

# REPORT OF THE COMMITTEE ON ECONOMIC SECURITY

## NEED FOR SECURITY

The need of the people of this country for "some safeguard against misfortunes which cannot be wholly eliminated in this man-made world of ours" is tragically apparent at this time, when 18,000,000 people, including children and aged are dependent upon emergency relief for their subsistence and approximately 10,000,000 workers have no employment other than relief work. Many millions more have lost their entire savings, and there has occurred a very great decrease in earnings. The ravages of probably the worst depression of all time have been accentuated by greater urbanization, with the consequent total dependence of a majority of our people on their earnings in industry.

As progress is made toward recovery, this insecurity will be lessened, but it is now apparent that even in the "normal times" of the prosperous twenties, a large part of our population had little security. From the best estimates which are obtainable, it appears that in the years 1922 to 1929 there was an average unemployment of 8 percent among our industrial workers. In the best year of this period, the number of the unemployed averaged somewhat less than 1,500,000.

Unemployment is but one of many misfortunes which often result in destitution. In the slack year of 1933, 14,500 persons were fatally injured in American industry and 55,000 sustained some permanent injury. Nonindustrial accidents exacted a much greater toll. On the average, 2.25 percent of all industrial workers are at all times incapacitated from work by reason of illness. Each year above one-eighth of all workers suffer one or more illnesses which disable them for a week, and the percentage of the families in which some member is seriously ill is much greater. In urban families of low income, above one-fifth each year have expenditures for medical and related care of above \$100 and many have sickness bills of above one-fourth and even one-half of their entire family income. A relatively small but not insignificant number of workers are each year prematurely invalidated, and 8 percent of all workers are physically handicapped. At least one-third of all our people, upon reaching old age, are dependent upon others for support. Less than 10 percent leave an estate upon death of sufficient size to be probated.

There is insecurity in every stage of life.

For the largest group, the people in middle years, who carry the burden of current production from which all must live, the hazards with which they are confronted threaten not only their own economic independence but the welfare of their dependents.

For those now old, insecurity is doubly tragic because they are beyond the productive period. Old age comes to everyone who does not die prematurely and is a misfortune only if there is insufficient

income to provide for the remaining years of life. With a rapidly increasing number and percentage of the aged, and the impairment and loss of savings, this country faces, in the next decades, an even greater old age security problem than that with which it is already confronted.

For those at the other end of the life cycle—the children—dependence is normal, and security is best provided through their families. That security is often lacking. Not only do the children under 16 constitute above 40 percent of all people now on relief, as compared to 28 percent in the entire population, but at all times there are several millions in need of special measures of protection. Some of these need individual attention to restore, as fully as may be, lives already impaired. More of them—those who have been deprived of a father's support—need only financial aid which will make it possible for their mothers to continue to give them normal family care.

Most of the hazards against which safeguards must be provided are similar in that they involve loss of earnings. When earnings cease, dependency is not far off for a large percentage of our people. In 1929, at the peak of the stock-market boom, the average per capita income of all salaried employees at work was only \$1,475. Eighteen million gainfully employed persons, constituting 44 percent of all those gainfully occupied, exclusive of farmers, had annual earnings of less than \$1,000; 28,000,000 or nearly 70 percent, earnings of less than \$1,500. Many people lived in straitened circumstances at the height of prosperity; a considerable number lived in chronic want. Throughout the twenties, the number of people dependent upon private and public charity steadily increased.

With the depression, the scant margin of safety of many others has disappeared. The average earnings of all wage earners at work dropped from \$1,475 in 1929 to \$1,199 in 1932. Since then there has been considerable recovery but even for many who are fully employed, there is no margin for contingencies.

The one almost all-embracing measure of security is an assured income. A program of economic security, as we vision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle age, or old age—in sickness or in health. It must provide safeguards against all of the hazards leading to destitution and dependency.

A piecemeal approach is dictated by practical considerations, but the broad objectives should never be forgotten. Whatever measures are deemed immediately expedient should be so designed that they can be embodied in the complete program which we must have ere long.

To delay until it is opportune to set up a complete program will probably mean holding up action until it is too late to act. A substantial beginning should be made now in the development of the safeguards which are so manifestly needed for individual security. As stated in the message of June 8, these represent not "a change in values" but rather "a return to values lost in the course of our economic development and expansion." "The road to these values is the way to progress." We will not "rest content until we have done our utmost to move forward on that road."

## SUMMARY OF MAJOR RECOMMENDATIONS

In this report we discuss briefly all aspects of the problem of economic security for the individual. On many phases our studies enable us only to call attention to the importance of not neglecting these aspects of economic security and to give endorsement to measures and policies which have been or should be worked out in detail by other agencies of the Government.

Apart from these phases of a complete program for economic security with which we deal only sketchily, we present the following major recommendations:

### EMPLOYMENT ASSURANCE

Since most people must live by work, the first objective in a program of economic security must be maximum employment. As the major contribution of the Federal Government in providing a safeguard against unemployment we suggest employment assurance—the stimulation of private employment and the provision of public employment for those able-bodied workers whom industry cannot employ at a given time. Public-works programs are most necessary in periods of severe depression, but may be needed in normal times as well to help meet the problems of stranded communities and overmanned or declining industries. To avoid the evils of hastily planned emergency work, public employment should be planned in advance and coordinated with the construction and developmental policies of the Government and with the State and local public-works projects.

We regard work as preferable to other forms of relief where possible. While we favor unemployment compensation in cash, we believe that it should be provided for limited periods on a contractual basis and without governmental subsidies. Public funds should be devoted to providing work, rather than to introduce a relief element into what should be strictly an insurance system.

### UNEMPLOYMENT COMPENSATION

Unemployment compensation, as we conceive it, is a front line of defense, especially valuable for those who are ordinarily steadily employed, but very beneficial also in maintaining purchasing power. While it will not directly benefit those now unemployed until they are reabsorbed in industry, it should be instituted at the earliest possible date to increase the security of all who are employed.

We believe that the States should administer unemployment compensation, assisted and guided by the Federal Government. We recommend as essential the imposition of a uniform pay-roll tax against which credits shall be allowed to industries in States that shall have passed unemployment-compensation laws. Through such a uniform pay-roll tax it will be possible to remove the unfair competitive advantage that employers operating in States which have failed to adopt a compensation system enjoy over employers operating in States which give such protection to their wage earners.

We believe also that it is essential that the Federal Government assume responsibility for safeguarding, investing, and liquidating all reserve funds, in order that these reserves may be utilized to promote

economic stability and to avoid dangers inherent in their uncontrolled investment and liquidation. We believe, further, that the Federal act should require high administrative standards, but should leave wide latitude to the States in other respects, as we deem varied experience necessary with particular provisions of unemployment compensation laws in order to conclude what types are most practicable in this country.

#### OLD-AGE SECURITY

To meet the problem of security for the aged we suggest as complementary measures, noncontributory old-age pensions, compulsory contributory annuities, and voluntary contributory annuities, all to be applicable on retirement at age 65 or over.

Only noncontributory old-age pensions will meet the situation of those who are now old and have no means of support. Laws for the payment of old-age pensions on a needs basis are in force in more than half of all States and should be enacted everywhere. Because most of the dependent aged are now on relief lists and derive their support principally from the Federal Government and many of the States cannot assume the financial burden of pensions unaided, we recommend that the Federal Government pay one-half the cost of old-age pensions, but not more than \$15 per month for any individual.

The satisfactory way of providing for the old age of those now young is a contributory system of old-age annuities. This will enable younger workers, with matching contributions from their employers, to build up a more adequate old-age protection than it is possible to achieve with noncontributory pensions based upon a means test. To launch such a system we deem it necessary that workers who are now middle-aged or older and who, therefore, cannot in the few remaining years of their industrial life accumulate a substantial reserve be, nevertheless, paid reasonably adequate annuities upon retirement. These Government contributions to augment earned annuities may either take the form of assistance under old-age pension laws on a more liberal basis than in the case of persons who have made no contributions or a Government subsidy to the contributory annuity system itself. A portion of these particular annuities will come out of Federal funds, but because receipts from contributions will in the early years greatly exceed annuity payments, it will not be necessary to have actual Government contribution until after the system has been in operation for 30 years. The combined contributory rate we recommend is 1 percent of pay roll to be divided equally between employers and employees, which is to be increased by 1 percent each 5 years, until the maximum of 5 percent is reached in 20 years.

There still remains, unprotected by either of the two above plans, professional and self-employed groups, many of whom face dependency in old age. Partially to meet their problem, we suggest the establishment of a voluntary Government annuity system, designed particularly for people of small incomes.

#### SECURITY FOR CHILDREN

A large group of the children at present maintained by relief will not be aided by employment or unemployment compensation. There are the fatherless and other "young" families without a breadwinner.

To meet the problems of the children in these families no less than 45 States have enacted children's aid laws, generally called "mothers' pensions laws". However, due to the present financial difficulty in which many States find themselves, far more of such children are on the relief lists than are in receipt of children's aid benefits. We are strongly of the opinion that these families should be differentiated from the permanent dependents and unemployables, and we believe that the childrens' aid plan is the method which will best care for their needs. We recommend Federal grants-in-aid on the basis of one-half the State and local expenditures for this purpose (one-third the entire cost).

We recommend also that the Federal Government give assistance to States in providing local services for the protection and care of homeless, neglected, and delinquent children and for child and maternal health services especially in rural areas. Special aid should be given toward meeting a part of the expenditures for transportation, hospitalization, and convalescent care of crippled and handicapped children, in order that those very necessary services may be extended for a large group of children whose only handicaps are physical.

#### RISKS ARISING OUT OF ILL HEALTH

As a first measure for meeting the very serious problem of sickness in families with low income we recommend a Nation-wide preventive public-health program. It should be largely financed by State and local governments and administered by State and local health departments, the Federal Government to contribute financial and technical aid. The program contemplates (1) grants in aid to be allocated through State departments of health to local areas unable to finance public-health programs from State and local resources, (2) direct aid to States in the development of State health services and the training of personnel for State and local health work, and (3) additional personnel in the United States Public Health Service to investigate health problems of interstate or national concern.

The second major step we believe to be the application of the principles of insurance to this problem. We are not prepared at this time to make recommendations for a system of health insurance. We have enlisted the cooperation of advisory groups representing the medical and dental professions and hospital management in the development of a plan for health insurance which will be beneficial alike to the public and the professions concerned. We have asked these groups to complete their work by March 1, 1935, and expect to make a further report on this subject at that time or shortly thereafter. Elsewhere in our report we state principles on which our study of health insurance is proceeding, which indicate clearly that we contemplate no action that will not be quite as much in the interests of the members of the professions concerned as of the families with low incomes.

#### RESIDUAL RELIEF

The measures we suggest all seek to segregate clearly distinguishable large groups among those now on relief or on the verge of relief and to apply such differentiated treatment to each group as will give it the greatest practical degree of economic security. We believe that if these measures are adopted, the residual-relief problem will have

diminished to a point where it will be possible to return primary responsibility for the care of people who cannot work to the State and local governments.

To prevent such a step from resulting in less humane and less intelligent treatment of unfortunate fellow citizens, we strongly recommend that the States substitute for their ancient, out-moded poor laws modernized public-assistance laws, and replace their traditional poor-law administrations by unified and efficient State and local public-welfare departments, such as exist in some States and for which there is a nucleus in all States in the Federal emergency-relief organizations.

#### ADMINISTRATION

The creation of a Social Insurance Board within the Department of Labor, to be appointed by the President and with terms to insure continuity of administration, is recommended to administer the Federal unemployment compensation act and the system of Federal contributory old-age annuities.

Full responsibility for the safeguarding and investment of all social insurance funds, we recommend, should be vested in the Secretary of the Treasury.

The Federal Emergency Relief Administration is recommended as the most appropriate existing agency for the administration of non-contributory old-age pensions and grants-in-aid to dependent children. If this agency should be abolished, the President should designate the distribution of its work. It is recommended that all social-welfare activities of the Federal Government be coordinated and systematized.

#### EMPLOYMENT ASSURANCE

A program of economic security for the Nation that does not include those now unemployed cannot possibly be complete. They, above all, are in need of security. Their tragic situation calls attention not only to their own desperate insecurity, but to the lack of security of all those who are dependent upon their own earnings for a livelihood. Therefore, any program for economic security that is devised must be more comprehensive than unemployment compensation, which of necessity can be given only for a limited period. In proposing unemployment compensation, we recognize that it is but a complementary part of an adequate program for protection against the hazards of unemployment, in which stimulation of private employment and provision of public employment on a security payment basis are other major elements.

#### PRIVATE EMPLOYMENT

In our economic system the great majority of the workers must find work in private industry, if they are to have permanent work. The stimulation and maintenance of a high level of private employment should be a major objective of the Government. All measures designed to relieve unemployment should be calculated to promote private employment and also to get the unemployed back into the main channel of production. We believe that provision of public employment in combination with unemployment compensation will most effectively serve these purposes. Both will operate to maintain

purchasing power, and public employment will indirectly give work to many more persons in private industry who otherwise would have none. At the same time, it will stimulate workers to accept and seek private employment when it becomes available.

#### PUBLIC EMPLOYMENT

What the Federal, local, and State governments would be called upon to do in providing work depends upon many complicated factors: Financial resources, advance planning, the general industrial trend and methods; but it is a sound principle that public employment should be expanded when private employment slackens, and it is likewise sound that work in preference to relief in cash or in kind should be provided for those of the unemployed who are willing and able to work.

The experience of the past year has demonstrated that making useful work available is a most effective means of meeting the needs of the unemployed. Further, it has been demonstrated that it is possible to put large numbers of persons to work quickly at useful tasks under conditions acceptable to them. The social and economic values of completed projects represent a considerable offset to the economic losses occasioned by millions of unemployed workers. Work maintains occupational skill. The required expenditures have an important stabilizing effect on private industry by increasing purchasing power and employment and the completed works frequently produce self-liquidating income.

In periods of depression public employment should be regarded as a principal line of defense. Even in prosperous times, it may be necessary, on a smaller scale, when "pockets" develop in which there is much unemployment. Public employment is not the final answer to the problem of stranded communities, declining industries, and impoverished farm families, but is a necessary supplement to more fundamental measures for the solution of such problems. And it must be remembered that a large part of the population will not be covered by unemployment compensation. While it will not always be necessary to have public-employment projects to give employment assurance, it should be recognized as a permanent policy of the Government and not merely as an emergency measure.

Such an employment program must be related to unemployment compensation; and the resources of all public bodies, Federal, State, and local must be coordinated if the policy of employment assurance is to be effectively realized. It would be advantageous to include in the program many types of public employment other than those which are considered necessary for the regular operations of government. This would include not only public construction of all kinds, but also appropriate work to employ usefully the professional and self-employed groups in our population. Because of the predominant importance of State and local construction in total public construction it is also essential that such Federal agencies as are established be empowered to incorporate State and local construction into the work program. It would also be desirable to extend Federal loans at low rates of interest to States and local governments for employment purposes. Such loans, once established, should be on a self-liquidating basis, and

should become a revolving fund to be used over and over again as loans are repaid.

This entire program points immediately and inevitably toward practical advance planning—on a broad scale—to make the potential resources of a region available for the general welfare of the people involved and toward detailed development of individual projects. To this end we endorse the recommendations of the National Resources Board for the establishment of a permanent National Planning Board.

We propose that public employment be made as nearly like private employment as possible. Applicants should be selected for their apparent ability to do the work offered as well as on the basis of their need; and we believe the public employment offices should be extensively utilized for this purpose. Only those who really work should be kept at work; the others should be discharged as in private employment.

#### COORDINATION WITH UNEMPLOYMENT COMPENSATION

We believe it is desirable that workers ordinarily steadily employed be entitled to unemployment compensation in cash for limited periods when they lose their jobs. It is against their best interests and those of society that they should be offered public employment at this stage, thus removing them from immediate consideration for reemployment at their former work. Very often they will need nothing further than unemployment-compensation benefits, for they will be able to reenter private employment after a brief period, but if they are unable to do so and remain unemployed after benefit rights are exhausted, we recommend they should be given, instead of an extended benefit in cash, a work benefit—an opportunity to support themselves and their families at work provided by the Government.

Similarly, we deem provision of work the best measure of security for able-bodied workers who cannot be brought under unemployment compensation. Such workers will become eligible for public employment soon after the loss of regular employment, but more care will have to be exercised in their selection, to be certain that only workers who are ordinarily employed are given public employment.

#### UNEMPLOYMENT COMPENSATION

##### DESCRIPTION

Unemployment compensation, as we use this term, includes both unemployment insurance and unemployment reserves. It is a device through which reserves are accumulated during periods of employment to be paid out in periods of unemployment. In every system of unemployment compensation set up thus far, these reserves are built up through contributions paid by the employers alone, the employers and employees, or the employers, employees, and the Government. Except in England (where the contributions are uniform amounts per employee), the contributions everywhere are expressed as percentages of pay roll, and only in Belgium is a distinction made in the rate of contribution in different industries in accordance with their risk of unemployment.

All European systems create pooled unemployment insurance funds for the entire State or Nation, in which the contributions of all employers are commingled. The systems voluntarily established by a number of employers in this country and also the Wisconsin law (which is the only unemployment compensation act in force in this country) establish, instead, industry or company unemployment reserves, in which each employer (or industry) is responsible for his own employment and his employees must look exclusively to his reserve fund for their compensation.

Some European unemployment insurance systems are voluntary, but the experience everywhere has been that compulsory coverage is necessary to include a majority of the industrial workers. Even with compulsory coverage large groups of workers cannot readily be brought under unemployment compensation; among them employees in very small establishments, and, of course, all self-employed persons.

Benefits from unemployment-insurance funds are payable only for involuntary unemployment which is not due to the employee's own misconduct. An employee who is discharged or laid off is required to register at his nearest employment office, but draws no benefits during a specified waiting period. (In the basic calculations of our actuaries, a waiting period of 4 weeks was assumed.) If still unemployed after the waiting period, the worker becomes entitled to unemployment compensation at a specified percentage of his average wages prior to his discharge or lay-off, subject to an absolute maximum and, usually, also an absolute minimum. (In our calculations a 50-percent compensation rate and a maximum of \$15 per week, but no minimum, were assumed.) Payments are usually made weekly and, an important condition in any unemployment-compensation system, the unemployed worker must keep in touch regularly with the employment office and cannot draw any further benefits if he refuses to accept suitable employment offered him. In any event, the maximum number of weeks of benefit that may be drawn is definitely limited through a ratio of weeks of benefit to weeks of previous employment (1 to 4 in our calculations) and by absolute limitations. (We suggest to the States in framing their laws that on the basis of 3-percent contribution rate the maximum benefit period cannot safely exceed 16 weeks and should be reduced to 15 weeks, if it is desired to give workers who have been long employed without drawing benefits an additional (maximum) week of compensation for each 6 months they have been employed without drawing benefits, up to a maximum of 10 additional weeks.)

After an unemployed worker has exhausted his right to benefits, European systems generally permit him to draw extended benefits, on a means-test basis, for additional periods, the entire cost of which is borne by the government. As we have stated, such extended cash benefits seem to us far less desirable than work benefits and we recommend that an employee, after he has exhausted his contractual rights, be certified to the authorities in charge of the Federal-work program as entitled to a work benefit. Such certification shall entitle the unemployed insured worker, who has exhausted his cash benefits, to employment on any available public employment project, without a means test, but with the proviso that he must be dependent upon his own earnings and that not more than one member of any family or household will be given public employment.

## PLACE IN SECURITY PROGRAM

The actuaries and other technicians we have consulted estimate that if the plan we suggest had been in operation throughout the country in 1933, somewhat less than an average of 16,000,000 employed workers would have been included in the system, and that had there been in that year 100-percent employment, slightly more than 26,000,000 would have been included—one-half of the entire number of those gainfully occupied. These figures give the approximate minimum and maximum number of workers who can be brought under unemployment compensation; the total at any given time depending upon the state of industrial activity and the extent to which the system is really Nation-wide in operation.

If a system of unemployment compensation had been in operation everywhere in this country during the years from 1922 to 1933, it is estimated that a 3-percent contribution rate with this coverage would have resulted in average total collections of approximately \$825,000,000 per year, or \$10,000,000,000 in the entire period. The estimated collections would have varied from a high of approximately \$1,040,000,000 in 1929 to a low of \$560,000,000 in 1932. During the twenties the contributions would have considerably exceeded the benefits paid and at the maximum point in 1929 approximately \$2,000,000,000 would have been accumulated in the unemployment reserve funds, which would have been spent quite rapidly after the depression set in. In comparison with the emergency-relief expenditures, now approximating \$1,800,000,000 per year, or the \$1,000,000,000 annually invested by the workers of the country in industrial insurance even during the depression, and the more than \$20,000,000,000 of assets of life-insurance companies, the total annual contributions and maximum reserves in a nation-wide unemployment-compensation system are small, but they are by no means negligible.

Unemployment compensation does not lend itself to actuarial determination of benefits of the same precision as is possible in other forms of insurance. We have now in this country only very limited statistics of unemployment. One of the values of a nation-wide system of unemployment compensation will be the collection of accurate and comprehensive unemployment statistics which it will make possible.

On the assumption, however, that the past experience during the entire business cycle does furnish at least an approximate guide to possible future unemployment, our actuaries and statisticians have computed the maximum-benefit periods which could have been allowed at varying contribution rates. These computations were made on the basis of the unemployment experience of the years 1922 to 1933 and 1922 to 1930, respectively, as shown in table I.

TABLE 1.—Actuarial estimates of the maximum number of weeks of benefit that could have been paid at various contribution rates and waiting periods under a Nation-wide unemployment compensation system on the basis of the unemployment rates from 1922 to 1933, and from 1922 to 1930

Contribution rate	Waiting period	Standard maximum weeks of benefits			
		1922 to 1933 experience		1922 to 1930 experience	
		Unadjusted	With actuarial adjustments	Unadjusted	With actuarial adjustments
	Weeks				
3 percent.....	4	14	10	20	15
Do.....	3	13	9	18	14
Do.....	2	12	8	17	12
4 percent.....	4	21	15	36	24
Do.....	3	20	14	32	21
Do.....	2	18	12	28	18
5 percent.....	4	35	21	48	38
Do.....	3	31	19	43	35
Do.....	2	27	17	40	30

#### ASSUMPTIONS IN THE UNADJUSTED COMPUTATIONS

(1) Nation-wide coverage including all establishments employing six or more employees, but applying only to the first \$50 per week as a wage or salary to any employee; (2) 1 year of contributions before benefits became payable; (3) deficits in reserve funds after end of period; and (4) benefits of 50 percent of the average weekly wages.

#### ADJUSTMENTS

On the columns giving the estimated maximum weeks of benefit "with actuarial adjustments" the above assumptions are basic, but allowance is made for all factors likely to increase or decrease costs, among them (1) the rule that no employee may draw benefits for whom contributions have not been paid for at least 40 weeks in the preceding years nor for 10 weeks after he has exhausted his benefit rights; (2) savings through employees voluntarily quitting their work and discharges for proven misconduct; (3) allowance of an additional maximum week of benefits for each 6 months of contributions without drawing benefits, up to a maximum of 10 additional weeks; (4) limitation of benefits in the ratio of 1 week of benefits to 4 weeks of contributions; (5) compensation for part-time unemployment; (6) limitation of compensation in seasonal industries to unemployment occurring within the normal season; (7) limitation of the maximum benefit to \$15 per week; (8) estimated increases in costs resulting from the fact that benefits will be paid on a full-time wage basis while the contributions are made on actual pay roll, including much part time; (9) inadequacy of data; and (10) allowances for various contingencies, among them the probability of increased costs in the course of time, as is the experience in all other forms of insurance. Weighing all these and some other factors, the actuaries arrived at a loading of 28 percent above the unadjusted cost figures.

While the maximum benefit periods, set forth in table I, are mere approximations, they very clearly indicate that on a contractual basis benefits can be paid only for periods which, to many people, will seem short. The benefits are small, although considerably higher on the average than relief grants. While unemployment compensation is far from being a complete protection, it is a valuable first line of defense for the largest group in our population, the industrial workers ordinarily steadily employed. Unemployment compensation should permit such a worker, who becomes unemployed, to draw a cash benefit for a limited period during which there is expectation that he will soon be reemployed. This should be a contractual right not dependent on any means test. Normally the insured worker will

return to his old job or find other work before his right to benefits is exhausted. If he does not find work, we recommend that his further period of unemployment should be met by a work benefit, as described in the section of this report dealing with employment assurance. This correlation between the cash benefit and the work benefit is recommended, and it seems to us that the combination is both fair and desirable. It will carry workers over most, if not all, periods of unemployment in normal times without resort to any other form of assistance. While the maximum benefit periods indicated by the actuarial calculations are short in relation to the unemployment suffered by the people now on relief, it must be remembered that in ordinary industrial periods the great majority of workers who become unemployed find other work in a much shorter time.

But unemployment compensation is also valuable in depression. If the benefits are kept within the limits we suggest, the funds should prove adequate for all minor depressions. In a depression of such depth as that which has prevailed since 1929, the funds are likely to be exhausted but will prove very helpful in the early stages. Had \$2,000,000,000 been available for distribution to the workers when depression set in in 1929—as it might have been had an unemployment insurance system with a 3-percent contribution rate been in operation from 1922 on—it would have had a most pronounced stabilizing effect at a very crucial time. Within a year or a little more these accumulated reserve funds would have been exhausted, but considerable amounts would still have continued to be collected in contributions and distributed to the unemployed in benefits, thereby reducing relief costs and lightening the financial load on the public and the Government.

Some economists urge that, instead of using a tax on pay rolls, unemployment compensation should be paid through Federal Government borrowings to be repaid hereafter out of other types of Federal taxes. Without expressing any judgment on that contention, we deem it desirable, at the present time, to employ a pay-roll tax for unemployment compensation, although it may be possible that experimentation under the proposed statute will show that at some time in the future a plan built upon the other alternative suggestion should be substituted, in whole or in part, for that which we are proposing.

In not recommending any contributions derived from bond issues or income or other general tax sources, we have had in mind that the Government under the plan we suggest will incur large expenditures in providing a work benefit, which will complement the cash benefits from unemployment compensation. It is our conviction that, at least at this time, general tax revenues should be drawn upon rather for employment assurance than for unemployment compensation.

#### GENERAL SKETCH OF LEGISLATION

Unemployment insurance has been in successful operation in England and many other European countries for some years. While the English system suffered some discredit through the combination, from 1924 to 1931, of insurance with relief and in all countries the unemployment insurance funds have had to be governmentally aided and/or the rate of contributions increased and benefits decreased

during the present depression, unemployment insurance everywhere has survived the depression. (Russia, however, has paid no benefits since 1930.) While unemployment insurance has not proved a panacea for unemployment, it has in all countries provided a self-respecting method of support, far superior to relief, for a large percentage of the unemployed.

In this country there has been considerable interest in unemployment insurance ever since the enactment of the pioneer British law of 1911, especially since the depression of 1920-21. In the years that have intervened, considerable controversy has developed over the type of unemployment compensation legislation that should be enacted; particularly over such questions as unemployment insurance versus unemployment reserves, employee contributions, governmental contributions, extended benefits, and the type of unemployment to be benefited. It is our conviction that these controversies have developed largely because there has been no action and, therefore, no practical experience on this subject. Further investigations and other devices for delay will merely enhance the negative character of the debate. What is needed at this state is demonstration, not further debate and research.

This background, it seems to us, is an important consideration in determining the type of unemployment compensation legislation to be recommended. It clearly suggests the desirability of permitting considerable variation, so that we may learn through demonstration what is best. This we believe, can at this time, best be secured under a cooperative Federal-State system, which permits variations in State laws but insures uniformity in respects in which uniformity is absolutely essential.

A federally administered system of unemployment compensation is undoubtedly superior in some respects, particularly in relation to employees who move from State to State. This presents a problem involved in State administration which we do not at this time know how to solve, although we do not regard it as insoluble and recommend that it should be made one of the major subjects of study of the Federal administrative agency. We recognize also that in other respects State administration may develop marked inadequacies. Should these fears expressed by the champions of a federally administered system prove true, it is always possible by subsequent legislation to establish such a system. We recommend that it be expressly provided in the Federal act that all States must include in their statutes provisions to the effect that those acts shall not be deemed to create any vested interests preventing modification or repeal and that a similar reservation of power be made by the Federal Government. Accordingly, the Congress can at any time increase the requirements which State laws must fulfill and may, if it sees fit, at some future time, substitute a federally administered system for the cooperative Federal-State system we recommend.

All things considered, however, we deem it the safest and soundest policy to confine the role of the Federal Government, with respect to this problem at this time, to removing obstacles to State action, safeguarding and liquidating the reserve funds, and aiding the States with their problems, leaving to them primary responsibility for administration.

Federal cooperation is essential, because the States cannot establish systems of unemployment compensation with reasonably favorable conditions unless there is assistance from the Federal Government. So long as there is danger that business in some States will gain a competitive advantage through failure of the State to enact an unemployment-compensation law, few such laws will be enacted. This obstacle to State action can be removed only through the imposition by the Federal Government of a uniform tax (rate of contribution) on all employers throughout the country, so that no State will have an unfair advantage. We, therefore, recommend legislation which will impose a uniform Federal tax on pay rolls, with an offset permitted to any employer who contributes to an unemployment-insurance fund under a compulsory State law. This, we believe, will encourage the speedy enactment of State laws which meet minimum standards of security and fairness.

The Federal Government has a further important obligation in the safeguarding and investment of the reserve funds. Unemployment-reserve funds are peculiar in that the demands upon them will fluctuate violently with industrial conditions. In good years these funds will have receipts far in excess of disbursements; when serious depression sets in, the reserves will be used up rapidly. Unemployment compensation should not operate to increase unemployment, but there is danger that it will do so unless there is intelligent and unified handling of the reserve funds. One of the most important elements in attaining economic stability is the credit policy of the Government. Unless the investment and liquidation of the unemployment-reserve funds is coordinated with this credit policy, these funds may operate to nullify the attempts of the Government to maintain stability. Particularly, when the Government is trying to prevent a depression, the unemployment-reserve funds should not be thrown on the markets, as they are likely to be if held by the States or in private hands. Intelligently handled, unemployment-reserve funds can be made an important factor in preventing a depression; but utilization for this purpose is possible only if their investment and liquidation is within control of the United States Treasury. We deem this an absolute essential, if unemployment compensation is to accomplish the purposes for which it is designed.

Beyond this, the respective spheres of the State and local governments in unemployment compensation are not clearly defined. Some standardization is desirable, but we believe that this should not be a matter of Federal control, but of cooperative action. A cooperative Federal-State unemployment compensation system should include the essentials we have outlined. In making definite recommendations as to the technique of establishing such a system, we are proceeding in the conviction that our purpose could be most promptly and effectively accomplished by Federal legislation which would (1) produce uniformity in the burden, by levying a pay-roll tax; (2) stimulate the passage of complete and self-sustaining unemployment compensation laws in the States, by allowing a credit against the Federal tax for contributions paid under State laws; and (3) allow the necessary central control of the reserve funds, in order to prevent their operating toward instability. We prefer a tax credit device to one in which the tax would be wholly collected and then remitted, as grants-in-aid, to the States, because under the latter system the

States would not have self-supporting laws of their own, and as with all compensation having its source in Federal grants there would be great and constant pressure for larger grants exceeding the money raised by the tax, with a consequent confusion of compensation and relief.

#### OUTLINE OF FEDERAL ACT

We earnestly recommend prompt enactment by the Congress of legislation which will (1) impose a uniform pay-roll tax on the employers to whom the act is applicable, beginning with the year 1936, and (2) create machinery for participation in the administration of unemployment compensation.

The tax should be imposed upon all employers who have employed four or more employees for a reasonable period of time, (any 13 weeks of the taxable year for example), and should be measured by a percentage of the employer's pay roll. By 1938 the rate of tax should be 3 percent of the pay roll; but in the first 2 years, if economic recovery has not progressed satisfactorily, we recommend a lower rate, and suggest that the index of industrial production of the Federal Reserve Board may well be used to determine whether the rate in the first and second years shall be 1, 2, or 3 percent. We are opposed to exclusions of any specified industries from the Federal act, but favor the establishment of a separate nationally administered system of unemployment compensation for railroad employees and maritime workers.

Against the tax imposed in the Federal law, a credit, up to 90 percent of the tax, should be allowed for the money the employer has paid to the proper State authority as contributions for unemployment-compensation purposes pursuant to State law. These credits, however, should be permitted only if the State is cooperating with the Federal Government in the administration of unemployment compensation, expending the money raised solely for benefits, and is depositing all contributions as collected in an unemployment trust fund in the United States Treasury, as hereafter recommended.

If a State, to encourage stabilization of employment, permits particular industries or companies to have individual reserve or guaranteed employment accounts (accounts to be kept by the State authority, but deposit of the funds in the United States Treasury) or allows lower rates of contributions to employers not having such individual accounts on the basis of their favorable experience, an additional credit beyond the amount contributed in a particular year may be granted in the Federal act. We recommend, however, that such credit be allowed in all cases only on the condition that the employer has discharged in full his obligations under the State law and continues to pay at least 1 percent into the pooled State fund. Further, such an employer with an individual reserve account before becoming entitled to any additional credit, must have and maintain a reserve equal to at least 15 percent of his pay roll, and an employer with a guaranteed employment account a reserve of 7½ percent of his pay roll; while no additional credit for any reduction in rates payable to a pooled State fund may be allowed until after the State law has been in operation for 5 years.

To encourage efficient administration, without which unemployment insurance will fail to accomplish its purpose, we believe that

the Federal Government should aid the States by granting them sufficient money for proper administration, under conditions designed to insure competence and probity. Among these conditions we deem selection of personnel on a merit basis vital to success. We also recommend that as a condition, both of grants-in-aid for administration and of the allowance of any tax credits for payments made under any State unemployment-compensation act, the State must have accepted the provisions of the Wagner-Peyser Act and provide for the payment of unemployment compensation through the public employment offices established under such act. A grant-in-aid for administration would not create any new burden on the Federal Government, as it would be paid for by the amount of the pay-roll tax over and above the credits allowed for contributions to State funds.

As an essential part of the Federal law, it should be made a requirement for any tax credits that all moneys collected for unemployment-compensation purposes under State laws (including those credited to individual industry or company accounts) be deposited as collected in the Treasury of the United States in a trust account to the credit of the State, to be invested and liquidated as the Secretary of the Treasury may from time to time direct. Interest on the average amount so deposited in each State fund shall be allowed at regular intervals, at a rate equal to the average yield of all outstanding primary obligations of the Federal Government, less one-eighth of 1 percent. Withdrawals from the fund are to be made only for unemployment-compensation purposes, under regulations to be prescribed by the Secretary of the Treasury.

The collection of the Federal tax and investment of the reserve funds should be under the control of the Secretary of the Treasury. All other aspects of Federal participation in unemployment compensation should be a responsibility of the Department of Labor. We recommend the creation within the Department of Labor of a social insurance board. We recommend that the board consist of three members appointed by the President. They should devote full time to their duties and be appointed for terms of 6 years which should be varied at the outset to insure continuity in administrative policies. We recommend that this board be given power to decide what State laws comply with the Federal requirements and that it be made its duty to assist States in setting up unemployment-compensation administrations and in the solution of the problems they will encounter; also that it conduct continuous studies to correlate and make useful the experience developed under State laws. The social insurance board should, likewise, have responsibility for the administration of the compulsory and voluntary systems of old-age annuities, whose establishment we suggest in another section of this report, and should study the advisability of instituting other forms of social insurance.

The plan for unemployment compensation that we suggest contemplates that the States shall have broad freedom to set up the type of unemployment compensation they wish. We believe that all matters in which uniformity is not absolutely essential should be left to the States. The Federal Government, however, should assist the States in setting up their administrations and in the solution of the problems they will encounter.

## SUGGESTIONS FOR STATE LEGISLATION

This Committee plans the preparation of a model State unemployment-compensation bill, with alternate clauses at many points. In this report it seems unnecessary to discuss all of the details of this model bill, since the legislature will determine the policy in each State. On some major points, however, comment seems appropriate.

*Contributions.*—The States should make all contributions compulsory and may require them from employers alone, or from employers and employees, with or without contributions by the State government.

*Benefits.*—The States should have freedom in determining their own waiting periods, benefit rates, maximum-benefit periods, etc. We suggest caution lest they insert benefit provisions in excess of collections in their laws. To arouse hopes of benefits which cannot be fulfilled is invariably bad social and governmental policy.

It is our recommendation that the benefit periods be kept within the maximum limits of the last column of table I, which has been presented earlier in this report, and in no event should they exceed those of the second last column. If it is considered desirable that the unemployment compensation funds should give protection in depression periods as well as in normal times, the maximum periods of the first two columns should be regarded as standard. While unemployment varies greatly in different States, there is no certainty that States which have had less than normal unemployment heretofore will in the future have a more favorable experience than the average for the country. States whose industries are such that they will probably continue to have a high rate of unemployment should not pay benefits up to the maximum amounts permitted in the actuarial calculations. With industry or company funds, longer benefit periods can be permitted if the employers guarantee payment of these benefits in full and furnish security adequate to insure fulfillment of these guaranties, but in all other cases it is preferable at the outset to err on the side of safety than of too great liberality.

At this point we call attention to the desirability of allowing additional weeks of benefit to employees who have been long employed without drawing benefits. The British experience has been that a very large percentage of all employees draw no benefit over periods of many years. These are the workmen longest retained, who, particularly if they are required to contribute, have a very good claim for additional benefits when, because of a depression or changes in technic, they lose their jobs and are unable to find other work. Our actuarial estimates indicate that if 1 week is taken off the ordinary benefit period for all workers, a special maximum of an additional week of benefits can be allowed to workers who have not drawn benefits for 6 months, 2 weeks for those who have not drawn benefits for 12 months, etc., up to a maximum of 10 weeks' additional benefits for workers who have not drawn any benefits for 5 years.

*Provisions to protect funds against heavy drains by particular classes of employees.*—The provision last suggested is in line with the world experience that unemployment compensation is best adapted to employees who normally have some degree of security in their employment. Such workers, we feel, should be given some protection against exhaustion of the funds by others who work only intermittently.

English experience has demonstrated that seasonal industries will cause a heavy drain on the unemployment insurance funds unless the benefits to seasonal workers are limited to unemployment occurring within the usual season for that particular industry. Determination of what this season is for each distinct seasonal industry must necessarily be left to the administrative authority.

Similarly, the funds need to be protected against too heavy drain by the casual workers. This can best be done: (1) Through a ratio which relates the maximum weeks of benefit to the weeks of employment, the usual ratio suggested being 1 to 4; and (2) allowing benefits only if the employee has worked with some degree of regularity.

Partial unemployment creates another special problem. It is desirable, within limits, that work shall be shared when orders fall off, rather than that some employees shall be laid off altogether. It is also desirable that an unemployed man take part-time or odd-job employment when possible. Therefore, to encourage this, we advise that State laws should provide that the combination of part-time wages and benefits is better than benefits alone.

*Willingness-to-work test.*—To serve its purposes, unemployment compensation must be paid only to workers involuntarily unemployed. The employees compensated must be both able and willing to work and must be denied benefits if they refuse to accept other suitable employment. Workers, however, should not be required to accept positions with wage, hour, or working conditions below the usual standard for the occupation or the particular region, or outside of the State, or where their rights of self-organization and collective bargaining would be interfered with.

*Individual industry and company accounts.*—The primary purpose of unemployment compensation is to socialize the losses resulting from unemployment, but it should also serve the purpose of decreasing rather than increasing unemployment. We favor leaving it optional with the States whether they will permit any "contracting out" from State-pooled funds in the sense that separate accounts may be set up for the exempted industries or companies, but without any change in the methods of collection or deposit and investment of funds. We strongly urge, however, that only plants which furnish adequate security to guarantee payment in full of all unemployment compensation which may become due to their employees shall be permitted to have separate accounts, and only upon condition that they pay 1 percent of their pay roll into the general State fund. We further advise that if "contracting out" be permitted, the State law should contain provisions under which employees will not lose their unused benefit rights, or any contributions which they may have made to such accounts above benefits received when they voluntarily leave the employ of an employer with a separate reserve account, lest such accounts operate to interfere with the mobility of labor. Experimentation with individual industry and company reserve accounts under proper restrictions will undoubtedly be permitted in some States, therefore, the importance of adequately safeguarding both the rights of the workers and the pooled State funds is emphasized.

We are opposed to any provision in the Federal act under which any industries or companies are exempted from State laws prescribing an exclusive State-pooled fund.

*Guaranteed employment.*—Guaranteed employment is a device which if properly safeguarded will effectually secure all of the purposes of unemployment compensation. There would be no unemployment problem if all workers were guaranteed a sufficient annual wage. We feel it to be desirable that employers be permitted to experiment with guaranteed employment under the State laws, but also that such experiments should be conducted only under safeguards. Guaranteed employment, we believe, should be recognized as a reason for reduced contributions in State laws, only if the employees get at least as much protection as that afforded to employees by unemployment compensation. The period of guaranteed employment when it is claimed as an offset, should be for at least 40 weeks of full-time employment during the year, although less than full-time employment may be counted toward fulfillment of the guaranty if the number of weeks of guaranteed employment is correspondingly increased. Employees should be further protected by a provision in State laws under which they will receive at least half of the normal unemployment-compensation benefits if they lose employment at the end of the guaranty period. Employers claiming contributions credits by guaranteeing employment should be permitted to do so only if the plan includes all their employees or all employees of entire plants. They should be required to make some contribution to the pooled State unemployment-compensation fund and should be entitled to additional credits against the Federal tax only if they fulfill all obligations of their guaranty and have accumulated an adequate reserve. Sufficient security should be required by the State authority to insure fulfillment of the guaranty.

#### GENERAL COMMENTS

The plan of unemployment compensation we suggest is frankly experimental. We anticipate that it may require numerous changes with experience and, we believe, is so set up that these changes can be made through subsequent legislation as deemed necessary. If we are to wait until everyone interested in the subject is in agreement as to what is a perfect measure before enacting unemployment-compensation legislation, there will be a long and unwarranted postponement of action.

The plan we suggest is one that will secure the much-needed experience necessary for the development of a more nearly perfect system. It is in accord with American traditions and the message of the President which initiated our study of this subject.

We submit that the Federal part of the program should be enacted into law by the Congress at the earliest date possible. This is urgently necessary if the State legislatures are to act in time to permit the legislation to go into effect January 1, 1936. In the coming year, 44 of the 48 States will hold regular sessions of their legislatures. Most of these will convene in January and will be in session 3 months or less. Unemployment compensation in this country will suffer another year of delay unless there is prompt action by the Congress.

## OLD-AGE SECURITY

## THE OLD-AGE PROBLEM

In 1930 there were 6,500,000 people over 65 years of age in this country, representing 5.4 percent of the entire population. This percentage has been increasing quite rapidly since the turn of the century and is expected to continue to increase for several decades. It is predicted, on the basis of the present population and trends, that by 1940, 6.3 percent of the population will be 65 years of age; by 1960, 9.3 percent, and by 1975, 10 percent. In 25 to 30 years the actual number of old people will have doubled, and this estimate does not take into account the possibility of a decrease in the mortality rate, which would further increase the total.

No even reasonably complete data is available regarding the means of support of aged persons, and the number in receipt of some form of public charity is not definitely known. The last almshouse survey was made more than 10 years ago, and the number of people in institutions of this kind can only be approximated. There are about 700,000 people over 65 years of age on F. E. R. A. relief lists, and the present cost of the relief extended to these people has been roughly estimated at \$45,000,000 per year. In addition there are a not definitely known but large number of old people in receipt of relief who are not on F. E. R. A. relief lists. All told, the number of old people now in receipt of public charity is probably in excess of 1,000,000.

The number in receipt of some form of pension is much smaller. Approximately 180,000 old people, most of them over 70 years of age, are receiving pensions under the State old-age assistance laws, the average pension last year being \$19.74 per month.

A somewhat smaller number of the aged are receiving public retirement or veterans' pensions, for which the expenditures exceed those under the general old-age assistance laws. Approximately 150,000 aged people are in receipt of industrial and trade-union pensions, the cost of which exceeds \$100,000,000 per year.

The number of the aged without means of self-support is much larger than the number receiving pensions or public assistance in any form. Upon this point the available data is confined to surveys made in a few States, most of them quite a few years ago. Connecticut (1932) and New York (1929) found that nearly 50 percent of their aged population (65 years of age and over) had an income of less than \$25 per month; 34 percent in Connecticut had no income whatsoever. At this time a conservative estimate is that at least one-half of the approximately 7,500,000 people over 65 years now living are dependent.

Children, friends, and relatives have borne and still carry the major part of the cost of supporting the aged. Several of the State surveys have disclosed that from 30 to 50 percent of the people over 65 years of age were being supported in this way. During the present depression, this burden has become unbearable for many of the children, with the result that the number of old people dependent upon public or private charity has greatly increased.

The depression will inevitably increase the old-age problem of the next decades. Many children who previously supported their parents have been compelled to cease doing so, and the great majority

will probably never resume this load. The depression has largely wiped out wage earners' savings and has deprived millions of workers past middle age of their jobs, with but uncertain prospects of ever again returning to steady employment. For years there has been some tendency toward a decrease in the percentage of old people gainfully employed. Employment difficulties for middle-aged and older workers have been increasing, and there is little possibility that there will be a reversal of this trend in the near future.

Men who reach 65 still have on the average 11 or 12 years of life before them; women, 15 years. A man of 65 to provide an income of \$25 per month for the rest of his life (computing interest at 3 percent) must have accumulated approximately \$3,300; a woman nearly \$3,600. If only this amount of income is allowed to all of the people of 65 years and over, the cost of support of the aged would represent a claim upon current national production of \$2,000,000,000 per year. Regardless of what may be done to improve their condition, this cost of supporting the aged will continue to increase. In another generation it will be at least double the present total.

#### GENERAL OUTLINE OF RECOMMENDATIONS

An adequate old-age security program involves a combination of noncontributory pensions and contributory annuities. Only noncontributory pensions can serve to meet the problem of millions of persons who are already superannuated or shortly will be so and are without sufficient income for a decent subsistence. A contributory annuity system, while of little or no value to people now in these older age groups, will enable younger workers, with the aid of their employers, to build up gradually their rights to annuities in their old age. Without such a contributory system the cost of pensions would, in the future, be overwhelming. Contributory annuities are unquestionably preferable to noncontributory pensions. They come to the workers as a right, whereas the noncontributory pensions must be conditioned upon a "means" test. Annuities, moreover, can be ample for a comfortable existence, bearing some relation to customary wage standards, while gratuitous pensions can provide only a decent subsistence.

Contributory annuities can be expected in time to carry the major, but under the plan we suggest, never the entire load. Difficult administrative problems must be solved before people who are not wage earners and salaried employers can be brought under the compulsory system, and it is to be expected that some people from higher income groups will come to financial grief and dependence in old age. Until literally all people are brought under the contributory systems, noncontributory pensions will have a definite place even in long-time old-age security planning.

There also is need for a voluntary system of annuities to supplement the compulsory system we advocate, intended primarily for persons of low and moderate income who are not included in the compulsory system. While the latter is not as important as the noncontributory pensions and the compulsory system of contributory annuities, we recommend the establishment of a related, but distinct, voluntary system of Government old-age annuities, for restricted groups in the population who do not customarily purchase annuities from commercial insurance companies.

Finally, in any complete program for old-age security, those aged should be considered who must be cared for in institutions—those who need custodial care which friends and relatives will not provide. Factual data bearing on the institutions for the care of the aged and their inmates is very scant and most of it out of date. We, therefore, recommend that the United States Department of Labor undertake at once, a special survey of such institutions for the purpose of developing a constructive program for the improvement of institutional maintenance of the aged.

#### NONCONTRIBUTORY OLD-AGE PENSIONS

Old-age pensions are recognized the world over as the best means of providing for old people who are dependent upon the public for support and who do not need institutional care. In this country 28 States and 2 Territories now have laws providing for the payment of noncontributory pensions to dependent aged persons. The minimum age specified in these laws is either 65 or 70. All of them require long periods of residence within the State and allow pensions only if the aged applicants are without any substantial amount of property or income and have no relatives legally responsible for their support. In most of these acts the pensions are limited to a maximum of \$1 per day less any other income the pensioners may receive from any source. A few of the laws are less restrictive, but not more than two or three of the entire number can be regarded as even reasonably adequate. The administrative provisions in many of the laws are likewise defective; the officials who grant the pensions have no facilities for investigation and there is no machinery for supervision. Many laws place the entire cost of pensions on the local governments, and about one-third of these acts are optional in the sense that counties may or may not operate under the pension system as they see fit.

Many of these old-age pension laws are entirely nonfunctioning; many pension authorities, because of financial pressure, have cut benefits below a proper minimum, and there are long waiting lists of needy persons. While some improvement along these lines is to be expected with the insistent popular demand for old-age pensions, financial limitations are such that local and State action alone cannot be relied upon to provide either adequate or universal old-age assistance.

As has been stated, there are four times as many old people over 65 on relief lists as are in receipt of old-age pensions. These aged people do not belong on emergency-relief lists and, very properly, are now being eliminated therefrom. They should instead be provided for under old-age pension laws, operating in all States.

There is little likelihood, however, that an appreciable number of the dependent aged will receive pensions unless the financing of such measures is put on a radically different basis than at present. Both State and Federal participation are vital if the dependent aged are to be cared for through the human pension method.

Federal grants-in-aid will encourage the enactment of liberal old-age pension laws in all States, and the granting of pensions to all of the aged who are dependent upon the public for support, and who do not need institutional care. We therefore recommend a system of Federal grants-in-aid to States and Territories which provide old-age

assistance for their needy aged under plans approved by the Federal Emergency Relief Administration, or its successor agency. These grants-in-aid, we suggest, should be one-half of the total expenditures for old-age pensions, including administrative expenses, but with a proviso limiting the Federal subsidy to \$15 per month for any individual and the aid for administrative expenses to 5 percent of the State's total expenditures for old-age assistance.

*Conditions of grants.*—Since the Federal Government, under the plan we recommend, is to assume one-half the cost of old-age pensions, we deem it proper that it should require State legislation and administration which will insure to all of the needy aged pensions adequate for their support. We recommend that aid be granted only to those States which enact laws that are State-wide or Territory-wide in scope, and, if administered by political subdivisions, are mandatory upon them. Such laws may limit the granting of pensions to citizens of the United States and residents of the State or Territory, but may not require a longer period of residence than 5 years, within the last 10 years preceding the application for a pension. Property and income limitations may, likewise, be prescribed but no aged person otherwise eligible may be denied a pension whose property does not exceed \$5,000 in value or whose income is not larger than is necessary for a reasonable subsistence compatible with decency and health. The pension to be allowed must be an amount sufficient, with the other income of the pensioner, for such a reasonable subsistence. Federal grants-in-aid are to be paid only on account of pensions granted to persons over 65 years of age, but until January 1, 1940, States may maintain a 70-year age limit which must thereafter be reduced to 65. No Federal aid is to be extended for aged persons cared for in institutions, and so much of the total pensions paid to any pensioner as was derived from the United States government shall constitute a lien on the estate of the aged recipient, which, upon his death shall be enforced by the State or Territory and refunded to the Federal Government. The administration of the old-age pension laws must be under the supervision of a designated State department and must be so conducted as to insure fulfillment of the intent of the Federal grants-in-aid; namely, to give all dependent aged persons not in need of institutional care a decent subsistence in their own homes.

*Costs.*—Only approximate estimates can be given regarding the costs of the proposed grants-in-aid. If a compulsory contributory annuity system is not established at the same time, actuarial estimates indicate that the Federal share of the cost of the noncontributory old-age pensions may in the first year reach a total of \$136,600,000; in the second year \$199,000,000 and would increase steadily thereafter until it reaches a maximum of \$1,294,300,000 by 1980. We believe that these estimates are too high, particularly in the earlier years, as they do not allow sufficiently for the lag likely to occur before all the dependent aged will actually be granted pensions. Since the total now expended for old-age pensions is less than \$40,000,000 per year and more than half of the entire population of the country is in States which have old-age pension laws, we are of the opinion that \$50,000,000 will be sufficient in the first year to pay the Federal share of the old-age pension costs. Thereafter, this figure will tend to increase rather rapidly, and by 1980 may reach the

great total estimated by the actuaries. The estimates of the actuaries consulted by this Committee are in our judgment so high in estimated figures for 1980 that further careful studies must be given to them, with the objective of finding ways and means for reduction and limitation of estimated Government contributions as of that year.

Obviously these figures will be reduced if a compulsory system of contributory annuities is established simultaneously with the Federal grants-in-aid. Sound financing demands this simultaneous action. The estimates of the actuaries indicate that if a compulsory system of contributory annuities is started by January 1, 1937, the Federal grants-in-aid to the noncontributory pensions will by 1980 total less than 40 percent of the amount they will reach by that date if a contributory system is not started.

Furthermore, the actuarial figures assume that contributory annuities will not cover a large percentage of our population comprising those who are not actual wage earners. It is essential that as soon as possible these persons be brought into the compulsory system of contributory annuities, else the annual Government contributions will be so high as to constitute an impossible charge on the taxpayers.

#### CONTRIBUTORY ANNUITIES (COMPULSORY SYSTEM)

It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations for the support of the aged can be lightened. With an increasing number and even more rapidly increasing percentage of the aged, the cost of supporting old persons will be a heavy load on future generations regardless of any legislation that may be enacted. Pensions sufficient for a decent subsistence for all of the aged who are dependent upon the public for support are approved by the overwhelming majority of the people of this country. In order to reduce the pension costs and also to more adequately provide for the needs of those not yet old but who will become old in time, we recommend a contributory annuity system on a compulsory basis, to be conducted by the Federal Government. Because of the large number of people involved and the other duties imposed on the social insurance board (which we recommend should have responsibility for the administration of all types of social insurance), we deem it desirable that the taxes to finance this system should not become effective until January 1, 1937, but believe that the necessary legislation should be enacted at an early date, to enable the board to make the necessary studies and other preparations for putting this plan into operation.

*Outline of plan.*—We recommend that the contributory annuity system include, on a compulsory basis, all manual workers and non-manual workers earning less than \$250 per month, except those of governmental units and those covered by the United States Railroad Retirement Act. (In the first 5 years that the act is in effect, only employees who, on the effective date are less than 60 years of age, are to be included.) Employees who lose compulsory coverage (by becoming employers, ceasing to work, etc.) after they have made at least 200 weekly contributions are to be permitted to continue membership on a voluntary basis by paying a contribution equal to the combined contributions required from employers and employees.

The compulsory contributions are to be collected through a tax on pay rolls and wages, to be divided equally between the employers and employees. To keep the reserves within manageable limits, we suggest that the combined rate of employers and employees be 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. If it is deemed desirable to reduce the burden of the system upon future generations, the initial rate may well be doubled and the taking effect of each higher rate advanced by 5 years.

Both the tax on employers and the employees is to be collected through the employers, who shall be entitled to deduct the amount paid in the employees' behalf from wages due them. The necessary rules and regulations for collection of contributions are to be prescribed by the Secretary of the Treasury.

We suggest that the Federal Government make no contribution from general tax revenues to the fund during the years in which income exceeds payment from the funds, but that it guarantee to make contributions, when the level of payment exceeds income from contributions and interest, sufficient to maintain the reserve at the level of the last year in which income exceeded payments. According to our actuarial estimates the reserve on this basis would be maintained at about \$15,250,000,000.

No benefits are to be paid until after the system has been in operation for 5 years, nor to any person who has not made at least 200 weekly contributions, nor before the member has reached the age of 65 and retired from gainful employment. Persons retiring after having passed age 65 will receive only the same pension as if they had retired at that age. The benefits are normally to take the form of annuities payable during the remainder of the life of the annuitant. Should a member die before the age 65 or before the amount of his own contributions has been paid to him as an annuity, the difference between his contributions and the amount which he may have received as an annuity, with interest at 3 percent, is to be paid as a death benefit to his dependents. Members who have made contributions for a short time but who, on reaching age 65 are not entitled to an annuity (because they have not made 200 contributions) are to be refunded their own contributions with 3-percent interest.

Under one proposal considered by the Committee, the annuity payable to members in whose behalf contributions are first paid during the years 1937 to 1941 shall be computed as follows: If they are eligible to retirement in the sixth year after becoming members, their annuity shall be equal to 15 percent of the average weekly wage during the period they have been within the system, not counting that portion of the wage in excess of \$150 per month. For those retiring in the next 5 years this annuity is to be increased by 1 percent of the average weekly wage for each additional 40 weeks of contributions, but the increase shall not exceed 1 percent for each year of membership in the system. Thereafter the initial annuity is to be increased by 2 percent for each 40 weekly contributions, but not more than 2 percent per year, until a maximum pension of 40 percent of the first \$150 average monthly wages upon which contributions have been paid shall be reached.