

ECONOMIC SECURITY ACT

THURSDAY, FEBRUARY 7, 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. The first witness on our schedule this morning is Mr. M. B. Folsom, Rochester, N. Y., who is appearing as a member of the President's Advisory Council.

Mr. Folsom, will you please come forward and state for the record your business connections and the capacity in which you appear?

STATEMENT OF M. B. FOLSOM, MEMBER OF THE ADVISORY COUNCIL ON ECONOMIC SECURITY, ROCHESTER, N. Y.

Mr. FOLSOM. My name is M. B. Folsom, Mr. Chairman and gentlemen. I am appearing as a member of the Advisory Council on Economic Security. I am assistant treasurer of the Eastman Kodak Co.

Mr. TREADWAY. Let me identify you, please, for the record. I see your name in this report as a member of the Advisory Committee on Economic Security.

Mr. FOLSOM. Yes, sir.

Mr. TREADWAY. There is quite a group of those people and there are various committees. Would you mind telling us as part of your introductory statement what feature you took up in the committee?

Mr. FOLSOM. On the Advisory Council there were 5 employers and 5 representatives of labor, and 10 from the general public. I was one of the employer representatives, and I went into the unemployment compensation and also old-age security features.

Mr. TREADWAY. To what extent did you participate, either here or in New York or in your home town, in the deliberations of the Council?

Mr. FOLSOM. We had four general meetings of the Council, and also we had a subcommittee which worked out a number of the details. I was on the subcommittee, and I spent altogether about 3 or 4 weeks in Washington on the work.

Mr. TREADWAY. Thank you.

Mr. FOLSOM. My views on unemployment compensation and old-age security are based on a number of years of experience with these subjects in our own company, and also in foreign countries

where we have companies. We have had considerable experience with governmental plans abroad.

I have also been in close touch with the Rochester unemployment benefit plan, which I will describe later.

At the outset, I would like to call your attention to the fact that a large number of individual companies in this country already have plans for providing security for their workers.

As an illustration, 400 industrial companies have pension plans to provide security for the aged workers. Many of the companies who are represented on this advisory council have had these plans in operation for several years.

As an illustration, the Eastman Kodak Co. has a sickness-benefit plan, a disability-benefit plan, retirement annuities, life insurance and unemployment benefits, as well as a wage dividend plan. These plans were adopted by this company and other companies, not from any paternalistic or charitable promptings, but as a matter of good business. It was felt that these plans would be advantageous to the workers, to the stockholders, and to the community at large.

To illustrate: An annuity plan is often adopted by a company so that they may retire older workers who have already passed their period of usefulness and replace them with more efficient ones. For the same reason unemployment-benefit plans have been adopted to provide security for the workers, and also to serve as an incentive to the companies to reduce unemployment.

The employers on this Advisory Council and many other employers had hoped that voluntary action by companies in adopting a plan of this sort would give us valuable experience before any legislation was necessary. We realize now, however, because of financial conditions, that we could hardly expect many companies to adopt plans of this sort voluntarily. The employer members of this Advisory Council, therefore, reached the conclusion that some legislation was necessary to provide this security for workers in general. We hoped that the legislation which will be adopted would be of a nature that would not disrupt business; and, also, that too large a proportion of the contributions would not be used for administrative purposes.

Therefore, the employers on the Advisory Council are in sympathy with the general aims and purposes of this bill. We would, however, recommend certain changes in the unemployment section and also in the old age security section which, in our opinion, would enable it better to accomplish the purpose in view.

To take up the unemployment compensation section, we have had experience for 4 years in Rochester with seven companies employing about 13,000 workers, with an unemployment-benefit plan. We built up a reserve over a period of 2 years, and from that reserve we paid out benefits to workers who became unemployed.

The experience of these companies indicates such a plan is practicable. Also, when it is put into operation, a much greater effort is taken by the individual companies to reduce unemployment, because there is a direct incentive to reduce unemployment when you know that you will have to pay benefits to workers who become unemployed.

The Advisory Council recommended, as you know, from their report which has been filed with you, that a grant-in-aid plan should

be adopted rather than the Wagner-Lewis type of bill which you now have before you.

There are several reasons why the majority of the Advisory Council favored the grant-in-aid plan. We thought that it would make possible the setting up of industrial plans which would cross State lines and also there could be provided better minimum standards in the Federal legislation, thereby giving better protection to the workers in general. There would still be considerable freedom, however, for the States to experiment.

We appreciate, however, that there are also good reasons for the proposed type of bill, and we would not oppose it on that score.

Mr. LEWIS. Have you brief descriptions of the plans of your companies so far as they touch aid to the workers, both in the form of unemployment aid and old-age pensions?

Mr. FOLSOM. Yes, sir.

Mr. LEWIS. Have you annuity tables?

Mr. FOLSOM. Yes, sir.

Mr. LEWIS. Would you file those with the committee?

Mr. FOLSOM. Yes, sir.

The changes which we would recommend in this bill in the unemployment section are as follows: The President in his message to Congress stated he hoped that the Federal legislation would not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment.

Our Advisory Council stated that the two chief objectives in unemployment compensation legislation should be, first, to provide compensation to people who may be laid off, and, second, to afford an incentive to companies to stabilize.

We feel that the provisions of section 608 of this bill practically foreclose the States from establishing such a plan. There is a compulsory pooling feature which requires 1 percent of all funds to be placed in the pool, and also, that no employer, regardless of his record, could get a reduction until his reserve is 15 percent. No one can get a reduction, according to its provisions, until 1946, if you figure it out.

We feel that no company will take any extra means of stabilizing and reducing fluctuations on the chance that they might get a reduction in 1946.

We therefore think that the recommendations of the Advisory Council, which were unanimous in that respect, that freedom should be left to the States to set up the type of legislation they wanted, should be followed: whether they are to have a straight pool system or separate company account system, or a combination of the two. We do not ask Congress to decide which plan is the best, but we do ask that the States be given complete freedom as to the type of legislation to adopt.

As you know, there are considerable arguments for the pool-type plan and considerable arguments for the separate company-account plan. Although I am strongly of the opinion that the separate account plan is the better one and the only one which would serve as an incentive, we feel this should be left to the States to decide.

The second point is that this tax covers the whole pay roll, and there is no bill which is being considered by the State legislatures in which the tax applies to the entire pay roll.

Therefore, we think that the tax should apply only to that part of the pay roll which is eligible for compensation benefits. There is no reason why that amount should not be fixed the same as it is in the old-age section of the bill, where it is \$250 a month. So we would recommend that the tax would apply only on the first \$250.

The third suggestion is that we feel the 3 percent tax is entirely adequate to provide the benefits of this bill. I think it would be much more desirable—and several members of the Advisory Committee felt that also—if the employees themselves paid a small part of the 3 percent tax—say $\frac{1}{2}$ percent.

Mr. REED. Mr. Chairman, may I ask the witness to repeat that last? I did not get that.

Mr. FOLSOM. Several members of the President's Advisory Council were of the opinion that the plan would be very much better if the employees contributed a small part of the cost. The plan as now set up places the 3 percent entirely on the employers, with the option to the States to place an additional tax on employees, if they should desire. But we feel that 3 percent is adequate for the benefits provided, and that of the 3 percent, $\frac{1}{2}$ percent should be from the employee.

We agree that the first charge on unemployment compensation should be on the employer. But we do feel that employee contributions provide more effective administration and cause the worker to regard the plan as part of his own and not something given to him as a gratuity, and it also prevents malingering and similar abuses.

We feel that if those changes are made in the unemployment compensation provision of the bill, the States will have an opportunity to set up a good plan.

Now, regarding the old-age security section of the bill: Members of the Advisory Council felt that the original proposal, which provides for these three different plans—public assistance to the State old-age assistance plans, a contributory system, and a voluntary annuity system—were satisfactory. We felt that once you adopted an old-age assistance plan, because of the tremendous drains on the Federal revenues in the future, it becomes absolutely necessary to set up a contributory system so that the drains on the Federal Treasury in the future will not be so great.

I have not had very much opportunity to consider the suggestions which were made by the Secretary of the Treasury a few days ago. But I am inclined to feel that the original plan as recommended is more practical than the suggested changes.

I realize that this is a very complicated subject to discuss in a short time. But the original plan which we in the Advisory Council approved, a tax going into effect at 1 percent and increasing very gradually over a period of years, prevented the building up of a very large reserve fund. Under the proposed changes the taxes are increased quite rapidly, and the reserve fund eventually amounts to \$37,000,000,000. We believe that that places entirely too heavy a load on the present generation.

It should be understood that even with the proposed changes suggested by Secretary Morgenthau, some annuities are going to be paid out to the older workers which have not been earned. The question is, who is going to make up that difference?

Under the original plan that deficit was made up in the future, from 1965 on, by the Federal Government. Under the proposed plan, the present generation will be paying for those unearned annuities.

Within 3 years the tax rate will be 3 percent, which, together with the 3-percent rate on unemployment compensation will take away a very large amount of money from the consumptive channels, which would be put into the Federal Treasury. That is bound to have a depressing effect on general conditions.

But the greatest difficulty is the difficulty involved in investing a huge sum, such as \$37,000,000,000. Even if it is used to retire the public debt, it places a very large load on the present generation. This generation not only must pay for the old-age pensions of the past generation which were not provided at that time, but, in addition, must pay for the old-age pensions of this generation, so you are putting a double load on the present generation.

Under the original plan, this deficit which is to be met in the future is not any greater than the deficit which would have to be faced by the Government, and by the old people at that time, if you had no pension plan at all.

We feel that very serious consideration should be given by this committee to the difficulties involved in building up this huge sum of \$37,000,000,000; the effect that it is going to have on investment markets and on business, and many other considerations due to trying to transfer from one generation to another generation such a huge amount of money. When within a short time the income will be much greater than the outgo and a large fund has been built up there will be a tendency to increase benefits, with a big deficit resulting later.

We do not think you can consider a Government plan on the same basis as you do a company plan. The company pension plan should be on a sound actuarial basis. But it is not practical to try to put a Government plan on a sound actuarial basis for the reasons which I have indicated.

Mr. LEWIS. Speaking of stabilization and regularization of employment, your industry is not a seasonal industry, I believe?

Mr. FOLSOM. It is highly seasonal.

Mr. LEWIS. Oh, it is?

Mr. FOLSOM. Yes, sir. We have a tremendous peak in the summer, due to more films being consumed in the summertime than in the wintertime.

Mr. LEWIS. Have you had some experience, then, with regularization or stabilization in your industry?

Mr. FOLSOM. We have had an experience over 35 years with it.

Mr. LEWIS. Will you give us your experience before and after your efforts to stabilize?

Mr. FOLSOM. I have a chart here which will illustrate that. We have a plan which has been in operation over a period of 35 years, under which we produce steadily throughout the year in spite of the fact that there is a tremendous fluctuation in our sales. As a result of that, we have comparatively no unemployment during normal times.

Mr. LEWIS. You have what?

Mr. FOLSOM. We have practically no lay-offs during normal times.

Mr. LEWIS. How was it before you set to work on that plan?

Mr. FOLSOM. We had a decided variation in the employment curve. Here is the chart that I was referring to [indicating]. This is our sales line and this is our production line [indicating on chart].

Mr. LEWIS. At present?

Mr. FOLSOM. Yes.

Mr. TREADWAY. What does that illustrate, please?

Mr. FOLSOM. The stabilization methods we use in the Kodak Co. to prevent fluctuations in employment. This is our sales curve, and this is the production curve [indicating].

Mr. LEWIS. Did your production curve formerly correspond with the sales curve?

Mr. FOLSOM. Not closely. There was such a tremendous peak we could not do it. But it fluctuated much more widely than this [indicating chart].

Mr. LEWIS. That would mean that at times in the year you would have four times as many employees as at other times, possibly?

Mr. FOLSOM. If we produced according to what we sold, yes. We feel that most companies can do a better job in stabilizing than they have done. We feel in order for them to do that, it would be much better if some incentive were furnished them to stabilize. If you furnish that incentive, we feel that considerable progress can be made in this country in reducing this fluctuation.

We feel that these provisions in the bill now will prevent that.

Mr. LEWIS. Now, I want to come to what is for me the crux of the matter. I will suppose a fanciful case, so that the question will be simple in outline. Let us say that you can do as much work with 600 men employed the whole 12 months as you could with 1,200 men employed 6 months. You might drop 600 of your 1,200 and employ those 600 the whole year. That would be regularization or stabilization. But what would it mean to the 600 who had lost out entirely? Of course, the question answers itself.

That is the difficulty that I have in allowing the employers of the United States to remit themselves two-thirds of this tax. They will be under a motive to regularize, it is true, but might they not further increase the mass of unemployment.

Mr. FOLSOM. I do not think it would work out that way in the long run. You would have more people probably initially who might be unemployed, but in the long run they would be employed; and also with a gradual reduction in hours you would cut down that load.

Mr. TREADWAY. We had a witness before us a few days ago who represented retail stores. He said, I believe, that there were some 700,000 employees in those retail stores that he represented who are under some private form of old-age assistance.

Mr. FOLSOM. There are about 2,000,000 in industrial companies.

Mr. TREADWAY. He said, if I am not mistaken, that in the 600 stores that he represented, there were about 700,000 employees that were covered by their system.

Mr. FOLSOM. There are 400 industrial companies with 2,000,000 people that have such plans.

Mr. TREADWAY. I may be confused as to the figures, but there are a great many at least, are there not?

Mr. FOLSOM. Yes.

Mr. TREADWAY. If this Government scheme is set up, will there be any confusion with those private organizations, such as your own, for instance? Has the Eastman Co. something of this nature?

Mr. FOLSOM. Yes. As I have indicated, we have an old-age pension plan on an established actuarial basis. We actually paid into the Metropolitan Life Insurance Co. \$7,000,000 to start that plan.

We feel that our plan can be fitted into the Government scheme with very little trouble. We have done that in several countries abroad.

Mr. TREADWAY. You have done it for your employees abroad?

Mr. FOLSOM. Yes. In France, for instance, they have a Government scheme, and we have our own plan there. Our plan is supplementary to the Government plan. What will actually happen is, this plan covers only people far below \$250 a month, so you will have to have a plan to take care of the people who receive over that; and also, for a long time under this plan, or under any Government scheme, the actual pensions will be lower than those provided in the company plans.

Any company plan that is already in existence would not be affected because of the amount of money they have already paid to a trust company or an insurance company for past service. That would still be there, and the employees are going to draw on it.

But, from now on, instead of paying the full rate, which we might pay to insurance companies, say of 3 or 4 percent, we would pay a certain percentage to the Government and a certain percentage to the insurance companies.

Mr. TREADWAY. So that the adoption of any Government scheme will not embarrass corporations that already have some old-age or unemployment insurance?

Mr. FOLSOM. No. But I do think it might be possible—and I think the leeway should be given to the administrative agency who administers this plan, if they find it desirable—to allow companies to administer their own plans entirely, under proper safeguards.

Mr. TREADWAY. But you would not exempt corporations having a plan from the taxation or other features that may be incorporated in this bill?

Mr. FOLSOM. No; I would not.

Mr. TREADWAY. I think the witness to whom I have referred rather hoped that that could be done.

Mr. FOLSOM. I see so many difficulties involved in it from the administration point of view that I do not see how it is feasible. But I do think they should be given an opportunity later, under proper safeguards, to operate their own plans, which would meet certain standards set up by the administrative agency.

Mr. TREADWAY. You are sufficiently familiar with other companies undoubtedly so that what you are saying for the Eastman Kodak Co. could properly be said for them also. In other words, there is no conflict between their old-age and unemployment insurance programs and this plan? They are similar to your own plan?

Mr. FOLSOM. I have talked this over with insurance companies and my opinion is based on talks with them, and several other companies which have annuity plans. I do not think this plan would upset present annuity plans.

Mr. TREADWAY. When you speak of this plan, you are referring to the plan that is incorporated in the bill before us.

Mr. FOLSOM. Yes.

Mr. TREADWAY. Or are you referring to some suggestions that you have made?

Mr. FOLSOM. No. I have made practically no suggestions of changes in the old-age-security sections of the bill.

Mr. TREADWAY. How about the unemployment sections?

Mr. FOLSOM. I made several suggestions of changes there.

Mr. TREADWAY. Your position on the advisory council, I think you said, had to do with the old-age-pension provisions?

Mr. FOLSOM. No; with both.

Mr. TREADWAY. With both?

Mr. FOLSOM. Yes.

Mr. TREADWAY. So that the ideas you are now suggesting were not incorporated in the bill before us.

Mr. FOLSOM. No. There were several changes made. As the bill now stands, it does not incorporate some of the suggestions which were made by the advisory council.

Mr. TREADWAY. Where did those spring from, have you any idea?

Mr. FOLSOM. I do not know. Of course, there is a difference of opinion on a lot of these points.

Mr. TREADWAY. Certainly.

Mr. FOLSOM. We threshed them out for a number of weeks in the advisory council and made definite recommendations. The cabinet committee accepted a large number of those recommendations, and others they did not accept.

Mr. TREADWAY. You feel, then, that the suggested changes that you have offered here this morning originally were before your council but were not adopted in the final draft as presented to this committee.

Mr. FOLSOM. But one or two of the changes, such as employee contributions, were not recommended by the Advisory Council. We had a split in the Advisory Council on that, some feeling that there should be, and others feeling that there should not be.

Mr. TREADWAY. I think it would be of great help to the committee—certainly it would to me, and I think I voice perhaps the views of the committee on this point—if you could, instead of offering these suggestions informally, as you have this morning, write them out and submit them for our record.

Mr. FOLSOM. I have such a statement which I can give by this afternoon.

Mr. TREADWAY. That would be very useful to us.

Mr. FOLSOM. Very well, sir.

Mr. TREADWAY. One other line of inquiry. I understood you to say—I may not have heard you correctly—but I understood you to say that no Government program could be worked out on an actuarial basis; is that correct?

Mr. FOLSOM. Yes, sir.

Mr. TREADWAY. You do not feel that we can put into a Government or State law a system such as an insurance company would set up?

Mr. FOLSOM. No, sir.

Mr. TREADWAY. Is that correct?

Mr. FOLSOM. It is not practical. I might say that a number of actuaries, I think, will agree with that.

Mr. TREADWAY. It has also been suggested—it was suggested by a Senator from Delaware yesterday—that instead of earmarking, if you want to call it that, any of these items in the bill, a general fund should be set up and it should be left entirely to the States to determine the method of the use of the money allocated by the Government. What would be your view on that feature?

Mr. FOLSOM. I think it is perfectly all right for the States to administer these funds. It is a fine part of the bill for the States to administer old-age assistance which we give; an outright pension to people who have not any means of subsistence. But it is not feasible at all to work up a State contributory old-age-pension plan, because you do not get the proper distribution of ages in any one State. In some States you have a large proportion of older people and in other States you have a large proportion of younger people. The population is shifting back and forth.

Mr. TREADWAY. Perhaps you do not quite get my idea, Mr. Folsom. The suggestion that was offered us was that using the precedent of Government contributions toward the construction of roads, we give a lump sum—that is, the Government furnishes a lump sum.

Mr. FOLSOM. Yes, sir.

Mr. TREADWAY. Could a lump sum be donated by the Federal Government and prorated properly among the States, allowing the States to control the whole situation?

Mr. FOLSOM. That is what you are doing in the old-age assistance part of this plan.

Mr. TREADWAY. The bill controls legislation of the States to a certain extent.

Mr. FOLSOM. That was also the plan which a number of people favored for unemployment compensation, the grant-in-aid plan. It did just that. The money came from Washington and was given to the States provided they pass a bill meeting certain requirements.

Mr. TREADWAY. I judge that in the main you approve of this type of legislation.

Mr. FOLSOM. Yes, sir.

Mr. TREADWAY. Both from the standpoint of a business man and as a member of this advisory committee?

Mr. FOLSOM. Yes, sir. We approve the general aims and purposes, but there are a few changes which we think would improve the bill from the working point of view.

Mr. TREADWAY. I started awhile ago to ask you this question, and I will ask it now. It is whether or not you think that these various ideas, which are grouped under eight titles in the bill, should be embraced in one piece of legislation.

Mr. FOLSOM. I think that is entirely a matter for the Congress to decide.

Mr. TREADWAY. I thought you would say that; but I did think that as a member of the advisory council you would have some definite ideas on the subject.

Mr. FOLSOM. Of course, it would simplify it considerably for people who were trying to understand it, if it were split up. But

I cannot see that it would make very much difference from the practical point of view. If we are going to have legislation on all of these matters, so it does not make very much difference.

Mr. TREADWAY. Of course, they are not interrelated, with the exception of one or two of them. They are different, independent propositions.

Mr. FOLSOM. It would certainly simplify matters if they were separate, but I do not think it is at all necessary.

Mr. JENKINS. I would like to ask you this question: As I understand the philosophy of this measure, the idea is for the Government to collect the money which is granted to the States for matching and distribution; is that correct?

Mr. FOLSOM. Yes, sir.

Mr. JENKINS. That is for the old-age pensions?

Mr. FOLSOM. Yes.

Mr. JENKINS. In the matter of unemployment insurance, it strikes me that there is a great difference in the matter of procuring the money and the distribution of it. Did your council consider the question of the constitutionality of the method of collecting that money?

Mr. FOLSOM. We had considerable arguments given to us on both methods, the grant-in-aid type of plan and the Wagner-Lewis type of plan, and the recommendations differed quite a little. But the recommendations of our council were that the grant-in-aid plan be adopted, and one reason was that we thought you could get better standards in the grant-in-aid type of bill than in the other bill, and we thought some standards were desirable. It would also permit industries to develop plans.

Mr. JENKINS. I see nowhere in these reports any comment on the constitutionality of these two plans. Was any such report made, and if so, is it available—a report from lawyers on that matter?

Mr. FOLSOM. No; I have not seen it in the form of a statement. But we had the views of different people on it. There was quite a difference of opinion on it.

Mr. REED. I was curious to know something of your set-up in France. How do your benefits compare there with the benefits received from the government over there?

Mr. FOLSOM. In France they restrict the plan to people who receive below a certain salary which is comparatively low. It is lower than \$250 a month, the amount in this bill. We have a large number of people who are not covered at all by the Government plan.

Mr. REED. But your benefits, how do they compare with what they get under the Government plan?

Mr. FOLSOM. They are somewhat more liberal.

Mr. REED. I assumed that to be the case.

Mr. FOLSOM. And I think that should be true in any Government scheme. I think a Government plan should be set up on a bare minimum basis.

Mr. REED. With respect to the Advisory Council's recommendations, did these provisions which you are now suggesting to the committee have the endorsement of the business interests?

Mr. FOLSOM. Of course, the five employers on this council were not representing business as a whole. They were picked as repre-

sentative, but not to represent all of industry. We had no basis for representing industry. The employer representatives on the Council were Mr. Teagle, of the Standard Oil Co.; Mr. Swope; Mr. Leeds; Mr. Lewisohn; and myself. We were not representing any group.

Mr. REED. Were they more or less agreed on the suggestions you are making here today?

Mr. FOLSOM. Yes.

Mr. REED. That is what I was interested to know.

Mr. FOLSOM. And several others on the Council were also in agreement with us.

Mr. REED. And the changes were made by the so-called "Cabinet committee"?

Mr. FOLSOM. Some of the changes were, but some of them were not, as indicated.

Mr. REED. There is one other thing I would like to ask you about: How did your council feel about the employment agency that is to be set up under this plan, Federal employment agencies throughout the country?

Mr. FOLSOM. Of course, there will be State agencies, too. We feel it is absolutely necessary to have an unemployment compensation bill administered through employment agencies.

Mr. REED. Did you feel that the experience of Great Britain and other countries would justify—

Mr. FOLSOM (interposing). But we also feel that in case a State should allow a separate company account, there is no reason why those companies should not administer their own plan subject to the jurisdiction of the State agencies.

Mr. REED. I was referring to the set-up of employment agencies to cooperate in this whole plan.

Mr. FOLSOM. I think it is necessary.

Mr. REED. You think it is necessary?

Mr. FOLSOM. Yes.

Mr. LEWIS. You spoke of 3 percent being adequate. Adequate with regard to what situation; say with 2,000,000 people unemployed?

Mr. FOLSOM. This bill does not attempt to take care of employment during a deep depression. It only covers unemployment during normal times and in minor depressions.

Mr. LEWIS. What unemployment; would it mean 2,000,000?

Mr. FOLSOM. It is based on what actually happened from 1922 up through 1930. The tables are given in the staff's report. You can find the exact figures in the report of the staff.

Mr. LEWIS. Three percent would be adequate, let us say, as to 2,000,000 people, for what length of time—14, 15, 16 weeks?

Mr. FOLSOM. The actuaries have based this on a 4-week waiting period, to allow 16 to 18 weeks benefit, and for long service people you could have an additional 10 weeks' benefit. So if a person has been there for a long time without drawing any benefits, he might get a maximum of 25 weeks.

Mr. LEWIS. And the payment would be not to exceed one-half the wages?

Mr. FOLSOM. Up to \$15 a week.

Mr. LEWIS. And you say 3 percent is adequate?

Mr. FOLSOM. For that.

Mr. LEWIS. You are taking into consideration a hypothetical situation, such as I have described.

Mr. FOLSOM. Yes, a situation such as we had from 1922 up through 1930.

Mr. LEWIS. You spoke of young people having to pay so much more for their annuity than the people who will now be candidates, or who in 2 or 3 years will be candidates. It is a fact, however, that none of them will be even half paying for their annuities, even under the longest time of payments?

Mr. FOLSOM. Yes. A man who is 20 or 25 will pay practically for his annuity.

Mr. LEWIS. You mean he will pay for his half?

Mr. FOLSOM. I mean the contributions by him and by the employer will pay for the annuity which he gets; that is, the very youngest man.

Mr. LEWIS. In that extreme instance, he will have paid for half his annuity, and the employer will have paid for the other half?

Mr. FOLSOM. Yes.

Mr. LEWIS. That is all, thank you.

Mr. FOLSOM. Mr. Chairman, referring to the request that I file a formal statement for the record, embodying our ideas on this bill, I am submitting herewith a statement which I ask to have incorporated in the record.

The CHAIRMAN. Without objection the statement may be made a part of the record.

(The statement filed by Mr. Folsom is as follows:)

STATEMENT TO WAYS AND MEANS COMMITTEE OF HOUSE OF REPRESENTATIVES RE
UNEMPLOYMENT SECURITY BILL, H. R. 4120

(M. B. Folsom, assistant treasurer, Eastman Kodak Co.; member, Advisory Council on Economic Security)

I am very glad to appear before your committee as I am a member of the Advisory Council on Economic Security appointed by the President, and assistant treasurer of the Eastman Kodak Co. My views on unemployment compensation and old-age pensions are based upon a study of these subjects extending over a period of years, and upon practical experience from the operation of such plans in our company. Through our companies in foreign countries we have also had experience with the governmental-insurance plans abroad. I have also been in close touch during the past 4 years with the operation of the Rochester unemployment benefit plan.

At the outset I would like to call your attention to the fact that many individual companies throughout the country have already adopted employee-benefit plans in order to provide greater security for their workers. Thus, 400 companies have adopted old-age annuity plans, 300 of which are backed by reserves in the hands of life-insurance companies or other trustees.

As an illustration, the Kodak Co. has benefit plans which include, as you will note, sickness benefits, disability benefits, retirement annuities, life insurance, and unemployment benefits, and a wage-dividend plan. The entire cost of all of these benefit plans is borne by the company, with the exception of a provision for an emergency contribution by employees under the unemployment-benefit plan. The cost of these plans as a percentage of pay rolls is greater than that contemplated in the proposed legislation.

These plans were adopted by this and other companies, not from any paternalistic or charitable point of view but as a matter of good business. It was felt that these plans would be advantageous to the workers, to the stockholders, and also to the community at large. Many years' experience has con-

firmed this opinion. To illustrate: With an annuity plan we are able to retire workers after they have passed their period of usefulness and are able to replace them with more efficient workers and to improve the morale of the whole organization. In the long run these advantages will offset the cost. Since the adoption of the unemployment-benefit plan there has been a greater incentive throughout the whole organization to reduce fluctuations in employment. Savings which result from providing steadier work will offset the cost of the benefits which are paid to workers who might be laid off.

It was the hope of many in industry that voluntary adoption by companies of annuity and unemployment plans would increase and become sufficiently wide-spread so that legislation would not be necessary or else postponed until we had a wider experience in this country. It is interesting to note that there has been a considerable increase in the adoption of industrial pension plans in recent years, even during the depression. The financial problems faced by most companies during recent years, however, have been such that the voluntary adoption of these plans on a large scale could hardly be expected. We, speaking for the employers on the Council, therefore, have reached the conclusion that legislation is necessary to provide this security for workers in general. We hope that the legislation will be such that it will accomplish this purpose without at the same time involving serious disadvantages to industry and commerce and without too large a proportion of contributions being spent for administrative purposes. We know that in some of the foreign countries such a large bureaucracy has been built up to administer the plans that the benefits actually received by the workers are considerably less than they should be.

We are in sympathy with the general aims and purposes of this bill. We would, however, recommend certain changes in the unemployment-compensation and old-age-security sections which, in our opinion, would enable it to better accomplish the purposes in view.

UNEMPLOYMENT COMPENSATION

Since 1931, 7 companies in Rochester, employing 13,000 workers, have operated an unemployment benefit plan. Each company has accumulated its own reserve fund, the amount of the annual appropriation depending upon the experience of the company, with a maximum of 2 percent of the pay roll. Since January 1, 1933, benefits have been paid to workers laid off or those working on part time below a specified amount. Payments to date by most companies have represented only a small portion of the fund accumulated, and the companies already have a substantial fund available for the future.

The experience of these companies—it is probably the best actual experience with unemployment compensation we have in this country—would indicate that the plan is practical and that the maximum contribution of 2 percent would be sufficient for the benefits fixed in the plan—2 weeks' waiting period, maximum of 13 weeks' benefits of 50 percent normal pay, and a maximum of \$18.75 per week.

The rate of contribution was fixed only after several companies had made a study of their employment record over a long period of years. A lower rate than 2 percent was found sufficient for some companies, because of their work in stabilization. The Kodak Co. has been working on stabilization methods for 35 years, and as a result shows comparatively little fluctuations in employment in normal years, although faced with a very difficult seasonal fluctuation in sales.

The experience already indicates that with the plan in operation, greater effort is made by the entire organization of a company to plan better, to spread work, and to adopt other means to prevent lay offs in order to avoid paying unemployment benefits for which nothing is received in return. The total lay offs in 1933 and 1934 by the 7 companies have been only 477 (377 in 1933 and 140 in 1934) in force of 13,000.

We are convinced of the desirability of the general adoption of unemployment-compensation plans but feel that the kind of legislation to be enacted is very important.

As a member of the Advisory Council I have heard the arguments offered by the various members of the staff relating to the Federal system of unemployment compensation and the two types of Federal-States systems. There are many arguments for one Federal system, but the compelling argument against it is that it is almost impossible for any group to devise one plan which would

be workable or desirable for the whole country with conditions so different in the various sections. Because of the very limited experience in unemployment compensation plans, it is very desirable, as the President indicated in his message to the Economic Security Conference, that we experiment with different plans. If a Federal system were adopted we could experiment with only one plan.

Several of us on the Advisory Council, a majority in fact, were in favor of a grants-in-aid plan rather than the plan provided by this bill. We felt that under the former system it would be possible to set up industrial plans covering more than one State and that an entire industry could do a better job in stabilizing and reducing unemployment than individual companies in any industry could do in individual States. We thought there should be experimentation along industrial as well as State lines. It was also felt that the workers would be better protected because more minimum standards could be included in the Federal law under the grants-in-aid plan than under the proposed plan. There would still be considerable freedom to the States, but only above certain minimum standards. We appreciate, however, that there are also good reasons for adopting the proposed type of bill.

The Advisory Council recommended a number of minimum standards which it felt should be incorporated in the Federal legislation regardless of the type of plan decided upon. These standards related to number of weeks' benefits, the amount of benefits, the waiting periods, etc. We understand that one reason why these standards were omitted from the bill was the possibility of constitutional objections.

There are certain other specifications imposed upon the State legislation in the present bill which are just as much regulatory as the standards the Advisory Council recommended and would, it seems, run into the same constitutional question. Some of these specifications also restrict, in a large measure, the freedom of the States to experiment, and are otherwise objectionable.

Section 608 requires as conditions for obtaining the additional credit allowance that at least 1 percent of the employer's pay roll must be contributed to a pooled fund in the State, that the full payment of compensation must be guaranteed, and that no reduction in contribution will be permitted until the reserve account reaches 15 percent of the total payroll. In his message to Congress on January 17, 1935, the President stated that:

"An unemployment-compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization * * *.

"Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment."

It is my opinion, which is shared by many others who have been working on the plan, that the provisions in section 608 of the bill for all practical purposes do "foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment." If these provisions are allowed to stand, reduction in contribution which an employer might receive because of good employment record, is so distant in the future that there is practically no incentive for him to stabilize. If we assume that the rate will be 1 percent in 1936, 2 percent in 1937, and 3 percent thereafter, and that 1 percent is paid each year into the pooled fund and 0.3 percent into the Federal administrative fund, the reserve account of an employer would not reach 15 percent until 1946, and he would not receive any credit for good employment record until that time. Obviously an employer would not do very much about stabilization in 1936 and 1937 on the chance that he might get a reduction in his rate in 1946. These provisions would also make it very difficult for smaller companies to receive a reduction in rate because of inability to furnish the required guarantees.

These provisions are not at all in accord with the recommendations made by the Advisory Council on Economic Security, on which were representatives of employers, labor, and the general public. There were 5 employers, 5 labor representatives, and 10 from the general public. We were in accord with the President's message to the Economic Security Conference that the States be permitted to experiment along different lines. These provisions cited above practically bar States from experimenting with a system of separate accounts and will prevent experimentation in the one field which employers who have had experience with unemployment benefit plans feel is the most promising

one. We want to try to reduce unemployment in the future and not to pay benefits. We are convinced that with the proper incentive considerable progress can be made in this direction.

The plan which the Advisory Council recommended and which was acceptable to the labor and public representatives as well as the employer representatives, provided that the States could adopt State-wide pooling of funds, a separate account system, or a combination of the two. In case a separate-account system was adopted we recommended that the employer to obtain a separate account be required to put up adequate financial guaranty while his account was being built up, and that no reduction in rate be allowed until his reserve was adequate. The provision that all funds are to be invested by the Federal Government and that adequate guaranties must be put up by the companies with separate accounts, overcome many objections which have been offered to the separate account system. We feel that if a State wants to permit separate accounts under these conditions, it should be allowed to do so. We would, therefore, recommend that subparagraph (a), section 608 be eliminated entirely, that corresponding change be made in definition under paragraph 606 and that the amount of the reserve be changed from 15 percent to 10 percent.

We realize that there is a decided difference in opinion as to the two principal systems of unemployment compensation, the pooled system and the separate-account system. Many of the experts and those who are approaching the subject from a theoretical point of view favor the pool or so-called "insurance system" on the theory that unemployment is an insurable risk; to get proper coverage you must pool all the risks and make them all pay the same rate. Practically all actuaries contend that unemployment is not an insurable risk. Even if it were, there is no reason why rates should not vary according to the risk as in all other forms of insurance.

We thoroughly agree with the theory back of this bill that unemployment compensation should cover only a limited period. We agree with the great majority of actuaries who contend that unemployment is not an insurable risk and are glad that this bill does not attempt to handle the problem as insurance.

These experts also contend that individual employers cannot do anything about reducing the fluctuations of employment and that there is thus no need for offering an incentive for stabilization. Many do not agree with them. One of the chief purposes of this legislation, as advocated by the President, Senator Wagner, and others in the past, is that there should be incentive for employers to reduce unemployment. That should be the goal rather than the actual paying of benefits. The straight pool system under which all employers contribute at the same rate cannot serve as an incentive to stabilize. On the other hand, it will change the whole employment policy of a company and will undoubtedly result in greater layoffs during the early stages of a depression. There will be no incentive for a company to spread employment, and when it is necessary to curtail production the least efficient workers will be laid off immediately and the other workers kept on full time. The actuaries, we understand, have assumed that under a pool plan an allowance must be made for an increase in unemployment. The report of the Security Committee pointed out that larger benefit payments are possible under the separate-accounts system.

Those who contend that nothing can be done about stabilization have in most cases had no practical experience. The companies with unemployment-benefit plans in operation all state that they do serve as a strong incentive to stabilize. This has been the case in Rochester. Even those companies which previously had a good record in employment stabilization have found that they could do a better job. This has already been the experience in Wisconsin where the law only went into effect in July 1934 and benefits are not yet payable. (The present Wisconsin plan could, of course, not operate under the provisions in this bill.) We feel that if the employer has an incentive, and the only incentive which really counts is the possible reduction in his rate, the great majority of employers can do a better job than they have done and that much steadier work will be provided to a great many workers. We feel that progress can be made in this direction exactly in the same way that self-insurers under workmen's compensation have reduced accidents in recent years. If a company or industry can provide steadier work, it will generally result in lower costs—a steady worker can produce more per hour—and lower prices to the consumer. Thus all three interests benefit—the worker, the employer, and the consumer.

Those including some employees who say that individual employers cannot do anything about unemployment generally have in mind deep depression unemployment. The plan set up in this bill is not intended to take care of depression unemployment but only unemployment during normal times, minor depressions and the first year of a deep depression. It is this type of unemployment which an individual company can do much to prevent. If this can be done, a larger portion of the fund would be conserved for the depressions and would serve as a better means to prevent the depression from going so low. Companies can also do a better job with depression unemployment.

The employers on the Advisory Council do not take the defeatist attitude that nothing can be done but ask that industry be given some incentive to reduce unemployment. We would therefore strongly urge that these changes be made in the bill so that the States will not be prevented from offering the incentive the President urged in his message. We don't ask you to decide between the two plans but to permit States the freedom to select the plan it desires.

The provisions in section 606, relating to guaranteed employment, require such high guaranties that extremely few companies are likely to take advantage of this provision. Many thoughtful employers consider the guarantee of employment very promising. Some progress has already been made in Wisconsin where a reasonable guarantee of employment plan is permitted. It is better to assure employment than to pay benefits. The Advisory Council recommended that a guaranteed employment plan should be permitted in the States if at the first of the year employment were guaranteed for at least 55 percent of a year's work. We would recommend that this condition be changed to permit guarantee plans if 30 weeks of full wages were guaranteed or 40 weeks of only three-fourths wages. Such a plan would actually provide greater benefits than the compensation plan.

Referring to subparagraph (d), section 608, it is recommended for the same reasons as given above that the compulsory contribution to the pooled fund be eliminated and also that variations be allowed at the end of 3 years after contributions are first paid instead of 5 years. The States could still require either or both of these conditions but they should not be made compulsory. It should be emphasized, however, that this so-called "merit rating pooled fund" system cannot serve as nearly so good an incentive to the employed to stabilize. There is no assurance that he will actually receive the reduction even should his employment record be good. England had such a provision in their unemployment-insurance plan but it was never put into effect.

Ten percent would seem too high for the administrative costs of the plan. This should be considered a maximum and not as a regular charge.

The bill as it now stands imposes a tax on the total pay roll of employees. While there are no standards in the bill as to employees to be covered under the State bills, practically all the State bills which have been proposed cover both for tax purposes and benefits only workers who receive less than \$50 per week. Under the Wagner-Lewis bill of last year, the tax applied only to the wages of those eligible for unemployment compensation and did not apply to any part of the wages of those receiving over \$250 per month. In order to simplify the administration, our Advisory Council recommended that the tax should apply to the first \$50 per week wages of everyone and that everyone should be eligible for benefits with a maximum of \$15 per week. It is obviously unfair to have the tax apply to that part of the pay roll which cannot be considered for benefits. In the old-age-security section of the proposed bill employees receiving over \$250 a month are excluded entirely, both for contributions and benefits. We therefore recommend that either this provision be adopted in the unemployment-compensation section of the bill or, if desirable for administrative purposes, the first \$250 per month of all employees be included in the payroll subject to the tax.

The bill as proposed places the tax entirely upon the employer. Therefore the only way in which the plan can be made contributory is to have the States place an additional tax on the employees. We feel that the 3-percent rate is entirely adequate to set up an unemployment-compensation system to achieve the purpose which this bill has in mind, that is unemployment during normal years, minor depressions, and the first stages of a deep depression. Based upon the experience of the Rochester companies, the 3-percent contribution should provide, with a 4 weeks waiting period, longer benefits than the actuaries have estimated. The actuaries have very meager data on which to base

their estimates and I am in accord with the conservative position which they have taken. I believe, however, that with a system set up to provide the incentive to reduce unemployment, the experience will show that the 3-percent rate will give longer benefits than the actuaries have estimated.

Although some members of the Council have recommended to you that a higher rate be assessed, I would call your attention to the fact that the Council as a body recommended the 3-percent rate. The employers and many others on the Council feel this rate is adequate and in addition that it would be detrimental to business in general to impose a higher rate. We also consider it very important that the provisions for lower rates in 1936 and 1937, if business does not show a certain amount of recovery, be retained.

Although a majority of the Council voted against employee contributions, many of us thought that the plan would be more successful if the employee contributed a small amount, say one-half of 1 percent. We agree that the first charge of unemployment compensation should be on the employer as he can do something about reducing unemployment while the employee can do very little. Employee contributions, however, would provide more effective administration and would cause the worker to regard the plan as partly his own and not as something given to him as a gratuity. It would thus operate to prevent malingering and similar abuses. In all the systems abroad, with the exception of Russia, the employees contribute.

Referring to section 602, subparagraph (d), which reads in part as follows: "Compensation is not denied in such States to otherwise eligible employees for refusing to accept new work under any of the following conditions * * *

(3) if acceptance of such employment would either require the employee to join a company union or would interfere with his joining or retaining membership in any bona fide labor organization." The Advisory Council recommended a different wording for this condition which seemed fair and impartial and reads as follows: "If acceptance of such employment would effect the applicant's right to accept or refrain from accepting or retaining membership in or observance of the rules of an organization of employees." We recommend this change be made.

Old-age security.—The subject of pensions is a very involved one and with the complicated sections in the proposed bill, setting up three different forms of old-age security, it is difficult to get a clear idea of the provisions and the ultimate effects of the bill. To simplify the problem for my own study I have prepared a number of charts which are based upon the studies made by the actuarial staff and which I am glad to present to the committee. In general, we are in favor of the three-point program recommended by the Committee on Economic Security and the old-age security section of this bill. There are certain changes we would suggest.

Very strong arguments can be made for providing pensions in a systematic way to aged persons who have no means of subsistence. A larger percentage of these people are dependent than formerly due in part, but not wholly, to the depression. Due to the depression it has become more and more difficult for the children to take care of the aged, which has thrown a larger number of these people on relief.

A number of the middle-aged people have lost their savings during the depression and it will be difficult for many of them to make up this loss before retirement age. The difficulties of the older worker in industry have been greatly exaggerated, as surveys show that the percentage of layoffs among older workers is much lower than among younger workers. It is true, nevertheless, that when an older worker loses employment it is difficult for him to find reemployment. It must be expected that many of the older group now among the unemployed will find it difficult to get jobs even when normal business conditions return. It would therefore seem that this country is facing, as practically all other countries in the world have faced, the pension problem.

The first step has already been taken by 29 States inaugurating a system of old-age assistance, giving stated amounts to the aged who have no means of livelihood or very limited means. The poorhouse method of taking care of this problem is not a desirable one and is probably more expensive than the assistance method.

The total amount of the grants under the present State plans would be considerably larger if many of the aged were not on relief rolls of local governments, State and Federal Governments. The Government, through relief, is already giving assistance to many of these people. Granting of pensions is a

more systematic way of meeting the problem and provides greater sense of security to the aged. The Federal bill will also raise the standards in some of the States. The average grant is now \$19.74 per month.

The actuaries have estimated the cost to the Federal Government of these grants—the annual appropriations increase at a surprising rate. This is due partly to the fact that the number of old people in the country is gradually increasing, but largely to the fact that for many years more people will be added to the rolls each year than are taken off. The cost will not become stabilized until the population has been stable and until the number of pensioners who die each year equal the new pensioners who are added. Actuaries estimate that in 25 or 30 years the actual number of old people will have doubled; even should there be no further decline in the mortality rate. Another important factor in estimating the amount of the Federal subsidy is the dependency ratio used. There is very little basis for estimating dependency in the future, and I feel the estimates used are probably maximum. Chart no. 1 shows the amount of Federal subsidy to the old-age assistance plan, assuming there is no contributory system in effect. It is evident from this chart that the subsidy of the State old-age pension plan will, in the course of a few years, involve a heavy drain upon the Federal Government, reaching one-half billion dollars in 1945 and over a billion dollars by 1960. This heavy drain upon the Federal revenue is one of the principal reasons why once the State and Federal Governments have embarked upon old-age assistance plans it becomes necessary to adopt a contributory system. Also, it would be bad psychology to have a pension plan in this country based on the principle that a person with no means of subsistence would receive a pension and those who had been thrifty would not receive one. Under a system of this sort only a minimum pension could be granted because of the tremendous cost involved in granting a more adequate pension. For the same reason it would also be necessary to apply the means test. The tremendous cost involved in increasing the amount of these Federal grants above \$15 per month is obvious from a study of the chart, and we would not favor any larger grants.

These are considerations which led the Advisory Council to accept the recommendation of the technical staff that, simultaneously with the adoption of the assistance plan, a contributory annuity system be inaugurated. In considering a sound plan of annuities, either for a company or for the whole country, it is important to realize that there is a large accrued liability existing at the time that a plan is inaugurated. A group of people starting in an annuity plan at age 20 or 25 could finance a pension plan on a sound basis with annual contributions of modest sums. We are faced, however, with the situation as it exists in which there are people of all ages. (In the case of the Kodak Co., at the time our plan was inaugurated in 1928, we paid to the insurance company over 7 million dollars to take care of the accrued liability which covered service rendered by employees prior to the adoption of the plan.) The actuaries have estimated that under the contributory annuity plan recommended, this accrued liability to the Government would be about 17 billion dollars. Obviously it is not necessary for the Government to put this sum into the plan now because the payments which are to be made will be small for a number of years. This sum could be spread over a period of years but again the actuaries point out that this is unnecessary because the income will be sufficient to pay the annuities for a long time. They therefore discarded the plan under which the whole accrued liability would be financed initially by the Government.

The second plan which could be adopted was to pay out to the individuals in annuities only the amount which they actually earned through their own and their employers' contribution and to keep the plan on an actuarially sound basis. This would result in very small annuities for many years and would also result in an accumulation of a very large reserve, amounting, it is estimated, to 75 billion dollars. It would be very difficult if not impossible to invest this huge sum. For many years, because of the small annuities, the pension problem would not be met. The plan which was finally recommended by the committee and staff and approved by the Advisory Council and Economic Security Committee was a compromise plan between these two extremes—partly pay-as-you-go but also accumulating a reasonable reserve, but not the total reserve. A pension will be paid to the workers who are middle-

aged and over beyond what they have actually earned. This will help solve the pension problem and prevent the accumulation of too large a reserve. At the same time it means that the Federal Government at some future date, beginning, it is estimated, in 1963, will find it necessary to make up the deficit caused by the middle-aged and older people during the first years of the plan drawing out in pensions more than they earned. The charts show how these various factors work.

It should also be pointed out that with this plan in operation there would be a considerable reduction in later years in the amount of money which it would be necessary for the Government to give the States to subsidize the assistance plan. The difference between the subsidy with and without a pension plan can be considered as savings, due to the inauguration of a contributory system. These savings should be compared with the deficit which the Federal Government will later have to make up due to paying the older people more than they earned during the first years. Upon making this comparison it is found that up to 1980 the cost to the Government under the combined insurance and assistance plan will be less than under the assistance plan alone and we would have had a good pension plan all during that time.

I have not had an opportunity to study carefully the changes in the bill recommended by Secretary Morgenthau. With two of these suggestions I am in accord. In the plan recommended by the Advisory Council, domestic servants and agricultural workers were excluded because of the tremendous administrative difficulties involved. It was felt that these might later be included, if the administrative difficulties could be overcome. We would, therefore, agree that these three groups of workers should be excluded from the present bill.

We would also agree with the suggestion that the sale of voluntary annuities be transferred from the Social Insurance Board to the Treasury Department. We see no serious objection to having these annuities sold, provided the amount sold to any one individual is limited, as the bill now provides, and also provided that this part of the plan is self-supporting and will not involve any cost to the Government.

I am not inclined to agree with the suggestion that the rates of contribution be increased to the extent suggested. I think that too great emphasis has been placed on the deficit which must be met by the Government 35 years from now and that not enough attention has been given to the investment problems involved in handling tremendous reserves of \$37,000,000,000 which will be built up under the proposed amendment. Even if it is used to retire the Government debt, it is too much of a load to put on the present generation, that must also meet the load of pensions to the aged of the present generation, not provided by the previous generation.

Most actuaries and students feel that you cannot consider the Government plan on the same basis as the company plan. While it should be a company plan on an actuarially sound basis, the difficulties involved in putting a Government plan on an actuarially sound basis as to reserves are so great that a plan more nearly on a pay-as-you-go basis is the more practical one. Under the original plan recommended by the Advisory Council, the reserve would reach 11 billion dollars, but this fund would actually be used to finance the Federal subsidies to the State old-age-assistance plans. Under the proposed plan, the reserve will reach 6 billion dollars in 10 years, 15 billions in 15 years, and 37 billions eventually.

When the reserve fund reaches the 10- or 15-billion-dollar level during the early stages when the benefit payments are comparatively low, there will be a strong tendency either to enlarge the benefits or to reduce the contributions, with a resulting deficit to be met by the Government in later years.

The original plan had the big advantage of going into effect gradually over a period of years, with little danger of an adverse effect on industry and commerce. The proposed plan, together with the 3-percent tax on employment compensation, will soon take a very large sum away from regular consumption channels, with a possible depressing effect.

It should be pointed out that the deficit to be faced in 1970 and beyond, under the original plan, is not any greater than that to be faced if nothing were done now. Also that that deficit is no greater than the one to be faced if only the old-age assistance subsidies were adopted.

It should also be pointed out that under the proposed plan the workers are still to be paid annuities in excess of what their own and their employers' contributions will provide, instead of placing this burden on the Government in future years, the proposed plan puts it on the workers and on industry at present.

I would, therefore, recommend that plan provided in the bill be retained. I would recommend that the committee give very serious consideration to the implications involved in trying to transfer such a huge fund from one generation to another, or would be necessary if the amendments be adopted.

An important consideration is the possible effect of this plan upon the industrial pension plans already in effect. Most of these plans provide more liberal pensions than the Government scheme will provide for many years and also cover people in the higher wage groups who are not covered under the proposed Federal plan. These plans provide security to a large number of workers in industry. Many of these plans are now on a sound actuarial basis and the reserves have actually been set aside with the insurance companies or other trustees. The Federal plan will not affect in any way the amount which has already been set aside and it will not affect the annuities which have been earned because of service up to date.

The company plans can continue as supplementary plans and the companies would deduct from their annual contributions for current liability the amount which they contribute to the Government; the annuities which accumulated in the future from employers' contributions would be reduced by the amount of the annuity paid for by the employer under the Government plan. Employees below \$250 per month would receive, if retired in early years, annuities from both the Government and the insurance company and others all from the insurance company. This method would not necessarily result in the abandonment of company annuity plans and this method has been used abroad.

Another plan is possible under which the company plans might be administered independently under strict conditions established by the administrative agency.

SUMMARY OF UNEMPLOYMENT COMPENSATION RECOMMENDATIONS

In order that a real incentive be furnished employers to stabilize, the compulsory pooling features of the bill should be eliminated and States should be permitted to establish the separate account system under adequate guarantees, and employers with separate accounts should receive a reduction in rate after their reserve reaches a reasonable amount.

Guaranteed employment plan should be permitted if forty weeks of work at three-fourths of full wages, or the equivalent, are guaranteed.

If a State wishes to establish a pooled system with merit rating, a reduction in rates should be permitted within 3 years.

The pay-roll tax should apply only against that part of the wages which are considered for benefits—i. e. the first \$250 per month.

Employees should contribute one-half of 1 percent of pay roll, and employers 2½ percent; the employees would become more interested in the plan, would provide more effective administration, and prevent abuses.

The wording of the clause relating to employee organizations should be changed to the impartial wording recommended by the Advisory Council.

The CHAIRMAN. The next witness is W. R. Williamson, Hartford, Conn., an officer of the Travelers Insurance Co.

I believe yesterday Mr. Treadway spoke of Mr. Williamson as being an eminent actuary. Mr. Williamson, if you will come forward now and give your name and the capacity in which you appear, we will be very glad to hear you.