

Certain "traveling" salesmen, as that term is ordinarily understood, can be classed as employees. Those who are employees are already included under the Social Security Act. Probably most traveling salesmen are on a salary basis and are furnished a drawing account. Their itineraries and clientele are usually prescribed and they are required to submit regular reports of hours worked, customers called upon, and sales made. Usually they are furnished with transportation and expense accounts and are required to produce a minimum volume of business. With the exception of the fact that he works outside his employer's office, such a traveling salesman's status is that of any other supervised employee.

In addition to the classes above mentioned, there are other salesmen who occupy an independent status and are commonly known as "independent outside

salesmen." They are not supervised and their activities cannot be controlled. Such an individual is continuously out in the field, working or not as he chooses. His time is his own. He can work 1 or 2 hours in the morning and quit for the day. He may not work for a week. He may be handling products for several companies. It is impossible for any company selling through such a salesman to know what he does or how he spends his time. He is paid solely on a commission basis and is not furnished either an expense or drawing account. No itineraries are prescribed and production of a minimum volume of business is not required. The independent outside salesman is usually not required to submit reports of hours worked, customers called upon, or sales made. He pays for his own transportation and other expenses. In other words, he is engaged in an independent occupation and business.

The entire tenor of the Social Security Act as it originally was enacted, implies that it was intended to cover only employment relationships. Employment is taxed. Involuntary unemployment is compensated. There is no suggestion that its purpose was to provide a guaranteed income for the independent businessman who may or may not work as he sees fit; who can go off for a week's vacation without letting anyone know; who may work for an hour in the moring and spend the rest of the day in recreation or other business; who may sell the goods of one or of many concerns and who cannot be checked as to when, where, and for whom he is selling merchandise.

To include persons who are independent contractors would not only be revolutionary but would mean a radical change in the philosophy behind the Social Security Act and a revision of the entire act itself. The tax would no longer be a tax on employment as such but a tax on contractual relations. It may operate as a tax on gross business; that is to say, upon the expenses as well as the profits of the business.

Independent outside salesmen are as truly self-employed as any other independent business or professional men, and should be classed with and considered in the same category. To segregate such salesmen from their normal classification, and accord them special treatment, would require the reorganization of established sales methods now employed by manufacturers and distributors doing a national business estimated substantially in excess of a billion dollars per annum—thus retarding business and increasing unemployment at a time when every effort is being made to increase the volume of business and provide additional employment.

Recognition was given to the independent nature of the outside salesman's occupation, and the necessity for exempting him from the social-security type of legislation, as far back as the N. R. A. period, when it was proposed that outside salesmen coming under the provisions of minimum wages and maximum hours be excluded. Hearings were had at that time and the record made before the N. R. A. on this occasion is represented by 3 volumes containing 1,128 pages.

As a result of these deliberations, it was concluded by the various boards that N. R. A. legislation could not be applied to independent outside commission-paid salesmen and they were specifically excluded in various codes. Bearing in mind that at the time of the N. R. A., the desire was great to include everyone under its provisions, it is clear that the reasons for specifically excluding independent outside commission-paid salesmen must have been most persuasive.

When new wage-and-hour legislation was introduced by Senator Black and Representative Connery, the question of exempting independent outside salesmen was again given consideration with the result that in the final enactment of the Fair Labor Standards Act of 1938, the following exemptions are included:

"EXEMPTIONS

"SEC. 13. (1) Any employee employed in a bona fide executive, administrative, professional, or local retailing capacity, or in the capacity of outside salesmen (as such terms are defined and delimited by regulations of the Administrator)."

It is significant, therefore, that on every occasion when all material facts and information relating to outside salesmen have been considered by the authors and those charged with the administration of legislation such as the N. R. A. Code, the Fair Labor Standards Act of 1938, the State unemployment-compensation laws, and the Social Security Act, the independent status of such outside salesmen was recognized and their activities were excluded from the operation of these laws.

Conceding that this prior legislation concerned minimum wages and maximum hours, it nevertheless bears a direct relation to the questions raised here, for the inclusion of independent outside salesmen as employees in any single type of social

legislation will create a tendency to include them as employees in other similar legislation. After all, is not the payment of partial unemployment benefits the same in effect as payment of a minimum wage? And if an independent outside salesman in his own discretion can refuse to work, knowing that he cannot be controlled, and yet must be paid partial unemployment benefits because he has not received "wages," is that not equivalent to a minimum wage which, in effect, amounts to a business subsidy? Is it not subsidizing uncontrolled lack of effort?

So long as the Social Security Act covers only the employer-employee relationship, the tax can be based on a definite figure. On the other hand, assume that a salesman is paid $100 during the first week of the month, nothing during the next 2 weeks of the month, and $100 during the last week of the month. Assume that his expenses are $100. Should the tax be based on the gross paid to him or on the net? Is the Social Security Act to be converted into a gross business tax? If the tax is to be based on the earnings of the salesman, is he to make his own reports and pay his own tax? Obviously, the alleged employer cannot pay it unless he can obtain from the salesman his account of expenses. If he requires reports of this character, he may, under other laws, be held to be an employer of individuals, who, under such laws, would ordinarily be regarded as independent because of the fact that they are not required to file reports and are not otherwise controlled. Clearly it will be taking a long step to require such complicated accountings. And it becomes still more complicated where the salesman sells the goods of various concerns. In that case, who is to make the contribution and how are expenses to be allotted and taken care of?

In the case of independent salesmen having a variable income and having expenses, what base is to be used in determining unemployment benefits? Assume the case of an outside salesman working solely on commission who receives in a given month $100 in commission the first week, nothing for the next 2 weeks, and $300 in the last week. Under the unemployment laws of many States (Which are a part of the social security legislation and which cannot be ignored in this situation), such a salesman may be considered to be unemployed during 2 weeks of the month because he received no commissions. On the other hand, suppose he had expenses which ate up most of his commissions. Should he then be considered as unemployed, and, if so, for what period? On what standard should he be paid? It seems evident in such a case that there can be no pay ments which will accurately constitute unemployment compensation. The payments will clearly be a guarantee of either gross or net income depending upon what the base is to be. Clearly if there is a tax, there must be some benefits and since the benefits would be payable not on an employment status but on a business status, would this not be opening the door to Government subsidy of all independent business?

There is no means of determining how many hours per day an independent outside salesman devotes to selling. Under the usual contract (if there is any contract), the company does not require the submission of reports as to time spent. As a matter of practice, if it required such reports they would in many cases be false. There can be no control of the accuracy of such reports. In the event independent outside salesmen are covered by social security legislation, such a salesman may cease selling entirely for a given period and then assert that he has made efforts to sell but has been unsuccessful and that, therefore, he should be entitled to partial unemployment compensation. On the other hand such an outside salesman may devote all of his energy, all of his time, and all of his skill for a given period and still sell nothing and earn no commissions. Can any law be drafted—and if drafted can it be administered—on the basis of motives of men? Does not the proposed inclusion of independent salesmen put a premium on laziness and dishonesty, or, on the other hand, will it not penalize honest but unfruitful efforts?

In at least three respects dishonest practices are likely to develop if independent outside salesmen are included under title IX.

First, salesmen can hold back orders for goods and draw unemployment compensation benefits for several weeks. At the end of that period, the accumulated orders are turned in and large commissions collected.

Second, two or more salesmen can conspire to lump the business of a group in such a way that each has certain weeks of low earnings and during that time can draw total or partial benefits.

Third, a salesman may terminate his contract and draw benefits for several weeks. At the end of that period, he can enter into a new contract, work for several weeks, quit work and go through the same procedure again and again.

Such an operation by salesmen is, of course, demoralizing to the entire sales organization of the company. It is difficult to stop for the reason that the company usually has no control over the mode or method employed by the independent outside salesman or the hours which he devotes to his business.

By means of the dishonest practice of lumping orders and obtaining illegal benefits, unscrupulous salesmen are assured a minimum wage. They can collect both commissions and benefits. This, of course, was not the intention of the authors of the Social Security Act and the fact that outside salesmen have been expressly excluded from minimum wage laws—such as the Fair Labor Standards Act of 1938—argues emphatically against their inclusion under unemployment compensation laws, when to do so would guarantee a minimum wage.

There are sound reasons why independent outside salesmen were excluded from minimum wage laws. These reasons apply with equal force to unemployment insurance legislation which operates to guarantee a minimum wage. Independent outside salesmen are less productive if they have a guaranteed income and the attraction to the field of outside selling of persons seeking only to benefit by minimum wages, with no control or supervision, would make it necessary for companies operating on this basis to eliminate low production men. Reduced sales volume naturally will result in reduced production, consequently affecting suppliers of the materials required for manufacturing. Curtailment of employment would be inevitable, not alone in the selling field but would extend as well to office and factory workers.

Let us assume that John Smith is an outside salesman living in a small town. He enters into a contract to sell electrical equipment for X Co. He has no personal contact with the personnel of the company except by correspondence. He receives his goods by express and sends in the money as he sells the goods, together with the papers prepared by the company for the sale of the goods to the customer by the company. The company sends him his commission and makes contributions and deductions under the Social Security Act. John Smith is not a very industrious individual, and he likes to spend days at a time fishing. The company has no knowledge of what he does, when he works, where he works, whom he contacts, and makes no demands on him to furnish any particular amount of business. John Smith knows that the X Co. has been taxed for the commissions paid to him and he may also have contributed with respect to the unemployment tax.

There is no reason why John Smith should be denied the privilege of selling in the same manner indefinitely. He may deal in other products of other companies. Also, he may have a small independent income, inadequate for his needs, which he wishes to augment through direct selling. Since taxes are collected ostensibly for the purpose of assuring him a return when he does not earn a minimum (which we will say is $15 a week), is this not guaranteeing his business a minimum profit? There probably will be no dispute that expenses may be deducted in computing "earnings." In any week, then, when John Smith elects to go fishing, may he not receive his minimum business profit, erroneously called unemployment benefits? If he is to be erroneously called an employee and if his contractual relationship is to be erroneously termed an employment relationship, can it be said that he would not be justified in erroneously seeking the return for which the tax apparently had been made? Of course, this could not go on indefinitely. But it can go on a substantial part of every year and it deprives the outside salesman of that incentive which is essential to the success and which is essential to the character of the body of men who make up this specialized profession.

Some of the businesses that would be affected by restricting the direct selling method where outside salesmen are concerned are: Automobiles, farm machinery, bakeries, dairies, electrical appliances, gas companies, ice dealers, laundries, newspapers, clothing, nurseries, oil burners, refrigerators, sewing machines, vacuum cleaners, washing machines, drugs, etc.

If companies employing independent outside salesmen are forced to include, under the Social Security Act as employees, they will be compelled to readjust their organizations and change their selling methods—methods which have proved successful over a long period of time and through which successful business enterprises have been established.

No apology need be offered for the profession of outside salesmanship. It is probably one of the oldest forms of merchandising. This profession has probably been the most important factor in the introduction and distribution of new products of American industry throughout the country. The great majority of farms were first introduced to harvesters and other mechanical farm equipment

by outside salesmen. By this class of people, the tremendous investment in life insurance was built up. Many modern appliances, including sewing machines and vacuum cleaners, have been introduced almost exclusively by outside salesmen. The incentive of the outside salesman has been his limitless earnings on a basis depending upon his effort. There are probably a million men in this category. Is it the intention to guarantee this large group of the American populace a profit in their business, regardless of how much or how little effort they put into their business? Can any legislation be sound which fosters laziness and tends to kill the initiative of men in this group?

And if the profit of the outside salesman is to be guaranteed, is there any reason why this should not be extended to doctors and lawyers and others who sell personal services? The Government guarantee of profit to an independent businessman is a very serious matter to be carefully considered lest it encourage unemployment, kill incentive, and disrupt industry. Everyone is in accord that the major problem before our country is to restore confidence in business, increase volume, and create more work and employment. No action should be taken which sets up new and additional trade burdens. Independent salesmen are never unemployed, but if, by subsidizing their businesses, there is taken away their incentive to sell, their volume of sales will rapidly diminish, and this will immediately affect the production and buying power of both the factory workers who produce the merchandise, and the salesmen themselves.

The CHAIRMAN. Mr. Roland Rice, Washington, D. C., representing the American Trucking Associations, Inc.

STATEMENT OF ROLAND RICE, ASSISTANT COUNSEL, AMERICAN TRUCKING ASSOCIATIONS, INC., WASHINGTON, D. C.

Mr. RICE. My name is Roland Rice, and I am assistant counsel of the American Trucking Associations, Inc., of 1013 Sixteenth Street NW., Washington, D. C.

The American Trucking Associations is the national association of the trucking industry and includes in its membership all types of carriers—common, contract, and private. What is said here has reference only to the common and contract carriers—the for-hire branch of the industry. Affiliated with the American Trucking Associations are 50 State and local associations located in 46 States. In addition to the State associations, the carriers are represented according to natural divisions, such as common, contract, household-goods carriers, petroleum carriers, and others.

The for-hire industry operates about 600,000 trucks and employs over 1,250,000 persons. The entire trucking industry, exclusive of farm trucks, employs 3,545,000 persons. Employment in the for-hire division alone is greater than that in any other form of transportation. The annual volume of business of the for-hire industry grosses about $2,000,000,000, 50 percent of which, or a billion dollars, is paid to workers.

We call your attention to the economic position of the motor carriers. Their net income is represented by a line so thin that it has in many places reached the vanishing point. In various hearings conducted by the Interstate Commerce Commission in different regions throughout the country, it has been demonstrated by the evidence presented that the carriers are in a precarious position. Without going into detail, it is sufficient to say that in *Ex parte 123* the evidence showed that, by September 1937, carriers reporting for the eastern part of the United States had an operating ratio of 100.59. They were "in the red." In the West the figure was 98.47; and in the South it was 99.22. Cases conducted by the Interstate Commerce Commission since that time have shown similarly bad conditions.

When we bear in mind that any additional tax to be paid must come from our margin of profit, which is precariously narrow, we see how acute is the problem facing the industry.

One of the real difficulties faced by the trucking industry is that our pay roll represents such a large percentage of gross income, an average of 50 percent. Many industries show a pay roll of only 2 or 3 or even 10 or 12 percent. A trucking company with a pay roll of $500,000 paying 4-percent social-security tax must spend $20,000 annually for this tax alone. In another business with a gross income the same size and a pay roll of but 10 percent of gross, the employer is required to pay only $4,000. This seems to be a very difficult burden and we ask the committee's consideration for those industries whose pay roll represents such a large percentage of gross income.

We hope that at a later time, if not now, real relief can be afforded this business which spends so much of its gross income for pay-roll outlay. It may not be feasible for anything to be done at the present time, but a committee might be appointed to consider it, just as a general committee has been appointed to give attention to other matters relating to social security, and we will be happy to cooperate in anything which will place the facts of the situation before you.

The CHAIRMAN. Your industry is in the present law?

Mr. RICE. Yes, sir; it is.

The CHAIRMAN. And there is nothing worse in this law that affects your particular business than the present law?

Mr. RICE. You are referring now to the amendments?

The CHAIRMAN. The bill as passed in the House.

Mr. RICE. I think that is correct, but, of course, the suggestion that I made there concerns the burden that is under the general law.

The CHAIRMAN. That is along the same argument that was made, I think, yesterday by the laundry people?

Mr. RICE. That is correct. We find ourselves in a very similar position to them, and we should be happy if some very thoroughgoing study could be made to go into that. We might find that the solution is one thing or the other, or that we could all come to some agreement on it, and we should be glad to work with your committee or to serve on a committee that would be appointed to find some solution. There may be a great many facts that at the present time we are not aware of, and we will be glad to help discover them.

I appeared before the House Ways and Means Committee and presented our views which may be found in that committee's proceedings and I do not wish to burden you with a repetition of the statement made there. I presume this committee will acquaint itself to some extent with the record made before the committee of the House.

Suffice it to say that we spoke of the financial position of our industry, of our large employment, and of our desire to have the old-age tax pegged at the 1938–39 level. Since that time the House of Representatives has passed H. R. 6635, which, among other things, pegs the old-age tax at 1 percent of pay roll. With this we are in accord and we recommend that that provision be retained by the Senate.

The House bill, generally speaking, improves the situation and for the most part we hope it will be approved. May we call your attention, however, to just two additional specific items:

It appears, and much has been said by many witnesses and writers on this subject, that the vast reserve being accumulated is unneces-

sary, and that a smaller fund would be adequate. This point we believe merits active consideration. To achieve this end, it may be necessary to provide for credit against the Federal pay-roll tax of 3 percent, for payments to States and for the amount by which State rates are reduced.

I might say there that a good deal has been said here in the past 2 days while I have been here concerning the so-called McCormack amendment, and it would seem to us that as much latitude as possible might very well be given with regard to the matter of the authority in the States to treat this matter of experience ratings, and that they should not be tied down to too definite a provision.

Secondly, it would help business materially if greater importance could be attached in the final act to the application of experience ratings. In our own industry this should lighten the tax burden considerably because we are comparatively young and have never had an unemployment problem. There are likely other businesses similarly situated. A strong influence against unemployment can be created by making full employment attractive through credits to employers with good employment experience ratings. If the amendments to the Social Security Act can be so drawn as to promote and expand experience ratings in all the States; we shall not only provide employment and security but also achieve them at less expense to everybody concerned, and with a maximum spirit of cooperation.

Now, Mr. Chairman, there is just one other matter that I should like to call to your attention, and that is apart from what I have prepared. There has been a point raised here today by more than one witness concerning independent contractors. We have a great many independent contractors in the trucking industry. I can illustrate that best by saying that we might consider for a moment a man who operates an over-the-road business, as we call it, that is, he might operate from Pittsburgh to New York; he will have his local pick-up and delivery work performed by a local cartage man. That man is subject to the Social Security Act just as the man who operates from Pittsburgh to New York is subject. Very frequently, if not generally, it is the practice for the over-the-road man to pay a lump sum for the service of the local cartage man. Everything in that service is included in that lump sum. We frequently find that the local cartage man is paying his Social Security taxes because he is subject to the law, but in a good many instances we find that there is an attempt on the part of the Federal Government officials to attempt to collect social-security taxes on the whole amount of the over-the-road man, the whole amount that the over-the-road operator is paying to the local-cartage operator.

Of course, that is a very definite form of double taxation, and it is a form of taxation on services and on an outlay which were never contemplated to be taxed under the social-security law, because that flat outlay will include the use of the truck, it would include gasoline, it would include insurance, as well as it includes the services of these men who drive the trucks, and on those men a social-security tax has already been paid by the local-cartage man who employs them. If some consideration could be given to that item when you are considering the effect of the independent contractor in his relation to the insurance companies and to other companies, you would certainly be dealing

with something which is most vital to us and on which we have had a great deal of difficulty in getting a proper and an equitable solution.

The CHAIRMAN. Thank you very much.

There are no other witnesses, are there?

(No response.)

Senator HERRING. I would like to submit certain amendments for the record.

The CHAIRMAN. They will be inserted.

(The amendments submitted by Senator Herring are as follows:)

SUGGESTED AMENDMENTS TO H. R. 6635

Add a new subparagraph (p. 62, line 23) to be designated as section 1426 (b) (14):

"(14) Services performed by an insurance agent or insurance solicitor, to the extent that he is compensated by commissions."

Insert the phrase "except as provided in subsection (b) hereof," at the beginning of the second sentence (p. 63, line 15) of section 1426 (d), so as to read:

"Except as provided in subsection (b) hereof, it also includes any individual who," etc.

Add a new subparagraph (p. 90, line 16) to be designated as section 1607 (c) (14):

"(14) Services performed by an insurance agent or insurance solicitor, to the extent that he is compensated by commissions."

Insert the phrase "except as provided in section 1426 (b) or in section 1607 (c)" at the beginning of the second sentence (p. 99, line 12) of section 1101 (a) (5), so as to read:

"Except as provided in section 1426 (b) or in section 1607 (c) it also includes any individual who," etc.

Mr. EUGENE J. BUTLER. I would like to ask the committee's permission to file a short statement on behalf of the National Catholic Welfare Conference.

NATIONAL CATHOLIC WELFARE CONFERENCE,
June 16, 1939.

The Honorable PAT HARRISON,
Chairman, Committee on Finance, United States Senate,
Washington, D. C.

DEAR SENATOR HARRISON: The administrative board of the National Catholic Welfare Conference desires to place before your committee its views with regard to H. R. 6635, a bill to amend the Social Security Act.

The purpose of the United States Congress in enacting Public, No. 271, Seventy-fourth Congress (H. R. 7260), the Social Security Act, approved August 14, 1935, as stated in the act, is:

"To provide for the general welfare by establishing a system of Federal old-age benefits, and by enabling the several States to make more adequate provision for aged persons, blind persons, dependent and crippled children, maternal and child welfare, public health, and the administration of their unemployment compensation laws; to establish a Social Security Board; to raise revenue; and for other purposes."

Among its provisions the Social Security Act establishes three activities. Title II provides a Federal system of old-age benefits for workmen employed in industry and commerce and an excise tax on their employers. Title IX levies a second tax on employers of eight or more in industry and commerce, with certain credits allowed to employers contributing to a State plan of unemployment compensation.

Under this act not all persons gainfully employed are covered by either the unemployment compensation system or by the old-age benefits system.

Titles II, VIII, and IX of the Social Security Act exclude from the benefits of this act any worker employed in the service of a nonprofit charitable, educational, or religious institution.

The principal benefit provided by the old-age benefits system is a monthly pension payable to a worker in a covered employment after he has attained the age of 65. The bill now before your committee substitutes for lump-sum benefits monthly benefits for widows and children. Thus a worker in a noncovered em-

ployment, a nonprofit religious, charitable, or educational institution, etc., is entitled to no benefit at all; a worker who has at times received wages in a noncovered employment and at times in a covered employment is entitled to a benefit based solely on the wages he received in a covered employment.

This provision of the Social Security Act places the worker in a noncovered employment at a serious economic disadvantage as compared with the worker in a covered employment, unless the noncovered organization employing the worker has made some equivalent provision for him in his old age. No practical plan for providing such protection has been recommended. Especially is this true in the case of workers in the lower wage brackets and these workers are precisely those who need this kind of protection the most.

In his message of January 16, the President emphasizes the "desirability of affording greater old-age security." The President holds that the extension of the old-age benefits system "to as large a proportion as possible of our employed population" is necessary "in order to avoid unfair discrimination." The administrative board of bishops is desirious of gaining for the lay workers in Catholic institutions the benefits which accrue to employees generally under the Social Security Act. The administrative board wishes to assist in removing discrimination against workers in our charitable, educational, and religious institutions.

The Advisory Council on Social Security, in its final report of December 10, 1938, makes the following recommendation:

"I. The employees of private nonprofit religious, charitable, and educational institutions now excluded from coverage under titles II and VIII should immediately be brought into coverage under the same provisions of these titles as affect other covered groups.

"The council believes that there is no justification in social policy for the exclusion of the employees of such organizations from the protection afforded by the insurance program here recommended. Further, no special administrative difficulties exist in the coverage of the employees of such organizations under the system."

The administrative board agrees with the general meaning of that recommendation and would accept it unequivocally if all payments under the Social Security Act were segregated in an insurance fund and not collected as taxes in the general fund.

Workers now in excluded employments but not permanently bound to such employments may at later periods acquire benefit rights by working in such employments that are not excluded. The rights they could thus acquire, however, would not be as complete and extensive as they would be had they been working continuously in a covered employment. Thus the worker in the employment of a nonprofit organization is practically reduced in his old age to a condition of economic inferiority as compared with one who works in an employment operating for profit.

As workers become conscious of this fact and are made to feel the loss in the value of their old-age benefits, it will become increasingly difficult to find satisfactory workers willing to make the sacrifice of a part of their old-age benefits. Thus it becomes apparent that excluded employments may find the exclusion a burden rather than a benefit.

The employees of tax-exempt institutions do not enjoy the exempt status of the institutions for which they work but are subject to income and other taxes, Federal, State, and local. There is no essential difference between the services rendered under the Social Security Act by the old-age benefits system and other public services such as public education, etc.

The administrative board, therefore, pleads for a formula of participation by workers in the old-age benefits of the act without prejudice to the tax-exempt status of the nonprofit religious, charitable, and educational institution. These institutions at the same time desire that any amendment extending to their employees the coverage of old-age benefits recognize and safeguard their traditional status of exemption from general laws of taxation.

Our nonprofit institutions of charity, education, and mercy are religious foundations. In these institutions members of the clergy and of religious orders of men and women devote their lives freely and generously to the cause of education, religion, and charity. Education and charity traditionally are fields in which the church has had an important place. The clergy and religious devote their lives to education and works of mercy without regard to compensation other than what is necessary for life. They administer and operate these institutions. To that extent they are self-employed. They should continue to be exempt as they now are under titles II, III, VIII, and IX of the act. The general

welfare does not require that the coverage of old-age benefits or unemployment compensation be extended to include them.

With regard to title IX, which levies a tax on employers of eight or more in commerce and industry, the administrative board of the National Catholic Welfare Conference feels that since unemployment in religious, charitable, and educational institutions is not seasonal there is no unemployment problem as far as they are concerned, and that there, too, their traditional tax-exempt status should be recognized.

The administrative board expresses the earnest hope that an adequate formula be written to grant coverage under the Social Security Act to the lay employees of our charitable, educational and religious institutions. In summary, the administrative board recommends:

1. That lay employees of Catholic institutions be included under the provisions of the Social Security Act on the basis of a contribution on the part of the employee, but not on the part of the employer.

2. That the present status of our institutions as tax exempt be kept unimpaired.

3. That unemployment coverage be not extended to employees of religious institutions, because, since unemployment in such institutions is not seasonal, there is, generally speaking, no unemployment problem as far as they are concerned.

4. That clergy and religious be not included in the category of employees but in the category equivalent to the family relationship as provided in the act.

5. That all payments be segregated as an insurance fund rather than as a general fund constituted of taxes.

With sentiments of esteem, I remain

Respectfully yours,

MICHAEL J. READY,
General Secretary.

Mr. EUGENE J. BUTLER. In addition to that, Dr. Caldwell, the secretary of the American Hospital Association has sent a statement and asked me to present it to be filed with the record.

The CHAIRMAN. It will be inserted.

(The same is as follows:)

[Letterhead of]

AMERICAN HOSPITAL ASSOCIATION, 18 E. DIVISION ST., CHICAGO, ILL.

BERT W. CALDWELL, M. D., EXECUTIVE SECRETARY

JUNE 15, 1939.

The Honorable PAT HARRISON,
Chairman, Committee on Finance, The United States Senate,
Washington, D. C.

MY DEAR SENATOR HARRISON: The joint advisory committee of nine members fully authorized to represent the American Hospital Association, the Catholic Hospital Association, and the Protestant Hospital Association, having knowledge of the fact that the committee of which you are chairman is holding an open hearing on H. R. 6635, a bill to amend the Social Security Act, appreciate your desire that we file with the committee for the record a full statement of the attitude of the nonprofit charitable hospitals with regard to this bill.

We therefore take this opportunity to present to the committee the attached statement, as authorized by the three hospital associations which we represent.

The joint advisory committee in authorizing this action request that I express to you and the members of the committee our appreciation of your attitude of cooperation with the hospitals.

Very truly yours,

/s/ BERT W. CALDWELL, M. D.,
Secretary of the joint advisory committee.

THE JOINT ADVISORY COMMITTEE

For the American Hospital Association: Dr. Fred G. Carter, president-elect, St. Luke's Hospital, Cleveland, Ohio; Dr. Claude W. Munger, St. Luke's Hospital, New York City; Msgr. M. F. Griffin, 13824 Euclid Avenue, Cleveland, Ohio.

ployment. He did mention education where wages are monthly and not always paid during vacations. The charitable hospitals contribute very little, if at all, to this in-and-out movement.

Employment in the charitable hospitals does not fluctuate either cyclically or seasonably, as does employment in industry.

Employment on the basis of an annual salary is customary in these hospitals. These hospitals do not originate any substantial problem of unemployment.

With regard to nonprofit organizations and Federal instrumentalities now exempt, the chairman said that to extend coverage of old-age insurance to their employees presents no administrative difficulties to the Board. It would involve undoubtedly serious difficulties and expenses for the nonprofit hospitals.

In his discussion the chairman predicts that, as the number of recipients of old-age benefits increases with time, the income from the taxes on pay roll now levied by the Social Security Act will not be sufficient to meet the cost of the old-age insurance system. He states: "The Board believes that contributions to the old-age insurance program should eventually be made out of Federal taxes other than those on pay rolls."

No nonprofit charitable hospital or institution desires to see its employees the victims of discrimination. To deny them the benefits of an old-age insurance program under which the employees of profit or proprietary hospitals are covered certainly is discrimination. It is a penalty imposed on the employee for no reason other than his being employed in the service of a nonprofit charitable institution.

Speaking before the Committee on Ways and Means for the joint hospital committee, Mr. Robert Jolly, on January 29, 1935, discussed this provision of the Economic Security Act, then before the committee, and pleaded with the committee to remove this discrimination. "We are for old-age insurance. We want our people taken care of," spoke Mr. Jolly 4 years ago. "We favor old-age insurance." Mr. Jolly pleaded with the committee to find a way to extend the coverage of old-age insurance to hospital employees by exempting the nonprofit charitable hospitals from the taxes levied in the act.

We felt then and we still feel today that the plea made by Mr. Jolly was reasonable and just and in harmony with the best American tradition.

The taxes levied by titles VIII and IX of the Social Security Act, though in the mind of the taxpayer they may be related in some manner to the old-age insurance system and the unemployment-compensation system, though they may have the psychological effect of encouraging the taxpayer to look on them as not truly taxes but contributions, these taxes are under the provisions of the Social Security Act true taxes.

The proceeds from these taxes are paid into the Treasury of the United States like other internal-revenue taxes generally. They are not earmarked in any way. There are penalties for nonpayment.

Title II does create an account in the United States Treasury to be known as the old age reserve account. Title IX creates an unemployment trust fund. No present appropriation is made to either the reserve account of the trust fund. All that the act does is to authorize appropriations annually. How great is to be the amount of these appropriations is not stated. The Chairman of the Social Security Board thinks now that with time they will have to be greater than the amount of the revenue derived from the taxes levied by the act. That amount is in no way related to the amount of the revenue produced by the taxes delivered by the Social Security Act. That amount as provided by the act is to be sufficient as an annual premium to provide for the payments required and is "to be determined on a reserve basis in accordance with accepted actuarial principles, and based on such tables of mortality as the Secretary of the Treasury shall, from time to time, adopt, and upon an interest rate of 3 percent per annum compounded annually."

Not $1 goes into the account by force of the Social Security Act alone unaided by acts to be enacted in the future. Likewise the trust fund is to be made up of deposits to be made by the several States having no relation to the tax on employers of eight or more levied in the Social Security Act.

Beyond question, therefore, the taxes levied by the Social Security Act are not contributions to a reserve fund; they clearly are taxes.

In the United States nonprofit charitable hospitals and institutions are exempt from taxation. This exemption is in agreement with the American tradition. The exemption of these institutions from taxation is not only a recognition of social services rendered. Truly it is that, but it is more than that. The exemption of these charitable institutions from taxation is related to the natural right

of the citizen to liberty in the exercise of the Christian virtue of charity and philanthropy.

To foster and protect the exercise of that Christian virtue and thus to strengthen these charitable agencies is a proper function of Government. These charitable agencies serve the general welfare as truly and certainly with no less efficiency than do tax-supported agencies in the same field.

Men and women in these institutions dedicate themselves to the service of the sick and the needy, often at great personal sacrifice. These services are not paid through taxation. They represent a substantial economy to the taxpayers.

As a class these nonprofit hospitals are not fully endowed. To lay upon them the burden of heavy taxation would render it increasingly difficult for them to continue to provide the indispensible services they now provide. Some of them would be forced to close.

Dr. Carl Shoup, a well-known writer and authority on taxation, author of the recent work on Studies in Current Tax Problems, in the Annals of the American Academy for March 1939, discusses the subject Taxing for Social Security. Dr. Shoup finds that the tax on pay roll paid by the wage earner in time is absorbed by the employer through increased wages; and that ultimately this tax together with the tax paid by the employer are passed on to consumers, either in increased prices or by failing to reflect in reduced price economies in cost of production, obtained perhaps by the introduction of labor-saving devices which aggravate the problem to be solved by the Social Security Act itself. The burden of the tax on a charitable hospital ultimately would fall on some sick person who could not be given the hospital service he required.

A nonprofit charitable hospital is not an industry. It is not a trade. Whatever net income a charitable hospital may derive from its operations, or from gifts, does not inure to the benefit of any shareholder or individual, but is used to provide care for the needy sick.

Indeed in a time of stress like the present hospitals have been unable to avoid incurring deficits. The hospital cannot curtail its operation cost as can industry. It must be prepared for every emergency. When not thus prepared it does not serve an important purpose for which it is established, and this is true especially with regard to charitable hospitals and institutions. The hospital cannot curtail overhead or cut down its employment.

The common experience of voluntary hospitals is that their receipts from the patients admitted has reached as high as 72 percent of the cost of operation in the more prosperous years, and have been less than 46 percent of the cost of operation in times of depression. There are two causes which affect the income of the hospital from patients in depression periods: First, and most important, the inability of the patient who formerly paid in part or whole for his hospital care to pay anyting at all; and second, the greatly increased burden of charity imposed upon the charitable hospital which it must accept regardless of whether it is facing increasing deficit in operation or not, trusting to the hospital's community to help out materially to keep its doors open and its service for the care of the sick unimpaired.

The nonprofit charitable hospitals serve needy sick not only directly but indirectly through a vast system of schools for the training of nurses. These hospitals not only employ 80,000 graduate nurses constantly; they have constantly in training an average of 72,000 student nurses. In addition they employ between 75,000 and 80,000 women aids in the house-keeping departments. All these classes of employees and may others are receiving their professional training in and at the expense of the nonprofit charitable institutions. In addition these nonprofit institutions maintain training schools and courses of study for medical men as well as for nurses and other skilled employees.

The prices paid by those who can afford to pay for essential hospital services are not competitive. They are rigidly standardized on the basis of cost. They cannot be raised and lowered to meet the exigencies of the moment. They are not governed by the pressure of supply and demand.

From whatever point of view we look at the charitable nonprofit hospital we are confronted with the fact that it is not like an industry.

Speaking for the nonprofit charitable hospitals and in conclusion of this discussion, we cannot do better than repeat the plea our committee made 4 years ago that a way be found to extend the coverage of the old-age insurance system to employees in the service of nonprofit charitable hospitals which will recognize, respect, and safeguard the tax-exempt status of these hospitals; and that, in recognition of the fact that nonprofit charitable hospitals do not originate any substantial unemployment problem, you continue in effect the provisions of the Social

Security Act under which they are exempt from the tax on employers of eight or more.

The CHAIRMAN. Before the hearings are closed I wish to have included in the printed record, for the consideration of the committee, communications, briefs, and statements relative to the pending bill, submitted by the following: Mr. S. E. McKee, assistant manager, the Texas Co., New York City; Breed, Abbott & Morgan, attorneys, New York City, on behalf of California Perfume Co., Inc.; Paul Fishback, secretary, National Food Brokers Association, Indianapolis, Ind.; Mr. W. Gibson Carey, Jr., president, Chamber of Commerce of the United States; Mr. Howard Friend, secretary, the Inter-Organization Council of Indiana; Miss Marguerite M. Wells, president, National League of Women Voters; E. E. Cammack, chairman, Group Association (association of insurance companies writing group insurance); Mr. Timothy J. Mahoney, chairman, New York State Employers Conference, New York City; and Mr. H. F. Elberfeld, chairman, social security committee, New Jersey State Chamber of Commerce.

(The communications, briefs, and statements referred to are as follows:)

SOCIAL SECURITY ACT AMENDMENTS

THE TEXAS CO.,
New York, June 13, 1939.

Hon. PAT HARRISON,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR HARRISON: It is my understanding that the amendments to the Social Security Act incorporated in H. R. 6635 are presently being considered by the Senate Finance Committee.

It is my opinion, and I believe the opinion of those representing other business interests, that the proposed enactment should be amended in several important particulars, and I am, therefore, taking the liberty of presenting the following sugg stions.

I. CREDITS AGAINST THE TAX IMPOSED BY TITLE IX ON ACCOUNT OF CONTRIBUTIONS TO STATE UNEMPLOYMENT FUNDS

Under the existing statute credit is allowed to the extent of 90 percent of the tax under title IX for contributions with respect to the taxable calendar year which are paid to the States before the due date of the Federal return for such year, which is January 31 of the year following.

Section 1601 (a) (3), page 67 of the above bill, applicable to taxes for the calendar year 1939 and thereafter, does not extend the time within which payment to the States may be made and the full credit of 90 percent taken against the Federal tax, but does permit a lesser credit to be taken if the payments to the States are made before July 1 next following the last day upon which the taxpayer is required to file his Federal return.

Section 902 (a), page 100 of the bill, would permit credit against the Federal taxes imposed for the calendar years 1936, 1937, or 1938 for taxes paid to the States before the sixtieth day after the enactment of the bill or on or after such sixtieth day with respect to wages paid after the fortieth day after the date of enactment.

If, under existing law, a taxpayer does not pay his State unemployment taxes before the due date of his Federal return, he loses the 90 percent Federal credit: in effect he pays what amounts to almost a double tax. Obviously it is unfair to penalize a taxpayer to such extent for delayed payments to the States, especially when he is already penalized in the form of State interset penalties, which range from 6 to 12 percent per annum.

While the present bill ameliorates this situation, it does not go far enough. This new type of social legislation has raised many legal questions, which it will take some time for administrative bodies and the courts to pass upon. It seems fair, therefore, that the taxpayer should have a longer period within which to claim the Federal credit for State taxes than that provided in the above bill. A

period of 4 years is suggested, since under existing law a claim for refund of social security taxes may be presented by a taxpayer within 4 years next following the date of payment thereof. If the proposed change in H. R. 6635 hereinafter set forth is adopted, the period within which credit for State payments could be claimed and a claim for refund filed would then be the same. The adoption of this amendment would not encourage delayed payments to the States, since the interest penalties provided by the State statutes for late payments would act as a deterrent to delinquency, and the Federal statute, as you know, provides for 6 percent interest on late payments of Federal tax.

In this connection I might point out that the 80 percent credit against the Federal estate tax, allowed for inheritance taxes paid to the States, ordinarily is permitted to be taken if such taxes are actually paid to the States and credit therefor claimed within 4 years after the filing of the Federal estate tax return.

In order to accomplish the change above recommended, it is suggested that section 1601 (a) and section 902 (a) be modified to read as follows:

"SEC. 1601. CREDITS AGAINST TAX:

"(a) CONTRIBUTIONS TO STATE UNEMPLOYMENT FUNDS—

* * * * * * *

"(3) The credit against the tax imposed by section 1600 for any taxable year commencing with that of 1930 shall be allowed if payment by the taxpayer of contributions into an unemployment fund under the compensation law of a State for which such credit is claimed is made within 4 years next after payment of the tax under section 1600 to which such credit is applicable."

* * * * * * *

"SEC. 902. (a) Against the tax imposed by section 901 of the Social Security Act for the calendar year 1936, 1937, or 1938, any taxpayer shall be allowed credit for the amount of contributions, with respect to employment during such year, paid by him into an unemployment fund under a State law—

"(1) Within 4 years next after payment of the tax under section 901 of the Social Security Act to which such credit is applicable;"

* * * * * * *

II. DEFINITION OF "EMPLOYEE"

Under the present statute the term "employee" is not defined except as including an officer of a corporation. However, the regulations (art. 205, regulations 90, and art. 3, regulations 91) further define the term.[1]

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[1] Art. 205 of regulation 90 reads as follows:

"ART. 205. *Employed individuals.*—An individual is in the employ of another within the meaning of the act if he performs services in an employment as defined in section 907 (c). However, the relationship between the individual who performs such services and the person for whom such services are rendered must, as to those services, be the legal relationship of employer and employee. The act makes no distinction between classes or grades of employees. Thus, superintendents, managers, and other superior employees are employees within the meaning of the act.

"The words 'employ,' 'employer,' and 'employee,' as used in this article, are to be taken in their ordinary meaning. An employer, however, may be an individual, a corporation, a partnership, a trust or estate, a joint-stock company, an association, or a syndicate, group, pool, joint venture, or other unincorporated organization, group, or entity. An employer may be a person acting in a fiduciary capacity or on behalf of another, such as a guardian, committee, trustee, executor or administrator, trustee in bankruptcy, receiver, assignee for the benefit of creditors, or conservator.

"Whether the relationship of employer and employee exists, will in doubtful cases be determined upon an examination of the particular facts of each case.

"Generally the relationship exists when the person for whom services are performed has the right to control and direct the individual who performs the services, not only as to the result to be accomplished by the work but also as to the details and means by which that result is accomplished. That is, an employee is subject to the will and control of the employer not only as to what shall be done but how it shall be done. In this connection, it is not necessary that the employer actually direct or control the manner in which the services are performed; it is sufficient if he has the right to do so. The right to discharge is also an important factor indicating that the person possessing that right is an employer. Other factors characteristic of an employer are the furnishing of tools and the furnishing of a place to work, to the individual who performs the services. In general, if an individual is subject to the control or direction of another merely as to the result to be accomplished by the work and not as to the means and methods for accomplishing the result he is an independent contractor, not an employee.

"If the relationship of employer and employee exists, the designation or description of the relationship by the parties as anything other than that of employer and employee is immaterial. Thus, if two individuals in fact stand in the relation of employer and employee to each other, it is of no consequence that the employee is designated as a partner, coadventurer, agent, or independent contractor.

"The measurement, method, or designation of compensation is also immaterial, if the relationship of employer and employee in fact exists.

"Individuals performing services as independent contractors are not employees. Generally, physicians, lawyers, dentists, veterinarians, contractors, subcontractors, public stenographers, auctioneers, and others who follow an independent trade, business, or profession, in which they offer their services to the public, are independent contractors and not employees.

"An officer of a corporation is an employee of the corporation, but a director, as such, is not. A director may be an employee of the corporation, however, if he performs services for the corporation other than those required by attendance at and participation in meetings of the board of directors."

The bill amends the definition of "employee" (sec. 1426 (d), p. 63; sec. 801 (b) (6), p. 97). It includes within the term any individual who secures applications or orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business, even though such individual is not an employee of such person under the law of master and servant, unless such services are performed as a part of such individual's business as a broker or factor, and in furtherance of such business as a broker or factor, similar services are performed for other persons and one or more employees of such broker or factor perform a substantial part of such services, or such services are casual services.

The amendment is objectionable for these reasons, among others:

(1) It expands the definition of "employee" to include any individual who for remuneration by way of commission or otherwise secures applications or orders or otherwise personally performs services as a salesman, but who is not an employee under the law of master and servant.

(2) It embraces salesmen, brokers, and factors who would not be employees under existing State statutes.

(3) It selects a particular group of persons and arbitrarily and capriciously classifies them as employees, with the result that the provision may possibly be declared unconstitutional. (See *Heiner* v. *Donnan*, 285 U. S. 312.) It would be just as logical to provide that all persons engaged in the manufacture of airplanes, or any other group, should be regarded as employees, even though in law and in fact they might be independent contractors to whom the Social Security Act never was intended to apply.

(4) There is no justification for making a distinction solely on the ground that one factor or broker sells the products of one person, while another factor or broker sells the products of more than one person—both may be equally independent businessmen.

(5) The definition is unnecessary, since the above-quoted regulations, which have the force of law, provide an adequate and proper test for coverage, and under that test, which is the common-law test of employer-employee relationship, salesmen now come within the statute in those cases which the Social Security Act was intended to embrace; that is, where they are subject to the direction and control of their principals and are, therefore, employees.

III. DEFINITION OF WAGES

As the Social Security Act now stands, the term "wages" is not defined in titles VIII and IX other than to mean all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash (with the $3,000 limitation in title VIII). However, the term "wages" is further defined by article 209 of Regulations 90 (pertaining to title IX) and article 16 of Regulations 91 (pertaining to title VIII). Thus, article 209 of Regulations 90, so far as material, provides:

"(d) *Premiums on life insurance.*—Generally, premiums paid by an employer on a policy of life insurance covering the life of an employee constitute wages if the employer is not a beneficiary under the policy. However, premiums paid by an employer on policies of group life insurance covering the lives of his employees are not wages, if the employee has no option to take the amount of the premiums instead of accepting the insurance and has no equity in the policy (such as the right of assignment or the right to the surrender value on termination of his employment).

* * * * * * *

"(f) *Payments by employers into employees' funds.*—Payments made by an employer into a stock bonus, pension, or profit-sharing fund constitute wages if such payments inure to the exclusive benefit of the employee and may be withdrawn by the employee at any time, or upon resignation or dismissal, or if the contract of employment requires such payment as part of the compensation. Whether or not under other circumstances such payments constitute wages depends upon the particular facts of each case."

Subparagraphs (d) and (f) of article 16 of Regulations 91 are similar.

H. R. 6635 provides that the term "wages" means all remuneration for employment, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include—

"(2) The amount of any payment made to, or on behalf of, an employee under a plan or system established by an employer which makes provision for his employees generally or for a class or classes of his employees (including any amount

paid by an employer for insurance, or into a fund, to provide for any such payment), on account of (A) retirement, or (B) sickness or accident disability, or (C) medical and hospitalization expenses in connection with sickness or accident disability."

The Report of the House Ways and Means Committee (No. 728) contains the following statement:

"DEFINITION OF WAGES

"Section 209 (a): This subsection continues the present definition of wages, but excludes certain payments heretofore included. Paragraph (2) excludes all payments made by the employer to or on behalf of an employee, or former employee, under a plan or system providing for retirement benefits (including pensions), or disability benefits (including medical and hospitalization expenses), but not life insurance. These payments would be excluded even though the amount or possibility of such payments is taken into consideration in fixing the amount of remuneration and even though such payments are required, either expressly or impliedly, by the contract of employment. Since it is the practice of some employers to provide for such payments through insurance or the establishment and maintenance of funds for the purpose, the premiums or insurance payments and the payments made into or out of any fund would likewise be excluded from wages."

(See pp. 59 and 72 of Report No. 728 for similar comments with respect to the definition of "wages" in sec. 1426 (a) and sec. 1607 (b), respectively.)

Inasmuch as Congress by the above bill is now covering specifically in the statute itself some of the features presently embraced in the regulations, it seems desirable that there should be included in the bill also a provision expressly excluding from the term "wages" death benefits paid by an employer and premiums paid by an employer on policies of group-life insurance covering the lives of his employees at least if the employee has no option to take the payment or the amount of the premiums instead of accepting the insurance and has no right of assignment or other equity such as that described in the regulations. The object of the bill, as stated in Report 728, is to liberalize the law, and it seems, therefore, that the phrase, "but not life insurance," where it appears in Report 728, undoubtedly was intended to refer to cases embraced in the first sentence of subparagraph (d) of article 209, above quoted, and not to group-life insurance on employees under the conditions specified in the second sentence of said subparagraph. It is advisable, however, to have this made clear and to remove by clarification any possible room for doubt later on.

The express exclusion from the term "wages" of premiums paid by an employer for group-life insurance on his employees, and of death benefits paid by an employer himself pursuant to an uninsured plan or system, could be accomplished by adding after the semicolon at the end of subparagraph (2) on pages 35, 57, and 85 of the bill the following paragraph:

"Or (D) death, provided the employee has not (i) the option to receive, instead of provision for such death benefit, any part of such payment or, if such death benefit is insured, any part of the premiums (or contributions to premiums) paid by his employer, and (ii) the right, under the provisions of the plan or system or policy of insurance providing for such death benefit, to assign such benefit, or to receive a cash consideration in lieu of such benefit either upon his withdrawal from the plan or system providing for such benefit or upon termination of such plan or system or policy of insurance or of his employment with such employer."

In the same subparagraph (2) the words, ", or annuities," should be added after "insurance," since retirement pensions ordinarily are provided for by annuity contracts rather than insurance.

To summarize briefly, my suggested amendments are:

(1) That the period within which credit may be taken against the Federal tax on account of payments of unemployment compensation taxes made to the States should be 4 years next after payment of the Federal tax; such provision to apply with respect to 1936 and all years thereafter.

(2) That the proposed amendment of the definition of "employee" be omitted; and

(3) That the proposed definition of "wages" be amended so as to exclude death benefits paid by an employer and premiums paid by an employer on policies of group-life insurance covering his employees and to include in subparagraph (2), after the word "insurance" the words ", or annuities,".

I should appreciate it if you would include this letter in the record for consideration by your committee. I am taking the liberty of sending a copy of it to each member of the committee.

Respectfully yours,

S. E. McKee,
Assistant Manager.

[Committee on Finance, United States Senate, 76th Cong.—Hearings on H. R. 6635]

MEMORANDUM ON BEHALF OF CALIFORNIA PERFUME CO., INC., SEEKING CLARIFICATION OF PROPOSED AMENDMENTS CONTAINED IN H. R. 6635, TITLE VI, SECTION 606 AND TITLE VIII, SECTION 801 (B)

INTRODUCTORY STATEMENT

This memorandum is submitted on behalf of California Perfume Co., Inc., a New York Corporation, with its principal office at 30 Rockefeller Plaza, New York, N. Y., and engaged in the direct selling of Avon and Perfection products (cosmetics, perfumes, flavoring extracts, toilet articles, household specialties, etc.) throughout the United States by means of approximately 30,000 sales representatives. Its purpose is to urge consideration by your committee of certain proposed amendments contained in H. R. 6635, title VI, section 606 (being in part an amendment to sec. 1426 (d) of the Internal Revenue Code) and title VIII, section 801 (b) (which strikes out paragraph (6) of section 1101 (a) of the Social Security Act and inserts in lieu thereof a new paragraph) with a view to clarification of the definition of the term "employee" contained therein. The proposed definition reads as follows:

"EMPLOYEE.—The term 'employee' includes an officer of a corporation. It also includes any individual who, for remuneration (by way of commission or otherwise) under an agreement or agreements contemplating a series of similar transactions, secures applications or orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business (but who is not an employee of such person under the law of master and servant); unless (1) such services are performed as a part of such individual's business as a broker or factor and, in furtherance of such business as broker or factor, similar services are performed for other persons and one or more employees of such broker or factor perform a substantial part of such services, or (2) *such services are not in the course of such individual's principal trade, business, or occupation.*" [Italics ours.]

The sales representatives of California Perfume Co., Inc., have been held by the Treasury Department not to be "employees" within the meaning of that term in the present Social Security Act. We believe that the intention of the italicized portion of the above amendment is likewise to exclude such representatives from the term "employee". This memorandum will show the desirability and fairness of such exclusion and will urge that the italicized clause in the above definition be so clarified that persons performing services such as are rendered by the sales representatives of California Perfume Co., Inc., are explicitly excluded from the meaning of the term "employee" as used in the Social Security Act.

DESCRIPTION OF THE ACTIVITIES OF SALES REPRESENTATIVES

As pointed out in the introductory statement, the products of California Perfume Co., Inc., are distributed throughout the United States by approximately 30,000 sales representatives. Of these 27,000 are active in rural and suburban districts and in smaller cities. A very large majority of these 30,000 sales representatives are housewives who are engaged in selling the products of California Perfume Co., Inc., during a portion of their spare time for the purpose of earning a small amount of incidental income.

A sales representative has complete discretion as to when and where, in her particular territory, she will work and to choose her own customers. Her hours of work are of her own making and subject to no control by the company. No customers' lists are furnished to a sales representative and the company does not and is, in fact, unable to make any check on her clientele, which is consequently dependent upon her own desires and initiative. She is not prevented from engaging in any other business activity nor from carrying competing lines of merchandise. She is not required to fulfill any minimum quota of sales. In fact, the average gross sales of representatives who work for a full year amount only to approximately $150 and a large majority of the representatives do not work for a full year. Commissions of 40 percent, which are a sales representative's

sole compensation, would amount to $60 on this volume of sales. It is, therefore, obvious that selling by the average representative constitutes a pin money activity in the nature of a side line rather than a real trade, business, or occupation.

As stated above, a sales representative's only remuneration is a 40 percent commission on her gross sales. When the volume of her sales reaches a quota which she considers sufficient to warrant shipment from the company, she fills out an order blank and sends it to the company. The latter thereupon forwards her the ordered goods on a 20-day credit basis. She then delivers to her customers the particular goods ordered by each and remits 60 percent of the list price to the company retaining 40 percent as her commission. While the company endeavors to maintain the list price of its goods, it has no way of knowing at what price a particular representative sells. She can, in fact, pass along to the customer any part, or all, of the 40 percent commission retained by her. Similarly, the company has no way of knowing whether or not she sells on a cash-on-delivery basis. If the representative should extend credit to one of her customers, she would be obligated to bear whatever loss might result.

The name of a sales representative does not appear and has never appeared on the pay roll of California Perfume Co., Inc. All expenses of the solicitation, including transportation expenses, are borne by the representative. The actual sales technique employed by a sales representative rests entirely in her discretion. The only contact maintained by the company with the great majority of sales representatives is by correspondence because, even if it wished, the company could not keep in touch with each of the 30,000 representatives, scattered as they are throughout the entire United States.

The length of time during which a sales representative will be engaged in her activity will depend completely upon her own initiative. She is free to terminate her selling activity at any time. As a matter of fact, a very large percentage of the sales representatives pursue their activities for only a short time and, as a result, California Perfume Co., Inc., must appoint each year approximately 30,000 new representatives. The company is unable and makes no attempt to force any representative to continue her selling activity. In short, California Perfume Co., Inc., has no direct control over either the character or the duration of a sales representative's relationship with the company. The sales representative is her own master. California Perfume Co., Inc., merely affords her an opportunity to sell its products as long as she desires.

EFFECT OF IMPOSITION OF TAX IN THE INSTANT SITUATION

It is immediately apparent from the relationship between California Perfume Co., Inc., and its sales representatives, as above outlined, that a tremendous clerical burden would be placed upon the company should the act be made applicable to such sales representatives through an extension of the term "employee" to include them. Their expenses vary in each individual case in accordance with varying methods of solicitation and modes of transportation. Since they pay their own expenses and make no reports thereof to the company, the clerical work which would be entailed in making even an approximate determination for the purpose of contribution reports would be enormous, and if the employer were unable accurately to make such a determination, the tax would amount to one on gross commissions.

The clerical burden is especially heavy in the instant case because of the turnover of sales representatives each year. The company is represented each year by approximately 30,000 new saleswomen. The company has little or no knowledge of the length of time during which any one representative sells its products because its contact with the saleswomen is predicated entirely upon the returns sent in from time to time. Since there is such a huge turn-over, the clerical cost of setting up and maintaining accurate pay-roll records for each sales representative would, in many cases, be too great to justify the "employment" of such representative.

As previously stated, the average commission paid to a representative annually amounts to about $60. It is therefore clear that in such average case the financial burden which would be incurred both by the company and by the representative would not be commensurate with the benefits to be obtained under title VIII of the Social Security Act. The company's financial burden, aside from the actual tax paid, would be greatly in excess of that imposed upon companies employing a similar number of regular salaried employees due to the added clerical burden necessary under this company's particular type of direct selling. The financial burden of the representative is confined, of course, to the tax paid, but in view

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The clerical burden is especially heavy in the instant case because of the turnover of sales representatives each year. The company is represented each year by approximately 30,000 new saleswomen. The company has little or no knowledge of the length of time during which any one representative sells its products because its contact with the saleswomen is predicated entirely upon the returns sent in from time to time. Since there is such a huge turn-over, the clerical cost of setting up and maintaining accurate pay-roll records for each sales representative would, in many cases, be too great to justify the "employment" of such representative.

As previously stated, the average commission paid to a representative annually amounts to about $60. It is therefore clear that in such average case the financial burden which would be incurred both by the company and by the representative would not be commensurate with the benefits to be obtained under title VIII of the Social Security Act. The company's financial burden, aside from the actual tax paid, would be greatly in excess of that imposed upon companies employing a similar number of regular salaried employees due to the added clerical burden necessary under this company's particular type of direct selling. The financial burden of the representative is confined, of course, to the tax paid, but in view

of the fact that qualification for old-age benefits is predicated upon receipt of a total of at least $2,000 in wages from included employment over a period of 5 years and before reaching 65 years of age, it is difficult to see how the overwhelming majority of representatives could qualify for old-age benefits through their "employment" with California Perfume Co., Inc. Viewed in this light, it is submitted that the possible benefits accruing from the inclusion of these representatives within the meaning of the term "employee" under the Social Security Act in no way justify the burden placed upon the company and such representatives.

There are equally compelling reasons why the proposed definition should not be extended to title IX of the act if such definition should be construed to include these sales representatives and other salesmen similarly circumstanced. The effect of covering such self-employed individuals would be to put a premium on voluntary unemployment. Whether such a person sells or not rests entirely within his own discretion. She is master of her own time and efforts and cannot be supervised or controlled. If she chooses to sell, she is entitled to commissions. If she should be included under title IX, and the States should follow the lead of Congress in this respect, she would be eligible to draw unemployment benefits by choosing not to sell. In other words, thus to extend the definition of "employee" would be to violate the intent of the Social Security Act which was to provide economic relief caused by involuntary rather than voluntary unemployment. That this was the original intent of Congress is evidenced by the original exclusion of individuals who were not subject to supervision and control and in whose discretion rested the decision to work or not to work. The involuntary unemployment at which title IX and its companion State acts are directed is of necessity unknown to the sales representative of the type here concerned. Since her opportunity for employment is always available and dependent solely upon her own initiative, the only type of unemployment which she may experience is voluntary.

In addition to the digression from the original intent of title IX which the inclusion of such representatives would cause the clerical and financial burden which would be placed on the company would, as in the case of title VIII, be tremendous.

In the light of these important considerations, it is important that attention be given to the true intent of the Social Security Act and of the newly proposed definition of an "employee" and to the question of whether that definition should clearly exclude salesmen of the type who represent California Perfume Co., Inc.

INTENT OF ACT NOT TO COVER INSTANT CASE

From the very beginning the Social Security Act contemplated the exemption of self-employed individuals. Sales representatives who are masters of their own time and effort, and subject to little or no supervision and control, have been specifically excluded from practically all social legislation passed under this administration. As far back as the N. R. A. period it was proposed that independent outside sales representatives be excluded from the provisions relating to minimum wages and maximum hours. As a result of the hearings had thereon commission-paid sales representatives were specifically excluded in various codes. Subsequently, under the Fair Labor Standards Act of 1938 the following exemption appeared:

"SEC. 13. (1) Any employee employed in a bona fide executive, administrative, professional or local retailing capacity, *or in the capacity of outside salesman* (as such terms are defined and delimited by regulations of the administrator)." [Italics ours.]

The draftsmen of these laws recognized clearly the impossibility of fairly and effectively extending to this class of salesmen the benefits proposed under those laws and, as a consequence, exempted them.

No less apparent is the intent to exclude such individuals from the coverage of the present Social Security Act. In the instant case the Treasury Department has specifically ruled that the sales representatives of California Perfume Co., Inc., are not and never have been intended to be within the meaning of the term "employee."

Nor have the draftsmen of the proposed definition of the term "employee" in H. R. 6635, as applied to title VIII of the Social Security Act, intended to change entirely the original intent of the Social Security Act. In extending the coverage of the term "employee" to commission salesmen, two definite exceptions have been made. One, it is sincerely believed, is directed at just such individuals as are here involved. That exception provides that persons whose services are not in the course of their principal trade, business, or occupation are not within the meaning of the term "employee." The bill as previously framed provided that

the term "employee" did not include persons whose services were "casual services" not in the course of their principal trade, business, or occupation. Subsequently the words "casual services" were deleted from the exception. This broadening of the definition evidences a sincere effort on the part of the draftsmen to exempt the type of sales representative here involved.

It is submitted, however, that this intention should be further clarified so as to remove a possible ambiguity. As stated above, a large majority of the sales representatives of California Perfume Co., Inc., are housewives, widows, and the like, who sell the company's products as a means of obtaining pin money. Of all types of independent salesmen it would seem that persons like these should be the first to be excluded from the term "employees." We believe the exception as presently worded may be ambiguous in cases where such a sales representative has no other principal trade, business, or occupation in the accepted sense despite the fact that the services performed for the California Perfume Co. do not amount to a principal trade, business, or occupation. In other words, the present exception might be considered susceptible of the following interpretation: A man with other steady work would be excluded from the term "employee" whereas a woman whose primary work consists of duties as housewife or housekeeper would be included on the ground that such duties were not a "principal trade, business, or occupation." Yet it would seem unfair to call services which produced $60 worth of commissions the "principal trade, business, or occupation" of a person the majority of whose time is consumed in household duties. For this reason we submit that the exception as presently worded should be clarified to include without question the services of such persons.

SUGGESTED CLARIFICATION

Thus far we have advocated a clarification of the exception to the newly proposed definition of the term "employee." However, if the suggested clarification of the exception is deemed impractical, we believe that the entire amendment to the present definition of "employee" should be deleted in order that the sales representatives of this company and other companies which employ substantially the same methods of merchandising will be exempted.

In approaching the problem of clarification we respectfully urge that your committee bear in mind the discrimination which, as pointed out above, is likely to occur if the exception is left undisturbed. We have drafted a proposed amendment which we believe would eliminate such discrimination. In other words, the amendment is designed to include sales representatives whose services are the same as those intended to be covered by the present clause and yet who may not otherwise have what is commonly termed a "principal trade, business, or occupation."

The definition of "employee" as contained in title VI, section 606, and title VIII, section 801 (b), of H. R. 6635 together with the proposed clarifying amendment would read as follows, the new matter being set out in italics:

"The term 'employee' includes an officer of a corporation. It also includes any individual who, for remuneration (by way of commission or otherwise) under an agreement or agreements contemplating a series of similar transactions, secures applications or orders or otherwise personally performs services as a salesman for a person in furtherance of such person's trade or business (but who is not an employee of such person under the law of master and servant); unless (1) such services are performed as a part of such individual's business as a broker or factor and, in furtherance of such business as broker or factor, similar services are performed for other persons and one or more employees of such broker or factor perform a substantial part of such services, or (2) such services are not in the course of such individual's principal trade, business or occupation, *or do not of themselves have the characteristics (including time consumed, regularity of performance and extent of profit) customarily associated with the phrase 'principal trade, business of occupation'.*"

We respectfully urge that this or some similar clarifying amendment be inserted in the bill.

Respectfully submitted.

BREED, ABBOTT & MORGAN,
New York, N. Y., Attorneys for *California Perfume Co., Inc.*

NATIONAL FOOD BROKERS ASSOCIATION,
Indianapolis, June 13, 1939.

Hon. PAT HARRISON,
Chairman, Finance Committee, United States Senate,
Washington, D. C.

SIR: I am instructed to invite your attention and the attention of the Finance Committee to a provision in H. R. 6635 which appears to be unworkable so far as it affects the members of the National Food Brokers Association and their principals. I refer to the proposed definition of "employee" under title VI amending section 1426 (d) of the Internal Revenue Code. Under this section it appears that brokers are excluded from the definition "employee" provided:

First, "Such services are performed as a part of such individual's business as a broker or factor and * * *."

Second. "In furtherance of such business as broker or factor, similar services are performed for other persons and * * *."

Third. "One or more employees of such broker or factor perform a substantial part of such services * * *."

The last clause of section 1426 (d) as shown in the proposed bill and reading "or such services are casual services not in the course of such individual's principal trade, business, or occupation", does not affect the food broker.

The food broker is an independent sales agent in the various trade centers of the country who negotiates sales of food and grocery products to wholesalers for and on account of many principals, producers, manufacturers, and processors of food products. His compensation is solely on a commission basis. Many food brokers in the various trade areas are individuals having as many as 150 principals located in various parts of the Nation. Some of these brokers, operating as individuals or partnerships, employ assistants or outside salesmen, while others do not. It appears to us that all food brokers who employ assistants or salesmen are clearly excluded by the definition. However, it appears that the individual food broker or the partnership who employs no assistants or salesmen to perform a "substantial part of such services" cannot qualify for exclusion under the third provision quoted above. It is our opinion that the application of the provision to food brokers is utterly unworkable. The food broker is an independent businessman. He has contracts with a hundred or more principals. There is no way of the principal knowing the cost of doing business of the broker or the amount of expenses allocable to a particular principal. Furthermore, it would seem impractical to impose upon a broker difficult and expensive cost-accounting analysis in order to get at facts and figures essential to finding the wages on which the tax is imposed.

It would seem inevitable that if this section is enacted into law with this effect the small independent individual broker would lose his accounts. Principals would go to the large brokerage firms exempt under the definition. We respectfully urge that the third "and" clause, reading as follows, be eliminated:
"and one or more employees of such broker or factor perform a substantial part of such services * * *."

There appears to be no legitimate reason to discriminate against and threaten to drive out of business a small broker who does not need or cannot afford the employment of assistants.

Respectfully submitted.

PAUL FISHBACK, *Secretary.*

CHAMBER OF COMMERCE OF THE UNITED STATES,
Washington, June 12, 1939.

H. R. 6635, AMENDMENTS TO SOCIAL SECURITY ACT

Hon. PAT HARRISON,
Chairman, Committee on Finance, United States Senate.

MY DEAR MR. CHAIRMAN: Important parts of H. R. 6635, as this bill has passed the House of Representatives, so closely accord with principles we have been advocating by reason of decisions made by our organization membership that we trust there will be concurrence by your committee. Principal features to which I refer are—

Advance of time for the beginning of payment of Federal old-age benefits to 1940;

Increase in the amounts of such benefits in the earlier years after payments begin;

Abandonment of the accumulation of vast reserve in connection with the Federal plan for old-age benefits and substitution of a trusteed fund which is more appropriate for the Federal Government;

Postponement of the increase in tax rates under the Federal old-age plan from the present rates of 1 percent on pay rolls and 1 percent on wages, thus, according to the official estimates, avoiding imposition next year, and in each of the two succeeding years, upon employers and workers of tax burdens in addition to the present burdens in the amount of $275,000,000.

IMMEDIATE TAX REDUCTION

Relief from present tax burdens can also be given through this bill, in large amounts. The minimum relief in 1939 can amount to $100,000,000, and in 1940 the minimum is $200,000,000, after added costs for the States that would be imposed by H. R. 6635. But such added costs should not be made a price for reduction of rates in State taxes. The present State laws have been certified by the Social Security Board as meeting the specifications of the Social Security Act. Any questions respecting State laws should be considered separately, and upon their own merits. There should be relief at once from excess taxation of pay rolls under the present State laws. That relief will mean a reduction in the present tax burden of at least $500,000,000 in 1939 and 1940.

In order that this direct tax relief may be obtained, of course, there must be provision in H. R. 6635 for employers to obtain credit against the Federal pay-roll tax of 3 percent, not merely for their payments to States but also for the amount by which State rates are reduced.

Provisions of this kind appear in H. R. 6635 but they are couched in such terms as to cause doubt about their immediate applicability; the language may be interpreted as meaning there can be no relief until a State law has been in effect for 10 years. Besides, the provisions contain new and additional Federal specifications to which I have alluded in my reference to added costs.

EXPERIENCE RATING

There should also be increase of opportunity for saving in taxes by each employer subject to State laws for unemployment compensation. This opportunity can be given in a form that will advance the public interest, by exerting strong influence against unemployment. This opportunity will be afforded if the amendments to the Social Security Act cause the Federal statute to promote use of experience rating in the State laws.

H. R. 6635 has provisions relating to experience rating, but they are restrictive, not promotive. It is very doubtful if experience rating could persist long in any State under these restrictive provisions. They would be very unlikely to permit experience rating to be extended to any State where it is not as yet available as an incentive and as a reward for accomplishments in maintaining employment.

There are other features of H. R. 6635 about which I should under other circumstances wish to address you, but the two subjects upon which I have dwelt are so general in their application that I desire to give them special emphasis.

The latest declaration of our organization membership respecting amendments to the Social Security Act I am attaching. I am addressing you in support of this declaration.

Trusting that the considerations which I have outlined will appeal to you and to the committee, I am,

Sincerely yours,

W. GIBSON CAREY, JR., *President.*

SOCIAL SECURITY ACT

RESOLUTION ADOPTED AT THE TWENTY-SEVENTH ANNUAL MEETING OF THE CHAMBER OF COMMERCE OF THE UNITED STATES, WASHINGTON, D. C., MAY 4, 1939

As Congress will soon consider amendments to the Social Security Act, the report of the chamber's committee which is before the annual meeting is most timely.

Announcement of a decision by a congressional committee to prevent the tax rate on employers and employees from rising at the beginning of 1940 is most welcome, and contains recognition of the depressing effects of taxes collected now to pay benefits in distant years.

The financing of the old-age insurance system should be definitely and permanently changed from a reserve basis to a basis for provision each year to meet the obligations maturing in the year. This means that the rates of tax for employees and employers will be so set as to bring in only enough to pay current benefits and build up a contingent reserve against periods of temporary depression. In the other recommendations of the committee respecting this part of the law we concur, including the proposal that benefit payments begin next January, with supplemental benefits under certain conditions.

The costs of this part of the law should have constant attention. As the law now stands, the costs will eventually become very large. We are concerned, and believe every thoughtful person must be concerned, over the total eventual cost of the present system to covered persons, employers, and the Government, which the original official estimates placed at 10 percent of pay rolls, and believe that actual eventual cost should always be kept below such a figure.

The burdens of the provisions for unemployment payments are also large. These burdens should be lessened by provisions promoting experience-rating and allowing relief for employers in States where funds have already been accumulated far in excess of the needs for payment of benefits. The Federal tax should be limited to the first $3,000 of annual salary, and other provisions also placed upon the same basis as for the old-age plan, in order that employers may make one report for the two kinds of pay roll taxes.

There are in Congress, too, proposals with respect to old-age assistance and public health. Advocating as we do a strengthening of provisions for old-age insurance, we believe there should be no additions to the Federal responsibility for the old-age assistance plans of the States. Proposals for the increase in grants-in-aid to States for public health services and for the enlargement of public-health programs should not be considered until the country can afford them and can pay for them without burdens that will create new hardships in other directions.

STATEMENT TO THE FINANCE COMMITTEE OF THE UNITED STATES SENATE RELATIVE TO H. R. 6635, SUBMITTED BY THE INTER-ORGANIZATION COUNCIL OF INDIANA

GENTLEMEN: The ensuing statement is made to your honorable body, with the request that it be incorporated in the record of your hearings on H. R. 6635, as representing the constructive views of Indiana employers on features of the above-mentioned bill affecting State unemployment compensation programs.

The Inter-Organization Council of Indiana, it should be explained, represents practically all types of employment in Indiana. Affiliated with it are the following business and trade associations:

Indiana State Chamber of Commerce.
Associated Retailers of Indiana.
Indiana Junior Chamber of Commerce.
Indiana Bankers Association.
Indiana Grain Dealers Association.
Coal Trade Association of Indiana.
Legal Reserve Life Insurance Association of Indiana.
Indiana Electric Association.
Indiana Real Estate Association.
Associated Employers of Indianapolis.
Indiana Bakers Association.
Indiana Lumber & Builders Supplies Association.
Indiana Telephone Association.
Indiana Retail Hardware Association.
Auto Dealers Association of Indiana.
Indiana Millers Association.
Indiana Petroleum Marketers Committee.
Indiana Association of Ice Industries.

The Inter-Organization Council, as representing employers of the State, has worked earnestly, through its committees, in cooperation with the Indiana State unemployment compensation division. It has been anxious to help build in Indiana a sound unemployment-compensation program. It is fully as anxious to preserve the soundness of that program which has now been developed.

Employers generally are appreciative of features of the bill which recognize that everyone will profit through the softening of tax deterrents to industrial expansion and growth. On the other hand, they are convinced that these features

will be nullified, insofar as unemployment compensation is concerned, if the proposed amendments to section 1602 of the Internal Revenue Code, restricting State individual merit-rating programs and establishing drastic Federal minimum benefit standards, remain in the bill.

The latter statement is based on the twofold, logical premise that if the unemployment-compensation program is to be successful, the economic benefits derived from it must outweigh its costs; and that when merit, or experience, rating is rendered ineffective in practical operation, one of the primary objectives of the unemployment-compensation program—stabilization of employment—is defeated.

Features of the proposed amendments in H. R. 6635 to section 1602 of the Internal Revenue Code are believed to be inimical to the development of a sound unemployment-compensation program for the following reasons:

1. It must be assumed from announcements that have been made through official sources that the purpose of the unemployment-compensation features of this bill is to alleviate the tax burden on employers to an extent commemsurate with the unchallenged necessity of maintaining a sound unemployment-compensation program—a purpose which is in keeping with the now-accepted conclusion that an important part of the solution to the unemployment dilemma lies in minimization of tax deterrents on business. But contrary to this interpretation of the measure, careful analysis has established that it would increase materially the costs of unemployment-compensation programs borne by industry—rather than reduce the cost—in nearly all States. For Indiana, the minimum benefit requirements of the bill would increase costs of the State program at least 20 percent. Thus permission to States to reduce unemployment compensation rates on a State-wide basis becomes an empty promise and, in fact, a threat of still higher taxes.

2. The creation of Federal minimum benefit standards—whether they be mild or, as in the present bill, drastic, would establish a dangerous precedent which is not justified by existing conditions and cannot be authenticated by the present limited experience with unemployment compensation. Certainly the experience thus far in the enactment of State laws has proved that the States may be depended upon to enact liberal benefit provisions. The only apparent reason, therefore, for injecting Federal minimum standards at this time is the proposal for State-wide tax reductions, and there appears now to be agreement that this should not be enacted at this time or until there has been more experience under present laws. This point, however, we emphasize: That the proposed minimum standards would effectively block any appreciable tax reductions and would, without doubt, in time require even larger levies.

3. The implications of the bill as to merit rating are twofold. If a State is compelled to operate under the requirement of an average 2.7 percent rate on all pay rolls, merit rating is almost completely nullified. If a State takes advantage of the alternative, compliance with the minimum-benefit standards would result in a substantially more narrow margin within which merit rating might operate, defeating it completely for some employers.

In view of the above-stated considerations, we are of the belief that Federal minimum standards should be eliminated from H. R. 6635. Specifically, we urge that section 610 of H. R. 6635 be stricken out, thus leaving present provisions of section 1602 of the Internal Revenue Code unchanged.

We also urge the elimination of section 302 of H. R. 6635, which would amend section 303 (a) of the Social Security Act by adding thereto paragraphs (8) and (9). As we interpret these two paragraphs, they would, in effect, give to the Social Security Board the authority to draft State administrative budgets. Since the board already exercises the power of approval of State budgets, we feel this extension of Federal control is unjustified.

There is one further point we wish to make before your committee. Under the provisions of the present Federal law, in our State—and we feel sure this is true in many if not all others—we have made a very splendid start in establishment of a successful system of unemployment insurance. Our State law and our State administration are operating successfully, and to the satisfaction of employees, employers, and the general public. It would, indeed, be most unfortunate to interrupt so successful a beginning, starting off in other, untried directions. All that has been gained in the confidence and support of those whose cooperation is so necessary, would be endangered and perhaps lost.

May we ask, is the objective of the proponents of these amendments complete abolition of State unemployment-compensation programs, and the substitution of

a Federal system? Certainly the amendments tend most strongly in that direction, and we greatly fear that we would be only a short step removed from that eventuality.

In closing, we present, and ask that it also be included in the record, an editorial recently published in the monthly publication of our State unemployment-compensation division, signed, personally, by Mr. Clarence A. Jackson, director of the department. We ask that it be included because we believe it represents fairly the attitude of the great majority of interested citizens of our State, and, incidentally, a policy which has twice been affirmed by an overwhelming vote of our State legislature.

Respectfully submitted.

THE INTER-ORGANIZATION COUNCIL OF INDIANA,
By HOWARD FRIEND, *Secretary.*

[Editorial]

MERIT RATING VERSUS POOLED FUND

What do American wage earners want—stabilization of their jobs or another charity under a new name?

We are told that this planet earth stays in its proper orbit among the millions of stars because of continuous rotation at terrific speed. We are told that the basis of all life on this earth is motion. Birth, growth, and death—for plant and animal life, for our buildings, homes, and machinery—wherever you look you see this fundamental and endless process in action.

The problem in human relations, especially in government, is sometimes not to let this process move too rapidly. In our opinion, this may be happening now in the national unemployment-compensation program. Unemployment compensation is a developing program, but it should develop along the lines of practical experience—of which there has necessarily been little to date.

The best unemployment-compensation system would be a system under which no benefits were ever paid. The explanation of this paradox lies in the fact that under ideal conditions everyone who was capable of working would have a job. The country is now experimenting with a Nation-wide unemployment-compensation program in which there are two distinct and conflicting schools of thought. One, the writer believes, is an attempt on the part of some groups to Europeanize unemployment compensation, an irrevocable step toward Europeanizing American labor. This group is opposed to the individual-reserve, or merit-rating, plan for employers. This viewpoint is supported by some professional labor leaders and a certain class of manufacturers who, because of the uneconomic operations of their industries, know they have to pay a higher rate under an employer merit rating system. Therefore, they prefer the so-called pooled fund, so that the employees and employers in more stable industries will have to pay part of their operating costs.

The pooled-fund group claims that the ills of one industry should be paid for by all industries. They would make unemployment compensation just another tax. They apparently ignore the basic rules which have governed human action since history began. They want to remove all rewards for attempting to stabilize industry, which means to give men and women steady income. They would pay benefits not only according to a wage record, but would also invoke the element of need, thus pointing unemployment compensation toward being just another charity. They would retard the very definite progress being made toward an annual wage program.

The advocates of the reserve-type fund, or merit rating, for employers believe that their ideas should have a fair test, which, of course, they have not yet had, for the obvious reason that none of the various State merit-rating plans have gone into effect.

"From border to border and coast to coast" the battle rages—around the legislative halls, in the debating forums, and, at present, chiefly in the Halls of Congress.

Indiana has merit rating for employers. Every indication today points to the fact that it is working, and we mean by that that it is working to the advantage of the employee. Both employers and employees in Indiana are interested in the program and are cooperating with the division. They are helping to iron out the difficulties. They are doing these things because they feel that this is not just "another tax" but that it is a great national movement of which they are a part. They feel that their greatest contribution would be to stabilize their own

businesses so that they will be contributing as little as possible to the mass unemployment problem in this country. Merit rating for employers will go into effect in Indiana in 1940. Obviously it will be 2 or 3 years after that date before a true picture of its good and bad points will loom up in clear perspective.

In the meantime, it is well for Indiana employees and employers and the Indiana staff to know that the eyes of the country are focused on this State, along with one or two others, in the study of this important question.

CLARENCE A. JACKSON.

JUNE 14, 1939.

To: The Senate Finance Committee.

Subject: Statement in support of amendments to Social Security Act: (1) To require appointment of State personnel under a merit system, (2) to increase Federal financial participation in aid to dependent children program.

From: National League of Women Voters, Miss Marguerite M. Wells, president.

Personnel.—When Congress enacted the Social Security law, it was aware of the serious problems of administration involved. Recognizing that the success of the program would depend largely upon the skill with which it was administered, the Congress stipulated that Federal personnel with only a few exceptions should be chosen under the merit system. The Social Security Board has used sparingly the discretion given it by the Congress to appoint certain key personnel without regard to the civil-service system. There has been little criticism of the Federal administration. A tremendous undertaking has been successfully launched.

The intent of the Congress obviously was to insure, to the extent possible in the law, sound administration free from partisan political influence. Since this program, with the one exception of old-age benefits, is a cooperative one between the Federal Government and the States, with the States responsible for the actual disbursement of funds to the needy individuals, its ultimate success depends upon the supplementary State laws and their administration. Failure of the Congress to safeguard Federal funds by requiring methods of administration within the States as sound as those required for the Federal Government has led to serious criticism of the program in many areas, to a complete break-down of the old-age-assistance program in some States. State leagues of women voters have worked within their States for sound personnel systems. They have reported to us the need for this Federal requirement.

The Social Security Board has made clear that it does not wish to assume responsibility for the selection of State personnel. It does ask, however, that State personnel be selected in such an objective manner as to insure freedom from partisan political manipulation, continuity of service, so that there will not be periodic upheavals inimicable to the program, and the attraction of well-qualified persons to the service of the State. Mr. Altmeyer, chairman of the Social Security Board, has pointed out that where such systems for the selection of State personnel exist, the Social Security Board has not found it necessary to scrutinize the details of administration as minutely as in those States where personnel is chosen in a hit-or-miss fashion or on the basis of political patronage. In other words, establishment of State merit systems has freed the States from irksome Federal supervision otherwise necessary to enable the Social Security Board to carry out its responsibilities as established in the Social Security Act.

The intent of Congress—to insure sound administrative practices—has in some instances been thwarted by failure of the States voluntarily to comply. It therefore becomes evident that the Congress should require the establishment of State merit systems as a prerequisite for receiving grants-in-aid under each of the categories of the social-security program.

The members of the League of Women Voters urge the Senate to include the amendment proposed by Mr. Altmeyer, and also included in the Byrnes bill, which would require such merit systems as one element of proper administration.

Aid to dependent children.—H. R. 6635 as passed by the House provides for 50–50 participation by the United States Government and the States in grants for the care of dependent children. The League of Women Voters approves this amendment. In addition, we urge that some additional requirement be placed in the bill to insure that the increased Federal funds be used to increase the average allowance per child in the States or to add to the number of children cared for under this program, rather than to reduce the amounts appropriated by State and local communities. The requirement in the Byrnes bill that an average grant of $10 for a dependent child be maintained might accomplish the desired result.

Miss MARGUERITE M. WELLS, *President.*

To the Senate Finance Committee:

Under the present terms of the Social Security Act and the Treasury and Board's regulations, "wages" do not include the employer's contribution to the cost of group life insurance for his employees. Group life insurance is protection in event of death provided through employers for the benefit of their employees. Over 20,000 employers have such plans in effect covering some 9,000,000 employees for an average of about $1,500 life insurance each.

Approximately 95 percent of the group life insurance in force is in companies who are members of the group association, and this statement is being made on behalf of the association.

At present the definition of "wages" include employer's contributions for certain other types of employee-benefit plans, such as certain forms of retirement benefits, dismissal wages, disability benefits, and medical and hospital expenses. In order to avoid discouraging plans of this nature, the Social Security Board and the Advisory Council on Social Security have recommended in public reports that employer's contributions for these plans be also excluded from the definition of wages.

Those recommendations are carried out in H. R. 6635, now under consideration by your committee. Unfortunately the phraseology used raises doubt concerning the continuance of past exclusion of employer's contributions for group life insurance. We believe it was the intent of the Social Security Board and the Advisory Council to have exclusion continued. If that exclusion is not continued, it would be very difficult and probably impossible to determine what portion of the total premium for all employees would constitute wages of a particular employee. This situation may readily result in the abandonment of group life insurance by many employers. Any such resulting cancelation of all or any part of the total of $15,000,000,000 of group life insurance now in force on 9,000,000 employees is, we are confident, not in the minds of the Social Security Board, the Advisory Council, the House of Representatives, or your committee.

Accordingly, we strongly urge the amendment of H. R. 6635 to make clear that the past exclusion from wages of the employer's contributions for group life insurance will be continued. The three subsections making the exclusion for retirement, disability, and medical and hospitalization benefits are: Section 209–(1)–2, sections 606 and 614, amending, respectively, sections 1426–(a)–2 and 1607–(b)–2 of the Internal Revenue Code.

We suggest the following addition at the end of each of these subsections: "or (D) death."

Hence they would provide for the exclusion of—

"The amount of any payment * * * by an employer which makes provision for his employees * * * on account of (A) retirement, or (B) sickness or accident disability, or (C) medical and hospitalization expenses in connection with sickness or accident disability, or (D) death."

E. E. CAMMACK,

Chairman, Group Association (Association of Insurance Companies Writing Group Insurance).

MEMORANDUM RELATIVE TO CONDITIONS OF ADDITIONAL CREDIT ALLOWANCE, H. R. 6635, SUBMITTED BY TIMOTHY J. MAHONEY, CHAIRMAN, NEW YORK STATE EMPLOYERS CONFERENCE, 350 MADISON AVENUE, NEW YORK, N. Y., JUNE 14, 1939.

STATEMENT

The Social Security Act provided for the two underlying principles of an unemployment compensation system: (*a*) Prevention; (*b*) Alleviation.

Addional credit allowance, the incentive to prevent unemployment, was provided for in sections 909 and 910 of the Social Security Act.

Section 909 is now known as section 1601 of the Internal Revenue Code and section 910 is now known as section 1602 of the said code. This change is in pursuance of the provisions of an act to consolidate and codify the internal revenue laws of the United States. (H. R. 2762, Pub. No. 1, 76th Cong.)

THE SOLE QUESTION UNDER CONSIDERATION IS THE PROPOSED REVISION OF SECTION 1602

The proposed revision of section 1602 is a radical departure from the first of the two underlying principles mentioned above. The substantial change in the wording of the section is found in the bill commencing on page 70 thereof. Severe

conditions are imposed which must be complied with in the State laws before employers and employees may obtain the benefits of employment stabilization which President Roosevelt said in January 1935 was the "larger purpose" of an unemployment compensation system. Experience rating now definitely provided for in the Federal law and in the laws of a great majority of the States under fair and reasonable conditions would be nullified if the changes suggested in section 1602 were accepted and approved by the Congress.

WHAT IS "ADDITIONAL CREDIT ALLOWANCE" AND HOW MAY IT BE OBTAINED UNDER THE PRESENT LAW?

Having in mind that the maximum credit allowed under the Social Security Act is 90 percent of the Federal unemployment compensation tax for any employer, additional credit allowance may be described as the difference between 2.7 percent of the wages payable by an employer under a certified State unemployment compensation law and the amount said employer actually pays at a lower tax rate because of his good employment experience.

Perhaps an illustration may be useful. Suppose under a certified State law an employer's tax was $900 and his Federal unemployment compensation tax was $1,000. After he paid his State tax he would deduct from his Federal tax the full $900 (90 percent of his Federal tax). Suppose after 3 years of compensation experience because of his favorable employment experience he paid the State in accordance with an experience-rating system in the State law $750 instead of the normally required $900. When he paid his Federal tax he would deduct therefrom $900 the normal 2.7 percent of the Federal tax and thus save $150. This $150 would represent his additional credit allowance, the incentive for keeping people on the job.

The only condition for additional credit allowance in a pooled-fund law now provided for in section 1602 is: "Such lower rate, with respect to contributions to a pooled fund, is permitted on the basis of not less than 3 years of compensation experience."

In this memorandum reference is made only to pooled-fund State laws since the great majority of State unemployment compensation laws are of that type. However, employer reserve laws such as in Wisconsin, the pioneer State in the unemployment compensation field, are likewise adversely and seriously affected.

THE PROPOSED CONDITIONS OF ADDITIONAL CREDIT ALLOWANCE

Instead of merely providing for 3 years of compensation experience section 1602 as rewritten in H. R. 6635 provides for two alternatives:

A. That additional credit be allowed with respect to any reduced rate of contributions under a State law only if the Social Security Board finds that: "The total annual contributions will yield not less than an amount substantially equivalent to 2.7 percent of the total annual pay roll with respect to which contributions are required under such law." (P. 70, lines 7–10.)

B. Notwithstanding A, a taxpayer shall be allowed an additional credit with respect to any reduced rate of contributions permitted by a State law if the Board finds that under such law the following minimum standards are complied with:

1. That the amount in the unemployment fund as of a specified date each year equals not less than one and a half times the highest amount paid into or paid out of such fund whichever is greater in any one of the preceding 10 calendar years; and

2. That not less than 16 weeks of benefits shall be payable to an eligible individual in any 52 consecutive weeks or one-third the individual's total earnings during above period of not less than 52 consecutive weeks, whichever is less.

3. The waiting period shall not be longer than 2 weeks in 52 consecutive weeks.

4. That weekly rates of compensation payable for total unemployment will be related to full-time weekly earnings and will not be less than: (*a*) $5 per week if such full-time weekly earnings were $10 or less; (*b*) 50 percent of such full-time weekly earnings if they were more than $10 but not more than $30; and (*c*) $15 per week, if such full-time weekly earnings were more than $30.

5. Provision is made in the State law for partial unemployment benefits.

THE PROPOSED CONDITIONS OF ADDITIONAL CREDIT ALLOWANCE ARE NOT RECOMMENDED BY THE SOCIAL SECURITY BOARD; ARE INCONSISTENT WITH THE FEDERAL-STATE SET-UP

In considering this point we should be mindful of the Federal-State system intended by President Roosevelt, by the Senate Finance Committee and clearly provided for in the Social Security Act. In his message to Congress (74th Cong., 1st sess., H. Doc. No. 81) transmitting the report of the Committee on Economic Security, President Roosevelt said: "Moreover, in order to encourage the stabilization of private employment Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment."

In the report of the Senate Finance Committee (74th Cong., 1st sess., S. Rept. No. 628) at page 13, we find this pertinent statement: "except for a few standards which are necessary to render certain that the State unemployment compensation laws are genuine unemployment compensation acts and not merely relief measures, the States are left free to set up any unemployment compensation system they wish without dictation from Washington. * * * Likewise, the States may determine their own compensation rates, waiting periods, and maximum duration of benefits. Such latitude is very essential because the rate of unemployment varies greatly in different States, being twice as great in some States as in others."

The new and burdensome conditions proposed in section 1602 would not leave the States free to set up their own compensation systems. There would be no State systems, but only the Federal system. The States would be regimented into what Mr. Carpenter, the capable and efficient director of the Texas unemployment compensation law, referred to on June 13, 1939, in his testimony before the Senate Finance Committee as an "administration monstrosity." There is no foundation for the intended Federal system. Even before some States have paid any benefits under their laws and before any of the States, except Wisconsin, have had 2 years of compensation experience the 51 State laboratories would be abandoned and discontinued because of the Federal system provided for in the proposed section 1602. The country would then grope in the dark with a new Nation-wide experiment.

The rigidity of the Federal standards would be deathlike for the Federal-State unemployment compensation system set up in the Social Security Act. The Social Security Board does not recommend these Federal standards. (See Chairman Altmeyer's answers to Senator Vandenberg at the hearing of the Senate Finance Committee, June 13, 1939.) What is the basis for the standards? There is no mention of them in the Social Security Board's report to the President submitted by him to the Congress, January 16, 1939. The standards were not mentioned during the public hearings before the Committee on Ways and Means, House of Representatives. The hearings started February 1, 1939, and ended April 7, 1939. It must, in fairness, be assumed that the person or persons who advanced the idea of Federal standards believed their adoption by the Congress would be wise and in the interests of unemployment compensation. Is it not, therefore, quite significant that for over 2 months during which public hearings were held by the House committee on this bill that Federal standards were not discussed?

Chairman Altmeyer did say in further answer to Senator Vandenberg, on June 13, 1939, that if the Board were requested now it would advocate the adoption of the first alternate of the proposed new section 1602—namely, the requirement that each State unemployment compensation law yield an average of 2.7 percent of covered pay rolls. Heretofore such recommendation had not been made. Therefore, in the hearings before the Senate Finance Committee, the first opportunity to meet this proposal is presented for those who employ the workers of the Nation and meet the pay rolls and pay the taxes thereon.

THE PROPOSED CHANGES IN SECTION 1602 ARE ARBITRARY AND UNWARRANTED

The first alternative for an additional credit allowance is that the normal maximum net tax on pay rolls of 2.7 percent become the average rate of tax under State laws. This in a subtle manner increases the pay-roll taxes for unemployment compensation. We are thus confronted with an increase in pay-roll taxes, notwithstanding a surplus of a billion and a quarter dollars in the Federal unemployment compensation trust fund which is steadily growing under present tax rates. The business recession in 1938 following the comparatively good employment year of 1937, and the fact that most of the States opened the floodgates for

unemployment compensation benefits in 1938 resulting therefore in heavy withdrawals from State funds emphasize the absence of justification for any increase in the tax rate.

Chairman Altmeyer admitted yesterday before the Senate Finance Committee that we have not had sufficient benefit paying experience throughout the country to determine standards. He seems to feel however because of the surpluses, that are generally piling up throughout the States, which ultimately find their way into the Federal unemployment compensation trust fund that a lower tax rate may be put into effect in the next 2 or 3 years, when the merit-rating provisions of the Board's model bills adopted by most of the States become operative. Merit rating is now more accurately referred to as experience rating. Lower tax rates, obtainable only because employers stabilize their employment, are more than offset by the requirement of a 2.7-percent average over all. If lower tax rates became effective under the conditions mentioned in 1941 or 1942, pursuant to the present law, it appears Mr. Altmeyer believes benefits may be cut in such States. This coming from him is rather amazing when we face the facts. In the workmen's-compensation field, without pressure from the Federal Government, the States have liberalized their laws consistently over the past 25 years. In the unemployment compensation field, many of the States have, in advance of any extended experience, liberalized their unemployment compensation laws.

If the 2.7-percent average yield were adopted how would it affect the States? Let us take Wisconsin, the State with almost 3 years benefit experience, the longest of any State. There, thanks to experience rating, the average tax rate is now about 2.1 percent. Under the first of the proposed alternatives, if Wisconsin employers are to have additional credit allowances on their Federal unemployment compensation taxes, Wisconsin would be compelled to demand of them an additional six-tenths of 1 percent of their pay rolls. This obviously would be unnecessary and arbitrary. In effect they would be penalized for their efforts to achieve the "larger purpose" of an unemployment compensation system. To carry the matter to its logical conclusion let us consider an extreme case, not likely to happen, but which clearly demonstrates the utter ridiculousness of the proposal. If the employers in a State did not lay off a person and therefore had a perfect employment record they would be unable to obtain the additional credit allowance provided for in the law because each of them would be compelled to pay 2.7 percent of their pay rolls.

In order for State contributions to yield an average of 2.7 percent, some employers would be required to pay as much more than 2.7 percent as is saved by other employers who pay the lower rate due to stabilized employment. This arbitrary and unnecessary increase on many employers would destroy experience rating. But experience rating is not opposed by the Social Security Board nor is there any tendency to oppose it. (Chairman Altmeyer's testimony before the House Ways and Means Committee, April 4, 1939.) On page 2376 of volume 3 of the hearings relative to the Social Security Act amendments of 1939 before the Committee on Ways and Means, House of Representatives, Seventy-sixth Congress, first session, Mr. Altmeyer said:

"Finally we recommend clarification of the provision relating to the so-called merit rating or experience rating under the State unemployment-compensation law. There is some language there that is not clear, and I have not the details to present at this time. That is a drafting proposition, no substantive change being suggested."

Certainly the provisions of H. R. 6635 are substantive changes when the tax rate is raised by making the net tax 2.7 percent, compared with that rate as the maximum, now provided for in the law. We submit this change, if adopted, will manifestly be an attempt to make the unemployment compensation law popular by providing greater and longer benefits. This appears to be Mr. Altmeyer's philosophy, rather than to attempt to prevent unemployment, by fostering the incentive of experience rating for the additional credit allowance. The Senate Finance Committee is authority for the axiomatic proposition: "Everyone will agree that it is much better to prevent unemployment than to compensate it." (Report of Senate Finance Committee, p. 14, 74th Cong., 1st sess., Rpt. No. 628.)

The second alternative, to incorporate minimum Federal standards, is objectionable because the combination of standards set up for the States to comply with would greatly increase the benefit load and would compel practically every State to change its unemployment-compensation law in one or more particulars. This liberalization, with hardly any benefit paying experience throughout the Nation, cannot be justified. As has been stated herein the Social Security Board did not

and does not recommend these standards. This alternate, Mr. Carpenter, Director of the Texas law says, will increase Texas benefit costs 30 percent or more. The State Director from Vermont testified on June 13, 1939 before the Senate Finance Committee that his State without any pressure from Washington liberalized its law about 46 percent and the proposed Federal standards would add at least an additional 14 percent. If adopted, the proposed standards would devour a sizeable amount of the rapidly diminishing independence of action by the States to govern their own internal affairs. The proposed Federal standards are so high the State funds in all probability would never meet the specified level of one and one-half times the highest amount paid into or out of the State fund, and therefore no additional credit allowance could be obtained by any employer, no matter how regular his employments. The unemployment compensation system would degenerate rapidly to a dole system. Congress meets every year and if action is needed it can be taken. At present no evidence has been presented to justify the adoption of the proposed revised section 1602.

For the reasons briefly set forth herein, it is respectfully urged that section 1602 of the Internal Revenue Code remain unchanged, at least for the present and until the States have had an opportunity to function under their laws approved by the Social Security Board.

The proposed revised section 1602 is not an improvement to the law. On the contrary, the States would be prevented from developing sound compensation experience under conditions peculiar to the various parts of the Nation. Such experience would be invaluable, without which the best interests of our Federal-State unemployment compensation system would not be served.

The States should be allowed a fair opportunity to administer and put into effect experience rating as approved by the Board in its model bills as well as other experience-rating systems, such as have been in effect in Wisconsin with most commendable results in the prevention of unemployment (see the testimony of Paul A. Raushenbush, director of the Wisconsin unemployment-compensation law, before the Senate Finance Committee on June 14, 1939), and the experience-rating system adopted by Texas in March 1939, by Delaware in April 1939, and by Illinois in May 1939. This can be done simply by allowing section 1602 to remain as it is in the present law.

Respectfully submitted.

TIMOTHY J. MAHONEY,
Chairman, New York State Employers' Conference.

[Telegram]

NEWARK, N. J.,
June 14, 1939.

Senator PAT HARRISON,
Chairman, Senate Finance Committee.

We respectfully request that the Senate Finance Committee give its attention to section 1602 of H. R. 6635, now under consideration by your committee. The effect of this section as an implied threat to merit rating in the State unemployment-compensation laws will be ultimately detrimental to business, and we are therefore opposed to this particular amendment. We further respectfully request that this communication be incorporated in the report of the Senate Finance Committee hearings on amendments to the Social Security Act.

H. F. ELBERFELD,
Chairman, Social Security Committee,
New Jersey State Chamber of Commerce.

The CHAIRMAN. The hearings are now closed and the committee will adjourn.

(Whereupon at 5:10 p. m. the committee adjourned subject to call of the chairman.)

(Subsequently the following briefs, letters, etc. were submitted for the record:)

BRIEF SUBMITTED BY AMERICAN DRUG MANUFACTURERS ASSOCIATION WITH RESPECT TO CERTAIN PROVISIONS OF H. R. 6635

This discussion relates solely to certain phases of H. R. 6635 which appear to have a prospective adverse effect upon the desirable features of "merit rating" under the various State unemployment compensation laws.

It is questionable whether it is necessary to present any lengthy argument favorable to the plan of merit rating. The fundamental purposes back of the enactment of unemployment compensation legislation were twofold: (1) To stabilize employment and to prevent enforced idleness by offering inducements to employers to prevent temporary lay-offs or discharges; and (2) to provide a fund to which employees, who were nevertheless discharged or laid off, might have recourse to provide livelihood during the slack period of nonemployment.

There has been, for the past year or more, a definite drive on the part of certain groups to abolish or thoroughly devitalize the principle of merit rating. In some instances the benefits from unemployment compensation already have been definitely written into proposed plans of guaranteed annual wages.

These same groups have been instrumental in placing a lower upper limit on contributions to State funds or have been active in support of such legislation.

Amendments to the Federal law which prevent deductions from the Federal tax unless and until certain standards have been effected under State plans may have a tendency to encourage State plans which produce a standardized minimum contribution. In turn this destroys incentive by removing the opportunity of lowered merit ratings to induce employers to make unusual efforts to stabilize employment.

There has been little difficulty, of a practical nature, experienced in gaining State legislation drafted in terms, if not in the words, requested by the Social Security Board. There would seem to be as much justification for amending the law to continue to offer greater encouragement to employers to join the group stabilizing work as to draft such revisions in terms of relieving a general burden on business and to provide increased benefits to the unemployed. The prime object of the law should always remain the prevention of unemployment rather than the granting of benefits because of it. The law should be constructively corrective and not destructively compensatory.

The limitations of added section 1602 (a) (1) should, we believe, be at least deferred until a more definite need is shown for any such generalized formula. Many States with adequate reserves and provisions of law for replenishment, in times of need, still may fail to meet this formula, with the result that employers having excellent records of employment will be deprived of the opportunity of earning merit rewards for their contributions toward a more stable industrial activity.

The requirement of section 1602 (b) (1) would seem to set a formula of higher than required standards against any credit for Federal taxes paid.

The allowance of deductions against paid Federal taxes in terms of lowered State requirements is of little avail if the same law that grants the exemptions becomes the declarer of the formulae that make it impractical to expect State plans to offer the opportunity for merit-rating rewards.

If the desire is to accumulate huge reserves pending a future hope or expectancy of increasing benefits, the burden should be placed where it belongs—upon the employers with less satisfactory records of stabilized employment.

MEMBERS OF THE AMERICAN DRUG MANUFACTURERS ASSOCIATION

Abbott Laboratories, North Chicago, Ill.
Armour & Co., Union Stock Yards, Chicago, Ill.
Ayerst, McKenna & Harrison, Ltd., Rouses Point, N. Y.
Bauer & Black, 2500 South Dearborn Street, Chicago, Ill.
E. Bilhuber, Inc., Orange, N. J.
W. J. Bush & Co., Inc., 11 East Thirty-eighth Street, New York, N. Y.
G. W. Carnrick Co., 20 Moint Pleasant Avenue, Newark, N. J.
Citro Chemical Co., Maywood, N. J.
Cole Chemical Co., 3727 Laclede Avenue, St. Louis, Mo.
Cutter Laboratories, Fourth and Parkers Streets, Berkeley, Calif.
Davies, Rose & Co., Ltd., 22 Thayer Street, Boston, Mass.
Difco Laboratories, Inc., 920 Henry Street, Detroit, Mich.
The Dow Chemical Co., Midland, Mich.
The Drug Products Co., Inc., 26–32 Skillman Avenue, Long Island City, N. Y.

Fairchild Bros. & Foster, 70–76 Laight Street, New York, N. Y.
C. B. Fleet Co., 921–927 Commerce Street, Lynchburg, Va.
Fritzsche Brothers, Inc., 76 Ninth Avenue at Fifteenth Street, New York, N. Y.
Heyden Chemical Corporation, 50 Union Square, New York, N. Y.
Hynson, Westcott & Dunning, Baltimore, Md.
Johnson & Johnson, New Brunswick, N. J.
Mead Johnson & Co., Evansville, Ind.
Lederle Laboratories, 30 Rockefeller Plaza New York, N. Y.
Eli Lilly & Co., Indianapolis, Ind.
Lloyd Brothers, Pharmacists, Inc., 300 West Court Street, Cincinnati, Ohio.
John T. Lloyd Laboratories, Inc., 412 Central Avenue, Cincinnati, Ohio.
Magnus, Mabee & Reynard, Inc., 16 Desbrosses Street, New York, N. Y.
Mallinckrodt Chemical Works, 3600 North Second Street, St. Louis, Mo.
The Maltbie Chemical Co., 246–250 High Street, Newark, N. J.
The Maltine Co., 21 West Street, New York, N. Y.
Maywood Chemical Works, Maywood, N. J.
McNeil Laboratories, Inc., 2900 North Seventeenth Street, Philadelphia, Pa.
Merck & Co., Inc., Rahway, N. J.
The Wm. S. Merrell Co., Cincinnati, Ohio.
Monsanto Chemical Co., 1724 South Second Street, St. Louis, Mo.
The National Drug Co., Inc., 4679 Stenton Avenue, Philadelphia, Pa.
Nelson, Baker & Co., 1301 West Lafayette Boulevard, Detroit, Mich.
The New York Quinine & Chemical Works, Inc., 99–117 North Eleventh Street, Brooklyn, N. Y.
The Norwich Pharmacal Co., Norwich, N. Y.
Parke, Davis & Co., Detroit, Mich.
The E. L. Patch Co., Stoneham Post Office, Boston, Mass.
S. B. Penick & Co., 132 Nassau Street, New York, N. Y.
Chas. Pfizer & Co., Inc., 81 Maiden Lane, New York, N. Y.
Pitman-Moore Co., 1220 Madison Avenue, Indianapolis, Ind.
Reed & Carnrick, 155 Van Wagenen Avenue, Jersey City, N. J.
G. D. Searle & Co., 4737 Ravenswood Avenue, Chicago, Ill.
Sharp & Dohme, Broad and Wallace Streets, Philadelphia, Pa.
G. H. Sherman, M. D., Inc., 14600 East Jefferson Avenue, Detroit, Mich.
Smith, Kline & French Laboratories, 105–115 North Fifth Street, Philadelphia, Pa.
E. R. Squibb & Sons, 745 Fifth Avenue, New York, N. Y.
Frederick Stearns & Co., 6533 East Jefferson Avenue, Detroit, Mich.
R. J. Strasenburgh Co., 195 Exchange Street, Rochester, N. Y.
Tailby-Nason Co., 49 Amherst Street, Kendall Square Station, Boston, Mass.
The Tilden Co., New Lebanon, N. Y.
U. S. Standard Products Co., Woodworth, Wis.
The Upjohn Co., 301 Henrietta Street, Kalamazoo, Mich.
Henry K. Wampole & Co., Inc., 440 Fairmount Avenue, Philadelphia, Pa.
William R. Warner & Co., Inc., 113 West Eighteenth Street, New York, N. Y.
White Laboratories, Inc., 113 North Thirteenth Street, Newark, N. J.
The Wilson Laboratories, 4221 South Western Avenue Boulevard, Chicago, Ill.
Winthrop Chemical Co., Inc., 170 Varick Street, New York, N. Y.
John Wyeth & Brother, Inc., 1118 Washington Avenue, Philadelphia, Pa.
The Zemmer Co., 3943–47 Sennott Street, Oakland Station, Pittsburgh, Pa.

JUNE 20, 1939.

Hon. PAT HARRISON,
Chairman, Senate Finance Committee.

DEAR SIR: Herewith the copy of printed matter I asked you last Thursday the 15th to have inserted in the record at the end of hearings, on the social security bill so your committee could consider it in executive session. It covers the matter from pages 129 to near the middle of page 137 signed "U. S. Engineers, Inc." An abstract from, Smoke Control—hearings on H. R. 6232 and H. R. 7204, dated Friday, April 5, 1935.

While this matter is in a public document open to public inspection at any time there are some very recent facts and developments that have come to my attention that for certain reasons have been completely hidden from the public. A careful inquiry of very many Congressmen indicate they are unknown to them. I re-

quest to appear before the Finance Committee in executive session an hour to give the committee a brief outline of these facts.

Respectfully,

W. EDWARD NEWBERT,
Professional Engineer, New York State.

Mrs. VIRGINIA JENCKES,
Chairman, Special Committee on Smoke Control for District of Columbia:

In connection with my brief statement at the hearing on April 16 and your comment that such a result might happen in a hundred years.

On the contrary we have now reached the point in the transformation wrought by the machine age when we have all the facilities at hand enabling us to fly into the power age with amazing rapidity.

The building of a great central power plant suggested midway between Washington and Baltimore on Chesapeake Bay could be done easily in 3 to 5 years. The byproducts derived from such a plant would enable light, power, and electric heat to be priced at any figure chosen, even given away.

However, the general plans suggested to get us out of the depression and speed us into the Power Age, into a World of Giants—the giant "Uncle Sam," have already been submitted to the President—part as early as December 1933, and a further outline in May 1934, by U. S. Engineers, Inc.

We hereby request it be inserted in the record so an intelligent idea can be had of its nature and some of the tremendous results gained thereby. It is an attempt to outline a plan for Senate Resolution 164, Seventy-third Congress.

The technical experts of four Cabinet officers were working on plans to carry out this resolution to take over 100 years, now available in several bulky volumes.

The plan we presented to the President on May 17, 1934, was outlined in less than four pages in 21 points, A to U inclusive.

Those or better than them must soon be started. Their realization is not only possible, those or better are inevitable.

U. S. ENGINEERS, INC.,
W. EDWARD NEWBERT,
Professional Engineer, New York State, Representative Agent.

THE SEVENTY-FIFTH PARTY—THE PROGRESS PARTY

Slogan.—War against Nature, to conquer her, control her, and transform her into a willing mistress in the service of mankind.

To draft all the forces of society available in men, machinery, and management in a common purpose, in a perpetual campaign never ceasing until the earth has been transformed and "Thy kingdom come, Thy will be done, on earth as it is in Heaven."

Statement of purpose.—The time has arrived to promulgate a new declaration of independence in these United States of America.

"We hold these truths to be self-evident, that all men are created free and equal and endowed with certain inalienable rights, among which are life, liberty, and pursuit of happiness, and for the securing of these governments are instituted among men deriving their just powers from the consent of the governed."

Pioneering on this continent from the Atlantic to the Pacific, seizing, occupying, and holding the choice areas of North America, we have had an opportunity, growing from a handful of settlers to over 122 millions, to push forth as conditions in more settled areas became intolerable or burdesome, to spread over unoccupied lands, and—under rugged individualism, the free play of initiative and enterprise, the grasping, grabbing, and skimming the cream from unrivaled natural resources—to make this the richest and fullest developed by the modern machine process of any part of the earth's surface.

In doing it great industries have been built up, unrivaled systems of transportation and communication created, and the capacity to produce beyond the bounds of the supremest wants and desires of us all are awaiting fulfillment. And now what is the next step?

"New occasions teach new duties,
Time makes ancient Truth uncouth,
They must up and ever onward
Who would keep abreast of Truth."

One thing primarily, this country has differed from others in our unique growth from a primitive wilderness, has been a two-party system, which, by and large, with all its faults, has enabled us to make definite decisions politically. With the limitations, all of us endowed with one-track minds, this process in politics has enabled few and only momentous decisions to be arrived at, following the great changes in the field of free competition to establish the political change after the fact in the economic realm.

Though this rough-and-ready process plunged this country into the greatest civil war of modern times, we as a nation have passed through the fiery furnace of trial and tribulation and emerged with ever greater strength and unity in the play of social forces toward a common end.

Withal we are a people of the intensest sentiments—the play of patriotism, the intense devotion to and veneration of the founders of the Republic. Among these minor sentiments some look upon their membership in the Democratic Party, of Jefferson and Jackson, Cleveland and Wilson, as something to be proud of; while others, adhering to the Republican Party, of Lincoln and Grant, McKinley and Theodore Roosevelt, equally feel proud of that membership. Recent terms of Congress have shown more and more disposition by Members and Presidents to find common ground, with less resort to merely partisan bias.

Hence the Progress Party calls upon all citizens, without regard to previous party affiliations, as well as the great mass of independent voters, who in recent years have determined election results by unprecedented landslides in an effort to find some course to follow politically, leading to the "new deal" that promised to get us somewhere.

Pursuant to this purpose, we herewith present the following platform of the Progress Party:

PLANK I

New declaration of independence.—No life, liberty, and the pursuit of happiness is any more possible to all of United States without an assured certain income for every citizen arriving at majority and extending throughout life. Therefore the United States establishes a universal yearly salary in six categories, beginning at $1,500 yearly minimum, first category, common labor.

Second category, $3,000 yearly, foremen and skilled labor, one-tenth in number of first category.

Third category, $6,000 yearly, superintendents, etc., one-tenth of second category.

Fourth category, $12,000 yearly, managers, scientists, etc., one-tenth of third category.

Fifth category, $25,000 yearly, such as directors and heads of well-managed industries, transportation, communications, Members of Congress, judges, Governors, heads of large cities, labor leaders, foremost professional men, etc., one-tenth of fourth category.

Sixth category, $50,000 yearly, one-tenth of fifth category, less than 1,000 in the United States who can spell "ablest"; designation not necessary.

Multimillionaries over $50,000 yearly income outside of categories, including President of the United States.

PLANK II

With the unlimited capacity of the modern machinery of production, every citizen in the six categories shall receive a yearly increment in salary raise of 6 percent and a bonus doubling the salary at the end of each consecutive 10 years. All citizens of whatever occupation unable to make a minimum income of $1,500 yearly put in Government employment on public works.

PLANK III

All persons, partnerships, and corporations managed so as to be able to pay minimum salaries in the different categories to employees, with increments from year to year, to continue in free and fair competition with no restrictions as to any improvements and/or consolidations for more efficient and better service.

PLANK IV

All minors placed in universal service for 3 years, 18 at $600 a year, 19 at $900 a year, 20 at $1,200 a year. Service may be in private and/or public employment to secure the best training and experience. At 21 minimum of $1,500 or higher they have qualified therefor.

PLANK V

Poll tax, $150 a year on all citizens over 21. Unchanged for 10 years while increments are increasing salaries. Raised to $300 a year on increase to $3,000 a year minimum at the beginning of second 10 years. Or a poll tax on all citizens equivalent to 10 percent on each doubling of minimum salary.

Income tax of 10 percent on all incomes in categories 2 to 6, inclusive, varying every year according to increasing salaries. Income tax of 20 percent on all incomes over $50,000.

Tax-exempt bonds done away with; levy of one-half of 1 percent on all bonds in whatever amount held by anyone. General sales tax of 2 percent. Internal revenues and tariffs on same general basis as previously laid.

PLANK VI

To establish an equitable, well-balanced growth and development of the whole of the United States, eliminating all unnecessary duplications and expense, giving the best results to all in every part of the United States, all State, municipal, and local taxes are abolished, and the sums needed to carry on all State, municipal, and local activities apportioned out of the income of the United States so as to give to every part of the country the very best results for the benefit of each of United States separately and all of United States jointly.

PLANK VII

Capital investment by United States in largest projects at lowest unit costs—dams for "white coal" potable water, irrigation, and fisheries. Ditches for canalizing and lake connections. Drains to transform swamps into finest garden and farming areas, rented to ablest farmers and gardeners at rents beyond competition. Terracing of mountains, irrigation of arid lands. Forestation of all lands not otherwise better used on largest scale by United States at lowest unit cost. United States owning and renting to users.

United States capital investment at greatest speed consistent with good workmanship in heat- and cold-proof, fire- and flood-proof, tornado, hurricane- and earthquake-proof structures, the best built on the largest scale at the lowest unit cost, rented for residence, business, industries, warehouses, and other purposes. United States the landlord.

PLANK VIII

United States progressively reinvesting obsolescence, salvaging, and transforming United States industry and methods of production by issuing 3-percent United States bonds with 2-percent amortization, giving ownership in fee simple by United States in 50 years.

United States loans to private enterprises, farmers, industries, transportation, communications, mining, etc., of demonstrated merit at 5 percent on a 20-year basis, renewals where success renders them desirable. United States landlord.

PLANK IX

Universal 6-hour day, 5-day week established in all Government and private works for all employees. Four daily shifts of 6 hours and a stagger system wherever more efficiency at less cost is obtained by use of automatic machinery, processes, and/or continuous operation.

PLANK X

Until complete world disarmament the maintenance of Army, Navy, and air forces for defense superior to that of any other world power.

PLANK XI

All citizens of the United States to be registered with individual yearly identification papers supplied. All aliens in the United States shall have 10 years to complete naturalization from their date of entry. On failure to do so at the end of 10 years, to be returned to the country of origin. Whenever the construction projects in the United States exceed the amount of labor available, alien laborers under their foremen may be brought in to serve not more than 5 years continuously at a salary greater than the country of origin but less than in effect for

United States workers. Such work shall be confined to that not considered essential from its character for the defense of the country and preferably such as would give the aliens the best training in those special public works their own country could most benefit through their experience on their return.

PLANK XII

As a means of stabilizing prices, more necessary safeguarding unforseen demands in time of peace as well as urgent necessity in time of war, all metals and materials that can be stored without deterioration indefinitely shall be acquired from mines or other producers by United States and stored in safest structures, location concealed, in at least 10 years' supply as of current use. "A store is no sore."

PLANK XII. EDUCATION

Establishment of a universal system of education in which every child from its earliest years shall have Boy Scout and Girl Camp Fire training in camps established all over the United States and possessions so every child shall have contact and experience growing up in every part of the United States.

All scoutmasters and Girl Camp Fire matrons to be drawn from the citizens at retirement age of 65 from such as indicate special fitness and love of this work and best liked and appreciated by the children. The teaching and administrative staff in all phases of education up to universal service at 18 also drawn from the ablest leaders of society at retirement age whose outstanding accomplishments render their advice and counsel invaluable. The independent incomes of all citizens at retirement giving no incentive to take up the work except interest and ability. The aim shall be to secure in the greatest measure self-made men and women with economic self-reliance and self-support in the process of education.

A department of education with a secretary of education, a new Cabinet officer, to be the head under the President.

PLANK XIV

The United States shall have the sole power to coin money and regulate the value thereof.

The assumption of some of these functions through private credit proving its incapacity to produce the best results, the United States extends the Postal Savings banks to merge all mutual savings, commercial, investment, and private banking, life and fire insurance, brokerage and stock exchanges, mutual loan and mutual building associations into the great United States House of Finance. Every officer and employee of the present organizations merged, apportioned their particular work in the institution according to their demonstrated functions and abilities.

PLANK XV

Foreign commerce controlled directly by the United States based on the principle of exchange of all commodities to the fullest degree for the mutual benefit of the United States and the country exchanged with. The process of foreign exchange to be a function of the United States House of Finance so a fair deal for all may be secured, as the program now with gold and silver gives indication of success.

PLANK XVI

Amendment to United States Constitution for initiative, referendum, imperative mandate, recall, and direct election of President and Vice President by popular vote.

PLANK XVII

Criminals with anti-social, atavistic complexes justifying life imprisonment to be confined in remote island institutions under charge of the United States; one in the Pacific Island of Guam and one in the Atlantic on the most inaccessible of the Virgin Islands. While safe guarding society by such inaccessible segregation, scientific research to be made of them to extend the knowledge of psychology and discover the best methods of control and prevention.

PLANK XVIII

To provide data for the exhaustive planning, estimate and comparison of every project on the land surface of the United States and a necessary preliminary to an extensive series of test drillings 2 miles or more in depth in at least

10-mile squares all over the United States to get comprehensive accurate data of the geological resources of the country, the completion of the topographic surveys and topographic contour maps of the United States in their entirety shall be placed first on the calendar as the most urgent task to complete with the greatest speed consistent with accuracy.

PLANK XIX

Extension of research and laboratory functions of United States Departments, Bureau of Standards, and other. All previous inventions to be culled over for overlooked investions worthwhile, and all new inventions and discoveries to come to these agencies for careful test and comparison. The United States sitting in and participating in returns from all patents and discoveries granted by the Patent Office up to 5 percent of actual profits therein.

PLANK XX

Great American competition.—Two billion dollars in prizes. Every person able to read and write over 13 years of age, eligible and required to compete. Everyone to receive at least $10 to $5,000,000, the grand prize. Data from which great American plan is derived to run the United States for next 40 years. Plans submitted by secret Australian ballot system. Names kept in United States secret archives.

Thereafter system of yearly awards established for suggestions of improvements and changes that may be adopted making an elastic plan capable of healthy growth.

PLANK XXI

Building of great air rafts to remain in and travel exclusively in the stratosphere with suitable floating stratostations near the great centers of population in the United States. Their extension for a world system of transportation as fast as helium can be obtained from the United States and/or elsewhere.

The heavier-than-air craft with air-tight cabins forming loading and unloading elevator service. These air transport facilities shall be kept under the sole ownership and control of the United States.

U. S. ENGINEERS, INC.

MAY 17, 1934.

Hon. FRANKLIN D. ROOSEVELT,
White House, Washington, D. C.

DEAR MR. PRESIDENT: Herewith copy of Senator Norris' Senate Resolution No. 164 with 21 suggested points to plan giving some of the implifications and extent a faithful attempt to carry it out would lead us to.

Its passage by the Senate and the little work you have done on it since is the one greatest event since you took office. What, after all, are the others but parts of "the experiment" that demonstrate most completely that they are "incompetent, irrelevant, and immaterial," while resolution No. 164 is the start to take us into a new world not through a rejection of capitalism but through supercapitalism to the nth power, completing its destined task in this land chosen by manifest destiny for its highest fruition.

We cannot after 15 months much longer persist in "progress within the framework of the existing system of private enterprise and private profits," but rather under Senate Resolution 164 the path is made plain under supercapitalism to advance "a law of necessity in capitalism that obliges it to employ its profits toward the future, so there is a law of power that forbids those who possess it to rest upon it; for if they do they will lose it; and then a law of life that compels strong and virile nations to go competing for power. The one most resolute to go on with the method we talk so lightly of giving up, would, if we did give it up, very soon pass us and take that command of the world which belongs to one people at a time.

Simply perhaps in anticlimax it must be said in conclusion, "There is nothing too big to do that we can do, and if we can make it pay to do we must finally do it or sink into oblivion."

None of the 21 suggestions A to U appended to resolution 164 are too big to do—they all can be made to pay to do. If there are any bigger and better than

them they will simply displace them. Grim necessity will force us to adopt them.

Yours respectfully,

W. EDWARD NEWBERT,
Prof. Engineer, New York State.

General delivery—Washington, D. C., and New York City.

[S. Res. 164, 73d Cong. 2d sess.]

Resolved, That the President be, and he is hereby, requested to send to the Senate a comprehensive plan for the improvement and development of the rivers of the United States, with a view of giving to Congress information for its guidance in legislation which will provide for the maximum amount of flood control, navigation, irrigation, and development of hydroelectric power.

Senator Norris, change "control" to "prevention." W. E. N., Eng'r.

A

We will make a plan conforming to S. Res. 164 for the next 50 years.
We will set all labor to work at continuously increasing salaries.
Capital reinvested in soundest securities in Uncle Sam's projects.
We dam, ditch, and drain.
Universal terraced lakes, stocked with fish, hydroelectric power, terraced mountains, forestation, irrigation, new soil supreme.
Safest structures sheltering all of United States.
All under giants of modern progress. Let's go!

B

Let the Rushmore contest inscribe in imperishable stone the best memorial of the American people for the significant events and expansion of their country to 1934.

Closing up the epic of the past, let the United States open a greater volume.

Our ancestors did themselves proud in a Lilliputian world—a world of midgets.

Now let us hasten into the land of giants ahead. Uncle Sam, the sleeping giant, awakes.

C

Maximum, the limit, i. e., a great seaway across Florida, the Mississippi River from St. Louis to the Gulf, like the Riker project, each finally 3 miles wide and over 300 feet deep.

Alluvium from the Mississippi River mixed with pulverized phosphate of lime from the Florida seaway, making the new soil of incredible fertility, distributed and leased at lowest cost around every city and on mountain terraces, defrays the entire cost. Let's start.

D

A great task needing all the forces of men, machinery, and management for the next 50 years.

Merge Democrats, Republicans, Farmer-Laborites, and the great masses of independents on the platform of the new Progress Party through which capital, labor, agriculture, transportation, and communication, including radio and movies, are concentrated and cooperating unitedly on this project of the great giant, Uncle Sam.

E

From 150,000 to 200,000 dams required in the United States, converting al streams into lakes from a few acres in extent to the greatest.

The smaller dams to be built by Boy and Girl Scouts for scout camps; larger ones by local groups for private use and public parks.

The largest dams to be constructed by the United States in a great system of terraced lakes in the several States, connecting with lakes in Canada and Mexico, and extending from Central America to Alaska.

F

Dams from 50 to 1,000 feet in height, of the Ambursen watertight apron type with lake side on 2 to 1 slope, roadway on top, downstream face vertical, and metal trussing in box construction making a hollow structure to be utilized

for factories, stores, warehouses, etc. Same also to be used for dam fine apartments. Thus cost of dams can be largely charged to rentals by United States.

G

"Maximum amount of * * * development of hydroelectric power", requires greatest terraced lakes the land topography permits and puts great number of cities and towns under water, as well as low parts of some large cities.

Combination of "Ambursen" hollow dams and hollow mountain terraces transfers people to new structures where best air conditioning and finest living facilities may be built on the largest scale at the lowest rentals by the United States.

H

The program of putting people in new structures, determined by great terraced lakes, from their greater desirability, renders all other present structures obsolescent. Reconstruction for all other cities towns, villages, and other individual residences becomes essential. On the largest scale, the best at the lowest unit cost is obtained, rented by United States at the lowest rates, finally making United States the only landlord.

I

Great terraced lakes at their maximum puts large part of railroad and highway mileage under water.

The plan to follow in this emergency is to develop a helium transport service in the stratosphere with heavier-than-air express in cooperation, doing away with railroad and ocean shipping by the better, faster, safer transportation in the air.

The United States' monopoly of helium makes the United States master of the air.

J

Primitive civilizations terraced the Andes by low, rubble walls with trickling mountain streams for irrigation.

Great terraced lakes created by United States, giant of the machine age, finally completes terraces of America to highest peaks covered with richest soil. Terraces from 25 feet to heights rivaling skyscrapers, and hollow for terraced cities accommodating untold billions. A task lasting for centuries.

K

The great terraced lakes, interconnected on same levels, make necessary the L. W. C.'s, universal land and water carriers from family sizes for pleasure to gigantic freight transports exceeding 2,000,000 tons gross, carrying vast tonnages on land or water at low speed, like tramp steamers, and at nominal rates, uniform for all distances like postage. Plans ready when needed, starting as rich soil carriers.

L

Requiring intensive prosecution for 50 years of the entire man power, machinery, and management of the United States; a universal pay roll of all from 21 to death is established starting at a minimum yearly salary of $1,500 in six categories to $50,000. All the complications of life insurance, pensions, etc., are eliminated by the United States taking all the risks for all citizens. (See plank I, Progress Party.)

M

With the unlimited capacity of the modern machinery of production, every citizen in the six categories shall receive a yearly increment in salary raise of 6 percent and a bonus doubling the salary at the end of each consecutive 10 years.

All citizens of whatever occupation unable to make a minimum income of $1,500 yearsly, to be put in Government employment on public works. (See plank II, Progress Party.)

N

This resolution requiring fullest freedom to compete fairly under the N. R. A.:

"All persons, partnerships, and corporations managed so as to be able to pay minimum salaries in the different categories to employees, with increments from year to year, to continue in free and fair competition with no restrictions to any

improvements and/or consolidations for more efficient and better service. (See plank III, Progress Party.)

O

Program under resolution requiring intensive training of youth:

"All minors placed in universal service for 3 years, age 18 at $600 a year, age 19 at $900 a year, and age 20 at $1,200 a year. Service may be in private and/or public employment to secure the best training and experience. At age 21 the minimum of $1,500 a year or higher if qualified therefor." (See plank IV, Progress Party.)

P

"As a means of stabilizing prices, safeguarding unforeseen demands in time of peace, as well as urgent necessity in time of war, all metals and other materials that can be stored indefinitely without deterioration, shall be acquired from mines or other producers by the United States and stored in safest structures, location concealed, in at least 10 years' supply as of current use. 'A store is no sore.'" (See plank XII, Progress Party.)

Q

An emergency existing for at least 50 years, with all the resources of the country concentrated on great public works under S. Res. 164, it becomes of vital necessity to merge all institutions of finance into the great United States House of Finance to coordinate and cooperate in all their functions to the one common end. (See plank XIV, Progress Party.)

R

Foreign commerce controlled directly by the United States based on the principle of the exchange of all commodities to the fullest degree for the mutual benefit of the United States and the countries with whom such exchanges are made.

The process of foreign exchange to be a function of the United States House of Finance so that a fair deal for all may be secured, just as the program now with gold and silver gives indication of success. (See plank XV, Progress Party.)

S

Most urgent for immediate completion: "To provide data for the exhaustive planning, estimate, and comparison of every project on the land surface of the United States—the completion of the topographic surveys and topographic contour maps of the United States, in their entirety, shall be placed first on the calendar as the most urgent task to complete with the greatest speed consistent with accuracy." (See plank XVIII, Progress Party.)

T

Of vital importance: "Extension of research and laboratory functions of the Bureau of Standards, United States Departments, and others. All previous Patent Office filings to be culled over for overlooked worth-while inventions; and all new inventions and discoveries to come before these agencies for careful tests and comparison. The United States sitting in and participating in returns from all patents and discoveries up to 5 percent of actual profits therein." (See plank XIX, Progress Party.)

U

Analogy: Capital and labor chasing each other around in a circle inside a high, tight, sharp pointed, picket board fence, each trying to get more than there is from a common trough.

Senator Norris' resolution knocks a wide board off the fence so we can crawl through and get no end of room and new troughs with supply ample to fill them for all.

Let capital and labor crawl through their fence of limitations, spread out, and dig.

U. S. ENGINEERS, INC.

WASHINGTON NEWS LETTER ON SOCIAL LEGISLATION,
Washington, D. C., June 19, 1939.

Hon. PAT HARRISON,
Chairman, Senate Finance Committee, Washington, D. C.

Re services for the blind.

DEAR SENATOR HARRISON: As you know, although the Federal Government may match money payments for aid to the blind for the rest of a recipient's life, the Social Security Board cannot, under the present Social Security Act, spend a cent directly for medical care to restore sight, or for services for social or vocational adjustment which might make blind individuals self-supporting.

Enclosed is a draft of a bill designed to remedy this situation. It calls for no additional appropriation. It should result in substantial economies. For example, the average cost of operation to restore sight is $100, about one-third of the cost of paying assistance for 1 year. Examinations of ophthalmologists indicate that sight can be restored in approximtely 15 percent of the cases now receiving assistance, a total of about 7,500 individuals.

Might I suggest that you take this matter up with the Board, asking them for an evaluation of this suggested bill? I have been assured that this measure will have widespread support among individuals and organizations interested in the welfare of the blind.

Mr. Robert Irwin, executive director of the American Foundation for the Blind, 15 West Sixteenth Street, New York City, informs me that he would personally be glad to testify on this matter, on request.

Sincerely,

GLEN LEET.

A BILL To amend the Social Security Act to provide services for the blind

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 1006 of the Social Security Act is amended as follows:

SECTION 1006. When used in this title the term "aid to the blind" means money payments to blind individuals. It shall also mean expenditures by a State for services including but not limited to medical care, for persons who are blind, or threatened with blindness, and, notwithstanding the provisions of section 1002 (a) (3), the single State agency which administers such services need not be the same State agency which administers money payments to blind individuals. The $30 limitation in section 1003 (a) (1) shall not apply to payments for services. The exclusion of inmates of public institutions in section 1003 (a) (1) and the provisions of section 1002 (a) (7) shall not apply to services. An advisory council shall be appointed by the Board to advise the Board on matters relating to services for the blind.

JUNE 20, 1939.

Hon. PAT HARRISON,
Chairman, Senate Finance Committee,
Washington, D. C.

DEAR SENATOR HARRISON: You may be interested in the attached statement which indicates that the proposal to increase Federal aid to dependent children from one-third to one-half is favored by the State welfare administrators of 47 States, Hawaii, Alaska, and the District of Columbia.

Sincerely,

GLEN LEET.

[For immediate release]

STATE WELFARE ADMINISTRATORS UNANIMOUSLY FAVOR AMENDING FEDERAL AID TO DEPENDENT CHILDREN LAW—RESULTS OF A POLL CONDUCTED BY GLEN LEET, EDITOR, WASHINGTON NEWS LETTER ON SOCIAL LEGISLATION

State welfare administrators unanimously favor changing the aid-to-dependent-children title of the Social Security Act, according to a poll conducted by the Washington News Letter on Social Legislation. State welfare officials denounced the present aid-to-dependent-children provision as discriminatory and unjust. According to Glen Leet, editor of the Washington News Letter on Social Legislation, the poll revealed that all of the officials replying, including the directors of Public Welfare for 46 States, Hawaii, Alaska, and the District of Columbia, were in favor

of amending the present aid-to-dependent-children provisions of the Social Security Act, so that the children are aided on the same basis as the aged and the blind.

Under the present Social Security Act the Federal Government is paying only one-third of the total expenditures of States for aid to dependent children, but is paying one-half of the total expenditures of such States for aid to the blind and aid to the aged. As a result of this discrimination the programs for children are lagging in a number of States. Congressman John W. McCormack has introduced a bill, H. R. 1965, for the purpose of removing this inequality. His bill would provide that the Federal Government participate in aid to dependent children on the same basis as aid to the aged and aid to the blind; that is, on a 50–50 basis.

The State welfare administrators, being the people in the States who are most familiar with the practical problems of administering public assistance and public welfare, have been polled by the Washington News Letter on Social Legislation to determine their reactions to Congressman McCormack's proposal.

To date replies have been received from the State administrators in the following States and Territories: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, Alaska, District of Columbia, and Hawaii.

Out of a total of 49 replies received, 49 were in favor of increasing Federal aid to dependent children from one-third to one-half. The reasons for this remarkable unanimity are indicated in the following extracts from some of the letters from State administrators:

Alabama: Miss Loula Dunn, commissioner, department of public welfare:

"This department is very much in favor of the increase, mainly for the following reasons: (1) More dependent children who have been deprived of parental support will be given the care they need. The 'ill-fed, ill-clad, and ill-housed' dependent children of Alabama could be far more adequately provided for in their own homes if we could secure 50 percent Federal matching for assistance which the State and county are able to render; (2) the tendency on the part of many State and local governments to place more emphasis on aid to aged persons than on aid to dependent children would be largely corrected in that the cost to the State and local governments would be the same for both categories."

Arizona: Mr. Henry W. Hill, commissioner, department of social security and welfare:

"It seems to me that this is a very deserving program and deals with the people who are going to be our citizens in the next few years. I believe that money spent in their behalf at this time will be a good investment for the entire country."

Arkansas: Mr. John R. Thompson, commissioner, department of public welfare:

"We all realize that the children of America are its future citizens and that some of these children are handicapped because of a lack of financial security. I believe, therefore, it to be of the utmost importance to this great Nation that their health, character, and general well being be guarded. This can be done only through a measure of financial security as provided under the Social Security Act. Consequently, I give the movement to increase the Federal grants in-aid to dependent children from one-third to one-half, my heartiest approval and support."

California: Mrs. Florence L. Turner, director, department of social welfare:

"I would be very much in favor of this proposition as it would greatly simplify the many problems now encountered by giving one-third up to $18 per month for some children and one-third up to $12 for other children. If one-half of a certain amount were given for each child, this would not only give the States more funds for the children's aid program, but would also eliminate a great deal of difficulty and simplify the procedure in the States. It would also make the children's aid program similar to the aged and blind plans and would create more uniformity in the administration of the categorical aids."

Colorado: Mr. Earl M. Kouns, director, department of public welfare:

"We believe that the program for children is a most worthwhile program and we are depending upon Congress to change the Federal participation from one-third to one-half, as, certainly, they should give as much consideration to children as they do to the aged, the highways, and various other functions. Unless Congress changes this Federal participation early this year, the various counties of the State will not have sufficient funds to make their share of the payments for aid to dependent children benefits. We hope that Congress will enact this law just as soon as possible.

"Most of the other Federal programs for children start at age 18, Civilian Conservation Corps camps at 17, and as opportunities for employment are limited for 16-year-old children there is a gap between the termination of the aid to dependent children grants and other programs, and certainly some consideration should be given to children between the ages of 16 and 18."

Connecticut: Mr. F. C. Walcott, commissioner of welfare:

"We are tremendously interested in the bill now before our general assembly to provide aid to dependent children. We have been basing our calculations on the possibility of the 50–50 principle meeting with the approval of Congress Even with the most advantageous figuring, however, it would cost the State $820,000 a year in new money, and as the Governor has promised to balance the budget this year without any new taxes, it would be very difficult to finance this law if it were enacted. Consequently, we may have to get along without it for another 2 years, but we are very much in favor of it and hope that the Federal Government may increase its participation from one-third to one-half."

Delaware: Miss Frances A. Griggs, executive secretary, mothers' pension commission:

"Our commission is in hearty accord with the idea of increasing the grants for aid to dependent children from one-third to one-half."

Florida: Mr. C. C. Codrington, commissioner, State welfare board:

"The State Welfare Board of Florida sincerely believes that the Federal contribution for aid to dependent children should be one-half instead of one-third as at present. Florida's viewpoint is that this is the most important and valuable category under its administration."

Georgia: Mr. Braswell Deen, director, department of public welfare:

"The only reaction I have had relative to the position of the Social Security Board to increase the Federal contribution for aid to dependent children from one-third to one-half has been most favorable. Personally, I very much hope this can be done."

Idaho: Mr. B. Child, director, department of public assistance:

"It is my feeling that an increase in the Federal contribution for aid to dependent children from one-third to one-half would be most helpful to State administrators in their efforts to establish adequate standards of assistance to dependent children. I feel that until this is done there will always be discrimination on the part of the States toward the end that their expenditures will be made in those directions which will yield the most generosity in the matching of Federal funds."

Illinois: Mr. John C. Weigel, administrative assistant, division of old age assistance:

"Just as a matter of investment on the part of the Federal Government, certainly the dependent children of America who are to be the citizens of America tomorrow are entitled to as much by way of grants in aid as are the needy aged."

Indiana: Mr. T. A. Gottschalk, admistrator, department of public welfare:

"This subject has been under discussion in this department quite often and we are very much in favor of such an increase in Federal reimbursement. This is also favored by the counties of the State of Indiana, who, under the Indiana plan, participate in the cost of the program."

Kansas: Mr. R. B. Church, director, Board of Social Welfare of Kansas:

"The State Board of Social Welfare of Kansas is in accord with the proposal of the Social Security Board to increase the Federal contribution for aid to dependent children from one-third to one-half."

Kentucky: Margaret Woll, commissioner, department of welfare:

"I would heartily endorse the proposal of the Social Security Board. In fact, I see no reason for discrimination against the children in the distribution of Federal funds."

Louisiana: Mr. A. R. Johnson, commissioner, department of public welfare:

"I think Mr. Altmeyer's proposal to amend the Social Security Act so that an increase in Federal participation in the aid to dependent children category may be provided, is commendable and worthy of every possible consideration by the Congress of the United States."

Maine: Mr. George W. Leadbetter, commissioner, department of health and welfare:

"I am strongly in favor of this change."

Maryland: Mr. J. Milton Patterson executive secretary, board of State aid and charities:

"I think it is very sound for the Federal Government to change their contribution for aid to dependent children from one-third to one-half. In the first place, it would make uniform the grants to the States for all three categories, and would eliminate a lot of confusion in bookkeeping; but most of all it would make available, to the States more money for children, and, in my judgment, the children's program is much more essential than any of the others because we are dealing with the citizens of today and not the citizens of yesteryear."

Massachusetts: Mr. Walter V. McCarthy, director, department of public welfare:

"I am certain that Massachusetts desires to join with those States in favor of the proposed increase in Federal contributions from one-third to one-half in the category of aid to dependent children."

Minnesota: Mr. Benjamin E. Youngdahl, director of public assistance:

"There is no reason known to us for giving children a smaller amount of Federal support than its given the aged group. If anything, the Federal Government should take the lead in aid to dependent children and foster it in every possible way. One reason for this statement is the fact that children do not of themselves form a pressure group—children do not lobby for themselves and almost no one else lobbies for them, yet this aid to dependent children program is in most ways the most hopeful and promising of the various programs of aid carried on in the country today. It is our sincere hope that this proposal of the Social Security Board will receive favorable consideration by Congress. It might even be logically argued that the Federal maximum of $18 per month for the first child, and $12 for each additional child should be increased. Many States, among them Minnesota, have higher maximums. In many states these higher maximums are necessary because of living costs. It would favor the development of a proper program if the Federal Government participated 50 percent up to a higher maximum."

Mississippi: Mr. W. F. Bond, commissioner, State department of public welfare:

"I cannot see why there should be any objection at all from any source to the amendment of the Social Security Act providing that aid for dependent children shall be on a 50-50 basis between the Federal Government and the States as is now provided for in aid to the needy blind and to the needy aged. I certainly hope that this amendment is carried in Congress."

Missouri: Mr. George I. Haworth, Administrator, Social Security Commission of Missouri:

"At a meeting of State Administrators in Washington early in December, I believe that it was the unanimous opinion that the Federal Government should contribute one-half for aid to dependent children, the same as for old-age assistance. This difference is very hard to explain to State officials and many States need the assistance of the Federal Government in making these grants available for a cause as worthy, if not more so than grants to the needy aged."

Montana: Mr. I. M. Brandjord, Administrator, department of public welfare:

"As far as I know, the sentiment in favor of this change in the State of Montana is unanimous. It has been impossible to explain to people why the Federal Government contributes one-half for old age assistance and one-half for aid to needy blind, but only one-third for aid to dependent children. Our legislature

has already passed a memorial to Congress favoring this change. It may interest you to know that this department is seeking legislative approval for passing on this increase in the Federal grant to the counties. In House bill No. 133, originating in this department and now pending in the Committee on Social Security, section 18 seeking to amend section 7 of part IV of the Public Welfare Act of the State contains the following provision: 'If and when the Federal grant for aid to dependent children is increased from 33⅓ percent of the total payments to 50 percent of the total payments, the reimbursement from each county department to the State department of public welfare shall be decreased to 16⅔ percent of the total payments. If the Federal grant is increased by some other percentage, the percentage added to the Federal grant shall be deducted from the percentage of reimbursement to be made by the counties. These reimbursements shall be credited to the aid to dependent children account of the State department as heretofore."

"This proposed increase in grant will be gratefully received by all of us in the State of Montana."

Nebraska: Mr. Neil C. Vandemorr, Director of Assistance, Department of Assistance and Child Welfare:

"We see no reason why there should be a difference in the matching by Social Security funds in old age, blind, and aid to dependent children."

Nevada: Mr. Gilbert C. Ross, secretary, State board of relief, planning, and pension control:

"Of course, I am in favor of this change."

New Hampshire: Mr. Harry O. Page, commissioner, department of public welfare:

"I am very hopeful that the Congress will pass favorably upon the recommendation of the Social Security Board that the Federal contribution for aid to dependent children be increased from one-third to one-half. The dependent children situation in New Hampshire is very serious at the present time. The State has never appropriated sufficient money with which to meet the needs of applications made in behalf of dependent children and as a result this department has had established for some time a waiting list of eligible applicants to whom grants could not be made because of a lack of funds.

"A study of New Hampshire's expenditures for public assistance reveals what we know all too well to be true and that is that in the face of pressure from organized groups working in behalf of the aged, the necessities of children have been sadly neglected. At the present time this State expends $92,000 per month for the care of persons who are 70 years of age or over, and at the same time spends only $13,500 for the care of children who are under the age of 16 years and living at home with the mother or another relative. Our Governor has in both his inaugural as well as budget message to the legislature urged increased appropriations for A. D. C. and I am sure that he will do all that he can to get favorable action. This, to us who are working daily in the public-welfare field know as well as anyone else the great need which exists among children. At the present time the only form of public aid which is available for a large number of them is direct relief and under New Hampshire law this is pauper aid which the mothers of these children dislike to receive. An increase in the amount of Federal participation up to the matching basis on which old-age assistance and blind-aid grants are now made would do much to get for New Hampshire children who are dependent, the kind of care which all of us want them to have."

New Jersey: Mr. William J. Ellis, commissioner, department of institutions and agencies:

"At the meeting of the American Public Welfare Association in December it was the general consensus of the groups that the Federal contribution for aid to dependent children should be increased and put on the same basis as aid to the blind and aid to the aged; that is, on a 50–50 matching basis. I would strongly recommend this."

New Mexico: Mr. Fay Guthrie, director, department of public welfare:

"In my opinion, Congress should increase Federal contribution for aid to dependent children from one-third to one-half and place it on the same basis as Federal participation in old-age assistance and aid to needy blind. It is very difficult to obtain State appropriations for aid to dependent children inasmuch as there are few in this group who vote and the pressure comes from the old-age-assistance group which has a strong, organized program in this State."

New York: Mr. David C. Adie, commissioner, department of social welfare:

"That in connection with said suggested change the State board of social welfare further urges the Social Security Board to consider the removal of the present limit in Federal reimbursement of $18 for the first child and $12 for each additional child, substituting therefor 50 percent of the actual budgeted needs."

North Carolina: Mrs. W. T. Bost, commissioner, State board of charities and public welfare:

"We expressed keen interest in the proposal to increase Federal contributions for aid to dependent children from one-third to one-half—the same basis upon which grants are made to States for old-age assistance and aid to the blind. You will note in the letter that we also expressed interest in a higher Federal contribution than a 50–50 basis to the poorer States; also in the matter of general relief. North Carolina does not appropriate State funds for general relief, which means that the only source at the present time is from inadequate local funds that are available. The average per capita grant for general relief for the month of December was $5.71."

North Dakota: Mr. E. A. Willson, executive director, public welfare board:

"Under the present act, with the Federal Government contributing only one-third there is a tendency to neglect the dependent children and favor the aged and the blind, for whom the Federal Government provides one-half of the payments. I am also of the opinion that the maximum payment of $18 for the first child and $12 for the second child should be raised, as those maximums do not provide sufficient funds to meet the needs of a mother and one or two children. We have introduced into the North Dakota Legislature a bill removing the maximum on our aid-to-dependent-children law, and providing for grants strictly on the basis of need. This bill has passed the State senate and I feel confident that it will pass the house and be signed by the Governor. I would strongly suggest that the Social Security Board Act be amended either removing the ceiling, or increasing the maximum, particularly in the case of the first and second child. The above represents the opinion of the North Dakota Public Welfare Board as well as my personal opinion."

Oklahoma: Mr. Fred Spear, director of public welfare:

"We are in full sympathy with the proposal now pending in Congress that the Social Security Board increase the Federal contribution for aid to dependent children from one-third to one-half."

Oregon: Mr. Elmer R. Goudy, administrator, State Relief Committee of Oregon:

"We feel that the increase of the grants in aid to the States for aid to dependent children to one-half, both of grants and administration, is very important at this time. The financial burden for social-security programs and relief has become so heavy on the counties and the State that at the present time we have discontinued accepting new cases on aid to dependent children in approximately one-half the counties of the State, representing approximately 75 percent of the case load of the State, which includes the city of Portland."

Pennsylvania: Mr. Howard L. Russell, secretary, department of public assistance:

"I concur heartily in this proposal. Its adoption at this session of Congress would be of definite help to States like Pennsylvania, which, despite a critical problem of financing, is striving to maintain necessary assistance services without cutting standards."

Rhode Island: Mr. Mortimer W. Newton, chief, division of social security:

"I heartily approve of the proposal of the Social Security Board to increase the Federal contribution for aid to dependent children from one-third to one-half."

South Carolina: Mr. Thomas H. Daniel, State director, department of public welfare:

"In my opinion the program of aid to dependent children should at least be on an equal footing with that of aid to the needy aged and aid to the needy blind, insofar as Federal contribution is concerned."

South Dakota: Mr. C. H. McCay, State director, department of social security:

"We do have an A.D.C. law which provides for such a program with one-half contribution by the Federal Government. However, there is no appropriation available to make this program effective even though the present Congress changes their proportion of aid."

Tennessee: Mr. Paul Savage, commissioner, department of public welfare:

"My opinion is best expressed in House Joint Resolution No. 6, which states: *'Therefore, be it resolved by the House of Representatives of the Seventy-first General Assembly of the State of Tennessee, the Senate concurring,* That the Seventy-sixth Congress of the United States of America be and it is hereby requested and urged to enact into law United States Senate bill No. 3759 or a bill of similar nature providing for division of costs at a one-half and one-half ratio between Federal and State governments in carrying aid to dependent children under the United States Social Security Act.' "

Texas: Mr. W. A. Little, director, Texas old-age assistance commission:

"The A. D. C. group is the least adequately financed. Actually the amount of money usually available for an individual case results in slow starvation. In comparison with the amount possible for old-age assistance, for example, in Louisiana, an A. D. C. family consisting of a mother and two children is limtied to a grant of $30, whereas a single O. A. A. recipient may receive $30. The mother is barred from W. P. A., and her chances for supplementing the grant by private employment, in order to allow her presence in the home sufficient for supervision and care of the children are slight. We should like to go further and endorse the extension of the age limit to 18 years in instances where children are attending school, and suggest that the upper age limit in any instance must be extended to coincide with the age covered by the compulsory-school-attendance laws, so that there will be no period in which a child is protected by neither assistance nor employment. Public sentiment has not been touched by the problem of dependent children to the extent that it has by that of old age, for the facing of old age with its attendant insecurity is a universal problem which engenders uneasiness in the minds of all. Because more money is needed for this category and public enthusiasm has not been aroused to the point of action, we feel strongly that States should be given inducement to develop an adequate program for the care of dependent children. Undoubtedly the increasing of Federal participation to 50 percent would provide a stimulus in this direction."

Utah: Mr. J. W. Gillman, director, department of public welfare:

"I feel that I can speak for the State welfare board and the State welfare department and say that we would be favorable to such a program as it is difficult for the State and counties of Utah to finance the two-thirds to adequately care for dependent children."

Vermont: Mr. W. Arthur Simpson, chairman and director, old-age assistance department:

"I believe that the State of Vermont will look with a great deal of favor on increasing the Federal contribution for aid to dependent children from one-third to one-half. There is no reason whatsoever why this contribution should not be on the same basis as the other public assistance programs."

Virginia: Mr. William H. Stauffer, commissioner of public welfare:

"It would be extremely helpful to States like Virginia, whose economic resources are not large, to have the Federal Government contribute more adequately for the support of so important a program as aid to dependent children. Moreover, there seems to be no valid reason why the participation by the Federal Government in the case of dependent children should not be on the same basis as aid to the needy aged and aid to the needy blind, which as you know is on a 50–50 basis. I have the further feeling that the Federal statute should liberalize the administrative contribution to the States under the old-age assistance program. As you know, the Federal Government is contributing for administration to the State an amount equal to 5 percent of the amount which is remitted for grants in aids. Administrative costs on an adequately staffed program in a State like Virginia will run from 10 to 18 percent depending upon the magnitude of the grants themselves."

West Virginia: Mr. A. W. Garnett, director, department of public assistance:

"I am heartily in accord with the proposal of the Social Security Board to increase Federal contribution to aid to dependent children from one-third to one-half. Much might be said with respect to the inconsistency between this and other categories under present law, all of which should be obvious, but beyond the strong case that could be made for equal, if not preferential, treatment of children, I am impressed with the fact that the States are in need of this subsidy in many instances in order to finance more adequately this very important category."

Wisconsin: Mr. George M. Keith, supervisor of pensions:

"We can take but one view, which is to give complete support to this proposal. Relatively the aid to dependent children program in this State has suffered by virtue of a lower Federal contribution than is received for old-age assistance or aid to the blind, although the State itself has made a somewhat more liberal contribution than for either of the other two aids. Secondly, the Federal limitation of one-third of $18 for the first child and one-third of $12 for each additional child each month has operated as a bar to more liberal allowances in some instances and in some counties where the counties have considered the Federal maximum as a limit to which they would grant aid although our law sets no maximum and merely requires the granting of aid on the basis of a family budget. We should like to see the Federal contribution raised to one-half and that one-half on a family budget and not on a maximum of $18 and $12."

Wyoming: Mr. S. S. Hoover, director, department of public welfare:

"We feel that the Federal contribution should be increased from one-third to one-half, placing aid for dependent children in the same status as that now contributed by the Federal Government for old-age assistance and aid to the blind."

Alaska: Mr. William B. Kirk, director, department of public welfare:

"Although Alaska does not have an aid-to-dependent-children program, legislation has been proposed before the Territorial legislature, now in session, which would enable the Territory to cooperate with the Federal Government in an aid-to-dependent-children program. There is no doubt that if the Federal contribution of such a program were increased from one-third to one-half, it would undoubtedly be more attractive to Alaska.

District of Columbia: Mr. Elwood Street, Director of Public Welfare:

"I approve most heartily of the proposal of the Social Security Board to increase the Federal contribution for aid to dependent children from one-third to one-half. I also think the limit should be raised from $18 for the first child and $12 for each additional child per month to, let us say, $30 for the first child and $20 for each additional child if there must be any limit set in the act."

Territory of Hawaii: Miss Pearl Salsberry, director, board of public welfare:

"It seems to me that the Federal Government would encourage better standards of work for children if it participated to at least as great an extent in their care as in the care of the aged and blind. In times of financial stress such as we are in at present, it is difficult to keep the interests of children in the foreground simply because of the greater participation in other programs. Inadequate assistance to children now is likely to result in future dependency for them. Personally I would rather see a larger participation in the case of children even if this meant less participation in the case of the aged and blind."

JULY 26, 1939.

Senator PAT HARRISON,
Chairman, Senate Finance Committee,
Washington, D. C.

(Re Grants to States for general public assistance.)

DEAR SENATOR HARRISON: The Washington News Letter on Social Legislation has been conducting a series of polls of expert opinion on current social legislation.

A recent poll indicates that 91 percent of State and local welfare directors favor an amendment to the Social Security Act which would provide grants to States for general public assistance.

Attached are extracts from some of the replies of these public officials.

Sincerely yours,

GLEN LEET,
Editor, Washington News Letter on Social Legislation.

DEPARTMENT OF PUBLIC WELFARE,
Jackson, Miss., April 17, 1939.

Copy of H. R. 5736 by Voorhis of California received.

I think it is a good bill and if Congress is going to make provision for this class of needy people I do not believe a better bill could be framed. Passed in its present form this bill will be of considerable help to needy persons in Mississippi.

Cordially yours,

W. F. BOND,
Commissioner, State Department of Public Welfare.

TEXAS OLD AGE ASSISTANCE COMMISSION,
Austin, Tex., February 15, 1939.

Unfortunately, Texas is without sufficient funds at this particular time to properly finance a direct relief program.

However, in my opinion, all States should, in the interest of a balanced security and general welfare procedure, make such provisions, and it is my conviction that the Federal Government should participate in what is known as the category of general family direct relief.

Certainly, there will be a lamentable gap in our State program of security for all groups who are unable to maintain themselves without public assistance unless we have a Federal grant for direct relief. It is now history as to the aftermath of the withdrawal of Federal aid from the States.

In Texas, in most instances, excepting large urban centers, general relief consists of Federal surplus commodities. That need for direct relief exists is now indisputable. There seems no logic in Government discrimination against a group because it does not fall within one of the established categories. Federal participation is the answer for direct relief just as it has been for the other categories. We feel that the sound policy would be that of making variable grants to the States on the basis of need in the State.

Yours very truly,

W. A. LITTLE, *Director.*

TERRITORY OF HAWAII,
BOARD OF PUBLIC WELFARE,
Honolulu, May 8, 1939.

In my letter of May 1, I promised to comment on H. R. 5736. I believe heartily in the fundamental principle of Federal aid in all types of public assistance. The inclusion of general assistance will tend to better administration of all public assistance. For instance, the insistance on proof of age, relationship, and location of children has wrought real hardship in some cases. So much administrative time has gone into securing of proofs in order to fit an applicant into a category for which there is Federal participation that good case-work principles have been lost sight of. It would be my hope that so-called categorical assistance might be done away with and that all types of assistance be placed on a generalized basis. I believe a more economical administration could be effected and a better grade of work could be done for all persons receiving assistance.

The inclusion of (5) section 1202 is important if any kind of personnel standards are to be maintained, though it is well to remember that even a merit system has its weaknesses. At any rate, this section is certainly far in advance of the present Social Security Act. It seems to me that the interests of the community might be protected if a section regarding collection from estates were added, modeled on title I, section 2 (a) (7), of the Social Security Act. It might be argued that the agency administering public assistance should not become involved in collecting from estates and that a person with an estate should arrange for care through other sources, using the estate as collateral, but we are well aware of cases where this is neither practical nor possible.

The participation on the basis of per capita income, with a two-thirds maximum, seems to me exceedingly sound and if applied to other parts of the social-security program would bring grants more nearly in line with local needs. The sharing of administrative costs on a 50 percent basis would obviate some of the difficulties State agencies have had to meet. The present Social Security Act, which provides for the granting of 5 percent of the grant made for assistance, for administrative expense, has given the impression in some places that the sponsors of the Social Security Act regarded 5 percent adequate to administer the program.

Postponing financial participation for those States having constitutional limitations for 5 years or until July 1, 1944, seems a long time. Are there any States where such limitations could not be removed in less time than that? It would seem to me that a State to have its plan approved must show evidence of its good faith by taking steps as early as possible to remove such constitutional limitations and to proceed with successive steps as rapidly as legal limitations will permit. A statement making it possible to consider each State on the basis of its own constitutional limits would be sounder than if a fixed date for the time at which a State must participate if Federal funds are to continue.

Very truly yours,

PEARL SALSBERRY, *Director.*

STATE OF MINNESOTA,
STATE BOARD OF CONTROL,
DEPARTMENT OF PUBLIC INSTITUTIONS,
St. Paul, April 21, 1939.

H. R. 5736 has our endorsement and support. We have long sought a way out of the difficulty of dual standards. The principles of Federal financial participation involved in this bill are probably the only solution for maintaining adequate public assistance programs in this country. General public assistance standards have been rapidly declining, largely due to inadequacy of State and local funds. The proposal of Mr. Voorhis will fill a gap which must be filled soon if the categorical programs are to continue. It is impossible to long tolerate an administrative situation which makes necessary the application of two different standards used in the same relief household.

Sincerely yours,

PUBLIC ASSISTANCE,
BENJAMIN E. YOUNGDAHL,
Director.

STATE DEPARTMENT OF SOCIAL SECURITY AND WELFARE,
Phoenix, Ariz., April 19, 1939.

I have received you letter of April 13 enclosing a copy of H. R. 5736, by Voorhis, which act would provide grants-in-aid to the States for general public assistance.

After examining the contents of the Voorhis measure, I believe that it is very meritorious and that something of this kind is needed by the States. In your Washington News Letter of April 12 you state:

"Voorhis is convinced that the only humane and constructive way of meeting the transient problem is by providing adequate public assistance in the States from which these people come."

In my opinion, Mr. Voorhis has a very constructive thought in this regard. I do feel, however, that insofar as California and Arizona are concerned, the matter of providing adequate public assistance in the States from which the transients have migrated is a great deal like closing the barn door after the horse is gone, for the reason that many of these people have now been absent from their home State a sufficient length of time to have lost their residence in that State, and the return of them to the State from which they came would be somewhat of a futile gesture, unless they are eligible for general public assistance under the laws of the State. The Voorhis measure, however, would serve as a check on a further influx of transients into the Western States and at the same time greatly assist the States in the administration of general public assistance, particularly in those States where available funds is a serious handicap.

Very truly yours,

STATE DEPARTMENT OF SOCIAL SECURITY AND WELFARE,
HARRY W. HILL, *Commissioner.*

STATE OF IDAHO,
DEPARTMENT OF PUBLIC WELFARE,
DIVISION OF PUBLIC ASSISTANCE,
April 25, 1939.

I believe the Federal financial participation to needy persons as contemplated in this bill is the only device by means of which States can be brought about to administer public assistance on an equitable basis to all recipients. It has certainly been a fact in Idaho that public assistance under the Social Security Act has been administered at great cost to the State- and county-financed programs of general relief. Federal matching funds on a somewhat comparable basis, I am confident, is the only means by which public assistance can be uniformly administered.

My feeling is that the passage of this bill would be a huge step toward the solution of a tremendous problem. It seems to be a very necessary amendment to the Social Security Act. I feel that it represents something which is bound to come sooner or later, and I think that only experience of administration under this act can suggest any very fundamental changes.

I particularly like the provision for establishing personnel standards on a merit basis, which I feel will result, under the supervision of the Social Security Board, in good administration by States.

Very truly yours,

B. CHILD, *Director.*

STATE OF INDIANA,
DEPARTMENT OF PUBLIC WELFARE,
Indianapolis, February 14, 1939.

Indiana would be very glad to receive grants-in-aid for direct relief; however, I doubt very seriously that Indiana could qualify for any Federal grants-in-aid without a change in our present State laws regarding direct relief.

Direct relief is administered locally in Indiana by the township trustee as overseer of the poor, and no State agency has any supervisory function. I am of the opinion that the Federal Government would give no grants-in-aid for direct relief without the State assuming certain administrative or supervisory functions. This would necessitate a change in our laws.

Very truly yours,

T. A. GOTTSCHALK, *Administrator.*

COMMONWEALTH OF KENTUCKY,
DEPARTMENT OF WELFARE,
Frankfort, February 17, 1939.

In response to your letter asking my reaction to the proposal to provide grants-in-aid to States for direct relief, my personal reaction to this proposal is that there should be an appropriation by the Federal Government to provide grants-in-aid to States for direct relief. There is need for Federal assistance in this field and many unmet needs in the States in which Federal aid would be a very real help and an incentive to States to make further provisions along this line.

Sincerely,

DEPARTMENT OF WELFARE,
MARGARET WOLL, *Commissioner.*

STATE OF MARYLAND,
BOARD OF STATE AID AND CHARITIES,
Baltimore, April 17, 1939.

I am very much in favor of Federal grants-in-aid to the States for general public assistance. It is just as necessary to take care of this group of people as any other if we are to have a coordinated and well-rounded social-welfare program.

At the session of the Maryland Legislature just closed, we amended our law so that we are authorized to administer general public assistance if grants are made to the State, and we have an item in the budget of State funds that could be used for matching purposes with the Federal Government, but which will be used for matching with the local units if there is no Federal participation.

Sincerely yours,

J. MILTON PATTERSON,
Executive Secretary.

STATE WELFARE DEPARTMENT,
Lansing, Mich., April 17, 1939.

Any plan whereby grants and aid for public assistance may be made to the States meets with my approval. Federal participation in a program to care for needy individuals not eligible for old-age assistance, aid to the blind, etc., and who are unable to obtain W. P. A. employment, appears to be essential in order to maintain a reasonable standard of relief. The financial limitations of many States, including Michigan, makes it appear that it is essential to have the Federal Government participate in a general public assistance program to care for those not now within the social-security categories and unable to obtain W. P. A. employment, either because of physical impairment or shortage of funds.

Very truly yours,

STATE WELFARE DEPARTMENT,
MRS. GEORGE W. ROGERS, *Director.*

STATE OF MONTANA,
DEPARTMENT OF PUBLIC WELFARE,
Helena, Mont., May 4, 1939.

We are sadly in need of additional funds for general relief in the State of Montana at the present time, and the prospects are that this need will continue. Federal assistance will be most welcome.

Sincerely yours,

I. M. BRANDJORD, *Administrator.*

STATE OF NEW JERSEY,
DEPARTMENT OF INSTITUTIONS AND AGENCIES,
Trenton, N. J., February 14, 1939.

I strongly favor this as the basically sound and well-tested type of relationship for the Federal Government to local governments.

Personally, I do not believe the Federal Government should operate directly in this field, but only on a grant-in-aid program.

Cordially yours,

DEPARTMENT OF INSTITUTIONS AND AGENCIES,
WILLIAM J. ELLIS, *Commissioner.*

I favor Federal aid to States for general public assistance.

Comments: This is the only practical plan before us to bring some order out of the chaos in State administration and financing of relief. Further it will add greatly to the integration and cooperation of Federal, State, and local services. Further it is the only plan now available for the better handling of the transient problem.

Name: David C. Adie.

Position: New York State commissioner of social welfare.

Address: Albany, N. Y.

STATE OF TENNESSEE,
DEPARTMENT OF PUBLIC WELFARE,
Nashville, May 3, 1939.

I would look with favor upon the passage of this bill provided that it would not interfere with the passage of bills which have been introduced upon the recommendation of the Social Security Board to provide for a liberalization of aid to dependent children grants and Federal matching of administrative costs for the operation of the present three categories, i. e., old-age assistance, aid to the blind, and aid to dependent children. If this bill were passed, Tennessee would be faced with the difficulty of not being able to participate until the 1940 session of its legislature, for the reason that the budgets have been set up for the next biennium.

I want to thank you for giving to me the opportunity of studying this bill.

Sincerely yours,

PAUL SAVAGE, *Commissioner.*

I favor Federal aid to States for general public assistance.

Name: Geo. W. Haworth.

Position: Administrator, State Social Security Commission of Missouri.

Address: State Office Building, Jefferson City, Mo.

STATE DEPARTMENT OF PUBLIC WELFARE,
Salt Lake City, Utah, April 21, 1939.

We believe that H. R. 5736, introduced by Representative Voorhis, which you sent to us on April 13, includes provisions of great merit.

Grants-in-aid for general public assistance should make for less discrimination by the States and their subdivisions in the care of employable persons and others not eligible for assistance under the present Social Security Act. In Utah during 1938 each person in an employable household was granted assistance averaging 12 cents a day. Each person in the household of an old-age assistance grantee received an average of 50 cents a day.

Grants-in-aid should be of great assistance to the States and their subdivisions in the financing of the general public assistance program. Because of a low per capita income in this State, Utah would benefit greatly by such a measure. The present revenue of the State is taxed to capacity and the budget request of the State department of public welfare for the biennium 1939 to 1941 exceeds by several hundred thousand dollars the amount of revenue available. Therefore, if adequate standards of general public assistance are to be observed or established, some other method of financing should be developed.

The inclusion of a provision in the measure to place the personnel on a merit basis would undoubtedly be of good effect in raising the standards of all personnel in State and local departments.

We appreciate your courtesy in forwarding a copy of this bill to us and thank you for the opportunity to express our support of the measure.

Sincerely yours,

J. W. GILLMAN, *Director.*

STATE DEPARTMENT OF PUBLIC ASSISTANCE,
Charleston, W. Va., April 18, 1939.

In the absence of Mr. A. W. Garnett, I am submitting certain comments relative to H. R. 5736, as you requested of him in your letter of April 13.

From a national standpoint, such a bill would be a boon to States in those sections where there is a low per capita income.

From the standpoint of West Virginia, the release of such funds by the Federal Government would provide assistante to many persons for whom Works Progress Administration employment is not available. It would materially improve the standards of relief for such employables, especially since increasing unemployment in the coal fields has made our limited funds for general assistance increasingly inadequate. In this respect, we have never been able to render general assistance in any manner commensurate with our grants to the aged, blind, and dependent children. We believe that the suggested plan for matching administration costs 50 percent would serve to improve administrative standards.

Speaking from the standpoint of the bureau of social service, passage of this bill would not materially affect our present procedure. We may attribute this to the fact that all categories of assistance are administered under one department and that our local visitors have carried case loads which involve investigation and determination of eligibility on the same general basis for all such categories.

Passage of this bill would undoubtedly involve a revision of the accounting systems in all States. Fiscal procedure would be much more complicated than that now in use in administering those categories in which grants-in-aid are made by the Federal Government. In the case of West Virginia, it would be necessary to give attention to county levies for general relief as well as to State allocations to counties. General relief payments are made semimonthly and emergency orders are issued for hospitalization, medical assistance, food, fuel, and rent. However, these are matters of small importance when we consider the true objective of the bill, which is to provide a better standard of living for those unfortunates who are now, through choice or otherwise, being neglected by both the works program and the assistance programs of the various States.

We trust these comments will be of some value to you.

Very truly yours,

EARL B. ZOOK,
Acting Chief, Bureau of Social Service.

I favor Federal aid to States for general public assistance.

Comments: Aside from the need of the States for financial assistance in meeting the general relief problem, the full benefits of the work-relief and public-assistance programs which are financed by the Federal Government, wholly or in part, will never be realized until the general public assistance programs in the State are fully organized to supplement and give support to those programs. Federal participation only in specialized fields necessarily results in burdening those forms of assistance with cases and problems which do not properly belong to those categories merely because of the financial advantage to the States.

Name: Kathryn D. Goodwin.

Position: Assistant director, State public welfare department.

Address: 315 South Carroll Street, Madison, Wis.

PUBLIC WELFARE DEPARTMENT,
STATE OF WISCONSIN,
Madison, April 28, 1939.

Your letter of April 13 addressed to Mr. Flanner in regard to the Voorhis bill has been referred to me.

I am sure it is unnecessary for us to express again our feeling for the need for grants-in-aid for general relief. The inclusion of such grants under the Bureau of Public Assistance of the Social Security Board seems to us a guaranty of a stability of administration at the Federal level which would be extremely helpful to the States.

The definition of relief which is incorporated in this bill seems to leave a possible gap for persons who require assistance supplementary to Public Works programs or private employment. The wording of the definition is a little obscure in that the phrase "or available to the families of such persons" does not seem clearly to refer to any of the preceding phrases. Possibly this is intended to mean families of persons who are employed on Public Works projects, or families of persons who are eligible for the special types of aid specified in other sections of the act, although it would seem to mean the reverse.

In section 1203, line 15, the phrase "with respect to each person", which is carried over from the other sections of the act, would seem to us quite difficult for administration in a general relief program, since it implies Federal matching on an individual-case basis. Matching on an individual-case basis for the longer-time types of assistance already in the act has presented many difficulties which would be intensified by application of the same method to the more rapidly changing problems of general relief.

The inclusion of the provision for appeal and fair hearing is, of course, a protection to general assistance recipients, which we should be very glad to see, although again it would be much more difficult of administration for general relief than for the special aids which are more capable of definite legal interpretation. This difficulty, however, is undoubtedly outweighed by the advantage of the inclusion of such a provision.

Very sincerely yours,

KATHRYN D. GOODWIN, *Assistant Director.*

STATE OF ALABAMA,
DEPARTMENT OF PUBLIC WELFARE,
Montgomery, April 17, 1939.

In view of the fact that the proposed amendments to affect old-age assistance, aid to dependent children, and aid to the blind provide for minimum grants to individuals, I am wondering why this bill does not provide a minimum grant. Insofar as the bill provides payments to needy persons who are not eligible for assistance under the other Social Security categories and for whom public works projects are not suitable or available, we are in favor of it. It would seem that this bill is more desirable than bill S. 1218 inasmuch as the definition of general public assistance is more inclusive and there is a 50–50 matching for administration.

Alabama is administering two assistance categories—namely, aid to handicapped and temporary aid—with State and local funds. We feel that Federal matching will enable us to provide this aid more adequately and with less apparent discrimination in favor of persons who come in the categories matched by the Federal Government.

Sincerely yours,

LOULA DUNN, *Commissioner.*

I favor Federal aid to States for general public assistance.

I wish to recommend very earnestly that consideration be given to the possibility of extending congressional legislation in aid of social-welfare programs so as to include the United States territories, including the Virgin Islands, in their benefits. It might be possible to set up the program in such manner that Federal aid for old-age pensions, child welfare, etc., might be given these islands on a basis of matching expenditures for these purposes made by the islands' government.

Name: Roy W. Bornn.
Position: Superintendent of public welfare.
Address: Charlotte Amalie, St. Thomas, V. I.

DEPARTMENT OF SOCIAL SECURITY,
Pierre, S. Dak., April 22, 1939.

I have your letter of April 13, in which you inquire my opinion on the merits of H. R. 5736, a bill proposed by Voorhis of California.

From my own personal viewpoint, I feel that general relief should be handled by the State and counties as a purely local matter, rather than an expansion of the present method of grants-in-aid to the States for such unfortunates.

Yours truly,

C. H. MCCAY, *State Director.*

I do not favor Federal aid to States for general public assistance.
Comment: Florida would have difficult in providing funds for matching.
Name: C. C. Codrington.
Position: Commissioner.

PUBLIC WELFARE BOARD OF NORTH DAKOTA,
Bismarck, N. Dak., April 24, 1939.

This is in reply to your letter of April 13, 1939, in which you asked for a statement from me as to the merits of H. R. 5736, Senator Voorhis' amendment to the Social Security Act to provide grants to the States for general public assistance.

I believe Federal grants to the States for general public assistance is very much to be desired and a move in the right direction. We know that relief standards in some States and in some local subdivisions where general relief is handled locally are entirely inadequate. In some areas, assistance standards are much lower for the so-called unemployable general relief cases than for the categorical groups under the Social Security Act.

In North Dakota we have had considerable difficulty with some of the bordering States where general relief is handled by the local community and is entirely inadequate. Needy persons in those areas have practiced all sorts of subterfuges to get into North Dakota and establish residence as they know that, under our standards, general relief cases have in the past been given the same treatment as categorical relief cases.

Because of the complexities of our economic system, the profits and hence the ability to pay taxes are oftentimes received in States other than those in which the production that made possible those pofits originated. To equalize this income and taxpaying ability, it would seem entirely logical that the Federal government should contribute toward general public assistance as well as special categories.

Federal supervision of general relief would make for uniformity and result in better administration and the elimination of political favoritism.

I am very much in favor of Senator Voorhis' amendment and hope that it passes Congress.

Sincerely yours,

E. A. WILLSON,
Executive Director, Public Welfare Board.

I favor Federal aid to States for general public assistance.
Comments: Federal aid will guarantee (1) a more uniform relief plan and (2) better standards of administration.
Name: Joseph L. Moss, Director,
Position: Cook County Bureau of Public Welfare, Chicago.

I favor Federal aid to States for general public assistance.

Comments: I do favor Federal aid to States for general public assistance because it is my feeling that the unemployment and relief problem is not confined to any particular locality but is national in scope. Because of taxing limitations of States and public subdivisions, I do believe that a Federal long-range plan is very essential in order that millions of our people will not face possible starvation and want.

The State of Ohio records indicate that the Federal Government at present is contributing approximately fifteen and one-half millions per year to the State for general public assistance. It would be practically impossible for the State of

Ohio to assume all of this obligation and to care for its people properly were it not for Federal participation in grants and aid.
Name: Walter M. Costello.
Position: Supervisor, division of public assistance.
Address: 206 East Fifth Street.

THE STATE OF WYOMING,
DEPARTMENT OF PUBLIC WELFARE,
Cheyenne, April 28, 1939.

I have your letter of April 13 enclosing copy of H. R. 5736 which would provide grants-in-aid to the States for general public assistance.

We do not feel at this time that the State of Wyoming is justified in asking the Federal Government to participate in direct relief.

Yours very truly,

S. S. HOOVER, *Director.*

I favor Federal aid to States for general public assistance.
Comment: States and counties to conduct own work program.
Name: A. J. Erschul.
Position: Executive secretary, St. Louis County Welfare Board.
Address: Duluth, Minn.

STATE OF VERMONT,
OLD AGE ASSISTANCE DEPARTMENT,
Montpelier, Vt., February 13, 1939.

Because of the relief afforded by categorical assistance under the Social Security Act, I do not believe that it would be necessary for the State of Vermont to receive grants-in-aid for general relief.

There is a feeling in the State that the cost of public assistance is getting beyond the ability of government to pay and that the only method to check these tendencies will be through individual and local responsibility.

Very sincerely yours,

W. ARTHUR SIMPSON, *Director.*

I favor Federal aid to States for general public assistance.
Name: Solon F. Russell.
Position: Director of welfare.
Address: Louisville, Ky.

MERCED COUNTY DEPARTMENT OF PUBLIC WELFARE,
Merced, Calif., April 18, 1939.

In reply to your request contained in the April 12 issue of the Washington News Letter regarding the consensus of opinion concerning Congressman Jerry Voorhis' amendment to the Social Security Act providing for grants-in-aid to States for general public assistance, I should like to state that I am heartily in favor of such an amendment.

As you know, Mr. Voorhis has been extremely active in behalf of California in its attempt to cope with the migratory situation, and I believe his solution to the problem, i. e., raising standards of public assistance in States from which these people come, will be not only of vast benefit to the already overburdened taxpayers in California, but will have beneficial results in the Middle Southern States where relief standards are low.

Please assure Mr. Voorhis of our continued support of his proposals to aid the transients in California.

Very sincerely yours,

GEORGE K. WYMAN, *Director.*

I favor Federal aid to States for general public assistance.
Name: Mrs. Helen Daley.
Position: Acting administrator, Kent County Welfare Relief Committee.
Address: Grand Rapids, Mich.

CASS COUNTY WELFARE BOARD,
Fargo, N. Dak., May 8, 1939.

I am giving you my opinion on the President's plan which was asked for in the Washington News Letter on Social Legislation of April 26, 1939.

I am in favor of his plan. I do feel that the closer coordination we have between these Federal agencies the more workable the plans will be, and certainly by having fewer departments will gain that point to a certain extent. I am sorry that I cannot give you any more information about this, but I have not followed it close enough so that I could pass my opinion any further than what I have so far.

Very truly yours,

R. M. PARKINS,
Executive Secretary,
Cass County Welfare Board.

I favor Federal aid to States for general public assistance.

Comments: I am inclined to favor some Federal aid toward the general relief program, in the event that there would be sufficient assurance given that there would be only a minimum of supervision from the Federal end; further, if the Federal authorities would bring about the establishment of proper personnel and salary standards while recognizing perhaps the necessity of having varying salary standards in the different sections of the country. I would not be in favor of Federal aid if it would lead to real interference on the part of the Federal authorities in connection with the local administration in this assistance, so that local authorities would not have a sufficiently free hand in the administration of the assistance. In other words, I am afraid of such a thing as too much red tape from the Federal end.

Name: Gearhart Becker.
Position: Director of public welfare.
Address: Room 9, City Hall, Worcester, Mass.

THE BOARD OF PUBLIC WELFARE
OF THE DISTRICT OF COLUMBIA,
Washington, D. C., April 17, 1939.

H. R. 5736, by Voorhis, which would provide grants-in-aid to the States for general public assistance seems to me entirely satisfactory insofar as the principle of matching State payments is concerned. The proposal to make special allowances to States of lower incomes than the average is an interesting variation on the Social Security Act provision and might be worth trying out to see how it works in actual practice. It ought to help bring up low standards of relief in some of the low standard States.

Thank you for your note of regret that I am leaving Washington. I felt that whatever abilities I had could be more usefully exercised in the field of community organization than in that of public welfare administration under conditions as they exist in the District of Columbia. I shall be sorry to leave my good friends, among whom I count yourself, but after all, Richmond is only 110 miles away. You may be sure that I shall have many occasions to take advantage of your offer of service in the future and I look forward to the pleasure of continued association with your able self.

Cordially yours,

ELWOOD STREET,
Director of Public Welfare.

I favor Federal aid to States for general public assistance.

Comments: In a State like Texas, with no general public assistance from the State and very little from the local governments, Federal aid for general assistance would be of inestimable value. It would eliminate a tremendous amount of suffering. It would stimulate the local communities, and it would develop a sound administration which is otherwise not very likely. This is going to be particularly important as the amount of work relief available declines. Our communities have failed to take care of employables and certainly will not be taking care of the needy employables without Federal aid.

Name: Walter W. Whitson.
Position: Director, Houston-Harris County Board of Public Welfare.
Address: 1103 Elder Street, Houston, Tex.

THE NORTH CAROLINA STATE BOARD
OF CHARITIES AND PUBLIC WELFARE,
Raleigh, N. C., April 18, 1939.

Replying to your letter of April 13, may I express approval of H. R. 5736 by Voorhis providing grants-in-aid to States for general public assistance. I would like, however, to see some provision made for those States that have not made State appropriations for general relief, their legislatures having already adjourned, whereby they could be given credit for appropriations made by the counties and other governmental units for general relief. We understand, of course, that the plan would have to be in effect in all political subdivisions of the State and that when the legislature again convenes 2 years hence, the State would be required to make a State appropriation if it wished to continue to participate in the general relief program.

Participation by the Federal Government in general relief would be of tremendous help to the States, particularly those States with low average per capita incomes, in providing more adequately for needy people who do not come under any of the relief categories.

Sincerely yours,

Mrs. W. T. BOST,
Commissioner.

I favor Federal aid to States for general public assistance.

Comments: I feel that a more uniform and impartial method of distribution will be worked out if Federal aid is given for general public assistance. Also that the transient indigent will be better cared for.

Name: Emory Afton.

Position: Commissioner of department of public welfare.

Address: Sixth and Bannock, Boise, Idaho.

COMMONWEALTH OF PENNSYLVANIA,
DEPARTMENT OF PUBLIC ASSISTANCE,
Harrisburg, February 23, 1939.

This is in reply to your letter of February 9 in which you ask my views on the proposal that the Federal Government provide grants-in-aid to States for direct relief.

I believe this to be a sound proposal in principal. The basis for distribution should, in my opinion, be one which would permit States to budget their direct relief programs with statutory assurance of Federal aid in meeting a fixed part of the cost. (This would obviate the month-to-month and arbitrarily determined Federal participation which characterized the Federal Emergency Relief Administration period.) At the same time provision should be made to insure minimum administrative standards in the States and impartial, nonpolitical handling of relief at the local level. It seems to me the Social Security Board is the logical agency to assume this responsibility.

As you probably know, Pennsylvania is one of the relatively few States to maintain direct relief without stoppages or cutting of standards since the advent of Works Progress Administration. In view of the economic limits which apply to total Federal appropriations for relief, it seems to me the time has come for a definite division of available Federal funds between work programs and direct assistance rather than continuation of a policy which, in effect, tends to penalize the several million families not provided for by Works Progress Administration.

Sincerely yours,

HOWARD L. RUSSELL, *Secretary.*

I favor Federal aid to States for general public assistance.

Name: Benjamin Glassberg.

Position: Superintendent, Department of Outdoor Relief, Milwaukee County.

Address: 794 North Jefferson Street, Milwaukee, Wis.

STATE DEPARTMENT OF PUBLIC WELFARE,
Columbia, S. C., April 17, 1939.

I have just this morning received your letter of April 13 asking an expression as to the merits of H. R. 5736 which proposes grants-in-aid to the States for general public assistance.

I have not time to study the details of this measure, but have no hesitancy in expressing approval of Federal grants-in-aid for general public assistance upon a substantially similar basis as for the granting of Federal aid for old-age assistance and aid to the needy blind provided for in the Social Security Act.

Yours very truly,

THOMAS H. DANIEL, *State Director.*

I favor Federal aid to States for general public assistance.

Comments: While the Works Progress Administration program has provided employment to a substantial number of unemployed persons on relief, it has never fully absorbed all employable persons and, consequently, the local communities have been left with a direct relief burden that they have been unable to finance on any sound basis. The existence of the Works Progress Administration as the only contribution of the Federal Government toward unemployment relief has also resulted in forcing on to Works Progress Administration projects people who are not equipped for the type of work involved, which has greatly reduced the efficiency and increased the costs of the Works Progress Administration projects. Our community has never paid anything toward the cost of direct relief from current tax funds and has continued to go in debt to finance relief since 1933. The State government likewise has never worked out a plan for financing its contribution toward direct relief on a current basis and as a result the contributions of the State have been decreasing each year. There is apparently no answer to the problem except Federal grants in aid to the States for general public assistance

Name: F. M. Rarig, Jr.
Position: Welfare director.
Address: St. Paul, Minn.

STATE OF OREGON,
STATE PUBLIC WELFARE COMMISSION,
Portland, Oreg., May 5, 1939.

While we are not in a position to discuss the details of the bill, we feel that i is sound in principle. It is our understanding that the bill provides for grants-in-aid to the States for general assistance without restriction as to the employability or unemployability, residence or nonresidence of applicants. We assume that this bill takes the place of the bill heretofore introduced to provide grants-in-aid to the States for the care of nonresident persons. The staff of the State Public Welfare Commission is of the opinion that a bill for grants to the States for general public assistance is sounder than a bill providing grants-in-aid exclusively for nonresident care.

Yours truly,

STATE PUBLIC WELFARE COMMISSION,
ELMER R. GOUDY, *Administrator.*

I favor Federal aid to States for general public assistance.
Name: A. W. Garnett.
Position: Director, State department of public assistance.
Address: Charleston, W. Va.

STATE OF WASHINGTON,
DEPARTMENT OF SOCIAL SECURITY,
Olympia, May 2, 1939.

Hon. HOMER T. BONE,
United States Senator, Washington, D. C.

DEAR SENATOR BONE: I have just seen a copy of Congressman Voorhis' H. R. 5736, which aims to provide grants-in-aid to the States for general public assistance.

In the light of the actual experience of the various States at the present time, the help of the Federal Government, through a bill such as the one introduced by Congressman Voorhis, is absolutely necessary to assist local communities in taking care of their needy people. I have in mind two groups of persons, namely, the general group that migh be though of as unemployable because of some physical or mental handicap without reespect to age; and, secondly, that group of men and women in the age group of 50 to 64, inclusive, who have no particular service to sell and who are too old for much successful retraining or rehabilitation. At the present time there is no social-security category provided for these persons, and yet we all know that they can suffer just as much as men and women 65 of age and over.

The Voorhis bill has the practical advantage of requiring no new machinery or new administrative agency. In fact, its financial provisions give definite force and purpose to the local agencies already created. These agencies, because of inadequate funds, are now obliged to spend their energies in some form of negative answer to the application of persons in need.

I find everywhere a disposition to curtail criticism in face of the desire for obtaining some action in doing something about the situation which is facing us this next winter with the obvious reduction in work relief quotas. It is in this spirit that I commend for your attention the provisions of the Voorhis bill as a plan for obtaining action that will definitely help the States and counties carry the people in need through the winter that is ahead of us.

Sincerely yours,

CHARLES F. ERNST, *Director.*

THE WESTERN UNION TELEGRAPH CO.,
60 Hudson Street, New York,
June 15, 1939.

Hon. PAT HARRISON,
Chairman, Finance Committee,
United States Senate, Washington, D. C.

DEAR SENATOR HARRISON: We have not asked to be heard by your committee on the proposed amendments to the Social Security Act but we should like to file this statement.

The Western Union Telegraph Co., which was organized in 1851, 88 years ago, provides a comprehensive telegraph service for the Nation. Throughout its corporate existence it has constantly improved the quality of its telegraph service which it has endeavored to furnish at the lowest possible rates. From the outset of its corporate existence Western Union has occupied the dominant position in this field of communications, and is looking forward in the next 12 years to the completion of a century of progress.

Western Union now serves practically every city, town, and village in the United States. It reaches points all over the world either through its own offices or its overseas connections. The only product it has to sell is service. Therefore, labor is necessary in its operations to an unusual degree, and it rates high among its assets an efficient and loyal force which numbered 43,546 at the close of 1938.

Many, many years ago Western Union recognized that the peace of mind of its employees was inextricably linked with the well-being of the company. For this reason it sought 26 years ago to mitigate the hardships resulting from accident, sickness, superannuation, and death by establishing a plan for employees' pensions, disability benefits, and death benefits. The plan is noncontributory. The entire cost of it has been borne by the company. Under this plan the company has paid out during the past 25 years, the following:

Pensions	$15,253,983
Accident-disability benefits	3,510,110
Sickness-disability benefits	9,074,320
Death benefits	3,899,433
Total	31,737,846

Western Union revenues are particularly sensitive to general business conditions. They rise and fall as business improves or slackens. The volume of telegraphing is a most reliable gage of general business conditions. Anything which affects business adversely is reflected promptly in lower telegraph revenues. When the administration recently recommended to Congress that consideration

be given to modifying current statutory requirements for progressively increasing taxes on account of old-age benefits, it recognized that pay-roll taxes are deterrent to business generally. Such taxes are a particular deterrent to the telegraph industry because of its high ratio of labor cost. The Western Union labor cost consumes over 60 percent of its gross revenue. The higher the ratio of labor cost to gross revenue the greater the burden of pay-roll taxes. For example, the telegraph and the telephone compete for the long-distance communications business. The telephone merely furnishes the facilities over which the patron performs the service. The telegraph not only furnishes the facilities but, in addition, the employees to pick up, transmit, and deliver the communications. Thus the ratio of labor cost in the telegraph industry is substantially higher than in the telephone industry. The result is that pay-roll taxes are proportionately a greater burden, a distinct competitive disadvantage, and an impediment to the continued employment of a large number of people.

Unlike the average employer, Western Union cannot transfer pay-roll taxes to ultimate consumers by increasing the prices of its services. As your committee knows, telegraph charges are fixed by the Federal Communications Commission and by the respective State commissions. The inability of Western Union to shift added costs to others was demonstrated forcibly during 1938 when the Federal Communications Commission denied the plea of the telegraph companies for a 15-percent increase in certain commercial rates.

Pay-roll taxes affect Western Union indirectly as well as directly. Its revenues are depressed by the effect of such taxes on general business and its operating expenses are increased by the disproportionately heavy pay-roll taxes which it is required to pay.

In 1938 Western Union's operations resulted in a deficit of $1,637,879. It paid $2,266,064 during 1938 in Federal and State Social Security taxes and about $60,000 for clerical help to keep the records and make the returns required by the Social Security administrative authorities. These expenditures alone represented the difference between a profit and a deficit, and the unfortunate part of it is that none of these expenditures are of any value to Western Union, and the Social Security taxes paid by its employees are of little, if any, value to them as long as the Western Union private plan is in existence. In 1938 Western Union paid out about $1,911,000 on account of this private plan and these payments were in addition to the $2,266,064 which it paid in Social Security taxes.

On May 22, 1939, in commenting on the causes of the present condition of the telegraph industry before a subcommittee of the Senate Interstate Commerce Committee in connection with Senate Resolution 95, Commissioner T. A. M. Craven, of the Federal Communications Commission, said:

"* * * And then there is the higher cost of operation in recent years due to social-security taxes, and other factors."

With pay-roll taxes becoming more and more prominent in the company's results, it is inevitable that the company will be forced reluctantly at an early date to modify its private plan substantially. The cost of Social Security taxes in addition to the cost of its own plan creates a heavier financial load than the company can continue to carry. In seeking to lighten this load the company will have to resolve what, if anything, it can do about the following problems: (1) Pensions (annuities) under the Social Security Act are based only on employment from January 1, 1937, whereas under the company plan the employee receives credit for all his years of service with the company, including those prior to January 1, 1937; (2) in many cases employees would receive pensions under the company plan in excess of $85 per month, the maximum provided for under the Social Security Act; and (3) the company had 1,889 former employees on its pension roll at the close of 1938 for whom no provision has been made in the Social Security Act.

The Western Union plan has operated to the complete satisfaction of all concerned for more than a quarter of a century. It has provided Western Union employees with substantial social security and at no cost to them. There is no gainsaying that it is in the national interest to encourage the continued operation of such plans. Congress can do this very readily by amending the Social Security Act at this session and exempting companies with such plans from the payment of social-security taxes, or at least allowing such companies a credit against such taxes of the sums paid out under such private plans. In either event the Government would be relieved of old-age payments to thousands of employees, and the employees, including those on pension and with long years of service prior to January 1, 1937, would continue to enjoy the fruits of such private plans. It is

elementary that the more a company pays out in pay-roll taxes the less it will have available for distribution under a private plan. This is particularly true of Western Union, where the labor cost consumes over 60 percent of its gross revenue.

Do you not feel relief should be provided for companies which had been voluntarily affording liberal social security to their employees for years before the advent of social-security legislation and which now find these laws create a heavy burden? Is it not decidedly in the interest of the public, telegraph employees, and the holders of telegraph securities, that appropriate relief be granted now through an amendment to the Social Security Act?

Yours very truly,

R. B. WHITE.

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Following the close of the public hearings on H. R. 6635, the committee began consideration of the bill in executive session. The proceedings which follow contain testimony given in executive session by various witnesses

SOCIAL SECURITY ACT AMENDMENTS

MONDAY, JUNE 26, 1939

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

The committee met in executive session, pursuant to call, at 10 a. m., in room 312, Senate Office Building, Senator Pat Harrison (chairman) presiding.

The CHAIRMAN. The committee will come to order.

We have with us this morning Senator Murray, and Miss Lenroot, and Dr. Eliot, of the Children's Bureau. I thought it advisable that we hear them before we begin to consider amendments in executive session.

Senator Murray wants to be heard briefly on this matter. All right, Senator.

STATEMENT OF HON. JAMES E. MURRAY, UNITED STATES SENATOR FROM THE STATE OF MONTANA

Senator MURRAY. The Children's Bureau is seeking to get some additional funds. The hearings on the Wagner health bill developed a very glaring necessity for funds for maternal and child-health services, and inasmuch as that bill will not be enacted at this session it is proposed that these additional amounts be provided for through your committee here.

I wish to incorporate as a part of my statement the communication I addressed to the chairman of the committee respecting this program.

JUNE 13, 1939.

Hon. PAT HARRISON,
United States Senator, Senate Office Building.

DEAR SENATOR HARRISON: During the last several weeks I have been serving as a member of a subcommittee of the Senate Committee on Education and Labor holding hearings on the Wagner national health bill, S. 1620.

The testimony presented at these hearings has convinced me that there is a great need for an expansion of the program for maternal- and child-health services. I am, therefore, submitting to you herewith a few suggested amendments to H. R. 6635, which is now being considered by your Committee on Finance.

The suggested amendments, a draft of which is appended hereto, would increase the amounts authorized under title V, part 1, for maternal and child services by $2,000,000. This includes $1,000,000 to be added to subsection 502 (a) to be matched by State funds in the ratio of one-half Federal and one-half State, and $1,000,000 to be added to section 502 (b) so that a total of $1,980,000 instead of $980,000 will be available for allotment by the Secretary of Labor without matching, according to the financial need of each State for assistance in carrying out its State plan as determined by him after taking into consideration the number of live births in such State. No other changes in title V, part 1, are proposed.

There is now no provision for a "B" fund in title V, part 2. The entire amount authorized in title V, part 2 must be matched by State funds in the ratio of one-half Federal and one-half State. It is proposed to add a new subsection, 512 (b)

to authorize a fund of $1,000,000 to be available for allotment on the basis of the financial need of each State for assistance in carrying out its State plan, thus putting the services to crippled children on the same basis as the maternal- and child-health services. No other amendments to title V, part 2, are proposed.

Testimony presented to the Senate Committee on Education and Labor in hearings on the national health bill, S. 1620, by the Chief and Assistant Chief of the Children's Bureau, indicated the urgent need for expansion of the maternal and child health and crippled children's programs in amounts far larger than those suggested in the proposed amendments. Although S. 1620 does not provide for any funds to be allotted to the States without matching requirements, the principle of variable matching grants has been introduced in that bill. In her testimony before the Senate Committee on Education and Labor, Miss Katherine F. Lenroot, Chief of the Children's Bureau, pointed out that the amount of the "B" fund now provided in title V, part 1, for maternal and child health services represents about one-fourth of the total appropriation. She stated that if the committee should not see fit to retain the principle of variable matching, which in her judgment was an extremely valuable feature of the bill, provision for a "B" fund should be reincorporated and a similar fund should be provided in part 2. She stated that absence of provision for such a fund has handicapped seriously the program of services for crippled children in some States and has made it difficult for the Federal Government quickly to mobilize needed resources to deal with infantile paralysis epidemics.

In the statement by Dr. Martha M. Eliot, Assistant Chief of the Children's Bureau, before the same committee, she pointed out that experience under the Social Security Act has brought to light the many gaps that exist in the maternal and child health program, and has indicated the direction in which the program should advance if obvious needs are to be met. She stated that the knowledge of how to save the lives of women and children is at hand, but the resources to provide services and facilities are not adequate. In submitting their plans for maternal and child health services for the fiscal year 1939, 28 State health officers reported their needs in such a way that the cost could be accurately estimated. The total increase indicated as necessary by these 28 State health officers was $22,000,000. With reference to crippled children, Dr. Eliot stated that the sum appropriated each year for grants to States for services to crippled children, $2,850,000, is not sufficient to take care of children known to be in need because of orthopedic conditions, and does not provide for children crippled from other conditions. On May 15, 1939, there were 14,573 children on the lists of the official State agencies awaiting hospital care. Of these 12,981 were awaiting care because of lack of funds. To care for the children awaiting hospitalization at the present time, because of lack of funds, or lack of beds, would cost at least $3,000,000.

The States are in a position to take up an increasing amount of Federal aid for maternal and child health services under section 502 (a) for which matching is required. Charts submitted by Miss Lenroot in the course of her testimony on S. 1620 showed that in the fiscal year 1939 all but five States were matching 100 percent or more of the annual Federal allotments. Although the amounts required to expand the program on the basis of urgent need to the extent that would be provided if S. 1620 should be enacted greatly exceed the amounts suggested in the amendments now proposed, such amendments would permit moderate expansion of the present program along the lines now established and would strengthen the foundations of an enlarged program which would include medical care of mothers and children and care of additional types of handicapped children when the additional resources contemplated by S. 1620 could be made available.

Sincerely yours,

JAMES E. MURRAY.

I have with me here Miss Lenroot, of the Children's Bureau, who has made a study of the matter, and I would like to have you hear her statement, showing the necessity of this appropriation at this time.

The CHAIRMAN. All right, Miss Lenroot.

STATEMENT OF MISS KATHARINE F. LENROOT, CHIEF, CHILDREN'S BUREAU, DEPARTMENT OF LABOR

Miss LENROOT. My name is Katharine F. Lenroot, Chief, Children's Bureau. I have Dr. Martha Eliot, the Assistant Chief, with me, who will speak as to need in more detail.

We are very happy to have this opportunity of speaking with reference to the possibility of including in the Social Security amendments which are now under consideration before your committee, a small amount for increased funds for maternal and child-health services under title V, part I, and services for crippled children under title V, part II.

The CHAIRMAN. What is the present appropriation?

Miss LENROOT. The present authorization is for $3,800,000 under part I, and $2,850,000 under part II.

The CHAIRMAN. Is that on the basis of one to three?

Miss LENROOT. No. All but $980,000 of the $3,800,000 is on a 50–50 basis, Mr. Chairman, and all of the $2,850,000 is on a 50–50 basis. The $980,000 for maternal and child-health is available for assistance to the States without matching, on the basis of their need for financial assistance.

Senator LA FOLLETTE. That is what you call your B fund?

Miss LENROOT. Yes; that is what we call our B fund. The A fund is the part that has to be matched, and the B fund is available for allotment without matching.

Senator GERRY. How much is the B fund?

Miss LENROOT. $980,000 of the total of $3,800,000. I want to say this has not been cleared with the Bureau of the Budget, so I am speaking personally with reference to this amount.

The CHAIRMAN. Has the Budget been approached on this?

Miss LENROOT. No; it has not, Mr. Chairman. I think it might be helpful to the committee if I discussed some of the efforts that have been made to obtain additional appropriations since 1937. When the Social Security Act was passed, of course, it was impossible to foretell just how rapidly the States would be able to match the fund and in what position they would be administratively with reference to the services, so that the amounts that were included in the original act were more or less guesses. After the act had been in operation for a little over a year, the advisory committees to the Children's Bureau, appointed by the Secretary of Labor, were asked to canvass the progress that had been made and to advise us with reference to what next steps ought to be taken or any modification we ought to make in the program to assure greater efficiency.

Senator GERRY. Who was on that advisory committee?

Miss LENROOT. That was quite a large advisory committee.

Senator GERRY. Just put it in the record. I will not bother you.

Miss LENROOT. It was a large advisory committee made up of medical people and lay people, representatives of labor, farm groups, medical groups, social workers, and health workers. The list was inserted in the hearings on the Wagner health bill.

The membership of the committee is as follows:

GENERAL ADVISORY COMMITTEE ON MATERNAL AND CHILD-WELFARE SERVICES

(Appointed by the Secretary of Labor to advise the Children's Bureau concerning the development of general policies affecting the administration of title V, pts. 1, 2, and 3 of the Social Security Act)

Chairman, Fred K. Hoehler, director, American Public Welfare Association.
Grace Abbott,[1] professor of public welfare, the School of Social Service Administration, University of Chicago.
Fred L. Adair, M. D., professor of obstetrics and gynecology, University of Chicago; American Committee on Maternal Welfare; chairman, Children's Bureau Advisory Committee on Maternal and Child-Health Services.
Mrs. Roscoe Anderson, National League of Women Voters.
W. W. Bauer, M. D., director, Bureau of Health and Public Instruction, American Medical Association.
Mrs. Dorothy Bellanca, vice president, Amalgamated Clothing Workers of America; Congress of Industrial Organizations.
Mrs. Edwin Bevens, General Federation of Women's Clubs.
Kenneth D. Blackfan, M. D., professor of pediatrics, Harvard University School of Medicine.
M. O. Bousfield, M. D., director for Negro health, Julius Rosenwald Fund.
C. C. Carstens, executive director, Child Welfare League of America, Inc.
A. J. Chesley, M. D., secretary and executive officer, Minnesota Department of Health; secretary-treasurer, Conference of State and Provincial Health Authorities of North America.
H. Ida Curry, chairman, Children's Bureau Advisory Committee on Community Child Welfare Services.
Harriet Elliott, dean of women, the Woman's College of the University of North Carolina; American Association of University Women.
John A. Ferrell, M. D., associate director, International Health Division, the Rockfeller Foundation; American Public Health Association.
Homer Folks, secretary, State Charities Aid Association.
Mary G. Hawks, National Council of Catholic Women.
Henry F. Helmholz, M. D., Mayo Clinic, professor of pediatrics, University of Minnesota Graduate School of Medicine.
T. Arnold Hill, director, Department of Industrial Relations, National Urban League.
W. Freeland Kendrick, chairman, board of trustees, Shriners' Hospitals for Crippled Children.
Paul H. King, the International Society for Crippled Children, Inc.
The Reverend Bryan J. McEntegart, director, Division of Children, Catholic Charities of the Archdiocese of New York.
Robert B. Osgood, M. D., emeritus professor of orthopedic surgery, Harvard University School of Medicine; chairman, Children's Bureau Advisory Committee on Services for Crippled Children.
Mrs. J. K. Pettengill, president, National Congress of Parents and Teachers.
Emma C. Puschner, director, National Child Welfare Division, the American Legion.
Robert H. Riley, M. D., director, Maryland State Department of Health.
Mrs. Abbie C. Sargent, the Associated Women of the American Farm Bureau Federation.
Mrs. Dora H. Stockman, the National Grange.
Mrs. Nathan Straus, National Council of Jewish Women.
Linton B. Swift, general director, Family Welfare Association of America.
Katharine Tucker, R. N., University of Pennsylvania; director, Department of Nursing education, University of Pennsylvania.

The CHAIRMAN. Dr. Felix Underwood of my State is interested in this matter.

Miss LENROOT. Yes, he is.

[1]Deceased, June 19, 1939.

The CHAIRMAN. I might say I have had several communications as to the conferences. I think he is one of the most extraordinary men we have in the State, with his feet on the ground and his heart in this particular work.

Miss LENROOT. We think he is a remarkable person, Mr. Chairman, and his influence is Nation-wide, as you know, as the president of the State and Provincial Health Authorities of North America. He is regarded generally as an outstanding leader in public health work of this country.

In 1937 the advisory committees to the Children's Bureau, after canvassing the situation, recommended that in view of the urgent needs which have existed for further resources for maternal and child-health services, an attempt should be made to secure additional funds from Congress under title V, part I.

Then the State and Provincial Health Authorities, in their conference in April 1938, approved the draft of a bill which had been prepared by representatives of that organization, and that bill was introduced by Senator Barkley on April 20, 1938, and in the House by Mr. Doughton on April 12, 1938. Because it was introduced so late in the session, there were no hearings and no action was taken.

The bills provided additional sums under title V, part I, in amounts beginning with $3,000,000 and ascending to $20,000,000 for the fiscal year 1943, with such sums thereafter as might be needed.

Now there was a great deal of popular interest in this proposal. The organizations concerned with the welfare of mothers and children, including health organizations, labor and farm, and women's organizations, took action, so that there were 18 of these organizations definitely on record as supporting the Barkley-Doughton bills. These included the American Legion, the Committee for Industrial Organization, the American Farm Bureau Federation, the American Pediatrics Society, the National Grange, the National Women's Trade Union League, the Conference of State and Provincial Health Authorities, and a number of other groups.

The CHAIRMAN. Do those proposals carry a 50–50 basis?

Miss LENROOT. They were to be allotted on the basis of need by the Secretary of Labor without matching being required, as provided in the Barkley bill.

Senator VANDENBERG. What is the definition of "need"? What do you mean by "need"?

Miss LENROOT. The State's need for financial assistance in carrying out its plan, and it was contemplated that the same general methods be used as were followed in making allotments of the $980,000 of the B fund, which is to take into consideration excess infant mortality, excess maternal mortality, sparsity of population, and the number of live births. We have used that formula consistently in allotting the B fund, and it has seemed to be quite acceptable.

Senator VANDENBERG. Does the B fund go to all States in different degree, or to a few of the States?

Miss LENROOT. I think all States have had it except two this year, but in different degrees, based on this formula.

Senator GERRY. Is this in addition to the B fund?

Miss LENROOT. The proposed amendments that have been suggested to this bill would be distributed this way: $1,000,000 additional for the A fund, which would have to be matched 50–50; $1,000,000 additional for the B fund, making a total B fund of $1,980,000, and then $1,000,000 for crippled children, which, according to the plan that has been suggested, would not have to be matched but would be available on the basis of financial need according to a formula similar to that which I have indicated.

Senator GERRY. How much would you add to the B fund?

Miss LENROOT. $1,000,000.

Senator GERRY. Under this?

Miss LENROOT. Under the proposed suggestion.

Senator GERRY. Has that been submitted to the Budget?

Miss LENROOT. No, it has not, Senator.

Senator VANDENBERG. Are there any of the States that have failed to match the existing arrangement?

Miss LENROOT. All the States are matching with increasing ability to take up the funds. There were submitted to the Senate Committee on Education and Labor, in connection with the hearings on the Wagner bill, charts showing that all but five States were now matching 100 percent or more of the annual limit under title V, part I.

Senator VANDENBERG. What are those five States?

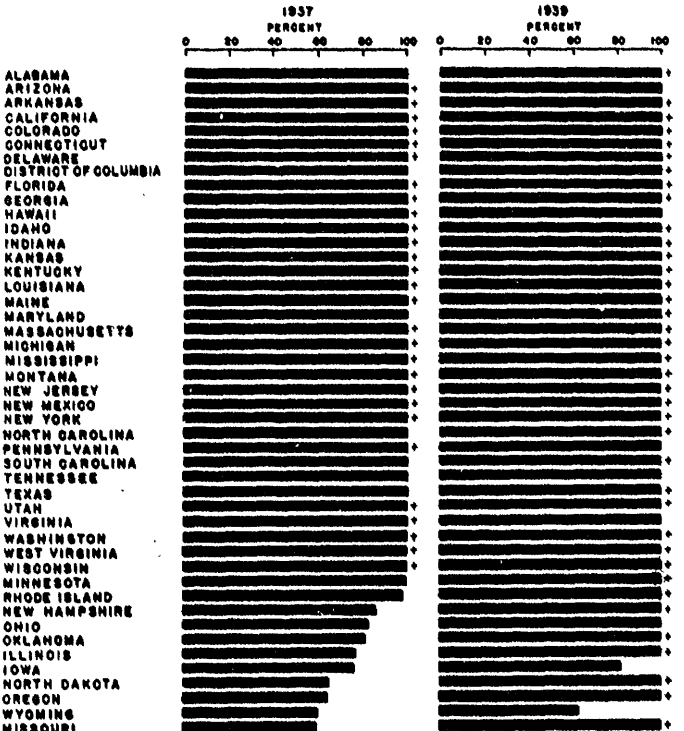
Miss LENROOT. Those five States are Iowa, Wyoming, Nevada, Nebraska, and South Dakota.

The CHAIRMAN. I think it would be well to put that in the record.

Miss LENROOT. I would be very glad to do so.

(The charts referred to are as follows:)

PERCENTAGES OF ANNUAL FEDERAL ALLOTMENTS OF MATERNAL AND CHILD-HEALTH FUNDS MATCHED BY STATES IN THE FISCAL YEARS 1937 AND 1939
SOCIAL SECURITY ACT, SECTION 508A

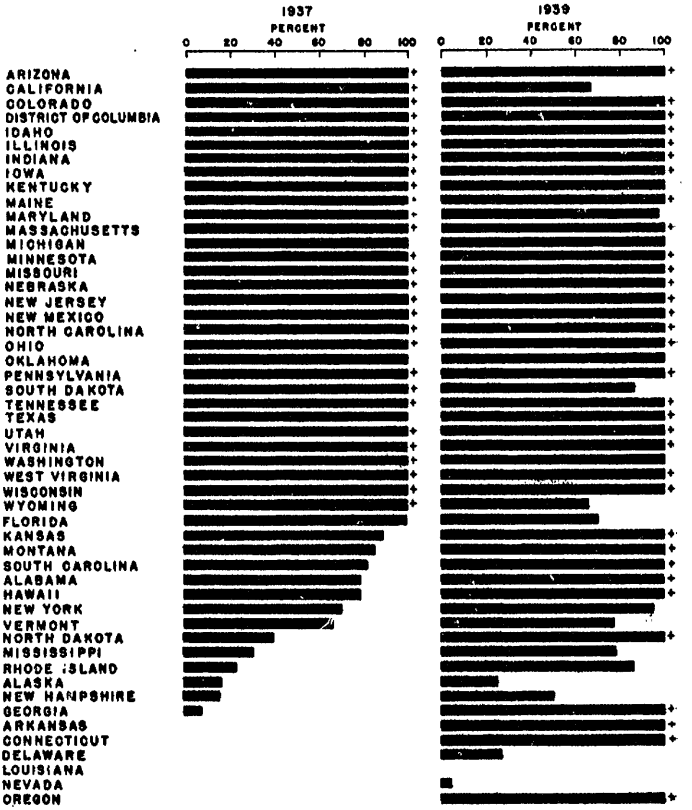


BARS EXTENDING TO 100 PERCENT ON SCALE INDICATE THAT STATES REPRESENTED SUPPLIED MATCHING FUNDS IN THE AMOUNT OF 100 PERCENT OR MORE OF ANNUAL FEDERAL ALLOTMENTS

CHILDREN'S BUREAU
UNITED STATES DEPARTMENT OF LABOR

(9067)

PERCENTAGES OF ANNUAL FEDERAL ALLOTMENTS OF FUNDS FOR SERVICES FOR CRIPPLED CHILDREN, MATCHED BY STATES IN THE FISCAL YEARS 1937 AND 1939
SOCIAL SECURITY ACT, SECTION 512A



BARS EXTENDING TO 100 PERCENT ON SCALE INDICATE THAT STATES REPRESENTED SUPPLIED MATCHING FUNDS IN THE AMOUNT OF 100 PERCENT OR MORE OF ANNUAL FEDERAL ALLOTMENTS

CHILDREN'S BUREAU
UNITED STATES DEPARTMENT OF LABOR

Senator VANDENBERG. What would be the reason for their failing to match in Iowa? It is certainly not lack of resources.

Miss LENROOT. Dr. Eliot, could you answer that?

Dr. ELIOT. It is a matter of the State appropriation for the public-health services in the State not being adequate for the State health department to assign sufficient funds to maternal- and child-health programs for matching the allotment.

Senator VANDENBERG. Suppose they fail to provide, let us say in Iowa, sufficient funds, would that establish a right to relief under the B fund?

Miss LENROOT. We have considered that it takes some time to develop, in certain States, public opinion that would support the full appropriations that are needed. There has been constant progress in that from year to year, more States appropriating the total amounts of money needed, but in some States it has been slower than in others. Except for Iowa, these States are very needy States that are not matching in full.

Senator VANDENBERG. Is Nebraska a needy State?

Miss LENROOT. I was thinking of such States as South Dakota and Wyoming.

Senator HERRING. Is this for dependent children?

Miss LENROOT. This is for health services.

Senator HERRING. They neglected to appropriate the money. The legislature just did not interest itself in Iowa and did not appropriate the money.

Senator VANDENBERG. What I want to know is whether that justifies the use of the discretionary fund to help Iowa because of its own failure to attend to its own job.

Senator HERRING. I hope it does not.

Senator VANDENBERG. I want to know whether it does or not.

Miss LENROOT. They only had small amounts of the B fund, Senator. They have matched nearly all of the amount under the A fund, not quite all, and they are matching more and more each year, but it seems it is necessary for a short time, with the relatively small amount of money, as these amounts are, to demonstrate to the people just what these services mean, and of course we believe the Federal Government and the States have a joint interest in the health of children. The children are citizens of the United States as well as the State. As long as we can see continuing evidence of State interest and State cooperation, we feel that a little time to develop full 100-percent cooperation is to be expected, and that the record that has been made by the States is an excellent record, the record of cooperation that has been made.

Senator VANDENBERG. Why has no request been made of the Budget in connection with it?

Miss LENROOT. The matter came up recently. We had been holding back the friends of the movement to secure more adequate appropriations, holding back on account of the hearings on the Wagner bill, because if the Wagner bill had been advanced toward passage, that would have taken care of this need, and it was not desired to do anything that would appear to be minimizing the need for the entire program as provided in the Wagner bill, because those interested in children realize that the general public health and the broad health program are essential to the most effective work with children.

When, however, it became clear a week or two ago, that it probably would not be possible to advance the Wagner bill very far at this session, and when it was realized that the social security amendments had passed the House and had included in title V some increased appropriations for vocational rehabilitation, it was thought that it would be desirable to see what could be done in getting some additional funds in connection with the social security amendments. So Dr. Underwood, the president of the State and provincial health authorities, came to Washington, saw the chairman of this committee and others, and raised with Senator Murray the question of whether it would not be possible to obtain some modest increase for services that were already advanced but needed desperately somewhat more adequate resources.

The initiative was taken by Dr. Underwood, and it was felt that perhaps it would take too long to clear the matter through the Bureau of the Budget, and that if this committee could get before it the situation as it appears to Dr. Underwood and to us, that that was all we could do at this time.

Senator LA FOLLETTE. Well, of course, if the authorization should be provided, any estimate for appropriations thereunder would have to clear with the Budget.

Miss LENROOT. Yes.

Senator LA FOLLETTE. It is not proposed to make the appropriation here.

Miss LENROOT. No; it is just an authorization.

Senator DAVIS. This is just an authorization?

Miss LENROOT. Yes, Senator Davis. The President has indicated repeatedly his sympathy with the general objectives. Although he has never recommended a specific amount, in his general attitude he has expressed sympathy with the objectives when we have had conferences here in Washington, and in his action transmitting the reports of the interdepartmental committee to Congress for its consideration.

Senator GERRY. If you get the authorization, the appropriation would naturally follow.

Miss LENROOT. Well, if the Congress felt that it was needed.

The CHAIRMAN. Your suggested changes here for authorization for these various types of Federal services, are they as modest as those requested in the so-called Wagner bill?

Miss LENROOT. They represent just a very small proportion of what is requested in the Wagner bill.

The CHAIRMAN. In other words, you are more conservative?

Miss LENROOT. Yes. The Wagner bill recommended $8,000,000 for part I, and we are recommending $2,000,000. It recommended $13,000,000 for crippled children and medical care of children, and we are recommending $1,000,000.

These amounts that are suggested here would simply permit us to enable the States to meet their urgent and express needs for carrying on more fully the existing program. For instance, we have one-fourth of the counties in the United States still without any public health nursing service for rural areas. So this would simply enable the States to round out their present program, but would not provide funds, excepting for small demonstrations, as contemplated in the Wagner health

program, for providing actual medical care for mothers at the time of childbirth, or for providing actual medical care for children. That would have to await the more adequate appropriations contemplated in the Wagner health bill.

But if we could provide the States with just the small additional amount, it would help to lay the foundation for more adequate services at the time when Congress might deem it possible to go forward, and would enable them to meet these urgent needs for preventive services on the basis that they are at present proceeding.

Senator GERRY. Is not what you are doing, then, trying to pass part of the Wagner health bill by putting it into this bill?

Miss LENROOT. Just the minimum part, and, in fact, only a part of what had been proposed and urged last year in the Barkley and Doughton bills, but had been held in abeyance by the organizations interested because they did not want to confuse the issues with reference to the Wagner health bill.

Senator GERRY. Then really this subject ought to be considered as wholly in the Wagner health bill.

Miss LENROOT. It seemed perfectly appropriate in connection with the social security amendments, since the purpose of those amendments, as expressed by the Ways and Means Committee, was to more fully attain the objectives of the Social Security Act and since they do propose a slight change in title V, parts I and II, with reference to the administrative provisions, providing that plans must show proper and efficient administration.

Senator GERRY. The only thing I am thinking about is, if this Wagner health bill is probably going to another committee, that it ought to be taken up there.

Miss LENROOT. The Committee on Education and Labor, a subcommittee of which Senator Murray is chairman.

Senator GERRY. Here we are trying to legislate on matters that another committee has before it.

The CHAIRMAN. This matter originated, though, in the Social Security Act, did it not?

Miss LENROOT. It did, Senator.

Senator LA FOLLETTE. The present program for these additional amounts would only make more complete the work that is already going forward under the Social Security Act.

Miss LENROOT. That is right, Senator La Follette.

I have here some tables that would show the way in which we would propose to allot these additional amounts, that you might like to have filed with the committee.

The CHAIRMAN. They may be filed with the clerk.

(The tables referred to are as follows:)

Distribution of funds for maternal and child health services for fiscal year 1939 and tentative distribution under proposed amendments to title V, pt. 1, of the Social Security Act

State or Territory	Present (fiscal year 1939)			Proposed (tentative distribution)		
	Total, fund A and fund B	Fund A [1]	Fund B [2]	Total, fund A and fund B	Fund A [3]	Fund B [3 4]
Total	$3,800,000.00	$2,820,000.00	$980,000.00	$5,800,000.00	$3,820,000.00	$1,980,000.00
Alabama	105,854.92	70,205.53	35,648.39	149,942.44	97,946.14	51,996.30
Alaska	34,789.28	21,074.85	13,714.43	47,616.52	21,628.22	25,988.30
Arizona	56,752.70	27,071.61	28,781.09	71,365.45	33,276.31	38,089.14
Arkansas	68,468.08	47,994.59	20,473.49	102,624.22	64,578.24	38,045.98
California	103,295.14	90,572.78	12,722.36	170,296.57	139,213.53	31,083.04
Colorado	54,855.72	35,265.91	19,589.81	80,026.81	44,809.26	35,217.55
Connecticut	48,734.96	38,563.96	10,171.00	58,282.80	48,812.14	9,470.66
Delaware	30,764.33	23,275.50	7,488.83	36,190.32	25,509.67	10,680.65
District of Columbia	54,014.06	29,774.72	24,239.36	51,399.29	35,616.54	15,783.75
Florida	76,333.20	43,465.52	32,867.77	95,989.72	57,330.30	38,659.42
Georgia	125,365.10	71,494.36	54,870.74	164,725.64	101,045.72	63,679.92
Hawaii	35,890.41	27,680.13	8,210.28	47,451.76	30,856.10	16,595.65
Idaho	43,480.92	28,538.68	14,942.24	58,020.86	33,118.17	24,902.69
Illinois	123,937.51	113,677.51	10,260.00	175,317.79	165,847.13	9,470.66
Indiana	72,059.42	65,127.10	6,932.32	104,789.78	90,957.54	13,832.24
Iowa	83,900.42	55,673.91	8,226.51	92,940.39	73,268.46	18,771.93
Kansas	68,818.89	45,053.16	23,765.73	78,816.39	57,100.06	21,716.33
Kentucky	101,154.46	66,583.60	34,570.86	119,747.36	91,053.70	28,693.66
Louisiana	98,585.36	56,603.43	41,981.93	129,948.34	78,203.74	51,744.60
Maine	45,690.20	32,779.64	12,910.56	69,312.17	39,288.22	30,023.95
Maryland	62,165.51	42,205.27	19,960.24	72,238.69	55,093.55	17,145.14
Massachusetts	78,650.91	71,532.78	7,118.13	113,497.47	98,104.20	15,393.18
Michigan	104,559.53	93,850.78	10,708.75	150,063.40	135,809.06	14,254.34
Minnesota	69,467.41	59,733.61	9,733.80	99,087.07	80,771.96	18,315.11
Mississippi	96,010.50	61,295.37	34,715.13	137,164.27	85,907.13	51,257.14
Missouri	84,665.42	66,698.86	17,966.56	125,731.00	92,050.64	33,680.36
Montana	51,107.08	28,685.57	22,421.51	58,355.03	32,965.09	25,389.94
Nebraska	51,906.95	39,875.17	12,031.78	69,993.34	48,174.52	21,818.82
Nevada	50,551.60	21,185.10	29,366.50	49,720.00	22,203.85	26,516.15
New Hampshire	36,431.20	26,413.26	10,018.00	44,505.32	29,656.78	14,848.54
New Jersey	78,429.23	64,959.23	13,470.00	98,555.32	89,085.16	9,470.66
New Mexico	72,351.10	30,779.43	41,571.67	79,589.56	37,505.66	42,163.90
New York	172,391.00	172,391.00		267,326.58	254,684.80	12,641.78
North Carolina	114,829.18	83,624.24	31,204.94	172,198.55	120,046.77	52,151.88
North Dakota	43,827.63	31,333.97	12,493.66	61,838.87	35,987.50	25,851.37
Ohio	116,858.62	106,608.71	10,249.91	183,817.46	156,098.00	27,719.46
Oklahoma	89,873.93	54,922.25	34,951.68	104,845.26	72,447.39	32,397.87
Oregon	52,269.98	31,671.38	20,598.60	62,644.51	39,555.17	23,089.34
Pennsylvania	153,118.82	153,118.82		267,415.14	224,050.87	43,364.27
Rhode Island	33,506.94	28,506.94	5,000.00	42,903.99	32,954.96	9,949.03
South Carolina	100,143.34	52,815.15	47,328.19	125,527.00	71,418.84	54,108.16
South Dakota	49,091.89	30,755.04	18,336.85	59,525.26	35,055.20	24,483.06
Tennessee	94,975.53	62,204.23	22,740.50	126,792.17	85,708.50	41,083.67
Texas	146,981.49	113,205.84	33,775.85	267,029.62	166,827.60	100,202.02
Utah	43,700.98	30,482.10	13,218.88	59,983.74	36,053.34	23,925.40
Vermont	38,842.65	25,385.96	13,456.69	46,802.97	28,003.24	18,799.73
Virginia	94,599.73	62,799.50	31,800.23	128,071.79	85,723.70	42,348.09
Washington	51,205.94	39,522.73	11,683.21	73,997.07	51,673.88	22,323.19
West Virginia	68,598.84	54,118.84	14,480.00	100,221.28	73,439.23	26,782.05
Wisconsin	71,142.36	63,940.32	7,202.04	101,323.93	87,739.06	13,584.87
Wyoming	23,969.52	23,969.52		51,246.13	25,731.07	25,515.06
Reserved for allotment for special needs				495,000.00		495,000.00

[1] Uniform apportionment of $20,000 to each State and apportionment of $1,800,000 on basis of ratio of live births in State to total live births.

[2] Allotment according to financial need for assistance in carrying out State plan, after number of live births is taken into consideration.

[3] Uniform apportionment of $20,000 to each State and apportionment of $2,800,000 on basis of ratio of live births in State to total live births.

[4] Subject to modification on basis of States' needs for financial assistance as shown in State plans to be submitted. Conditional distribution of $1,485,000 made as follows: $482,624.73, uniform grant; $334,125.27, sparsity of population; $334,125, excess infant mortality; $334,125, excess maternal mortality.

Distribution of funds for services for crippled children for fiscal year 1939 and tentative distribution under proposed amendments to title V, pt. 2, of the Social Security Act

State or Territory	Total, present (fiscal year 1939)[1]	Proposed (tentative distribution)		
		Total	Fund A[2]	Fund B[2 4]
Total	$2,850,000.00	$3,850,000.00	$2,850,000.00	$1,000,000.00
Alabama	69,313.49	84,878.26	69,313.49	17,112.47
Alaska	20,663.23	20,941.51	20,663.23	388.36
Arizona	35,424.16	37,720.27	35,424.16	2,726.50
Arkansas	45,331.51	55,960.11	45,331.51	12,080.48
California	107,724.93	129,466.17	107,724.93	20,027.46
Colorado	42,715.25	47,659.43	42,715.25	6,323.30
Connecticut	37,753.35	45,202.31	37,753.35	6,070.52
Delaware	22,560.67	23,635.08	22,560.67	1,052.27
District of Columbia	29,156.05	30,899.85	29,156.05	1,755.65
Florida	57,357.14	64,576.94	57,357.14	8,079.88
Georgia	60,299.95	77,209.02	60,299.95	18,691.32
Hawaii	25,017.24	27,122.38	25,017.24	2,937.86
Idaho	25,666.88	28,944.59	25,666.88	3,286.61
Illinois	99,714.05	133,160.50	99,714.05	30,761.81
Indiana	55,313.54	70,130.41	55,313.54	13,684.66
Iowa	57,876.94	69,147.68	57,876.94	12,074.87
Kansas	41,459.22	50,493.09	41,459.22	10,386.04
Kentucky	85,000.00	99,297.24	85,000.00	15,259.24
Louisiana	47,632.12	59,226.02	47,632.12	11,872.33
Maine	32,881.15	36,602.48	32,881.15	4,210.72
Maryland	54,138.56	61,749.15	54,138.56	6,504.59
Massachusetts	74,678.48	93,424.69	74,678.48	15,763.23
Michigan	100,000.00	122,821.23	100,000.00	19,799.02
Minnesota	69,325.05	81,629.27	69,325.05	13,078.67
Mississippi	47,961.78	59,693.99	47,961.78	13,795.55
Missouri	58,864.27	75,170.96	58,864.27	16,952.58
Montana	38,884.22	41,510.58	38,884.22	3,632.93
Nebraska	51,163.92	57,945.98	51,163.92	8,128.37
Nevada	20,865.04	21,227.99	20,865.04	462.17
New Hampshire	24,894.46	26,948.08	24,894.46	1,995.40
New Jersey	72,876.74	91,216.34	72,876.74	16,450.58
New Mexico	30,000.36	32,475.20	30,000.36	2,041.27
New York	147,056.50	200,366.92	147,056.50	47,257.14
North Carolina	96,537.05	116,063.08	96,537.05	20,740.45
North Dakota	29,222.60	33,092.22	29,222.60	4,780.81
Ohio	115,860.80	146,024.96	115,869.80	26,372.23
Oklahoma	77,543.52	90,842.41	77,543.52	14,611.90
Oregon	29,561.22	33,487.75	29,501.23	4,862.01
Pennsylvania	133,604.21	181,270.31	133,604.21	44,117.87
Rhode Island	27,611.59	30,805.26	27,611.59	2,676.65
South Carolina	50,647.13	61,673.05	50,647.13	11,563.75
South Dakota	28,776.08	32,458.35	28,776.08	4,463.66
Tennessee	54,263.92	68,626.19	54,263.92	14,353.85
Texas	99,111.92	130,339.11	99,111.92	34,468.93
Utah	30,000.00	32,918.43	30,000.00	4,072.86
Vermont	23,975.23	25,647.42	23,975.23	1,925.39
Virginia	72,040.08	85,483.47	72,040.08	13,372.21
Washington	52,265.38	59,900.13	52,265.38	7,483.38
West Virginia	53,672.75	63,605.37	53,672.75	9,427.23
Wisconsin	63,447.20	77,480.99	63,447.20	14,029.88
Wyoming	22,647.07	23,757.73	22,647.07	1,351.09
Reserved for allotment for special needs		400,000.00		400,000.00

[1] Uniform apportionment of $20,000 to each State and apportionment of $1,830,000 according to need of each State after taking into consideration number of crippled children in need of services and cost of furnishing services. Distribution made as follows: $1,430,000 on basis of ratio of State population under 21 years to total population under 21 years; $400,000 on basis of need as shown in State plans after taking into consideration number of crippled children in need of services and cost of furnishing such services.

[2] Uniform apportionment of $20,000 to each State and apportionment of $1,830,000 according to need of each State after taking into consideration number of crippled children in need of services and cost of furnishing services. Based on 1939 distribution.

[3] Subject to modification on basis of States' needs for financial assistance as shown in State plans to be submitted.

[4] Amount for distribution according to financial need of each State for assistance in carrying out State plan after taking into consideration number of crippled children in need of services and cost of furnishing services. Includes children crippled from orthopedic conditions, heart disease, and certain other crippling conditions.

Miss LENROOT. You might like to hear Dr. Eliot briefly as to further evidence of need in addition to the statements I made. She made a very exhaustive statement before the Senate Committee on Education and Labor.

Senator VANDENBERG. Have you any table showing where we might find money to pay the bill?

Miss LENROOT. I will leave that to the wisdom of the Congress.

Dr. ELIOT. What is that?

Miss LENROOT. Any table showing where we might find the money, the Senator says.

Senator VANDENBERG. I know that is an irrelevant question.

The CHAIRMAN. You may proceed, Dr. Eliot.

STATEMENT OF DR. MARTHA M. ELIOT, ASSISTANT CHIEF, CHILDREN'S BUREAU, DEPARTMENT OF LABOR

Dr. ELIOT. I might say that there has been great progress, Mr. Chairman, in the development of the programs in the States during the 3½ years that both the maternal- and child-health and crippled children programs have been in operation under the provisions of the Social Security Act, title V, parts 1 and 2. All the States and Territories are cooperating in both of these programs.

The services under the maternal- and child-health programs might be described as two types:

1. The minimum basic services which for many years have been developed, first in cities and later in the rural areas. Under title V of the social-security program, extension in the rural areas has been very definite. It was one of the major purposes of the title, you will remember, to extend these services to the rural areas, and that has been done in all of the States.

The minimum services that have been provided fall into two general types. There are what are known as the child-health conferences and the maternity clinics (the prenatal clinics) and then the second major type of services is the provision of public-health nurses in the rural areas of the States.

These services have been extended under the Social Security Act quite widely.

On January 1 of this year, 1939, there were 1,207 prenatal clinics under the supervision of State health departments in connection with this program; 69 percent of these prenatal clinics have been established in the past 3 years with the funds made available under this program, but I think it should be realized that in spite of this increase only 14 percent of our rural counties have such service today.

There were, on January 1, 1939, 3,700 permanent child health centers in 45 States.

The CHAIRMAN. What do you mean by "child health centers"?

Dr. ELIOT. Child health center is what you would probably describe as a preventive clinic for well babies, a conference organized by a physician, to which mothers may bring their infants and young children for advice with regard to how they may be fed, what to do in case of minor illness, and for recommendations in case of more severe illness, as to whom they should go for care.

These child health conferences have, for many years, been established in our cities. Private voluntary organizations and city health

departments have established these centers for advice for mothers to which they may go with their babies.

Cities have also established these centers for prenatal care, for the care of mothers during pregnancy. Now, the rural areas, until the passage of the Social Security Act, have had relatively few such centers for advice and aid to mothers, but with the Social Security funds the States have developed this program very materially. In fact, as I pointed out, 69 percent of the prenatal conferences in the rural areas have been established under this program, and 60 percent of the child-health conferences in the rural areas have been established under this program. And yet there are still vast areas in the rural sections where conferences of this sort are not yet available. Of 2,451 rural counties only 26 percent are provided with a child-health center.

There is, therefore, urgent need for the development of this particular phase of the program. I think it may interest you that in the State plans for maternal and child-health services now coming into the children's bureau for the fiscal year 1940, the State health officers have expressed specific needs for increased funds to develop this particular program.

We have received, up to date, 32 plans for this coming year; 26 of those plans show a need for funds to provide 9,000 additional prenatal and child-health conferences of this type. The States estimate that those clinics and conferences would cost them approximately $3,300,000.

The second major part of this program is the public-health nursing service. Public-health nurses have increased in number in the rural areas under this program in the last 3 years very materially.

Federal, State, and local funds for maternal and child health are now paying part or all of the salaries of 2,800 public-health nurses in small cities and in rural areas. On January 1, 1939, 1,980 counties had public-health nursing services for mothers and children; 38 percent of these have been established since the social-security program has become effective, but still there are approximately 800 counties in which there is no public-health nursing service for rural mothers and families. Many counties, moreover, need additional public-health nursing service. On January 1, 1939, there was 1 public-health nurse for every 5,000 people in our cities; however, in our rural areas there was only 1 public-health nurse for every 10,000 members of our population. Nurses are, therefore, needed very much more in rural areas than they are in cities, but even in cities the supply of public-health nurses is still far under what is estimated to be adequate for the needs of the people—namely 1 nurse for every 2,000 persons.

In the plans that have been submitted so far this year for the fiscal year 1940, 26 States making specific requests with respect to additional funds have indicated that they need 1,664 additional public-health nurses immediately, and that those nurses would cost approximately $3,500,000 annually.

In addition to these two basic health services for mothers and children, that is, the conferences or clinics, and the public-health nurses, these same 26 States have shown a need for an additional $800,000 for various general maternal and child-health purposes, nutrition, dental services, and so on. In other words, the estimate of these 26 States for additional needs, which should be filled today if it were possible, is about $7,600,000.

Now, in addition to these minimum services, the States during these 3½ years have been carrying out certain special projects, certain special demonstrations, as provided for in the Social Security Act itself, under the conditions of approval set up in section 503 (a) of the act, demonstrations through which the States have been able to establish, in selected areas, services which are more adequate than those which they have been able to provide generally throughout the State.

For instance, 28 States have developed maternity nursing service for women at time of delivery. Prior to the Social Security Act nurses in the largest cities frequently gave service in the homes to mothers at time of delivery, and aid to attending physicians who delivered the mothers in their own homes. Such work was scarcely ever attempted in rural areas prior to the Social Security Act, but today 28 States have established satisfactory demonstrations, proving that this type of service is feasible. Should there be funds to provide it, these services could be provided in all of the rural areas of the country.

Then in addition to these nursing services at time of delivery, a number of States have established demonstrations for complete maternity service, including medical care at time of delivery as well as nursing service at delivery. There are a number of exceedingly interesting demonstrations in this field. Oklahoma, for instance, has established, in a district of 5 counties, a demonstration in which medical service is paid for by the hospitalization is paid for by the welfare department, public-health nurses are provided for deliveries, and follow-up care by nurses through the whole maternity period and care of the infants.

In one county in Iowa—Washington County—there has been a most important demonstration of how adequate maternity care may be given to all mothers in the rural area should funds become available to carry out such a reasonably adequate program. Physicians have been paid for their service, nurses have been provided to care for the mothers, hospitalization has again been taken care of. Michigan has started a demonstration of this sort in one of the counties in the northern peninsula. Louisiana has such a demonstration in one of its most southern counties. Utah has established such a demonstration, where physicians are being paid, as well as adequate nursing service being provided. North Carolina has established such a demonstration, and the plans for this coming year will undoubtedly show a number more, provided there are the funds to take care of it.

Senator DAVIS. You made the statement there about Utah, that the physicians have been paid. Is that from funds provided by the Government or from voluntary subscriptions?

Dr. ELIOT. That is from funds provided by the State, the locality, and the Federal Government combined.

The States also realize that if this service is to be adequate in character, in quality, there must be provided for the local general practitioners in rural areas specialists' consultation services. Twenty-three States during the past 2 years have established, in limited areas, because they have not had the funds to extend beyond the limited areas, specialists' consultation service. They have provided, for instance, in the State of Michigan, two very well trained obstetricians who are advising the general practitioners of certain counties in the

northern part of the State with regard to the type of obstetrical care that is being given to the women in those particular areas.

Some States are doing this on a State-wide basis. That is, as a rule, in the eastern States, where obstetricians are available in the different parts of the State. In many of the Western and Southern States there are vast areas where there is no obstetrician, where, if such service were to be provided, some well-trained obstetrician would have to be persuaded to go to such a State and territory to practice, and probably would have to have a certain portion of his living guaranteed if he is to make a success of his work in the territory.

We know, for instance, certain areas in some of the Western States where a woman must go at least 200 miles to get the advice of an obstetrician if she wishes it. The same, of course, is true in some of the Southern States, though the distances there are not so great.

During this past year, 116 specialists of this sort have been paid by State health departments, to give this type of consultation service. Michigan has such a service; Iowa has such a service; Virginia, Maryland, Utah, and as I said 23 States in all have such a service.

There have been other special projects for the care of infants, special attention being paid to newborn infants. Massachusetts has developed an outstanding project for the care of prematurely born infants, a project that could be carried out in many other States were funds available to make it effective.

The States have realized during the past several years that adequate nutrition is one of the great needs in the care of children. The numbers of malnourished children, the numbers of children who are suffering from deficiency diseases such as pellagra, scurvy, or rickets, in different parts of the country, are very great. Through this program much can be done to educate mothers and to see that mothers buy food which will prevent these deficiency diseases, if the educational program were made available. This is really a fundamental part of the program, and yet only 24 States have been able to develop it, because of the lack of funds.

Dental services, important in the prenatal period—important for the proper care of children—have been grossly inadequate. Dental services, of course, as we all know, are expensive, and corrective services are often very difficult to provide, but at the present time the programs in the States have been limited largely to educational programs. Only 13 States have had sufficient funds to do anything in the correctional field.

Mental hygiene also is greatly limited in these programs. Only seven States have had funds to even begin this program in relation to children.

One of the phases of the program, however, that has been most widely used and has become very popular has been the postgraduate education of rural practitioners in obstetrics and pediatrics. In his testimony before the Committee on Education and Labor, Dr. Fishbein, of the American Medical Association, spoke of this program as being one which has been acceptable and has been widely used. During the past 3 years all States have had courses for general practitioners in small cities and rural areas in the field of maternity care and care of children. In the year 1938 alone 10,000 general practitioners attended these courses throughout the country.

I would like to point out, particularly in connection with this work that has been organized during these last years, that the State agencies have developed a basis of administrative experience and procedure on which they can now plan soundly to expand this growing program if there were more funds for them to use.

I have not gone into a discussion of the maternal mortality rate, the infant mortality rate. As you know, for years there was relatively little decrease in the maternal mortality rate in this country. During the past 2 years, there has been a definite decrease in maternal mortality rate. The infant mortality has been decreasing slightly but consistently through the past 20 years. The provisional rates for the year 1938 have just been issued by the Bureau of the Census and show again a consistent but small decrease in infant mortality during the year 1938. So much for maternal and child health.

The crippled children's program, which was started under the Social Security Act, has progressed steadily during these 3½ years. The number of States to cooperate under this program increased somewhat gradually. In the first year, the fiscal year of 1936, which, as you may remember, consisted only of a 5-month period, 38 States cooperated with the Federal Government in this program. By 1938, 50 States and Territories had submitted and had plans approved, and in this last year, 1939, 48 States and the District of Columbia, Alaska, and Hawaii have all cooperated with the Federal Government.

The activities under this program have increased steadily. The type of service that is rendered is, as you know, primarily a program of medical care for crippled children. Diagnostic services are provided on a State-wide basis. These diagnostic clinics may be either permanent, that is located in hospitals, or they may be itinerant clinics in different parts of the State. The program provides hospital care for crippled children, convalescent care for them when they leave the hospital, and after care in the homes by nurses and social workers.

The Children's Bureau has not defined what a crippled child is. The Children's Bureau has left the definition of a crippled child entirely to the State, so that the State might proceed to broaden its program as the fund and the plan for the program permitted. However, with the limited funds available, most of the States have felt that it has been possible to care only for children who are crippled in an orthopedic sense, that is crippled by defects of muscular development or bone development. Very few States have included in their program children who are crippled from heart disease, and yet many of the States in which this particular condition is prevalent are very anxious that they should include children crippled from heart disease.

Senator RADCLIFFE. I suppose that would include those who are crippled from infantile paralysis?

Dr. ELIOT. Yes, that covers the children crippled from infantile paralysis. Approximately 25 percent of the children included in the program are children who have been crippled from infantile paralysis.

There is an urgent need to extend the program from the orthopedically crippled children to children who are crippled from heart disease, and also to children who are physically handicapped with respect to vision and hearing. Several of the States have requested that they be allowed to use funds for these latter purposes, but because the funds were not adequate to take care of the children who

are orthopedically crippled, the Bureau has felt that it would be unwise for them to spread into this very large field of care of children with visual defects until the other children have been more adequately cared for.

Senator JOHNSON. Do you mean by that statement that there are more State funds available than there are Federal funds on a matching basis?

Dr. ELIOT. In certain States there are more State funds available for matching than there are Federal funds; yes, that is true. Of course, that is not true in all States by any means.

Senator GERRY. Have you got a list of those States?

Dr. ELIOT. I could supply that for the record.

The CHAIRMAN. I wish you would.

(Subsequently Dr. Eliot provided the following list:)

Proportion of annual Federal allotment for services for crippled children matched by States in fiscal year 1939

State	States matching less than 100 percent	States matching 100 percent	States matching more than 100 percent	State	States matching less than 100 percent	States matching 100 percent	States matching more than 100 percent
Total	13	4	30	Mississippi	1		
				Missouri			1
Alabama			1	Montana			1
Alaska	1			Nebraska			1
Arizona			1	Nevada	1		
Arkansas			1	New Hampshire	1		
California	1			New Jersey			1
Colorado			1	New Mexico			1
Connecticut			1	New York	1		
Delaware	1			North Carolina			1
District of Columbia			1	North Dakota			1
Florida	1			Ohio			1
Georgia			1	Oklahoma		1	
Hawaii			1	Oregon			1
Idaho			1	Pennsylvania			1
Illinois			1	Rhode Island	1		
Indiana			1	South Carolina			1
Iowa			1	South Dakota	1		
Kansas			1	Tennessee			1
Kentucky		1		Texas			1
Louisiana [1]				Utah			1
Maine			1	Vermont	1		
Maryland	1			Virginia			1
Massachusets			1	Washington		1	
Michigan		1		West Virginia			1
Minnesota			1	Wisconsin			1
				Wyoming	1		

[1] First plan submitted late in 1939.

The CHAIRMAN. Let me ask you, the law is drawn to take care of the increased type of cases, but the funds are not sufficient to be supplied to the States?

Dr. ELIOT. That is right.

The CHAIRMAN. We do not have to change the law?

Dr. ELIOT. Only increase the authorization. A few States have included these types of children in their programs, but it has been those States that have been better equipped to take care of the other type of children.

I introduced into the hearing on the Wagner national health bill a table showing the number of crippled children on the waiting list of hospitals on May 15 of this year, 1939, and I think it might be of

interest to this committee to have that table submitted in this particular connection. There were 14,500 children on May 15 awaiting hospital care this year, nearly 13,000 of them because of lack of funds to take care of them, 1,200 of them because of lack of beds in which the children could be taken care of in the hospitals. I will submit that for the record.

(The table referred to is as follows:)

Number of crippled children on waiting lists of State agencies as of May 15, 1939

State	Due to lack of funds	Due to lack of beds	Due to other reasons	Total
Alabama	3,189			3,189
Alaska	55			55
Arizona	79			79
Arkansas	255			255
California	199			199
Colorado	60			60
Connecticut			80	80
Delaware		2		2
District of Columbia		17		17
Florida	315			315
Georgia	625	75		700
Hawaii			18	18
Idaho	91			91
Illinois	300			300
Indiana		206		206
Iowa	1,200			1,200
Kansas			100	100
Kentucky	2,000			2,000
Louisiana		200		200
Maine		2		2
Maryland		29		29
Massachusetts		8		8
Michigan	0			0
Minnesota	23	49		72
Mississippi	339			339
Missouri	200			200
Montana			64	64
Nebraska	25	35		60
Nevada	24			24
New Hampshire	20			20
New Jersey	0			0
New Mexico		230		230
New York	2			2
North Carolina	397			397
North Dakota	0			0
Ohio	750			750
Oklahoma		200		200
Oregon			65	65
Pennsylvania	300	100		400
Rhode Island	14			14
South Carolina	259			259
South Dakota	160			160
Tennessee	201	24		225
Texas	822			822
Utah	325			325
Vermont		76		76
Virginia	130			130
Washington	65			65
West Virginia			25	25
Wisconsin	494			494
Wyoming			50	50
Total	12,918	1,253	402	14,573

Dr. ELIOT. In connection with that last point, I would like to say that the figures do not represent the full case load that is awaiting care. The States estimated in June 1938, when submitting the plans for this current year, that there were 160,000 crippled children who were in need of care and who would not be taken care of on the funds available. To take care of the children awaiting hospitalization on May 15 would have cost the States $3,000,000 alone

With respect to the children suffering from heart disease, I would like to introduce into the record the fact that we estimate there are approximately 200,000 of these children between the ages of 5 and 19 with rheumatic heart disease, and possibly as many more again with rheumatism, or chorea, or other conditions which are forerunners of this particular type of disease. The cost of caring for children in hospitals and in convalescent homes is very great, the treatment is prolonged, it is expensive. It is estimated on the other hand, that if care is given to these children that probably 60 percent can be restored to normal existence, if proper care and early care is given.

In 1936, 3,300 children died of heart disease. Rheumatic heart disease in adults is the result, in a very large proportion of cases, of the damage done to them in their childhood. A definite beginning could be made on providing care for this group of crippled children if additional funds were made available at this time. The amount of money that is requested for this program, under this amendment, would just make a beginning on meeting the needs, as you can see, in these fields. The needs of these States are very great. The States themselves continually present us with their problems. We are unable to meet them with the funds that have been made available under the act.

Miss Lenroot asks me to say a word about the need of a B fund for the crippled children's program. In part II of title V of the act, $2,850,000 is made available for the care of crippled children, all of it to be matched by the States. Throughout the 3½ years it has been apparent that if the current needs of States, especially the needs for children having poliomyelitis, are to be met, it is desirable that there be a sum of money available to grant to the States without matching. Just as in the maternal and child health program there is the $980,000 B fund, under the crippled children program a similar fund is needed to be granted to the States for emergency programs for special needs.

For instance, in the State of South Carolina at the present time, there is an epidemic of poliomyelitis, that is infantile paralysis. The problem of how to get increased funds to South Carolina to meet their urgent immediate needs at this time has been very great. South Carolina, by obtaining additional funds from a private foundation, funds which were deposited with the State treasury, made it possible for us to make an additional grant from a reserve fund which we had at the beginning of this month, still remaining in the funds for this year. It would be greatly to the advantage of the States if there were an additional fund, a B fund for crippled children, and it is for this reason that the request for additions to the crippled children's program has been put in this particular form at this time.

Senator RADCLIFFE. It is my understanding that the amount raised each year from these birthday balls for infantile paralysis amounts to about a million or a million and a quarter. I have been connected with it for the last 6 years. I suppose that fund is very helpful. That is used, of course, for that very purpose in connection with infantile paralysis. I have always been under the impression that with very little effort that amount could be increased very greatly, I mean through private contributions and through private activity. Instead of raising a million dollars you could raise three or four million dollars each year. This year they raised about a million and a half. I assume that fund is of considerable help in carrying out some of the purposes which you have outlined.

Dr. ELIOT. Some of the States have used certain amounts from that fund for the purposes of the program as outlined in the Social Security Act. The foundation, however, has allotted considerable portions of that fund for research in that field, as you know.

Senator RADCLIFFE. Yes; I know.

Dr. ELIOT. The largest amount of that fund has gone for research, a small amount for actual services of the type of work contemplated under the Social Security Act. It was, however, from that fund that South Carolina received a grant this last month, and we were able to match it from Federal funds, and so South Carolina has now been able to add to its program, I think it is six orthopedic nurses, the services of orthopedic surgeons, and hospital care for these children with infantile paralysis.

The CHAIRMAN. Are there any other funds that could be used for this purpose, such as the Rockefeller Foundation, something like that?

Senator RADCLIFFE. Yes; there is a fund in New York. I was a little bit active in trying to get an appropriation a few years ago. I think at that time there were about 12 or 15 of the leading medical schools in the country which were doing that sort of research work. I have been keeping fairly close in touch with it since then. A few years ago there was not any money available from that foundation, but we got some from other foundations in New York.

The CHAIRMAN. Can you put into the record these foundation funds where part of it or all of it is being used for any of this service that you have been talking about?

Miss LENROOT. I have here, Mr. Chairman, a table showing the funds available for services for crippled children under the program, and in some instances funds expended outside the program, showing whether they are State or State and local. The symbol "S" means State, the symbol "L" means local. There are only a few States that are using private funds, and I think none from a national foundation except in the case of funds from the Infantile Paralysis Foundation. Isn't that right, Dr. Eliot?

Dr. ELIOT. That is right.

Miss LENROOT. There are some local funds used in various ways, such as those by societies for crippled children, but I think no national foundation fund except from the infantile paralysis foundation is used. I will submit this in a little better form for the record in a day or so.

(Subsequently Miss Lenroot submitted the following table:)

States which included in State plans for services for crippled children (fiscal year 1939) private funds for matching purposes

State	Source of private funds		State	Source of private funds	
	National organizations	Other sources [1]		National organizations	Other sources [1]
Alabama		1	North Dakota		1
Alaska		1	Rhode Island		1
Mississippi		1	South Carolina	[2] 1	
North Carolina		1	Vermont		1

[1] Other sources include local societies for crippled children, local funds from the President's Birthday Ball, special donors.

[2] National Foundation for Infantile Paralysis.

The CHAIRMAN. Thank you very much. Senator Murray, are you suggesting these amendments?

Senator MURRAY. Yes.

The CHAIRMAN. Page 52, line 15, section 501. Insert before clause (3) the following: Section 501 is amended by striking out "$3,800,000" and inserting in lieu thereof "$5,800,000."

So you are asking for a $2,000,000 increase in that item, are you?

Miss LENROOT. Yes, Mr. Chairman.

The CHAIRMAN. Clause (a) of section 502 is amended by striking out "$1,800,000" and inserting in lieu thereof "$2,800,000." That carries the increased authorization.

Subsection (b) of section 502, that is the one that the States——

Miss LENROOT (interposing). Do not have to match.

The CHAIRMAN. Do not have to match?

Miss LENROOT. That is right.

The CHAIRMAN. Subsection (b) of section 502 is amended by striking out "$980,000" and inserting in lieu thereof "$1,980,000." That is an increase of $1,000,000. That is the program, is it not?

Miss LENROOT. That is for part I. Then we have an additional $1,000,000 that has been suggested for part II, which is for crippled children.

The CHAIRMAN. Subsection (a), what part of that, Senator Murray, does your amendment include?

Senator MURRAY. That is for B funds, in title V, part II. The entire amount authorized in title V, part II, must be matched by the State funds in the amount of one-half Federal and one-half State. It is proposed to add a new subsection 512 (b) to authorize the fund of $1,000,000 to be available for allotment on the basis of the financial need for each State for assistance in carrying out its State plan, thus putting the services to crippled children on the same basis as the maternal and child-health services.

The CHAIRMAN. I think that ought to be placed in the record with these other suggestions, because that is not in this list, as I see it. So we can insert that in connection with this in the record, together with these additional suggestions that you make.

(The suggested amendments are as follows:)

On page 52, between lines 14 and 15, insert the following:

"SEC. 501. Section 501 of such Act is amended by striking out '$3,800,000' and inserting in lieu thereof '$5,800,000'.

"SEC. 502. (a) Subsection (a) of section 502 of such Act is amended by striking out '$1,800,000' and inserting in lieu thereof '$2,800,000'.

"(b) Subsection (b) of such section 502 is amended by striking out '$980,000' and inserting in lieu thereof '$1,980,000'."

On page 52, line 15, strike out "SEC. 501" and in lieu thereof insert "SEC. 503".

On page 52, between lines 19 and 20, insert the following:

"SEC. 504. Section 511 of such Act is amended by striking out '$2,850,000' and inserting in lieu thereof '$3,850,000'.

"SEC. 505. (a) Subsection (a) of section 512 of such Act is amended by striking out the words 'the remainder' and inserting in lieu thereof '$1,830,000'.

"(b) Such section is further amended by inserting after subsection (a) the following new subsection:

"'(b) Out of the sums appropriated pursuant to section 511 for each fiscal year the Secretary of Labor shall allot to the States $1,000,000 (in addition to the allotments made under subsection (a)), according to the financial need of each State for assistance in carrying out its State plan, as determined by him after taking into consideration the number of crippled children in such State in need of the services referred to in section 511 and the cost of furnishing such services to them.'

"(c) Subsection (b) of such section 512 is amended by striking out the letter '(b)' at the beginning thereof and inserting in lieu thereof the letter '(c)'."

On page 52, line 20, strike out "SEC. 502" and insert "SEC. 505".

On page 52, after line 24, insert the following:

"SEC. 506. (a) Subsection (a) of section 514 of such Act is amended by striking out 'section 512' and inserting in lieu thereof 'section 512 (a)'.

"(b) Such section 514 is further amended by inserting at the end thereof the following new subsection:

" '(c) The Secretary of Labor shall from time to time certify to the Secretary of the Treasury the amounts to be paid to the States from the allotment available under section 512 (b), and the Secretary of the Treasury shall, through the Division of Disbursement of the Treasury Department and prior to audit or settlement by the General Accounting Office, make payments of such amounts from such allotments at the time or times specified by the Secretary of Labor.' "

On page 53, line 1, strike out "SEC. 503" and insert "SEC. 507".

The CHAIRMAN. Is there anything else you wish to submit?

Miss LENROOT. I think not, Mr. Chairman.

The CHAIRMAN. Thank you very much.

The committee will meet Thursday morning at 10 o'clock.

(Whereupon, at 11:05 a. m. the committee recessed until Thursday, June 29, 1939, at 10 a. m.).

SOCIAL SECURITY ACT AMENDMENTS

THURSDAY, JUNE 29, 1939

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

The committee met in executive session, pursuant to recess, at 10 a. m., in Room 312, Senate Office Building, Senator Pat Harrison (chairman) presiding.

The CHAIRMAN. The committee will come to order. I requested Congressman McCormack to appear here in regard to this important amendment that is in the bill, not only for our edification but for the record to make a statement about his proposal and to give us an explanation of it.

STATEMENT OF HON. JOHN W. McCORMACK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS

Mr. MCCORMACK. Mr. Chairman, and members of the committee: I am going to confine myself strictly to the State plan and the merit system, because I assume that is the main thing that concerns the committee, so far as my appearance is concerned.

The State plan—and I use the term "State plan" as distinguished from the merit plan, the merit plan being in the present law, using that for descriptive purposes to distinguish between the two—the State plan is a State merit plan as distinguished from the individual merit plans provided for by existing law. The merit plan in the present law resulted from or came about in the Federal law in consequence of the agitation in Wisconsin between 1921 and 1932 in relation to unemployment-compensation insurance, which led to the employer-reserve principle in the law of that State.

The provision for a merit plan was not in the original House bill as reported by the Committee on Ways and Means when it passed the House in 1935. Naturally when it came to the Senate, the experience and the efforts of the State of Wisconsin, as I remember it, was not advanced very much before the House, but was advanced before the Senate and the Senate adopted the amendment. We remember there was considerable controversy at that time. I remember the Clark amendment was involved. The Senate adopted an amendment which was substantially agreed to in conference and which resulted in the existing law with reference to the individual merit plan.

The purpose of it was, in general, where experience rating with reference to employment showed a stabilization of employment that a State might pass a plan to give to such employers a lower pay-roll tax than imposed upon other types of employers. In any event,

there was a very broad field left for States, in which States might experiment along the lines of merit systems, and the States have experimented along such lines.

Now it is not my purpose to discuss the weakness of the present merit system from an administrative angle, or to discuss it from the angle of the long and involved paper work that might be connected therewith, or to discuss it from the angle of its complicated formulas necessary to determine employment experience for tax classification, and also connected with the rights of the employee, whether the employee is capable of reasonably determining his rights; or to discuss whether it can be used as an inducement to stagger employment in order to maintain a good employment experience record to obtain a lower pay-roll tax, which it clearly can do, coming under the head of avoidance, not evasion—avoidance, of course, being to legally obtain a lower tax, pay-roll or otherwise, and evasion, of course, usually involves fraud—I will not go into that, because experience in the future will show what, if anything, would have to be done along these lines, but there is one fundamental weakness in the present merit system that, I believe, for the interest of the Federal Government, the interest of the State Government, and for the interest of employer and employee should be corrected, and the State plan is a step in that direction and the 2.7 average is the completion of it in relation to the merit system.

Now at the outset I want frankly to admit that the 2.7 average, in my opinion, is too great a burden to apply to the merit system. I do not think it is necessary. Mark you, what I say is simply offered for whatever value it might be to you gentlemen, and I hope it will prove to be of some assistance. I have given this matter as profound a study, in the limited period of time I have had, together with other matters that have come under my consideration, as I am capable of doing.

The 2.7 was put in to meet a weakness, but in turn it went too far. It creates, in turn, that very weakness, so far as the merit system is concerned, that the State merit plan, the fund of one and a half times, is designed to meet. I am trying to make that just as plain and as simple as I can.

Under the present merit system a State can have a pooled fund, a guaranteed employment account, or a reserve account, and three States have that. Michigan has a partially pooled fund, the general purpose of which is to give certain employers that stabilize employment a lower pay-roll tax than others. That is commendable, but, on the other hand, that character of fund has its weakness, because it disregards the fact that the strong must do something for the weak. It disregards the fact that if you give all employers that stabilize employment that lower pay-roll tax, that all you would have is a system of bad risks. Now if you lower the pay-roll tax somebody else must pay a higher rate somewhere along the line, and if you had a State system that eliminated all employers that have stabilized employment then you have just got a system of bad risks and you are not going to have a fund ultimately to pay the benefit demands that are made. Therefore it is to the benefit of certain legislatures and of employers that that situation should not exist, on the part of the Federal Government and the State because if it does exist, as I see it, looking into the future, there will be a break down of the

system in some one of the States, and just as soon as there is a breakdown whether in the State of Wisconsin, or one of the States, there is going to be a demand for the nationalization of the law, that is, for a national law, because unemployment compensation is here to stay, whether it is going to be a Federal-State program or not, and if the Federal-State program breaks down it is going to be a Federal program, because American public opinion generally and strongly, in a great measure, supports this character of legislation.

I absolutely subscribe to the Federal-State program, I am not so much concerned with the details but the objective of my plan, something being done to strengthen the present merit system, is designed to protect the present Federal-State relationship and at the same time to give to employers in those States, where an adequate fund exists, to meet reasonable future demands, a lower pay-roll tax through preventing the surpluses from piling up.

Now it is also my opinion—I may be wrong—that if these surpluses continue piling up in certain States exceeding the benefit payments, that there is going to be a demand from the weaker States that the stronger States contribute, to help strengthen their funds, and that demand will probably evidence itself, in the first instance, through a partial nationally pooled fund, taking from the financially strong States to pay into a national pool to a certain extent to distribute among the other States. Just as soon as that happens—maybe I am wrong—it will be the beginning of the breakdown of the Federal-State program, and it will be only a matter of time before the demand will be made, that we have a completely national unemployment compensation law.

So the plan that I propose, and which the Ways and Means Committee accepted, is designed to help the employer, but not at the expense of the employee.

Now, as I see it, the 2.7 pay-roll tax which the State receives is unnecessary if in a State—and there are 35 to 40 of them where this condition exists—the tax receipts are exceeding the benefit payments. The unemployment trust fund in those States is simply piling up and piling up.

Furthermore, an unemployment-compensation fund having a reasonable reserve fund to meet future contingencies should distribute the money, because one of its purposes is to keep purchasing power maintained and to distribute it to the worker who is unemployed, through an alleviation of the distressing economic conditions that he encounters when he loses his employment. Now that is just a brief outline of my frame of mind as an approach to the subject, State merit plan.

I say this because I notice in Mr. Mahoney's testimony, and one or two others I have read, a sort of a criticism that it is trying to do a job on the employers. I say it is a million miles wrong, the whole objective is truly intended the other way. It may be the opinion of others the whole thing is wrong, but certainly the state of mind which prompted it is just the opposite to what they, not directly but indirectly, tried to convey to the committee. I have the highest respect for Mr. Mahoney. I have conferred with him on a number of occasions. He knows my state of mind, and he knew it before I appeared before the committee. He knew that I believed that the 2.7 average could be substituted, so far as a merit system is concerned, by a similar

one of one and a half times the highest benefit payments, or the highest contributions in any year, whichever is the greater, the same as provided in the State plan. He knew that was my frame of mind, because I frankly told him so, recognizing that in trying to meet the weaknesses, unconsciously we may have gone too far.

On the other hand, the weakness is there and it should be met, because if a State puts into operation a merit plan that, in effect, results in the fund being dissipated, then you are going to have a break-down in the State with the result it will become contagious. The employers in that State are going to get lower pay-roll taxes by reason of local conditions, and the employers in the adjoining States will have to compete with the employers who have a lower pay-roll tax. If one State breaks down it is going to present a very serious problem to all of us who are concerned with the maintenance of the Federal-State unemployment-compensation program.

Now what prompted my recommendation? I suppose that is what might interest you. I saw reserves developing in 35 or 40 States. Massachusetts and some other States who had had benefit-payment experience had taken more in last year by far than they had paid last year. 1937–38 is probably a pretty good test on the payment of benefits, so far as the State is concerned, and I believed those circumstances warranted employers should be given consideration by a lower pay-roll tax, but under our now law no State can give a general reduction. It has got to be a merit plan, and there has got to be 3 years' benefit experience before a State can give a penny reduction to its employers under the present Federal law, even if a State fund has tremendous reserves. Some of the States here cannot give a lower reduction in the pay-roll tax even when they get plenty of reserves in 1942, because they haven't had the 3 years in the payment of benefits.

Therefore, I reasoned that in addition to the present merit system if we could devise a scheme that went into immediate operation where, in any States where they had an adequate reserve to protect the fund a lower pay-roll tax could be imposed applicable to all, that it would be a desirable thing to do. It would in no way interfere with the merit plan. The individual merit plan could exist in States and the State merit plan that I propose could also exist without conflicting with one another.

Now I have analyzed the evidence, and there is justification in the criticism made before the committee that the 2.7 average being applied to the present merit system will defeat the very purpose of the merit system. That was never intended, but I recognize the logic of that argument. However, they only discuss the weaknesses of this proposal of the 2.7 average, they do not discuss the weaknesses of the present law.

Mr. Mahoney in his testimony—and I like and admire him—and I introduced the bill in which he was interested to confine pay-roll tax on unemployment compensation to the first $3,000 of salary because it was the thing I thought should be done, I made the motion to freeze the pay-roll taxes on the contributory annuities, and I refer to that because certainly no one who is in business can for an instant indicate that I do not try to have a profound regard for the problems of business, and we all should have that regard. But in his testimony he said that the Social Security Act provided for two underlying principles of an unemployment-compensation system, (a) prevention and (b) alleviation.

However, my conception of an unemployment-compensation law is not the same as his. The two underlying principles as I understand the law are (1) protection, protection of the fund; and (2) prevention, prevention of unemployment. Under "prevention" comes alleviation. That is an element of prevention. The one main thing in unemployment compensation trust accumulations is to protect the fund. He starts out with one of the two fundamental premises, or underlying principles, but the important one he fails to state in his testimony, and what is the good of prevention if we haven't got a fund to alleviate, if conditions exist which require alleviation? Therefor the solvency of the fund is the first consideration we must protect, and then follows the consideration of the prevention of unemployment.

My amendment was one and one-half times the benefit payments, the plan I proposed. The original plan was one and one-half times the contributions, but some of the members of the Ways and Means Committee thought that the fund should also be one and one-half times the benefit payments, whichever was the highest, because some States have had higher benefit payments than tax contributions. That was a compromise. That was designed for the purpose of protecting the fund, so that the fund will not be dissipated.

With the protection of the fund I then approach the consideration of a lower pay-roll tax for the employer in those States where that fund can be established. That is logical. We give, first, protection, and then we give the prevention. That doesn't interfere with the protection, it strengthens it, if anything. Then we give to the employers in the States which have the fund of one and one-half times either tax contributions or benefit payments the right of a lower pay-roll tax. We do not tell the States how much they can lower it, they can make it nothing, if they want to. Once it establishes the reserve fund of one and one-half times the highest tax payments, or the highest benefit payments, that State can lower its pay-roll tax to all employers, and it goes for a year. If the fund goes below one and one-half times contributions must again be collected until that fund of one and one-half times is replenished. That is the reasonable thing to do.

Now as to this criticism about the standards required. The testimony I have seen would try to indicate that those are basic standards to the act itself. Well, they are not. These are standards for the guidance of State plans. Why should there be a lower pay-roll tax? I have asked this question of myself. Should I vote to give a lower pay-roll tax if it is at the expense of the employee? That is a very pertinent question. I do not say that States will do it, I do not say that employers will do it deliberately, but I am practical enough to know they are liable to try and bring it about at the expense of the employee through hard eligibility requirements, or through a limited number of weekly benefit payments. My plan does not change the law, except that if a lower pay-roll tax is granted, under the plan that I propose, in all justice to the employee and to the employer, the fair employer—and most employers are fair, 95 percent of them want to do what they ought to do, but a few of them, the other 5 or 10 percent, affect the whole of them—in all justice to them there ought to be at least minimum standards below which the State plan cannot go, because they are getting a special consideration, they are getting a lower tax than the 2.7 provided by law, and in order to do that we

certainly should not have it done at the expense of the employees. Nobody has to attack or impugn the motives of anyone. Certainly it is a safe precaution, it is good caution, good judgment, as I see it, to at least put minimum standards in there. I recognize the fact that the minimum standards should not be too high to defeat the very purpose that we have in mind.

Now, what are the minimum standards of the State plan? Sixteen weeks of benefits. Who can complain at that? I don't care if it is 14 weeks. I am concerned, first, with the protection of the fund, and, second, getting to the employer as low a pay-roll tax as possible. We all want that, but certainly we do not want to have it done at the expense of the employee through small payments. Now, whether it is 14 or 16 weeks, whether it is 12 weeks—and I do not think any State has 12-week payments. I think the lowest is 13 weeks, and most States have over 16 weeks, so that the great majority of them are paying from 16 weeks up now, so that not many will be affected who can oppose 16 weeks' benefit payments, or 33⅓ percent, whichever is the lesser. Who can oppose part-time payments? That doesn't mean that everybody gets 16 weeks; of course it doesn't. If they only work part time they get their proportionate payments. Who can oppose minimum payments of $5 a week? There are only four requirements in there that we say a State cannot go below, and these requirements are to the State plan itself, not to the act itself.

Now, so that my state of mind might be understood, I think that business is making a serious mistake if they oppose the objective of this plan. I have told Mr. Mahoney and all who have talked with me on this subject, that there might be differences of opinion as to the standards, and whether there should be any or not. I want to see the fund protected for the employees and the employer given an opportunity to get a lower pay-roll tax than to see nothing done. We can rely upon public opinion existing in each State to control the legislature, so that the legislature would not respond to pressure groups to bring about such low payments or severe eligibility requirements for one to be eligible for payments as to practically defeat the main purpose of the unemployment compensation law, to have a fund sufficiently large to meet benefit payments as the conditions arise, and which requires alleviation when men and women are unemployed who are covered by the law.

The 2.7 could be stricken out and my plan could stay in. The 2.7 relates to the present merit provisions of the law, but if you do that, gentlemen, I respectfully submit that you are permitting the inherent weakness to exist in the law itself. It would be unwise to do that. The 2.7 average required is unnecessary.

If the fund of one and one-half times is required before the merit system can go into operation I would suggest, of course, that that not go into operation until 1941, so far as the present merit law is concerned because some States have already started into operation and they should be given an opportunity—I don't care whether it is 1941 or 1942—to change their law, and they should not be compelled to suspend the operation of their law, under existing provisions of the Federal law, in an arbitrary manner by such a proposal which tells them they cannot continue between now and a reasonable opportunity for their legislature to meet to change their law to conform to the present merit system with some kind of a provision for a reserve fund.

The Interorganization Council of Indiana are all fine men, but they represent the employers. I am not saying that to impugn their motives. I just refer to the fact that they represent the employers. Here I try to look at it from the angle of the employer and employee, the Federal Government and State government, as you gentlemen do—they do not directly oppose my proposal, they simply say it is doubtful whether there has been enough experience to consider it at the present time. Well, if we do not consider something else most of the States of the Union will not be able to have a lower pay-roll tax for at least 2 years, when they have got an adequate fund that would justify a lowering of their pay-roll tax to all of their employers.

Let me give an illustration of the State plan that I propose, if it goes into operation. Under the Federal law the Federal Government receives three-tenths of 1 percent; 2.7 is paid to the State. The Federal Government allows 90 percent credit where there is an approved State law. Suppose there is a fund of one and one-half times under the plan that I propose; suppose the State administrators of the unemployment compensation law said, "Well, we could lower this to 2 percent and still maintain this fund of one and one-half times" or suppose they said 1½ to 2 percent; they could do it under my plan at once although under the merit plan they might not be able to do it for 1 or 2 years, because they haven't had 3 years' experience rating, yet when they have had the 3 years' experience rating they could still have their merit plan, and then if they should make an over-all reduction to 2 percent, under my plan, the merit plan could in turn operate with my plan, and absolutely no objection to it.

Let me talk about employment. A man who has money to invest goes into business, he is in the front-line trenches with his money invested, and I am not too critical of him, because he is out there trying to keep our system going. He may make a lot of mistakes, and who does not, but I will not be too critical of that businessman, because I do not know what I would do myself if I was in his position. It is to his interest to see that this plan does not break down; it is to his interest to see that nothing occurs that is likely, in the reasonable future, to bring about a national unemployment compensation law. I think it would be unwise, unworkable, and would result in great hardship. If these reserves are permitted to grow certainly we are laying the foundation where, as the result of that, a demand might be made for a national unemployment system, and if any one of the State systems break down under the merit system certainly that is going to be a powerful piece of evidence for those who want a national unemployment system as distinguished from a Federal-State program, to urge the break-down of the State system as a reason why we should establish a national system.

The plan that I propose, in substance, gentlemen of the committee, is to prevent that very situation from arising, and at the same time protect the fund, because that is the important thing. If that fund breaks down then you know what is going to result. Protect the fund, but at the same time, when the fund is protected, give the employers in the State a lower pay-roll tax.

The weakness of the other merit system is the fact that there is no adequate protection of the fund. We leave it to the States. Maybe the States will take care of it and maybe they will not. I am not impugning the States. I am a States' rights man, although it is

hard to define that under the complicated conditions of today. We should leave it completely to the States.

There ought to be certainly, before the lower pay roll tax goes into effect either under a merit system, or under a State plan merit system, there ought to be some provision for the fund to be protected. That is my whole objective. Give to the employer a lower pay-roll tax where you can, but at the same time protect the fund.

Now one more observation and I am through. I do not know that I have contributed anything. I am just talking extemporaneously, giving my views as I consider the matter, because I consider it important. The argument is made about a lower pay-roll tax, yes; but when you and I go into business we are lucky in the kind of business we choose. What about the public utilities that we give a monopoly to by law? Should not they contribute something to the weak? Should they be left out completely from paying an unemployment tax? I am not saying where there is a merit system they should pay the full rate. They come in and say, "We stabilize our employment." While the management has something to do with it, it is a minor thing, as I view it. It is the luck of a person going into a particular field of industry. The man who is a construction man, he might be the best executive in the world, but his employment is more or less seasonal. Take somebody going into the banking business, insurance business, there are certain forms of business where employment is more stabilized than in others. Are we going to leave them completely out of a payment, or pay a little insignificant amount? If we do, to protect the fund, somebody else is going to pay to keep the fund well up. There is the common sense of it, as I see it.

While I believe in a merit system, and I believe we should leave it to a State, nevertheless I believe that it is the duty of the Federal Government to see that at least before there is a lower pay-roll tax the State has an adequate fund to protect the fund.

Senator DAVIS. I would just like to ask a question, Mr. McCormack.

Mr. MCCORMACK. I have completed, Senator.

Senator DAVIS. You referred to the public utilities. At the moment my mind isn't just quite clear as to whether or not an electric light or a waterworks plant that is owned by a city is exempt. Are those plants exempt?

Mr. MCCORMACK. They are, because they are public employees.

Senator DAVIS. I thought so.

Mr. MCCORMACK. Yes.

Senator DAVIS. I wanted to get it clear in my mind.

Mr. MCCORMACK. Yes; when I picked out public utilities I wasn't picking them out in any sinister sense. I just used them as an illustration.

Senator DAVIS. Privately owned public utilities come under the unemployment compensation, but the municipally owned public utilities do not?

Mr. MCCORMACK. That is right.

Senator WALSH. I haven't heard the testimony. Is it along the line you discussed with me the other day?

Mr. MCCORMACK. Yes; Senator Walsh.

Senator WALSH. I think I have your point of view.

Mr. MCCORMACK. I have just this thought. As to these minimum standards, we have got to compromise. While I personally would not

approve of it, if they are eliminated and the State fund, one and one-half times, on the merit system, is put in to protect the fund, in my opinion it would represent very substantial progress. It would protect the fund and it would also enable the employers to get a lower pay-roll tax. So I want to give my view as to my approach on this, and also for whatever value it might be worth to say so far as I am concerned I think the important thing is to protect the fund, and the one and one-half times, if applied to both, will protect the fund, and then in the future, if necessary, we can take care of the other details, as we have experience.

Senator WALSH. Was this put in on the floor or in the committee meeting?

Mr. MCCORMACK. This was put in in the committee. It was first called to my attention by a gentleman from Massachusetts, Mr. Parkinson, if I remember rightly, who is a very fine businessman, very much interested in unemployment compensation. I asked a number of questions of Mr. Altmeyer, I was particularly anxious to find out if they intended to have a national pooled fund, and then later the Massachusetts Unemployment Compensation Commission proposed something along those lines, and then this was put in. I want to say that the Massachusetts Unemployment Compensation Commission, while they approve the objectives, think the standards are a little too high. I want to frankly state their position. I think there is some logic to that. While I may disagree, I can see their logic, I can see their side, but it would be unwise for them not to have something in there to protect the fund.

This one and one-half times the tax benefit payments is nothing unreasonable. Not one will deny that.

So far as the standards are concerned, I think in order to get a lower pay-roll tax there ought to be some minimum standards. If there is difficulty in that respect, the important thing, as I see it, is to protect the fund. And furthermore, the employers in those States who have not had 3 years' experience in benefit payments, but who have a fund, either one and one-half times or more, or rapidly approaching it—and there are 35 or 40 States in that situation—they cannot get a lower pay-roll tax except through the method I have suggested until they have had a 3-years' experience rating.

The CHAIRMAN. If you desire to elaborate on your remarks you may do it within the next day or two, because this is one of the major questions before us.

Mr. MCCORMACK. All right.

The CHAIRMAN. It is a question about which there is a lot of difference of opinion.

Mr. MCCORMACK. I recognize that fact. The thing that interests me is the protection of the fund and giving to the employers a lower pay-roll tax. If that is kept in mind, certainly no one will want to give them a lower pay-roll tax without the fund being protected. One and one-half times is a reasonable protection. You have got to start out with protection before you can give a lower pay-roll tax, and that fund is protection. Forty-eight States and three Territories within the next 6 months could get the benefit of this State plan if it is incorporated in the bill.

There is one more suggestion that I want to make in connection with the State plan that I have proposed and which is in the House

bill. If a State raises the necessary fund and a lower pay-roll tax is imposed, as it can, it should not be imposed upon the employees. Under such conditions the lowered pay-roll tax should be wholly paid by the employers. In other words, no employee contribution shall be required or exacted for the purpose of enabling a State to reduce or to maintain a reduced rate of employer contributions from the rate normally required by a State law. If the Senate keeps the State plan in the bill in its present form or in amended form, as I urge this committee do, I suggest and strongly urge that an amendment to this effect be inserted therein.

The CHAIRMAN. Much obliged.

Mr. MCCORMACK. Thank you.

The CHAIRMAN. Dr. Parran. Doctor, Senator George has an amendment that he desires you to discuss before the committee.

Senator GEORGE. Doctor, with reference to this proposal for an increase in public-health funds from $8,000,000 to $12,000,000 a year, we will be glad to have you make such statements to the committee as you wish to make regarding that amendment.

(The amendment proposed by Senator George is as follows:)

[H. R. 6635, 76th Cong., 1st sess.]

AMENDMENT Intended to be proposed by Mr. George to the bill (H. R. 6635) to amend the Social Security Act, and for other purposes, viz: On page 53, after line 3, insert the following:

TITLE V (A)—AMENDMENTS TO TITLE VI OF THE SOCIAL SECURITY ACT

SEC. 510. Section 601 of such Act is hereby amended to read as follows:

"For the purpose of assisting States, counties, health districts, and other political subdivisions of the States in establishing and maintaining adequate public health services, including the training of personnel for State and local health work, there is hereby authorized to be appropriated for each fiscal year, beginning with the fiscal year ending June 30, 1940, the sum of $12,000,000 to be used as hereinafter provided."

STATEMENT OF DR. THOMAS PARRAN, SURGEON GENERAL, PUBLIC HEALTH SERVICE, TREASURY DEPARTMENT

Dr. PARRAN. Mr. Chairman I am very glad to be here in response to your request. Since the specific amendment has not yet been passed upon by the Budget Bureau I am not informed as to whether or not it is in accord with the fiscal program of the President. I do not appear here, therefore, in support of the amendment, but with your permission I should like to discuss the professional considerations in reference to the operation of the present title VI and the additional needs which have been shown.

Senator GEORGE. Yes, sir.

Dr. PARRAN. The passage of the Social Security Act marked the recognition of two important principles in our national social policy: first, that the Federal Government is jointly responsible with the States for relief of the end results of social and economic disorganization; second, that this joint responsibility extends beyond relief, to prevention of these end results.

The public health titles of the act represent an approach to a national health program—a balanced, comprehensive plan of preventive and medical services which must be our ultimate goal. The health

provisions of the present act represent the first step toward the achievement of this objective. They seek to reduce drastically the volume of sickness and premature death by making available to all areas and all groups of the population in need of service the proven methods of prevention against the major causes of sickness and death. Accomplishments under the act have failed to realize the full potentialities of these services because of the limited funds available.

Finally, the public-health titles of the act are notable as a demonstration of the successful application of the grant-in-aid system to the field of health. In that connection, I think it fair to say that there seem to me to be more determining reasons for Federal assistance to the States in public health than in any other field of social endeavor. In matters concerned with the control of disease, the individuals of a community are interdependent. But the community of today is not the city, or the State; it is Nation-wide—a community of 48 States. Improved methods of transportation have intensified the means of disease spread, a recent example being the exposure of a number of people to smallpox in Syracuse, N. Y., a few weeks ago, which has spread to a dozen States. Interstate migration of the unemployed has created special health problems. Since 1933, several hundred thousand migratory laborers have entered California and other States in the West, and many are sick with communicable diseases. The State health commissioners of a number of western States have emphasized the impossibility of having a State itself take care of this added health hazard. Also in testimony in another committee of the Congress last year the mayor of New York City has pointed out that thousands of sick people, too ill to labor in the cotton or wheat fields because of the ravages of tuberculosis, come to New York in search of work or medical care.

In spite of the relatively small sums made available under the terms of the act, undoubtedly a greater advance has been made in public health in the United States in the past 3 years than ever before within a comparable period. Under title VI of the act, the major development has occurred in the expansion of the basic services designed to prevent illness—the control of acute communicable diseases, public-health nursing, sanitary control of water and milk supplies, the registration of vital statistics, laboratory services, and all of these activities are carried out through local departments of health with trained personnel.

The CHAIRMAN. What is the authorization under this bill?

Dr. PARRAN. $8,000,000.

The CHAIRMAN. This amendment seeks $4,000,000 additional?

Senator GEORGE. It seeks $4,000,000 additional for all the States.

The CHAIRMAN. Do the States have to contribute?

Dr. PARRAN. Under the present provisions of title VI there is no definite requirement as to the extent of State contribution. However, we have been very gratified to see the extent to which they have put up their own money. During the current fiscal year, for example, there has been budgeted for public-health work under title VI a total of State and local funds of $44,861,000.

The CHAIRMAN. Can you put that table into the record?

Dr. PARRAN. I shall be very glad to.

(The table referred to is as follows:)

State and local funds available for public health work Jan. 1, 1935, and Jan. 1, 1939

State	Total State and local funds Jan. 1, 1935 [1]	Total State and local funds Jan. 1, 1939 [1]	Increase	State	Total State and local funds Jan. 1, 1935 [1]	Total State and local funds Jan. 1, 1939 [1]	Increase
Alabama	$739,466	$1,043,444	$303,978	Montana	$85,110	$128,379	$43,269
Alaska	14,483	62,589	48,106	Nebraska	18,600	53,300	34,700
Arizona	82,971	122,069	39,098	Nevada	18,904	23,076	4,172
Arkansas	165,062	331,066	166,004	New Hampshire	124,328	158,619	34,291
California	[2] 1,162,476	[2] 1,541,579	379,103	New Jersey	1,096,886	1,748,495	651,609
Colorado	37,500	163,228	125,728	New Mexico	180,330	226,575	46,245
Connecticut	612,921	874,957	262,036	New York	[2] 4,101,784	[2] 6,349,555	2,247,771
Delaware	[2] 270,000	[2] 338,938	68,938	North Carolina	675,786	1,274,944	599,158
District of Columbia	519,857	631,852	111,985	North Dakota	22,527	117,675	95,148
Florida	193,098	382,690	189,592	Ohio	1,953,463	2,317,724	363,961
Georgia	481,465	1,076,352	594,887	Oklahoma	105,368	338,490	233,122
Hawaii	[2] 680,307	[2] 847,136	166,829	Oregon	88,054	215,305	127,251
Idaho	36,623	107,146	71,523	Pennsylvania	[2] 5,302,000	[2] 6,198,560	896,560
Illinois	2,623,693	3,461,208	837,515	Rhode Island	100,715	215,805	55,090
Indiana	207,300	297,250	89,950	South Carolina	134,930	412,899	277,969
Iowa	143,225	206,522	63,297	South Dakota	25,050	76,975	51,925
Kansas	174,860	253,437	78,577	Tennessee	418,707	766,268	347,561
Kentucky	[2] 538,160	[2] 660,158	121,998	Texas	508,154	930,680	422,526
Louisiana	[2] 790,054	[2] 900,237	110,183	Utah	24,000	142,990	118,990
Maine	147,000	198,416	51,416	Vermont	52,000	75,480	23,480
Maryland	536,755	1,347,690	811,935	Virginia	[2] 878,626	[2] 970,032	91,406
Massachusetts	[2] 2,769,494	[2] 3,384,742	615,248	Washington	136,855	285,731	148,876
Michigan	713,105	1,037,784	324,679	West Virginia	220,668	364,455	143,787
Minnesota	595,995	738,527	142,532	Wisconsin	368,317	498,855	130,538
Mississippi	380,655	497,616	116,961	Wyoming	12,400	14,765	2,365
Missouri	267,362	449,117	181,755		31,595,808	44,861,322	13,265,464

[1] This does not include local funds expended by large cities, excepting items by special budgets, or expenditures of cities and counties not participating or expenditures of nonofficial agencies.
[2] Includes maintenance of State sanatoria and hospitals.

The CHAIRMAN. You mentioned $44,000,000. For what period was that?

Dr. PARRAN. That is for the current fiscal year, 1939. There has been an increase; that is, new money from State and local sources since 1935, of $13,265,000. In other words, the States seem to have done their part, and done it very well, in meeting the Federal funds; in fact, more than meeting the Federal funds.

Senator DAVIS. What has been expended in the State of Pennsylvania?

Dr. PARRAN. In the State of Pennsylvania, the total State and local funds during the period January 1, 1935, to January 1, 1939, has been $6,198,000, of which nearly $900,000 represents new money appropriated by State or local sources since 1935.

Senator DAVIS. Did the Federal Government contribute any part of that?

Dr. PARRAN. The Federal Government has contributed no part of that, but in another schedule here I have a detailed statement as to the amount of Federal funds budgeted by the States for the current fiscal year.

Senator DAVIS. Will you put it in the record?

Dr. PARRAN. Yes.

(The table referred to is as follows:)

Total budgeted for fiscal year 1939 under provisions of title VI of the Social Security Act

Alabama	$248,821.00	Nebraska	$113,820.00
Alaska	37,324.69	Nevada	41,633.32
Arizona	57,170.95	New Hampshire	56,792.29
Arkansas	245,405.42	New Jersey	252,619.08
California	360,386.00	New Mexico	73,490.56
Colorado	168,558.36	New York	656,480.00
Connecticut	112,609.25	North Carolina	346,412.36
Delaware	30,504.49	North Dakota	111,333.20
District of Columbia	83,084.10	Ohio	375,126.89
Florida	141,927.28	Oklahoma	203,130.82
Georgia	300,161.17	Oregon	105,200.25
Hawaii	69,520.16	Pennsylvania	552,022.65
Idaho	77,910.34	Rhode Island	60,068.33
Illinois	441,722.89	South Carolina	197,272.72
Indiana	255,649.51	South Dakota	80,636.38
Iowa	197,760.09	Tennessee	315,594.18
Kansas	130,037.60	Texas	421,719.84
Kentucky	224,077.72	Utah	63,113.77
Louisiana	188,532.47	Vermont	52,796.45
Maine	77,171.86	Virginia	233,180.00
Maryland	142,020.79	Washington	153,134.95
Massachusetts	248,672.37	West Virginia	180,380.00
Michigan	251,278.67	Wisconsin	212,621.03
Minnesota	192,822.73	Wyoming	30,968.25
Mississippi	198,559.92		
Missouri	206,542.22	Total	9,734,748.37
Montana	66,969.00		

Senator WALSH. How is the $8,000,000 that is already in the act distributed?

Dr. PARRAN. Under the provisions of title VI it is distributed in accordance with three criteria: The population, the financial need, and the special health problems.

Senator WALSH. Does every State get some?

Dr. PARRAN. Every State gets some.

The CHAIRMAN. Of course, more would be allocated for some special health problem in one State than in another State that did not have that special health problem?

Dr. PARRAN. That is quite true. Malaria in Mississippi, industrial hygiene in Massachusetts, Pennsylvania, Connecticut, and New York, and on the west coast the problem of plague has warranted additional expenditures.

Senator GEORGE. Do you have the necessary force in the Public Health Service through which this increased fund can be well used?

Dr. PARRAN. By straining our force I feel that we do have, Senator. We already have set up the basic organization, and it is almost as easy to supervise the expenditure of $12,000,000 as it is to supervise the expenditure of $8,000,000, because the formula will be the same.

Senator LA FOLLETTE. Doctor, could you give us a brief summary of your estimate of the need for this additional money, or the useful way in which it could be expended?

Dr. PARRAN. Yes, Senator La Follette. The States use the current moneys primarily to build the basic health organizations. There are now full-time health departments in about one-third of the counties. The first step would be to expand the development of those health departments to include the remaining counties. Those remaining, generally speaking, are the smaller counties, therefore the costs will not be as high. The second step would be to intensify their

work in many counties of 20,000 or 30,000 population which have only a health officer, a nurse, and sanitary inspector.

Senator LA FOLLETTE. Those are largely rural counties?

Dr. PARRAN. I am speaking of rural counties. It has been in the rural areas that the largest proportion of the funds has been spent, with the exception of industrial-hygiene activities. The basic organization is well on the way to being set up, in other words, and it is the consensus of all of us who have studied this problem that we need to intensify our efforts against a few of the great causes of disease and death for which we have scientific weapons of unquestioned power.

Next to the control of venereal diseases, which has been made possible under your act, Senator, I think we can get a greater return on the funds spent for the control of tuberculosis than any other health problem. Progress has been made in reducing the amount of tuberculosis. It has been cut down to a size where we can come to grips with it. But the decline in mortality from this cause has not been uniform. The tuberculosis death rate is still abnormally high in certain groups of the population, particularly the younger age groups. These additional funds will be used to make a start toward a national campaign for fighting tuberculosis.

The CHAIRMAN. Have you got the record there of the decrease of tuberculosis in Mississippi?

Dr. PARRAN. The mortality rate from tuberculosis in Mississippi has been reduced approximately one-third within the past 10 years. The rate for 1937, the last year for which complete data are available, was 63.6 per 100,000 population. The reduction in Mississippi has more or less parallelled that in the country as a whole, and in the country as a whole tuberculosis has dropped from first to seventh among the causes of death. Last year the rate was approximately 50 per 100,000 on the average. In New York City, for example, the rate was 50 per 100,000, but that average figure of 50 obscured a rate of 250 in one borough of New York, in one health-center district of New York containing 300,000 people.

Senator WALSH. In the Northern States tuberculosis is usually confined to foreign groups?

Dr. PARRAN. It is not, Senator. In fact some foreign groups show a rather great resistance to it. In general, one may say it is most prevalent among the poor, the ignorant. The Negro has a very high susceptibility to the disease, and the same applies to the Puerto Rican and Mexican groups of the population.

Senator WALSH. I observed some years ago that the people who came from countries where they lived an agricultural life and were transported into the industrial life of our country were susceptible to tuberculosis. I do not know whether that condition exists now or not.

Dr. PARRAN. Among some racial groups that is true. I think in some instances there is a greater opportunity for the disease to spread. We find among unskilled and semiskilled male workers in 10 States deaths from tuberculosis are exceeded only by those from diseases of the heart.

The CHAIRMAN. Doctor, in the country as a whole the progress in fighting the disease has been startling?

Dr. PARRAN. There has been remarkable progress. In fact the progress has been so great that we are encouraged to hope that if we were to apply all over the country intensified methods of finding cases

and providing hospital care for them, within a generation tuberculosis as a cause of death would drop as low as typhoid fever now is.

Senator CLARK. Doctor, you have had very remarkable results in my State in the way of reducing deaths from pneumonia.

Dr. PARRAN. Pneumonia is the second problem I was going to discuss.

Senator CLARK. I happen to know what has been done in my own town in regard to that.

Dr. PARRAN. The situation in regard to pneumonia has become very favorable. In 1937 there were nearly 150,000 deaths credited primarily to pneumonia and influenza, 110,000 of them being reported as pneumonia and the others involving pneumonia as the really killing disease that followed influenza. This would represent about 600,000 to 700,000 pneumonia cases annually. Through the development of a rapid method of typing the disease, through the development of a therapeutic serum and more recently through the development of a relatively simple chemical, it is estimated we can reduce pneumonia deaths by approximately 30 percent. Pneumonia, too, is high among wage earners, among people in the productive years of life. So an intensified effort against pneumonia is now indicated. At the moment less than half a million dollars is being used in the country as a whole to deal with the 600,000 cases.

Another very important disease about which we, as a Federal Health Service, have done relatively little, except in research is cancer. With the additional $4,000,000 obviously no Nation-wide cancer program could be inaugurated, but a substantial start could be made in a program such as is under way in your State, Senator Clark, and such as is going ahead very satisfactorily in your State, Senator Walsh.

There are relatively few States, only four or five, which as yet have been able to do anything at all about cancer. We hope all States would use some of these funds to develop their organization, to study the problem, and make a beginning toward the solution of that problem.

Reference has already been made briefly to the malaria problem in the South. Very good progress has been made in the control of this disease, but there are still a great many cases, and we should intensify our present efforts against malaria. A great deal of progress has been made under the W. P. A. in the application of malaria-control measures—drainage operations to eliminate mosquito breeding places—but that needs to be supplemented by medical methods, making blood tests to find out who are the malaria carriers, and giving treatment to those affected.

Senator LA FOLLETTE. It is my understanding that in those areas where you have been able to set up experiments you have had remarkable success; is that right, Doctor.

Dr. PARRAN. You are quite right. There has been a very successful reduction. I think it fair to say there are a few areas in the South in which the malaria problem is so severe, where the value of the property embraced is so little, the number of people so scattered, in the swamps, so to speak, that it is still a problem which baffles us. We just do not know whether it is economically sound to try to protect a few people living in a little swamp area by other than screening and medical measures. That is, the problem of draining and eradication of the

malaria mosquito is out of the question. That represents only a small part of the total.

Senator JOHNSON. You haven't mentioned it, Doctor, but I presume the greatest accomplishment has been by the cooperation you built up with the professional people engaged in health work, such as physicians, surgeons, and nurses. I find that they are very strong for your program, and I think that is a real accomplishment.

Dr. PARRAN. It is very gratifying to know that, Senator. In that connection I might say when this program was started we were insistent on competent personnel being employed with the Federal funds which have been appropriated. Three thousand eight hundred and twenty people have been given special postgraduate courses in schools of public health, in schools of public nursing, or in sanitary engineering, which included health officers, engineers, nurses, laboratory technicians, and others, so that the quality of health work in the country has been tremendously raised. This rather new provision of the Federal law as to the use of Federal funds for the training of personnel for public-health service, in my opinion, was one of the wisest provisions in the act.

The CHAIRMAN. Have you made very great progress in the control of the mosquito?

Dr. PARRAN. The progress in the biological control of the mosquito has not advanced very far since the introduction of paris green some 10 years ago. Draining, oiling, use of paris green may have been important factors. A notable exception to my rather pessimistic statement is what has been learned in controlling mosquitoes in impounded reservoirs. These methods involve the clearing of the edges and the periodic raising and lowering of the lake level within predetermined limits to clear off the mosquito larvae.

I have referred briefly to the problem of industrial hygiene, and here again there is tremendous lack in what we know and what we do about industrial hygiene. We know for a fact that the life expectancy of the people who work in industry is 8 years less than the general population, yet we have not applied all over the country, and among industries, anywhere near the knowledge we have in the prevention of industrial diseases. This is not a static problem. That is, it is not static in the sense that malaria is a static problem. It is a growing problem, because each year the chemical industry brings out thousands of new products. Many of them find industrial use, and many of them introduce new physiological factors. Many of these chemicals are not known, so one needs to be constantly on guard in testing the chemicals and chemical processes, to see that some new hazard is not created. We had a striking example of that a little while ago when tetraethyl lead was introduced as an antiknock agent in gasoline. Because of the lack of knowledge of its danger a number of people were killed. As the result of studies by the Public Health Service it has been possible to surround the dispensing of ethyl gasoline with such safeguards that no hazard now exists. That is just one example of which hundreds could be mentioned in connection with industrial hygiene.

Summarizing the special purposes for which the health authorities of the country agreed that these funds are needed, they are: To expand public health activities, to expand our basic health organization in those areas not now covered; to make intensive efforts against tubercu-

losis, pneumonia, cancer, and against such regional diseases as malaria and pellagra; and to further industrial hygiene.

The CHAIRMAN. Of course, under these rules and regulations that your budget comes under, you are not advocating this amendment?

Dr. PARRAN. I am not, Mr. Chairman. I am trying to give you the benefit of the professional judgment of the State health officers and others in the country who have brought these facts to my attention.

Senator WALSH. Doctor, has your attention been called to the recommendations of the administrative board of the National Catholic Welfare Conference in reference to certain additions to the social-security law?

Dr. PARRAN. I remember that Monsignor O'Grady presented those recommendations before another committee of the Senate.

Senator WALSH. I would like to read you what the recommendations are. Some of them are as follows:

> The administrative board, therefore, 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 institution. These institutions at the same time desire that any amendment extending to their employees the coverage of old-age benefits recognize and safeguard their traditional status of exemption from general laws of taxation.
>
> They should continue to be exempt as they now are under titles II, III, VIII, and IX of the act. The general welfare does not require that the coverage of old-age benefits or unemployment compensation be extended to include them.
>
> With regard to title IX, which levies a tax on employers of eight or more in commerce and industry, the administrative board of the National Catholic Welfare Conference feels that since unemployment in religious, charitable, and educational institutions is not seasonal, there is no unemployment problem as far as they are concerned, and that here, too, their traditional tax exempt status should be recognized.
>
> The administrative board expresses the earnest hope that an adequate formula be written to grant coverage under the Social Security Act to the lay employees of our charitable, educational, and religious institutions. In summary, the administrative board recommends:
>
> 1. That lay employees of Catholic institutions be included under the provisions of the Social Security Act on the basis of a contribution on the part of the employee, but not on the part of the employer;
>
> 2. That the present status of our institutions as tax exempt be kept unimpaired;
>
> 3. That unemployment coverage be not extended to employees of religious institutions, because, since unemployment in such institutions is not seasonal, there is, generally speaking, no unemployment problem as far as they are concerned;
>
> 4. That clergy and religious be not included in the category of employees but in the category equivalent to the family relationship as provided in the act;
>
> 5. That all payments be segregated as an insurance fund rather than as a general fund constituted of taxes.

If you do not care to comment now, I would be glad to submit their letter of recommendations, but it is, in brief, a desire that their lay employees be given the benefit of the old-age provisions of the act, and that they be taxed and that the institutions be not taxed.

Dr. PARRAN. Senator, I am wondering if it would be appropriate for me to comment on that? That is a matter that is under the jurisdiction of the Social Security Board, isn't it, rather than the Public Health Service?

Senator WALSH. May I send their letter to you then and ask you to comment on it at your convenience, after the Board takes action on it?

Dr. PARRAN. Yes.

Senator WALSH. That is the desire on their part, that lay employees be given the benefit of the old-age provisions of the act. Heretofore I think religious institutions and charitable institutions have requested that they be exempt from the act, and they are now exempt from the act. This is a desire on their part to have the lay employees receive the benefits of the act.

Dr. PARRAN. Mr. Chairman, without seeming to wish to dodge any responsibility, I wonder if Senator Walsh realizes it is the Social Security Board that is concerned in this rather than the Public Health Service?

Senator WALSH. I understand that.

Senator LA FOLLETTE. Doctor, I notice you have a statement there that probably goes into this subject more fully than you have been able to cover it extemporaneously. Could you submit that for the record?

Dr. PARRAN. I would be glad to.

(The statement referred to is as follows:)

The passage of the Social Security Act marked the recognition of two important principles in our national social policy: First, that the Federal Government is jointly responsible with the States for relief of the end results of social and economic disorganization; second, that this joint responsibility extends beyond relief, to prevention of these end results.

The public-health titles of the act represent an approach to a national health program—a balanced, comprehensive plan of preventive and medical services which must be our ultimate goal. The health provisions of the present act represent the first step toward the achievement of this objective. They seek to reduce drastically the volume of sickness and premature death by making available to all areas and all groups of the population in need of service the proven methods of prevention of these great causes of illness against which we have weapons of unquestioned power—prevention of deaths of mothers and babies; a Nation-wide attack on tuberculosis; prevention of deaths from pneumonia by prompt treatment with serum or simple chemicals; addition of useful years of life to those suffering from cancer by early diagnosis and appropriate medical care; the practical eradication of malaria, a major health problem in large areas of the South; promotion of industrial hygiene, with greatly intensified efforts toward the control of the occupational diseases, and integration of all phases of the preventive program for the health protection of the working population. Such activities as these form a recognized part of the modern public-health program. In theory, their development is an inherent part of the public-health provisions of the Social Security Act. Accomplishments under the act have failed to realize the full potentialities of these services because of the limited funds available.

Finally, the public-health titles of the act are notable as a demonstration of the successful application of the grant-in-aid system to the field of health. The principle of Federal grants-in-aid for educational purposes has been accepted since the middle of the last century. Its extension to the field of health dates from the passage of the Social Security Act. Yet I should like to point out that there are more determining reasons for Federal assistance to the States in public health than in any other field of social endeavor. In matters concerned with the control of disease, the individuals of a community are interdependent. But the community of today is not the city, or the State—it is Nation-wide, a community of 48 States. Modern methods of transportation have intensified the means of disease spread. A person may be exposed to smallpox in Muncie, Ind., today and spread it to those at the World's Fair tomorrow. Since 1933, several hundred thousand migratory laborers have entered California, largely refugees from the drought States of the central and southern Middle West. The State commissioner of health recently expressed the urgent need for Federal assistance in the tremendous task of extending adequate health supervision to this large transient group. In testimony before another committee of the Congress, the mayor of New York City has pointed out that thousands of sick people, too ill to labor in the cotton or wheat fields because of the ravages of tuberculosis, come to New York in search of work or medical care.

ACCOMPLISHMENTS UNDER TITLE VI

In spite of the relatively small sums made available under the terms of the act, undoubtedly a greater advance has been made in public health in the United States in the past 3 years than ever before within a comparable period. Under title VI of the act, the major development has occurred in the expansion of the basic services designed to prevent illness—the control of acute communicable disease, public health nursing, sanitary control of water and milk supplies, the registration of vital statistics, laboratory service. This trend is a result of the widespread need for basic health organizations in urban, and especially in rural, areas of the country. The record of accomplishment is tangible. At the end of the year 1936, only 946 of some 3,000 counties in the country were receiving health service under full-time county or district health organizations; at the close of 1938, the number had increased to 1,371, a gain of 425 counties in 2 years. Between 1937 and 1938, full-time public-health nurses employed by State and local agencies increased by 1,720. Over a third of these new nurses are serving rural areas and small cities under 10,000 population. Postgraduate training in public health was given to 3,820 persons between 1936 and 1938. Health officers, medical directors of special services such as tuberculosis and venereal disease control, public health nurses, sanitary engineers and other technicians have been equipped to staff newly organized local health departments, and to expand organizations lacking adequate personnel.

UNMET PUBLIC HEALTH NEEDS

It is in the sense of the development of these minimal health services that the public health advance made under the act has been notable. Measured in terms of public health needs, only a beginning has been made. Federal funds available under title VI budgeted by the States for the fiscal year 1939 (including unexpended balances) amount to 9.7 million dollars. The incomplete development of the basic health services in local areas is indicated by the fact that 7.2 million dollars—74 percent of the total of 9.7 million dollars of Federal money available for 1939—has been budgeted by the States for this purpose. This amount does not reflect high appropriations in a few States. Thus, general allocation of funds for the development of local health services has been made by 45 States in the present year.

The action of the States in giving major emphasis to basic health organization is based on evident need. It is estimated that over one-half of the counties in the country are still not served by full-time health officers on a county or district basis. But the need is not confined to rural areas—the proportion of cities without full-time health officers is almost as high. At the beginning of 1939, 745 counties in the country had no public health nursing service. But areas having public health nurses are by no means adequately supplied. In 18 States, the average rural population served by a public-health nurse is between 10,000 and 20,000; in 5 States, the ratio is 1 nurse for between 20,000 and 30,000 persons; in 2 States, the ratio exceeds 1 to 30,000.

Use of so large a proportion of funds available under title VI for the basic essentials of public-health work obviously leaves only a small margin for the special services which hold promise of great return in the promotion of health. In these special health services are included such activities as the control of tuberculosis, pneumonia, cancer and malaria; services in industrial hygiene, and in dental hygiene. Only a million dollars of Federal funds have been budgeted by the States for these services in the current fiscal year—about 11 percent of the total funds available. In marked contrast to the widespread use of Federal funds for the expansion of the essential health services, allocation of funds for these special health services has been made by relatively few States. Only 6 States have designated Federal funds for cancer control, although 3 additional States are supporting activities in this field from State funds. Federal funds help pneumonia control activities on a State-wide basis in 15 States. About half of the States have budgeted Federal funds for the control of tuberculosis, and industrial hygiene services. The meager development of these special health services permitted by funds authorized under the existing terms of title VI creates an urgent need for additional Federal funds for this purpose. I should like to review briefly the basis for my conviction that tuberculosis, pneumonia, cancer, malaria, dental disease, and defect, and the health supervision of the working population offer challenging opportunities to save life and money.

TUBERCULOSIS

Tuberculosis is a major health problem of young adult life. About 40,000 persons in the productive ages between 15 and 45 years die annually from this cause.

The reduction of deaths from tuberculosis in the present century has been one of the notable achievements of this period. In 1900 tuberculosis was the leading cause of death; today, it ranks seventh in the population as a whole. But the decline in mortality from this cause has not been uniformly favorable.

There is a low average death rate from tuberculosis in New York City, approximately 50 per 100,000 last year. Yet in one borough of New York in a health-center district of several hundred thousand people there was last year a tuberculosis death rate of more than 250, five times the city average. Among unskilled and semiskilled male workers in 10 States in 1930, deaths from tuberculosis were exceeded only by those from diseases of the heart; among professional men in these States, tuberculosis ranked sixth in importance as a cause of death. In a group of 14 Southern States in 1931–33, respiratory tuberculosis ranked third in importance as a cause of death among Negroes, but occupied eighth place among the white population.

But the extent of the problem of tuberculosis is inadequately measured by the total of some 70,000 annual deaths from this cause. It has been estimated recently that "the tuberculosis problem in a community concerns roughly 24 people for each annual death, i. e., the fatal case, 3 'contacts,' or persons exposed to this case; 5 active cases, and 15 contacts of these cases." The control of tuberculosis involves appropriate attention to both types of case: for the active case, competent medical supervision, frequently requiring institutional treatment, and follow-up of the case when the disease has been arrested; for contacts, X-ray examination of the chest for the purpose of diagnosis, with subsequent transfer into the active group of cases showing symptoms of the disease. The National Tuberculosis Association has estimated that a total of 792,000 family contacts of active cases of tuberculosis exist in the country at any given time, and that X-ray examination of this group, at an average cost of $7 each, would involve an expenditure of about 5½ million dollars.

It is estimated recently that 50,000 new beds are needed to bring the Nation's hospital facilities for the tuberculous up to a minimum standard. Until hospital facilities for care of active cases are more adequate, case-finding activities on a comprehensive scale are obviously not justifiable at the outset. However, a limited program of case finding is urgently needed. Case finding, and the follow-up of arrested cases after discharge from the hospital, represent appropriate activities of organized health departments. Additional funds are needed to develop these activities, in particular among low-income families, and in the young adult period in which the disease takes so high a toll of life. Next to venereal-disease control, expenditures for the control of tuberculosis bring a proportionally greater return for a given investment than is possible in any other field of public health work. The disease involves high costs for medical care. The annual maintenance cost per patient is estimated at a minimum of $750. To this cost must be added the wage loss accruing over a long period of disability, and the frequent cessation of earnings through premature death.

PNEUMONIA

In 1937 there were nearly 150,000 deaths credited primarily to pneumonia and influenza, 110,000 of them being reported as pneumonia and the others involving pneumonia as the really killing disease that followed influenza. This would represent about 600,000 to 700,000 pneumonia cases annually.

Pneumonia (exclusive of influenza) is the fifth cause of death, being exceeded only by heart diseases, cancer, cerebral hemorrhage, and nephritis. If influenza is included, the group becomes, on the average, the third cause of death, even rivaling cancer for second place.

Pneumonia mortality and disability is excessive among workers exposed to marked changes in temperature, inclement weather, poor ventilation, and a dusty atmosphere. Health supervision of the worker and his environment is an effective measure in reducing sickness and deaths due to this cause.

The more common forms of pneumonia are now being treated effectively by serum therapy. It has been estimated that general use of serum treatment would reduce the gross pneumonia mortality by more than 25 percent. But the costs of the therapeutic serum, and the preliminary typing of sputum necessary for diagnosis, place serum therapy beyond the resources of persons of low income.

In a series of hospitalized pneumonia cases studied by Hirsh in New York City, the median cost of serum used in the treatment of ward cases ranged from $59 to $76 per case, depending on the schedule adopted in pricing the serum. These figures represent the cost of the serum alone. The costs of medical care in the home or hospital, of the essential services of the bedside nurse, and of other special services, such as oxygen therapy, greatly increase the total costs of illness due to pneumonia. Control of the disease is thus, in part, an economic problem.

It has therefore seemed appropriate to certain of our State health departments to promote the control of pneumonia through the development of laboratory facilities for typing, and the distribution of serum. The commissioner of health of Massachusetts, where such a program is in operation, states that "the distribution of serum has become as integral a part of the public-health program of the State as is the * * * supervision of the milk or water supplies."

In the present fiscal year, 15 States have allocated Federal funds for the control of pneumonia; two additional States are developing programs supported by State and local funds. The total amount appropriated for this purpose from Federal, State, and local funds combined for the year 1939 amounts to only $463,961.17 for 600,000 cases. Additional funds are needed if the control of this disease is undertaken on a comprehensive basis. The use of sulfapyridine holds promise of reduction in the costs of specific therapy, but will not greatly reduce the high residual costs of medical and nursing care.

CANCER

For more than half a century, the increase in the number of deaths attributed to cancer has attracted the attention of medical and lay people alike. However, no general agreement has been reached as to whether the recorded increase is real or spurious in the sense that it results from improved methods of diagnosis, increased accuracy in the certification of the cause of death, combined perhaps with greater care in searching for cancer. There is no doubt, though, that cancer is now one of the most important unsolved medical problems.

In 1900, the death rate per 100,000 population was 63, but by 1937, this had increased nearly 80 percent, to 112 per 100,000 population. Cancer was seventh in rank as a cause of death in 1900; in 1937, it outranked every disease except heart disorders and accounted for 144,774 of the 1,450,427 deaths recorded during that year. At the present time, 1 out of every 10 deaths is attributed to cancer.

There are no comprehensive verified data on the number of persons suffering from cancer in the country as a whole, but preliminary results from studies being conducted currently by the United States Public Health Service indicate that the minimum figure is 500,000, since this number of persons is estimated to have received medical treatment during 1937.

Cancer also claims a place in the public-health program as a high-cost illness. Diagnosis of the disease requires the services of specialists in clinical medicine and in microscopic pathology. The methods of treatment vary with the site of the cancer and its stage of development, surgery, X-ray, and radium treatment comprising the three commonly employed plans. Each is costly. The fee schedule of the Chicago Medical Society for surgical operations on superficial cancers ranges from a minimum of $200 to a maximum of $2,000. The high cost of radium is well known. In as wealthy a State as New York, the amount of radium available in units of 200 milligrams or more amounts to only 36.1 grams, 75 percent of this amount being owned by hospitals and physicians in New York City.

The costs of hospitalization increase the economic problem for cases which receive institutional care. It has been estimated that about two-thirds of the existing cancer cases require hospitalization during a year for an average period of 1 month. Thus, a minimum of about 330,000 cases would incur annual hospital costs amounting on the average to at least $200 per case.

Already a small group of States have undertaken a State-wide program of cancer control through the organization of tumor-diagnostic clinics and treatment centers, the provision of tissue-diagnostic service, and, in a more limited degree, medical treatment where needed. Notable among these is Massachusetts. Additional States with organized plans for the present year include Colorado, Connecticut, Michigan, New York, Pennsylvania, Missouri, New Hampshire, and Vermont. The total comprises only nine States. Federal, State, and local funds budgeted by these States in 1939 for cancer control amount to only $459,118.97. Expenditures of a much larger order are required if the 39 States which have undertaken no activities in this field are to share the benefits of existing knowledge concerning the possibilities in the control of this disease.

MALARIA

The malarious area in the United States has gradually receded during the past 75 years. However, the Mississippi Delta and certain of the southeastern States remain endemic foci. Even in these regions, it is now largely a rural disease, but there it shows little tendency toward spontaneous decline.

In two of the Southern States, malaria remains one of the leading causes of death, but the fatal cases of the disease are an incomplete indication of the economic disorganization resulting from disability. In Mississippi in 1936, deaths due to malaria numbered 352; the cases reported numbered 57,709. The State Commissioner of Health has reported recently that malaria causes more illness in this State than any other disease. In theory, the disease should be eradicated easily by control of the Anopheles mosquito and other established procedures. In practice, however, economic difficulties stand in the way.

Of late, substantial progress in the application of malaria-control measures has been accomplished through work-relief projects financed by the Works Progress Administration. These problems entailed drainage operations designed to eliminate mosquito-breeding places. While it is expected that additional progress may be made in this way in the future, there is a need for medical measures of control in all malarious areas of sufficient importance to justify a more permanent basis of financial support.

INDUSTRIAL HYGIENE

For more than 25 years, the United States Public Health Service has been conducting both laboratory and field research in an effort to evaluate the various problems in industrial hygiene and to develop methods for their solution. There has existed a gap between our knowledge of how to control industrial health hazards and the application of this knowledge to practical problems throughout the country.

The effect of the industrial environment on the health of a large number of workers has been demonstrated in numerous studies. For example, it has been found that adult males engaged in industrial pursuits have higher rates of sickness and mortality than those in other types of work; that industrial workers experience a higher prevalence of physical impairments than do the professional, business, and agricultural classes. In addition to the important occupational diseases, such as silicosis and lead poisoning, which cause excessive sickness and death among workers, it has been shown that the incidence of tuberculosis and pneumonia among employees in certain industries is much higher than among other gainfully employed persons.

Aside from the social implications of ill health, the economic loss resulting from illness and premature death in industry is striking. It is estimated that nearly $10,000,000,000 are expended in this country annually through losses from occupational disease, industrial and nonindustrial injuries, and other causes of disability among workers. Yet in the current fiscal year, the combined appropriations from Federal, State, and local funds for activities in the field of industrial hygiene amount to less than half a million dollars. Approximately $2,000,000 has been set as the minimum amount which would provide all of the gainful workers of the country with the services appropriate to the field of industrial hygiene. This amount is exclusive of activities in the control of tuberculosis and pneumonia which would be integrated in the general program but operated by other divisions of the health department.

Twenty-three States are now actively engaged in rendering industrial-hygiene services. Twenty-five States still have no industrial-hygiene program. But the 23 States now engaged in industrial-hygiene activities have limited personnel and are functioning on meager budgets. The States of New York, New Jersey, Missouri, Illinois, Massachusetts, Michigan, California, and Pennsylvania, all having large industrial populations, are especially in need of additional personnel and funds for conducting adequate industrial-hygiene programs.

Finally, if we are to achieve our desired objectives and eradicate such important industrial diseases as tuberculosis, pneumonia, and the various other chronic and incapacitating diseases and correct many of the physical impairments now found among workers, it will be highly essential that additional trained personnel and funds be made available to the various States for these important services.

To expand public-health activities toward the solution of these urgent health problems, it is the consensus among the State health authorities that the sum authorized under section 601 of title VI should be increased from $8,000,000 to $12,000,000. In making use of these additional funds, particular emphasis

would be placed on developing State programs for the control of tuberculosis and malaria, for the reduction of mortality from cancer and pneumonia, and for industrial-hygiene activities.

The CHAIRMAN. This morning Senator Downey and Senator Pepper desired to be heard by the committee briefly with reference to old-age pensions. Before you start, Senator Downey, the letter referred to by Senator Walsh might be given to Mr. Altmeyer, so he will be ready to give an opinion on it. Go ahead, Senator.

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

Senator DOWNEY. Mr. Chairman, no adequate presentation of this subject can be made short of several hours, and I am only going to very briefly sketch, in a very few minutes, what I have to say, but it leaves me with a tremendous sense of inadequacy.

I have been an advocate of adequate social dividends now for 13 years, having believed over that period of time that we have entered a permanent era in which savings will outrun capital needs, and that we are going to see a continuous disintegration of our economic system in the next 10 years as we have seen in the last 10 years, unless we rapidly install some system that will reduce the savings of our Nation to the capital needs of our Nation.

Now I have believed that the Social Security Act was a miscarriage and an unfortunate piece of legislation from the beginning. I do not believe that this committee at this time ought to report these new amendments into the Senate, because I think they are illogical, absurd, and unjust, and I do not believe that any Senator can go back to his State and successfully defend these amendments when the American people, and particularly the American workingman, know what these amendments mean.

Now this present Social Security Act has two features, and I first want to speak upon the so-called contributory feature under which it is claimed to the public, and the workers are led to believe, that they will receive insurance payments after they are 65 proportionate to their amount of contributions. Of course one might fairly and honestly defend a contributory system under which the benefits were proportionate to the contributions. Well, gentlemen, while that pretense and claim is made the law does not work out that way at all.

Now let me tell you the unfortunate position that the distinguished Senator from Massachusetts will be in, that the distinguished Senator from Colorado will be in, that the distinguished Senator from Iowa will be in, and some of the other Senators to a lesser extent will be in. Eighty percent of the workers, Senator Walsh, under this plan, who pay now 2 percent, or at least their pay checks are taxed 2 percent, and will in the future be taxed 6 percent if the law is carried out as contemplated, will receive substantially less in Massachusetts than is now paid as a matter of charity. And that is true, Senator Johnson, of Colorado. Eighty percent of the workers, under this law, in 1942 will get under $20 a month, while in Massachusetts, California, and Colorado we now pay around $30.

Senator BAILEY. Senator, I have been reading a book with a great deal of interest compiled by you for the Senators, entitled "Pensions or Penury?" published in 1939. I want to call your attention to certain excerpts, which I will read into the record. I know you will

not object to that. It is in regard to your statements about social security.

Senator DOWNEY. That is all right. I would be very happy to have the entire book go in.

Senator BAILEY. You said here on page 36:

The new act, instead of abolishing the existing conception of State charity, had turned the whole country into one great national poorhouse.

Is that right?

Senator DOWNEY. Do I state that, or is that true?

Senator BAILEY. Is that what you say now?

Senator DOWNEY. Oh, I am sure that is true, Senator. Of course, let me say this, Senator, I was not referring to "us" as the whole country, I was referring to the ones who were affected by the act.

Senator BAILEY. It seems to apply to the whole country.

Senator DOWNEY. I was referring to the persons affected by the act.

Senator BAILEY. I will read again:

The legislation which was to have been the Magna Carta of the older generation proved to be a pauper's contract.

Senator DOWNEY. I am confident that is true, Senator.

Senator BAILEY. Here is a statement on page 37, referring again to the repercussions of the Social Security Act:

We are not concerning ourselves in this chapter with the economic repercussions of the act, though we might note that in 1937 this financing policy meant collecting $500 in pay-roll taxes for every dollar spent on old-age benefits.

Is that a fact?

Senator DOWNEY. Yes; that is true; because you see, Senator, in 1937 there was almost nothing paid out to the worker's contribution, and yet there were several hundred million dollars came in. That is not true now.

Senator BAILEY. That was rather taking advantage of the fact that the act was in its initial stages, wasn't it?

Senator DOWNEY. That is true, Senator. All I meant was, that was one of the factors that helped to precipitate the depression of 1937, because it assisted in drawing several hundred million dollars out of the consumptive stream, that was not returned except by way of the Government borrowing it instead of borrowing stagnant capital.

Senator BAILEY. Let me read again. I quote:

What we wish to indicate is merely that the Social Security Act has made no one secure, with the possible exception of its own administrators. The act may not be a wholesale embezzlement of the public funds; but it is certainly a gallant attempt to fool all of the people all of the time, including, doubtless, its authors.

Senator DOWNEY. I have no doubt the authors believed this to be a good law.

Senator BAILEY. For instance, the Finance Committee, the Senate and the Congress were the authors.

Senator DOWNEY. Well, you may so construe it. I have never believed, that the Senate of the United States realized the inequity of this act, and I do not think when you realize that, Senator, you will give it your approval.

Senator BAILEY. Again referring to the act, I quote:

* * * but it held a joker that few people appear to have seen. For it turned out, when the Board published its suggestion, that some peculiar juggling of figures had been indulged in.

Do you really mean to say they have been juggling on us?

Senator DOWNEY. I would like to defend that, if you desire to hear me.

Senator BAILEY. What I am getting at, here is a book, a perfectly fine book, and we must consider it of responsible value. No mind is more devoted to this subject than yours, and I doubt if anyone pays more attention to it than you do. I was amazed, when I read the book, at the indictment of the Social Security Act. I voted for it; I had attached some hopes to it. If this book is to be believed, the act is not only a failure, but it is, to some extent, a great fraud.

Senator DOWNEY. Will you allow me to give you just one example about that?

Senator BAILEY. Go ahead.

Senator DOWNEY. The Social Security Board is holding forth to the American people that this law, as now proposed—the amendments—is an increase over the present law. For a few hundred thousand people in the next 2 or 3 years it will increase it, in a negligible amount, but for the greater number of workers, the amount that they will receive under the contributory system will be substantially less than what most of the States now pay as a matter of charity.

The Social Security Board gives out that in the case of the married worker past 65, whose wife is past 65, that the pension is being increased by 50 percent. That is just not true. If a man would work for 40 years in a covered occupation, every month, at an average wage of $100, he would receive at the end of that time, under the present law, $52.25. Now under the new law, if he is married, that is increased to $52.50, or 25 cents, while if he is single it is reduced to $35, or 50 percent. In other words, it decreases the payment for the single man 50 percent and adds 25 cents for the married man.

Now let me go further and show you why specifically I say it is almost fraudulent in its implications. It is given out to the Senate, and I know the Senators believe it, that 50 percent additional to the married men will help some of our elder citizens—that it really means something. Let me show you why it just doesn't mean anything, and why finally the Social Security Act comes down to that admission. The 50 percent, gentlemen, is not added unless the man is past 65, and his wife is past 65. Well, these gentlemen know that about 60 percent only of men past 65 are married, and of the men who are married and are past 65 less than half of them are married to wives past 65. So that reduces the number of men that get the married benefit to about 30 percent. But it is reduced still further down to a negligible amount, and let me read from the Social Security bulletin to show you how that is done. I am quoting now from page 11, of the report of Mr. Doughton, quoting from the Social Security Board:

> A supplementary benefit payable an aged wife is one-half of the primary insurance benefit of the annuity. Because most wives in the long run will build up wage credits of their own account as the result of their own employment, these supplementary allowances will add but little to the ultimate cost of the system.

Now then I ask you, could human thought rise to greater absurdity than this? Let me read you this sentence:

> They will, on the other hand, greatly increase the adequacy and equity of the system.

Now how will they increase the adequacy and equity of this great system? By recognizing that the probable need for a married couple is greater than that of a single individual. By recognizing that it takes more money to support two people than one. As a matter of fact, Senator Bailey, for all practical benefit to any substantial amount of American people you might just as well forget about that 50 percent increased allowance, because there will be very few of our senior citizens who will ever get one dollar benefit of it. The Social Security authorities in that statement recognized it. It means nothing more than the recognition of a principle, that it costs more for two to live than one.

Senator BAILEY. That is what you mean by the "juggling"?

Senator DOWNEY. Yes; because all over the United States senior citizens are now believing that this new law is going to help them, it is going to give them something. The workers are now expecting they are going to get more. Of the workers under this contributory system, 80 percent will get less than the average now paid in the United States as a matter of charity, and that is only $19.61.

In the State of California, if the Social Security amendment increasing the allotment of the Federal Government is increased to $20 a month, California will, of course, accept that. We now pay $32.50 to everybody past 65 who is in need. We pay it not only to the husband, but we pay it to the wife. So in California the husband and wife now get $65 combined. And then we have, too, the right to $15 earnings additional on the side. That will be increased in California then to $80 a month. Now I have got to go back to the workers in California and say that under this proposed Social Security Act, if they work for 40 years in a covered occupation every month at an average wage of $100, and if they give up ultimately 6 percent of their salary, and if they are married to a woman past 65 they will then get, under all those favorable conditions, $52.50, 40 years from now, when right today we will be paying $80 as a matter of charity to husband and wife.

The same thing will be true largely in Massachusetts, and likewise, in other States.

Senator BAILEY. I will read again. This is on page 45. I quote:

> As an improvement, the Board's proposition turns out to be a really extraordinary piece of legislative chicanery.

Pretty rough word, that word "chicanery." What did you mean by the word "chicanery"?

Senator DOWNEY. I meant exactly what Senator Byrnes said here, that the American people are being led to believe the pensions are going to be increased to $40 and $80 a month, by publicity in the papers and elsewhere. This is wholly untrue.

Senator BAILEY. You mean it is plain deception and fraud?

Senator DOWNEY. I would not say it is deception and fraud. I would stick to what I said. I think it is chicanery. I think, in other words, representation is being made to the elderly people in America, through publicity given out in the newspapers that they never will realize, and I think when the American voters realize——

Senator BAILEY (interposing). A promise not intended to be performed is fraud, isn't it?

Senator DOWNEY. You may characterize it that way, Senator Bailey.

Senator BAILEY. I think that is the definition of "fraud."

Senator DOWNEY. Very well. I say that the retired citizens of America are being led to believe that they are going to get social dividends or pensions that will not be forthcoming to them under this act, and I think they are purposely being led into that belief.

Senator BAILEY. Purposely?

Senator DOWNEY. I think so.

Senator BAILEY. Now on page 48 I quote:

> If, then, we lump together our examinations of both the Federal-State aids and the Federal old-age-insurance provisions of this incredible Act, we find ourselves confronting the obscene spectacle of our own Government sanctioning, approving, all by enforcing poverty. Without a tremor or a blush it connives in the application of a humiliating means test which strips the aged of the final shreds of dignity left to them by destitution. Without a moment's shamefaced recognition of our economy's tremendous potential production, it confines our indigent old people to a standard of living which would be weird if it were not so pathetic. For the Social Security Act has no relevance to our modern technological society. Economically, it was designed for the age of the wheelbarrow; socially, it is linked with the era of the thumbscrew and the rack.

That is your description of the Social Security Act of the Congress, which we passed I think exactly according to the designs and the recommendations of the President of the United States. Now all I am saying is that has arrested our attention. I want to get all the facts, all the considerations in your mind that justify those conclusions. If they are true then there is a pretty big work right ahead of us, isn't there?

Senator DOWNEY. I think it is the greatest problem we have, Senator. In order to make my position plainer to you I want to say this: I understand why you would, very justly, feel that the language is very strong and perhaps entirely unjustified.

Senator BAILEY. I am not saying that. I am inquiring.

Senator DOWNEY. I want to say that I start out with this assumption, that a worker in our industrialized society, who is forced out of his job by technological processes when he is 45, or 50, or 60, society refuses to use him any longer and then, as I say, degrades him to living on $19.61, the average in the United States I have observed and associated with these elderly people, they are just dying on their feet as you and I would die, Mr. Chairman, if we had to live on $20 a month. They are dying on their feet. They exist in humiliation, degradation, eating the lonesome bread of poverty. I do not think in the entire history of the world any civilization has ever condemned any great number of its people to the misery and degradation that we are condemning the senior citizens of America to.

Senator BAILEY. Then you mean we are condemning them under the Social Security Act as it is?

Senator DOWNEY. As I have said in that book, I think the Social Security Act makes their poverty official. They were condemned by the unfortunate working out of this system of ours to the point which it has reached. The Social Security Act makes it official and decrees in the United States we are going to condemn the average retired worker to live on $19.61.

Our latest economic data shows that under the most favorable conditions that can be initiated American business enterprises now develop all the capital that American industry can now or in the future use. That means just one inescapable fact: If American industry is

now developing its own capital there is no room in our economy for savings. If you once clearly have in mind this picture, that these incomes of ours do not come out of the printing press but are generated in the production of wealth, and that these savings are diverted out of the national income, and if it cannot be restored to our economy by capital consumption we just cannot have savings for the great masses of the American people, because their attempt to save will break down our economy.

The most distinguished men in America, the heads of the steel industry, General Motors, bankers, insurance companies, the most conservative economists gathered the figures, and they are there presented.

Now, I do not want to proceed upon that particular phase of this subject any longer, because it would require hours for its discussion, but I do want Senator Bailey to understand this very clearly as a justification for my attitude: I am as firmly convinced as I am sitting here that the great masses of the American people can no longer save, and since they can no longer save they become almost wholly dependent upon what I term "social dividends" for the senior citizens, and, consequently, if we are going to create pensions of $20 a month we are condemning them to the life the $20-a-month standard of living means and to me that would mean worse than degradation and death. If I had to endure the humiliation and degradation of trying to live on $20 a month I would prefer death, and many of these elderly people do, because there are numerous suicides monthly by the elderly people in the United States—and I mean it; it is subject to proof.

Now, I want to say to the Southern Senators particularly this: In the manufacturing and the other States where we do pay the higher pensions this law is a great injustice to the worker who believes he is going to get something more than charity, but who, after being taxed 6 percent on his pay roll, actually gets less and it is also a tremendous injustice to the Southern States. Why do I say that? I say that because these allotments are paid out of the Federal Treasury. They are gathered in from taxes all over the United States, and if $2.50 or $5 is paid to a Southern State and $20 is paid to Massachusetts, or Colorado, or California, it means that the Federal Government is helping to drain wealth out of the Southern or other States and give it to the States where the higher pensions are paid.

Now, I expressed myself on that subject before. I believe that a serious injustice has been done the Southern States by draining out of the Southern States the moneys for the veterans' pensions. That was a help to New England, to the Atlantic States for 75 years, and a great loss to the South.

Senator BAILEY. Those men fought for the Union; they fought against the Confederacy. I don't know that anybody objected to the Union soldiers being paid reasonable pensions.

Senator DOWNEY. Senator Bailey, I might say this to you: I have always been known as an idealist and dreamer, and probably I am. As I said before, my father was a colonel in the Federal Army. When I was a young man of 26 I was in a Republican State convention and I there introduced a resolution memorializing Congress to pay to Confederate veterans the same pensions that were paid to the northern veterans. I think that that would have been fairness and justice, and I think we would have had a lot better Nation today if we had done it.

Now, in addition to that one factor I have spoken of, undoubtedly, out of the rural South and West large sums, billions of dollars have been drained by the high protective tariff.

If the Southern States desire to continue a system under which other States are greater beneficiaries from the Federal Treasury than they are, I have no objection to it. As far as the State of California is concerned, we are benefiting by this, and will continue to benefit, and if the Southern Senators are willing to have that, I cannot object for them.

I do think this, that a national pension plan under which every State received exactly the same amount would be just and fair. After all, the taxes come from all over the United States, and that one State should receive $5 when another State receives $15 or $20 from the Federal Treasury, I cannot justify in my own mind, but, as I say, I now am speaking against the interest of my own State.

Senator BAILEY. I am not taking any firm position, but I know the basis. The basis is to induce States to do their part. I am rather committed to that. I grant we did not provide in W. P. A. absolutely that each State should contribute 25 percent to relief. I still think the States have the primary opportunity and the primary obligation.

Senator DOWNEY. Mr. Chairman, I know how harassed and burdened this committee is on this subject and that I would talk for a week, if anybody would listen to me. I haven't at all covered the subject, but I do not think I will intrude upon the committee today, unless the Senators desire to ask me a question.

Senator WALSH. What is your proposal? What is your substitution for this?

Senator DOWNEY. Of course, Senator Walsh, I believe in the Townsend plan, which has, briefly, these four factors: First, it must be national; second, the age limit should be reduced from 65 to 60 and go to everybody as a matter of social dividend, everybody who is not gainfully employed.

Senator WALSH. Whether needy or not?

Senator DOWNEY. Yes; a social dividend. Third, it should be very much increased, I think, at this time to about $60 a month; and, fourth, I think that the only way we can finance it is by a consumption tax of some kind.

We have now in the United States about $360,000,000,000 of transactions. A two percent transaction tax would amount to about $7,200,000,000, which would pay to 10,000,000 people past 60 about $60 a month. That would probably open up in the neighborhood of two and a half to three million jobs, about the same number that W. P. A. now supplies.

While the total gross obligation would be seven billion and a half, I believe it would relieve us of the necessity of W. P. A. and others, cutting the net amount down to about half of it. It would produce a sufficient amount of money to allow the retired citizens of America to live on in dignity and peace. I think, used with other things, it would be a tremendous recovery measure, Senator Walsh. I do not think it would cost us anything, because we have thirty or forty billion of unused capacity, and what we have got to do is to develop the unused capacity and set over five or ten billion to the senior citizens. But judged merely as a relief measure, I want to say this: If my fig-

ures are correct, we can do away with W. P. A. and grant a decent living to the retired men and women of America by passing the Townsend plan.

Now, as far as I am concerned, I would sleep happier, I would spend my money happier and enjoy life more by giving up 5 percent of my income and knowing this tremendous problem was worked out. Now in addition to that, if I knew that when I was 60 years of age I would have a social dividend that I could take freely, not as a matter of charity but as a matter of right, of $60, or $75, or $100, or $150 a month, and my wife would receive the same amount, I would also sleep easier.

Ninety percent of my clients in Sacramento were well-to-do, middle-class people, who were stripped by this depression when the banks failed there, and I know literally tens of thousands of people in California, the finest citizens we have, middle-class people, loyal, hard-working, industrious, who now, in the declining years of their life, need assistance. When I say this law brought the aroma of the poor-house all over America, I think of people who have been loyal, industrious, and thrifty, who have built the factories, the railroads, and the equipment which we use, I say when we say to them "From 60 to 65 we do not give you any assistance and after you are 65, if you come in and humiliate yourself we give you the average of $19.61 and you have got to live on that until you die," I say everything I said in that book about the Social Security Act is justified.

Senator CAPPER. Wouldn't your transactions tax conflict with the sales tax in the various States?

Senator DOWNEY. Senator, it would not conflict in any way. It would add that much more, of course. We have about 75,000,000 adults in the United States, 10,000,000 as you will see, is about 15 percent of that. This would give to these people substantially less than the per capita income in the United States.

I would like to make this point clear. I think, upon reflection, almost any American citizen will say that it is inhuman and un-Christian, because a worker cannot work any longer, to throw him out of civilization and to degrade him. Never has a primitive tribe done it, as I state in the book that Senator Bailey has just quoted from. This is the first civilization that has ever taken a retired citizen and given him less food, less dignity, and less shelter. Take even our Indians that we consider cruel. They don't take a hunter, when he can't hunt any longer, and say, "You shall only have one-quarter as much food to eat, you shall sleep in the snow." They give him the same dignity, the same sustenance as the rest of the tribe. In all history this technological civilization of ours is the first one that says to the great masses of the people who have been workers, "As long as we cannot use you we cannot give you what you require for a decent living."

Senator BAILEY. Senator, those primitive people had no states. They were working for the sons and daughters when they were growing up, and it was returned to the mothers and fathers for the care that they had given to their sons and daughters when they were little. The new plan is wholly social. The young men of 30 or 40 had that obligation throughout the whole history of the race, as you say, from the earliest primitive times. Isn't that the distinction?

Senator DOWNEY. Yes, Senator, there is a degree of truth in that, but still there is another side to it. Take the Mayan civilization that existed a few hundred years ago in this country. They had an advanced system of pensions that they paid to the older people. In China, of course, we have people who consider the elder people to be the most dignified, the most respected, the most to be cared for.

Senator BAILEY. In China it absolutely was the duty of the sons to take care of their fathers and mothers, rather than it is the duty of the state. No one will say that the Chinese Government levies a tax to take care of the old. They put the obligation on the son. If the son doesn't do his duty his father can punish him.

Senator DOWNEY. Yes, that is true, Senator.

Senator BAILEY. The father is the head of that Government. Now you have gone 17 leagues beyond that. You take away the obligation from the son and the daughter and place it upon a wholly social fabric. You cannot argue much from your Chinese or from your primitive civilization.

Senator DOWNEY. At least the elderly people were taken care of in dignity and security, which our civilization is not doing. Let me point this out to you, Senator. A hundred years ago 90 percent of our people lived upon farms. We were a rural civilization. Under farm economy the father and mother could be absorbed graciously and happily in the declining years of their lives, in lessened household or farm duties, and they still had security and dignity, but now that our population is centering more and more in the great metropolitan centers, under this technological civilization, with millions and millions of the children themselves out of jobs, the misery, anguish, and degradation of the elder people is, a matter of fact, not a matter of theory.

Senator BAILEY. I think you are running into trouble there, because you are still proposing to tax the children to support the older people.

I would like to ask you one question and stop. Your transactions tax proposes a tax of 2 percent?

Senator DOWNEY. Yes.

Senator BAILEY. On literally every financial transaction, every purchase, every sale?

Senator DOWNEY. Not the purchase and sale of stocks and bonds, merely the real wealth. We realize you could not tax a bank, an insurance company or an individual selling stocks and bonds every time he bought or sold an existing piece of property. It is only where new property comes into existence.

Senator BAILEY. How about buying groceries?

Senator DOWNEY. Yes; of course.

Senator BAILEY. Buying a horse?

Senator DOWNEY. Yes.

Senator BAILEY. Wouldn't that tend to put us all on a cash basis? Suppose I wanted to buy a horse and the tax was $4, instead of writing a check why could I not just pay the bill for the horse, which cost $200, say?

Senator DOWNEY. You mean evade the law?

Senator BAILEY. Yes.

Senator DOWNEY. Tax laws are evaded now.

Senator BAILEY. The point is you use the cash transaction for any purpose.

Senator DOWNEY. It might tend to an evasion of the law by using a cash transaction.

Senator BAILEY. The turn-over is about $40,000,000,000 a month, in terms of checks.

Senator DOWNEY. That would be $480,000,000,000 a year.

Senator BAILEY. Yes.

Senator DOWNEY. I gave the figures as $360,000,000,000.

Senator BAILEY. You figured that to be the gross income?

Senator DOWNEY. Yes; that is right.

Senator BAILEY. That is where you get the $8,000,000,000?

Senator DOWNEY. Not entirely, because there are certain bank debits, interbank debits, and for the purchase and sale of property.

Senator BAILEY. That is what I said. You would add $7,000,000,000 of taxes to the present tax structure, which is about $15,000,000,000, counting the States and Nation, and if you would not borrow the money it would be about $20,000,000,000. Call it, though, $15,000,000,000, and then you add $7,000,000,000. You propose a tax structure in America of about $22,000,000,000 a year, is that about right?

Senator DOWNEY. Not quite correct, because I think this $7,000,000,000 would probably stand in lieu of about half that much of present taxes. In other words, I think by disbursing this amount we could do away with the disbursement of about three billion and a half in present old-age pensions, W. P. A., and things like that, Senator.

Senator BAILEY. You realize none of those are reflected now in taxes, except social security; they are there to borrow money from.

Senator DOWNEY. I will agree to that extent; this will put us on a cash-as-you-go basis instead of borrowing money. I think you will agree with the advisability of that.

Senator BAILEY. I don't know. There is some difference between taking money away from a fellow and borrowing money from a bank. I am a little inclined to think the more honest thing to do is to borrow it. I sometimes think it is more human, it is a more decent thing to put yourself in debt. I think you cannot carry that too far either way.

The CHAIRMAN. Thank you, Senator Downey. Senator Pepper, we will be glad to hear you now.

STATEMENT OF HON. CLAUDE PEPPER, UNITED STATES SENATOR FROM THE STATE OF FLORIDA

Senator PEPPER. Mr. Chairman, fortunately or unfortunately there is a great variety of opinion about even matters of great moment to all of of us. Some would regard it, for example, an extravagance for us to do what Dr. Parran mentioned a moment ago, that the United States Government direct the force of its full energies toward the extermination of tuberculosis, cancer, pneumonia, venereal diseases, and many other diseases which are taking every year such an economic toll from the American economy, and I cannot see for the life of me why it isn't the grossest extravagance for us not to ask technicians to remove a scourge like that to the American people. That is only by way of preface.

Now, Mr. Chairman, I would like, if I may, to include in the record what I said before the Ways and Means Committee, beginning on page 711, part 1, of their hearings on social security.

The Chairman. That may be done.

(The testimony referred to will be found at the conclusion of Senator Pepper's remarks.)

Senator PEPPER. The pertinent facts to which I would like to call your attention are, as you already know, that there is a constantly enlarging increase in the percentage that the number of people 60 years of age and over bear to the total population of this country. For example, in 1930 we had a total population of 123,465,000, and in the same year we had people over 60 years of age 10,392,000, or 8 percent of the total population. In 1935 the total population was 127,985,000, there were 11,602,000 people 60 years of age and over, or 9 percent of the total population. In 1940 we estimate we will have a total population of 132,630,000, and the population 60 years of age and over 13,286,000, or 10 percent of the total population in that category, and we could carry it on to where in 1980 it is estimated we will have a total population of 153,628,000, with 31,308,000 people 60 years of age and over, or 20 percent of the total population.

Now, in addition to that we have figures, which are set out in the pages to which I referred, that indicate the degree of dependence of those people, and it points out that even in the State of New York the State commission on old-age security estimated that only 5 percent of the persons 65 years of age and over in that wealthy State, in that prosperous year of 1929, were self-dependent on their own savings.

So we have then the rather sad prospect of a constantly enlarging number of elderly dependent people.

Now, of course, there is an alternative. They have got to be taken care of in some adequate way or they suffer, and if they, by their private means, are unable to take care of themselves, they suffer unless they receive care from the public chest.

The Townsend plan is naturally a subject of considerable controversy, and perhaps almost as much confusion. My idea about the financing of the payments that are contemplated under that plan, about it being a self-liquidating or self-paying plan, as it were, is that the revenue should not be derived from what you would ordinarily call a transactions tax, but what I would prefer to call a gross-revenue tax. That is to say, the citizen, the taxpayer, would pay periodically a percentage of his gross income, and so long as that gross income percentage tax did not exceed 2 percent, I doubt if even the taxpayer would be so much inconvenienced or dealt with unjustly, because the duty would be upon him, of course, to pass on to the general public a portion at least of the burden of that tax.

Now, in our present tax structure I rather suspect that the most of the Treasury's difficulty lies in determining what deductions should be made, and what credit allowances should be made, and the like. If we had some simple way to say that the Government will tax the taxpayer upon a given level of income and then the Government not be concerned about what he deducted and what his expenses were, or what should be allowed or not, the expense of collecting the tax would be considerably diminished.

Senator BAILEY. They might not have any money to pay the tax with.

Senator PEPPER. I said, Mr. Chairman, that the taxpayer would pay upon a given level of income, and the question of his expenses and deductions would be entirely up to him.

Senator CLARK. Suppose a man had a gross income and did not have any net income at all, how would he pay?

Senator PEPPER. Well, the expense of the Government is the expense of doing business, Mr. Chairman. He has to pay his insurance premium in some way, and he has to pay certain other fixed charges in some way, and the cost of Government is the cost of doing business. It is an item of business expense.

Senator GERRY. He can give up his insurance premium without being sued for it.

Senator PEPPER. I can well believe, Mr. Chairman, that the obligation to pay some contribution to the Government might be a preferred charge against any business operation, and that should be the first deduction, of course.

Senator BAILEY. Senator, suppose I had a gross income at the present time, and over against that are my expenses, and I am a loser; would I pay on the gross income? Suppose my gross income was $20,000 and my expenses $25,000, I am a loser to the extent of $5,000 on a year's operation? That happens to a great many people. Am I taxed on the $20,000?

Senator PEPPER. You would pay a percentage tax upon your gross income; yes.

Senator BAILEY. On the $20,000?

Senator PEPPER. Yes.

Senator BAILEY. A man would be paying taxes on nothing and out of nothing.

Senator PEPPER. He would not be paying taxes on nothing. As a matter of fact he has been living for the year, he has been doing business for the year, he has had police and governmental protection for the year, and in some way or other that has got to be paid for, if he is going to carry on the business.

Senator BAILEY. The Government comes along, you haven't got any money, you have got $5,000 less than you started with, but still they charge you for it.

Senator PEPPER. Mr. Chairman, I do not concede he hasn't any money. You mean according to the standard of determining net profit, and the like, he hasn't any profit at the end of the year. Under my hypothesis he had money, because he had money when it came in. When it came in he had to make a deduction for the proportion that had to go properly to the Government. That is a matter of controversy. That is not the main point.

I wanted to say the substantial thing is this, Mr. Chairman: This system of old-age assistance it seems to me has got to be a national system, at least up to a certain minimum point. In the State of Florida, which I believe is the highest in the South, the amount of our payments to people for old-age assistance is $15.13 a month on an average, and in some of the States in the Union it gets down to $5 or $6 a month.

Now, after all, this is a Federal Union, and ever since the day when Mr. John Marshall started to write opinions it has been a nation and not an aggregation of States. By common consent it has become that, and it is that, and I think with propriety it is that.

Now, there are two objectives that persuade us to attack the difficult problem of providing assistance to the elder people. The first

one is the humanitarian principle of security for the individual, and the second one is to make it possible for that individual to be an aid instead of a hindrance to his country's economy.

Senator BAILEY. Do you think a State is more or less a convenient or inconvenient geographical subdivision? Is that your conception of it?

Senator PEPPER. I will state in just a minute what I think the line of demarcation is. This isn't the first time I thought about the subject, Mr. Chairman.

If those are two worthy objectives they are worthy in every part of the country, and if they are vitally important to this country they should be observed everywhere, regardless of either the capacity or the inclination of a particular State or locality to observe those principles, or to help put them into effect. We are starting off with the idea that these things are nationally imperative and desirable, and yet we make their effectiveness conditioned upon some State or locality cooperating and making it possible for it to go into effect.

So what I propose, Mr. Chairman, is up to a minimum of $40 a month for a single person and $60 a month for a married person the Federal Government provide the whole sum of old-age assistance for people over 60 years of age.

Senator BAILEY. You are not for the $200-a-month plan?

Senator PEPPER. I am for whatever amount a 2-percent gross-receipts tax will yield and what will be fair to make the people eligible in that class. I do not know whether it is $3 a month or $300 a month, and I do not think anyone else knows.

Senator BAILEY. You just said $60 and $40.

Senator PEPPER. I said in the first instance I want it to refer to the Townsend plan, or to that principle. I think it is a good principle, I think it could be put into operation, and I think it should be self-sustaining, as that plan would be, by the method of tax to which I have adverted.

Senator BAILEY. Senator, what is the Townsend plan, in plain words? A transaction tax of 2 percent on practically all transactions of a financial character?

Senator PEPPER. More accurately, Senator Bailey, it is a gross-receipts tax upon gross income, 2 percent per year, divided perhaps periodically, over monthly periods, or maybe some other intervals.

Senator BAILEY. Then the distribution of the proceeds to people on what terms? Let us get that.

Senator PEPPER. Well, there is some little difference of opinion about whether a means test should be applied or not. At least in the inception of it I think it would perhaps be desirable to provide that anybody who does not have an income of that amount might, from that fund, receive enough to put it up to a decent amount, or a means test might be applied, whatever the average might be. A person could be graded, as far as each individual is concerned, with the income each year that he has, and he should be able to receive the difference up to the average.

Senator WALSH. Would the tax be imposed upon workers?

Senator PEPPER. Senator Walsh, I will say that there is a question, there is a line in there that involves some difficulty. Theoretically, I think it should be applied to everybody who earns any income at all.

The difficulty about that is the practical method of collecting the tax that way. That would involve a sales tax, if you let it go down into the lowest brackets of the workman who has only a few dollars a week or a few dollars a month income. Therefore I thought about the possibility of starting off, as an experiment, by letting those people who now file income-tax returns begin to pay, and I think they might pay it monthly instead of yearly, because it would be easier that way, by transmitting it monthly to the Treasury, begin to pay a gross-receipts tax at the rate of 2 percent per year. Of course if we wanted to start at 1 percent, for an experiment, we could do so. I think it is perfectly legitimate to make this plan self-supporting.

Senator BAILEY. Senator, suppose you put the tax on the farmers, and say their income is $8,000,000, that is the gross income now, 2 percent of that would mean the farmers would have to pay $160,000 each year, is that right?

Senator PEPPER. The farmers would have to pay at the rate of 2 percent per year on their gross income, whatever that might be.

Senator BAILEY. Well, I just gave you the gross income.

Senator PEPPER. If your figures are correct then your conclusion would be correct.

Senator BAILEY. Now, it is a fair statement that in American industry——

Senator PEPPER (interposing). Senator Bailey, did I understand the principle that the Senator has just indicated contemplated every one of the farmers, however low, as Senator Walsh indicated a moment ago, however low was the income.

Senator BAILEY. Yes.

Senator PEPPER. I was suggesting, as a practical matter, as a practical beginning, you may start with the people who now file income-tax returns, and just let them indicate the amount of the gross income per year.

Senator CLARK. That is in addition to the present income-tax structure?

Senator PEPPER. That is right.

Senator CLARK. In the nature of a surtax?

Senator PEPPER. That is right. It would be in the nature of a 2-percent gross-receipts tax. The fellow that would be most hard hit would be the man who has the largest cost for the commodity, you might say, that he sells. If you tax him on gross income o course he would have a greater discrepancy or disparity between th amount that he has to pay out to the fellow that sold him the goods and the professional man whose income is due largely to the service he renders. But I think the amount not being so high if you start off with 1 percent, therefore it would be preferable. The amount not being so high I think he could, as a practical matter, put it into his sales, distribute it according to his own pleasure, so at the end of the month or at the end of the year he would have collected 1 percent more than he would have otherwise collected from the people to whom he sold the goods.

Senator BYRD. What do you estimate the revenue would be on that basis?

Senator PEPPER. Senator, I do not know. I have refrained from giving actual figures, because it is all an estimate. The Treasury could give you the estimate.

Senator BYRD. You could give estimates if you based it on those who paid income taxes. I think you would be greatly disappointed as to the total amount of revenue you would raise.

Senator PEPPER. Senator, the main thing I should like to see is the beginning of a system like that. I think it is a fair principle, and I think we are coming more and more, Mr. Chairman, to the recognition of a place in our tax structure for a gross-receipts tax.

In substance, all this Townsend tax is, is a gross-receipts tax. You can collect it in two ways: By the sales tax paid when the transaction is made and remitted by the person who gets the money, or you can have it returned in the way of an income-tax return that is made and remitted periodically to the Treasury, and limit the collection only to a given class of the old people, but, mind you, there would not be anybody paid except the people who have been the recipients of money.

Senator JOHNSON. Senator, I understood Senator Downey to say that the receipts from such a tax would amount to between seven and eight billion dollars a year. The national income is around $65,000,000,000. Two percent of that would be $1,300,000,000. I should have asked Senator Downey where he got his $7,000,000,000.

Senator BYRD. He had a transactions tax.

Senator PEPPER. I think Senator Downey was talking primarily of a transactions tax.

Senator BYRD. Levied on every transaction.

Senator PEPPER. Yes. I preferred the plan I suggested, Mr. Chairman, because I thought it did not tax you or anybody else other than on the money you actually received during the year.

Senator BYRD. Suppose the transaction tax on a bushel of wheat passed through five or six hands and each time it passed through someone's hands it paid 2 percent, it may be pyramided, it may be 10 or 15 percent.

Senator PEPPER. There are possibilities of that character, Senator I prefer to approach it from the viewpoint of the individual, just tax you on the amount of money, not anything else, not commodities but your income during the year, the gross income that you received.

Senator BAILEY. That is what a man happened to handle?

Senator PEPPER. That is right. It might be legal services he dispensed, or it might be drygoods, groceries, or something else.

Senator BAILEY. As you already said, you would apply it to the farmers, and you would also apply it to the wage earners and salaried people?

Senator PEPPER. Everybody.

Senator BAILEY. And the preachers?

Senator PEPPER. Everybody.

Senator BAILEY. Doctors?

Senator PEPPER. Everybody.

Senator BAILEY. Lawyers?

Senator PEPPER. Everybody.

Senator BAILEY. And churches, colleges?

Senator PEPPER. Every individual. Not an institution, in that sense, unless it is an institution for profit. Every individual would pay the tax, because he would be having an income under the protection of his Government, and would be bearing part of the expense of making all this money.

Senator JOHNSON. Senator, how many people do you estimate would receive this payment? What is the number?

Senator PEPPER. Senator, it is estimated there are around 10,000,000 people, there are 10 to 12 million people that are within the age limits.

Senator JOHNSON. With a national income of 65 billion and a tax of $1,300,000,000, and dividing that up among 10,000,000 people I find each one of them would get $130 a year. That is a year.

Senator PEPPER. Senator, I do not like to say you are going to get $200 a month, or $105 a month, or any other figure. I am simply proposing a program which I think is a worthy program for the Government to undertake; I think it is a necessary program.

Senator BAILEY. You propose a program of your own. I was trying to find out what the Townsend plan was. I do not profess to know, but I always understood it was $200 per month for every man and woman in the country over 65. Then there was some agitation to reduce that to 60, and then some further agitation to reduce it to 55. In fact Mr. Downey in his book speaks of the possibility of reducing it to 55. I want to get an idea of what the Townsend plan is.

Senator PEPPER. The Townsend plan is just exactly what I am describing, Senator, and if you had Dr. Townsend here you would see I am right, because I conferred with him in my office only a few days ago; I went over in more or less detail with him in substance what I am saying now.

Senator BAILEY. It is not $200 a month?

Senator PEPPER. It is not $200 a month, unless the proceeds of the tax proposed would yield that amount.

Senator BAILEY. Suppose it should yield more than that?

Senator PEPPER. If it should yield more than that then it would be more than that.

Senator BAILEY. And give it both to the husband and wife if they are 65 years old?

Senator PEPPER. Yes.

Senator BAILEY. That would be $400 for that family.

Senator PEPPER. Well, it would be whatever the tax would yield, Senator. I think, as a matter of fact, that nobody has ever contemplated that the tax would yield that amount. I know that the best-informed people to whom I have talked of the plan have never given anybody the intelligence that it would yield any fixed sum of money per month, because you do not know what it would yield.

Senator CLARK. As I understand it, this proposal is just to fix a formula in advance and then just to divide up whatever should come into the kitty, without any reference to whether that is an adequate amount for the support of the old-aged people. If there is any effort in this plan to find the amount that is adequate and necessary for the support of the old people and then trying to find the means of getting the tax, that seems to me would be entirely logical, but starting out with a formula where you do not know whether it will yield sufficient to take care of the old people, and just set up a 2-percent tax on that basis and then divide up the kitty as it happened to turn out, if it happened to turn out to be $10 that would be all right, or if it happened to turn out to be $200, that would be all right, that doesn't seem to me to be logical.

Senator PEPPER. Let me answer that. That would be a fair criticism if it were as the Senator understands it. I would keep in operation the existing Social Security benefits. I think it should be changed and altered, but I would impose this as something on top of the present plan, Senator, I will say with the idea of eventually, if the experiment proved worth while, laying that plan up and substituting this for the existing Social Security benefits to that class of people. I think that is a fairer tax and a fairer method of financing the program than the Social Security program, but I am not foolish enough to ask this committee, or the Congress, to come along and say, "Let us pass it and do away with what we have done already experimentally with the Social Security benefits and try some nebulous and untried scheme here which might be either a success or failure." Therefore I would suggest that you set this plan up in an experimental way, at 1 percent of the gross receipts of the people of this country, and they would divide up the $15, or $1,500, or the $1,500,000,000 that might be derived among these people who are the recipients of old-age security. I think that would be the first class that I would make the beneficiaries of it.

Senator BAILEY. I want to get your definition. You say "among these people." You mean all of the people, all of the men and women who are over 65, or over 60?

Senator PEPPER. It is given at 60 and 65. I should say 60, Senator.

Senator BAILEY. Over 60?

Senator PEPPER. Yes; and I should preserve, in the initial stages of it, the means test. I would liberalize the means test some, but I should take the average and try to see to it that the person's income who had $10 a month, say, would be supplemented from this fund up to a reasonable minimum which should be struck for all, based upon the funds that you had to distribute. If a person had a little home, had been able to save through a lifetime of thrift, had a little home, that is certainly to be rewarded, not to be condemned. You can well imagine an aged couple that might have had a little home somewhere, a half acre of land, and yet come to the point where the husband is unable to make any living for the family, so they are the recipients of charity unless you let them sell their capital by disposing of their home. I would let that kind of person, who perhaps had $10 a month income from some old insurance policy, or some child or some person who could afford it give it to him, I would let him keep the house, let him be eligible in that class, let him get credit for the $10 a month, and then I would supplement it to the reasonable minimum that would be possible under this distribution, and give him that money.

Senator BAILEY. Would you impose this tax on the income of insurance companies, on the gross income of power and light companies, or building and loan companies?

Senator PEPPER. Yes; I would let everybody, Senator Bailey, pay that tax according to their gross income 1 percent per year, and I should suggest that it be paid monthly. I would have a coupon scheme of where they simply send in a notice to the Federal Government, or leave it at the post office, whereby they merely recite "My gross income for the month of January was $480. I leave herewith my tax of 2 percent on that amount."

Senator BYRD. I understood you to say you proposed to take the gross-income returns to the Internal Revenue Department.

Senator PEPPER. That is right.

Senator BYRD. Of course that excludes a lot of income that would not be reported that way

Senator PEPPER. I suggested, Senator Byrd, that we can, in order to keep the practical bookkeeping of it, as it were, down to a minimum, start with the class only now that has to file income-tax returns, and then as I got a little data on that I would extend it to all.

Senator BYRD. If you base it on that you cannot get the correct gross return. It is going to be very much less than you anticipate.

Senator PEPPER. Whatever it is. I think when the principle is expanded and enlarged, Senator Byrd, and applied to the whole class, as it were, to which it may properly be applied, that the amount of it can be made a very satisfactory contribution.

Senator BAILEY. You go ahead until you get up to your $200?

Senator PEPPER. Beg pardon?

Senator BAILEY. You would go ahead in both directions until you got up to your $200?

Senator PEPPER. No, Senator; I never have proposed that this country was yet willing or able to pay $200 a month to every person that needed it.

Senator BYRD. One other question. Would that be duplicating the old-age pensions? Suppose they were getting a pension from the State and Federal Government jointly, would that be duplication?

Senator PEPPER. If the State contribution is less than the amount we agreed to pay each individual, Senator Byrd, I would then supplement the State payment up to the agreed amount, and he would get just that difference from the Federal Government. If we agreed, taking into consideration the money that we had to distribute, that everybody should get, we will say, $50 a month, and then the person that you have taken in your example would be getting only $25 a month from the State, I would let him get the other $25 from the Government.

Senator BYRD. You would work this in cooperation with the State?

Senator PEPPER. I would let any income that he derives from any source be a credit against the amount to which he would be entitled under this plan. If his existing income would be equivalent to what he would be entitled to receive as I have outlined there, he would get nothing. If his income was less than that he would get the difference between the two.

Senator BYRD. The real essence of the Townsend plan is that the old-age pensions are entirely a Federal obligation.

Senator PEPPER. Yes; that is right.

Senator BYRD. You would ignore that only to the extent that someone draws a pension from the State, and that would be a credit?

Senator PEPPER. That is right. If he draws anything from any source, that would be a credit against what he should receive from the Federal Government.

Mr. Chairman, I would like to present an amendment to be proposed to the existing Social Security Act. I would provide that the Federal Government should make available to each person 60 years of age and over, who could meet the requirements of a fair-means test, and the present means test could be modified, for that matter, $40 a month, and to each married person who could meet such a means test $60 a month, to be paid entirely from the Federal Treasury, with no matching required from the States or from any

local political subdivision, the principle being that the only way that we can have uniformity of application of this principle, which is designed to meet two worthy objectives is from the National Government of this country. The idea of selecting $40 per month for the single person and the $60 for the married person I derived from the results of the Gallup poll, that indicated that that is about what the American people were thinking should be the amount that each of those persons should receive.

Now then, you observe that that is what I call a minimum amount of assistance. If the States wanted to go above that amount then they would have, of course, a perfect right to do so, but until then that would make something like a decent standard of living possible.

Senator WALSH. You would repeal title I?

Senator PEPPER. Exactly.

Senator WALSH. And you would substitute therefor $60 a month to each married individual over 60 years of age, also to be paid out of the Federal Treasury?

Senator PEPPER. That is right; and out of general income.

Senator WALSH. Out of general income, the General Treasury?

Senator PEPPER. That is right.

Senator WALSH. You would not apply here that 2-percent gross income tax?

Senator PEPPER. I am taking advantage of the Townsend plan. I would set that 2 percent to one side as an alternative plan.

Senator WALSH. I doubt if there is an industrial worker in my home town where I live who earns more than $1,000 a year. Your proposal would permit a man and his wife over 60 years of age to receive $60?

Senator PEPPER. Are you talking about the Townsend plan?

Senator WALSH. No; the present plan that you referred to.

Senator PEPPER. I contemplate the $60 a month only for the old couple.

Senator WALSH. You would give some of them $20?

Senator PEPPER. I have got the estimates here from the Social Security Board as to what the cost of that would be.

Senator JOHNSON. That is what I want to know; what it would be in each case.

Senator PEPPER. In May 1939, 51 jurisdictions were administering old-age assistance under plans approved by the Social Security Board. If the number of recipients of old-age assistance remained the same as in May 1939, namely 1,838,000, and each single person received $40 per month and each couple received $60 per month, it is estimated that the total amount to be expended from Federal funds would be about $76,000,000 per month, or a total of more than $900,000,000 for 1 year. It is estimated that of these 1,838,000 recipients, approximately 30 percent would receive $60 per month and 70 percent $40 per month.

Under the present title I of the Social Security Act, the total amount of obligations incurred for May 1939 from Federal, State, and local funds was $35,289,000, equivalent to an annual expenditure of $423,500,000. Of this amount, the Federal share would be approximately $203,000,000, exclusive of the 5 percent additional for administration. In other words, my plan would increase the Federal contribution under the existing standards from $423,500,000 to $900,000,000 a year.

Senator BAILEY. Just tell us about raising the money.

Senator GEORGE. Senator, before you get away, you must take into consideration the fact that in many of the States not half of the eligibles are on the list.

Senator PEPPER. That perhaps is true.

Senator GEORGE. That is true in Georgia. And also your age limit is 65 rather than 60.

Senator PEPPER. If that is true then I will make it 65, because I wanted these figures to be the ones to apply. I do not observe here whether this is based on 60 or 65, but I intended it to be the age limit carried in these calculations.

Senator GEORGE. There are probably 50 percent off of the rolls altogether.

Senator PEPPER. It is not probable that under an all-Federal assistance program the number of recipients would remain stationary. At the present time approximately 300,000 applications for old-age assistance are pending disposal in the States. If a substantial share of these pending applications was approved and each recipient was paid in accordance with this proposal, the total cost to the Federal Government in 1 year might be roughly $1,200,000,000 to aid 2,138,000 recipients. Now, I take it that that is a reasonable maximum that probably might be anticipated as coming within that class.

In addition to the aged persons whose applications are pending, there are other potentially eligible persons in the population. This fact is demonstrated by the wide variation among the States in the percentage of the aged population being aided. In May 1939, these percentages ranged from 7.8 percent in one State to 56.3 percent in another State. The average for all States was 23.1 percent. If it is assumed that all States were to grant assistance to 40 percent of their aged population, or to grant assistance to roughly 3,200,000 persons, under a Federal assistance program the total cost to the Federal Government in 1 year might be nearly $1,800,000,000. Thus, the total cost to the Federal Government of this proposal for old-age assistance for 1 year might range from about $900,000,000 with no increase in the number of recipients, to nearly $1,800,000,000 with an increase to 3,200,000 recipients.

Now, as I said, I asked the Social Security Board—of course you understand they did it at my request—to furnish only factual data, and where they give estimates those estimates represent approximately the best opinion that they were able to give.

The second test of that would be, Mr. Chairman, an entirely Federal program with monthly payments of $25 for the first child in each family and $10 for each additional child.

The probable cost of this proposal has been estimated on the assumption that the number of children receiving aid will be the same for 1 year as in May 1939, namely, 688,000. However, in that month only 42 of the possible 51 jurisdictions had approved plans. The total cost to the Federal Government for 1 year in these 42 States, assuming no increase in the number of children, would be $134,000,000, or approximately $11,000,000 per month, as compared to the present Federal expenditure of $2,500,000 per month (exclusive of the Federal share of administration).

This estimate of $134,000,000, however, is an understatement of the probable cost of the proposed amendment because under an all-Federal system all States would participate. With all States participating, it is estimated that the total Federal cost for 1 year would be approximately $162,000,000 to aid about 845,000 children comprising 2.3 percent of the population under 16 years of age.

At present there is wide variation among the States with approved plans for aid to dependent children in the percentage of the population under 16 years of age being aided. The range is from 0.4 to 5.5 percent. If it is assumed that 1,800,000 or 5 percent of all children under 16 years of age would be aided, the cost to the Federal Government would be approximately $334,000,000. Therefore, the range in Federal cost might be from about $162,000,000 to about $334,000,000.

Now, Mr. Chairman, I cannot make it too plain that what I want to reach, and what I believe is the fair thing, is to fix a decent minimum. If you do not agree with my minimum you may fix another. If I may so suggest, fix a decent minimum which is the lowest standard that we would ask an American individual or an American family to subsist upon, and then, to that extent, provide that minimum from the Federal Treasury which represents the whole country. Then when you pass that minimum let the States, if they desire to do so, afford adequacy, or luxury, or whatever they want to afford, but until you discharge a minimum obligation it seems to me you have not met the responsibility that is fairly to be saddled upon the Federal Government. If an old person in Massachusetts is entitled to a decent living from his society an old person in Mississippi is entitled to it, regardless of whether that individual happens to live in a wealthy community or in a poor community, and this Nation cannot discharge its obligation to them unless it treats all of them alike.

Senator BAILEY. You propose to raise the money from $900,000,000 to $1,800,000,000?

Senator PEPPER. For old-age assistance; yes.

Senator BAILEY. For old-age assistance and for children in homes?

Senator PEPPER. For the children now, that would be increased from the present amount to $25 a month for the first child and $10 a month for each additional child.

Senator BAILEY. That would be added to these groups?

Senator PEPPER. That would be added to the other.

Senator BAILEY. How do you propose to raise that money? By a tax upon the receipt of money?

Senator PEPPER. I would be entirely agreeable to that, Mr. Chairman, although I contemplated, in the first instance, that these taxes on gross receipts should be provided only for old-age assistance.

Now the third proposal is aid to the blind. An entirely Federal program in which the monthly payments would be $40 for each single person and $60 for each couple receiving aid to the blind.

In May 1939, only 42 of the possible 51 jurisdictions administered aid to the blind under plans approved by the Social Security Board. If the number of recipients of aid to the blind in these 42 States remained the same as in May 1939, namely 44,000, and each single person received $40 per month and each couple received $60 per

month, the total amount to be expended from Federal funds would be about $1,800,000 per month, or a total of nearly $22,000,000 for 1 year. It is estimated, crudely, that no more than 5 percent of the 44,000 recipients would receive $60 per month and 95 percent, $40 per month. Under the present title X, the total amount of obligations incurred for May 1939 from Federal, State, and local funds was $1,020,000, equivalent to an annual expenditure of slightly more than $12,000,000. Of this amount, the Federal share would be approximately $5,700,000, exclusive of the 5 percent additional for administration.

This estimate of $22,000,000, however, is an understatement of the probable cost of the proposed amendment because with an all-Federal assistance program, all States would participate. With all States participating, it is estimated that the total cost for 1 year would be approximately $34,000,000 to aid about 69,000 recipients. If 100,000 persons were to receive aid to the blind, the cost to the Federal Government might be as high as $50,000,000. The range in the Federal cost, therefore, might be from $34,000,000 to $50,000,000 for 1 year.

Now as to disability assistance the Social Security Board have furnished me the following information, which I will submit for the record without reading.

(The statement referred to is as follows:)

DISABILITY ASSISTANCE

This is in response to your request for some estimates of probable costs to the Federal Government if the permanent and total disability benefits of title XA in S. 3475 (75th Cong., 3d sess.) were embodied in the Social Security Act as a benefit parallel to other assistance benefits.

Title XA of this bill provides for Federal grants to the States for furnishing assistance to needy permanently and totally disabled individuals who are not inmates of public institutions and who are not in receipt of old-age assistance. The Federal Government would bear half of the expenditures made under approved State plans for this purpose, not counting so much of such expenditures as are in excess of $50 a month for any one individual, plus an additional 5 percent of the Federal Government's share which the State may use for administration or for disability assistance.

It is difficult to make a precise estimate for a disability-assistance program, especially because of uncertainties that arise as to the precise meaning to be given to the definition of disability. The figures developed here must be used with this reservation in mind.

It is estimated that the number of permanently and totally disabled individuals in the population who are under 65 years of age and who are not inmates of public institutions is about 1,135,000. The cost to the Federal Government of providing assistance to such individuals under the terms of S. 3475 would depend, in the main, upon the proportion of such individuals who would apply for and receive assistance under the State plans and the average amount paid per person in receipt of assistance.

At present, approximately 23 percent of the population aged 65 and over are in receipt of old-age assistance, and the average payment per recipient is $19.20 per month. No reliable estimate is available of the proportion of blind persons receiving assistance. The average grant per recipient of aid to the blind is $23.13 per month.

If it is assumed that the same proportion of the permanently and totally disabled would receive assistance as hold for the aged, and if the average amount given were the same, the total amount expended for aid to the disabled would be approximately $60,000,000 annually. Of this the share of the Federal Government would be about $30,000,000. The addition of 5 percent for administration of the State plans would bring the total Federal expenditures to approximately $31,500,000.

The following table shows the Federal expenditures which would be required under different assumptions as to the percentage of disabled individuals who would be found needy and would receive assistance and the average monthly payments

made per recipient. In the figures that follow no account has been taken of any proposal to amend the maximum individual grant specified in S. 3475, toward which Federal matching would apply ($50). The effect of one maximum or another is assumed to be operative in producing the assumed average monthly payments (i. e., $20, $30, $40) shown in the table. Of course, the average payments are not determined by the maximum alone; State practices in determining who is "needy," the available State funds, etc., enter in producing the average result.

Annual Federal expenditures required under S. 3475 [1]

[Under specified assumptions]

If the percent of disabled persons found to be needy and receiving assistance is—	If the average monthly payments per recipient is—		
	$20	$30	$40
20 percent	$28,600,000	$42,900,000	$57,200,000
30 percent	42,900,000	64,400,000	85,800,000
40 percent	57,200,000	85,800,000	114,400,000
50 percent	71,500,000	107,300,000	143,000,000

[1] Includes 5 percent for administration of State plans. Based on estimate of 1,135,000 persons totally and permanently disabled.

These figures are the estimated costs to the Federal Government after the plan has been in existence for several years.—These estimates of Federal expenditures which would be incurred for disability assistance under the plan embodied in S. 3475 assume that the plan of disability assistance has reached the same level of "maturity" as has now been reached by old-age assistance after somewhat more than 3 years of operation. The expenditures for old-age assistance in the first year after Federal aid became available amounted to only about one-third of the expenditures in the third year. It is assumed that a similar experience would be repeated with disability assistance; namely, the costs would probably be considerably lower at the outset than in subsequent years. Accordingly (and taking various factors into account), it may be crudely estimated that Federal expenditures for disability assistance under S. 3475 in the first year of operation of a disability-assistance program may be expected to fall within the range of $14,500,000 to $17,000,000.

In these estimates no special or additional allowance has been made for the wives or other dependents of needy permanently and totally disabled individuals.

There are various provisions in S. 3475 that deserve further consideration. For example:

1. It has been assumed (though there is no specific provision in the draft to this effect) that there is intended to be no duplication with benefits under titles IV (aid to dependent children) and X (aid to the blind).

2. The administrative grant (5 percent of the Federal aid for assistance payments) should probably be more flexible.

3. The residence requirement is probably unnecessarily exacting.

4. A serious question may be raised as to the wisdom of excluding from assistance inmates of public institutions.

These and similar points are mentioned here because they have also been examined in connection with the successive amendments of the proposed title XA (Aid for Handicapped Individuals) of Senator Byrnes' bill (S. 2203, April 19, 1939).

Costs for a wholly Federal program.—If disability assistance was proposed as a wholly Federally financed program, the figures cited above for the Federal share in a Federal-State program would need to be doubled (still assuming only 5 percent for administration).

Senator PEPPER. Now, under our second proposal as to old-age assistance, which is a Federal-State program with Federal matching of 50–50 up to monthly maxima of $40 per single person and $60 per couple, if the number of recipients remained at the May 1939 level of 1,838,000 recipients and the average payment per recipient was $19.20 (the May average), the cost to the Federal Government under the 50–50 matching plan would be $220,000,000 for 1 year.

However, this is probably not a realistic estimate because the old-age assistance program is expanding. If it is assumed that there would be about 1,960,000 recipients in 1939–40, the cost of assistance payments might be $250,000,000 from Federal funds. This proposal probably would not actually result in any appreciable increase in Federal expenditures over those expected under the present provisions of title I of the Social Security Act because very few States would be able to make payments up to the maxima specified in the proposal. Witness the fact that in 1937–38, the States made full use of the 50–50 matching up to a total of $30 per person in only about 15 percent of the cases.

Under proposal No. 2, a Federal-State program with Federal matching of 50–50 up to monthly maxima of $40 per single person and $60 per couple, under this proposal, the total cost to the Federal Government for 1 year for aid to the blind in 42 States would be $6,900,000, assuming that the number of recipients remained the same as in May 1939, namely, 44,000, and the average payment was $23.13 (the May average).

If all States should participate in the blind program, the total cost to the Federal Government might be nearly $10,000,000 for 1 year to aid 69,000 persons.

If 100,000 persons were to be aided, the estimated cost to the Federal Government for 1 year might be as much as $15,000,000.

Under the second proposal the cost to the Federal Government for aid to the blind might range from $10,000,000 to $15,000,000, but these amounts are not much in excess of the present cost because few States presumably would be able to furnish the State funds necessary to maintain the level of payments contained in this proposal.

Now, as to aid to dependent children, under proposal No. 2, a Federal-State program with Federal matching of 50–50 up to maxima monthly payments of $25 for the first child in each family and $10 for each additional child, these maxima also become the minimum monthly payments which must be made in order to qualify for Federal funds. Under this proposal, assuming that the same number of children would be aided as in May 1939, namely, 688,000, the total cost to the Federal Government for 1 year for aid to dependent children in 42 States would be $67,000,000.

If all States should participate in this plan and if 845,000 children, or 2.5 percent of all children under 16 years of age, were to be aided, the cost to the Federal Government would be about $81,000,000 for 1 year.

If it is assumed that 5 percent of the children in the population were to be aided, the cost to the Federal Government would be about $167,000,000. Therefore, the Federal cost of this proposal for 1 year might range from about $81,000,000 to about $167,000,000.

Mr. Chairman, the committee has been very kind, but I just think we cannot go on and let the people in your State get $5 or $6 a month, and in Florida get $16 a month, meanwhile excluding them from work relief benefits like W. P. A. By getting these benefits it is probably excluding them from other benefits they might receive.

I think we have found out by experiments that we have got to fix a reasonable minimum for the whole country, and if the States want to go above that, that is their business. I want to say, Senator Bailey, I do not regard that as a transgression upon State rights. I

draw the line on the extension of Federal power at that point where the Federal Government may assist, where the Congress may assist, from the remote point where Congress may prescribe a rule of conduct for all the people of our country, to the local government, where the citizens exercise their prerogatives and do those things that are prescribed by a rule of conduct that is under local self-government. This is a national problem and we cannot avoid approaching it in a national way. Thank you.

(The testimony given by Senator Pepper before the House Committee on Ways and Means is as follows:)

160883—39——6

SOCIAL SECURITY

TUESDAY, FEBRUARY 21, 1939

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Thomas H. Cullen presiding.

Mr. CULLEN. The committee will kindly come to order. The first witness this morning is the Honorable Claude Pepper, a United States Senator from the State of Florida.

Senator Pepper, we will be glad to hear you at this time.

STATEMENT OF HON. CLAUDE PEPPER, A UNITED STATES SENATOR FROM THE STATE OF FLORIDA

Senator PEPPER. Mr. Chairman and members of the committee——

Mr. CULLEN. Senator, would you like to proceed without interruption until you complete your statement and then answer questions that may be propounded by members of the committee?

Senator PEPPER. If I may do that.

Mr. CULLEN. How much time would you like, Senator?

Senator PEPPER. I dare say not over 15 or 20 minutes.

Mr. CULLEN. You may proceed.

Senator PEPPER. Mr. Chairman and members of the committee, it is with considerable diffidence that I come here before you this morning. I certainly do not come in the category of what I would call a witness. I rather come in the spirit of earnest inquiry as you do, in regard to the problem that faces us, of doing something about what we believe to be an acute situation in America at this time.

The figures are more or less common knowledge to everybody, as to how the number of people 60 years of age and over in our population relate themselves to the total population of the country.

In 1930 we had a total population of 123,465,000. In the same year we had, over 60 years of age, 10,392,000, or 8 percent of the total population.

In 1935 the total population was 127,985,000, and there were 11,602,000, 60 years or over, making 9 percent of the total population.

In 1940 we estimate that we will have a total population of 132,630,000, and a population of 60 years of age and over of 13,286,000, or 10 percent of the total population in that category.

In 1960 it is estimated that we will have a total population of 147,612,000, and 21,584,000, or 15 percent of the total population, over 60 years of age.

In 1980 it is estimated we will have a total population of 153,628,000, with 31,308,000, or 20 percent of the total population, 60 years of age and over.

The Social Security Board has estimated that on July 1, 1938, there were about 12,418,000 persons 60 years of age and over in this country.

According to the unemployment census of November 1937 and the 1930 census of population, about 40 percent of those 60 years of age and over were employed or available for employment in the labor market.

Thus, about 4,970,000 persons 60 years of age and over are in the labor market. The remaining number—about 7,450,000—are not available for employment.

If the 4,970,000 persons were withdrawn from the labor market, it would mean a reduction of that number in unemployment.

It would leave the way open for younger workers to take the places of about 3,300,000 of the older workers fully employed. It would leave the way open for younger workers to take the places of about 570,000 of the partly employed or part-time older workers.

The remaining 1,100,000 older workers totally unemployed on emergency works projects, ill or voluntarily unemployed would no longer be in the labor market and counted as unemployed.

At the present time about 150,000 workers leave the labor market per year when they are around 60 years of age because of death, voluntary retirement, disability, and other reasons.

An additional 350,000 persons would leave annually during the next few years were they to receive adequate pensions. The number would, of course, increase as the population increases.

These additional 350,000 withdrawals from the labor market would offset the current rate of about 600,000 net new additions to the labor force, reducing the net additions to about 250,000 annually.

In the Social Security Bulletin of March 1938, on page 6, there is a table marked "table 1," indicating means of support of persons 65 years of age and over in the United States, compiled and estimated, April 1937.

That shows that 5,070,000, constituting 64.9 percent of the people 65 years and over of our population, were totally dependent.

Approximately 65 percent of our total population, 65 years and over, were totally dependent upon someone else for support.

From page 7 of the same Social Security Bulletin, March 1938, I read the following:

The State commission on old-age security in New York estimated that only 5 percent of persons 65 and over in that wealthy State in the prosperous year of 1929 were self dependent on savings.

That was 5 percent, in the State of New York in 1929, who were capable of their own support, on their own savings.

Taking the country as a whole, there is strong evidence that four-fifths of the entire adult population has on the average about $250 per capita accumulated wealth and, therefore, cannot be self supporting, except for a short period, by reason of savings, interest, rents, dividends, receipts from insurance (exclusive of annuities), or proceeds from the sale of owned property. Estate data analyzed from the period from 1912 through 1923 indicated that four-fifths of all adults dying during those years had estates of an average value of approximately $250. Presumably, therefore, more than four-fifths of all persons 65 and over have wealth of less than $250, for most of them have passed the period of accumulation and are drawing on past savings.

In the magazine Monthly Labor Review, volume 44, No. 6, June 1937, the deplorable difficulties facing the older people in an effort

to get employment are pointed out, and on page 1386 of that volume appears the following:

> The existence of discrimination in employment against older workers in Massachusetts was fully established by this investigation.

Also, in the Monthly Labor Review, volume 46, No. 1, January 1938, with regard to the same subject, the following appears:

> Although there have been relatively small changes in the age distribution of the unemployed recorded by the United States Employment Service at various dates during the past 18 months, men and women beyond the middle forties, who have fallen out of work, have on the whole regained a place in industry less easily than younger workers. This statement holds good for workers in all types of occupation, though the more highly trained are probably in a somewhat less unfavorable position than others.

That was on page 15 of the volume that I have just indicated.

It is also of interest to observe that the Unemployment Census of November 1937 showed 16.7 percent of those employed or available for employment between 65 and 69 years of age are totally unemployed. That is to say, the whole number of our people between 65 and 69 who want and are able to work, contains 16.7 percent who are totally unemployed. Between 70 and 74, the totally unemployed constitute 15 percent of the total number. And between 60 and 64, the percentage of totally unemployed is 15.2.

An interesting question is, How long does this unemployment last on the part of the several age classes?

We find that the duration for those 60 to 64 is 43.8 percent—that is the median duration—and for those 65 and over it is 43 percent.

This appears in the volume Employment and Unemployment in Philadelphia in 1936 and 1937.

Also in Employment and Unemployment in Philadelphia in 1936 and 1937, part II, May 1937, it is shown that for the age 60 and over there was an average of 47.3 for the number of months of unemployment of each individual unemployed. Now, you can see how long a period 47 months is, and what that period would do to a savings of $250, even if the individual had an average saving of that amount.

Referring to Recent Trends in Employment and Unemployment in Philadelphia, on page 51, from this census that was taken in Philadelphia, it is disclosed that 29.4 percent of those from 60 to 64 were unemployed. That is to say, of the total number unemployed those from 60 to 64 represented 29.4 percent and of those 65 and over represented 34.4 percent.

Last November there were about 1,770,000 persons that received old-age assistance benefits. That is from the Social Security Board under the existing law. Benefits averaged about $19.30 per person and totaled over $34,000,000.

Some 22 percent of the population 65 years and over received benefits.

The committee, of course, is aware that old-age-assistance benefits under the Social Security law are only paid to those in dire need.

A view might be taken of the long-term aspect of the unemployment problem. Measures already adopted to stimulate recovery are not enough to do away with our employment problem quickly. During the 4½ years of recovery from March 1933 to September 1937 reemployment averaged about 2,000,000 per year. Because of the

increase of about 600,000 annually in the labor force—that is to say, about 600,000 young workers coming every year into workable, employable status over and above replacements for those leaving the labor market because of death, retirement, or disability—unemployment declined at an average rate of 1,400,000 per year. This is about what we can expect under the existing set of arrangements.

Even though at some times in 1937 we reached the 1929 level of activity, unemployment did not fall below 7,400,000. It is an interesting thing to recall that in 1936 we produced within 5 percent of as many goods as we turned out in the year 1929, prosperous as it was; and yet while we had probably only 4 or 5 million unemployed in 1929, we had probably at least 10 or 12 million unemployed in 1936, which takes into account not only the number of new workers coming constantly into the field, but, in addition to that, the number of people being annually displaced by technological improvements which, as we all know, is no inconsiderable portion of the employable class.

Now we have slipped back and must start from a 10- to 11-million level. If we can do no better than the 1933–37 rate of reemployment, it will take at least 7 or 8 years more to liquidate the unemployment problem.

That is to say, if the present momentum of reemployment continues.

With regard to this question of technological improvement and the improvement of mechanical devices which displace men and women from labor, I believe that a little while ago I saw figures that it would require throughout the year 1939 one-fourth more national income to give employment to as many people with present technological means, as would be employed if we used the technological situation of 1929. In other words, at least 10 percent fewer men are employed in 1939 to turn out and to produce the same national income as would be employed if we used the rate of production per man that we had in 1929.

I believe that back in about the early part of the nineteenth century it was that that 1 farmer produced enough to feed 5 people on the farm and one-half of a person in the city, whereas in the current year the productive capacity of 1 man on the farm is 4 people on the farm, 12 people in the city and 2 people abroad. It is not an extraordinary thing, therefore, that we have great agricultural surpluses.

Furthermore, 50 or 60 years ago the capacity per workman might be regarded as 1 horsepower and now it is 5 horsepower for the same workman.

So we have the 2 ends that are gradually approaching an intersection, one of them the new workers who are coming annually into the labor market—about 600,000 of them—and the other is the number of people that are being thrown out of employment every year by technological improvement.

A little bit ago a delegation from Congress and some other people made a visit to my own State of Florida. We went down into the cane-growing area in the Everglades, and we rode along the railroad and along the highway, and we saw laborers out there in the fields, cutting this sugarcane preparatory to sending it into the sugar mill. Then we went on up to what might be called the main office of the company and we saw there a great harvesting machine. The management of the company pointed out to us—and they exhibited that

machine in operation—that that machine had a capacity to do the work of 200 men per day. And had it not been for the humanitarian instincts of those people and their desire to see those men provided with employment, and thereby contributing to the purchasing power of that community, they could any day have turned that machine into operation, out in the field, and displaced 200 of those men that were earning a competence there by their labor.

I know that the members of this committee do not hold the belief, and neither do I, that some of our friends seem to express, that when such a thing as that occurs and these people become unemployed, that all of a sudden they become worthless and shiftless and undeserving. I know a great many good people that have been the victims of technological adjustment and mechanical improvements, and I do know that either through vocational education, or through newly made, newly created work, or by limitation of hours or in some way we have to make provision that will compensate for that disturbance and lack of adjustment in our economic system.

Now, we all know that we have embarked upon a social security plan. And we are very proud of the progress that has been made toward the objective that was being approached. And, insofar as we have approached it, all credit to those of us who have had anything to do with it. But there is one very serious aspect about the present social security program, and that is the manner in which that program affects the purchasing power of the people of this country and the degree to which that program may not increase, but diminish for the years in immediate prospect ahead, the purchasing power of the masses of the people of this country.

In 1937 there were $579,000,000 estimated collections from the social-security taxes. In that same year, 1937, $1,000,000 only were dispersed under the social-security program. Therefore, there was a net withdrawal from consumer purchasing power of $578,000,000. That was in 1937, at a period when we needed purchasing power to be increased rather than diminished.

In 1938, under the social-security program, the collections were $510,000,000 and the disbursements estimated to be $10,000,000, or a net withdrawal from consumer purchasing power of $500,000,000.

In 1939 it is estimated that the collections will be $550,000,000 and the benefits paid $25,000,000, or a net withdrawal from consumer purchasing power of $525,000,000.

In 1940 it is estimated that the collections will be $870,000,000 and the disbursed benefits $30,000,000, and therefore the net withdrawals from consumer purchasing power of the country $840,000,000.

Now, that is when we are struggling up the hill, trying to get out of the trough of the depression.

I tried to put my hand on a volume, before I came over here, published by the League of Nations, representing an economic survey of the nations of the world by the impartial authority of the League of Nations. And that volume, in criticizing, in examining the economy of the United States, pointed out what happened to us in our economic system in 1936 and 1937. They showed that approaching the era 1936 and 1937 from 1932, we had begun to spend money and put that money into the channels of consumer purchasing power.

We, for example, in 1936, spent around two billion dollars in the discharge of the soldiers' bonus, for which, may I remind you, that

in a material way we got no compensation back from those who were the beneficiaries of that disbursement. So whenever anybody tells you that it is an impossible thing to derive public benefit from a disbursement without material consideration in return, I think that instance in our history controverts such an accusation or statement.

So that beginning in 1933 with the F. E. R. A. and the C. W. A. and the R. F. C. and the other emergency agencies of the Government; and then in 1935 with the W. P. A. and the 4-billion-dollar expenditure at that time, finally up until 1936, we had spent or put into consumer purchasing power circulation some 10 or 12 billion dollars.

Now, alongside those expenditures appears the payment of the bonus in the year 1936–37 and in the subsequent fiscal year there were about a billion or a billion and a half dollars that went out in veterans' benefits also. No wonder, therefore, that we had built up a consumer purchasing power that gave us the momentum of 1936 and 1937.

Then what happened? The social-security laws went into effect and taking into consideration the receipts for the social-security taxes and the reduction in expenditures, the total number of dollars which the Federal Government disbursed in the fiscal year 1937 was approximately the same number of dollars that it received. In other words, instead of pouring new dollars into the channels of purchasing power, we had entirely stopped the flow; because it makes no difference what may be the cause of the diversion. The social-security taxes went into reservoirs of capital that became static and therefore those dollars were taken out of the channels of consumer purchasing power.

This impartial economic survey made by the League of Nations pointed out that we brought our own house down on our own heads by simply destroying the momentum of purchasing power that we had carefully and diligently built up from 1933 until the latter part of 1936.

So that in the year 1937 we had substantially a balanced budget, when you take into consideration the total number of Federal dollars collected as related to the total number of Federal dollars going out.

I may add that if in addition everyone who has received a lump-sum payment and gone out of the system were brought back in—that is, regarding social-security benefits—the benefits might reach as much as $200,000,000. Even this would mean a net withdrawal from consumer purchasing power of about $650,000,000 per year.

If everyone over 65 on January 1, 1940, or becoming 65 thereafter, who has worked in the covered occupations were made eligible, benefits might reach $450,000,000 to $500,000,000. Even this would leave a net withdrawal of around $400,000,000.

Both of the last two contingencies are based upon the assumption that a rate of wages formula is used in calculating benefits rather than the cumulated earnings formula. This would mean average benefits for a single person of $30 per month and for a married person of $45 in place of the provision of $15 per month.

Adverting to the statement that I was making a moment ago, to see how the net disbursements of the United States Government ran, I would like to recapitulate for the period from 1932 up to the month of December 1938.

In 1932, in January, our outlays amounted to about $278,000,000 and our receipts about $173,000,000, a net contribution of $105,000,000 to consumer purchasing power.

In February 1932—and I will now read just the net figures, if I may—in February 1932 the net contribution was $142,000,000.

In March the net contribution was $186,000,000.

In April the net contribution was $182,000,000.

In May the net contribution was $183,000,000.

In June the net contribution was $179,000,000.

In July the net contribution was $150,000,000.

In August the net contribution was $171,000,000.

In September the net contribution was $102,000,000.

In October the net contribution was $118,000,000.

In November the net contribution was $144,000,000.

In December the net contribution was $166,000,000.

Then we come to the calculations for the calendar year 1932 and we find that the outlays were $3,614,000,000, the receipts $1,785,000,000, and the net contribution to consumer purchasing power by the Federal Government $1,829,000,000.

In 1933 in January the net contribution was $157,000,000.

In February the net contribution was $149,000,000.

In March the net contribution was $192,000,000.

In April the net contribution was $199,000,000.

In May the net contribution was $175,000,000.

And in June the net contribution was $217,000,000.

In July the net contribution was $93,000,000.

In August the net contribution was $77,000,000.

In September the net contribution was $102,000,000.

In October the net contribution was $114,000,000.

In November the net contribution was $159,000,000.

And in December the net contribution was $246,000,000.

For the calendar year 1933 the total outlay of the Government was $4,253,000,000, the total receipts were $2,373,000,000, and the net contribution to consumer purchasing power $1,880,000,000.

In 1934 the net contribution of the Federal Government in January was $350,000,000. You will notice the amount jumping up there.

In February the net contribution was $277,000,000.

In March the net contribution was $257,000,000.

In April the net contribution was $237,000,000.

In May the net contribution was $228,000,000.

In June the net contribution was $261,000,000.

In July the net contribution was $221,000,000.

In August the net contribution was $276,000,000.

In September the net contribution was $260,000,000.

In October the net contribution was $293,000,000.

In November the net contribution was $285,000,000.

In December the net contribution was $285,000,000.

For the calendar year 1934 the total outlay by the Government was $6,492,000,000; the receipts were $3,262,000,000 and the net contribution to consumer purchasing power was $3,230,000,000.

In 1935, in the month of January, the net contribution was $299,000,000.

In February the net contribution was $262,000,000.

In March the net contribution was $231,000,000.

In April the net contribution was $285,000,000.

In May the net contribution was $260,000,000.

In June the net contribution was $341,000,000.

In July the net contribution was $312,000,000.
In August the net contribution was $310,000,000.
In September the net contribution was $295,000,000.
In October the net contribution was $293,000,000.
In November the net contribution was $229,000,000.
In December the net contribution was $342,000,000.

Or for the calendar year 1935, the total outlay by the Government was $7,042,000,000; the total receipts $3,583,000,000 and the net contribution to consumer purchasing power $3,459,000,000.

You will notice that for the 2 years of 1934 and 1935 the Federal program and policy put into consumer circulation nearly $7,000,000,000, almost as much as, I observe from the newspapers, the total rearmament program that Great Britain is now in the process of launching—a colossal sum of money. That was in 1934 and 1935, a build-up to the years 1936 and 1937, when the results of that increased purchasing power became obvious to everybody.

In 1936 the net contribution of the Federal Government to consumer purchasing power in January was $290,000,000.
In February the net contribution was $192,000,000.
In March the net contribution was $274,000,000.
In April the net contribution was $313,000,000.
In May the net contribution was $323,000,000.
In June the net contribution was $655,000,000.
In July the net contribution was $453,000,000.
In August the net contribution was $397,000,000.
In September the net contribution was $294,000,000.
In October the net contribution was $347,000,000.
In November the net contribution was $304,000,000.
In December the net contribution was $301,000,000.

For the calendar year 1936 the total outlay was $8,437,000,000; the total receipts $4,294,000,000; and the net contribution toward consumer purchasing power $4,143,000,000.

Now, adding that onto the $7,000,000,000 that makes well over $11,000,000,000 that in 3 years' time we had added to the consumer purchasing power of the country.

We all know what happened. The year 1936 and the year 1937, in the economic prosperity of the country, were comparable to the boom year 1929. Prices began to soar. Money began to move so rapidly that the President of the United States felt so disturbed about it as to feel duty bound to issue a statement designed to reduce prices in certain commodity fields. Whether that was a wise policy to pursue or not is a matter of controversy and opinion. But at least we had stimulated consumer purchasing power of America to the point where prosperity was actually with us and not just imagined to be around the corner.

And the interesting thing to me, if I may say so, Mr. Chairman and members of the committee, is that we were not willing to observe a pragmatic test that actually worked. It is one of the few times that I know of in history where people have actually thrown away the very economic medicine that made them well, or where a patient has repudiated the treatment that actually revived him and stimulated him.

And yet we were so unaccustomed to that method of improving the economic system that we were innately or consciously afraid of

it and we began to put the brakes on instead of keeping the thing going with the momentum that we had once stimulated.

It reminds me of what I had to do many times, get out on a cold morning and try to push an old Ford or a Chevrolet, to get it started. When once you do get it started, it is not very hard to keep it going. But it takes two or three or maybe more men to get it started again. And that is just what has happened to our economic system.

Now, in 1937, in January, our net contribution to consumer purchasing power of the country fell down to $159,000,000.

In February the figure is $59,000,000.

In March it is $101,000,000.

In April it is $102,000,000.

In May it is $44,000,000.

In June it is $100,000,000.

In July it is $89,000,000.

In August the figure is $70,000,000.

In September the figure is $28,000,000.

In October the figure is $50,000,000.

In November the figure is $78,000,000.

In December the figure is $105,000,000.

So for the year 1937 the record is a total outlay of $7,401,000; total receipts of $6,416,000,000 and a net contribution to the consumer-purchasing power of the country of only $985,000,000.

So that it fell in 1 year, up to the end of the year 1937, from a net contribution to consumer-purchasing power of America of $4,148,000,000 to $985,000,000. So eventually we had achieved a balanced Budget and forever let those honest gentlemen who believe that the mere balancing of the Budget is the solution of our economic question remember that year 1937. It is the answer to their remedy to cure the economic ills of America.

Now, Mr. Chairman, it is common knowledge to every Member of this Congress that for the whole year 1937 we hoped and prayed that something would just happen of its own initiative. We actually did take a do-nothing policy as a means of economic recovery and improvement and we waited month after month, and more and more people went on the rolls of the unemployed and more and more people lost their businesses, and more and more people went to a premature and untimely grave from economic poverty and hardship, because the Government listened to those sirens that said that all we had to do to improve the economic situation was to do nothing. And we did that for a year.

And, finally, in the spring of 1938 we thought that we had had a fair example of what happened when we did nothing, as a great many people wanted us to do. Now, for the year 1938, what did we do? We began to do something in the sphere where we thought it would do good, to increase the consumer purchasing power of America. The result was that in January of 1938 the net contribution to consumer purchasing power of the country, made by the Federal Government, was $61,000,000.

In February the figure was $16,000,000.

In March the figure was $104,000,000.

In April the net contribution was $140,000,000.

In May the net contribution was $191,000,000.

In June the net contribution was $170,000,000.

In July—now it is going up again; you remember the late spring of 1938 was when we appropriated some more money to stimulate the consumer purchasing power of America. So in July 1938 our net contribution to consumer purchasing power of the country was $215,000,000.

In August the net contribution was $277,000,000.

In September the net contribution was $218,000,000.

In October the net contribution was $295,000,000.

In November the net contribution was $240,000,000.

In December the net contribution was $273,000,000.

With the result that the net contribution to the consumer purchasing power of the country by this Government in 1938 was $2,200,000 as compared to $985,000,000 in the year 1937.

And so, when we began to employ again the remedy that had actually got us out of bed, up until 1937, we again began to get up out of bed, although those of us who have had the flu or some comparable disease know that when you have been ill and have a set-back, sometimes it takes you longer to catch up the second time than it would have if you had not gotten up so soon the first time.

So, Mr. Chairman, those figures I think are very pertinent as indicating a general principle. That is to say, that we can never solve our difficulty with our economic situation unless we can develop some machinery to stimulate and to improve the consumer purchasing power of the country. That is what we are struggling for. Some of our friends, just as honestly, have appeared and have been saying, "Look at the great reservoir of capital in the banks of this country. All we need to do to have prosperity is to release those reservoirs of capital and let them stream out into the channels of commerce and trade."

Well, that is all very well. It is a very easy thing to say, "Why, let the man that wants to make automobiles take some money from the banks and build an automobile factory and start the mines and the machines to working and begin to give the transportation systems something to do, and in a little while you will have that additional contribution to the economy of the country." But suppose he builds his factory, and suppose he has his materials made into automobiles and has his men employed, and has used up his capital for that purpose, how is he going to get it back unless the people of the country are able to buy those automobiles?

And so what we are struggling for is obviously to approach the problem from that end, and I am one of those that believes that it is customers and not this imaginary thing called confidence that will give real confidence to the business of the country.

With respect to the bill, Mr. Chairman, I profess no wisdom even comparable to that of your Committee on Ways and Means here in the House. I do not know, as perhaps you do not know, what plan will have complete efficacy that might be proposed.

I do believe that it is in the right direction. I do believe it has merit. I do believe it is dealing with the subject in a fundamental way, because it keeps money circulating among the people of the country. I do believe that it is just as desirable; in the first place, I believe that all older people should receive the benefits of what-

ever social-security plan we have and not leave out any classes, domestic or agricultural, or any other classes.

I would just as soon, as far as I am concerned, see those taxes that will pay for that system's operation arrived at by some sort of an excise tax, as to see those taxes derived from pay rolls, or even from the general treasury.

Mr. Chairman, you will observe that this is a segmented bit of revenue. It is taken up and it is distributed back, as it were, from the whole people to a few people.

I would not relinquish—I do not like to call it the means test, but I would give first consideration, I believe, as this bill does, to those that are not gainfully employed; because after all if there is one man here that has a thousand dollars, and there is another man over here that does not have a thousand dollars, while the man that has a thousand dollars can just as effectively put the money in circulation as the man who has no money, yet this fellow would derive a great deal more good from it while he is putting it into circulation, with equal efficacy, than the fellow over here that already had some money.

So I would preserve in the bill the allocation of these funds to those who do not have other income comparable to this income that would be provided by this bill.

So the only thing I came here to say, in substance, was that we have got a problem; that it is a fundamental problem and it is not going to be cured overnight by anything.

I was during this last summer in Geneva in Switzerland and went down to the labor building where they have statistics of a world-wide economic survey. They were indicated in block form upon a table, and to my regret and to my chagrin, in a way, I looked at those red blocks on the table indicating the number of unemployed in the various countries in the world. I observed that the one for the United States was a very high red block indicating a high unemployment. The one for Great Britain was also a high red block indicating that Great Britain had a large number of unemployed. The one for France was also high, indicating that that country, too, had its serious unemployment problem.

The one that was by Holland, the one that was by every democracy in the world was a high red block.

Then right along beside them on the same table there was a little bit of a red block, and by that was the name of Germany, indicating that they boasted of practically abolishing unemployment. And right beside that was another one for Italy, which was only a little higher than that of Germany. And over beside that was one marked Japan, and that was lower than either one of the others.

Now, whatever we may say in abhorrence of their methods, however despicable they may be in philosophy and in conduct to the American citizen, at least they have approached in a realistic way this dilemma of unemployment.

I actually saw in the city of Berlin, a part of the city that housed the American Embassy, a palatial building that housed a family that is related to the Anheuser-Busch family in this country; a palatial home that was being destroyed, razed to the ground. They were building great new wide avenues and streets there and marvelous

new buildings in the place of those that were already almost palatial in their significance.

I do not want to be misunderstood by anybody in giving approval to anything that they do other than to say that there is a degree of realism in their approach, the approach that they have made to this problem.

And so here in America, if we do not do anything to aid the private system as it goes along, I venture to say that our total number of unemployed year by year will become greater and greater, and there just are not enough jobs in the existing economic system to go around. That is all there is to it. If we do not take from the reservoir of saving in this country, and reach down into the man's pockets that works, and reach down into the pocket of the man that makes money, and take some money and put it over into a fund that will be used as an instrumentality of giving other men a chance to work, then we need not expect anything but economic chaos and economic weakness and economic disturbance and all the attendant ills that go along with them.

And so, Mr. Chairman, this I beg you to consider as one contribution toward that problem. Weigh it, tear it apart as you will, and perfect it as best you can.

Mr. CULLEN. Thank you, Senator.

Mr. MCCORMACK. Senator, certainly I do not misunderstand your reference to what you observed at The Hague when you saw that the democracies had a larger unemployment than the totalitarian states. And your language was that they approached the problem in a realistic way.

But, first, have not the totalitarian states driven women back into the home, and gone back to the position that she is just a chattel, as she was regarded in the old pagan days; just as one might regard a piece of furniture?

Senator PEPPER. That is right.

Mr. MCCORMACK. We would not stand for that, would we?

Senator PEPPER. That is exactly right. But I would just like to say this. There are a great many people—I do not subscribe to that in any way, because our women are entitled to work just as our men are. But that is one way of approaching the problem, to give men a chance to work and take women out of the places where they are competing with them. That is at least a realistic approach. I abhor it, but I say that it is realistic.

Mr. MCCORMACK. But in a democracy we cannot do that.

Senator PEPPER. That is right.

Mr. MCCORMACK. And certainly I know that you would not stand for it.

Senator PEPPER. Not in the slightest.

Mr. MCCORMACK. Neither would I. Of course, that is one means of solving our domestic unemployment problem.

Senator PEPPER. That is right.

Mr. MCCORMACK. Of course, you know about the concentration camps that they have over there?

Senator PEPPER. Yes.

Mr. MCCORMACK. And then there is the tremendous increase in rearmament that is going on in those countries?

Senator PEPPER. That is right.

Mr. McCORMACK. They have been a contributing factor to the situation that you have mentioned?

Senator PEPPER. That is right.

Mr. McCORMACK. Also they have state subsidies for both domestic and foreign business, and they have used the power of taxation for complete social purposes.

Of course, we have a different situation than that. We have got to face our problem from the angle of a government of the kind that we have.

Senator PEPPER. Mr. McCormack, I have heard your questioning here before, and I know how deeply you are interested in this problem.

Mr. McCORMACK. Let me say—and I do not say it by way of flattery—that you have made a very powerful presentation of the facts here. There is no question but what the problem is a very serious problem—the problem of unemployment. That is the primary problem that confronts us domestically.

Senator PEPPER. What I started to say was—and I would be glad to have your observation on it—that this spending program, if you want to call it spending; I prefer honestly to call it an investment program—but this disbursement program, it seems to me, is the democratic way of reaching this problem. And I will tell you why I say that.

In Germany and in Italy they do not bother to seek the interests of the individual. Hitler said in his Nuremberg speech, "The State is everything, the individual nothing."

Now, when they want 100,000 men—they may be unemployed men, for all I know—for work either at the front or to work in a shipyard or in a mine or in the fields, they just order them to go there. And that is all there is to it. I suppose they give them food and clothes and maybe some remuneration; I do not know how much, while they are there. That is all there is to it. That is the dictator's method of solving the problem. We have never gotten to the point in this country where, if in Philadelphia there is a shortage of labor and in New York there is a surplus in the labor market, we tell those people in New York, "We are not going to give you any P. W. A. money or Federal benefits any more. All you have to do to get a job is to go down to Philadelphia." We have never done that even negatively, much less to have the Government go up and put them on trains and tell them that they have got to go down to Philadelphia and work.

If we are ever going to get any kind of movement that will come from attracting the individual to make a decision voluntarily to go where the job is, the only way to do that is to create the job and then perhaps let him know about it and encourage him to find either in his own community or in some other community the new job that is created for him.

Mr. McCORMACK. I was interested to have the record show what I thought were rather pertinent facts. Because when people talk about unemployment in the United States and compare it with the employment situation in totalitarian countries, it seems to me there are factors which, if people consider them, would make them realize that they must be taken into consideration to get at the truth.

Senator PEPPER. You are quite right.

Mr. MCCORMACK. And back of it all, the philosophy in those countries is that the State is omnipotent while the personality of the individual shall be submerged or destroyed.

Senator PEPPER. That is right.

Mr. MCCORMACK. That is the basic conflict between religion and the state. The state tries to dominate religion through the destruction of the personality of the individual. Here, under our form of government, of course, we must consider not only efficiency, but satisfaction.

Senator PEPPER. That is right.

Mr. MCCORMACK. And the satisfaction is the possession of individual rights that we enjoy.

Senator PEPPER. That is right.

Mr. MCCORMACK. And we must make some sacrifice of efficiency in order to have that satisfaction, or the approximation of it.

Senator PEPPER. Just last night I attended in New York a very significant dinner. It was attended by 3,100 people, at the Hotel Astor. It was called by the Phi Beta Kappa Society of this country, to give renewed expressions of fidelity to the humanities and the spiritual thing that Phi Beta Kappa stands for, in response to the feeling that man does not live even by bread alone.

And it might be of interest, too, to see how people still cherish those things, to hear the master of ceremonies and the people in charge say that while they expected three or four hundred people, perhaps, to be there, 3,100 actually came and paid $2.50 to be there, and they had to turn away many hundreds more.

That indicates, of course, that our people still cherish those things. They even cherish them when bread is in consideration. We are not willing to give up those things even to get bodily comfort.

Mr. MCCORMACK. You do not have to tell me what your views are, Senator. I know them. I asked a few questions because someone who read your remarks might arrive at a misunderstanding of your point of view.

Senator PEPPER. That is right.

Mr. MCCORMACK. There would be no misunderstanding on the part of a fair person, but we are practical men and we know that the world is made up of all types of people.

Senator PEPPER. That is right.

Mr. MCCORMACK. Mr. Chairman, those are the only questions I wanted to ask.

Mr. JENKINS. Mr. McCormack asked some of the questions that I had in mind, Mr. Chairman. But may I take this opportunity to state that I agree with him that the Senator has made a very brilliant presentation. I am not so sure, even though his presentation was brilliant, that we are anywhere nearer the solution. For instance, I read a few days ago a report where Germany claims that the key to her success is that her workmen are working 15 and 16 hours a day. Of course, we could not accomplish in this country what we are trying to do if we took that course.

Senator PEPPER. That is right.

Mr. JENKINS. It would seem, then, that their philosophy is highly contrary to what we are trying to do in this country.

Senator PEPPER. That is right.

Mr. JENKINS. In the first place, we maintain that we have a surplus of everything. If that is true, we do not need employment of 16 hours a day. And we maintain that in order for us to bring about what we are after, we must pay high wages. In those other countries they do not argue so much about high wages; they are not so particular about wages.

Senator PEPPER. That is right.

Mr. JENKINS. I do not know whether the answer to the question is, as Mr. McCormack says, that they surrender some of the personal things in life that we have in this country.

In other words, I listened to your speech with a great deal of interest, but somehow or other, I came out at this one place. In your proposal of the Townsend plan, you propose to pay money more or less as a false start, to prime the pump, as it were, to start the wheels going. But over there in those other countries, in the totalitarian States, their absorption of unemployment has come from some other reason.

I do not know how you bright men, who argue in favor of this proposition, are going to justify yourselves when you come to that one point of doing a brand-new thing and taking a gigantic step in that one direction. If you are going to base your program on this one first step, and if that step should be a failure, then it would look like our structure would collapse.

Senator PEPPER. Mr. Chairman, I will say to Mr. Jenkins—and the query that he puts is one that troubles all of us—is that perhaps the most reassuring thing about this whole problem is one of us can be just about as sure that he knows the answer as the other fellow.

I have talked to rich men and poor men. I have talked to men in high station and low station, and I have not found any man yet that has the answer to the problem in the form of some magic panacea.

It is like the good doctor that will come to a patient and who will not be demagogic enough to say that he has some pill that he can give him and tomorrow he will jump up and run around the house. The good doctor comes and tries to nourish the person's health; to nurse the individual back to a sound recovery. But he tries to stimulate him. He may allow him a stimulus in his diet, or he will give him a stimulus in his blood, because he wants to augment the natural physical processes of recovery.

Now, all the Federal Government has been doing, and it seems to me what this bill and all legislation of that type proposes, is that we shall simply give that little impetus that a good doctor tries to give to his patient to bring him from a weakened condition back to a sound recovery.

May I say, too—and then I would like to have your further comment—that I realize that there is nothing more extraordinary than to have a man that purports to be an intelligent man say that you can give away money and get back a general economic benefit from such a donation.

Let us take that for just a moment. If I were to make that statement out in a debate, on a platform, all you would have to do to ridicule me would be just to wave your hand at the crowd and say, "Gentlemen, you can judge for yourself about the merit of this proposal." But the actual facts are that what we gave in bonus payments in 1936 aided our recovery. The actual facts are that in

1920 we said we were lending money to countries abroad, in Europe and in South America, for the purpose of buying material from us that set our plants in operation and gave jobs to our people. And during that era we actually prospered by a process that we thought was lending, but it turned out later to be a process of donation of our money to other peoples of the world.

I would not hazard my reputation, whatever it may be, by stopping there with such a statement. That is not the preferable course.

In relation to the older people, giving away money has a different aspect. It does actually increase the purchasing power which oils the machinery of commerce and trade. It is like putting currency in circulation. You cannot have business unless you have currency.

The panic of 1907, Mr. Chairman and you gentlemen will recall, was a currency panic and not an economic panic. You cannot do business, if you please, unless you put currency in circulation. You cannot do business, if you please, unless you have credit in circulation, available for economic development.

Now, I would prefer that as much of our money as possible go into economic, productive channels. That is the reason I think the money that we have spent on useful public projects has been justified by the economic good that it has actually brought back, the wealth that it has increased or brought about in this Nation.

Somebody put the question to me over in the Senate the other day: "Why," they said, "do you espouse the monstrous proposition that you can keep on going into debt and into debt and into debt without coming eventually to the abyss of bankruptcy?" I said, "Let me give a simple case to illustrate what I mean. Here is a man down on the street who has a little hole in the wall operating, we will say, a weenie stand. We will say he is supported by a hundred dollars' worth of capital. Suppose he is a diligent fellow, he works hard and he saves his money a little, and also has a friend that interests himself in his welfare. He gets a thousand dollars of capital and he goes up the street a little bit and enlarges his place of business. Now he owes $1,000. He works for a year or two, and maybe his friend comes back and pats him on the back and says, 'You have been a good student; you have handled your two talents very well. I am going to help you.' And he gives him $10,000. And he enlarges his place again and he goes on to a new progress and a new prosperity. Then suppose he eventually borrows a hundred thousand dollars. He actually owes a hundred thousand dollars, yet he did not owe but $10,000 before. But he expands his business until it becomes a desirable and an attractive enterprise. Finally he finds he needs some more capital and he floats a bond issue of a million dollars. He actually owes a million dollars. Would anybody say that, without more than I have said, that man has become progressively poorer because he has become progressively heavier in debt?"

In other words, wealth is determined by a man's net financial statement. If we can bring back newly created wealth we are getting a return for our money.

As Roger Babson pointed out in an article on the 28th of October of last year, I believe, from Massachusetts—he said that the Congress appropriated about 3 billion dollars in the spring and in a few days increased the value of securities listed on the New York Stock Exchange to approximately 15 billion dollars; more than five times or

approximately five times return in value created upon the investment made.

So I will say that there is a limit to the degree to which you can give money away and be prosperous. There is a limit to how far you can pull yourself up by your own bootstraps. But I am convinced from what has actually happened that such a policy may have a part in our program within reasonable bounds. Because it is after all the principle of the farmer that takes the seed from the harvest and plants it back into the ground for a new crop.

As long as we can keep money in circulation, we can actually get along without gold, in a nation, as Germany has done and these other totalitarian states have indicated. The German mark is actually intrinsically worth about a penny and it passes for approximately 25 cents all over that country. And they have kept on doing it, not 3 months or 6 months, but 5 years. They do it by restricting the money that goes out of the country.

We may even have to change our ideas, to a degree, about money. I do not know. I do not know anything about it. But I do know that we have had to change a whole lot of our concepts. We found out a lot of things that are perhaps a little different from what we were told in the old classic way they were in economics, because economics has changed a lot since Adam Smith in 1776.

So I do say that there is a place in our Federal program for the Government being the farmer that will harvest the money and throw it out again in the field and let it do this work and harvest it in again and keep throwing it out, so that it will move from hand to hand and people generally will profit.

That would not be our sole means of revenue and that would not exclude other things.

Mr. TREADWAY. Senator, I have been very much interested in your address. In a way you have been dealing with economic problems in general terms.

Senator PEPPER. That is right.

Mr. TREADWAY. That is a proper description of your remarks?

Senator PEPPER. Yes, sir.

Mr. TREADWAY. Would you care to help this committee with advice and suggestion as to the relative merits of the measures we are considering here? I have interrogated several witnesses along this same line. It seems to me that we have three general programs that have been suggested; one by the Social Security Board, one by the friends of H. R. 11, and the other by the friends of H. R. 2. What would be your advice to this committee, interested as we all are in old-age security and benefits, as to the manner in which we may proceed and accomplish something for the cause in which we are interested?

Senator PEPPER. I will say, Mr. Treadway, as I stated to the chairman when I came here, that I did not come as a witness, but I came as one interested in the same spirit that you have just indicated. I do not know but what, if I had to answer that question categorically, I should perhaps embody such a plan as this in the existing social security law.

In other words, I believe, in the first place, that all people that are 60 years of age or over should be the recipients of these benefits, whether they work in one vocation or one profession or another. The man on the farm who is aged, the man in the factory, or the

charwoman who is aged—they are just as much entitled to provision by their Government, for their old age, as the man that happens to work in one of these vocations that is covered by the existing social security law. So it might not be an unwise way to approach the problem experimentally; maybe to leave the existing social security law where it is, or you might diminish its benefits for a part. But even if all the benefit that is possible from this H. R. 2 were derived, plus the amount that is now being paid to the people that get social security benefits, we are not going to bring them to great extravagance, because, as I indicated from some figures that I had here in the beginning, the average contribution now is $19.30 per month of social security benefits. Even if H. R. 2 brings in $100 a month, as it might—and it might not bring in that much in the beginning; the collections might not be perfect. There might be many escapes. It might be that there would have to be changes made in it after the Treasury Department had had some experience for a little while.

But the main thing that I am suggesting, Mr. Treadway, is that the genius of a democracy is sensible and reasonable experimentation. If ex-Justice Brandeis has made one contribution to the jurisprudence of our country it is that very important contribution that in a democracy we always learn by trial and error. That is the best way to learn.

I would not embark this Government upon a proposition that would simply destroy everything that was already set up. But I think that we might begin to experiment with such a program.

In other words, let a general excise tax be the means of deriving revenue to provide benefits to all people 60 years of age or above, in the hope that we remove from the employable class about 8,300,000 people within that age bracket, and give that many more jobs to middle-aged men that perhaps are in active support of families. Or to young men who are just coming into man's estate. And then at the same time we would be giving them something of comfort and security in their latter years that would make the burden a little bit lighter for them.

Mr. TREADWAY. That is a very interesting statement, Senator. Let me see if you are familiar with the situation that I as one member of the committee find myself in. I do not know how closely you have been following this testimony in detail.

Senator PEPPER. Unfortunately I was here only once, Mr. Treadway.

Mr. TREADWAY. But we heard for several days the advocates, led by Congressman Sheppard, of H. R. 11. In that testimony it was stated that roughtly it was estimated that—I have no figures to submit personally, but the testimony was that after pro-rating the receipts under their gross-income tax, it was estimated that there would be a floor of $30 a month, and a ceiling of $60 per month. In other words, that this tax would produce not less than $30 to each recipient and not more than $60. Then their witnesses definitely said that they did not expect it to go to $200.

Later on, I think it was last Friday, we were favored with the testimony of Dr. Townsend himself. He absolutely threw overboard everything that had to do with H. R. 11 and said in effect—I think

his testimony will so show—that he would advise his friends in Congress that if H. R. 11 were reported, to vote against it.

Now, while witnesses such as Representative Oliver, of Maine, who made a very illuminating statement, and Mr. McMasters, of Massachusetts—while they felt that there was no likelihood of this amount of money in benefits going to $200, Dr. Townsend advocates a minimum of $200 and thinks that within a very short period it would reach $300.

Now, where does that leave your poor committeeman, with such a divergence of views?

In other words, is there any middle ground where these people can get together, or where they should get together?

Senator PEPPER. Mr. Treadway, I can sympathize with the dilemma in which we always find ourselves when presented with a controversy. My individual situation is to come as near a good thing as possible. I hope I am of the state of mind where I would not try to push back another man trying to do a good thing, and I am sure Dr. Townsend has no desire to retard any approach that may be made to a better condition of affairs.

I think one of the reasons, perhaps, why I have not gone into more accurate figures with respect to the mechanics of this bill is that I do not know; I do not know how much revenue will be derived from this tax; I do not know how generally it will be paid and how generally it will be available. I do not know whether it would accelerate, or perhaps diminish, the number of transactions; I do not know how much it would yield to the pensioners; I do not know how the public would take to it. It might be obnoxious to them. But since the chairman of the committee went on the basis that we are going to impose a certain percentage of excise taxes upon a business principle, we are not going to take the responsibility of guaranteeing any particular sum, we are going to use this method and it is going to yield what it will yield, and we are going to distribute what it will yield to those who are entitled to it, and after we have had some experience and a better knowledge we will be able to make a more substantial and adequate determination.

I wouldn't be the guarantor to anybody of how much this kind of a tax will yield.

Mr. TREADWAY. Just one more thought, if I may.

Senator PEPPER. Yes, sir.

Mr. TREADWAY. It is this: I judge you favor H. R. 2 over H. R. 11.

Senator PEPPER. I would; yes.

Mr. TREADWAY. Then might I ask you this; this is a transactions tax, a tax on every transaction in the development of any line of goods or sale?

Senator PEPPER. Yes.

Mr. TREADWAY. How much would you consider that that would likely add to the pyramiding of the cost of living?

Senator PEPPER. Mr. Treadway, to answer you frankly, I don't know. On the other hand, I anticipate that whatever increase there would be would be, perhaps, balanced by the money added to the consumer purchasing power of the country.

Mr. TREADWAY. That is one argument, is it not, for that form of tax; that it adds to the consumer purchasing power?

Senator PEPPER. That is right.

Mr. TREADWAY. It increases the velocity.

Senator PEPPER. There are three things; in the first place, it takes care of the aged, most of whom are out of jobs and out of money; second, it removes the aged from economic competition with the middle aged and younger person; and, third, it augments the consumer purchasing power of the country.

Mr. TREADWAY. I think the Senator has given us a very excellent statement.

Senator PEPPER. I apologize. I told you I would not take so long.

Mr. MCCORMACK. Did you know that Dr. Townsend had renounced the idea of compulsory retirement for those who were the recipients of this?

Senator PEPPER. I am sorry, I was not able to be here.

Mr. MCCORMACK. He told us the other day that the persons getting this $200 a month should be allowed to continue at work, without requiring anything they should get it; the wealthiest man in the world should get it.

Senator PEPPER. I indicated in my remarks that I thought the consumer purchasing power would be helped just as much by giving it to the fellow who did have it as well as to the fellow who did not have it, and that fellow would be better off.

Let me call your attention to the fact that Dr. Townsend also admitted that all the corner stores, the drug stores, grocery stores, and the middleman and the independent would, of necessity, be squeezed out by this tax because he could not compete, and Dr. Townsend said that they are incompetent.

Senator PEPPER. I, of course, have no desire to do anybody any harm. It was my idea it would do good.

Mr. MCCORMACK. The corner store would have to pay from 8 to 10 transactions taxes before it ultimately reached that corner store to be sold to the consumer, while the large corporations could buy from the producer, the manufacturer and sell through its own retail agency with, at the most, 4 or 5 transactions taxes. When that was called to Dr. Townsend's attention he admitted that the middleman and the corner store and the independent could not compete under those conditions, and he said they would be squeezed out; that they should be, they are incompetent.

Senator PEPPER. I am sure the doctor was honest in whatever opinion he gave; but, as a matter of fact, wouldn't that be analogous to the corner store in competition with the chain store? And the independent merchants have not been forced out of business in spite of the economy of the chain store.

Mr. MCCORMACK. You are asking me a question.

Senator PEPPER. I didn't mean to.

Mr. MCCORMACK. I would be very glad to have you ask me. I wouldn't consider that analogous, however, to what would exist under this bill in its far-reaching effects. There is no question, there is a problem there. Certainly in its application it seems to me it would be considerably less than under this bill.

Senator PEPPER. That is the reason I say we should proceed in such a way that if what we do does not work out we can discard it.

Mr. McCORMACK. As I understand your situation, you have addressed yourself in a general way to the proposition that everything should be done consistent with the welfare of all elements that make up our society, and consistent with the welfare of our Government under the existing system?

Senator PEPPER. That is exactly right.

Mr. CULLEN. Thank you, Senator. The committee stands adjourned until 2:30 o'clock.

(Thereupon, at 11:30 a. m., a recess was had until 2:30 p. m.)

The CHAIRMAN. Thank you very much, Senator. We will recess until 10 in the morning.

(Whereupon, at the hour of 12:45 p. m., the committee recessed until 10 a. m. of the following day, Friday, June 30, 1939.)

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