

so far practically nothing has been done, and they are in the experimental stage of trying to work out additional devices for moving that population from those areas.

The CHAIRMAN. Thank you very very much. Now, Mr. Sargent.

STATEMENT OF NOEL SARGENT, REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. SARGENT. I have prepared for the use of the committee sets of five charts and one table which, if you will kindly have the clerk distribute to the members, I think will be helpful.

The CHAIRMAN. I wish the clerk would give those to those who are present.

Mr. SARGENT. These are prepared especially for use of the committee.

Mr. Chairman, I may say that we have had a committee studying this problem for some time immediately this bill became public, and our association realizes, of course, that actual distress and indigency must be relieved.

To the extent that the pending bill, S. 1130, seeks to accomplish this objective we are in accord. But our universal deep desire to relieve immediate distress and indigency should not over-influence our judgment in discussing the present bill, which does not purport to be an emergency measure.

It is equally important that we do not accept proposals or methods as actually capable of accomplishing their objectives merely because advocates declare they will do so.

We must beware that we do not thus accept proposals which may possibly aggravate instead of relieve the evils they are designed to eradicate; that we do not create other serious problems as grave, if not even more so, than those we seek to correct.

We may, in this connection, profit by foreign experience, and be able to avoid their mistakes. We must, for example, use every effort to see that while actually providing sound security for aged indigents, we do not repeat the experiences of foreign old-age pension laws, where the possession of a legal right to pension funds has resulted in a universal tendency for a steadily increasing number and proportion of old persons to turn to the government pensions for support.

Legislation which from its very nature tends to increase dependency and indigency decreases individual energy and efficiency of individuals in attempting to take care of themselves. It would thereby decrease the sum total of national productive effort in the country, and in the long run thereby decrease the aggregate income available for distribution among the body of citizens; and hence inevitably lower the standard of living. Foreign experience and knowledge of economic matters should be sufficient to cause us to examine most seriously and carefully any type of legislation which carried with it any threat of decreasing productive activity with consequent impairment of our standard of living.

We must, likewise, use every possible care to see that in attempts to provide unemployment compensation we avoid, if possible, repeating the experience of foreign countries with unemployment insurance. In those countries the laws have actually tended to increase unemployment, by freezing or stabilizing such economic

maladjustments as uneconomic wages rates, and maldistribution of both industries and workers.

I wish to reiterate the assertion made by the preceding speaker that the unemployment excise tax here proposed is a tax on employment—that every increase in wages, every job given an additional person; is penalized by being taxed. We must carefully consider whether such a tax on employment will decrease employment *opportunities by penilizing those who provide employment.

Senators will recall that Mr. A. H. Hansen, chairman of the unemployment insurance subcommittee of the Economic Security Committee's 'technical board, stated (hearings? p. 452) that "the first immediate effect." of a pay-roll tax would be to decrease employment.

I respectfully suggest that you consider requesting submission to this committee of any technical report. which, may have been prepared, estimating the effect of a pay-roll tax upon the volume of employment which might be directly due to the tax itself.

We especially direct your attention to the following points, which will be amplified in the following remarks:

(1) The bill rejects the belief by President. Roosevelt that the contributory pension system proposed should be actuarially sound ;

(2) The bill rejects the belief by President Roosevelt that the unemployment-compensation system should provide for specific contributions by employees as well as employers;

(3) The Economic Security Committee rejected on at least 12 points, many of them important, the suggestions of its advisory council;

(4) The Economic Security Committee rejected the advice and judgment of its own actuaries ;

(5) The bill should be carefully considered in the light of many fundamental changes it prop&es in the relationship of citizens to the Federal Government ;

(6) The bill raises questions of the utmost gravity as to both the raising and safeguarding of terrifically huge sums of money ; and

(7) The bill in its present form is unacceptable because of numerous specific defects.

RECIPIENTS OF FEDERAL FUNDS

In considering such a vast program as that which confronts us in Senate bill 1130, we must be sure that the fundamental principles and policies proposed are desirable—that the economic, social, and -political trends involved are nationally desirable.

Your attention is directed to chart; A which reveals that today there are 7,920,000 recipients of Federal funds :

Regular employees	950,000
War-Navy	400,000
Post Office	250,000
Other	300,000
Veterans' Administration	1,000,000
On "straight" relief	3,500,000
On "work" relief and Public Works Administration	1,500,000
Civilian Conservation Corps	300,000
Home Owners' Loan Corporation	670,000
	<hr/>
	7,920,000

Senator **CONNALLY**. How do you figure the H. O. L. C.?

Mr. **SARGENT**. They have been and are receiving funds from the Federal Government for the repayment of mortgages.

Senator **CONNALLY**. A man might have a good job and be doing that; lots of them have.

Mr. **SARGENT**. So have the regular employees. I did not say all of these were relief cases.

Senator **BARKLEY**. Nobody is receiving any benefits. They are receiving funds for the refinancing of mortgages! but they are not receiving it unless they are in a position to repay it.

Mr. **SARGENT**. The same is true of the regular employees of the Government. They are not receiving relief, either.

The **CHAIRMAN**. It strikes me that your other charts tell the story more than that.

Mr. **SARGENT**. I am simply pointing out in this one that under this law as proposed we might eventually have a situation where there would be more recipients of public or Federal funds or prospective recipients of Federal funds than there were actual voters for President in the last Presidential election.

It is now proposed that we add 9,380,000 additional recipients of Federal funds.

Social security bill	5, 830, 000
Unemployment compensation (total coverage, 26,000,000)	2, 080, 000
Old-age security (total coverage, 7,500,000)	3, 750, 000
Soldiers' bonus	3, 550, 000
Total	9, 380, 000

There would also be an additional 23,920,000 who would look to the Government for future aid under the social security bill—who would be interested in having benefits made continuously greater because they might receive them in the future.

This is a total of 41,220,000 persons who, either under existing or proposed laws, would look to the Federal Government for some measure of support—a number greater than all those who voted for President in 1932. (While there are unquestionably some duplications in the above tabulations they are offset by the noninclusion of recipients of benefit payments from the A. A. A.)

This trend toward increasing the number of direct beneficiaries of Federal funds is one to which every legislator and taxpayer must give most serious concern, both with reference to the proposed bill and other legislative proposals.

WHOSE CHILDREN SHALL PAY

The Economic Security Committee presents as follows a most serious dilemma involved in this proposed legislation :

(1) We deem it advisable that the Federal Government should not pay its share of the cost of old-age annuities currently * * *. To pay this cost non would unfairly burden the younger part of the present generation, which would not only pay for the cost of its own annuities, but would also pay a large part of the annuities of the people now middle-aged or over. (Rept., p. 27).

(2) There may be valid objection to this plan, in that it involves too great a cost upon future generations. (Rept., p. 27.)

The Members of Congress must decide whether they will enact a system which will, in effect, require this generation to pay its own premiums and a large proportion of those of an older generation; or whether it will require the next generation to pay its premiums and a large part of ours.

The problem is not only economical—it is both social and political—we have a right to voluntarily assume the burdens of an older generation—have we a moral right to now impose upon the next generation, possibly against what may be its will, the burdens of our generation?

It is high time that some very serious thinking be done about this and related basic considerations involved in the pending bill.

RELATION TO OUR ECONOMIC SYSTEM

Would this bill, if enacted, effect vital changes in our economic system? We are not now considering the questions as to whether such changes are desirable—but we must carefully consider whether this bill might, if enacted, have unexpected effects. In addition to subsequently discussed important results of the fiscal situation which would develop, I direct your attention to the fact that the proposed tax on industry is itself a very serious matter.

Senator CONNALLY. Won't the tax be passed on?

Mr. SARGENT. The question whether it will be passed on, which was raised in these hearings particularly by Senator Black, is a very complicated matter. It is obvious that if industry could pass on additional costs when they arose, that no manufacturer would ever lose any money when those costs arose. But it is well known that industry has lost 6 billions in the last 3 years. It is obvious that the ability of industry to pass costs on is affected by the competition from foreign countries which would not, have the additional costs, questions whether they are regulated by public-utility commissions, or the question whether they are the marginal producers or the best producers, the most efficient or the least efficient. The number of factors of that kind enter into the question.

Senator CONNALLY. You cannot, always pass on all of those things, but when you can, you do, don't you?

Mr. SARGENT. I would say that the employers certainly either would try to pass that cost on or try to reduce present costs to compensate for the increased costs.

Senator CONNALLY. It is perfectly natural.

Mr. SARGENT. Yes; but in many cases it would not be possible to do it; it would be impossible.

Under the proposal of Secretary Morgenthau after a few years the net tax on employers' pay rolls would be $5\frac{1}{2}$ percent. What would this mean? In manufacturing, according to Dr. Willford L. King, now president of the American Statistical Association, the results during a 5-year predepression period would have been (National income and its purchasing power, pp. 122, 191) :

Pear	Net dividends on common stocks, excluding intercorporate payments	Wages, salaries, pensions, compensation	5½-percent pay-roll tax	Percent of tax to dividends
1922.....	\$936,000,000	\$12,010,000,000	\$660,550,000	71
1923.....	1,371,000,000	14,385,000,000	791,175,000	58
1924.....	1,344,000,000	13,947,000,000	767,085,000	57
1925.....	1,518,000,000	14,283,000,000	785,565,000	
1926.....	1,670,000,000	15,010,000,000	825,550,000	If

When it is said that we will tax wages, one item of production costs, 5½ percent, to many people that doesn't sound extremely big. But when we know that the tax would equal 57 percent (average for 5 years above) of all net dividend payments on common stocks, it seems much more serious.

During the 10-year period 1923-32 the entire net earnings of all corporations in the United States amounted to less than 43 billion dollars? or an average annual amount of somewhat over 4 billion dollars. Under the present proposal the annual tax to be collected from employers and employees would equal two-thirds of this amount and an even higher percentage if the plan proposed by Secretary Morgenthau should be adopted. Such a comparison gives us something rather serious to think about. Yet, despite these high figures, many people have been urging that the proposed benefits be greatly increased.

According to reliable statements in 217 prominent industrial corporations of the United States, there are over 9 million stockholders, while it is estimated that in about 1,000 additional companies there are 6 million stockholders. Even allowing for duplication, it is evident that the number of industrial stockholders, who may be affected by such legislation, is greater than the number of industrial wage earners.

Some concerns will be able to pass all or part of the cost to consumers, many other concerns will not. The consumers will bear the larger part of the cost; stockholders will pay the rest.

And if dividend payments become so low that capital is not attracted to an industry, or is driven away from it, the employees will be the chief sufferers. We do not urge that the welfare of employees be sacrificed in favor of stockholders, but we do say that employees as a whole will suffer even more than stockholders as a whole if the profit incentive is eliminated or threatened with elimination.

COST OF ADMINISTRATION

We wish to call the attention of the committee to the question of the cost of administering the agencies that would be set up under this bill. The single problem of keeping the individual ledger accounts required under the unemployment and the old-age provisions of the bill will be very great. In the absence of any information in the report of the Committee on Economic Security or in the testimony of those who have appeared in behalf of the bill, we venture the guess that no less than 142,000,000 ledger accounts will be required for the unemployment and contributory-pension section alone.

This estimate is based upon the assumption that roughly 26,000,000 persons will be covered under unemployment insurance, and 32,000,000 under the provision for contributory pensions. For each of the 26,000,000 persons covered by unemployment insurance, three separate accounts must be kept, 1 by the employer, 1 by the State, and 1 by the Federal Government, or a total of 78,000,000 accounts. For each of the 32,000,000 persons covered by compulsory old-age pensions 2 accounts would seem to be necessary, 1 by the employer; and 1 by the Federal Government, or a total of 64,000,000 accounts. Together, these two benefits will apparently require no less than 142,000,000 separate accounts.

We would not venture a guess with respect to the number of employees that would be required to keep 142,000,000 accounts. It goes without saying that the number would be very great. The figures I have given are conservative. They make no allowance for the army of employees required for the administration of nonbook-keeping provisions of the bill. Before taking final action on this bill, we urge your committee to call upon Government and private experts to work out a proposed plan of administration, including estimates of the cost to the employer, the States, and the Federal Government.

Indicative of the costs which may be involved, I direct your attention to the statement that in foreign unemployment-insurance systems the administrative costs :

insofar as made public, range from nearly 10 to 24 percent of benefits paid out (Index, New York Trust Co., February 1935, p. 38).

FINANCIAL ASPECTS OF BILL

The financial aspects of S. 1130 and its companion House bills may be considered from five highly important angles:

1. The proposed direct payment from the General Treasury.
2. The proposed direct taxes upon employees and employers.
3. The additional direct expenditures which would be required by the Federal Government.
4. The direct expenditure which would be required, or at least expected, of the several States.
5. The investment of the accumulated funds.

PROPOSED DIRECT FEDERAL PAYMENTS

The yearly direct payments from the Federal Treasury, specified in S. 1130 are as follows:

Item	Fiscal year beginning June 30, 1935	Each fiscal year thereafter
Old-age assistance	\$50,000,000	\$125,000,000
Dependent children	25,000,000	
Social Insurance Board	4,000,000	50,000,000
Maternal aid		4,000,000
Crippled children	3,000,000	3,000,000
Child welfare	1,500,000	1,500,000
Public health	10,000,000	10,000,000
Total	98,500,000	218,500,000

PROPOSED DIRECT TAXES ON EMPLOYERS AND EMPLOYEES

S. 1130 proposes an earnings tax upon employees as follows :

	<i>Percent of wages</i>
1937-41-----	½
1942-46-----	1
1947-51-----	1½
1952-56-----	2
1957 and after-----	2½

It imposes an employment excise tax on employers of the same pay roll percentage (in each case the tax is, in effect, only on wages and salaries under \$250 monthly). These amounts are the contributions of employers and employees to the contributory old-age pension system.

There is also imposed on employers an additional employment excise tax of 3 percent (during 1936, 1937, and 1938 it may be 1, 2, or 3 percent), representing the only source of payment into the unemployment compensation fund. We see in chart B the sums which would be necessary to distribute as unemployment benefits under the standards suggested by the Economic Security Committee.

The CHAIRMAN. I do not understand that. That is very well.

Mr. SARGENT. If you have 10 million unemployed, receiving \$15 a week for 16 weeks, that would amount to \$2,400,000,000.

Senator CONNALLY. You are putting that at the maximum.

Mr. SARGENT. That is the standard.

Senator CONNALLY. That is assuming they will all be unemployed for the maximum period of the bill. That would be the absolute peak limit.

Mr. SARGENT. That supposes the average which would presumably be reached under the condition of unemployment which the committee itself knows would probably exist. Under the plan that Secretary Morgenthau advocated, if that were adopted, then the total annual cost would be \$3,200,000,000.

The CHAIRMAN. That would be reached when?

Mr. SARGENT. In 1949 instead of 1957, which is the basis in the present bill, which would be an 8 percent burden on a 11 pay-rolls, equal to the entire revenue of the Government in the prosperous years of 1923 to 1930.

Assuming a 1 percent employment excise tax in 1936, 2 percent in 1931, and 3 percent in 1938 and thereafter, in manufacturing industries alone, the combined taxes would gradually increase (based on averages of 1929 and 1932 pay rolls) to a grand total of \$792,000,000 in 1957, of which about \$233,000,000 would be paid by employees. The stages by which this total would be reached are set forth in chart C.

But this bill does not affect only manufacturing. On the basis of all industries, including agriculture, the tax by 1957, would reach, on the basis of the average of 1929 and 1932 pay rolls :

Unemployment excise tax-----	\$1, 150, 000, 000
Employment excise tax-----	850, 000, 000
Earnings tax-----	850, 000, 000
Total-----	2, 850, 000, 000

Secretary Morgenthau has recently proposed that the earnings and excise taxes paid with the old-age-pension fund be sharply increased, employees and employers each paying, as I understand the proposal:

	<i>Percent pay- roll tax</i>
1937-39.....	1
1940-42.....	1½
1943-45.....	2
1946-48.....	2½
1949 and after.....	3

This would mean that in 1949 and after (on the basis previously assumed) the tax in manufacturing alone would be :

Employers :	
3 percent on total pay roll.....	\$330, 000, 000
3 percent on pay roll under \$250.....	279, 000, 000
(Combined equal 5.5 percent of total pay roll.)	
Employees-3 percent on pay roll under \$250.....	279, 000, 000
Total.....	888, 000, 000

On all industrial pay rolls, including both manufacture and agriculture, the tax in 1949 and after under the Morgenthau plan would be:

Employers.....	\$3,200, 000, 000
Employees.....	1, 000, 000, 000
Total.....	3, 200, 000, 000

This is a net burden of 8 percent on all pay rolls, equal to the entire normal revenue of the Government during the prosperous years 1923-30. In a year of general prosperity such as 1929 the tax would reach \$4,000,000,000, an amount equal to the annual Government revenues in the prosperous twenties. Mr. L. A. Lincoln, vice president of the Metropolitan Life, Insurance Co., stated recently that the eventual burden of plans contemplated in the Economic Security Committee report might run "at the very least over 17 percent of the pay rolls affected" (Eastern Underwriter, Feb. 8, 1935).

The Economic Security Committee reports actuarial estimates of the following Federal costs in the absence of a contributor system (Report, p. 23), and it may be noted that there will be no payments out of the contributory old-age-pension fund until 1942.

Fiscal year beginning July 1--	Amount necessary	Appropriation	Deficiency
1935.....	\$136, 000, 000	\$50, 000, 000	\$86, 000, 000
1936.....	199, 000, 000		74, 000, 000
1937.....	224, 000, 000	125, 000, 000	99, 000, 000
1938.....	249, 000, 000	125, 000, 000	124, 000, 000
1939.....	274, 000, 000	125, 000, 000	149, 000, 000
1940.....	299, 000, 000	124, 000, 000	174, 000, 000
1941.....	324, 000, 000	125, 000, 000	199, 000, 000

It is evident that these actuarial estimates, instead of being too high, as the Economic Security Committee guesses (report., p. 23), are just as likely, or even more likely, to be too low. Thus the committee itself estimates (report p. 20) that at least one-half of the approximately 7,500,000 people over 65 years now living are de-

pendent. On this basis there would be a national annual old-age assistance bill, at \$30 monthly (the standard set forth in title 1), of \$1,350,000,000, of which the Federal share would be \$675,000,000. If the act shall accomplish its declared objectives then certainly after a year or two the total Federal share of the relief payments should be \$675,000,000, leaving the annual appropriation provided in the act \$550,000,000 too low. Experience in all countries having old-age pension laws shows that the number and percentage of persons willing to rely on the Government for support, either because their relatives were willing no longer to support them or because they no longer felt it necessary to rely on their own efforts, constantly increases. We might well expect, therefore, a steady increase above the 50 percent of dependents, and thus further increases in the net deficiency of the \$125,000,000 Federal appropriation, and increase in the necessary additional Government subsidy. The ultimate costs which might be involved under Nation-wide old-age pension and assistance systems are set forth in charts D and E. Chart D shows the estimated increase in the number of persons 65 and over; taking this increase into consideration chart E shows the amount which would be necessary to give everyone 65 or over \$30 monthly.

Senator COUZENS. I am required to be at another meeting. Have you a proposed substitute for this bill?

Mr. SARGENT. I am suggesting subsequently about 25 specific points in which the bill contains defects and which by assumption could be remedied by the elimination of the defects.

Senator COUZENS. You are not against the whole legislation then?

Mr. SARGENT. No, sir.

Senator COUZENS. Very well; thank you.

The Federal-State costs of the pending old-age assistance plan will, moreover, be further increased by about \$100,000,000 annually if the bill as it may be finally adopted should incorporate the suggestion of Secretary Morgenthau that domestics and agricultural workers be excluded from the contributory old-age pension plan.

When payments are initiated in 1942 under the old-age pension system of the act, the maximum monthly payments the first year will be \$22.50 (sec. 405, bl. 5); the average would presumably be less. Title I establishes an old-age assistance monthly standard of \$30 (sec. 7) and it is not unreasonable to suppose that both the Federal and State Governments will be expected to pay the difference between the old-age pension (say \$22.50) and the \$30 old-age assistance standard. This would further increase the direct obligation of both the Federal and State Governments.

No matter how we consider it the \$125,000,000 old-age assistance appropriation (section 1) is too low to meet the payments provided in this bill.

The next question is whether the earnings and employment excise taxes paid into the old-age pension fund (title III) are sufficient to enable the Government to make the pension payments as scheduled (title IV).

In the first place we must note that it is not intended that the old-age pension fund shall be actuarially sound in the sense that we expect life insurance companies to maintain actuarially sufficient reserves. The Economic Security Committee, for example, states (report, p. 26) that the initial payments scheduled will be greater

than they would be if "on a strictly earned basis." It is stated that to be actuarially sound the contributory old-age pension plan would need a total reserve of \$75,000,000,000 (ibid.), and the establishment of such reserve is strongly opposed by the Economic Security Committee. The committee thus challenges the soundness of Mr. Roosevelt's statement in December (at Washington Economics Security Conference) that :

Full solution of this problem is possible only on insurance principles.-

The Security Committee states that beginning in 1965 the Federal Government, under the plan proposed in S. 1130, would have to make extra payments into the fund to permit payment of the scheduled pensions. The amount of the additional Federal payments 'is not specified, except that it is stated they will be greater than \$500,000,000 yearly (report, p. 26), and would reach \$1,400,000,000 by 1980 (ibid, p. 27). The Economic Security Committee, as previously noted, says that a reserve of \$75,000,000,000 would be necessary to have the contributory old-age pension fund actuarially solvent (report, p. 26) ; it estimates that its own plan, that in the bill, provides a reserve of \$15,250,000,000, leaving a 'maximum net unfunded floating debt to the people of the country of nearly \$60,000,000,000.

'It is estimated that the maximum reserve under the unemployment compensation plan would be 2 billion dollars ; and, that the maximum reserve under the contributory old-age pension plan as proposed by Secretary Morgenthau would be 50 billion dollars—a total of \$52,000,000,000. At 3-percent interest on this volume of Government bonds, there would eventually be imposed on taxpayers an additional annual tax burden of \$1,560,000,000.

Secretary Morgenthau has presented a suggestion for a combination of increased contributions and earlier contributions, which are designed to make annual income equal annual payments, though not making the contributory pension plan actuarially sound.

This cost problem is, as Senators have observed from testimony previously presented by many witnesses, extremely serious and also extremely complicated.

It would appear that the Economic Security Committee has in its own judgment, rejected the advice of its own actuaries, making such statements as :

We believe that these estimates are too high:

. This figure * * , * may reach the great total estimated by the actuaries.'

. The Economic Security Committee, moreover, makes these significant statements :

* * * else the annual Government contributions will be so high as to constitute an impossible charge on the taxpayers.

This plan thus involves the creation of a debt upon which future generations will have to pay large amounts annually.

* * * will impose a burden on future generations which we do not wish to minimize.

In view of the apparent rejection by the Economic Security Committee of the advice of its own actuaries, and in view of the admissions of huge tax burdens upon either this or, future generations—or both—I respectfully suggest that this committee call before it for examination all of the actuaries and actuarial advisers who collaborated with the Economic Security Committee. Certainly this country should not embark upon such an evidently costly program

as this bill contemplates without greater knowledge of whither we are leaping—the present and future costs to which we and our children and grandchildren are being committed.’ Let us never say that we must jump in without knowing where any student of history knows that once we embark on any national system of this kind it is practically impossible to constructively alter a once-adopted plan—the tendency is toward continued liberalization, and “hang the cost.”

It is clear that President Roosevelt himself apparently well realizes the practical difficulties involved in establishing an actuarially sound contributory old-age-pension system on a national basis. You will recall that at the December economic security conference Mr. Roosevelt said :

I do not know whether this is the time for any Federal legislation on old-age security * * * I hope that in time we may be able to provide security for the aged—a sound and a uniform system.

You will further recall that in his January 17 message to Congress the President declared :

It is overwhelmingly important to avoid any danger of permanently discrediting the sound and necessary policy of Federal legislation for economic security by attempting to apply it on too ambitious a scale * * * The place of such a fundamental in our future civilization is too precious to be jeopardized now by extravagant action.

The Members of Congress must decide whether the pending bill in proposing a costly and nonactuarial contributory old-age-pension system violates even the fundamental standards advanced by President Roosevelt; whether it is a fiscal juggernaut which threatens national economic stability.

FINANCIAL COST TO STATES

This bill would in fact, though not in law, require the States to enact legislation, or in some cases amend existing State laws, requiring State expenditures in the following fields :

1. Old-age assistance.
2. Dependent-children aid.
3. Maternity and child health;
4. Aid to crippled children.
5. Child-welfare service.

We have not listed “old-age pensions” laws above, since this subject is to be dealt with, under the bill; by direct Federal action. Nor have we listed State unemployment compensation laws; since the administrative costs of the State laws are to be paid by the Federal Government.

The only one of the above items which will require heavy State expenditures almost from the outset is “old-age assistance.”

The Economic Security Committee estimates (rept., p. 20) that “at least one-half of the approximately 7,500,000 people over 65 years now living are dependent.”

Either the bill proposed is intended to care for this 50 percent; or it is not. Assuming that it is so intended; then the yearly cost of providing \$30 monthly (apparently the Federal standard; sec. 7) to 3,750,000 persons, would be \$1,350,000,000.

The bill contemplates that the Federal Government should pay one-half of this amount (sec. 7) or \$675,000,000. The States would be expected to assume the \$675,000,000 remainder.

How much would this mean to each State?

According to the 1930 census, there were 6,663,805 persons aged 65 or over in the United States.

The following table gives the percentage of this number in each State, and the amount such percentage is of the \$675,000,000 total, that is, the old-age-assistance cost this bill expects every State to assume; the amount to each State would be reduced to the extent that they now distribute so-called "old-age pensions", and by any increase, in the age limit above, 65.

This committee, in fact, might well consider raising to 70 the age limit in both the old-age assistance and old-age-pension system proposed in S. 1130. It is *estimated that such an increase would reduce the costs 40 percent, and if experience demonstrated the economic feasibility of paying the higher costs then the age limit could be lowered.

1 State	2 Total population 65 or over	3 Percent of national total	4 Cost under proposed bill
Alabama.....	99,240	1.492	\$10,071,000
Arizona.....	15,768	.237	1,599,750
Arkansas.....	73,600	1.139	7,688,250
California.....	366,125	5.519	37,253,250
Colorado.....	61,787	.931	6,284,250
Connecticut.....	93,319	1.406	9,490,500
Delaware.....	16,678	.251	1,694,250
District of Columbia.....	27,253	.410	2,767,500
Florida.....	71,202	1.073	7,242,750
Georgia.....	113,278	1.807	11,522,250
Idaho.....	22,310	.336	2,268,000
Illinois.....	421,073	6.347	42,842,250
Indiana.....	232,787	3.509	23,685,750
Iowa.....	184,239	2.777	18,744,750
Kansas.....	129,468	1.951	13,169,250
Kentucky.....	142,122	2.142	14,458,500
Louisiana.....	75,850	1.143	7,715,250
Maine.....	69,010	1.040	7,020,000
Maryland.....	92,972	1.401	9,456,750
Massachusetts.....	274,195	4.133	27,897,750
Michigan.....	254,891	3.842	25,933,500
Minnesota.....	163,480	2.464	16,632,000
Mississippi.....	77,443	1.167	7,877,250
Missouri.....	244,525	3.686	24,880,500
Montana.....	26,700	.402	2,713,500
Nebraska.....	86,194	1.299	8,768,250
Nevada.....	4,814	.072	486,000
New Hampshire.....	41,560	.626	4,225,500
New Jersey.....	220,043	3.300	20,452,500
New Mexico.....	16,825	.253	1,707,750
New York.....	667,325	10.059	67,898,250
North Carolina.....	115,671	1.743	11,765,250
North Dakota.....	30,280	.456	3,078,000
Ohio.....	414,836	6.253	42,207,750
Oklahoma.....	96,888	1.460	9,855,000
Oregon.....	67,332	1.014	6,844,500
Pennsylvania.....	508,278	7.662	51,718,500
Rhode Island.....	39,953	.602	4,063,500
South Carolina.....	57,164	.861	5,811,750
South Dakota.....	36,915	.556	3,753,000
Tennessee.....	119,045	1.794	12,109,500
Texas.....	322,459	3.504	23,652,000
Utah.....	22,665	.341	2,301,750
Vermont.....	31,253	.471	3,179,250
Virginia.....	116,678	1.751	11,839,500
Washington.....	101,503	1.530	10,327,500
West Virginia.....	73,043	1.101	1,431,750
Wisconsin.....	192,059	2.895	19,541,250
Wyoming.....	8,707	.131	884,250
Total.....	6,638,805	99.972	674,811,000

NOTE.—If the Economic Security Committee Report extent of 7,500,000 aged 65 or over is correct, then there are approximately 12.5 percent more persons 65 or over in each State; but the State percentages of the national total and of the total cost would remain the same as above.

I realize that figures have been presented to you which purport to show that only 1,000,000 aged persons would qualify for old-age assistance, and that the total annual cost to the States would be about \$111,000,000 annually.

There are several points to be observed about this:

1. If the statement is correct then the Economic Security Committee report gives either a misleading picture of the gravity of the situation which it is claimed demands enactment of this legislation, or else is an admission that the legislation can go only 27 percent of the way in remedying the bad situation which the report says exists.

2. Regardless of what the material costs are the eventual costs will be increased about \$100,000,000—divided between States and Federal Government—annually if the bill is adopted incorporating Secretary Morgenthau's suggestion that domestic and agricultural workers be excluded from the contributory old-age pension system.

3. Many State laws now require near relatives able to do so to care for aged dependents, but under the bill as it now stands a State old-age-assistance plan would not secure the Federal subsidy if it makes such a requirement. If, therefore, the requirement is eliminated then both the initial and subsequent costs will be much higher.

4. Under the bill as proposed, moreover, the costs to some States might even be considerably higher than those set forth in the foregoing table. If, for example, the administrator feels that in some particular State the old-age-assistance plan will not provide reasonable subsistence unless the State provides say \$30 monthly per person instead of \$15, and refuses to permit the Federal \$15 to be paid unless the State does pay \$30, then the State cost might well be double that set forth—or else the act proposed would fail to accomplish its objective.

5. We must consider the potential burden the law would impose on States, instead of speculating that the law might work out in such a way that the cost made possible under the law might not actually have to be paid.

INVESTMENT OF THE ACCUMULATED FUNDS

Sections 404 (a) and 604 (a) provide that the Secretary of the Treasury may invest or reinvest all or any part of the "old age funds" and "unemployment trust fund" in either (x) :

any primary obligation of the United States or in any obligations guaranteed as to both principal and interest by the United States * * * by purchases of outstanding obligations, at the market price thereof, or, *on* original issue at par—

or (y):

obligations acquired by the fund on original issued, which are issued exclusively to the fund * * * notwithstanding the availability in the market of obligations of the United States bearing the same or different interest rates.

We believe that in view of their complexities and possibly serious implications these investment provisions require detailed study by expert governmental and private financial authorities. The extreme importance of this problem is indicated in the following extracts from A Program for Unemployment Insurance, published in 1934 by

the University of Minnesota ; among the authors of the book is A. H. Hansen, chairman of the Unemployment Insurance Subcommittee of the Technical Board of the President's Employment Security Committee.

The effect of the purchase of Government bonds during the boom period would clearly be to stimulate investment * * * a stimulus toward longer capital investment would therefore follow from this policy and the boom would thus be intensified. On the other hand, the payment of unemployment benefits from the sale of bonds during the depression period would necessarily tend to depreciate the bond market and intensify the liquidation process, and to this extent increase the severity of the depression (pp. 184, 185).

There are other extremely important aspects of the investment problem. For example, if the Treasury competes in the open market for Government bonds as is permitted under this bill, it will naturally increase their price, with two effects :

(1) Insurance companies, hospitals, universities, and endowments which subsequently purchase Government securities will receive a lower percentage of income on their investments—which, for example, would increase the cost of life insurance.

(2) The yield to the Treasury upon old-age fund and unemployment trust fund investments will almost certainly be less than the estimated 3 percent (report, p. 26).

Serious consideration must be given to the fact that creation of such a huge market for Government bonds establishes an artificial situation; an artificial base for Government credit. It thus encourages further Government borrowing and opens practically unlimited possibilities of reckless public financing, since there would be enormous pressure from without, and perhaps from within, upon Congress to authorize accumulated reserves. It will be recalled, moreover, that comparatively recently when a reserve was accumulated under the Federal civil service retirement and disability fund, those who had paid into the fund clamored that the reserve was in fact a surplus and besieged Congress to use what was a trust fund for future payments to establish immediately increased benefits. How much greater will the pressure for distribution of reserves be in a system involving millions of persons instead of 400,000? With billions of dollars apparently in the Treasury how great will the pressure be for vast Government expenditures of all kinds from these funds? The gravity of this problem has been pointed out in these hearings by the distinguished chairman of the committee who called attention to the "political agitation" which would exist to "dissipate any reserve that had been built up" (hearings, pp. 204-205).

If such a distribution or spending program should once be started it would grow like a snowball and would lead to practically uncontrolled Government spending and impaired Government credit.

We must realize, too, that the ultimate total amount involved is \$52,000,000,000—the combined unemployed compensation and contributory old-age pension reserves—an amount far greater than our national debt has ever been; an amount exceeding our total national income in many years. There might, moreover, be added to the old-age and unemployment reserves additional large reserves accumulated from the sale of annuity certificates.

Senator COUZEN. Are you going to offer any suggestions as to how these reserves should be kept?

Mr. SARGENT. I am not prepared to do that. I have studied this for some time. I was formerly instructor in finance in a university, and I believe it is so complicated it requires months of study instead of merely the few weeks which have been available since this bill was proposed.

Senator COUZENS. Then you believe we ought to postpone this whole thing?

Mr. SARGENT. Only as far as the investment of funds is concerned.

Senator COUZENS. In other words, you would pass the bill and leave that part and make another bill to cover that field?

Mr. SARGENT. I would certainly provide more specifically as to methods of doing that. For example, the advisory council recommended that the funds be put in the hands of the Federal Reserve Board. That is not contained in the bill as it is now. It is proposed to put it entirely in the hands of the Secretary of the Treasury providing two methods of investment, one of which opens up serious possibilities, and Mr. Hanson, who testified before you recently, observed, that on the upward curve it would intensify a boom, and on the downward curve it would lengthen a depression.

On the question of the defects in the bill generally, would it be possible to bring out these specific points in a few minutes tomorrow?

Senator BARKLEY (acting chairman). I do not know. We have Dr. Townsend for tomorrow. You have your statement prepared in writing?

Mr. SARGENT. I have it in writing, but I think some of the things I have would bring out questions.

Senator BARKLEY. I have no authority to change the program.

Senator CONNALLY. If you are going to be here anyway, you might come and we will take a chance on working you in.

Senator BARKLEY. The chairman has arranged the program for tomorrow and I am not in a position to change it. If you want to take a chance on it, you may do so, otherwise, of course, your statement will go into the record as you have prepared it. I do not know what to suggest in the way of offering any opportunity for tomorrow. I imagine we are going to be pretty well filled up.

Senator CONNALLY. You might hold yourself ready, and if there is opportunity tomorrow, we might be able to hear you.

Mr. SARGENT. I will ask the reporter to take the paper then, as you suggest.

(The statement referred to follows:)

Further attention is called to the fact that when annuities or other types of insurance are bought from a private company the premiums are, in normal times ordinarily invested in the (bonds) of railroads, public utilities, and in real-estate mortgages, so that expansion in the capital-goods industries is stimulated. However, the investment of such sums in public bonds by the purchase of annuities from the Government will inevitably divert a large amount of investment funds from private uses and so tend to retard industrial development.

This program, therefore, involves from many angles the future economic welfare of the entire country; we must beware that it is not permitted to create dangers worse than the social ills it is intended to relieve.

We therefore urge that this committee call before it, for consultation upon the entire investment problems, both Treasury experts and private financial authorities.

SPECIFIC DEFECTS OF S. 1130

In addition to the previously presented basic points which should govern consideration and action on this bill, the bill is in our opinion unsound in many vital respects. Among the economic and administrative defects which render it unacceptable in its present form we list the following:

TITLE I

1. Section 2 provides that when the State legislature is not in session the governor of a State may signify the State's acceptance of Federal appropriations for old-age assistance. We believe it is unwise for the Federal Government to commit itself to appropriations in this manner without more specific assurance that the State as a whole desired or needed such appropriations, or that the legislature would subsequently ratify the governor's action. It may be pointed out, moreover, that gubernatorial acceptance alone does not mean that any plan the legislature might subsequently provide or approve would meet the Federal standards specified in sections 3 and 4. We understand further that in at least some States a constitutional amendment would be necessary to enable the governor to take the action authorized in the pending bill.

2. Section 3 declares that "old-age assistance shall mean financial assistance." If assistance is to be provided we have no objection to financial assistance being permitted, but apparently the language quoted in section 3 is open to the interpretation that all assistance must be financial in character. In other words, that assistance given each individual must be given exclusively in the form of money. In our opinion this is unsound. We refer your committee specifically to the New York and Massachusetts old-age-assistance laws, the former being endorsed by President Roosevelt; the principles of these two State laws are sound on the whole, and they do, not restrict the provision of assistance to money alone. They permit the giving of assistance in other ways if the needs and condition of the particular individual render such other treatment preferable.

3. Section 4 provides in paragraph A that the State government must give "substantial financial participation" in a State old-age-assistance plan. The term "substantial" is too indefinite; a more specific standard should be provided as to the total amount or proportion which should be contributed by the State government as such.

4. The bill as drawn would appear to disqualify, as concerns eligibility of States to receive Federal assistance, existing State old-age pension or assistance laws which require the furnishing of aid to aged individuals by close relatives (cf. secs. 3 and 4).

5. Section 4 provides that a State old-age-assistance plan shall be approved by the administrator "only if such plan" contains certain provisions. This language is open to the interpretation that while the State plan must conform to the standards specifically listed, it would be possible for the administrator to require additional standards for his approval of a State plan.

6. Sections 2 and 4 require approval by the administrator of State old-age-assistance plans. Section 6 (e) provides for withdrawal of such approval by the administrator. In neither case is there any provision for a review before an impartial tribunal over either an initial refusal to approve or subsequent withdrawal of approval. The same objection applies to the approval and withdrawal of approval of Federal appropriations for State plans providing for aid to dependent children (secs. 204 and 106 d).

7. Sections 9 and 209 (title II) permit the Federal Emergency Relief Administrator to employ "experts, assistants, clerks, and other persons" without reference to the civil-service laws, although in section 401 (b) the Social Insurance Board, in its employment of regular officers and employees, is "subject to the civil-service laws."

TITLE III

1. In section 307 the definition of employers upon whom the employment excise tax is levied specifically excludes States and their political subdivisions. We suggest that here and in the corresponding definition in section 606 the language be amended to conform to the Federal income tax, under which the

Federal tax is levied upon employees of State and local proprietary operations, such as publicly owned waterworks, street railways, and electric-light plants.

2. We believe that both employees and employers should receive a credit allowance against the earnings and employment excise taxes provided in sections 301 and 302 for contribution to plant old-age pension plans whose age and payment provisions meet the standards specified in section 405 (a) of title 4. Proper provision should be made to transfer to the Federal old-age fund of accrued plant-pension credits where workers leave employment for any reason before the age specified in the Federal act. Such tax credit would be analogous to the credit provided for plant guaranteed unemployment plan as permitted in sections 606 and 608 (c).

TITLE IV

1. We direct attention to the fact that section 401 (a), providing for establishment of the Social Insurance Board, does not require Senate approval of board members, although such approval is required for members of other Federal boards of comparable importance, such as the Federal Trade Commission and the Interstate Commerce Commission, neither of which has authority over the expenditure of the vast sums contemplated in this bill.

2. We believe the committee should carefully review the question as to whether contributory old-age pensions should be provided through one standard old-age-pension law to be administered entirely by the Federal Government, or whether there should be provision for flexibility through State laws and primarily State administration of such laws. Title VI for such flexibility provides in State unemployment-compensation laws, and it has been suggested that this bill might consistently provide for minimum Federal old-age-pension standards, on the same general Federal and State financial basis as is provided in the State unemployment compensation laws in title VI. The criticism is made that such a plan must be on a national basis, since in some States the age distribution is such that it would be extremely costly to provide a State pension plan. Consideration might well be given, however, to the fact that the vast bulk of the population and of the United States is in States where there is sufficient diversification both of population and industry to provide coverage under State laws. The small minority of population in other States could be provided for through State old-age-assistance laws as set forth in title I. It may be pointed out that some 28 States now have laws which in many respects conform to the State old-age-assistance plans specified in title I, and which have been endorsed as socially adequate by proponents of the present legislation. Moreover, the existence of State contributory old-age-pension laws would permit pension payments consistent with the varying wage scales in the different States.

3. Section 407 (a3) provides that unemployment compensation should be paid "to all persons eligible thereto", under the respective State laws. It seems inconsistent to then provide, as does section 606, for regular payment of unemployment-compensation tax into the Federal Treasury upon wages paid all employees, regardless of whether the law of the State in which the employer is situated renders any of his employees ineligible to receive unemployment benefits.

4. Section 407 (a4) requires that all unemployment compensation be paid "through public employment offices of the State", although some of the States might have available or prefer other methods of making such payments. Under the bill as now planned the State administrators are given no latitude to prescribe places of unemployment-compensation benefits.

TABLE V

1. The entire provision for issuance and sale of annuity certificates by the Social Insurance Board is unjustified and unwarranted, since it puts the Federal Government in competition with existing private business. If this provision, as contained in the law, is passed, provision should be made for including in the cost of such annuities, allowances for taxes and other items of overhead which must be borne by private insurance companies.

2. Section 501 provides that the annuity amount should be based on premium paid, plus interest accretions, yet section 502 specifically permits deferring "payment of interest", which would mean that despite payment of premiums which should be sufficient to assure the annuity specified at age 65 the Social

Insurance Board might, if it considers its funds insufficient, or for any other reason, reduce the amount of the annuity by deferring that part of the annuity attributable to interest accretions, and there is no limit specified as to the duration of such annuity reductions. The purchaser of the Government annuity certificate would, in other words, have no assurance that he would receive at age 65, and after, the monthly amount specified.

TABLE VI

1. In connection with section 601 it may be noted that if any State does not provide for contribution to a State unemployment compensation fund until after January 1, 1936, during such intervening period the employer must pay his full unemployment compensation tax into the Federal Treasury without being able to obtain any portion of the 90-percent credit provided in section 602.

2. It is now provided in section 601 that during the 3 years beginning January 1, 1936, the unemployment excise tax upon employers shall vary between 1 and 3 percent, and that after the first 3 years the tax shall be 3 percent. During the first 3 years the percentage of the tax is related to the Federal Reserve Board's adjusted index of total industrial production averages for the years 1923 to 1925, inclusive. We believe it is essential to point out in this connection our belief that new cost burdens should not be imposed upon industry, thus increasing the price of goods which agriculturists must purchase, and thereby further increasing the disparity between industrial prices and agricultural prices, until farm buying power is increased. In this connection I direct your attention to the following statement made by Mr. Louis H. Bean, of the Agricultural Adjustment Administration, during the National Industrial Recovery Board hearing, January 31:

"Policies that tend to raise prices to the producer, whether they are due to increased manufacturing costs brought about by the sharp reduction in hours or to distribution costs, tend to widen the gap between farm and city prices, which, from the standpoint of stabilization, need actually to be brought closer together. Agricultural prices were 38 percent below 1929 during the year 1934 and 31 percent below in December, while industrial prices were only 13.5 percent below."

It is obvious that this bill would impose large additional taxes upon industry. Consumers as a whole, and particularly agricultural consumers, would pay more for their purchases as the tax burden upon industry is increased. We suggest that the committee carefully consider the advisability of providing that the pay-roll tax should not exceed 1 percent of the employer's pay roll until the ratio of prices received to prices paid by farmers, as reported by the Bureau of Agricultural Economics, reaches 84 percent of the average for the years 1923 to 1925, inclusive. If after the first 3 years the two levels, both industrial production and farm buying power, are not at the 84 percent level, then the tax should be further reduced to say one-fourth or possibly one-half of 1 percent until both indexes reach at least the 84 percent level. The State of Wisconsin, moreover, provided that the State law imposing a pay-roll tax burden upon employers should not become effective until a certain employment average in the State was reached. We suggest to this committee the advisability of carefully considering incorporating a provision in the pending bill that if any State in its unemployment compensation law establishes a State-wide index of industrial production or employment which must be reached before payments are made into the State fund, that employers of such State during such period shall either be exempted from contribution into the Federal unemployment trust fund, or shall at least receive credit against their Federal tax of 90 percent of the amount of such tax. Otherwise, there is a Federal tax penalty on employers in a State when the State itself believes it would be unwise to collect such tax.

3. Under section 601, the entire employment excise tax is paid by the employer. The earnings and employment excise taxes to be paid into the old-age pension fund, as provided by titles III and IV, provide for equal payments by both employers and employees. We suggest to this committee careful consideration of providing for payment into the unemployment trust fund by employees as well as employers. In every operating foreign system both employers and employees contribute. I direct your attention in this connection to the following remark made by President Roosevelt when Governor of New York in addressing the New York State Federation of Labor at Buffalo, August 27, 1930:

" I hope that the next administration and the next legislature will take up a practical, definite study of unemployment insurance, avoiding, of course, any form of dole, and basing their investigation on sound insurance lines under which the State, the employer, and the employee would all be joint premium payers."

4. Section 602 (2) declares that unemployed persons shall not lose their right to benefit payments because they refuse to accept work at wages "substantially less favorable than those prevailing for similar work in the locality." This language should certainly be more clearly defined—is "similar work" any job in the locality—perhaps the highest paying of many employers, or does it mean, as I think it clearly should, the wage being paid for the majority of private work in the same trade and industry? Under the bill as it now stands the Secretary of Labor is given inside authority to practically dictate the wage which shall exist in every trade in every locality.

5. Section 602 (e3) is objectionable as prohibiting requirements that employees join a so-called "company union", while not prohibiting compulsion upon the employee to join any other form of labor organization. As it now stands this language would permit a requirement that employees belong to communistic or other radical labor organizations. We respectfully suggest that the Government has no legal or equitable right to discriminate either between individuals or groups of citizens and that it should make *no* requirement, and should favor no requirement, that employees be required either to join or refrain from joining any lawful labor or other organization.

6. Under section 606 the tax on an employer is upon "the total amount of all wages paid * * * to persons employed by him." It is unreasonable and discriminatory to require the payment of any such tax upon the wage of employees who are not eligible to receive compensation payments under the law of the State in which the employer is situated (section 407 (a3), 602 (e), and 606, lines 10, 11, and 12 on p. 47).

7. Under section 606 only employers, and their employees, of four or more persons are taxed or covered. Why four? Why not three or five? Since a Federal record must be kept on every employer of one or more persons in the contributory old-age pension system which would be established, it should from an administrative standpoint be no more difficult to provide that the unemployment compensation provisions shall also directly affect all employers of one or more persons. Moreover, under this law a person normally employing less than four persons, who employs five or more for one quarter of the year—for plowing, harvesting, ice-cutting, etc.—must pay his one, two or three employees the entire remainder of the year.

8. Under section 602 an employer may receive a credit of 90 percent for contributions to a State unemployment compensation fund. In the absence of any contrary provision it would appear that such State law may provide for either a central pooled reserve, an industry reserve, or a company reserve basis. Under section 607 an employer may receive additional credits against his Federal tax, if he has been permitted to decrease his State tax to a lower point than the Federal tax. For example, the standard Federal tax is 3 percent. The standard State tax is, we will assume, also 3 percent. But the State law permits an employer because of a favorable employment record, or some other reason, to reduce his tax to 2 percent. Under normal conditions the Federal tax will be, let us say, \$300 on the employer's pay roll, and the State tax \$300. The employer, however, would receive credit of \$270 against his Federal tax, thus paying \$30 to the Federal fund and, \$300 to the State fund. If the employer is allowed to reduce his State tax to \$200, he would, in the absence of provision for any further credit, receive a Federal credit of \$200, and pay a Federal tax of \$100 plus a State tax of \$200. The provisions for additional credit in section 607 would, however, permit a Federal credit of \$270, thus making the Federal tax \$30 and the State tax \$200.

But under section 608 the additional credit provided in section 607 will not be granted unless the employer has ever since contributions "were first required of him" contributed to a "pooled fund * * * at least 1 percent of his pay roll."

In other words, the bill apparently allows the State governments to have pooled or reserve plans, but in fact to coerce them into creating pooled funds by specifically providing that employers will not receive credit for favorable employment records unless the State has such pooled funds. It will be observed that provisions (b), (c), and (d) of section 602 are of an optional character, while provision (a), relating to pooled funds, is apparently mandatory. We urge that each State be fully and actually allowed to determine for itself

whether it desires to establish a pooled fund, an industry reserve plan, or a company reserve plan as the basis of its law.

(9) Section 608 (b) stipulates that if a State law permits or requires a separate reserve for an employer, or a group of employers, and allows reduction or elimination of payments by such employers, that no "additional credit" against the Federal tax can be obtained unless the reserve account at issue "amounts to not less than 15 percent of the State pay roll of such employer or group of employers.

Accepting for the present the Economic Security Committee estimate that there is a normal unemployment of 8 percent (report, p. 1) then the 15 percent reserve is obviously unreasonably high ; moreover, since the employer or group of employers in question would be allowed to reduce their contributions to the State fund only because of exceptionally favorable previous employment stabilization records, the 15 percent seems completely out of question. The 15 percent is approximately twice the 8 percent unemployment average; the 15 percent might well be reduced to 6 percent, or the equivalent of total contributions for 2 years.

10. In paragraph (c) of section 608 we believe the 7½ guarantee is too high ; it is altogether disproportionate to other tax and payment provision's in the bill. This could, it would seem, be reduced to at least 6 percent.

11. Under section 602 the standards required for State unemployment compensation laws would apparently permit unemployed, seasonal, and casual workers to receive benefit payments on the same basis as other workers. This is such an important aspect that the recommendations of the Economy Security Committee (report, p. 18) should be incorporated in the bill itself.

12. The standards for State unemployment compensation laws are deficient in not requiring applicants for benefit payments to be able to show that they are genuinely seeking work and in not requiring them to report regularly to local or district State administrative officials. When the English Government removed the requirement that applicants must show themselves to be genuinely seeking work there was a large immediate increase in the number of applicants for unemployment benefits.

13. The standards for State unemployment compensation laws are also deficient in not providing, in order to prevent fraud, that all persons for whom contributions are made should be properly registered, and all applicants for payments properly identified. The same protection should be provided in connection with the contributory old-age-pension system.

14. The standards for State unemployment compensation funds are inadequate, moreover, in not protecting solvency of such funds by providing that payment to any individual should be directly related to the number of weeks of his previous employment ; that is, the period for which contributions have been made on his behalf to the State fund. This is recommended in the Economic Security Committee Report (p. 18) and should be in the bill. We direct your attention in this connection to the following statement made by President Roosevelt when Governor of New York, before the New York Life Underwriters association :

" It is of the utmost importance that unemployment insurance, like the other forms, be based on sound actuarial tables. This is the fundamental which will prevent a mere dole or gift on the part of either private agencies or governments themselves." (Insurance Federation News, April 1931.)

15. We further suggest that the standards for State unemployment compensation laws are deficient in not prohibiting payment of benefits to those who have voluntarily left their work, either by going on strike or otherwise. The Wisconsin law and every European unemployment law provide that unemployment due to trade dispute shall not be compensated.

16. The standards for State unemployment compensation laws are furthermore deficient in not providing that workers discharged for cause should be treated on a different footing than workers who lose their jobs through no fault of their own.

VAGUENESS THROUGHOUT BILL

This bill is replete with indefinite phrases and standards which are open to at least two serious objections :

(a) They make it difficult to know what the bill actually proposes.

(b) They supply an insufficient guide to those charged with administration of the various parts of the proposed law.

Among the many standards set forth in the bill which are so vague and indefinite as to challenge curiosity, defy exact interpretation, and puzzle administrators, we find the following :

1. Sections 3, 4, 203, 204: " Reasonable subsistence compatible with decency and health."

2. Sections 4, 204: " Substantial " participation by State governments as such in State plans.

3. Sections 206, 406, 701, 702, 703, 802 : Apportionments of Federal funds " on a basis of need " (or equivalent language).

4. Section 406. " Proper administration of such laws."

5. Section 407. " Reasonably calculated to insure full payment."

6. Section 602. " Substantially less favorable " ; " similar work in the locality " ; " bona fide labor organization."

7. Sections 701, 702, 703. " Reasonable provision for State administrative and supervisory services."

8. Section 702. " Adequate facilities."

To illustrate some of the practical difficulties involved in connection with, such vague definitions as those quoted:

1. What is a wage " prevailing for similar work " ?

Interpreting a similar phrase the United States Supreme Court has said:

" The words ' current rate of wages ' do not denote a specific or definite sum." (*Connally v. General Construction Co.*, 269 U. S. 385 ; 1926.) One Secretary of Labor might adopt one idea as to what constitutes the prevalent wage and his successor might supply a totally different yardstick. No adequate standard is provided in this bill.

2. Or what is a " substantially less favorable " wage? One percent' less, 2 percent less, 5 percent less, 10 percent less, or 25 percent less? Here again under the bill as now worded every Secretary of Labor might apply a different standard.

3. Or what is a " reasonable " subsistence? Shall we apply an arbitrary standard for the entire country? Or shall we apply a separate standard for each State? But even in States there are wide variations in living standards from State to State.

The United States Bureau of Labor Statistics has made no budgetary survey of living costs since 1918, and the predecessor of the present Commissioner of Labor Statistics declared that the present Bureau figures as to living costs in only 90 localities lack " the accuracy which is essential to their usefulness." This bill provides no standard for determinations of what is " reasonable."

4. Or take the comparatively simple question as to what is a " locality." This is not, as I gather it, a penal statute, but certainly we should at least try to have as much accuracy and definiteness in a bill of this sort as is required in penal statutes. Upon the meaning of the word " locality " the United States Supreme Court has said (ibid.) :

" Additional obscurity is imparted to the statute by the use of the qualifying word ' locality.' Who can say, with any degree of accuracy, what areas constitute the locality where a given piece of work is being done * * * In other connections or under other conditions the term ' locality ' might be definite enough, but not so in a statement imposing criminal penalties."

CONCLUSION

Mr. Chairman, we submit in conclusion that measures designed to establish permanent economic and social systems should receive most careful consideration. We pledge our full cooperation, wherever it may be desired, to this committee in its study of the problems presented in the pending bill. These problems are so extremely complicated that they really require and justify months instead of weeks of analysis.

We fully appreciate the seriousness with which this measure is being reviewed by your committee, and deprecate any attempt to hurry the committee to a definite favorable recommendation of a substantially unchanged bill. Daniel Webster in discussing a measure of similar import. well said, in effect, that " it. would be better to have no bill than a bad bill."

This bill has three principal divisions: (1.) the establishment of a permanent Federal-State old-age assistance system, which is desired in part, however, to also relieve the present emergency situation ; (2) the establishment of a permanent Federal contributory old-age pension plan; (3) the creation of a permanent Federal-controlled system of State unemployment compensation, neither of the latter two having any possible beneficial result in the relief of present distress and indigency.

The Federal standards set up for the proposed State unemployment compensation laws are both inadequate and in opposition to lessons learned from foreign experience.

The unemployment compensation tax proposed ignores, moreover, the fact that additional cost-increasing burdens should not be imposed on industry until farm buying power increases.

The Federal contributory old-age pension system raises questions of actuarial solvency, of investment of funds, of stability of Federal financing, of possible raids on reserve funds, of whether this generation should arbitrarily compel future generations to bear our burdens—all questions of such extreme gravity, surely, that they merit long and calm review.

This bill permits arbitrary Federal attempts to control both living standards and wages in every part of the country.

This bill, as it has been formulated and presented to your committee, not only necessitates an elaborate administrative system and is filled with vaguely defined standards, but it violates principles enunciated by the President, disregards opinions of actuaries consulted by the Economic Security Committee, and in many important respects disregards advice tendered upon request to the Economic Security Committee by its advisory council.

Finally, Senators, we commend to your attention the belief by Edmund Burke that it is—

Better to be despised for too anxious apprehensions than ruined by too confident security.

The CHAIRMAN. The next witness is Benjamin C. Marsh, of Washington, D. C., representing The People's Lobby.

STATEMENT OF BENJAMIN C. MARSH, REPRESENTING THE PEOPLE'S LOBBY, WASHINGTON, D. C.

Mr. MARSH. Mr. Chairman and members of the committee, I appear on behalf of The People's Lobby and would like to make some comments on this bill, with your permission.

I want first to discuss the general principles involved, but to point out that in our judgment the bill should not be called a security bill or social-security bill for two reasons: The first is that you cannot make any individual secure in the unstable insecure situation in America today, which is daily getting worse and more precarious. The only thing that is preventing a complete collapse is the fact that the Government is continuing the policy inaugurated under President Hoover—I am going to be frank and not play any politics—of giving Government credit to maintain values which are water in the main. The proposed banking bill permits a complete shift in the whole banking policy of the country under which banking de-