ECONOMIC SECURITY ACT

MONDAY, FEBRUARY 4, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order.

We will continue this morning the hearings on H. R. 4120. At the conclusion of Dr. Townsend's main statement last week, he stated that the condition of his health was such that he did not feel able to undergo cross-examination on the part of the committee, and suggested that Mr. Francis Cuttle, of Riverside, Calif., would appear this morning to take his place in explanation of the bill H. R. 3977, or answer such questions as the members of the committee might desire to propound.

If Mr. Cuttle is present, will he please come forward?

(Mr. Cuttle did not come forward.)

The CHAIRMAN. Mr. Ford, acting State commissioner of social welfare of the State of New York, has asked the opportunity of making a brief statement. We shall be glad to hear Mr. Ford at this time.

STATEMENT OF CLARENCE E. FORD, ACTING STATE COMMISSIONER OF SOCIAL WELFARE, NEW YORK STATE

Mr. FORD. Mr. Chairman and members of the committee: I have come at the request of the Governor of New York to state his position and that of the department in respect to a very few matters touched on in this bill.

The department of social welfare, it is expected, will administer the sections with relation to dependent children and the sections relating to the so-called "old-age pensions."

First of all, in the matter of dependent children, in connection with section 204 (a) appearing at page 11 of the bill which I have, there is a provision that requires that the State shall make substantial contributions to the payment thereof. Governor Lehman desires me to say that the State of New York has been engaged in State aid for various projects to such an extent that a very large part of the State revenues are now being consumed for that purpose.

He has suggested in connection with his budget message that a committee be appointed to go over this whole situation with the idea of making certain changes. He hopes that it will not be made mandatory under this bill that the existing system of mothers' aid which has been in use in the State of New York for some 20 years be

110098—35——55

changed. This is a local system. The State does not now make any contribution, and it is his hope that this mandatory section be taken out and there shall be merely a requirement that the State shall exercise supervision over mothers' aid.

The second matter is in reference to the requirement that aid to dependent children shall be available in every political subdivision of the State. In New York State, with some $13,000,000 available and spent for this purpose, there are still 10 counties which are not taking advantage of the law. To force those counties to do this may be difficult, and the use of force, in any event, is unsatisfactory. We suggest that it be made a requirement that the aid be available in the discretion of the localities.

I may say any further statement regarding that matter of contributions that I may make would be that the argument usually employed in respect to the State's setting standards, if it makes contributions, will not be effective after the Federal appropriation is made, for the reason that the Federal appropriation itself, administered by a State agency and under the direction of the Federal administrator will be sufficient to enable them to set the standards. So much for the statement in respect to dependent children.

Now, on the so-called "old-age pensions", we wish particularly to emphasize the need for recognition in the law of the responsibility of relatives for support. The law itself is now silent on that point and while it might be possible that the rules of the Federal administrator might provide for that, on the other hand, it is also possible that they might not. We urge that the law itself provide that relatives—sons, daughters, whatnot—be made responsible to the extent of their ability before old-age pensions be given from State or from Federal funds.

Another point is in reference to the provision here that this aid shall not be available to those who, at the time of receiving such financial assistance, are inmates of public or other charitable institutions. We believe, from our own experience in New York, covering, now, several years, and including more than 50,000 persons, there should be an exception to permit hospital care. Persons of that age go to hospitals rather frequently. It is a necessary part of the old-age care, and there should be that much of an exception in relation to that provision of the law.

In reference to the matter of residence, we feel that there should be some provision recognizing the necessity for having resided in the State and in the county. There is a provision now so far as State residence is concerned, but there is no provision for county residence. A provision recognizing the necessity of residence in the county for a given time, possibly a year, is suggested.

Another point is in reference to the provision that the person receiving income must have an income which, when joined with the income of the spouse, is not sufficient to provide reasonable support. We hope that may be clarified so that there will be no inducement for persons who are 70 years of age to take on young wives who may marry them for the express purpose of sharing in the old-age support which may come to them.

In the existing New York State statute the spouse is not eligible if under the prescribed age. We realize that in some cases that makes necessary two forms of support in one family, but, on the

whole, we feel it be a desirable provision and necessary to prevent something which may lead, in certain cases, to considerable abuse.

One thing more. The provision in the law in reference to the United States Government having a lien upon the estate of the aged recipient: As we study provisions of that law, it gives the Federal Government a prior lien and in some cases might result in the Federal Government taking over the whole estate and leaving nothing for the State or local governments. We believe that the word "proportionate" should go in there and that the Federal Government in its contribution should share with the States and the localities.

May I have permission, Mr. Chairman, to leave these memoranda with the clerk for the information of the committee?

The CHAIRMAN. You have that permission.

Mr. FORD. And I wish to say that, having made these statements which are by way of objections and suggestions, we wish to emphasize that we are in favor of the bill as a whole. New York State has now in force the provision for care under mothers' aid and old-age pensions, and, to some extent, child welfare.

Mr. TREADWAY. Mr. Ford, let me understand your position in the State of New York, please?

Mr. FORD. I am acting commissioner of the State department of social welfare. The commissioner, I may say, is in a hospital and is unable to be here.

Mr. TREADWAY. Your first suggestion led me to think that in view of the system you have in New York State dealing with mothers' aid—I think that was your first subject——

Mr. FORD. Yes, it was, sir.

Mr. TREADWAY. That you wanted an exception made so that New York State might act in a way differently from the other States; is that correct?

Mr. FORD. No; my point was this. I hoped that an exception would be made so that any State similarly situated may act.

Mr. TREADWAY. Do you think it is advisable to set up exceptions when you are setting out on a broad principle such as is involved in this bill?

Mr. FORD. I would make no exception. I would eliminate that provision. Then the State would have the choice that it has now.

Mr. TREADWAY. Either to go in or stay out?

Mr. FORD. It has that choice now, it is true. But it has the further choice at the present time to make it wholly a State fund, as some States do, a combined State fund, as your own State does, Mr. Treadway, or a wholly local fund, as New York does.

Mr. TREADWAY. Of course, the moment you get into these various exceptions, you run into all kinds of difficulties—you realize that. For instance, the other day a gentleman who made a very excellent witness told us about private corporations that have set up their own schemes. He thought that they ought not to be included here; and so on. In dealing with a Federal bill like this, do you not think that you must stick pretty close to your main line?

Mr. FORD. Quite true, and I would like to read what I am suggesting here in reference to a proposed provision of the law, "that the State or its political subdivisions shall make substantial contributions to the payment thereof and that the State shall make adequate provision for the administration thereof." That merely adds "the State or its political subdivisions", don't you see?

Mr. TREADWAY. I see your point, and it is well taken.

Now, from your experience in matters of this nature, how many other States perhaps would take the same ground that you are now taking, if they appeared here, where there are similar laws that you think would conflict?

Mr. FORD. By far the largest group of States do it through local provision. I have a table showing exactly which States do it by State funds, which States do it by the combined method, and which States do it wholly through the localities.

Mr. TREADWAY. If you would file that for the committee's information, I would appreciate it. You have permission, as you understand, to file for the record any matter pertaining to this subject that you have discussed. If you have such a table, carrying out your suggestion, it would be valuable for the committee if you would file it with us.

Then I understood you to say that you approve the general principles included in the bill?

Mr. FORD. Very much so.

Mr. TREADWAY. The State is in accord with the general idea?

Mr. FORD. Yes.

Mr. TREADWAY. Have you studied the financial aspects of this proposal, the cost to the Government and to the States, if the provisions in the bill are carried out?

Mr. FORD. Only so far as it relates to New York State. We have studied it rather carefully as it relates to our own State.

Mr. TREADWAY. What does it do to your finances?

Mr. FORD. The Federal bill is broader than our own State statutes at the present time.

Mr. TREADWAY. I imagine that would be the case with respect of nearly all States, would it not?

Mr. FORD. I think so, sir. The result, as nearly as we can estimate it, will be that the proposed Federal aid coming to New York State will just about compensate for the increased amount of aid to be given, so that the localities will pay substantially the same sum as now and the increase caused by taking on more cases will come from the Federal Government, under this bill.

Mr. TREADWAY. Then, if I understand your explanation, it will not lead to a very material increase of expense on the State of New York?

Mr. FORD. Oh, no.

Mr. TREADWAY. So that it is not in a financial way that you are offering these suggestions of changes, but in a practical way looking to better administration?

Mr. FORD. In the practical way of administration without disturbing an existing set-up which we have had for many years and which I believe is satisfactory, which does not involve State funds. It seems to us that in those States which have that set-up and have found it satisfactory there should be a provision under which the States may continue that set-up.

Mr. TREADWAY. Mr. Chairman, I would suggest that Mr. Ford, if it is agreeable to the chairman and the committee, as he has offered some very excellent and constructive suggestions, put those suggestions in the form of amendments to the bill, indicating where they would appear, and so on, so that we may have it definitely before us instead of having merely a statement of the witness' views.

Mr. FORD. I have them here, and have other copies, if you would like to have them. I anticipated such a request.

Mr. TREADWAY. Those may be filed with the reporter for the record.

Mr. FORD. With the exact wording which we think appropriate.

Mr. TREADWAY. Thank you, Mr. Ford.

The CHAIRMAN. Without objection, the matter referred to will be made a part of the record at this point.

(The statements referred to are as follows:)

SUGGESTED AMENDMENTS TO FEDERAL ECONOMIC SECURITY BILL

Governor Lehman points out difficulties and delays involved in attempting compel counties to make appropriations, adequate or otherwise, and suggests that section 204 (a) be amended so as to provide that State plan be applicable in all political subdivisions of the State but not to require that the aid in question be available in every such subdivision. A single city or county might cause Federal allotment to be withheld even though aid was well administered in all the rest of the State. Litigation in an attempt to compel such a city or county to make aid available would be long drawn out and until its successful termination no Federal allotment could be made, nor could such allotment then be made for the period of litigation. The following is suggested:

(*a*) Provides that not later than June 30, 1936, and thereafter, aid to dependent children shall be available, to persons in need of the same, *under law or laws applicable* in every political subdivision of the State, *that the State shall seek to enforce such law or laws uniformly in all its political subdivisions.*

The Governor further points out that present demands upon the State treasury are so heavy as to make additional taxations necessary, and that to make a State contribution equal to the probable Federal allotment of one-third of the cost of the aid in question would involve the addition of more than $6,000,000 to the State's annual expenditure. It is his opinion that the State should not be called upon to provide more than the cost of administration which is estimated at approximately $211,150, leaving the cost of aid and local administration to be divided between the Federal allotment amounting to one-third and local appropriations amounting to two-thirds of the total cost. It is therefore suggested that the final clause of section 204 (a) be amended to read: "and that the State or its political subdivisions shall make substantial contributions to the payment thereof, and that the State shall make adquate provision for the administration thereof."

SUGGESTIONS FOR CHANGES IN THE WAGNER ECONOMIC SECURITY BILL WITH RESPECT TO OLD-AGE ASSISTANCE

I. The definition of old-age assistance as given in section 3 provides that the benefits of the law be extended to persons "who, at the time of receiving such financial assistance, are not inmates of public or other charitable institutions." If the term "public or other charitable institutions" is intended to include correctional and custodial institutions not generally considered as charitable, it should be so stated. In the New York State law the inmates of such institutions, public or private, are excluded.

On the other hand, this section apparently excludes from the benefits of old-age assistance, patients receiving temporary medical care in hospitals, hospitals being by many considered as "charitable." It is extremely important that the aged be provided with necessary medical care, whether in their own homes or in hospitals. The New York law permits such care to be provided through old-age relief, unless they are chronic cases who must be provided for in institutions.

It is suggested that section 3 be amended to read as follows:

"SECTION 3. As used in this title, old-age assistance shall mean financial assistance assuring a reasonable subsistence compatible with decency and health to persons not less than 65 years of age, who, at the time of receiving such financial assistance, are not inmates of public or other charitable, *correctional, or custodial* institutions; *except in the case of temporary medical or surgical care in a hospital of a person who at the time of admission to the hospital is a recipient of old-age assistance.*"

II. In section 4 (e) it is proposed to furnish assistance to the aged "at least great enough to provide, when added to the income of the aged recipient, a reasonable subsistence compatible with decency and health." This statement makes no reference to the legal and moral duty of a son or other legally responsible relative to provide support for a needy aged person. The New York State law clearly makes ineligible for old-age relief an applicant whose legally responsible relatives are able to provide support. The release of such responsible relatives from their obligations not only is dangerous because of the social and moral principles involved, but would add greatly to the burden now assumed by the public. Moreover, it is probable that the wording of the Federal law would be interpreted as requiring full subsistence to be provided an aged person who is living with a son or daughter in the same manner as if he were living alone. In New York State a recipient of old-age relief living with a legally responsible relative who is unable to provide fully for his parent is allowed only such amount of the additional cost of his presence in the household (including food, clothing, and incidental needs) as the relative cannot reasonably provide, and the interpretation that may be made of the wording of the Wagner bill will substantially increase the allowance in many instances.

It is suggested that section 4 (e) be amended to read as follows:

"SEC. 4 (e). Furnishes assistance at least great enough [to provide], when added to the income of the aged recipient *and to the contributions in money, substance, or service from legally responsible relatives or others, to provide* a reasonable subsistence compatible with decency and health; and, whether or not it denies assistance to any person, at least does not deny assistance to any person who (this to be followed by subdivision 1)."

III. The provisions of section 4 (e) (2) require that persons be eligible for old-age assistance who have a residence within the State of "5 years or more within the 10 years immediately preceding application for assistance." The New York State law requires residence within the State of 10 years immediately preceding the date of application, and an actual residence within the county or city public welfare district for 1 year immediately preceding such application. The change to "5 years or more within the 10 years immediately preceding application" would increase considerably the numbers eligible and would tend to encourage removal into New York State of persons who moved away less than 5 years ago and now wish to return. It is suggested that this subdivision be changed to read as follows:

"(2) Has resided in the State for 5 years or more within the 10 years immediately preceding application for assistance, *and has resided in the county or city in which the application is made for at least 1 year immediately preceding such application;* and"

IV. Section 4 (e) (3) provides that if the person applying "Has an income which when joined with the income of such person's spouse, is inadequate to provide a reasonable subsistence compatible with decency and health" old-age assistance must be granted. This is subject to the possible interpretation that the allowance shall be sufficient to provide for the applicant and his spouse.

Unless the spouse is deliberately to be made eligible, it is suggested that the subdivision read as follows:

"(3) Has an income which when joined with the [income of] *reasonable contributions which may properly be required from* such person's spouse *or other legally responsible relatives* is inadequate to provide a reasonable subsistence compatible with decency and health; and"

If it is intended to make a spouse eligible for old-age relief, even though less than 65 years of age, the wording should express the restrictions as to age and as to the length of time they shall have been married before application for old-age relief has been made.

The making of a spouse less than 65 years of age eligible for relief is presumably not intended.

Section 4 (f) provides that the State shall take a lien "on the estate of an aged recipient", the lien to be enforced by the State and an accounting to be made therefor to the Federal Government. The wording of this paragraph seems to require that the Federal Government shall have a prior lien against the proceeds of such estate, as compared with the rights of the State and the locality in executing such lien. Furthermore, it does not distinguish as to the classes of property which may be a part of the estate of the recipient to be reserved; that is, as to whether only such real estate as constitutes the home of the recipient and is so used is exempt from lien enforcement.

It is suggested that subdivision (f) be amended to read as follows:

"(f) Provides that so much of the sum paid as assistance to any aged recipient as represents the share of the United States Government in such assistance shall be a lien on the estate of the aged recipient which, upon his death, *or upon his ceasing to use as his home any real property included in such estate,* shall be enforced by the State, and that *such share of* the net amount realized by the enforcement of such lien *as represents the proportional contribution by the Federal Government toward the old-age assistance paid to the recipient* shall be deemed to be part of the State's allotment from the United States Government for the year in which such lien was enforced: *Provided,* That no such lien shall be enforced against any real estate of the recipient while it is occupied by the recipient's surviving spouse, if the latter is not more than 15 years younger than the recipient, *was married to the recipient at least 5 years before application was made for old-age assistance,* and does not marry again."

Mr. COOPER. Mr. Ford, you indicated certain amendments which you thought should be made to the pending measure, seeking further to define the qualifications that people should have to meet in order to qualify for benefits under this system.

Mr. FORD. Under the old-age provisions.

Mr. COOPER. Under the old-age provisions of the pending bill.

Mr. FORD. Yes.

Mr. COOPER. You understand, of course, that the purpose here is to set out certain rather broad provisions that must be complied with, and all these other matters are to be left to State legislation. You understand that, do you not?

Mr. FORD. There is a provision that it shall be subject to the rules of the Federal administrator. That is the part that causes us some concern. We do not know what those rules of the Federal administrator may be, and there are certain things we would like in the law itself.

Mr. COOPER. Naturally, if we set out everything you might suggest in Federal legislation, that might not conform to the needs and desires of many other States of the Union, You appreciate that. do you not?

Mr. FORD. Yes.

Mr. COOPER. While at the same time you have the opportunity of including those very provisions in the act passed by the legislature of your State.

Mr. FORD. We are not so sure about that. If the Federal administrator should make rules otherwise, we feel that we could not pass such legislation. That is the very point we have in mind. We think that that matter of support by responsible relatives is so important that it should be in the statute itself and should not be left to the discretion of the Federal administrator. Suppose he should make a ruling that relatives were not to be considered in this matter of the assignment of old-age pensions, then our State statute would have to conform or we could not get any Federal money.

Mr. COOPER. I think you will find the purpose of this pending measure to be that certain rather broad requirements are set out, and then the intention is to leave it to the States, through their respective legislatures, to prescribe the conditions that have to be met by the people in the States in order to qualify for benefits.

Mr. FORD. That is very good, sir, and I wish I could be absolutely sure that the provisions given in this bill to the Federal administrator to make rules might not be used in some way to conflict with the established regulations in the State of New York and in other States.

There is a provision here that the requirements as to old-age assistance must be approved by the Federal administrator. That is in section 2. The provision is that those requirements must be approved before an allotment may be made. The State customs and requirements, and so forth, their rules and regulations, must be approved by the Federal administrator. If the Federal administrator should take the view that relatives should not be required to support their aged parents or what not, it would lead to all sorts of disastrous complications, in our opinion. People with plenty of money might find it possible to shove their parents onto the old-age-assistance set-up.

Mr. COOPER. Is it correct to assume that you believe in the principle we are trying to carry out in this legislation?

Mr. FORD. Very much so, sir.

Mr. COOPER. That is, that by this Federal act, we prescribe certain rather broad provisions, and then leave the other matters to the respective States for action through their legislatures?

Mr. FORD. As I read the bill, it is not left entirely to the States. I think it is left more to the Federal administrator than it is to the States. If it were left to the States, there certainly could be no objection.

Mr. COOPER. I think there will be no difficulty along that line, because that is the underlying principle that is guiding us in the consideration of this whole system that is sought to be set up.

Mr. FORD. It is a very good principle, and if we were assured that there would be no rules which would contravene the purpose we all have in mind it would be all right.

Mr. BACHARACH. I was very much interested in the statement you made to Mr. Treadway, that it would not cost New York State very much more money. Will it cost them any less money?

Mr. FORD. I do not think so. Any estimate, of course, is only an estimate, a guess; but based on our present experience it will run a little more, but not enough so as to cause any particular difficulty for the localities which now put some 12 or 13 million dollars into this form of assistance in the State of New York.

Mr. CULLEN. That was one of the questions I was going to ask, There is another thing in my mind, referring to a statement that you made. Did I misunderstand you in thinking that you said that the State legislature of New York would hesitate to pass laws to conform to the Federal law in the event this legislation were passed?

Mr. FORD. No. The Governor and the legislature have not committed themselves in any way, Mr. Cullen, on that point, but the Governor did ask me to urge that the statute be so worded that it would not be mandatory upon the State to make an appropriation. As to what the State action on this bill would be I am unable to state at all.

Mr. CULLEN. You are representing the State, in the Department of Social Welfare of the State of New York?

Mr. FORD. Yes, sir.

Mr. CULLEN. You are making the statement that this legislation is along the ideas of the Governor and the legislature, and you are suggesting that it be made permissive for the States.

Mr. FORD. Permissive only as to a State appropriation, Mr. Cullen; not permissive as to other matters.

Mr. CULLEN. I wanted to clear that up for the record, because I did not want the impression to go out into the country that our State was in any way unfriendly to this legislation.

Mr. FORD. Most friendly, Mr. Cullen. Only we do not wish to disturb an existing mechanism. In your own city you know it is done on a huge scale. We simply wish to make it permissive as to the State appropriation, as distinguished from local appropriations.

Mr. CULLEN. And if it is made permissive, you are of the thought that in all probability an appropriation would be made?

Mr. FORD. I cannot commit the Governor on that point, Mr. Cullen.

Mr. LEWIS. You made the point that there ought to be some further definition with respect to the liability of relatives. Is there more freedom or less freedom of action on that subject matter under this bill than other subjects?

Mr. FORD. It would all depend upon the rules of the Federal Administrator. If the Federal Administrator should take the point of view that it is undesirable to enforce any responsibility of relatives, as I read the bill, he could in his rules make it compulsory on the States, or the States would lose their Federal appropriations. What we would like to have would be a clarification in the statute itself providing that the States may make appropriate provisions for enforcing the responsibility of relatives in connection with this matter. So that we will not have the spectacle under any conditions of children abundantly able to support their parents in some way withdrawing from the picture and leaving them to the old age assistance fund.

Mr. LEWIS. Would it not be equally true, if true at all, that the Social Insurance Board might insist on the waiting period being not greater than 3 days, or the period of benefits not less than 6 months? Is there anything in the bill that authorizes one line of demand more than the other?

Mr. FORD. Only this, Mr. Lewis. It is our feeling that this is of such great importance, more than the matters that you have just mentioned.

Mr. LEWIS. Of more importance than the waiting period and the length of time that the compensation should be given?

Mr. FORD. On this old-age assistance; yes. I am referring only to old-age assistance. My department has only to do with old-age assistance, mothers' aid, and child welfare, those three sections of the bill. I am only speaking with reference to those and not with regard to the unemployment feature.

Mr. LEWIS. But you hve no particular clause in the bill in mind under which your particular subject would be more susceptible of treatment?

Mr. FORD. Yes; I have. I have a very concrete suggestion.

Mr. LEWIS. That is what I want.

Mr. FORD. It is in section 4 (e), Mr. Lewis.

Mr. LEWIS. Will you read the clause that you have in mind.

Mr. FORD. This is on page 3, section 4 (e):

Furnishes assistance at least great enough to provide, when added to the income of the aged recipient, a reasonable subsistence compatible with decency and health; and, whether or not it denies assistance to any aged persons, at least does not deny assistance to any person who * * *.

And then follows a list of those to whom the assistance must not be denied. We suggest that this wording be changed so that it will read:

Furnishes assistance at least great enough to provide, when added to the income of the aged recipient—

and this is new—

and to the contribution in money, subsistence or service, from legally responsible relatives or others, to provide a reasonable subsistence compatible with decency—

and so on. The rest of the provision remains the same.

That is our suggestion and the only reason that is emphasized above some other requirements that might be thought of is that we deem it of more importance.

Mr. REED. Mr. Ford, in the practical working out of the old-age-pension system in New York State you take a lien, do you not, on the premises or homes of those who receive the aid?

Mr. FORD. We do; yes, sir.

Mr. REED. What is the average rate in New York?

Mr. FORD. The average rate for the whole State is approximately $20 a month. That runs approximately $24 a month for New York City and $17 a month in the rest of the State.

Mr. REED. That brings me to the very point I want to inquire about. What, if anything, is done in regard to relieving these old people from the burden of taxation, which is gradually eating up their home?

Mr. FORD. The allowance may be used for the purposes of supporting that home while they are occupying it, and then on their death the State takes its lien.

Mr. REED. What about the taxes that have to be paid?

Mr. FORD. That is included for the support of the home.

Mr. REED. You mean the State assumes the taxes?

Mr. FORD. Well, they are paid from this allowance. The allowance must be great enough to take care of that. You see, New York has no maximum allowance.

Mr. REED. I ask you that question because in some cities, of about 20,000 population, people may have owned their homes for many years, and finally get to a point where they have no other income, but they do have a roof over their head. The question is whether the taxes which in some towns are comparatively high ought not to be taken care of by the State in the case of people who are old, but who are permitted to keep their homes under this State aid.

Mr. FORD. There is no limit in the law. That is in the discretion of the administration and the allowance is made large enough so that the recipient may pay those taxes and keep his home. That is desirable from the social standpoint, because it is his own home that he has lived in, and from the economic standpoint it is usually cheaper than any attempt to provide rent for that purpose.

Mr. REED. I know that that has been quite a stumbling block in some States, and I was wondering how you handled it in New York.

Mr. FORD. We are carrying that, because we have no maximum limit, and whatever the taxes may be, they may be included in the allowance to the recipient.

Mr. REED. So in making out their applications, that is an item that they ought to bring to the attention of the authorities.

Mr. FORD. First of all the budget is made out including all the items that ought to go into the relief, and that can be included among others. Then the recipient is allowed that. That is our present procedure.

Mr. REED. You spoke about 10 counties that were not cooperating.

Mr. FORD. Not on old-age relief. That is on the mothers' aid.

Mr. REED. Would you mind putting in the record what those 10 counties are? I am curious to know which they are. Have you those names with you?

Mr. FORD. I have them in my brief case.

Mr. REED. Will you put them in the record?

Mr. FORD. I shall be very glad to do so. I may say that the counties are the smaller counties, and our estimate is that if all the counties went in, it would add only some $250,000 to an already existing expenditure of almost $13,000,000.

Mr. REED. Thank you.

The CHAIRMAN. We thank you, Mr. Ford, for your appearance and the information you have given the committee.

Mr. FORD. I thank the committee.

AFTERNOON SESSION

The CHAIRMAN. The committee will be in order.

The Chair offers for the record a letter from Dr. Edwin Witte, with some reports from committees that have made a study of this legislation, which, without objection, will be placed in the record at an appropriate place.

(The documents referred to are as follows:)

COMMITTEE ON ECONOMIC SECURITY,
Washington, February 2, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman Committee on Ways and Means,
House of Representatives, Washington, D. C.

DEAR MR. DOUGHTON: We understand that members of your committee have expressed a desire that we should file with you a copy of the report of the Advisory Council to this Committee, together with the several supplemental statements which were presented to our Committee by members of the Advisory Council, subsequent to the filing of its report. We, accordingly, are transmitting to you a copy of the report of the Advisory Council and of each of three supplementary statements filed by individual members of the Council. Likewise, we are transmitting, for purposes of the record, a copy of the report on unemployment insurance of the other major advisory group to this Committee, the Technical Board.

To clarify a misunderstanding which may have arisen due to the many different reports to which reference has been made in your hearings, permit us to say that under the Executive order creating the Committee on Economic Security, it alone was expected to make any public report. This Committee, whose membership appears on this letterhead, made a unanimous report which was presented by the President to the Congress in his special message of January 17, 1935, with his recommendation that the legislation recommended (which is incorporated in the economic security bill) be enacted into law as promptly as is consistent with thorough consideration.

The Committee on Economic Security has been assisted by 10 advisory groups. Eight of these were organized by the Committee to give it advice on special problems. Two of the advisory groups have been consulted on all subjects dealt with by the Committee. The first of these is the Technical Board of Economic Security, which throughout has assisted the Committee in the actual working out of the program. The other is the Advisory Council on Economic Security, composed of prominent citizens not in the Government service and representing employers, employees, and the general public. This advisory Council was organized to give the Committee, not technical advice, but the reaction of practical laymen.

The Technical Board is supporting the Committee on Economic Security in all of its recommendations. The Advisory Council, as its report clearly establishes, also supports the program recommended in its broad outlines. On some details, as the report also shows, the Council was very closely divided, and after its final report was filed, some members presented supplemental statements elaborating particular points of view. It should be clearly understood, however, that none of the members of the Advisory Council disagree with the broad outlines of the program.

At this time, permit us again to say that we will be glad to furnish any material to your committee which it may desire. We have nothing to hide and want to be as helpful as possible to your committee.

Very truly yours,

COMMITTEE ON ECONOMIC SECURITY,
EDWIN E. WITTE, *Executive Director.*

WASHINGTON, D. C.
December 15, 1934.

Hon. FRANCES PERKINS,
Secretary of Labor, Washington, D. C.

DEAR MADAM SECRETARY: In accordance with your invitation given at the opening of the Advisory Council on Economic Security, indicating that you would be glad to consider views expressed by a minority or individuals, we desire to submit the following:

Our sympathy for the objectives expressed by the President concerning greater social security and the removal of fear of unemployment from the worker's mind moves us to the belief that certain of the recommendations of the Advisory Council should be emphasized:

1. The first objective that should be encouraged is stabilization of employment, or assurance of employment, and this is along the line of the President's pronouncement that, if this could be accomplished, the worker would be able to look forward to at least a minimum amount for an annual wage on which to plan his family's support. This should produce better work at lower cost, reflected in lower selling prices and a consequent increase in consumption on the part of the community. No one knows how much can be done along the line of stabilization of employment, and therefore every effort should be made to encourage experiments in this direction by individual companies, who will give adequate indemnities in the shape of Government bonds or otherwise to see that their guarantees of minimum annual employment will be carried out. To show that much more can be done along this line, we quote from an article in the New Republic of December 5, entitled "Security for Americans", by Elizabeth Brandeis:

"Although benefits do not begin generally under the law until reserves have been built up for 1 year, 70 companies have already guaranteed their 3,000 Wisconsin workers two-thirds of full-time work and wages for at least 42 weeks of the current year. Many other workers are now employed on a year's salary contract, as a direct result of the act, even before it is fully operative."

The assurance given to these 3,000 Wisconsin workers is equivalent to almost 54 percent of normal annual work or pay. If this is the result after the Wisconsin law has been in effect for only a few months and in one State, surely there must be a great opportunity for stabilization of employment and assurance of a large part of an annual wage throughout the United States. The law that should be enacted should recognize this as a desirable result of the legislation and should stimulate to the greatest extent such efforts of individual companies.

2. We would call your attention to the second principal objective mentioned on the first page of the Council's report:

"The plan should serve as an incentive to employers to provide steady work and to prevent unemployment."

We feel that considerable progress can be made toward this objective if companies or industries are permitted to set up separate accounts, with the safeguard provided in the Council's report.

If a plant or industry can reduce unemployment, after a certain reserve has been built up, their contribution to the reserve becomes less, which means their cost of production is less and that the selling price to the public may be reduced. Management will be encouraged to strive for greater efficiency in plant operation, and the cost of the less regular industries will be borne by such industries, which is in line with the philosophy of the workmen's compensation acts generally adopted in this country; i. e., that the cost of the more hazardous or less efficiently managed industries is reflected in the cost of production and therefore in higher

selling prices to the public, and these increased costs are not borne by the industries which are less hazardous or more efficiently managed. If the community needs the products of such more hazardous or less efficiently managed industries, the increased cost thereof should be borne by the community. Miss Brandeis, in the article previously referred to, says:

"Under a pooled unemployment-insurance fund (as in Europe) this subsidy comes in large part from competitors who operate more steadily; namely, other concerns in the same industry or other industries that compete for the consumer's dollar. For instance, coal mines run irregularly, while oil refineries or water-power plants employ their workers more nearly the year round. Now, if idle coal miners were supported in part by insurance contributions from oil refineries and water-power plants, could anyone tell which is really the cheapest fuel? If the shoe factory or automobile plant which runs the year round had to subsidize the competing factory or plant which does not, there would arise a species of unfair competition that might even force out of business the truly low-cost concern."

In Ohio, where a pooled plan has been recommended, differences in hazards are recognized and varying rates may in time be determined for the different industries.

3. Because there is such a wide difference of opinion and so little actual experience, we cordially endorse the President's view that there should be the widest opportunity for experimentation and encouragement should be given to companies and industries, whether intrastate or interstate, to experiment with standards not less favorable than those approved by a governmental administrative body.

Respectfully yours,

M. B. FOLSOM.
M. E. LEEDS.
S. LEWISOHN.
RAYMOND MOLEY.
GERARD SWOPE.
W. C. TEAGLE.

WASHINGTON, D. C., *December 15, 1934.*

Hon. FRANCES PERKINS,
Secretary of Labor, Washington, D. C.

DEAR MADAM SECRETARY: The Advisory Council has gone on record as not approving in principle employee contributions. We feel very strongly on this subject, and therefore beg leave to submit this, our position, to you for your consideration.

Employee contributions are in effect in every system of unemployment insurance in Europe, with the single exception of Russia. Experts and actuaries have worked on this problem and many have made recommendations through various State commissions for employee contributions. To mention only a few, the Minnesota commission recommended 50 percent from the employee and 50 percent from the employer; in Ohio, two-thirds from the employer and one-third from the employee (total 3 percent, although in this instance the actuary recommended 50 percent from the employer and 50 percent from the employee, 2 percent each); and in New Hampshire, 2½ percent from the employer and 1 percent from the employee. With employee contributions, the total fund can be increased over that provided merely by employer contributions, which therefore increases the amount and lengthens the period of benefits; and, even more important, employee contributions provide more effective administration and a clearer conception on the part of workers of their responsibilities as self-respecting citizens, the worker than regarding the plan as partly his own to which he has contributed, and not looking upon it as something given to him as a gratuity.

In the discussion in the Council, many held that, while unemployment insurance was a burden that should be rightly carried by the employer alone, old-age pensions were not properly a burden on industry, but that old age is an incident in everyone's life. The Council voted, however, that the burden of old-age pensions should be borne equally by employer and employee, not because it was either scientifically correct or just, but principally because this was the simplest way of accomplishing the results. Therefore, possibly by combining unemployment insurance and old-age pensions something can be done to meet these divergent views and which will give a larger fund for unemployment insurance than that recommended by the Council and make both plans effective at an earlier date than the recommendations of the Council call for. In the recommendations of the Council, both plans will be in full force and effect in 1956. Enclosed is a table and a chart which will bring both plans into full force and effect in 1952, will give a larger amount for unemployment insurance, and will

make the imposition of the burden on the employer more gradual and easier to bear without unduly increasing the burden on the employee. In considering this table and chart, we appreciate, of course, that different combinations can be made as to rates and time when such rates become effective.

Respectfully yours,

M. B. FOLSOM.
S. LEWISOHN.
RAYMOND MOLEY.
GERARD SWOPE.
W. C. TEAGLE.

UNEMPLOYMENT INSURANCE

	Employer	Employee	Total
	Percent	*Percent*	*Percent*
1936-37 (1 year)	1	----------	1
1937-38 (1 year)	1½	----------	1½
1938-39 (1 year)	2	½	2½
1939-40 (1 year)	2½	½	3
1940-43 (3 years)	3	½	3½
1943-46 (3 years)	3	½	3½
1946-49 (3 years)	3	½	3½
1949-52 (3 years)	3	½	3½
1952	3	½	3½

PENSIONS

1936-40 (4 years)	½	½	1
1940-43 (3 years)	½	1	1½
1943-46 (3 years)	1	1½	2½
1946-49 (3 years)	1½	2	3½
1949-52 (3 years)	2	2½	4½
1952	2	3	5

TOTALS

1936-37 (1 year)	1½	½	2
1937-38 (1 year)	2	½	2½
1938-39 (1 year)	2½	1	3½
1939-40 (1 year)	3	1	4
1940-43 (3 years)	3½	1½	5
1943-46 (3 years)	4	2	6
1946-49 (3 years)	4½	2½	7
1949-52 (3 years)	5	3	8
1952	5	3½	8½

REPORT OF THE TECHNICAL BOARD ON THE MAJOR ALTERNATIVE PLANS FOR THE ADMINISTRATION OF UNEMPLOYMENT INSURANCE

(Presented to the Committee on Economic Security, Nov. 9, 1934)

I. Three major alternative plans for the administration of unemployment insurance are worthy of consideration:

(1) *An exclusively Federal system.*—Under such a system the Federal Government would levy a tax on employers and possibly also on employees, the proceeds of which would be appropriated for unemployment insurance purposes. In this act it would set up a complete system for the administration of unemployment insurance specifying all conditions for benefits. The Federal Government would directly administer these benefits through the Employment Service and Federal record offices, which would probably be set up on a regional basis.

(2) *A cooperative Federal-State system on the subsidy plan.*—Under such a system the Federal Government would, likewise, levy and collect a pay-roll tax on employers and possibly also on employees. It would provide further for subsidies to States which enact unemployment insurance laws satisfying standards specified in the Federal act. These subsidies would be a stated percentage of the tax actually collected from the respective States, which would be set up as a credit in the Federal Reserve banks to the account of the State. A specified percentage (say, 20 percent) might be appropriated to the supervisory Federal department and used to finance the Employment Service, to create a reinsurance fund and/or a fund for payment of benefits to employees who lose their jobs soon

after they have migrated into a new State after still having unused credits in another State. Under this system the States would likewise have to pass unemployment insurance laws which would have to satisfy the standards prescribed by Federal law, but might vary in other respects from the laws of other States. All funds would be held at all times by the Federal Government but the benefits would be administered by the States, presumably through the employment offices and central record offices.

(3) *A cooperative Federal-State system on the Wagner-Lewis principle.*—Under this system the Federal Government would impose an excise tax on employers against which there would be allowed as a credit (up to the full amount of the tax or any stated percentage thereof) the amounts paid by such employers into unemployment insurance or reserve funds established pursuant to State laws meeting standards prescribed in the Federal law. The cooperating States would collect the contributions from employers (and, if they so determined also from employees) and deposit these in the Federal Reserve banks to be held to their credit and to be invested and liquidated under regulations to be made by the Federal Reserve Board. Under this plan, as well as under the subsidy plan, a percentage of the amounts collected by the States might be withheld by the Federal Government to be used as a reinsurance fund. The administration of benefits under this plan would be a State responsibility, but could be controlled to some (probably a limited) extent by Federal legislation.

II. Which of these three plans should be adopted should be decided primarily on practical and fundamental policy considerations, rather than on the issue of constitutionality. All three of these proposals are new and some arguments can be made both in favor and opposed to the constitutionality of each of them. What the Supreme Court might hold is largely conjecture and is likely to depend upon the detailed development of these respective plans. Among the people consulted there seems to be a quite general impression that the Federal-State subsidy plan is the least likely to be overthrown on constitutional grounds, but there are some uncertainties even as to this plan, depending upon how it is worked out in detail.

Fundamental in a decision between these plans is the question of the desirable extent of national control in this field. The exclusively national system would insure uniformity throughout the country, not only with regard to contributions but also benefits. It would ignore State lines and, thus, make it a relatively simple matter to protect the benefit rights of employees when they move from State to State. It would also make possible a pooled fund for the entire country and thereby automatically meet the problem presented by unusual unemployment in particular industries and States, without necessity for any reinsurance fund. It would also have the advantage of whatever degree of increased efficiency there may be in Federal as compared with State administration. It would be put into operation more quickly than any Federal-State plan and would come into effect at one and the same time throughout the entire country.

The major considerations on the other side concern the same fundamental question of the desirable extent of national control. An exclusively national system would necessitate decisions at the very outset on all points which could not be left to administrative discretion, such as employee contributions, industrial and plant funds, incentives to regularization, etc. Even among the people who strongly believe in unemployment insurance and who have given the most thought to this subject there are wide differences of opinion on many of the most fundamental questions arising in the preparation of an actual bill. Under a national system no experimentation on a relatively small scale would be possible and mistakes made initially would have much more serius consequences than under State system. Moreover, "all the eggs would be in one basket", with the result that if the national law should be held unconstitutional, there would be no State unemployment insurance laws which remained intact.

III. As between a Federal-State system on a subsidy plan and a Federal-State system along the lines of the Wagner-Lewis bill, the only absolutely necessary difference is that under the former all taxes (contributions) levied on industry would be collected by the Federal Government, while under the latter the contributions under the State unemployment insurance laws would be collected by the States. In practice, however, it seems almost certain that a greater degree of national control will be developed under the former than in the latter system.

The subsidy system provides a simpler method for the collection of contributions (pay-roll taxes) than the Wagner-Lewis device. It would have at least some tendency toward higher standards of administration—a most important matter. It probably would facilitate the setting up of reinsurance and transfer funds. From the point of view of expediency it has the advantage of being a brand-new

proposal. Clearly it is superior to the Wagner-Lewis plan if extensive national control is desired at this time in unemployment insurance.

The Wagner-Lewis plan has the advantage over the subsidy plan that it will make it unnecessary to reach decisions under the Federal act on the most controversial questions in connection with unemployment insurance: Whether plant funds shall be permitted and whether employees shall be required to contribute. It may be that these questions could be left to the decisions of the States even under the subsidy plan but certainly not as easily as under the Wagner-Lewis device. Another important consideration is that under this plan there would be no pressure on Congress to use sources of revenue other than contributions for unemployment-insurance purposes, which is likely to become very strong under both the straight national and (Federal-State) subsidy plans. Finally, under the Wagner-Lewis bill, many States would doubtless pass unemployment insurance laws before the Federal tax became effective and could be litigated. In the event that the Federal law should then be held unconstitutional, the State laws would continue to operate. Under the subsidy plan, in contrast, while the States would also be required to pass legislation, their laws would include no revenue-raising features, so that they would become inoperative if the Federal act should for any reason be held invalid or if the Federal appropriation is discontinued.

IV. After extended consideration of these three major alternative plans for the administration of unemployment insurance, the executive committee board finds that it is divided regarding which of these systems is to be preferred. The unemployment insurance committee of the technical board, as well as the executive director, believe that the exclusively national system should be definitely rejected. Many of the members of the staff, on the other hand, favor a national system.

The unemployment insurance committee also holds the view that of the two alternative cooperative Federal-State systems the Wagner-Lewis plan is distinctly preferable to the subsidy system.

In view of the differences of opinion on the respective merits of the three major alternative systems of administration, a decision between these systems must be made by the Committee on Economic Security. An early decision is not only vital to the work of the staff but to the entire development of unemployment insurance legislation in this country. At this time unemployment insurance study commissions are functioning in nine states, charged with the duty of making recommendations on this subject to the incoming legislatures. In several other States unemployment insurance legislation was pledged in the platform of the party which won the recent election or has been promised by the successful candidate for Governor. And not only in these but many other States there is wide-spread interest in unemployment insurance legislation with good prospects for its enactment in the coming winter, when 43 State legislatures will be in session. In all States, however, there is at present great uncertainty as to what the Federal Government is going to do, which is holding up all plans for State egislation.

Whether the Committee on Economic Security believes that an exclusively national system is or is not desirable, announcement of its decision upon this point at the forthcoming national conference on economic security would be most appropriate and valuable. The States would then know whether they are to be in the picture and could make their plans accordingly. In view of the near approach of the sessions of Congress and the State legislatures, an early decision on the issue of an exclusively national versus a cooperative State-Federal system would seem imperative.

A decision regarding the type of a cooperative Federal-State system which is desired (if such a system is preferred over an exclusively national system) is less urgent. If the committee, however, has decided preferences as between the subsidy plan and the Wagner-Lewis plan, it will facilitate the work of the staff and the technical board if this question also is promptly decided.

Submitted in behalf of the executive committee.

EDWIN E. WITTE, *Executive Director.*

SUPPLEMENTARY STATEMENT OF THE ADVISORY COUNCIL ON ECONOMIC SECURITY

To the Honorable FRANCES PERKINS,
Chairman President's Committee on Economic Security,
Washington, D. C.

We voted with the majority of the Advisory Council for a 3-percent pay-roll tax on employers; but we regard the revenue therefrom to be thoroughly inadequate as the foundation for benefits under the proposed Federal-State system of

unemployment compensation. The actuaries of your Committee on Economic Security set before us the standards which they estimated as possible under such a 3-percent pay-roll tax. These are: First, after a worker is laid off, a 4 weeks, waiting period without benefit; then 15 weeks' benefits at 50 percent of normal wages (but in no case more than $15); thereafter, except for long-time employees, nothing. Our vote should not be regarded as recommending such meagre coverage.

Rather, to increase the benefits, a considerable minority of the Advisory Council voted for a 5-percent tax on pay rolls; and a larger group tied the vote at 4 percent. As no benefits, under the proposed scheme, are to accrue until 3 years from now, they do not, of course, bear on the present mass unemployment. Our contention is that these standards fall short of any reasonable protection of unemployed wage-earners in normal times, which is the limited objective of the proposed legislation.

The simplest test of coverage is the length of time for which benefits run, compared with the length of time experience shows men and women seek work before they can find it. At our request the technical staff of the Committee on Economic Security drew up calculations on this point from duration tables for 1922–30 prepared by the Committee's actuaries as a basis for projecting a system of unemployment compensation. These went to show that even in "good times" 54 percent of the unemployed wage-earners would fall outside the benefit period provided by a 3-percent base; 26 percent because they would fall in the prolonged waiting period, and 28 percent because they would have been out of a job for more than 4 months. In "bad times" the proportion who would fall outside the benefit period would be as high as 80 percent; in average times, 60 percent.

These statistical estimates, with their known limitations, were brought down to everyday realities, when the results of a field survey were cited, carried out in 1928 for the Senate Committee on Labor, Senator Couzens, chairman. This was a unique case study of 750 workers let go the 12 months preceding from 20 groups of industries in Chicago, Baltimore, and Worcester, Mass. It was directed by Dr. Isador Lubin, now Chief of the Bureau of Labor Statistics of the United States Department of Labor. With prosperity at its height, 42 percent of those who had secured jobs, and 55 percent of those who hadn't at the time they were interviewed, were unemployed for more than 4 months.

From another angle, the adequacy of the majority proposal was challenged, by offering tables prepared by the technical staff of the Committee on Economic Security. These compared the protection proposed under a 3-percent plan for the United States and that afforded throughout recent years by the standard benefits of the British system of unemployment insurance which has a combined 4½-percent base. Earning $2 a day or its equivalent, either American or British worker would lose $208 in wages if out of work for 4 months. It was pointed out that, if eligible, under the proposed Federal act the American worker would be assured a total of $80 in unemployment compensation. The British worker, if single, would fare about as well; but if married, with 3 children, the family man would get $130 in the same period; and if allowance were made for relative purchasing power, he would get $156 against the American $80. In the higher wage brackets, the American would come off favorable with the British as long as his compensation lasts, but in any case that is only part of the picture. The general run of American benefits would be cut short at 14 or 15 weeks, while the British standard benefits begin after 1 week's waiting period (against the 4 proposed for the U. S. A.) and run up to 26 weeks (against 15).

An employee with a long work record in America might qualify for half a year; in England, for a full year.

We contend that if the British people could swing such a coverage throughout the post-war depression, and are now liberalizing it, the people of the United States might at least do as well in setting up a system of security in this period of anticipated recovery, when no benefits are to accrue to unemployed workers until 1938—3 years off.

According to actuarial estimates submitted by the technical-staff of the Committee on Economic Security, if 1 percent were added to the 3 percent proposed, it would double the length of the benefits. Most of us who advocated longer benefits were for finding this 1 percent by bringing the pay roll tax on employers up to 4 percent (in the original Wagner-Lewis bill it was 5 percent). Some of us were for calling on the Federal Government to contribute it. All of us broke with the proposition that a worker, who qualifies under our new system and whose savings are exhausted, shall find himself thrown upon public relief at the end of 14 or 15 weeks of unemployment compensation.

We feel so strongly that such benefits cover too short a period that, while we signed the report as a whole, we wish to make our position altogether clear to the Committee on Economic Security. Moreover we believe it a disservice to the President for us not to point out their inadequacy.

PAUL KELLOGG.
FRANK P. GRAHAM.[1]
WILLIAM GREEN.[1]
HELEN HALL.[1]
HENRY OHL, Jr.[1]

TABLE I.—*Calculations as to percent of unemployed falling within 4 weeks' waiting period and 15 weeks' benefit period*

[The duration tables—with their known limitations—yet show some data]

DISTRIBUTION OF THE UNEMPLOYED, 1922-30

	3-7 percent unemployment A	7-11 percent unemployment B	11-20 percent unemployment C	20-30 percent unemployment D	30-43 percent unemployment E	Comps. F
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
Under 4 weeks	27	26	21	21	17	21
4 to 19 weeks	45	46	47	34	22	40
Over 19 weeks	28	28	32	45	61	39

In "good times" (A and B) roughly half of unemployed within benefit period; one-fourth within waiting period; one-fourth beyond benefit period.
In "bad times" (E) 22 percent within benefit period; 17 percent within waiting period; 61 percent beyond benefit period.
In all studies 40 percent within benefit period; 20 percent within waiting period; 40 percent beyond benefit period.
Corrections for cumulative periods for each individual would probably reduce percentage in waiting period, increase percentage beyond benefits, and not much change in benefit percentage.
Source: Supplied by members of the Technical Staff, Committee on Economic Security.

TABLE II.—*Unemployment history of 754 discharged workers*

[From the Absorption of the Unemployed by American Industry, by Isador Lubin; Brookings Institution Pamphlet Series, Vol. 1, No. 3, p. 5; published July 1, 1929]

1. THOSE WHO FOUND JOBS

Length of time unemployed	Classified by period of unemployment		Cumulated	
	Number	Percentage	Number	Percentage
Under 1 month	47	11.5	47	11.5
1 to 2 months	66	16.1	113	27.6
2 to 3 months	66	16.1	179	43.7
3 to 4 months	60	14.6	239	58.3
4 to 5 months	43	10.5	282	68.8
5 to 6 months	30	7.3	312	76.1
6 to 7 months	28	6.9	340	83.0
7 to 8 months	23	5.6	363	88.6
8 to 9 months	18	4.4	381	93.0
9 to 10 months	10	2.4	391	95.4
10 to 11 months	7	1.7	398	97.1
11 to 12 months	3	.7	401	97.8
12 months or over	6	1.5	407	99.3
Not stated	3	.7	410	100.0
Total	410	100.0		

[1] Signatures received by wire and mail.

TABLE II.—*Unemployment history of 754 discharged workers*—Continued

2. THOSE STILL UNEMPLOYED WHEN INTERVIEWED

Length of time unemployed	Classified by period of unemployment		Cumulated	
	Number	Percentage	Number	Percentage
Under 1 month	43	12.5	43	12.5
1 to 2 months	40	11.6	83	24.1
2 to 3 months	37	10.8	120	34.9
3 to 4 months	34	9.9	154	44.8
4 to 5 months	26	7.6	180	52.4
5 to 6 months	22	6.4	202	58.8
6 to 7 months	27	7.9	229	66.7
7 to 8 months	18	5.2	247	71.9
8 to 9 months	31	9.0	278	80.9
9 to 10 months	19	5.5	297	86.4
10 to 11 months	7	2.0	304	88.4
11 to 12 months	8	2.3	312	90.7
12 months or over	29	8.4	341	99.1
Not stated	3	.9	344	100.0
Total	344	100.0		

TABLE III.—*Comparisons at $2 and $4 wage levels of benefits under standard British unemployment insurance and the proposed American scheme, based on 3-percent pay-roll tax, 4 weeks waiting period and 14 weeks benefit period*

[Drawn from tables prepared by the technical staff of the Committee on Economic Security. All benefits stated in dollars]

1. MARRIED MAN WITH THREE CHILDREN

A. Assuming that £1 equals $5

Unemployed	British			Percent net loss	Proposed American			Percent
	Wages lost	Benefits	Net loss		Wages lost	Benefits	Net loss	
$2 wage per day:								
1 month	$52	$26.67	$25.33	49	$52	$2	$50	96
4 months	208	130.67	77.33	37	208	80	128	62
6 months	312	200.00	112.00	36	312	84	228	73
$4 wage per day:								
1 month	104	26.67	77.33	74	104	4	100	96
4 months	416	130.67	285.33	69	416	160	256	62
6 months	624	200.00	424.00	68	624	168	456	73

2. SINGLE MAN

$2 wage per day:								
1 month	$52	$14.17	$37.83	73	$52	$2	$50	96
4 months	208	69.43	138.57	67	208	80	128	62
6 months	312	106.27	205.73	66	312	84	228	73
$4 wage per day:								
1 month	104	14.17	89.83	86	104	4	100	96
4 months	416	69.43	346.57	83	416	160	256	62
6 months	624	106.27	517.73	83	624	168	456	73

TABLE III.—*Comparison at $2 and $4 wage levels of benefits under standard British unemployment insurance and the proposed American scheme, based on 3-percent pay-roll tax, 4 weeks waiting period and 14 weeks benefit period*—Con.

1. MARRIED MAN WITH THREE CHILDREN

B. Assuming the £ to be equivalent to $6 on basis of living costs, using wholesale price indices

Unemployed	British			Percent net loss	Proposed American			Percent
	Wages lost	Benefits	Net loss		Wages lost	Benefits	Net loss	
$2 wage per day:								
1 month	$52	$32.00	$20.00	38	$52	$2	$50	96
4 months	208	156.80	51.20	25	208	80	128	62
6 months	312	240.00	72.00	23	312	84	228	73
$4 wage per day:								
1 month	104	32.00	72.00	69	104	4	100	96
4 months	416	156.80	259.20	62	416	160	256	62
6 months	624	240.00	384.00	62	624	168	456	73

2. SINGLE MAN

$2 wage per day:								
1 month	$52	$17.00	$35.00	67	$52	$2	$50	$96
4 months	208	83.30	124.70	60	208	80	128	62
6 months	312	127.50	184.50	59	312	84	228	73
$4 wage per day:								
1 month	104	17.00	87.00	84	104	4	100	96
4 months	416	83.30	332.70	80	416	160	256	62
6 months	624	127.50	496.50	80	624	168	456	73

ACTUARIAL ESTIMATES OF THE PERIODS FOR WHICH UNEMPLOYMENT INSURANCE BENEFITS CAN BE PAID AT VARYING CONTRIBUTION RATES

[From p. 16, Memorandum 4176, "Major Issues in Unemployment Compensation", by Edwin E. Witte, Executive Director, Committee on Economic Security]

All estimates are based on the assumption that benefits will be one-half the weekly wage but not exceeding $25 per week and that the unemployment insurance fund should be entirely self-sustaining. All calculations, further, are based on a Nation-wide insurance system, with 1 year of contribution before benefits become payable. The estimates on the left-hand side of the table given below are based on the experience of 1922–30 and those on the right-hand side on the experience of 1922–33, the assumption being that by the end of these periods the entire fund would be exhausted.

TABLE IV.—*Varying periods of benefit based upon using 1 additional year of contribution*

Experience 1922–30		Experience 1922–33	
Waiting period	Benefit period, weeks,	Contribution rate, percent	Benefit period, weeks
4 weeks	15	3	11
	30	4	16
	52	4½	19
	52	5	23
3 weeks	13	3	10
	23	4	15
	37	4½	18
	52	5	21
2 weeks	12	3	9
	19	4	14
	28	4½	16
	43	5	19

THE GRANTS-IN-AID TYPE OF FEDERAL-STATE COOPERATIVE PLAN FOR UNEMPLOYMENT COMPENSATION

By President Frank P. Graham, chairman, Advisory Council

(Not an analysis or comparison, but a summary of some of the larger aspects of the grant-in-aid plan supported by the majority as interpreted by one of them.)

The majority of the Advisory Council on Economic Security by a vote of 9 to 7 favor the grant-in-aid type of Federal-State cooperative plan for unemployment compensation. A number of the majority are for an outright national plan. All would strongly favor the Wagner-Lewis type as against any less meritorious plan. All would present a united front against those who would oppose or delay legislation this winter. Yet the majority are clearly for the grant-in-aid plan.

The fundamental position upheld by the majority is that the grants-in-aid plan is more adaptable to our economic life and to the needs of both industry and the workers. American economic society is national in nature. It is not organized according to geographical or political subdivisions. Industries reach across States, sections, and even the continent. In this economic society labor is mobile. Workers move from industry to industry, from State to State, from an industry in one State to the same industry in another State, and from an industry in one State to a different industry in another State. In a society of fluid capital, migratory industries, shifting labor markets, seasonal, technological, and cyclical forces, unemployment is a social hazard of our dynamic industrial life.

Unemployment is, thus, a problem of industry and the Nation. Its economic and other causes and its social and other incidence involve our whole industrial order. Any Federal-State cooperative plan for unemployment compensation should, therefore, recognize as far as practicable and wise, our national economic structure. Cooperative Federal-State legislation and administration should recognize the spheres and values of the Federal and State governments, but the States should not be required to attempt to meet situations and serve purposes not in accordance with their situation and nature.

The purpose of the Federal-State cooperation is to stimulate a more intelligent stabilization of industry and to provide more security for the workers. The Wagner-Lewis plan and the grant-in-aid plan are both Federal-State plans directed toward these two ends, with more emphasis on the State approach in the former and with more emphasis on the national nature of unemployment in the latter. The majority hold that the grant-in-aid plan can more adequately meet the needs of American industries and workers with their unemployment problems created by (1) national and interstate industries, (2) mobile labor, interstate transfers, and employment records, (3) the need for Federal reinsurance, (4) for national minimum standards. Under the grant-in-aid plan the Federal-State administration can more effectively guard the integrity of the fund, the stabilization of industry, and the best interests of the workers as parts of our national dynamic society.

The collection of the tax by the Federal Government required by the grant-in-aid plan affords a clearer basis for the deposit of the money in the Federal Reserve banks. There can, under this plan, be no basis for pressure on Congress to allow the money to be deposited in local (and in some States political) banks. The value of the nationally wise use of the funds by the Federal Reserve as an aid to stabilization cannot then be jeopardized by either financial short-circuits or political misuses.

Furthermore the grant-in-aid would be separate from the tax law. Congress has power to levy this geographically uniform excise tax on pay rolls. Congress also has power to appropriate money as grants-in-aid to States for a public purpose on terms laid down by Congress. Unemployment compensation and the promotion of industrial stabilization and social security constitute a clear public purpose. In the Wagner-Lewis plan the tax and the appropriation are joined in the same act. Under the strain of carrying sufficient national minimum standards and other regulations required by the interstate and national nature of industry and unemployment, such a joint act more seriously raises the question of constitutionality.

The grant-in-aid plan appears not only the stronger constitutionally, but is also a variation and development of Federal grants-in-aid which are an historically established part of our Federal-State structure. This plan also more nearly fits in with some other proposed plans to promote insurance against destitution and could more readily help to unify the collection of the funds involved in more comprehensive program of social security.

For the purpose of securing early legislation by the States for this progress, Congress could fix a time limit as a condition for a valid acceptance by the States. Moreover, with the interests of industry and 16 million workers involved it is inconceivable that Congress would ever fail to continue the appropriations.

The grant-in-aid plan, it seems to us, can provide for Federal-State cooperation, is yet more adapatable. The needs of industry and the workers in our national economic society can secure and maintain Nation-wide minimum standards without as validly raising the question of constitutionality, and provides for experimentation in the interests of stabilization. It leaves open to the States experimentation along the lines of pooled insurance, plant accounts, or a combination of the two. The plan can also provide a clearer basis for experimentation along interstate and even national lines. On the basis of all these experiments, we may develop toward the best plan whether mainly State, mainly Federal, or wholly national.

Finally, we believe that the grant-in-aid plan can better provide for essential minimum standards in the interests of the fund, the employers, and the employees. Minimum standards for all the States in such a Federal-cooperative plan would furnish the bottom below which there must be no chiseling or exploitation and above which there can be wide experimentation by the States and industries for the purpose of stabilization, increased employment, and more security for the workers of America.

REPORT OF THE ADVISORY COUNCIL TO THE COMMITTEE ON ECONOMIC SECURITY

PARTS

MEMBERS OF THE ADVISORY COUNCIL

Frank P. Graham, chairman
Paul Kellogg, vice chairman
Grace Abbott
George Berry
Mary Dewson
Marion B. Folsom
William Green
Helen Hall
George M. Harrison
Joel D. Hunter
Morris E. Leeds
Sam Lewisohn
Raymond Moley
Elizabeth Morrissy
George H. Nordlin
Henry Ohl, Jr.
Right Rev. John A. Ryan
Paul Scharrenberg
Belle Sherwin
Gerard Swope
Louis J. Taber
Walter C. Teagle
Governor John G. Winant

PART I. UNEMPLOYMENT COMPENSATION

All members of the Advisory Council join with the President in holding that legislation for unemployment compensation, on as nearly a nation-wide basis as possible, should be enacted this winter.

We support his statement to the National Conference on Economic Security that "unemployment insurance must be set up with the purpose of decreasing rather than increasing unemployment." While we believe that the States should be permitted a large freedom in choosing the type of plan they establish, we strongly recommend that the Committee on Economic Security, in considering Federal legislation, and that the States in considering State legislation, keep in mind these two principal objectives:

(1) The plan should promote security by providing compensation for workers who are laid off.

(2) The plan should serve as an incentive to employers to provide steady work and to prevent unemployment.

We regard it as settled that unemployment compensation at this time should be developed along Federal-State lines. In this cooperative undertaking the Federal Government must assume the leadership. It should make it easier for the States to act by removing those disadvantages in interstate competition which

are always raised against purely State legislation that involves costs to industry. This knot should be cut by requiring industries in all States (whether the States enact unemployment compensation laws or not) to make uniform pay-roll contributions. The Federal Government should enact a law prescribing minimum standards, and should actively assist the States in preparing necessary State legislation and in getting their plans into operation. The Federal Government should set up an administrative authority, and, as suggested by the President, should assume responsibility for the safeguarding of all unemployment reserve funds and use these funds to promote stabilization.

The States for their part must assume responsibility for State administration. Unemployment-compensation benefits must necessarily be locally administered, and no large bureaucracy in Washington need be created if this principle is observed. Subject to necessary minimum standards prescribed in the Federal law, wide latitude should be allowed the States to experiment with respect to the particular form and provisions of the unemployment-compensation laws which they may enact. Such laws should, however, be completely divorced from relief.

The Advisory Council makes the following specific recommendations:

Type of Federal Legislation.—The Council adopted a motion recommending:

(1) A Federal pay-roll tax.

(2) An independent act providing grants-in-aid to the States for unemployment compensation and employment stabilization, and similar grants-in-aid to industry and plant accounts, conforming to the provisions and standards of this Federal act.

The motion also recommended that the Federal law shall include a stipulation to the effect that no State shall receive such grants until its State law providing for unemployment compensation is in effect, together with any other feasible provisions designed to stimulate prompt State action.

The majority favoring the Federal tax and Federal grants-in-aid type of legislation did so because they believed this type of legislation would have advantages:

(*a*) In dealing on a Nation-wide basis with situations which cross and transcend State boundaries.

(*b*) In establishing and maintaining throughout this country the essential minimum standards.

(*c*) In removing all obstacles to bring the reserve funds into Federal control.

(*d*) In that it would run less risk of unconstitutionality compared with the Wagner-Lewis type of legislation when the latter is equally equipped with provisions of minimum standards for the States.

(*e*) In that Federal collection and Federal control of funds through the power to allow or disallow grants, would be an important element in national control.

(*f*) In that it would lend itself more readily to developing a national system, should that become advisable.

The minority favoring the Wagner-Lewis type of law believes that it is a general Federal-State measure, utilizing traditional American methods and local machinery in the administration of labor laws, and has the following advantages:

(*a*) It permits experimentation by the States as to the type of State law to be adopted, waiting periods, the amount and duration of benefits, and as to other matters in which experimentation is desirable.

(*b*) It secures uniformity where uniformity is essential, namely, the equalization of competitive costs.

(*c*) It permits the requirement of all essential uniform standards, such as that the money collected must be spent for unemployment benefits, the custody of the funds, and others.

(*d*) It secures the advantages of Federal supervision with decentralization of administration, and local responsibility.

(*e*) It avoids the hazards of an annual appropriation by Congress.

(*f*) It raises substantially the same constitutional questions as the subsidy type of bill, but has the great merit that should it be held unconstitutional, the State laws would be complete in themselves and would remain operative.

(*g*) It will result in Federal and State legislation this winter, while 44 State legislatures are meeting and there is strong public support, which is doubtful under the subsidy plan, particularly if many detailed standards to which the State laws must conform are inserted in the Federal act.

All of the members recognized that each type of Federal law has distinct merits, and wished their votes to be interpreted not as necessarily opposing either type of law, but as preferring one to the other.

Types of State laws.—We recommend that States be permitted to adopt any one of four types as follows:

(*a*) State-wide pooling of funds with or without adjustment of contribution rates according to experience.

(*b*) Separate accounts for any employer or group of employers who may wish to establish them, provided financial guarantees, in such manner as the State administrative agency may require, are given equal to 15 percent of their average annual pay roll during the preceding 5 years or 2 years, whichever is higher. A pooled account for all other employers, with adjustment of contribution rates according to experience.

(*c*) Separate accounts for any employer or group of employers who may wish to establish them, provided contributions of not less than 1 percent of the pay roll are made to the pooled account. All other income is to be pooled in such account. Financial guarantees may be required for the amount which is to be kept in the separate accounts.

(*d*) Separate accounts for all employers (or groups of employers) provided contributions of not less than 1 percent of the pay roll are made to a State fund.[1]

Interstate industrial and company accounts.—Interstate industrial and company accounts which will be exempt from the requirements of State laws, except as hereafter stated, and which will be administered under rules and regulations to be prescribed by the Federal administrative agency, should be authorized in the Federal act, subject to the following conditions:

(1) Only industries and employers who have a substantial number of employees in each of two or more States, shall be permitted to establish interstate accounts.

(2) Interstate industrial and company accounts must make a contribution of 1 percent on their pay roll to the pooled State accounts of States in which they operate having such accounts.

(3) Interstate industrial and company accounts must give as liberal benefits in each State in which they operate as required by the law of that State.

(4) Interstate industrial and company accounts must have the approval of each State in which they operate.

(5) Interstate industrial and company accounts may be set up only with the approval of the Federal administrative authority.

Reinsurance (equalization) fund.—While it is very desirable that there should be a Federal reinsurance fund in order to give equivalent protection to unemployed workers in all States and industries, the practical difficulties are such that the Advisory Council is satisfied that it cannot be set up at this time. We recommend, however, that the Federal administrative authority study this subject.

STANDARDS IN FEDERAL AND STATE LAWS

Coverage.—The Federal acts should apply to all employers who employ directly, or indirectly through subcontractors not subject to the law, six or more employees during any 13 weeks of the preceding year; excluding, however, employees not engaged in the usual trade, business, profession, or occupation of the employer. The States should be required to have at least as broad a coverage as that prescribed in the Federal law. However, any employment for which a separate system of unemployment compensation may be established by Federal law should be excluded. Public employees of States, counties, and cities should be made eligible to unemployment compensation on the same basis as the employees of private employers. Only the first $50 of the salary or wage of employees covered by the act is to be included in the computation of the Federal tax.

A broader coverage than that suggested is deemed desirable by the Advisory Council, but practical considerations lead us to recommend that it be limited as above outlined in inaugurating the system. We recommend, however, that the Federal administrative authority study the problem of extending the coverage to the employers of less than six employees. We recommend also that it work out plans for unemployment compensation to the employees of the Federal Government, especially those employed directly on construction or other work projects.

A. TYPES OF UNEMPLOYMENT BENEFITED

(1) Total loss of weekly wages caused by lack of work, or partial loss of weekly wages caused by lack of work amounting over a 4-week period to an average of more than 50 percent of the normal full-time weekly earnings.

(2) Unemployment occurring in the regular work season of the year in trades in which regularly recurrent periods of slackness occur (the uncompensated slack periods to be designated by the competent administrative agency).

[1] A motion to permit a fifth type, permitting separate accounts for all employers without either guarantees or contributions to any State fund was voted down.

B. TYPES OF UNEMPLOYMENT NOT BENEFITED

(1) Unemployment of persons directly engaged in trade disputes for duration of dispute.
(2) Unemployment caused by discharge for proved misconduct.
(3) Voluntary quit without reasonable cause may be uncompensated entirely or for such period as the plan may designate.
(4) Unemployment during which workmen's-compensation or other compulsory cash benefits are received.

C. ELIGIBILITY

(1) Fulfillment of the following qualifying periods:
(*a*) Employment of not less than 40 weeks in 24 months preceding claim.
(*b*) Employment not less than 10 weeks after maximum duration of benefits in a 12-month period is drawn.
(2) Registration at public employment office or other designated place and at times stated.
(3) Able to work and available for work.
(4) Unable to find suitable employment. Suitable employment means employment for which the insured is reasonably fitted, and located within a reasonable distance. No otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality; (3) if acceptance of such employment would affect the applicant's right to accept of refrain from accepting or retaining membership in or observance of the rules of an organization of employees.

Contributions.—It was voted that the Federal tax law recommended should impose a pay-roll tax of 3 percent on employers who are subject to the act beginning with the year 1936, but with the proviso that if for the year 1935 the index of production of the Federal Reserve Board shall be less than 90 percent of the index for 1926, the rate of tax in the first year shall be 1 percent. (Before arriving at the rate of pay-roll tax suggested, the Council rejected a proposed rate of 5 percent and a proposed rate of 4 percent by close votes, after which a rate of 3 percent was agreed on.)

The Advisory Council does not recommend that employee contributions be provided in the Federal act. A number of members, however, believe that employee contributions should be required, since they would increase the amount and the period of benefits, and, even more important, they would make the employees a part of the administration and more effective in its control. These members believe further that employee contributions would cause the worker to regard the plan as partly his own and not as something given to him as a gratuity, and thus operate to prevent malingering and similar abuses.

On the other hand, a majority of the members of the Council were opposed to the principle of employee contributions. They felt that compulsory employee contributions are unjust, and while they are willing to leave this question up to the States, are opposed to any provisions for employee contributions in the Federal law. In their opinion, contributions paid by employers are, in the long run, passed on to consumers, while contributions paid by the workers, who can do nothing to reduce unemployment, cannot be so shifted. Those opposed to employee contributions regard the cost of unemployment as a legitimate charge in the cost of production. These members, as well as others sympathetic to the general principle of employee participation, felt that with a waiting period of 4 weeks recommended in the Federal law, employees would be meeting a large initial share of the risk of broken work and, coupled with the 50 percent loss of income throughout the benefit period, should not be further burdened.

Some members voting with the majority took the position that while there are no overwhelming logical reasons against employee contributions there is a practical consideration in the fact that employee contributions will be necessary in old-age insurance.

The Advisory Council recommends that it be left optional with the States to require contributions from employees. In the report of the committee and in any model bill which it may promulgate, it is recommended that attention be called to the fact that more adequate benefits can be paid if contributions are increased, whether these increased contributions come from employers, employees, or the Government. A motion to increase benefits by providing a contribution from the Federal Treasury itself was voted down by a large majority.

Depository for funds.—The Advisory Council recommends that all reserve funds should be deposited in the Federal Reserve banks under obligation that they be so managed as to assist stabilization of business and employment. We recommend that the Federal Government should arrange so that the unused balances in the unemployment reserve accounts shall receive interest at 3 percent.

Refunds (credits) to employers who stabilize employment.—In States providing for industry or plant accounts, under the subsidy type of Federal law a refund should be paid to employers who have such accounts, and whose reserves equal to or exceed 15 percent of their total average pay roll during the preceding 5 years or the preceding 2 years, whichever is the higher. In States having pooled funds, with merit ratings, a similar refund should be allowed to employers who become entitled to a low rate of contributions because of their favorable experience Under a Wagner-Lewis type of Federal act, employers who under the subsidy type of act would be entitled to a refund, should be allowed the same amount as a credit against the Federal tax.

Benefits.—It is recommended that the standard benefits in inaugurating the system be based on actuarial calculations for the period 1922 to 1930. This plan proposed is designed primarily for normal times, minor depressions, and the early stages of a severe depression.

In the determination of the standard benefit, it is recommended that the actuarial computations assume a waiting period of 4 weeks and a benefit rate of 50 percent of the average weekly earnings (or in the case of regular part-time workers, average full-time earnings for that part of the week in which they are usually employed) with a maximum compensation of $15 per week.

The length of the standard benefits should be based upon the ratio of 1 week of benefit to 4 weeks of employment, with a maximum standard benefit of not less than 14 weeks in any consecutive 12 months, except that 1 additional week of benefit should be allowed for each 26 weeks of employment against which no benefit was drawn during the 5 years preceding the filing of the claim. This additional allowance would enable employees with long and continuous employment to receive a maximum of 10 weeks' benefit in excess of the maximum allowed for standard benefits.

In view of the wide divergence in the amount of unemployment in different States and industries, it is recommended that wide latitude be allowed to States with regard to the rate of benefits, minimum and maximum benefits, minimum duration of benefits, ratio of weeks of benefit to weeks of employment, and length of the waiting period. States should have freedom to substitute their own benefit provisions for the standard benefit recommended, provided that they satisfy the Federal administrative authority that there is a reasonable prospect that they will be able to maintain payment of benefits on the basis prescribed in their law. In no event, however, is a State law to be approved unless it has a waiting period of not less than 2 nor more than 4 weeks, and prescribes a rate of benefits of at least 50 percent of the average weekly earnings, and a maximum benefit of at least $15 per week. A minimum rate of benefits should also be included in each State law, sufficient to enable unemployed workers to maintain themselves and their families during the period while they are drawing benefits without necessity of resort to private or public charity.

Actual payment of benefits is not to begin until 2 years after the act becomes effective.

Probationary period.—It is recommended that the length of the probationary period which employees must satisfy before they can claim any unemployment benefits be left discretionary with the States. In the Federal tax bill no account should be taken of the probationary period, the taxes to apply to employees during their probationary period no less than thereafter.

Interstate transfer of employees.—The principle should be recognized that employees who have unused benefit credits should not lose those credits because they change their employment from one State to another, but no entirely practical plan to carry out this principle has as yet been worked out. It is recommended that the Federal administrative agency be given authority to study this problem and to promulgate rules for carrying out the principle herein stated prior to the time when benefits actually become payable.

Guaranteed employment.—It is recommended that the legislation to be enacted shall permit plans for guaranteed employment to be set up within a State or on an interstate basis subject to the following conditions:

(1) Employment for at least 55 percent of the maximum period of possible work during any calendar year computed on the basis of 52 weeks' work during the year for the standard hours per week worked in such plant or those permitted

under any Federal or State code applicable to such plant, whichever is the higher, must be guaranteed, and any employees who are not given an opportunity for work equal to such guaranteed minimum work period shall be entitled to recover full wages for the part of the guaranteed employment for which work is not provided.

(2) Guaranteed employment plans are to be permitted only when the guarantee applies to all employees of any company, plant, or separate department (properly defined) of such company.

(3) Guaranteed employment plans may be established only with the approval of the State administrative agency, under such financial guarantees as such authorities may require, except in interstate accounts the approval of the Federal authority shall also be required.

(4) Where approved plans for guaranteed employment have been put into operation and their conditions fully complied with, employers maintaining such plans shall have returned to them, as a subsidy, the Federal excise tax levied against them.

ADMINISTRATION

State administrations.—The Federal law should require that States must accept the provisions of the Wagner-Peyser Act and provide for the administration of unemployment compensation through the Federal-State employment offices. It should be mandatory that all personnel connected with the administration of unemployment compensation be selected on a merit basis, under rules and regulations to be prescribed by the Federal administrative agency. It should be provided in the Federal act that State administrations must furnish such statistics and reports to the Federal agency as it may require. The States should be required further to provide that disputed claims shall be heard and decided in the first instance either by an impartial paid referee or by a local committee consisting of an impartial paid chairman and representatives of employers and employees, or in such other manner as may be approved by the Federal administrative agency.

We also recommend that the Federal act require the States to set up State and local advisory councils, representative of employers, employees, and the public for State plans, the members to be chosen by the State agency; and that advisory councils, representative of employers and employees, chosen in a manner satisfactory to the appropriate Government unemployment compensation authority shall be set up for all other plans, State or interstate.

Federal administration.—We recommend that the national administration of unemployment compensation be vested in the United States Department of Labor, and that the responsibility for all quasi-judicial and policy decisions be vested in a representative board, which is to have quasi-independent status, but is to make all its reports through the Department of Labor. It is recommended that this board consist of the Secretary of Labor, the Secretary of Commerce, and 5 members appointed by the President for terms of 5 years (which shall initially be staggered so that the term of 1 member shall expire each year).

The council further recommends that the chairman of the board shall be appointed by the President, rather than be ex officio, but recommends to the President the appointment of the present Secretary of Labor as the first chairman.

No qualifications for membership on this board are suggested for the Federal statute, but it is assumed that the President will have in mind that employers and employees as well as the public should be represented on this board. We recommend that this Federal board shall have the responsibility of passing upon State laws and their administration and of certifying to the Treasury their compliance with the Federal act. It should have like responsibility in regard to interstate accounts and all other matters left by the act for the determination of the Federal authority. The board should be authorized to make studies of employment stabilization and other pertinent subjects, to publish the results of its studies and to otherwise promote regularity of work. The conduct of the employment offices and the compilation of statistical and other information, however, is to remain a direct function of the Department of Labor. The intent of this recommendation is to make a separation between quasi-judicial and policy functions on the one hand, and the direct work of administration on the other, leaving the former to the new board and the latter to the Department of Labor.

Administrative expenses.—We recommend that a percentage of the proceeds of the Federal tax shall be retained for the expenses of the Federal and State Governments in the administration of the Unemployment Compensation Act, and in

sharing in the additional costs thrown on the Federal-State employment services. The Federal authority should be authorized to set a maximum limit upon the administration expenses of the States from the amount remitted by the Federal Government.

National standards.—It is recommended that the standards, conditions, and recommendations as to State laws, as set forth herein, shall be included in the Federal bill, regardless of the type of legislation adopted.

The majority of the Council are of the opinion that the minimum standards herein provided should be incorporated in the Federal law, but the Council realizes that as a matter of policy, in order to secure Federal and State legislation, the Committee on Economic Security may find it advisable to omit or amend some of these standards in the Federal act.

Assistance to States in the preparation and passage of State legislation.—Since the plan for unemployment compensation we recommend contemplates cooperative Federal-State action, it is essential that the National Government should actively interest itself in securing the enactment of the necessary State legislation. To this end we recommend that the Committee on Economic Security frame model State bills incorporating the various types of legislation permitted, under the Federal act, and be prepared upon request, to provide actuarial and expert assistance in the drafting of bills for introduction in the several State legislatures.

PART II. OLD-AGE SECURITY

Three separate but complementary measures for old-age security are recommended:

1. A Federal subsidy to the States toward meeting the cost of noncontributory old-age pensions under old-age assistance laws complying with the standards prescribed in the Federal statute.
2. A Federal system of old-age insurance which will be compulsory for all industrial workers who can be brought under its terms.
3. A Federal system of voluntary old-age annuities for persons not covered compulsorily.

NONCONTRIBUTORY OLD-AGE PENSIONS

There are now 29 States with old-age assistance laws, providing varying standards of aid to aged persons granted upon differing conditions. Many of these laws are nonfunctioning; many of the others, through financial pressure, have cut benefits below a proper minimum, and have long waiting lists of needy persons; moreover, the financial limitations of many of the States and the indifference of others, indicate that State action alone cannot be relief upon which to provide either adequate or universal old-age assistance.

It is recommended:

1. That the Federal Government enter this situation by offering grants-in-aid to the States and territories which provide old-age assistance for their needy aged under plans that are approved by the Federal authority, such plans to include proposed administrative arrangements, estimated administrative costs, and the method of selecting personnel.
2. That the grants-in-aid constitute one-half of the expenditures, including administrative expenses, for noninstitutional old-age assistance made by any State or Territory under a plan approved by this Federal authority, provided that in computing the amount of said grants-in-aid, not more than $15 per month shall be paid in Federal subsidy on account of assistance provided for any aged persons in such State or Territory, nor more than 5 percent of the total assistance expenditures for administration.
3. A State or Territory should be permitted to impose qualifications upon the granting of assistance to needy aged persons, but it should be stipulated in the Congressional statute providing for the grants-in-aid that no plan shall be approved by the Federal administrative agency unless its old-age assistance laws and its administration measure up to the following standards:

(*a*) Is State-wide or Territory-wide, and if administered by subdivisions of the State or Territory, is mandatory upon such subdivisions.

(*b*) Establishes or designates a State welfare authority which shall be responsible to the Federal Government for the administration of the plan in the State; and which shall administer the plan locally through local welfare authorities.

(*c*) Grants to any claimant the right of appeal to such State authority.

(*d*) Provides that such State authority shall make full and complete reports to the Federal administrative agency in accordance with rules and regulations to be prescribed by the Federal administrative agency.

(*e*) Provides a minimum assistance grant which will provide a reasonable subsistence compatible with decency and health, provided that in the event that the claimant possesses income this minimum grant may be reduced by the amount of such income.

(*f*) Provides that an old person is entitled to aid if he satisfies the following conditions:

(1) Is a United States citizen.

(2) Has resided in the State or Territory for 5 years or more, within the 10 years immediately preceding application for assistance.

(3) Is not an inmate of an institution.

(4) Has an income inadequate to provide a reasonable subsistence compatible with decency and health.

(5) Possesses no real or personal property, or possesses real or personal property of a market value of not more than $5,000.

(6) Is 70 years of age or older; provided that after January 1, 1940, assistance shall not be denied to an otherwise qualified person after he is 65 years of age or older.

(*g*) Provides that at least so much of the sum paid as assistance to any aged recipient as represents the share of the United States Government in such assistance, shall be a lien on the estate of the aged recipient, which, upon his death, shall be enforced by the State or Territory, and the amount collected reported to the Federal administrative agency.

4. The cost of the Federal subsidy to the Federal-State noncontributory old-age pensions will require annual appropriations from the Treasury. If, however, a Federal compulsory contributory old-age annuity scheme is adopted, and the fiscal position of the Government indicates financing old-age assistance grants by borrowing, the reserves of the compulsory contributory old-age insurance scheme might be utilized for this purpose. If such a borrowing policy is adopted, formal certificates of indebtedness carrying 3-percent interest should be issued by the Treasury to the Federal authority administering the compulsory contributory old-age annuity scheme.

CONTRIBUTORY OLD-AGE INSURANCE

A Federal old-age insurance system is recommended, to be instituted at the earliest date possible, on the following plan:

1. *Scope.*—The act shall include on a compulsory basis all manual wage earners and those nonmanual wage earners who are employed at a rate of not more than $100 per week, provided however that no wage in excess of $50 per week shall be counted for insurance purposes. Wage earners in agriculture, governmental employment, and railroad service are not included on a compulsory basis.

2. *Tax on employers and employees.*—A tax shall be levied on employers and employees included within the scope of the compulsory provisions of the plan equal to the following percentages of pay roll: 1 percent in the first 5 years the system is in effect; 2 percent in the second 5 years; 3 percent in the third 5 years; 4 percent in the fourth 5 years; and 5 percent thereafter. Taxes shall be paid on both pay roll and wages on the assumption that the weekly wage of a single worker does not exceed $50.

It is recommended that employers and employees each pay one-half of the above percentages, with the employer responsible for the payment of the employee's tax but entitled to deduct the same amount from the wages due the employee.

3. *Federal contributions.*—After a contingency reserve of reasonable proportions has been accumulated (approximating one-fifth of the full reserve), the Federal Government shall contribute annually an amount sufficient to maintain such a reserve.

4. *Benefits.*[2]—No annuities are to be paid until the system has been in operation for 5 years nor to any worker who has not made 200 weekly contributions. Thereafter the following benefits are to be paid on retirement at age 65 or later to workers (*a*) who entered insurance before attaining age 60, and (*b*) on whose account at least 200 joint weekly contributions have been paid, provided that contributions made after reaching the age of 65 years shall not affect the amount of the annuity.

[2] This plan of benefits applies only to persons entering the insurance system during the first 5 years of its operation, and is organized to cover the situation of workers who are middle-aged and over at the time that the system goes into operation. The permanent scheme of benefits not having to meet that situation will while following the general plan outlined here adjust the full annuity to the contributory period of a normal working life.

It is proposed to provide a larger relative annuity for lower-paid workers by weighting more heavily the first $15 of weekly wage. In the following description of benefits, however, the average percentage paid to all wage groups is used in indicating the annuities payable in each year.

(*a*) A pension equal to 15 percent of the average weekly contribution wage (not counting that portion of average weekly contribution wage in excess of $35 weekly) to workers retiring in the sixth year the system is in operation. Pension percentages are to be increased by 1 percent each year in the next 5 years and by 2 percent each year in the following 10 years, thus bringing percentage to a maximum of 40 percent of the joint contributions 20 years after the system comes into operation. In no case shall the pension be less than the amount purchasable by the worker's own contributions.

(*b*) A death benefit to beneficiaries of insured workers who die prior to retirement equal to worker's own contributions accumulated with interest at 3 percent.

(*c*) A death benefit to beneficiaries of insured workers who die after retirement equal to the accumulated value of the worker's own contributions at time of retirement, less the aggregate amount paid to the worker as a pension.

5. *Administration.*—While the collection of the funds and the control of the administration will be national, local agencies will be used so far as possible in the operation of the system. The guarantees recommended would be impossible in any but a straight national system, since they must be based on the actuarial experience of the population as a whole. It is contemplated that the old-age insurance reserve funds will be invested and managed by the treasury (or the Federal Reserve Board) on the same basis as the unemployment insurance funds. All other aspects of administration are to be vested in a Federal insurance authority. It is recognized that the administration of an insurance plan for such a number of persons is a large undertaking, and to prevent duplication and to reduce administrative costs, it is recommended that the same State and local agencies handling unemployment insurance be utilized for this purpose. Other State and local labor agencies will also have to cooperate in the administration.

VOLUNTARY OLD-AGE INSURANCE

In addition to the compulsory old-age insurance plan, it is proposed that there be established, as a related but separate undertaking a voluntary system of Government old-age annuities, for restricted groups as indicated below. Under such a plan, the Government would sell to individuals, on a cost basis, deferred life annuities similar to those issued by commercial insurance companies; that is, in consideration of premiums paid at specified ages, the Government would guarantee the individual concerned a definite amount of income starting at, say, 65 and continuing throughout the lifetime of the annuitant.

The primary purpose of a plan of this character would be to offer persons not included within the compulsory insurance arrangement a systematic and safe method of providing for their old age. The plan could also be used, however, by insured persons as a means of supplementing the limited old-age income provided under the compulsory plan.

Without attempting to outline in detail the terms under which Government annuities should be sold, it is believed that a satisfactory and workable plan, based on the following principles, could be developed without great difficulty:

(1) The plan should be self-supporting, and premiums and benefits should be kept in actuarial balance by any necessary revision of the rates indicated by periodical examinations of the experience.

(2) The terms of the plan should be kept as simple as practicable in interest of the economic administration and to minimize misunderstanding on the part of individuals utilizing these arrangements. This could be accomplished by limiting the types of annuity offered to two or three of the most important standard forms.

(3) In recognition of the fact that the plan would be intended primarily for the same economic groups as those covered by compulsory annuities, the maximum annuity payable to any individual under these arrangements should be limited to $100 per month. The plan should be extended to persons of the lowest-wage groups who are able to build up only small annuities, by providing for the acceptance of relatively small premiums (as little as $1 per month).

(4) The plan should be managed by the insurance authority, along with the compulsory old-age-insurance system.

No estimates have been made as to the amount of annuity reserves that would be accumulated under a plan such as that proposed above. It is believed, however, that the fiscal problems presented by such reserves would not be serious.

Judging by experience abroad, relatively few persons will voluntarily take out such annuities unless the Government actively interests itself in promoting them.

PART III. SECURITY FOR CHILDREN

In the last analysis, security for family life, insurance of an environment in which the rights of children are safeguarded, is the principal objective in an economic-security program. All the measures which the Council have considered—unemployment compensation, an employment and public assistance program, adequate health measures, and even old-age pensions, which lift the burden of the support of the aged from those of middle age whose resources are needed for the care and education of their children—could be described as child-welfare measures. But in addition to these general measures, certain special measures are necessary for the protection of children. Two groups of such measures, to be administered by the Children's Bureau of the United States Department of Labor, were submitted to the Council, with the endorsement of the Special Advisory Committee on Child Welfare, and in the case of the recommendations as to child and maternal health, of the Special Advisory Committee on Public Health, as well as the Child Welfare Committee. These measures which were considered and approved by the Council are, briefly, as follows:

1. Strengthening and expanding of mothers' pensions and of State and local services for the protection and care of homeless and neglected children and children whose surroundings are such as gravely to impair their physical and social development, through a program supported jointly by Federal grants-in-aid and State and local appropriations.

Mothers' pensions, designed to bring security in their own homes and under their mothers' care to children who are deprived of a father's support by death, incapacity, etc., and for whom long-time care must be provided, are now authorized by legislation enacted in 45 States. Such pensions are, however, actually granted by less than half the local units empowered to provide this form of care, and in many of these the amounts of the grant are inadequate to safeguard the health and welfare of the children.

Of the present annual expenditures of approximately $37,200,000, local appropriations total $31,200,000, and State appropriations amount to $6,000,000. In order to take care of those now on waiting lists, poor relief, or emergency unemployment relief, and those for whom existing grants are inadequate, State appropriations should be increased; and it is estimated that approximately $25,000,000 a year for Federal grants-in-aid of this program will be required for the first 2 years, rising to a possible $50,000,000 as the program develops. In this connection it is noted that the Federal Government, through the Federal Emergency Relief Administration, is now spending much more than $25,000,000 on families probably eligible for mothers' aid. Federal grants should be conditioned on the State laws being made mandatory on the local units and on approved plans which would insure minimum standards in investigation, amounts of grants, etc., and after June 30, 1937, State financial participation, which might take the form of equalization grants to local units or per capita grants as the individual States desired. An appropriation of $1,500,000 a year is approved for assistance to State welfare departments in promoting more adequate care and protection of children and strengthening local public child-welfare agencies.

2. A child and maternal health program involving Federal assistance to the States, and through the States to local communities, in the extension of maternal and child health service, especially in rural areas, was approved. Such a program, it is understood by the Council, would include (*a*) education of parents and professional groups in maternal and child care and supervision of the health of expectant mothers, infants, preschool and school children, and children leaving school for work; (*b*) provision for a rural maternal nursing service; (*c*) demonstrations of methods by which rural mothers may be given adequate maternal care; and (*d*) provision for transportation, hospitalization, and convalescent care of crippled children, in areas of less than 100,000 population. This program should be developed in the States under the leadership of the State departments of health or public welfare, in close cooperation with medical and public welfare agencies and groups, and other agencies, public and private, concerned with these problems. The committee submitting this plan estimated that approximately $7,000,000 a year will be required for this program, to be increased as the program develops.

118296—35——57

PART IV. EMPLOYMENT AND RELIEF

The report of the Special Committee of Employment and Relief Advisory to the President's Committee on Economic Security was referred to the Council for consideration and after discussion by a subcommittee and the full Council, the report was adopted in principle.

The main recommendations of the report which are herewith restated and reaffirmed are:

I. GOVERNMENT EMPLOYMENT PROGRAM

1. All of those on relief who can be employed should be given work. To accomplish this end a governmental employment program is necessary.

2. Great care must be taken to avoid any governmental work program which will nullify its own gains by retarding recovery.

3. Programs can be devised which will provide real work for large numbers of the unemployed. In selecting projects the following things should be kept in mind:

(*a*) The program should be varied so that workers of many different skills may be employed; it should be widely distributed geographically; it should be free as possible from requirements which cause delays and hinder ready adaptation to the needs of the unemployed, suh as insistence upon self-liquidation or work by contract.

(*b*) The present program of Public Works and work relief projects should be studied and extended as far as possible. Special attention should be given to the processing of surplus products and production for use.

(*c*) Continuous study should be given to the adopted or suggested programs of other departments of the Federal, State, and local governments. For example, the Committee on Medical Care is recommending the construction of 500 rural hospitals and other sanitoria. Work programs relating to the housing needs of communities can be greatly developed, and the rehousing of dependent families in slum areas to be torn down is a matter which should be studied

4. Unless work is separated from relief it loses most of its social values to the worker. Therefore the Government employment program should be divorced completely from relief, and should be set up separately from the public-assistance program recommended in this report.

5. Candidates for employment should be selected on the basis of their ability, not their need, but as there probably will not be sufficient Government work to give employment to everyone not now employed, applicants should be required to show that they are dependent on their own earnings and that they have had previous regular-work experience.

6. The proper selection of these applicants, and their reabsorption into private industry cannot be properly done unless the work of the United States Employment Office and the State employment offices is expanded and strengthened and the personnel in many States improved.

7. There must be close and constant cooperation between all employment offices and the responsible authorities in governmental public assistance departments.

II. EDUCATIONAL PROGRAM FOR YOUTH

The committee believes that the security program should contain special educational provisions for those between the ages of 16 and 21. By utilizing the educational facilities which the Nation provides, and strengthening them where necessary, education could replace work as the element necessary for security for that age group. In this way a million or more competitors would be withdrawn from the labor market

III. PUBLIC ASSISTANCE PROGRAM

It is very important to retain the gains which have been made in the administration of public assistance in the last few years. The standards of service are higher and relief more nearly reaches adequacy mainly because there has been Federal financial aid to the States and supervision of their work. There has also been State aid and supervision of the counties and townships. These gains cannot be made permanent without the revision of all the so-called "poor laws" in most of the States. It is rarely that such an opportunity comes to change a whole group of antiquated and sometimes inhuman laws. To do that and to retain the good in the present emergency set-up, a plan is advocated for a Federal department or administration through whch equalization funds would be administered to the States. This would be a powerful influence in building up State and local

agencies which would be able in turn to do away with the evils of the present relief system. Strong State and local departments of public welfare, well organized on a permanent rather than an emergency basis, should be encouraged as a means of providing assistance according to the varying needs of families and individuals. The best known methods are necessary to counteract the demoralization and insecurity which result from the social hazards encountered. Such assistance should be adequate, timely, certain, and well administered and the State and local administrations developed on a permanent basis should be encouraged to give most careful attention to the selection and training of qualified personnel. It is therefore recommended:

1. That there should be a permanent public welfare bureau, department, or administration in the Federal Government which should administer all Federal public assistance funds and coordinate Federal, State, and local public assistance efforts; and in which should be focused the development of whatever relationship should exist as between public assistance and other measures of economic secuity.

2. That we recommend that the proposed Federal bureau or department of public welfare be given authority to require a State to consolidate its welfare functions in one satisfactory permanent department with appropriate local units as a condition to the use of State and local machinery in the administration and distribution of Federal funds.

3. That the committee asks support for a unified welfare program, Federal, State, and local. This should be a well-rounded program, unified administratively as well as financially. The committee believes that Federal grants-in-aid are urgently needed not only for unemployment compensation but also for old-age pensions, mothers aid, general home assistance, care of homeless children and adults, and other parts of the proposed unified welfare program. The committee also expresses its belief that no hard and fast line can be drawn between any of these categories.

It will not be possible for the State and local governments to assume full responsibility for those families whose needs would not be met by a work program but the Federal Government should, through its proposed welfare administration, secure all possible cooperation from these subdivisions of government.

Part V. Risks to Economic Security Arising Out of Ill Health

The Advisory Council wishes to give general endorsement to the proposals of the staff and its advisory medical, public health, hospital, and dental committees relative to public health and medical care. Specifically the Council approves the proposal for annual Federal appropriations of not less than $10,000,000 to the United States Bureau of Public Health for the following purposes:

"To the Public Health Service: (1) For grants-in-aid to counties and local areas unable to finance adequate public-health programs with local and State resources, to be allocated through State departments of health; (2) for direct aid to States in the development of State health services and the training of personnel for State and local health work; (3) for additional personnel within the Service for investigation of disease and of sanitary or administrative problems which are of interstate or national interest and for detailing personnel to other Federal bureaus and offices and to State and localities; and"

The Council emphasizes the necessity for including in the economic security program adequate measures for preventing the risks to economic security arising out of ill health, and believes that these foregoing proposals will contribute to the development of a national health plan.

The Council also approves the three sets of proposals relative to medical care, as follows:

1. Further use of P. W. A. funds for the construction of public-health and medical institutions such as tuberculosis sanatoria, mental-disease hospitals, and health centers, where the need is shown to exist and funds are available for maintenance.

2. Use of P. W. A. funds for the construction of general hospitals in rural areas where such institutions are needed but where no hospitals exist, with appropriations on a decreasing scale for their operation. A preliminary survey shows that there are approximately 500 such areas.

3. Extension of hospital care to persons on F. E. R. A. relief.

The Council wishes to express its appreciation of the assistance being rendered to the staff by the medical, hospital, and dental advisory committees in their study of health insurance and of other measures for medical care which is still under way.

The CHAIRMAN. At this point the Chair submits for the record a statement by Dr. Witte, Executive Director of the Committee on Economic Security, prepared recently, entitled, "Why the Townsend Old-Age Revolving Pension Plan Is Impossible."

(The statement referred to follows:)

WHY THE TOWNSEND OLD-AGE REVOLVING PENSION PLAN IS IMPOSSIBLE

By Edwin E. Witte, Executive Director of the Committee on Economic Security, January 1935

COSTS

The Townsend plan proposes that pensions of $200 per month shall be granted to all citizens of the United States who are 60 years of age or over, other than habitual criminals, and who will forego all gainful occupation and agree to spend the pensions during the month in which they are received. No income or property limitations whatsoever are prescribed; even millionaires would be entitled to the Townsend pensions.

There were 10,385,000 persons over 60 years of age in the United States in 1930, as shown by the census of that year. At this time the number is considerably greater, being estimated at 11,582,000. The number of habitual criminals among the aged is very small and the number who are not citizens only about 600,000. While 4,155,495 persons over 60 years of age were in 1930 still "gainfully occupied", the great majority of these persons would gladly forego gainful occupation and agree to spend their pensions each month as received, if they were assured a pension of $200 per month. Even if one-fourth of all now gainfully occupied would refuse the pensions, the total number of the pensioners under the Townsend plan would still approximate 10,000,000. This is the figure for number of pensions most commonly given in the Townsend literature, although sometimes 8,000,000 is stated as the number to be pensioned.

If there are 10,000,000 pensioners, the cost is $2,000,000,000 per month or $24,000,000,000 per year; if there will be only 8,000,000 pensioners, these figures would be reduced to $1,600,000,000 per month or $19,200,000,000 per year. Either figure is considerably more than double the present combined Federal, State, and local taxes, which in 1932 totaled only $8,212,000,000 (Source: Annual Report of the Secretary fo the Treasury, 1933, p. 306, and the report of the United States Census Bureau, Financial Statistics of State and Local Governments: 1932, p. 9).

These figures would represent the costs only in the first year. Persons who reach age 60 still have more than 15 years of life ahead of them on the average Under the Townsend plan the average pensioner would be entitled to $200 per month for more than 15 years. Actuaries employed by the Committee on Economic Security have computed that merely to pay pensions to those now 60 or over represents a cost to the Government of a present value of 245 billion dollars—which is to be compared with a total estimated public and private debt of 126 billion dollars at the peak of the boom period in 1929. (Source: The Internal Debts of the United States, by Evans Clark, p. 10.) This total almost equals the entire estimated taxable wealth of the United States, which the report on double taxation in 1932 of a subcommittee of the Committee on Ways and Means of the House of Representatives in the Seventy-second Congress, second session (p. 294), places at less than 260 billion dollars, and is 50 percent greater than the actual assessed value of all property, found by this subcommittee to be 163 billion dollars.

As the plan contemplates that not only shall pensions of $200 per month be paid to those now 60 and over but also to all persons as they become 60, the actual liability assumed by the Government is much greater than this staggering total of 245 billion dollars. For many years to come the number of pensioners will increase each year, and the annual cost and total liability will mount rapidly.

TAXES

To finance the Townsend pensions the McGroarty bill (H. R. 3977), which is the official Townsend plan bill, provides that a 2-percent tax (which may be reduced by the President to 1 percent or increased to 3 percent) shall be levied "on the gross value of each business, commercial, and/or financial transaction", to be paid by the seller.

In the Townsend literature the claim is made that the total money value of all transactions in 1933 was 1,200 billion dollars and the Fifty-fifth Statistical Abstract of the United States is cited as authority for this statement. The page where this information appears, however, has never been given and a careful examination of the Fifty-fifth Statistical Abstract of the United indicates that no figure for the total money value of all transactions appears anywhere in the volume. The nearest approach to such a figure is the total of all bank debits (representing the total of all business transactions in which bank checks, drafts, etc., are used) in the 141 principal cities of the country, which in 1933 was $304,769,000,000 (Source: Statistical Abstract of the United States, 1933, p. 254). It is estimated by Mr. Horbett, of the Federal Reserve Board, that the debits of all banks outside of the 141 principal cities are one-third of those in these cities. On this assumption, the total of all bank debits in 1933 was 442 billion dollars, while, roughly representing the total of all "business, commercial, and/or financial transactions" not all of this amount will be taxable under the Townsend plan, as it specifically exempts "salaries for personal services." Allowing for this exemption, approximately 400 billion dollars of transactions would have been taxable in 1933. At the 2-percent rate in the McGroarty bill, this tax would have yielded 8 billion dollars, or about one-third the amount needed for the Townsend pension. A rate not of 2 percent or 3 percent, as provided in the McGroarty bill, but of 6 percent is indicated as necessary for payment of the Townsend pensions on the basis of 1933 money value of all transactions.

Even a 2-percent rate on the money value of all business, commercial, and financial transactions (to say nothing of a 6-percent rate) is so heavy that it would stop all business and could not possibly be collected. It would mean a tax of 2 percent of the face value of every check written in the course of ordinary business transactions. It would apply to manufacturer's sales, wholesalers' sales, and retail sales, and for nearly all commodities would represent a duplication of taxes, which, inevitably, would have to be added to the price paid by the consumers. In glassware for instance, 11 transactions are customary between the producer of the raw materials and the consumer. On all of these transactions there would be a 2 percent (or 3 percent) tax and at each stage something more than the tax (to allow for investment and handling charges) would be added to the price.

Such increases in prices would have a pronounced tendency to restrict purchases. Many other types of transactions would be rendered entirely impossible, while in the Townsend literature the claim is repeated time and again that a very large part of the entire cost of pensions would come from the sale of stocks and bonds, the probable effect of a tax of 2 percent (or 3 percent) on the money value of all sales of securities would be to close all stock exchanges, since the margin at which business is done on these exchanges is much less than 2 percent. A tax of 2 percent on the money value of all transactions would dry up the sources of revenue and would probably produce much less than the $8,000,000,000 per year indicated as the probable yield on the basis of the 1933 business of the country. In fact, it is doubtful whether such a heavy tax could be collected at all.

ADMINISTRATIVE PROBLEMS

Aside from the difficulties of collecting three times the amount of the Federal, State, and local taxes combined (which, as noted, would require a tax rate not of 2 percent but of 6 percent on the money value of all business, commercial, and financial transactions), the Townsend plan involves other great administrative difficulties. It provides that all sellers shall be licensed by the Secretary of the Treasury. The Bureau of the Census in 1933 had a record of 2,359,497 establishments engaged in manufacturing, wholesale and retail trade, hotels, service industries, and places of amusement, and this is by no means the entire number of sellers who would have to be licensed and from whom taxes would have to be collected monthly. Provisions would also have to be made for up-to-the-minute lists of pensioners and their identification, to prevent frauds. Under the McGroarty bill, further local pension boards would have to be set up in each of the 3,071 counties, and, approximately, 3,500 wards in cities of the country.

Most difficult of all would be the necessary checking to see that the 10,000,000 pensioners all spent their $200 within the month in which received. This would require going into the private affairs of the pensioners to an extent never before attempted and would necessitate a vast army of additional Government employees.

FINAL APPRAISAL OF PLAN

The Townsend advocates base practically their entire argument on the "revolving" feature of their plan. If there does not result from the plan a very great increase in incomes and in the money value of transactions, the promised pensions cannot possibly be paid for any length of time without wholesale inflation. The total income of all of the people of the United States in 1933 was only 46 billion dollars. The people who are over 60 years of age are less than 9 percent of the entire population of the country. The Townsend proposal, consequently, might be described as a plan under which more than half the national income is to be given to the less than 9 percent of the people who are over 60 years of age. Unless there is a very great increase in the national income, this could be done only through reducing the incomes of the people under 60 years of age by approximately one-half.

The Townsend advocates claim that such a result will not be produced because business will be enormously stimulated through placing such a large amount of money in the hands of the old people to spend within the month in which received. They say nothing about the fact that the people under 60 will have approximately the same amount less to spend, as they will have to pay in taxes the amount which the people over 60 will get in pensions.

The Townsend literature states that the United States Government would have to pay only the 2 billion dollars required for the first month's pensions and that the plan would thereafter be self-sustaining because it would create enough new business to return to the Government the entire pension costs, without burdening the taxpayers. As the rate of tax proposed is only 2 percent, it is manifest that the 2 billion dollars paid out in the first month would have to increase to 100 billion during that month, to justify the expectations of the Townsend advocates. The Townsend plan contemplates that pensioners shall spend their money within the month in which received—that is, that all of the pension money shall be turned over once during the month—but in order to produce sufficient revenue to pay the pensions of the second month, without burdening the people under 60, there must be 50 turnovers of the pension within the first month.

Even the Townsend advocates acknowledge that this is impossible, but they are reduced to the dilemma either of burdening the people under 60 with heavy taxes which will greatly reduce their incomes or of having the Government pay the pension costs for a much longer period than the first month. Since it is inconceivable that the people under 60 would submit to have their incomes reduced by one-half, the latter course is the only possibility. This will mean a rapid increase in the national debt and in effect pronounced inflation.

Through inflation it may be possible to keep up the pension payments for some time. The final result, however, cannot be in doubt. The inflation and duplicate taxation involved in the Townsend plan will cause prices to soar and soon, even with $200 per month, the pensioners will not be better off than they were before, while those below 60 will be immeasurably worse off. The Townsend plan is one which involves not only revolving pensions but revolving taxes. It is a plan which arouses great hopes but actually will give the old people little or nothing.

The CHAIRMAN. We will adjourn until 10 o'clock tomorrow morning. Secretary Morgenthau is to be the first witness.