

would call an old-age income assurance plan. It is not an assessment against manufacturers or merchants as an acknowledgment of underpayment of employees. It would be no burden to employers. It would be an income which is paid to all individuals, regardless of their income status—that answers your question, Senator—whether employed or unemployed, and regardless of what anybody makes per year. After all, looking at it from a national sense, no matter how rich you are, you can only enjoy a certain degree of goods, and we no longer are living in an era where we have to be so niggardly. Any class economics, any class legislation that way, would be absolutely unnecessary.

I do not know if I have made myself clear.

Senator KING. If you desire to submit any brief in further elaboration of your views it will be put in the record.

The clerk tells me that Mr. John Harrington, representing the Illinois Manufacturing Association, who is on the list of witnesses to appear this morning is unable to be present. A representative of Mr. Harrington has left, with the clerk the statement which Mr. Harrington had intended to give to the committee on the pending bill. I am placing it in the record at this point.

STATEMENT OF JOHN HARRINGTON, OF FYFFE & CLARKE, GENERAL COUNSEL FOR THE ILLINOIS MANUFACTURERS ASSOCIATION

Mr. HARRINGTON. My name is John Harrington. I am a member of the firm of Fyffe & Clarke, attorneys, general counsel for the Illinois Manufacturers Association, of 120 South La Salle Street, Chicago.

I am appearing here, as general counsel for the Illinois Manufacturers' Association to speak in opposition to S. 1130, "The Economic Security Act."

This bill would impose a direct tax upon everyone in the United States who pays any remuneration to any employee under the age of 60, excluding only governments and railroads.

The manufacturer, the storekeeper? the farmer, the housewife, and every other employer would be required by this bill to pay a direct tax if he or she employs anyone to do anything; even for a day.

If such an employer employs as many as 4 persons within each of 12 calendar weeks in a year, he must also be required to pay another tax under this bill.

Then, in addition, this bill would impose a direct tax upon the gross income of every one of the employees of every one of these employers.

There are several million employers, and probably 40,000,000 employees, who would be required by this bill to pay direct taxes based upon the amount of the pay roll, in the case of the employer, and based upon the amount of the pay envelop, in the case of the employee.

The amount of taxes involved under this bill might be expected to run up into the hundreds of millions of dollars, or even billions of dollars, annually.

The question arises, What use is to be made of the hundreds of millions of dollars of taxes thus to be paid under this bill by these millions of employers and tens of millions of employees?

These taxes are not to be used to relieve the present unemployment situation.

They are not to be used to relieve the present difficulties of those now unemployed.

These taxes are to be used to build up funds in the public treasuries with which to pay annuities of doubtful value to the aged after 1942 and with which to pay unemployment benefits of doubtful value to those ordinarily regularly employed but temporarily unemployed some years in the future.

Under this bill, no annuities are payable to the aged until 1942 out of the old-age fund into which a part of these taxes go.

As to unemployment compensation, which is the purpose of the balance of these taxes, I quote from the Report of the President's Committee on Economic Security as it appears on page 561 of the Congressional Record :

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

When I say that these funds are to be accumulated for the payment of annuities and benefits of doubtful value, I mean that we cannot know what will be the value of the dollars paid in now when they come out some years from now.

We merely know that the purchasing value of the dollar does vary materially from time to time.

The organization I represent here consists of some 2,500 manufacturers doing business in Illinois.

As employers, these manufacturers-no matter how small or how wealthy-would be required to pay the taxes imposed upon employers by this bill.

The burden of these taxes would ultimately be made to fall upon the consumer, rich and poor alike, in the price he would pay for everything he might buy-whether a jewel or a loaf of bread.

But, until the adjustments would take place through which these taxes would be shifted to the consumer-they would be paid out of the depleted cash-working capital of these manufacturers.

I would estimate that fully 50 percent in number of the manufacturers in Illinois are today reduced to a hand-to-mouth basis as regards cash-working capital.

I would estimate that 50 percent of the manufacturers in Illinois today must worry about whether they can meet their pay rolls at all, 30 days from today.

The rigors of the depression have so depleted the working capital of these weaker manufacturers that it may be said, generally, that their plants, machinery, and, in many cases, even the design of their products, have been seriously attacked by obsolescence ; their efficiency in production affected, and their business strength, generally, sapped and reduced.

The reduced condition of a great portion of the manufacturers in the country has been recognized by the Government and it has made an effort to work out Government loans through the R. F. C. to provide working capital to these weaker concerns so that they might continue to employ those who they have employed and do their part in reemploying those who are now unemployed.

But the Government has found, I believe, that most of these concerns are so weak that they are not fit credit risks for the lending of Government money, with the result that comparatively few such loans have been made.

These taxes on these manufacturers would come out of their depleted cash working capital.

For 1936 the taxes would be at least 1 percent of their total pay rolls.

For 1937 the taxes would be at least 1½ percent of their total pay rolls.

For 1938 the taxes would be at least 3½ percent of their total pay rolls.

Every 5 years after 1931, the rate would be increased, until ultimately it would take at least 5½ percent of the total pay rolls of these manufacturers each year.

I say "at least" these percentages of these pay rolls because these are the minimum rates---and, under the State systems called for by this bill, the States may be expected to increase the total rate beyond these minimum rates.

I doubt very much if the average small manufacturer in Illinois has cash working capital of his own much greater than 10 percent of his annual pay roll.

Many of the larger manufacturers in Illinois are not much better off in this respect.

The small remaining cash working capital of these manufacturers, following the rigors of the depression, is today their very lifeblood,

Through the years of the depression they have fought a life-and-death battle to maintain their working capital. If it is further seriously impaired? these manufacturers must give up and when these manufacturers give up, the thousands of employees they have kept and are keeping off the unemployed list must give up also.

We believe that nothing could be conceived more certain to increase today's unemployment than the taxing away of the depleted cash working capital of the weaker employers of this country.

The small manufacturer in this country is a much greater factor---weak as he may be than many realize.

For example, it is said that more than 53 percent of all working capital invested in the manufacturing industry in the United States is invested in concerns with less than \$50,000 invested capital each.

It is one thing for a statistician to take 3½ percent of all pay rolls and compare it with the aggregate working capital of all employers.

It is quite another thing to take 3½ percent of the pay roll of the ordinary smaller and weaker employer and compare it with his cash working capital.

It must be borne in mind, when considering who, in the beginning, must bear the burden of these taxes, that where the strong well-financed competitor does not see fit to pass these taxes on to the con-

sumer, the weak and poorly financed competitor cannot pass these taxes on to the consumer. He must pay them out of his depleted cash working capital.

Some might say that if he is weak and poorly financed, he should be put out of business—put out of his misery, anyway.

But if we put any great proportion of the weak, poorly financed employers of this country out of business, we will put a great proportion of the people who are now employed out of jobs.

We believe that this measure, if adopted, means at best an annuity of doubtful value for the aged of the future and unemployment benefit of doubtful value for the normally temporarily unemployed of the future—a t the terrific cost of retarding the reemployment of those who are unemployed today.

What I have said may be considered in the nature of a special plea in behalf of the smaller and weaker employer.

I believe, however, that a similar plea might well be made for the weak and poorly financed employees of the country—the 30 million or more who are about to have a gross-income tax placed upon them. They may very well question whether the dollars to be taxed out of their pay envelopes by this bill are not worth more to them now than will be the dollars they may possibly get sometime in the future in the form of old-age annuities after they are 65 years old.

I believe that a similar plea might well be made for the 140 million consumers of the country who will ultimately be called upon to pay the cost of this entire scheme through the increased prices they must pay.

As to the consumer, I cannot see but that ultimately this bill involves the equivalent of a general sales tax of hundreds of millions of dollars each year—not for the general purposes of the Government, but for special purposes.

We believe that this is a most inopportune time to institute a program of taxation for social insurance for the future.

As to what should be done ultimately, we agree with the conclusion of the National Industrial Conference Board in its recent publication on unemployment insurance where, under the heading “Lessons from British Experience”, it states :

If unemployment insurance is not based on an accurate knowledge of the facts of unemployment, it will be abused both by workers and by employers.

In the United States reliable information concerning the extent and nature of unemployment is almost totally lacking. Before any compulsory scheme of unemployment relief is adopted it is necessary, therefore, to establish, under Government auspices, a fact-finding body, composed of representatives of labor, industry, State and local governments, and the general public. The task of this body would be to make a thorough survey of the facts of unemployment, its nature and extent, to hold hearings and accept testimony from interested groups and persons throughout the United States, to give wide publicity to its findings, and to make recommendations for action by industry and by the legislatures. The results of such a survey would be of inestimable value in acquainting public opinion and the public representatives with the problems that arise in connection with an attempt to provide security against unemployment.

Senator KING. The committee will adjourn until Monday morning at 10 o'clock.

(Whereupon, at the hour of 12:30 p. m., the committee recessed until Monday, Feb. 11, 1935, at 10 a. m.)