

ECONOMIC SECURITY ACT

THURSDAY, JANUARY 31, 1935

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

The committee met, pursuant to call, at 10 a. m., in the Finance Committee Room, Senate Office Building, Senator Pat Harrison, chairman, presiding.

Present: Senators Harrison (chairman), King, Connally, Costigan, Byrd, Lonergan, Gerry, Guffey, Couzens, La Follette, Metcalf, and Capper.

The CHAIRMAN. The committee will come to order.

Mr. Witte, you may proceed where you left off yesterday.

STATEMENT OF EDWIN E. WITTE—Continued

Mr. WITTE. I would like to proceed with the next subject dealt with in the bill—unemployment compensation.

Senator COUZENS. Before you start that, Dr. Witte, may I ask if any consideration has been given by your committee to the care of the wholly disabled, such as the blind and the crippled and so on?

Mr. WITTE. We have in the bill, Senator, an appropriation under which the Federal Government will for the first time enter the picture with regard to the care, hospitalization, and physical restoration of crippled children. This is the only provision in the bill specifically for the handicapped.

Senator COUZENS. It has come to my attention that there are many, many thousands of blind who are wholly indigent, in addition to others who have both legs or both arms off or one leg and one arm, and it seems to me they are in a more pathetic situation than even the old or the aged people are.

Mr. WITTE. There is a great deal in what you say, Senator. However, because these people are the most unfortunate of all, the States have done more for them than for other groups that are also handicapped and also in distress at this time. There is no question that what is being done for these unfortunates in this country is not enough, and it may be that the Federal Government will ultimately have to enter that field, too. The great majority of the States have blind pension laws. They are inadequate in some respects, but after all, on the whole, very much more adequate than the old-age pension laws.

Senator COUZENS. Did your Committee give any study to the question as to that? That is what I wanted particularly to know.

Mr. WITTE. We have given very little study to it.

Senator COUZENS. So you have no information, no statistics, or no recommendations to make for that group of citizens?

Mr. WITTE. None directly. In our recommendations we stressed the importance of the work of vocational rehabilitation that is being carried on by the Division of Rehabilitation in the Office of Education. We called the attention of Congress to the importance of that type of work in a complete program of preventing destitution and dependency. Aside from that, Senator, we have hardly touched the problem.

Senator COUZENS. Is it practical to aline the work of those which I have just described with the work of crippled children or those crippled by infantile paralysis?

Mr. WITTE. I think you have in mind something like pensions laws for the blind——

Senator COUZENS. Yes.

Mr. WITTE. Which would require Federal aid. The States have pension laws for the blind very generally. Not all States, but the majority of the States, pay pensions to the blind who are unable to care for themselves, and Federal aid would be in the nature of a subsidy to the pensions granted by the States to the blind.

Senator COUZENS. Isn't that a part of your proposal so far as infantile paralysis cases are concerned?

Mr. WITTE. The infantile paralysis cases are cases of treatment and physical restoration.

Senator COUZENS. And do you propose to do that work?

Mr. WITTE. Through the States; through grants in aid. Eighteen States are in that picture now, including your State, I believe.

Senator COUZENS. But I see no practical objection to combining the activities, if they are both physically disabled, both the infantile paralysis cases and the armless and legless and blind.

Mr. WITTE. The one difficulty, Senator, is that the program that we contemplate for the crippled children is essentially medical and hospital treatment—physical restoration—whereas I take it with these adults that are disabled two things are vitally necessary: One is vocational training (in which the Federal Government is doing a notable work at the present time which should be extended), and the other is direct financial grants to certain of these people who are permanently disabled and beyond very much chance of being made self-supporting. That part of the program we have not touched.

Senator COUZENS. In your study have you any figures as to the extent of infantile paralysis cases that are permanent cases?

Mr. WITTE. We have figures showing that there are between 300,000 and 500,000 children under 16 that are cripples at the present time.

Senator COUZENS. Have you information as to the adults?

Mr. WITTE. Permanently disabled adults in the population range from 6 to 9 per thousand. We did give some thought, Senator, to the problem of invalidity insurance, which certain European countries have undertaken, but invalidity insurance presents such great difficulties that we felt that it was a subject that should be further studied by the Social Insurance Board. We may have to adopt invalidity insurance and in time probably will do so. The experience of the insurance companies with this type of insurance, however, has been very adverse. Invalidity insurance presents great difficulties. As an outright pension grant, I do not know how great the difficulties would be, but it would involve considerable financial aid by the Federal Government.

Senator COUZENS. The workmen's compensation acts do not take care of these permanently injured?

Mr. WITTE. They take inadequate care of them. Some compensation is paid for the permanent disability under all acts.

Senator COUZENS. For how long?

Mr. WITTE. That varies very greatly.

Senator COUZENS. None of them are for life, are they?

Mr. WITTE. Yes; some laws are on a life basis, that of the State of New York, for instance. The majority of them allow compensation only for limited periods.

Senator COUZENS. That is what I am afraid of. That does not do any permanent good for a permanently injured person in industry.

Mr. WITTE. It helps somewhat. The compensation acts are weakest in connection with that group of workers—the ones most seriously injured.

Senator COUZENS. That is what I understood.

Mr. WITTE. The pressure is always to give more money to the larger number who have minor injuries, because the ones who are seriously injured are a relatively small percentage. It is a very serious problem, Senator, and needs further study.

The CHAIRMAN. Let me ask you this. The head of the Public Health Service was on that Committee, Dr. Cummings?

Mr. WITTE. He was not on the Committee as such. We consulted with him.

The CHAIRMAN. Who took the most prominent part with reference to the matter that Senator Couzens has inquired about?

Mr. WITTE. The health problems?

The CHAIRMAN. Yes.

Mr. WITTE. The Public Health Service is within the Treasury Department, and the Secretary of the Treasury was a member of our committee, and Miss Josephine Roche, the Assistant Secretary of the Treasury, a member of our Technical Board. She took a very active part in our work.

Senator COUZENS. But the Secretary could not take any active part in the work?

Mr. WITTE. He attended nearly all meetings, but, of course, did not personally do the actual drafting of the legislation, or anything of that sort.

Senator COUZENS. That is just another step toward the bunk about transferring the authority to Government officials that do not exercise the authority granted.

Mr. WITTE. The Secretary of the Treasury took an active interest in our work.

The CHAIRMAN. And the head of the Public Health was drawn into the conferences, I assume?

Mr. WITTE. Certainly. And we had the chief statistician of the Public Health Service in charge of our public-health studies.

The CHAIRMAN. All right; proceed.

Mr. WITTE. Unemployment compensation is title 6 in the bill; it starts on page 34.

Before discussing the details of unemployment compensation as outlined in the bill, I would like to present the general concept which our committee has of unemployment compensation. The committee does not conceive of unemployment compensation as a complete

measure of protection against the hazards of unemployment. In no country of the world has unemployment compensation operated as a complete measure of protection and it cannot possibly so operate. The committee in its report—

Senator COUZENS (interposing). While you are on the point. You say that it is not the complete answer to the problem?

Mr. WITTE. No.

Senator COUZENS. What other step is a complete answer to the problem?

Mr. WITTE. In its report, the committee put first what we called "employment assurance." If I may use the figure of speech, unemployment compensation is a front line of defense for a majority of the employed population not for all employees. You cannot bring them all in, but especially in a period of a great depression, you need something that goes beyond unemployment compensation. Unemployment compensation can give only limited protection, regardless of how high you make the rates of contribution. You need something beyond that, and our committee called that "employment assurance." By employment assurance, the committee means a conscious policy on the part of the Government to stimulate private employment, and insofar as it can, to provide work for the unemployed when private employment slackens. This bill is not the complete program of the administration for dealing with the problem of unemployment. The work resolution now pending in the Senate is the other part of the program. The \$4,000,000,000 appropriation for a work program represents the major contribution of the Federal Government toward meeting the hazard of unemployment. I call your attention to the fact that this \$4,000,000,000 contribution coming out of general taxes is a larger contribution than any country in the world has ever made at any time for meeting the problem of unemployment.

In England, from 1920 to March 31, 1934 (which is their fiscal year), the Government contributed by way of contributions and loans to the unemployment-insurance funds a total of £350,000,000 in round numbers, which is less than \$2,000,000,000. That is the total governmental contribution that England has made to unemployment compensation, and of that sum, in excess of \$500,000,000—£100,000,000—is carried on the books as a loan which the fund is to repay to the exchequer.

The CHAIRMAN. That does not apply to any of the possessions? That is just as to England?

Mr. WITTE. That is to Great Britain. In the year ending March 31, 1934, the Government contributed £53,000,000 to the unemployment compensation fund; in our money, \$265,000,000.

In this works program, the Government is making a very large contribution from general taxes to the relief of unemployment. Our committee in its report conceives that the Government as a permanent policy should make, if I may use the term, "the maximization of employment" one of its major contributions toward economic security; that it should adopt the conscious policy of trying to stimulate private employment and providing public employment when great emergencies arise.

Senator COUZENS. Did your committee give any consideration to the fixing of an annual income for these workers and making it a charge against industry?

Mr. WITTE. I am not sure that I follow you, Senator.

Senator COUZENS. I say, did your committee give any consideration to giving the wage workers an annual salary and making that salary in itself a charge against the specific industry in which the worker was employed?

Mr. WITTE. If, Senator, all industry employed all workers on an annual salary basis, there would be no problem of unemployment compensation, or for that matter of unemployment. My salary is an annual salary; if I should not have work for a day, my pay would not stop, I have no problem of unemployment.

Senator COUZENS. I am not talking about that. I am asking you if you did give any consideration, your committee gave any consideration, to the practicability of making an annual wage, giving an annual wage to these workers in industry and making that a charge against industry?

Mr. WITTE. We felt that by legislation you cannot reverse the entire tide. We have in this bill provisions to encourage what we call guaranteed employment, which is essentially an annual salary idea.

Senator COUZENS. You did study it?

Mr. WITTE. Oh, yes; we studied it.

Senator COUZENS. But of course there is nothing in this bill about that?

Mr. WITTE. No, sir; and we do not think it can be done at this time by legislation. If industry adopted that policy of placing all of its employees on an annual salary basis as it does its executives and its top people, then there would not be any problem of unemployment.

Senator COUZENS. I understand that, and that is the reason I was trying to get at the root of it rather than the remedial schemes you have developed.

Mr. WITTE. If you could devise a method and industry could carry that load, it would be a solution; but nobody has actually worked out the plan, Senator.

Senator COUZENS. It is not so difficult?

Mr. WITTE. Coming back to the concept of unemployment compensation, we regard it as merely a measure to give a limited benefit to employees during a period while they have a reasonable opportunity to be taken back within a short time in their old positions. Unemployment compensation, if it is not to be mere relief, must be based on the contributions that are received. Unless the contribution rates are extremely high, the period during which compensation can be paid will necessarily be quite limited.

Based on the experience of the 20's, the period from 1922 to 1931, a 3-percent rate, such as is contemplated in the bill, would enable you to pay, with a 4-weeks waiting period, a benefit of 50 percent of the wage which was earned by this unemployed workman, with a maximum of \$15 a week for a maximum benefit period of only 16 weeks. That is the calculation based on unemployment of the period from 1922 to 1931. A 4-percent rate would give you a maximum benefit period of 26 weeks, a 5-percent rate of 38 weeks.

Those figures have to be understood correctly to get the real picture. The great majority of workmen who lose their jobs even in a period of depression are not unemployed for longer periods than 16 weeks. The great majority of the workmen usually get back to their old employment or get other jobs before the end of 16 weeks;

but in a severe depression there are always a considerable number who do not get jobs during this period. Unless we make unemployment compensation mere relief, you will reach a time when the compensation will cease and when the worker will need some other measure of protection. That is the way in which unemployment compensation laws have been constructed in every part of the world.

In England, for a time, compensation and relief were commingled. Since 1931 they have again been sharply separated. Unemployment compensation is a limited benefit given as a matter of right, without taking into account the needs or means of the person, whereas relief in every form always takes into account whether the person needs public assistance for support. Unemployment compensation as we conceive it is something that the man should get in cash during such a period as can be paid for by the contributions. What contribution rate you wish to establish is within your control. The higher the contribution rate, of course the longer the benefit period can be.

Senator COSTIGAN. Doctor Witte, do the old-age pension provisions in the bill rest on the means test?

Mr. WITTE. The pensions, but not the annuities. Old-age assistance is based on a means test entirely. We do not propose to pay gratuitous pensions to people who do not need them; no country in the world has ever done that. No country can afford to pay gratuities on any basis other than actual need.

But unemployment compensation is conceived of as a contractual right, as distinguished from payment on a needs basis.

I want to elaborate this point for just a moment if I may; that the average worker does not remain unemployed for 16 weeks or any such period. While there are in periods of depression a great many people who do exhaust their benefits, even a limited benefit is of great value. In England a survey was made of the entire group of the insured workers in November and December 1932. In that year, which was a year of severe depression, of 12,000,000 insured workers, 350,000 had been unemployed the entire year. Of all persons who were on the registers at the end of December 1932 and who had been on continuously in the insurance in the 8 years then ending—which for England was a period of continuous depression—32 percent had never been unemployed sufficiently long to draw any benefits, although the British waiting period is only 26 days, and 62½ percent had drawn benefits for less than 10 percent of the time they were insured.

Senator LA FOLLETTE. You mean less than 10 percent of the total time that they would be entitled to that they had been unemployed?

Mr. WITTE. Yes; 81.5 percent for less than 20 percent of the time, and only 2.4 percent had drawn benefits for 50 percent of the entire period.

Most unemployment in normal periods is for comparatively short periods. There are, however, even in normal times some people who will exhaust their benefits particularly in industries which are seriously depressed. There were such badly depressed industries in this country during the prosperity of the twenties. In those industries there would have been even then many people even with a 6 or 8 percent rate of contribution who would have exhausted their benefits.

Senator COSTIGAN. How does the proposed system work in industries characterized by seasonal employment or unemployment?

Mr. WITTE. Unless special precautions or special measures of protection are adopted, the seasonal industries will draw unduly

heavily on the funds. That has been one of the difficulties in England. Since 1931, the English law provides that for seasonal industries, only unemployment which occurs within the normal season of the industry shall be compensated.

I was in the House of Commons when this bill of 1931 was debated, and I recall that the fishing industry of Scotland was brought into the discussion. On the islands of Scotland there is a very considerable fishing industry. What was happening was that these fishermen would work through the season and then at the end they would all draw unemployment compensation, every year, because there was no other industry up there except fishing. As the law now stands in England and as it should be devised in this country, the compensation should cover only the period of the normal season of the industry, otherwise the funds cannot remain solvent.

Senator COSTIGAN. Does the bill specifically provide for that?

Mr. WITTE. The bill leaves the matter of benefits entirely up to the States. We recommend in our report that precautions be taken by the States to guard against what we call overliberality—provisions under which every conceivable worker who can possibly be brought under unemployment compensation is brought in on the most liberal terms that you can conceive. The danger will not be that benefits inadequate or too meager for the funds will be paid in this country, but that we will make the same errors that the other countries have made in being overliberal.

The CHAIRMAN. Doctor Witte, of course there was quite a good deal of discussion in the committee with reference to the employee contributing toward the fund?

Mr. WITTE. Certainly.

The CHAIRMAN. And sharp differences of opinion arose with reference to that issue?

Mr. WITTE. In the committee itself?

The CHAIRMAN. Yes.

Mr. WITTE. Not in our committee. Our committee concluded that that question could best be handled by the States. In the various advisory groups, the question was taken up and there were differences of opinion.

The CHAIRMAN. But in this legislation you propose to tax the employer the 3 or the 1 or the 2 percent or whatever it may be according to business conditions, and not the employee? That is right, isn't it?

Mr. WITTE. Yes, sir.

The CHAIRMAN. Were there any votes taken in the committee on that issue?

Mr. WITTE. On the issue of what?

The CHAIRMAN. Whether the employee should contribute.

Mr. WITTE. Whether he should be compelled by Federal law to contribute?

The CHAIRMAN. Yes.

Mr. WITTE. It was discussed. There was not much sentiment in the committee for such a plan. The general thought was that the matter should be left to the States.

The CHAIRMAN. Can you under this bill leave that matter to the States?

Mr. WITTE. Yes; the States can add to the 3 percent rate paid by the employers, a contribution by the employees, if they wish.

The CHAIRMAN. But the Federal Government in putting the tax on, put it on the employer?

Mr. WITTE. That is correct, Senator, but the States collect the unemployment contributions and the States may, if they see fit, add a contribution by the employee, and presumably some States will. Mr. Green in his testimony the other day urged you to adopt a standard to the effect that the States may not require employee contributions. That is permitted under our bill, if the States see fit to do it. In Mr. Green's State of Ohio, the Federation of Labor is on record for employee contributions, and in that State presumably employee contributions will be added to the employer contributions, with the net result that the benefits can be made more liberal.

For purposes of the record, I want to put in at this point figures which appear in our report but which I think should be made clear. On the basis outlined in the bill which brings in all employees who employ four or more employees, approximately 16,000,000 workers would have been covered in the year 1933, which was, as you appreciate, a year of slack employment. If there had been full employment in that year, somewhere between 25,000,000 and 26,000,000 workers would have been covered. The coverage is narrower than under the old-age annuity system, because we are putting in the limit of four or more. The coverage extends to approximately three-quarters of the employed workers, and approximately one-half of the people gainfully employed.

In 1933, on the basis of the pay rolls of 1933, a 3-percent contribution rate would have yielded somewhere around one-half billion dollars of revenue. On the basis of the pay rolls of 1929, it would have yielded a billion dollars, or slightly more than that. If a system of unemployment compensation had been in vogue from 1922 on, beginning with the pick up of 1922, by 1929 something like two billion or two and a half billion dollars would have been accumulated, which would have been available for the payment of compensation in the first part of the depression period. That fund could not have remained solvent on a 3-percent contribution rate without greatly reducing benefits. In every country of the world, the unemployment compensation funds have been aided by the governments in this depression period, with the exception of Germany and Italy where the benefit rates and the benefit periods have been cut down so greatly that not very much remains of the system except the machinery. In Germany at the present time with a 6-percent contribution rate, the normal benefit period is only 6 weeks. In Italy, I think, it is 2 weeks.

Senator COUZENS. How do you arrive at four as the figure included in the bill? Is that an arbitrary number?

Mr. WITTE. Yes; it is an arbitrary number. It is quite common in workmen's compensation acts.

Senator COUZENS. In other countries?

Mr. WITTE. In other countries the numerical limitations do not exist. There is no foreign country that has introduced numerical limitations; they reach everybody. In this country the numerical limitation has been very common. It exists in all but one of our workmen's compensation laws, and we deem it advisable at least at the outset. Administrative problems become very great when you attempt to eliminate all numerical limitations. The number of employers to be dealt with is enormously increased when you include

all of the small employers, without increasing the number of employees anywhere near the same proportion. The Census does not distinguish between how many employers there are with four or more, but it gives figures as to the number of employers who have more than five. Eighty-five percent of all retail establishments employ five or less employees, but they have only 25 percent of the total number of employees in the retail establishments.

Senator KING. About one-quarter you mean in retail, or the entire number?

Mr. WITTE. In the retail industry. One-half of all the manufacturing establishments in this country employ five or less employees, but they have only 3.1 percent of the wage earners in manufacturing. It is a question of balancing complete coverage against the administrative difficulties that develop. Our thought has been that there are enough administrative, serious administrative problems to be coped with in the first years of such an act, without trying to include all employers.

The CHAIRMAN. Have you given much thought to the proposition that agriculture should be excluded from this bill?

Mr. WITTE. Agriculture is quite customarily excluded from workmen's compensation acts. Our committee felt that agriculture should not be excluded as an industry—that the large agricultural operations should be covered; but that is a question of policy for the Congress. Under workmen's compensation acts, agriculture and domestic service are generally excluded, regardless of the number of employees.

Senator KING. But this would not exclude domestic service where the employer employed more than four?

Mr. WITTE. The way the bill stands, Senator, it covers every employer regardless of the industry, who employs four or more persons. The exceptions are governmental units and industries for which the Congress may by law establish special systems of unemployment compensation. At this time we are thinking of the railroad workers. The railroad workers are interested in presenting to you at a later date a plan of unemployment compensation to cover that industry especially.

The CHAIRMAN. Excepting Secretary of Agriculture Wallace, he was on this committee?

Mr. WITTE. Yes.

The CHAIRMAN. Was there anybody else on the committee especially trained in agriculture?

Mr. WITTE. Of the members of the committee, no sir.

The CHAIRMAN. That is what I mean.

Mr. WITTE. He represented the point of view of agriculture.

The CHAIRMAN. And it was his opinion that agriculture should be included?

Mr. WITTE. He signed the report with the rest of the members.

The CHAIRMAN. Was there any discussion on that question?

Mr. WITTE. Oh, yes.

The CHAIRMAN. A great deal?

Mr. WITTE. Yes, sir.

The CHAIRMAN. No vote was taken on it in the committee?

Mr. WITTE. The committee was a committee of five members, and you take relatively few formal votes in a group of five members, as I think you understand.

The CHAIRMAN. How about the advisory committee? They took several votes?

Mr. WITTE. They took informal votes. They never took recorded votes, either.

The CHAIRMAN. I understood from some witness—I do not know whether it was you or not—that we put in the record these votes that were cast by the different members of that committee on certain questions. And this question of agriculture is liable to arise, and I just wanted to get what the viewpoint of the committee was, of the various committee members, or the advisory committee members on that.

Mr. WITTE. The advisory committee had on it Mr. Tabor, the master of the Grange.

The CHAIRMAN. Do you know what his position was?

Mr. WITTE. On this point?

The CHAIRMAN. Yes.

Mr. WITTE. I never heard it discussed by him. The advisory council as such paid very little attention to this question.

Senator KING. They accepted the views of the committee?

Mr. WITTE. No; the procedure was that the committee did not make up its report until after the advisory council had acted.

The CHAIRMAN. Go ahead, Doctor.

Senator COUZENS. When you arrived at 4, did you have to have that as a continuous employment throughout the year, or can it be 2 at one part of the year and 4 at another, or how did you arrive at that?

Mr. WITTE. The bill provides that for purposes of the Federal tax, the employer shall be under the act if during any 13 weeks of the year, he employed 4 persons.

Senator COUZENS. Thirteen weeks?

Mr. WITTE. He must have had 13 weeks in which he employed 4 persons, not necessarily the same persons, but from his pay rolls it must appear that for one-quarter of the year at least, he had as many as 4 employees.

Senator COSTIGAN. Does that imply 13 consecutive weeks?

Mr. WITTE. No sir; any 13 weeks of the year.

Senator COUZENS. That is the calendar year?

Mr. WITTE. The calendar year is the basis of the tax, and the basis for determining the liability to this Federal tax.

This bill contemplates what the committee has called a "cooperative Federal-State" system. It contemplates that the unemployment compensation laws shall be enacted by the States and administered by the States. The Federal Government participates to make it possible for the States to act. The Democratic national platform was mentioned yesterday. The Democratic national platform of 1932 pledges the Democratic Party to the enactment of unemployment-compensation and old-age-pension laws by the States. I think the program here presented is in fulfillment of that pledge. The States cannot act—experience has shown that amply—the States cannot act unless the competitive disadvantage to which the employers within a given State are subjected by having an unemployment compensation law while neighboring States do not, is removed.

The CHAIRMAN. Do you think the spirit of that part of the platform is carried out?

Mr. WITTE. Yes, sir.

The CHAIRMAN. When the prescription is made from Washington with reference to the character of legislation that must be passed by the States, and with reference to the character of people who must be appointed to administer the law in that State?

Mr. WITTE. There is a minimum of control in this proposal. If this meant, Senator, complete control from Washington, obviously, it would not be a fulfillment of that pledge.

The CHAIRMAN. It means this, doesn't it, that whatever is done by the States must be approved by the administrator here who is administering the law?

Mr. WITTE. Not in everything that is done, but the law must conform to certain minimum standards and our committee has been criticized severely for not having enough standards.

The CHAIRMAN. That is one of the important questions that is proposed by this legislation.

Mr. WITTE. Yes, sir.

Senator BYRD. May I ask whether we are discussing old-age pensions?

The CHAIRMAN. No; this is unemployment insurance. I notice that positions in the administration of the unemployment compensation law in each case are filled by persons appointed on a nonpartisan basis. That is one of the prescriptions, isn't it?

Mr. WITTE. Yes, sir; that is in the bill.

The CHAIRMAN. In other words, on the theory that the State was to administer the law within that State; is that right?

Mr. WITTE. To that extent there is control employment of personnel on a nonpartisan basis and selection on a merit system—that is the requirement of the bill itself.

Senator BYRD. Who makes the appointments?

Mr. WITTE. The State.

Senator BYRD. Subject to confirmation by the administrator?

Mr. WITTE. No, sir.

The CHAIRMAN. They must carry out that standard fully?

Mr. WITTE. Yes, sir.

The CHAIRMAN. They must be appointed on a nonpartisan basis?

Mr. WITTE. Yes, sir.

The CHAIRMAN. Who is to judge that nonpartisanship basis?

Senator KING. The State.

The CHAIRMAN. The State; but it must receive the approval here, is that right?

Mr. WITTE. The administrative agency, in this case the social insurance board, must pass upon the question whether the State law conforms with the requirements that are laid down in the statute.

The CHAIRMAN. So if the law is passed the administrator, or the social insurance board here, would have the right to look into the character of the appointments in the States to administer the law in the States?

Mr. WITTE. Perhaps, to some extent. That particular provision, Senator, occurs in a portion of the bill which relates to the administrative fund. This does not go into the question of the approval of the whole law. It relates to the portion of the bill under which grants are made to the States for administration costs.

The CHAIRMAN. Doctor, the bill says that "no allotment shall be made or installment paid to a State," except on certain conditions and requirements.

Mr. WITTE. Yes, sir.

The CHAIRMAN. That is one of the requirements?

Mr. WITTE. Yes, sir.

The CHAIRMAN (reading):

All positions in the administration of the unemployment compensation law of such State are filled by persons appointed on a nonpartisan basis, and selected on the basis of merits under rules and regulations prescribed or approved by the board.

Your committee feels that that power should be granted?

Mr. WITTE. The committee makes that recommendation.

Senator BYRD. What is the nonpartisan basis? Is it half Republicans and half Democrats?

The CHAIRMAN. You could not get such a board in my State, Senator.

Mr. WITTE. I do not think it means that, Senator. There is no such standard.

Senator BYRD. When we speak of nonpartisan boards in States we speak of giving representation to different parties. It means then that you would have so many Democrats, so many Republicans, so many Socialists, so many Communists, so many Prohibitionists, and the other parties on the board?

Mr. WITTE. That is not my understanding, Senator. I think the civil service of the Federal Government meets this requirement. Under the civil service law the number of civil service employees is not determined on any such basis.

Senator KING. You attempted, did you not, Doctor, in the drafting of these provisions of the bill, to recognize the fact that the States did have some rights?

Mr. WITTE. That is the essential purpose of it.

Senator BYRD. You recognize the rights of the States to start with, but you then give your board power to veto what the States have done?

Mr. WITTE. On this matter of the standards to be prescribed our recommendations will be criticized, as they have already been criticized before you, on the ground that the standards are too few, and they will be criticized on the ground that the standards are too many. What standards shall be prescribed is, of course, a matter for the decision of the Congress.

Senator BYRD. What would be your standard of a nonpartisan board?

Mr. WITTE. There is no provision that the board shall be nonpartisan in the sense in which you described it. The provision is that the employees shall be selected on a nonpartisan basis—substantially a civil-service basis—such as you are familiar with in Federal administration, and as now exists in a considerable number of States.

Senator BYRD. Are you going to put them under civil service?

Mr. WITTE. You cannot literally put all of them under civil service. If the State has no civil-service law, the State might have some other method of selecting people for these positions on the basis of merit. If it has a formal civil-service law, the selections would be made in accord with the provisions of such law.

Senator BYRD. Suppose you have a Democratic State and they were selected on merit, in other words, each individual selected was fully competent to perform the duties of that position and they were all Democrats, would that be on a nonpartisan basis?

Mr. WITTE. Certainly.

Senator BYRD. Why do you not cut out the nonpartisanship there and put it on the basis of efficiency?

Mr. WITTE. That, I think, would be entirely agreeable.

Senator BYRD. That would make it much clearer. When you speak of nonpartisanship you call attention to the different political parties.

Senator GUFFEY. Doctor, do you think there is such a thing as a nonpartisan board or a nonpartisan service?

Mr. WITTE. I think so, yes. That is a matter of opinion.

The CHAIRMAN. We are just trying to find out what is in the bill.

Senator KING. Doctor, may I ask you a question. I think probably you may have covered it. Was the matter debated or considered by the committee formulating this bill as to the question of whether the business was intrastate or interstate, and whether there could be any challenge to the constitutionality of the act if they attempted to enforce the provisions relating to this section of the bill upon industries or employers which were and who are engaged solely in intrastate activities?

Mr. WITTE. You mean the Federal tax?

Senator KING. Yes.

Mr. WITTE. That rests upon the taxing power of the Government, not on the power of regulating interstate commerce. As you are aware, Senator, you tax employers regardless of whether they are engaged in interstate or intrastate commerce. If you devised a national system of unemployment insurance and actually vested the administration of an unemployment insurance system in the hands of the National Government, you could not rest it on the taxing power alone. You would have the question of whether you were regulating interstate commerce, but, I think, that question does not arise under the plan we submit.

Senator KING. At any rate, that question is confusing to us. Have you considered the constitutionality of this legislation?

Mr. WITTE. Certainly. We had the Attorney General as a member of the committee.

Senator CONNALLY. You say it is dependent on the taxing power. You mean we can do anything so long as we levy the tax?

Mr. WITTE. You have wide discretion under the taxing power. You are not confined to taxing only industries that are engaged in interstate commerce.

Senator CONNALLY. We do not have the power, of course, to tax if there is any other way to do it. Just because we can tax does not necessarily mean that we can tax for anything that we want to tax.

Mr. WITTE. No, sir.

Senator COUZENS. Do you not think the limitation of four employees is unconstitutional, where you can exempt one employer and not exempt another employer?

Mr. WITTE. The same limitation, Senator, occurs in the workmen's compensation acts. The decisions of this country have uniformly sustained that as a reasonable classification.

Senator COUZENS. You are relying on State constitutions for that because the Federal Government does not engage in workmen's compensation laws, so far as the States are concerned. If you are going to exempt one class of employers under this act how can you defend your position that this is an equal taxation?

Mr. WITTE. I am hardly qualified to discuss that, Senator, but I think you have ample precedents in your Federal taxation legislation for taxation of limited groups. You are not required to tax everybody if you have reasonable classifications. The question is whether this is a reasonable classification. An exclusion from a tax law of a group from whom you would collect less money than the cost of collection, for instance, would be a reasonable classification. As I said, I am hardly qualified to discuss that, but I think that the point can be answered.

The CHAIRMAN. We make certain exemptions in the matter of taxation.

Mr. WITTE. Certainly.

Senator COSTIGAN. Dr. Witte, if you have already answered this question it is not necessary to repeat your reply. Have you indicated how closely the committee was divided in its recommendation of the unemployment program provided in this bill?

Mr. WITTE. At this point I think I ought to make very clear the organization of the committee and its functioning. I would like to answer that question quite fully, if I may.

Senator COSTIGAN. I should like to know also what program the minority of the committee favored.

Mr. WITTE. The Committee on Economic Security was created by an Executive order of June 29. That committee consisted of the Secretary of Labor, the Secretary of the Treasury, the Attorney General, the Secretary of Agriculture, and the Federal Emergency Relief Administrator. That committee made a unanimous report; there was no minority report. That is the only committee that was asked by the President to make any report. That committee made a unanimous report, which was presented by the President to the Congress, with his endorsement of the recommendations contained therein.

Senator COSTIGAN. There was a committee which reported to that committee, was there not?

Mr. WITTE. There were various advisory groups. The first advisory group provided for in the Executive order was the Technical Board. This is a Board which worked with the committee throughout in devising the recommendations on which this bill is based. The Technical Board was constituted of 20 employees in the Government service. That Board functioned largely through subcommittees. We had a subcommittee on unemployment compensation, the chairman of which was Dr. Alvin H. Hansen, of the State Department, one of the outstanding authorities in this country on unemployment compensation, who made an extended study of this subject in the State of Minnesota before he entered the Federal service. Another member was Dr. William M. Leiserson, perhaps the best known authority on unemployment compensation in the entire country, former chairman of the Ohio Unemployment Compensation Commission; Thomas H. Eliot, the counsel of the Committee on Economic Security; Dr. Jacob Viner, the assistant to the Secretary of the Treasury, and Mr. Jensen of the Department of Commerce. Members of the Technical Board will testify before you as witnesses. That Board joins this committee in all its recommendations on this subject.

We had another group brought in strictly in an advisory capacity—the Advisory Council composed of 23 citizens. All these committees

are listed in the appendix to the report of the committee, which has been presented to the Congress. The Advisory Council was brought in to give practical advice to the committee. It was not constituted of specialists but of laymen. It was brought in at the stage when the staff, in cooperation with the Technical Board, had worked out tentative proposals. The Advisory Council held meetings which extended over a period of about a month. They came back to Washington four times, and held meetings lasting usually for 2 or 3 days. A subcommittee held other meetings in the interim. The Advisory Council filed a report with the Cabinet committee, if I may so call the Committee on Economic Security. The advisory council took informal votes, no formal votes. A vote of 9 to 7 was reported in the newspapers on the so-called "subsidy system" in connection with unemployment compensation. This vote of the Advisory Council in some manner reached the newspapers, although the meetings of the council were all executive sessions. A leading newspaper gave the names of the nine members who are supposed to have voted for the subsidy system, but did not mention the seven stated to be opposed and did not mention that six members were absent or did not vote. There was no roll call vote, but there was a vote of 9 to 7 for the subsidy system by a show of hands. That was not the final action of the Advisory Council. The final action of the Advisory Council is given in this report that I would like to file with you.

The CHAIRMAN. Is it signed?

Mr. WITTE. It is not signed at all.

The CHAIRMAN. That represents the view of the majority of the advisory council?

Mr. WITTE. The Advisory Council's report on many points, just as on this point, is a statement of both positions, and a statement that some members thought this way and some members thought that way. Many of the members of the Advisory Council filed supplemental statements. Our committee advised the members of the Advisory Council that it desired their advice, that it did not desire a formal report, that it would give consideration to the views of the individual members of the council no less than to the views of any group, and the council operated on that basis.

The CHAIRMAN. Now, Doctor, the report of the committee and the recommendations of the committee have been put in the record?

Mr. WITTE. Yes, sir.

The CHAIRMAN. That is printed?

Mr. WITTE. Yes, sir.

The CHAIRMAN. I am wondering whether this report, with the statement of the positions of both sides of the Advisory Committee, has been printed?

Mr. WITTE. It has not been printed. The Advisory Council made a formal report, which is not signed, but presented a composite of the views of all of the members. In addition, some of the individual members of the council filed supplemental statements and wrote letters to the committee; and some of them gave their advice orally.

The CHAIRMAN. Have you those?

Mr. WITTE. The formal statements could be filed.

The CHAIRMAN. How about this report?

Mr. WITTE. We will be glad to file this entire report.

The CHAIRMAN. I think it ought to be filed, because what the committee wants is every position on this proposition that it can get.

Mr. WITTE. Certainly, if you desire it, we will file it. We desire to present everything to you that we have and that you may want.

(The document referred to is as follows:)

REPORT OF THE ADVISORY COUNCIL TO THE COMMITTEE ON
ECONOMIC SECURITY, DECEMBER 18, 1934

Part I. Unemployment Compensation.

II. Old-Age Security.

III. Security for Children.

IV. Employment and Relief.

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

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

PART I. UNEMPLOYMENT COMPENSATION

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

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

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

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

We regard it as settled that unemployment compensation at this time should be developed along Federal-State lines. In this cooperative undertaking the Federal Government must assume the leadership. It should make it easier for the States to act by removing those disadvantages in interstate competition which are always raised against purely State legislation that involves costs to industry. This knot should be cut by requiring industries in all States (whether the States enact unemployment compensation laws or not) to make uniform pay-roll contributions. The Federal government should enact a law prescribing minimum standards, and should actively assist the States in preparing necessary State legislation and in getting their plans into operation. The Federal Government should set up an administrative authority, and as suggested by the President, should assume responsibility for the safeguarding of all unemployment reserve funds and use these funds to promote stabilization.

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

The Advisory Council makes the following specific recommendations:

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

(1) A Federal pay-roll tax.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

STANDARDS IN FEDERAL AND STATE LAWS

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

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

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

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

B. Types of unemployment not benefited.—(1) Unemployment of persons directly engaged in trade disputes for duration of dispute.

(2) Unemployment caused by discharge for proved misconduct.

(3) Voluntary quit without reasonable cause may be uncompensated entirely or for such period as the plan may designate.

(4) Unemployment during which workmen's compensation or other compulsory cash benefits are received.

C. Eligibility.—1. Fulfillment of the following qualifying periods:

(a) Employment of not less than 40 weeks in 24 months preceding claim.

(b) Employment not less than 10 weeks after maximum duration of benefits in a 12-month period is drawn.

2. Registration at public-employment office or other designated place and at times stated.

3. Able to work and available for work.

4. Unable to find suitable employment. Suitable employment means employment for which the insured is reasonably fitted, and located within a reasonable distance. No otherwise eligible employee shall be barred from or denied compensation for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, and other conditions of the work offered are substantially less favorable to the employee than those prevailing for similar work in the locality; (3) if acceptance of such employment would affect the applicant's right to accept or refrain from accepting or retaining membership in or observance of the rules of an organization of employees.

Contributions.—It was voted that the Federal tax law recommended should impose a pay-roll tax of 3 percent on employers who are subject to the act beginning with the year 1936, but with the proviso that if for the year 1935 the index of production of the Federal Reserve Board shall be less than 90 percent of the

index for 1926, the rate of tax in the first year shall be 1 percent. (Before arriving at the rate of pay-roll tax suggested, the Council rejected a proposed rate of 5 percent and a proposed rate of 4 percent by close votes, after which a rate of 3 percent was agreed on.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) Employment for at least 55 percent of the maximum period of possible work during any calendar year computed on the basis of 52 weeks work during the year for the standard hours per week worked in such plant or those permitted under any Federal or State code applicable to such plant, whichever is the higher, must be guaranteed, and any employees who are not given an opportunity for work equal to such guaranteed minimum work period shall be entitled to recover full wages for the part of the guaranteed employment for which work is not provided.

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

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

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

ADMINISTRATION

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

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

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

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

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

Administrative expenses.—We recommend that a percentage of the proceeds of the Federal tax shall be retained for the expenses of the Federal and State Governments in the administration of the Unemployment Compensation Act, and in sharing in the additional costs thrown on the Federal-State employment services. The Federal authority should be authorized to set a maximum limit upon the administration expenses of the State from the amount remitted by the Federal Government.

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

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

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

PART II. OLD-AGE SECURITY

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

(1) A Federal subsidy to the States toward meeting the cost of noncontributory old-age pensions under old-age assistance laws complying with the standard prescribed in the Federal statute.

(2) A Federal system of old-age insurance which will be compulsory for all industrial workers who can be brought under its terms.

(3) A Federal system of voluntary old-age annuities for persons not covered compulsorily.

NONCONTRIBUTORY OLD-AGE PENSIONS

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

It is recommended:

1. That the Federal Government enter this situation by offering grants-in-aid to the States and Territories which provide old-age assistance for their needy aged under plans that are approved by the Federal authority, such plans to include proposed administrative arrangements, estimated administrative costs, and the method of selecting personnel.

2. That the grants-in-aid constitute one-half of the expenditures, including administrative expenses, for noninstitutional old-age assistance made by any State or Territory under a plan approved by this Federal authority, provided that in computing the amount of said grants-in-aid, not more than \$15 per month shall be paid in Federal subsidy on account of assistance provided for any aged persons in such State or Territory, nor more than 5 percent of the total assistance expenditures for administration.

3. A State or Territory should be permitted to impose qualifications upon the granting of assistance to needy aged persons, but it should be stipulated in the congressional statute providing for the grants-in-aid that no plan shall be approved by the Federal administrative agency unless its old-age-assistance laws and its administration measure up to the following standards:

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

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

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

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

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

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

(1) Is a United States citizen.

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

(3) Is not an inmate of an institution.

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

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

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

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

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

CONTRIBUTORY OLD-AGE INSURANCE

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

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

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

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

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

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

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

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

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

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

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

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

VOLUNTARY OLD-AGE INSURANCE

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

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

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

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

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

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

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

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

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

PART III. SECURITY FOR CHILDREN

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

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

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

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

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

PART IV. EMPLOYMENT AND RELIEF

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

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

I. GOVERNMENT EMPLOYMENT PROGRAM

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

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

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

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

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

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

4. Unless work is separated from relief it loses most of its social values to the worker. Therefore the Government employment program should be divorced

completely from relief, and should be set up separately from the public-assistance program recommended in this report.

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

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

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

II. EDUCATIONAL PROGRAM FOR YOUTH

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

III. PUBLIC ASSISTANCE PROGRAM

It is very important to retain the gains which have been made in the administration of public assistance in the last few years. The standards of service are higher and relief more nearly reaches adequacy mainly because there has been Federal financial aid to the States and supervision of their work. There has also been State aid and supervision of the counties and townships. These gains cannot be made permanent without the revision of all the so-called "poor laws" in most of the States. It is rarely that such an opportunity comes to change a whole group of antiquated and sometimes inhuman laws. To do that and to retain the good in the present emergency set-up, a plan is advocated for a Federal department or administration through which equalization funds would be administered to the States. This would be a powerful influence in building up State and local agencies which would be able in turn to do away with the evils of the present relief system. Strong State and local departments of public welfare, well organized on a permanent rather than an emergency basis, should be encouraged as a means of providing assistance according to the varying needs of families and individuals. The best known methods are necessary to counteract the demoralization and insecurity which result from the social hazards encountered. Such assistance should be adequate, timely, certain, and well administered and the State and local administrations developed on a permanent basis should be encouraged to give most careful attention to the selection and training of qualified personnel. It is therefore recommended:

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

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

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

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

PART V. RISKS TO ECONOMIC SECURITY ARISING OUT OF ILL HEALTH

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

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

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

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

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

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

3. Extension of hospital care to persons on Federal Emergency Relief Administration relief.

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

(The supplemental statements submitted will be found on pp 324-336.)

Senator KING. Let me ask you one question. Were not some of those individual opinions given without having before them all of the testimony, all of the evidence, and all of the facts that were brought before the Technical Board, the technical advisors and the committee itself? In other words, would they have the entire picture before them or just some particular point to which their attention had been directed?

Mr. WITTE. The answer is that the Advisory Council, of course, did not spend as much time on this as did the various committees of the Technical Board. The Technical Board, under the President's order, assisted the committee in actually working out these problems.

Senator KING. As I understand it, the advisory committee was called together three or four times?

Mr. WITTE. Yes.

Senator KING. And their time, of course, was limited, as measured by the large amount of time, the great amount of time devoted to the matter by the technical advisors and by the committee proper. Is it not a fact that their advice would be rather limited to some particular phase rather than the entire picture and that they would not have before them all of the evidence, all of the facts, and all of the records that had been brought to the attention of the technical committee and the committee itself?

Mr. WITTE. I think that is correct, although I want to say that the Advisory Council members devoted a great deal of time and showed a great deal of interest in this work. And while the Committee on

Economic Security could not agree with all of them; because they themselves were divided, the committee profited by having the views of all groups presented.

Senator CONNALLY. When you speak of the "committee" you mean the Technical Committee?

Mr. WITTE. I mean the committee created by the President, that is the Cabinet committee, which was asked by the President to make recommendations to him.

Senator CONNALLY. I know, but the real work was done by the Technical Committee was it not?

Mr. WITTE. The technical work was done by the Technical Committee. Matters of policy were decided, as the order of the President contemplated, by his Cabinet committee.

The theory on which the entire organization was that all decisions on questions of policy should be made by the elected representatives of the people. In the first instance, the President of the United States, advised by his Cabinet committee, passed upon the policies to be laid before the Congress. The technical people were primarily there to give technical advice, to assist in gathering the facts and working out the details. The Advisory Council was a lay group that the Cabinet committee consulted to get the opinions and views of practical men and women, many of whom had given some thought to these problems, but who were not technicians. The theory was that the President and his committee alone should make recommendations and present them to your honorable bodies; and that you, the elected representatives of the people, should make the final decisions. The Advisory Council and the Technical Board were both merely advisory to the committee and were not expected to make independent reports.

Senator CONNALLY. Did the Cabinet committee agree?

Mr. WITTE. It is a unanimous report, Senator.

The CHAIRMAN. The independent opinion of this advisory board would be helpful to the committee on certain facts. Of course, we will give it such weight as it deserves.

Mr. WITTE. Certainly. Just to clear up this point of the so-called "subsidy system"——

Senator BYRD. Doctor, before you get into that I would like to get clearly in my mind what you mean by four employees; whether they are permanent employees or whether they are temporary employees?

Mr. WITTE. I do not understand what you mean by the four employees.

Senator BYRD. You have got a provision here that affects only those employers who employ four employees.

Senator KING. Four or more.

Senator BYRD. Four or more. Does that mean four permanent employees?

Mr. WITTE. No. The language in the provision, as it stands, Senator, is that employers are subject to this Federal tax, if, during the taxable year, they employed four or more employees in any 13 weeks of that year.

Senator BYRD. They have all got to be employed at the same time?

Mr. WITTE. Thirteen weeks of the year. The pay rolls of the employer must show that there were four or more employees in 13 weeks. They do not have to be the same people; they do not have

to be consecutive weeks. If, in 13 weeks, an employer employed four or more employees he is liable to the tax for that year. You look at his pay roll and if you find that for 13 weeks of the year he had four people or more, then he is subject to the Federal tax.

The CHAIRMAN. Suppose my wife had trouble with the cook and had to fire her, and had to hire one every 2 weeks, and in the aggregate of 13 weeks there were four persons employed to cook, would I come under the provisions of the act?

Mr. WITTE. As the bill stands, if you actually had four people at one time in any 13 weeks of the year, you would be under the act.

Senator BYRD. Excuse me. I want to get this very clear. Take, for instance, partnerships. Suppose a man employed 2 himself, and then had a partnership with somebody else and that partnership employed 2 more men, would they be included?

Mr. WITTE. It would be the employees of the partnership. If the partnership had four or more employees, it would be under the act.

Senator BYRD. Each would be considered separately?

Mr. WITTE. Certainly. The partnership is a separate business unit. The partners are not employees, as you, of course, are aware.

In reference to this question of the subsidy system to clear up that matter I want to read the resolution which the advisory council finally adopted on this subject. I will not read the entire resolution, since you desire the entire report to be filed. The resolution adopted recites the position of the majority and the position of the minority, and concludes:

All of the members recognize that each type of Federal law has distinct merits and wish their votes to be interpreted not as necessarily opposing either type of law but as preferring one type to another.

That is the final action of the council, the only action that appears in the report of the council. The newspapers reported a division of 9 to 7, but there is nothing stated in the report about any such vote. That was eliminated by later action of the council.

Senator CONNALLY. Doctor, go ahead with the subsidy business.

Mr. WITTE. The "subsidy", as the term is used, in the discussions of the advisory council, is not the usual type of Federal subsidy. It is a misnomer even to call it a subsidy. It relates not to a grant by the Federal Government from general revenues to the States, but it relates to the return of the taxes collected from a State from the 3-percent tax in this bill to the State from which collected.

The difference between the so-called "subsidy" system and the system recommended in the bill is not very great. It relates merely to the way in which you bring the moneys collected for unemployment compensation into the Federal Treasury. Under the plan as suggested in the bill, if a State has an unemployment compensation law it collects the money for unemployment-compensation purposes. It is not a tax at all in the State, it is called a contribution or a premium rate. This bill provides that money must be deposited by the State in a special account to be held for the State in the Treasury of the United States.

Senator CONNALLY. And the way you compel obedience to that, is to withhold benefits unless they do comply with this law?

Mr. WITTE. It is to withhold recognition of the law entitling the employer to credit.

The CHAIRMAN. If a State is putting on a tax equal to the tax imposed here, would you then put his tax on?

Mr. WITTE. Yes. The employer gets credit for the amount he has paid to the State.

The CHAIRMAN. Would you continue the State tax and put this tax on too? And credit the employer with it, or would you just let the State continue to operate and put its own tax on?

Mr. WITTE. It is the same situation, Senator, as under the Federal estates tax. This device is not something that is untried or new in Federal legislation.

Senator CONNALLY. You are talking about the tax that is going to build up the State fund, and then you will have in addition to that the regular Federal tax.

Mr. WITTE. I would like to explain that.

Senator CONNALLY. That is what I want you to do.

Mr. WITTE. It is parallel to the situation you have with reference to the Federal estate tax and the State inheritance taxes. You impose a Federal estate tax under the law you now have in operation, which has passed the test of the Supreme Court of the United States. Since 1924, you provide that in payment of the Federal estate tax a credit shall be allowed up to 80 percent of the Federal tax for amounts paid to the States under their State inheritance-tax laws. Similarly it is here proposed that a 3 percent tax be levied by the Federal Government. A credit is to be allowed against that tax for payments made under State unemployment compensation acts, and that credit is to be up to 90 percent of the amount of the Federal tax. In any event the Federal Government will collect at least 10 percent of the tax which it imposes. If the State has no tax at all it will collect the entire 3 percent. If the State collects a tax of only 1 percent, then the Federal Government will collect the other 2 percent. It is a provision which parallels directly the machinery you have under the Federal estate tax law, which, in the case of *Mellon v. Florida*, was held in the unanimous decision of the United States Supreme Court to be within the constitutional powers of the Congress.

Senator CONNALLY. Of course, it is designed to coerce the States into coming in.

Mr. WITTE. You can use that phrase if you want to.

Senator CONNALLY. I will change that to "induce".

Mr. WITTE. The primary motive is little different from that. The primary motive is to make it possible for the States to act. Bills for unemployment compensation legislation have been introduced in the leading industrial States of this Union in practically every session of the legislature since 1921. I think that is literally true in States like Massachusetts and New York. While it is not literally true in every State, there have been unemployment compensation bills in substantially all States since 1920, particularly since the present depression set in. Only one State has so far enacted such a law. The reason why the other States have not acted is that unemployment compensation involves a very heavy charge upon the employers, and no State can act—as a practical matter, very few States will act—so long as the Federal Government does not remove the disadvantage to which employers in such a State are under in interstate competition. That is the essential reason why the State has to enter the picture. If you really wish to have unemployment

compensation laws through State legislation, as was pledged in the Democratic platform of 1932, the Federal Government must participate in some such way as we here suggest.

Senator CONNALLY. In other words, one State is not going to pass the law because it will put it under a handicap with respect to other States, and therefore, in order to make this thing effective, the Federal Government comes in and does impose conditions which make it of advantage to the States to come in?

Mr. WITTE. Certainly.

Senator CONNALLY. Whether you use the word "induce" or "coerce" the result is the same. The State says, "Well, we are going to pay the 3 percent tax anyway, or the Government is going to take it away from us, so we will pass it ourselves." That is the philosophy of the bill?

Mr. WITTE. The philosophy of the bill is to make it possible for the States to act.

Senator CONNALLY. I am not in disagreement with you. I am trying to get a full understanding of the bill.

The CHAIRMAN. Did the Republican Party, in its platform give an expression on that proposition?

Mr. WITTE. Not directly.

Senator CONNALLY. Did it do anything about it?

Mr. WITTE. The National Committee of the Republican Party, in a statement issued in June 1934 which I will be glad to put in the record issued a statement pledging the party to the enactment of social-insurance legislation along lines in accord with traditional American policies. I interpret that to mean an endorsement—not necessarily this program—but an endorsement of the essential ideas here presented.

The CHAIRMAN. I did not catch who it was that issued that statement.

Mr. WITTE. The Republican National Committee, in a public statement prior to the last congressional campaign, in June 1934, which I will be glad to put in the record.

The CHAIRMAN. I do not think anybody is going to question your statement. It does not add anything to it.

Senator LA FOLLETTE. Is it not a fact, Dr. Witte, that one of the chief objections at the time when the Wisconsin act was under consideration, upon the part of employers, was that it would place them at an economic disadvantage with all of the States in contiguous territory who are manufacturing similar commodities?

Mr. WITTE. Not only in Wisconsin, but that same argument has defeated unemployment compensation bills in every State of the Union. I think 11 commissions prior to this year, State commissions, interim legislative commissions, reported in favor of unemployment compensation. In the legislative sessions of 1933, one house of the legislatures of seven States passed an unemployment compensation bill, only to see it defeated in the other house. Unless you remove that great obstacle to State action you cannot or are not likely to have unemployment compensation laws along State lines.

Senator KING. Doctor, you mentioned the act of the British Parliament with respect to unemployment insurance. Did that plan work satisfactorily?

Mr. WITTE. It all depends, Senator, on what you mean by "satisfactorily."

Senator KING. Were the benefits derived from it so great that the people generally accepted it, at least as a step in the right direction?

Mr. WITTE. Unemployment compensation is thoroughly established in Great Britain. It has survived numerous changes of governments. As man-made institutions go, and a new institution, it has been successful. Every country in the world that enacted an unemployment compensation law still has such a law with the exception of Russia. Russia enacted an unemployment compensation law but no longer pays any benefits, but it is the only country in the world that has done that.

The CHAIRMAN. Have any States tried it?

Mr. WITTE. There is only one State that enacted a law.

The CHAIRMAN. That is Wisconsin?

Mr. WITTE. Yes. Contributions became payable under the Wisconsin law on July 1, 1934. Benefits are not yet payable. You have had really no test to date, except that the Wisconsin law has proven reasonably satisfactory to the employers. The employers have not even taken the act to the courts.

The CHAIRMAN. How do you raise the money in Wisconsin?

Mr. WITTE. Through a 2-percent-contribution rate on employers. In the States the term "tax" is not used, it is a "contribution."

The CHAIRMAN. Is it on the pay roll?

Mr. WITTE. Yes, sir.

The CHAIRMAN. And the employee pays nothing for that?

Mr. WITTE. Not in Wisconsin. Some bills in other States have proposed employee contribution. The bill, for instance, in the State of Ohio, proposed by the commission of which Dr. Leiserson, a member of our Technical Board, was chairman, recommended employee contributions. As this bill stands the States can put in employee contributions if they so desire.

The CHAIRMAN. Well, you say the manufacturers and the employers generally in Wisconsin approved the law, or they have submitted to the law.

Mr. WITTE. Their opposition is certainly not very vociferous at this time.

Senator LA FOLLETTE. It is felt today that they have cooperated, isn't it, Doctor?

Mr. WITTE. Certainly, they have cooperated.

The CHAIRMAN. When was that bill passed?

Mr. WITTE. In 1932; in a special session of 1932, and it became effective July 1, 1934.

Senator KING. So there has not been an opportunity to test the efficacy of it?

Mr. WITTE. No. The rate of contributions is 2 percent. A State putting in a law, with neighboring States having no law at all, would, obviously have to start with a system of very low benefits and very low contributions. It could not do otherwise. It is remarkable that even one State was willing to try it alone.

The point I am making and that our committee has in mind is that you cannot have unemployment-compensation laws by the States unless the Federal Government will remove the disadvantage that a State is under through enacting such a law.

Senator KING. Doctor, I suppose your committee recognized the fact that a dual form of government such as we have here presents difficulties over those which would be realized in a unitary form of government, for instance in Great Britain and particularly in Germany now, where the States have all been destroyed, where you have a concentrated authority, and the same in Italy, it would be more easy to put into operation the unemployment insurance tax and the benefit in those countries than it would in a country such as ours, a broad country such as ours, with a dual form of government?

Mr. WITTE. Certainly. We have the problem of enacting laws through the States. That is the traditional American method of dealing with labor problems and it does present difficulties, but it probably also, Senator, has advantages. If you were to attempt to write a national law at this stage I think you would find, as have all of these groups, great difficulties in reaching an agreement upon all essential points that should go into such a law.

I call your attention to this one illustration: Mr. Green, in his testimony the other day, urged that the Federal Government should insert as a standard in this bill that there should be no employee contributions. Of the members of the advisory council who took the same position as he did on this question of subsidy only one member voted with Mr. Green against employee contributions. All desired more standards, but they were not in agreement what these standards should be.

In leaving this matter of employee contributions to the States, some States will provide for it and others will not. In the State of Ohio labor is on record for employee contributions. In the State of Wisconsin labor opposed it. In the State of New York labor is now opposing employee contributions. That illustrates the difficulties of having many specific standards in the Federal bill.

The CHAIRMAN. I suppose the members of this committee realize the many difficulties that even we have got to solve in this problem.

Mr. WITTE. Certainly.

Senator CONNALLY. Doctor, you favor the employee contributions?

Mr. WITTE. Personally?

Senator CONNALLY. Yes.

Mr. WITTE. Our committee, and I am representing the committee, leaves that up to the States. My personal conviction is that employees should not be asked to contribute.

Senator CONNALLY. They should not contribute?

Mr. WITTE. That is my personal conviction. I think that you would get a better system if you did not ask for employee contributions.

Senator CONNALLY. If they did not contribute anything there would be a lot of chiseling. If they do contribute each workman would be sort of prompted to see that no one gets on that is not entitled to be on. Is there anything to that proposition? I have heard that, at least.

Mr. WITTE. That is an argument that is made on one side. On the other, there is the argument that when a man has contributed, no matter how small the contribution is, he will think that he ought to get something out of it. It might increase chiseling. On all such questions we are now debating in the abstract, we do not know what will be the actual result. We do not know whether employee contributions will work better than a system of not having employee

contributions. Until we have actual experience, we are just expressing opinions. You may be right and I may be right. It is a question of mere opinion.

The CHAIRMAN. Have you any examples or illustrations to offer of some of the large institutions, or just ordinary institutions, as to what the amount of their pay roll is and what this 3 percent would amount to in a year?

Mr. WITTE. I gave you the figures, Senator, for the entire country.

The CHAIRMAN. You have put those figures in the record already?

Mr. WITTE. Yes. In a large institution, of course, it would depend upon how large their pay roll is.

The CHAIRMAN. Let us take some particular institution. Let us take, for instance, General Motors. What is the pay roll of General Motors?

Mr. WITTE. I haven't very good figures on General Motors. I presume General Motors has somewhere around 100,000 employees at this time, and their pay would average better than a thousand dollars per employee. Figuring a thousand dollars per employee, a 3-percent tax would amount annually to \$3,000,000.

Senator GERRY. Doctor, do you take into account the highly paid executives who are on the pay roll?

Mr. WITTE. Yes, sir; we take the whole pay roll.

Senator CONNALLY. I asked that question the other day. I got the idea from Miss Perkins that you exempted the executives. I asked why you exempted the executives.

Mr. WITTE. Not in unemployment compensation.

Senator LA FOLLETTE. That is on old-age benefits.

The CHAIRMAN. That is on old-age benefits; \$250 is the limit in that case, isn't it?

Mr. WITTE. Yes.

The CHAIRMAN. Just give us the reasons why the same rule was not applied on unemployment insurance as was applied on old-age pensions?

Mr. WITTE. In the first place it is the question of administration, the ease of administration. The Federal tax will be computed on the whole pay roll, there will not be any necessity for examining the pay roll in detail to see which employees are to be excluded and which are to be included. The State can exclude them if they wish. From the point of view of collecting the Federal tax it is certainly easier to take the whole pay roll.

The CHAIRMAN. You state that the State might exclude them if they wish?

Mr. WITTE. The State law may be higher than 3 per cent.

The CHAIRMAN. Yes.

Mr. WITTE. And so the employer might be entitled to his entire credit, even if the top executives were not included under the State law.

The CHAIRMAN. The committee gave consideration to all those propositions?

Mr. WITTE. Yes, sir.

Senator GERRY. If the State exempted them then they would really do actuary work that would bother the Federal Government?

Mr. WITTE. Certainly. The States are going to collect the tax anyhow.

Senator GERRY. Is it going to bother the Federal Government—I mean as an actuary proposition?

Mr. WITTE. The Federal Government will always have to check in each case, will have to have a report from the employer to determine what tax is due, and the employer will have to present receipts from the State, just as he does under the Federal estate tax law; he must produce receipts showing the actual payments.

Senator GERRY. If that has already been worked out for the States it does not seem like such a difficult proposition, does it?

Mr. WITT. It has not been worked out. The States havn't the laws now, Senator.

Senator GERRY. I understand that. I was thinking of the future. I was trying to get the point of view of the Government, that is all.

Mr. WITTE. Yes, sir. The other point is that unemployement is such a great problem that we feel if you place the tax on the whole pay roll you will get a little additional money. We are quite frank in that. We need the money to pay reasonable compensation. We very frankly recognize that the benefits you can pay will depend upon how much money you have collected.

Senator GERRY. In other words, if you add all that in you get a higher tax, and that is really the basis of why you do it?

Mr. WITTE. Yes, sir; and it is easier of administration.

The CHAIRMAN. The question was asked you I think by Senator Connally as to how much the Government would lose in revenue by virtue of this tax, which of course would be calculated by the institution paying the tax as a credit when they get ready to pay their corporation tax, or what not. You haven't any figures on that?

Mr. WITTE. You mean the cost?

The CHAIRMAN. Yes. Take the illustration that you offered of General Motors, for instance. If this tax amounts to \$3,000,000 a year that would naturally reduce the corporation tax that they would have to pay.

Mr. WITTE. It does to a slight extent.

The CHAIRMAN. \$3,000,000 is not very small.

Mr. WITTE. Yes; but this is a certain percent of that.

Senator CONNALLY. It would reduce it 14 percent of 3 million.

Mr. WITTE. Fourteen percent of \$3,000,000. That assumes too, Senator, that the General Motors Co. does not have any expenditures because of irregularity in employment. It might actually not mean any loss of revenue.

The CHAIRMAN. I think the committee ought to have some facts on that, because we are charged with raising enough revenue to run this Government, and if that is going to cut into our revenues a little bit we ought to know it, because we may have to raise more money than we would anticipate just on the face of this bill.

Mr. WITTE. The total collections, Senator, figured on the 1933 business, would have been slightly over one-half billion dollars, and on the basis of the most prosperous year you ever had, \$1,000,000,000, and not all of that would be deductible cost.

Senator GERRY. What would the total collections on the insurance and old-age pensions on the same figures that you gave as a basis be?

Mr. WITTE. The old-age pensions starting at 1 percent in 1937, at the outset will be approximately, on a 1929 pay roll, about \$300,000,000.

The CHAIRMAN. Dr. Witte, because you are in close touch with this committee which has the Secretary of the Treasury on it, I wish you would speak to the representative of the Treasury, because the committee would want to know something with reference to the financial end of this phase of the question before we close our hearings, so they can study the problem.

Mr. WITTE. Those general figures will give you the outside limits of what this might mean in a reduction of income taxes.

Senator CONNALLY. Dr. Witte, your idea is that this bill provides the Federal authorities would fix a minimum of payment in the States?

Mr. WITTE. No. We leave that to the States.

Senator CONNALLY. I thought you said the other day it would be up to the Administrator to determine what the requirements were for a decent living?

Senator BYRD. That was in the old-age pensions.

Senator CONNALLY. It requires that in the old-age pensions, doesn't it?

Mr. WITTE. If he should determine, as I think the discussion we had the other day brought out, if he should determine that the State was not living up to the requirements of the law, which is that the State shall pay a decent minimum for subsistence, then he can stop the payment. He cannot prescribe by rule how much the States shall pay, but he can stop the payments.

Senator BYRD. That has exactly the same effect.

Senator CONNALLY. That is what I am getting at. In some States, on account of living conditions, and all that, they might feel like that they would not want to pay more than \$5 or \$10 for old-age pensions. Under this bill if the States do not pay more than that, it would not get anything?

Mr. WITTE. That is not my interpretation, Senator. The Federal Emergency Relief Administrator is charged with the administration of this law.

Senator CONNALLY. That is what I am talking about. He is given the power to step in, if he wants to, and say, "Here you are not paying enough down there. We will not give you anything."

Mr. WITTE. Theoretically, he can.

Senator CONNALLY. I am not talking about theories; I am talking about actual facts.

Senator BYRD. That is written right in the bill.

Senator CONNALLY. The point I make is that \$5 or \$10 a month is not all that we would like to give, but if the State cannot give more why should not the Federal Government give a similar amount, to match the amount that the State gives? I am not in favor of giving the administrator here that kind of power.

Senator BYRD. Senator Wagner testified the minimum was \$40 a month, and Mr. Green asked for \$50 a month. What is your personal opinion as to the amount that is necessary to set up the standard of decent living and health?

Mr. WITTE. That varies with the conditions.

Senator BYRD. Just take the lowest possible amount that you think is necessary to set up a standard of decent living and health.

Mr. WITTE. I have no way of estimating that. I call your attention to the fact that under the Federal Emergency Relief system that

we now have in this country, while the average for the country is \$23, the same Administrator that you are dealing with has authorized and has approved grants which, in certain States, average only \$10, whereas in other States they average in excess of \$30.

Senator BYRD. Is not this true that some administrators have set up a standard for labor of 45 cents an hour when the average in those particular localities was sometimes 15 cents an hour?

Mr. WITTE. Here the State will determine, and the administrator's position will be that of saying that the State is not meeting the standard, if that be the case. It is not contemplated that he shall issue orders saying that \$50 or \$40 is the standard.

Senator BYRD. He has the right to do it under the law.

Mr. WITTE. Only by withholding payments.

Senator CONNALLY. Certainly.

Mr. WITTE. He could announce such a policy but he cannot issue such an order legally.

Senator BYRD. He can withhold all Federal aid.

Senator CONNALLY. Doctor, some fellow might have some little income, he might have a house, and he might not need as much as the fellow that does not have the house.

Mr. WITTE. That is the theory of old-age pensions.

The CHAIRMAN. You leave it to the State.

Senator CONNALLY. No, you do not leave it to the States. You say the dictator here can fix the amount that the State ought to contribute.

Senator BYRD. He is talking my language now.

Senator CONNALLY. I am in sympathy with the legislation but I want something that is sensible and that will do the work.

Mr. WITTE. I suggest, Senator, that is a matter of policy for the Congress to determine.

Senator CONNALLY. I am very much obliged to you for that suggestion.

Mr. WITTE. You can adopt three courses of action. You can have no standard at all, if you desire to have that sort of a law, or you can write a definite standard into the law. Our committee felt that, all matters taken into consideration, the greatly varying conditions that you referred to and the very obvious differences in the needs of people that I have stressed in my testimony, that the course which would be the most satisfactory, and which would avoid the difficulties of trying to write a uniform standard for the whole country which would lead you into \$40 or \$50 or something of that sort is to leave the matter to the States, with merely the discretionary power vested in some official—not necessarily the Federal Emergency Relief Administrator if you desire some other official—to determine whether a State, in view of its own conditions, is paying a reasonable subsistence. That is a power such as you have in the highway grants under which, if the conditions of the law are not met, the payments will be stopped.

Senator CONNALLY. You say, "Leave it to the States." Why should we leave it to the States if you give the Administrator power to determine what is a reasonable subsistence?

Mr. WITTE. The Administrator's power is only to stop payment.

Senator CONNALLY. Certainly it is to stop payment. You might choke a man to death, but he is just as dead as if you shot him.

The CHAIRMAN. If we wrote a provision into the law which said that each State can pass its own rates for old-age pensions for people over 65 years of age, that they shall have the power to enact into law any amount they desire for old-age pensions, that the Federal Government would pay up to \$15 but we will match any amount that the State paid under the \$15, and up to the \$15, would that be satisfactory?

Mr. WITTE. That is the first alternative suggestion I have discussed.

The CHAIRMAN. That would leave it entirely to the States and that would insure each State that if it did pass a law and it was appropriating a certain amount the Federal Government would match it up to a certain amount. It could go higher if it wanted to.

Senator BYRD. Do you approve of that, Doctor?

Mr. WITTE. As I stated, the policy represented in the bill, in which you have a flexible standard instead of attempting to say, \$30, \$40, \$50, or \$200, is the method that will be found to best meet the varying conditions all over the country.

The CHAIRMAN. That is better than the present method, isn't it?

Mr. WITTE. Certainly.

Senator BYRD. Let me understand now. Are you willing to amend the bill so the Federal Government will contribute an amount equal to the amount which is contributed by the State, regardless of how small that amount will be?

Mr. WITTE. The power of amendment is in the Congress.

Senator BYRD. This is Federal legislation. Are you willing to agree that that is a good amendment?

Mr. WITTE. I have outlined the three alternative policies. My personal conviction is that the suggestion made by the committee is the one that should be adopted.

Senator BYRD. What suggestion has the committee made? In other words, you favor the bill as it stands, without making any changes, which gives the power to the Federal Administrator to withdraw the appropriation from any State that does not set up a standard of living that the Administrator thinks it should have?

Mr. WITTE. That is a possibility, I will grant you, but the standard is the flexible standard of whatever is necessary for reasonable subsistence, under the conditions that the aged person lives under.

Senator BYRD. What I am getting at, Doctor, do you favor the proposition that the Federal Relief Administrator determine that standard, or do you favor the proposition that the States determine that standard?

Mr. WITTE. That the States determine that standard.

Senator BYRD. Then the Federal Administrator has the right to disagree with the State and withdraw the Federal appropriation. Do you favor that?

Mr. WITTE. I support the bill; yes, sir.

Senator BYRD. That is what I am getting at.

Mr. WITTE. It is a question of policy, whether you wish to do that.

The CHAIRMAN. If you can do that you would rather have the other plan?

Mr. WITTE. I have outlined the three possibilities, all of which are reasonable solutions of this problem.

The CHAIRMAN. You are very fair about it.

Senator CONNALLY. Doctor, you believe in giving the State complete freedom to fix this matter of rates, just so it will fix it in a way to please the Federal Administrator?

Mr. WITTE. No, sir.

Senator CONNALLY. I am not trying to be facetious, but I want to ask you this: Of course, this country is a big country and there are a lot of different kinds of people in it; there are a lot of different kinds of climate, soil, and other conditions that people live under. If a State in a certain section of the country only raised \$10 a month and the Federal Government gave \$10 a month, that would be \$20. I know thousands of old couples that probably have a little home in the country or the town and that is just the margin that pays them, that is just enough to put them over the fence. You ought not to judge that kind of benefit by the fellow that lives in some big city that has to pay rent, car fare, taxi fare, and go to the picture shows, and all that sort of thing.

Mr. WITTE. My testimony has been, Senator, that the whole matter of old-age pensions varies with the conditions under which the old persons live.

Senator CONNALLY. The part I am getting at, who is better able to determine that? The people that are down in the State where the old couple lives or some Federal administrator that has never been in that State, perhaps, and does not know anything about the living conditions? Who is better to say how much help they need?

Mr. WITTE. The theory of the bill is that the State will determine it in the first instance and that the administrator will interfere, if at all, only in extreme emergencies. If you do not agree with that, the course of action is to strike out section 7 of the bill.

Senator CAPPER. Do you think, Doctor, that the theory, as you have outlined it, would be acceptable to the States?

Mr. WITTE. I think there is no difficulty. You have written some standards into every grant in aid that you have ever enacted and the number of clashes that have occurred between Federal administrators and States under these acts are so few I am sure you can count them on your fingers.

The CHAIRMAN. I think we ought to get an expression from the Governors of these States. I do not mean through some Congressman. I wonder if it is not feasible for the chairman of this committee to get an expression from the Governors of the various States?

Mr. WITTE. If you think it would be advisable we will get an expression as to what they think.

The CHAIRMAN. I think it would be a good idea to get an expression from them on that point.

Senator BYRD. I think whoever propounds that question should make it entirely clear. The doctor is not entirely clear as to what the act means.

Mr. WITTE. We will send them the act itself.

(Subsequently, the chairman received the following letter and tables from Mr. Witte.)

COMMITTEE ON ECONOMIC SECURITY,
Washington, February 4, 1935.

HON. PAT HARRISON,
Chairman, Senate Finance Committee,
United States Senate.

DEAR SENATOR HARRISON: Among the material which I was asked to prepare for incorporation in the hearings on the proposed Economic Security Act was data relating to the cost to the Federal Government of the old-age security part of this program. Complying with this instruction of the committee, I am herewith submitting four tables, giving the following data:

Table I: Cost of the Federal subsidy to State old-age assistance laws, showing separately what this cost would be if no contributory annuity system is established, and if such a system is set up as proposed in the bill.

Table II: The progress of the reserves under the compulsory annuity system as contemplated in the bill, and the total cost to the Federal Government for both old-age assistance and old-age annuities.

Tables III and IV: The two principal alternative plans considered by the Committee on Economic Security under which the contributory annuity system can be made entirely self-sustaining. Table III shows the results if all partially unearned annuities are eliminated; table IV, if the contribution rates are increased from 1 to 5, to 2 to 6 percent.

Should the committee desire anything further on this subject, we shall be glad to be advised of your wishes.

Very truly yours,

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

TABLE 1.—Federal subsidy to State old-age assistance laws

PART A. SUBSIDY IF COMPULSORY ANNUITY PLAN IS NOT ADOPTED

Year	Number receiving old-age grants (in thousands)	Amount of Federal subsidy (in millions of dollars)	Year	Number receiving old-age grants (in thousands)	Amount of Federal subsidy (in millions of dollars)
1936	897	136.6	1950	4,075	711.8
1937	1,307	199.0	1955	5,844	889.7
1938	1,765	268.7	1960	6,801	1,035.5
1939	2,287	348.2	1965	7,169	1,091.5
1940	2,746	418.1	1970	7,533	1,146.9
1941	2,895	440.8	1975	8,007	1,219.1
1945	3,631	552.8	1980	8,501	1,294.3

EXPLANATION.—These estimates were made by the actuaries of the Committee on Economic Security in consultation with the Advisory Committee of Consulting Actuaries. They are based on the following assumptions: (1) Dependency ratio of 15 percent in 1936, increasing to 20 percent in 1937, 25 percent in 1938, 30 percent in 1939, 33 percent in 1940, and thereafter, by 1-percent increments, to maximum of 50 percent in 1957 and subsequent years; (2) average total grant of \$25 per month from State and Federal Governments combined; (3) Federal subsidy of one-half of total costs, excluding that portion of individual grants in excess of \$30 per month and that portion of administration expenses in excess of 10 percent of total pension payments. The actuaries in their report state that the estimates in the early years of the system do not allow for a probable lag in the coming into full operation of the State old-age assistance laws and are, therefore, high.

Should the dependency ration reach only a maximum of 40 percent (by 1961) and the pension grants average only \$20 per month, the cost of the Federal subsidy in the first year would total only \$72,200,000; by 1940, \$199,100,000; by 1950, \$397,300,000; by 1965, \$722,700,000; and by 1980, \$856,800,000.

PART B. SUBSIDY IF COMPULSORY ANNUITY PLAN IS ADOPTED AS PROPOSED IN BILL

Year	Number receiving old-age grants (in thousands)	Amount of Federal subsidy (in millions of dollars)	Year	Number receiving old-age grants (in thousands)	Amount of Federal subsidy (in millions of dollars)
1936	897	136.6	1950	3,525	536.7
1937	1,307	199.0	1955	3,752	571.3
1938	1,765	268.7	1960	3,777	575.0
1939	2,287	348.2	1965	3,496	532.2
1940	2,746	418.1	1970	3,377	514.1
1941	2,812	428.1	1975	3,344	509.1
1945	3,205	487.9	1980	3,308	503.6

EXPLANATION.—These estimates were made by the actuaries and consulting actuaries of the Committee on Economic Security, on the same assumed dependency rates and average pension grants among people not under the compulsory system set forth in part A. of this table. If the dependency rates and average pension grants of the alternative estimate explained in part A. of this table should prevail, the cost of the Federal subsidies would be very much less, especially in the later years, totalling in 1980, \$116,300,000, instead of \$503,600,000 as shown above.

TABLE II.—*Old-age insurance plan of bill*

PART A. PROGRESS OF RESERVE

[All estimates in millions of dollars]

Year	Net contributions ¹	Interest on reserve	Federal subsidy	Benefit payments	Reserve end of the year
1937.....	306.0	0.0	0.0	0.7	305.3
1938.....	308.9	9.2	0.0	2.0	621.5
1939.....	312.0	18.7	0.0	3.3	948.8
1940.....	314.9	28.4	0.0	4.8	1,287.3
1945.....	672.3	106.0	0.0	190.1	4,123.5
1950.....	1,073.3	211.9	0.0	577.1	7,770.7
1955.....	1,620.0	329.6	0.0	1,149.6	11,687.2
1960.....	1,979.2	431.9	0.0	1,624.8	14,880.1
1965.....	2,058.3	470.0	0.0	2,532.8	15,690.4
1970.....	2,137.5	468.0	507.3	3,112.8	15,600.0
1975.....	2,216.7	468.0	926.5	3,611.2	15,600.0
1980.....	2,216.7	468.0	1,387.9	4,072.5	15,600.0

¹ Joint contributions less administration expenses as follows:

Years	Joint contributions as percent of pay rolls	Expenses as percent of contributions	Years	Joint contributions as percent of pay rolls	Expenses as percent of contributions
1937-41.....	1	10	1952-56.....	4	5
1942-46.....	2	8½	1957-80.....	5	5
1947-51.....	3	6¾			

EXPLANATION.—The annuities proposed to be paid under this plan to persons retiring at age 65 after, at least, 5 years of contributions are the following:

(a) To persons who enter the system in the first 5 years; an annuity of 15 percent of the average wages on which contributions were paid, plus 1 percent additional for each year of contributions above 5 but not more than 10 and 2 percent additional for each year of contributions in excess of 10 years up to a maximum of 40 percent.

(b) For those entering the system in 1942 and thereafter; 10 percent for the first 5 years of contributions, plus 1 percent for each additional year of contributions.

Where contributors die before reaching retirement age or before they have drawn annuities equal to their own contributions with 3 percent interest, their heirs will receive their contributions plus interest, less any sum paid to the deceased worker as an annuity.

PART B. COST TO THE FEDERAL GOVERNMENT FOR BOTH CONTRIBUTORY OLD-AGE ASSISTANCE AND THE CONTRIBUTORY ANNUITIES

[All estimates in millions of dollars]

Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program	Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program
1936.....	136.6	0.0	136.6	1955.....	571.3	0.0	571.3
1937.....	199.0	0.0	199.0	1960.....	575.0	0.0	575.0
1938.....	268.7	0.0	268.7	1965.....	532.2	165.7	697.9
1939.....	348.2	0.0	348.2	1970.....	514.1	632.8	1,146.9
1940.....	418.1	0.0	418.1	1975.....	509.1	1,034.3	1,543.4
1945.....	487.9	0.0	487.9	1980.....	503.6	1,478.7	1,982.3
1950.....	536.7	0.0	536.7				

EXPLANATION.—The cost figures here presented are believed to be outside estimates. Should future dependency ratios and average old-age assistance grants be no higher than indicated in the alternative estimate mentioned in part A of table I, the total cost of the combined program by 1980 will be \$1,595,000,000.

TABLE III.—Plan M2: No unearned annuities, rates as in bill

PART A. PROGRESS OF RESERVE

[All estimates in millions]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve end of year
1937.....	306.0	0.0	0.0	0.7	305.3
1938.....	308.9	9.2	0.0	2.0	621.5
1939.....	312.0	18.7	0.0	3.3	948.8
1940.....	314.9	28.4	0.0	4.8	1,287.3
1945.....	672.3	113.5	0.0	26.8	4,541.5
1950.....	1,073.3	266.5	0.0	91.5	10,134.7
1955.....	1,520.0	497.2	0.0	227.6	18,364.7
1960.....	1,979.2	807.5	0.0	488.7	29,214.1
1965.....	2,058.3	1,155.7	0.0	868.9	40,874.3
1970.....	2,137.5	1,505.2	0.0	1,372.7	52,444.3
1975.....	2,216.7	1,830.4	0.0	2,087.3	62,974.5
1980.....	2,216.7	2,086.7	0.0	3,038.1	70,822.5

ILLUSTRATIVE ANNUITIES

Years of contribution	Monthly annuity based on level monthly wage of—			Years of contribution	Monthly annuity based on level monthly wage of—		
	\$50	\$100	\$150		\$50	\$100	\$150
5.....	\$0.24	\$0.48	\$0.72	30.....	7.12	14.23	21.35
10.....	.78	1.55	2.33	35.....	9.79	19.57	29.36
15.....	1.68	3.35	5.03	40.....	12.95	25.90	38.85
20.....	3.02	6.03	9.05	45.....	16.69	33.37	50.06
25.....	4.88	9.75	14.63				

EXPLANATION.—Contribution rates as in bill. Annuities on an earned basis only; the amounts of which are shown in the Illustrative Annuities. Death benefits and refunds as in bill.

PART B. COSTS TO FEDERAL GOVERNMENT FOR BOTH NONCONTRIBUTORY OLD-AGE ASSISTANCE AND CONTRIBUTORY ANNUITIES

[All estimates in millions of dollars]

Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program	Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program
1936.....	136.6	0.0	136.6	1955.....	841.6	0.0	841.6
1937.....	199.0	0.0	199.0	1960.....	937.5	0.0	937.5
1938.....	268.7	0.0	268.7	1965.....	922.4	0.0	922.4
1939.....	348.2	0.0	348.2	1970.....	889.6	0.0	889.6
1940.....	418.1	0.0	418.1	1975.....	828.0	0.0	828.0
1945.....	548.9	0.0	548.9	1980.....	717.3	0.0	717.3
1950.....	693.8	0.0	693.8				

EXPLANATION.—The Federal subsidy to old-age assistance has been computed on the future dependency ratios and the average assistance grants estimated by the actuaries, and is, thus, comparable with the corresponding figures in tables II and IV. Should either of these estimates prove too high, the Federal subsidy and the total cost under the combined program will be correspondingly reduced.

TABLE IV.—Plan M11: 2 to 6 percent contribution rate with partially unearned annuities to persons now half old

PART A. PROGRESS OF RESERVE

[All estimates in millions]

Year	Net contributions	Interest on reserve	Federal contribution	Benefit payments	Reserve at end of year
1937	623.3	0.0	0.0	1.3	622.0
1938	629.5	18.7	0.0	4.0	1,266.1
1939	635.6	38.0	0.0	6.7	1,933.0
1940	986.0	58.0	0.0	10.8	2,960.2
1945	1,393.3	237.5	0.0	207.6	9,338.8
1950	2,185.1	498.7	0.0	623.6	18,682.8
1955	2,280.0	798.8	0.0	1,223.5	28,413.5
1960	2,375.1	1,046.5	0.0	2,023.2	36,281.7
1965	2,470.0	1,231.5	0.0	2,628.4	42,122.5
1970	2,565.1	1,370.0	0.0	3,191.2	46,408.9
1975	2,660.0	1,462.3	0.0	3,692.3	49,173.3
1980	2,660.0	1,502.3	0.0	4,146.3	50,093.7

ILLUSTRATIVE ANNUITIES

Years of contribution	Monthly annuity based on level monthly wage of—			Years of contribution	Monthly annuity based on level monthly wage of—		
	\$50	\$100	\$150		\$50	\$100	\$150
5	\$7.50	\$15.00	\$22.50	30	\$20.00	\$40.00	\$60.00
10	10.00	20.00	30.00	35	22.50	45.00	67.50
15	12.50	25.00	37.50	40	25.00	50.00	75.00
20	15.00	30.00	45.00	45	27.50	55.00	82.50
25	17.50	35.00	52.50				

Explanation

Contribution rates:	Percent
1937 to 1939	2
1940 to 1942	3
1943 to 1945	4
1946 to 1948	5
1949 and thereafter	6

Annuities: (a) For persons who when system is established are 40 years of age and over: 15 percent for first 5 years of contributions and 1 percent for each additional year, and (b) for persons who are under 40 years of age when the system is established: 1 percent for each year of the first 15 years of contributions, plus 2 percent for each of the next 10 years of contributions, plus 1 percent for each year of contributions beyond 25 years.

Death benefits and refunds as in bill.

PART B. COSTS TO FEDERAL GOVERNMENT FOR BOTH NONCONTRIBUTORY OLD-AGE ASSISTANCE AND CONTRIBUTORY ANNUITIES

[All estimates in millions of dollars]

Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program	Year	Federal subsidy old-age assistance	Federal subsidy to insurance plan	Total cost under combined program
1936	136.6	0.0	136.6	1955	571.3	0.0	571.3
1937	199.0	0.0	199.0	1960	575.0	0.0	575.0
1938	268.7	0.0	268.7	1965	532.2	0.0	532.2
1939	348.2	0.0	348.2	1970	514.1	0.0	514.1
1940	418.1	0.0	418.1	1975	509.1	0.0	509.1
1945	487.9	0.0	487.9	1980	508.6	0.0	508.6
1950	536.7	0.0	536.7				

EXPLANATION.—The Federal subsidy to old-age assistance is estimated on a final 50 percent dependency ratio and average assistance grants of \$25. If the dependency ratio should not exceed 40 percent and the grants average only \$20, the cost in 1980 is estimated at only \$116,300,000.

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

(Whereupon at the hour of 12 noon, the committee recessed until 10 a. m. of the following day, Friday, Feb. 1, 1935.)