tive officers receiving more than $250 a month. And, finally, it should be pointed out that the exemption of these institutions from the pay-roll tax proposed by section 601 would not mean that should any unemployment among their employees result, they would not, under State plans., be entitled to unemployment benefits. It would simply mean that just as the salaries of these persons when they are working are a social cost borne bv contributions, so their compensation if unemployed would be a social cost borne bv general taxation.

In presenting these views, the institutions here represented are not moved by any narrow or selfish interest. The funds which they expend are not their funds. They are given to them in trust by those who believe that the ends which thev pursue are of paramount social importance. In the past, both the Federal and the local governments. have had this same belief, and have acted upon the policy that social ends were best served by permitting these institutions to expend their trust funds for their educational and charitable purposes, without diminution by taxation. These institutions believe that this policy is more than ever sound at the present time and as applied to the present legislation .

The CHAIRMAN. Thank vqu, Doctor. That matter will be taken under consideration.

Professor James R. Kirkland, American Council on Education.

Dr. MARVIN. Professor Kirkland yields his time this morning.

The CHAIRMAN. Thank you very much. Miss Grace Abbott. Miss Abbott is editor of the Social Service Review and professor of public welfare, University of Chicago.

STATEMENT OF MISS GRACE ABBOTT, CHICAGO, ILL., EDITOR. SOCIAL SERVICE REVIEW AND PROFESSOR OF PUBLIC WELFARE, UNIVERSITY OF CHICAGO

Miss ABBOTT. I wanted to speak about several of the points in the bill in which I am especially interested because of my previous work. I am most interested in the child-welfare and child-health aspect of the bill. However, I think we should say that in its larger aspect the whole measure will promote the welfare of children, because the welfare of children is promoted by unemployment compensation and even by old-age insurance and annuities, because the burden of the care of the aged upon those in middle age must usually be balanced against the proper care for the children. So that in the undertaking of this burden, we really get relieved by the family budgets considerable sums to go for children. So that in many respects this whole recognition of Government responsibility for social security means that the place of the child will also be made much more secure than it has been in the past.

I wanted to speak especially, before I talk about the child-welfare measures which are more specific in the bill, about the unemployment-compensation provisions, especially about the form in which the bill is drawn and the fact that, to a very considerable extent, standards are omitted from the bill.

I am really very much in favor of this form of the bill. I come to this conclusion because I think it represents a national scheme with State cooperation, and I think, after all, that is about the most that we ought to expect in our federal form of government. If it is upheld

by the courts and experience shows that further uniformity is desirable, it is perfectly possible to add to the standards at any time, because the legislation will be in existence then. We will have a national framework, at least, and within that national framework the States are given certain authority.

We have under the proposed bill uniformity in the tax levy, so that the competitive aspect is withdrawn. We also have uniformity in safeguarding the funds. We have uniformity in the establishment that shall be at least a fund that exist's, with not more than 1 percent contracted out, and that by individual firms and corporations, and with the terms under which they can contract out safeguarded by the bill. So I think we begin with a minimum of standards and we allow for great diversity then in development. While this creates confusion, it is almost an inevitable confusion, in view of the very different industrial developments that there is in different parts of the country.

Moreover, I am very strongly for it on another ground, and that is should the Federal statutes not be upheld if the present form of the Wagner-Lewis bill is followed, we shall then at least have the State measures, and that, I should think, was almost the deciding factor in favor of this as compared with what has been perhaps misnamed the "subsidy" form. In the President's Advisory Committee on Economic Security, the majority of the members were in favor of the so-called "subsidy" form, but in the report of the council that we sat with, all of the members recognized that each type of Federal law has distinct merit, and they wished their vote to be interpreted not as necessarily approving either type of law but merely as preferring one to the other.

So I think the present form of the Wagner-Lewis bill will give us what we need, pressure at the present time on the States to enact unemployment-compensation laws, and at the same time a Federal shell. which can be extended' as experience indicates it is necessary to be extended, and standards can be added as they need to be added. If you take, for example, the question of what ought to be a bottom wage in it, the difference between the North and South is so great that if we wrote into the law a standard of $10 a week, we would have one section of the country saying it was too high and another saying it was too low. And on such questions as how long the benefits shall run, there are very 'different opinions. If we have a long waiting period, those who are unemployed for a long period will get more and those who are unemployed for a short period will get less. A larger number are unemployed for a short period, and it may be for the benefit of the working group to have a larger amount for a short period than to have the long period at a very low rate, as the English have done, such a low rate that it merely is the destitution level and nothing more.

Then I wanted also to speak about title II.

Senator COSTIGAN. Miss Abbott, before you proceed, may I ask whether social-welfare experts, among whom you are conspicuous, are agreed in the recommendations you are making to the committee?

Miss ABBOTT. No; there would be very serious disagreement inside the group. We are located in the country at large.

Senator COSTIGAN. In this morning's copy of the Washington Post, I noticed a reference to a statement issued by a distinguished

group of such expert's! in which apparently they laid stress on the importance of grants-m-aid by the Federal Government to States, and the maintenance through that type of legislation, of minimum standards in the States. You are familiar with that type of recommendation, of course. If I understand your testimony, you do not join the group who make that recommendation.

Miss ABBOTT. No; I do not, at this stage. I think we have in the Wagner-Lewis type of bill, a basis for that, if we desire. It can be added on at any time. We can put more standards in, and if the bill is sustained and the experience warrants, then I think the standards should be written in. We have minimum standards now.

Senator COSTIGAN. In other words you approve minimum standards?

Miss ABBOTT. I do.

Senator COSTIGAN. Rut you feel that even more important at this hour is the enactment of legislation which looks to the great ends of social betterment?

Miss ABBOTT. Yes. I think we are not at all agreed as to what minimum standards we would write in, because we have no experience on which to write them. If we say we want 4 weeks waiting period and so many periods of benefit, we have actuarial figures on which a guess is made, but those actuarial figures are' based upon "snakes and snails, and puppy-dog tails" as far as statistics are concernecl. There is no data that is adequate. We have kept no record of unemployment in this country which enables you to make a Nation-wide statement, about it. We shall begin with this system. We will then know what our funds will give us, and we shall not know until we get that type of material. To write in a short-waiting period, a long period of benefits and a high rate of payment as a gesture, when we do not have the information on which to do it, seems to me not to be warranted...

Now in the terms of the Wagner-Lewis Act, it is especially provided that such funds as are collected. must all be spent for benefits. So that with the ,excep.tion of the small: amount, that is taken out for administration of the act, so that we are sure that that must go for this purpose, and , as. long. as we are sure that that must go, I am very eager to see some experimentation, with short waiting periods and high rates of benefit, and so on, and find, out which, after all, works out to the best advantage of the working group here in this country.

Senator COSTIGAN. Mr. Paul Kellogg, editor of the Survey. Graphic, testifying here the other day , said in part:

> Such minimum standards should let every wage earner in the United States know, no matter where he lives or works, the least he can count on with respect to the share of his wages that would go to him as benefits, the length of the benefits, the waiting period, the work record that w-ill qualify him for benefits, his standing as a part-time worker, the worker who moves from State to State, his rights to work benefits, equal cash benefit to States, and the other terms which are the measure of security.

Do you except from your remarks any of these standards?

Miss ABBOTT. I would except a number of them as being applicable at the present time. I do not think it is possible to write into this bill what we want now in the way of waiting periods, amount of benefits, and so on, because we really do not have it, and when we get the Federal law, wo do not experiment with whether it is better in fact, to have a longer waiting period and then a longer period of

benefits for the unemployed, or a shorter waiting period and not have it run as far, and various other things of that sort, we get only the one,

Senator COSTIGAN. Nevertheless., if I understand you, you regard these as desirable, ultimate legislative and administrative ends.

Miss ABBOTT. Yes, I do ; after we get the experience on which they can be based. But even so, I think there will be some standards which ought to be written mto a State law, which it would be very difficult for many years to come to write into a Federal law, such as the bottom of what the payment shall be, and the upper of what the payment shall be, because of the difference in wage scales in different parts of the country. So I think this general language has real advantages.

Senator COSTIGAN. Mr. Chairman, I suggest, in connection with one of the questions asked Miss Abbott, that there be placed in the record the statement published in this morning's Washington Post, which states the views of certain. prominent social workers.

The CHAIRMAN. That may go in following Miss Abbott's testimony.

Miss ABBOTT. 'I wanted to speak also about the provision for the care of dependent children, title 11 of the bill. These acts are commonly known as "Mothers Aid Acts", although they are not aids for mothers-they are aids for children.

The first law of this sort was passed in Illinois in 1911. I have been making, with one of the graduate students, a little study of mo thers' pensions and we find that while Illinois is very much in favor of them and was, as I say, the State to lead off with the first mothers' aid, that the present provision is quite inadequate. That is, for example, on January 25, 1935, in Cook County there were 1,434 families, with 4,186 children on mothers' aid. Now the number of mothers' on the waiting list for this, at the Juvenile Court, was 7,942, with 1,434 getting aid, and the number being cared for on relief rolls who were entitled, in the opinion of the relief administration, to mothers' aid, but for whom funds were not available for that purpose, amounted to 3,870. So that there is a very large number who are eligible but who are not getting mothers' aid.

More than that, in some counties, no mothers' aid was being granted. The average grant varied greatly. It varied, for example, from $19 per child per year, as an average grant in Jackson County, Ill., to $274 in Woodford County, $194 in Cook County, and $238, for example, in Lake County. So that the provisions being made for children varied very seriously and needed to be straightened out.

In Illinois, the local counties are contributing, roughly, a million and a half toward the public care of children. The State is contributing another half a million. As you can see, this by no means takes care of the problem.

Now the numbers who are in need of care of this sort have vastly increased as the result of the depression. That is, mothers who under normal circumstances would have been able to take care of their children without outside assistance., have lost their little savings through banks that failed, through insurance companies that failed, and through the fact that others who have contributed to their support and enabled them to take care of their children are no longer able to do so.

Now, the basic principle of the mothers' aid law is that we know that when a woman is left with children to support, and she belongs

not to the highest paid but to the lower income group, that she cannot possibly carry both the burden of supporting the children and of caring for the children. If we undertake to have her support the children, we do it at great cost. The children can be taken care of more cheaply in their own homes by their mothers than they can be taken care of in foster homes or in institutions. It, therefore, is not only sound from a humanitarian and child welfare standpoint, but it is economically sound also, and this grant-in-aid which it is proposed shall be made available to the States, and which it is proposed should contemplate increased State contributions, will mean that these waiting lists will largely be wiped out.

At the present time we estimate that there are about 300,000 children in the country being taken care of under mothers' aid provisions, and that there are at least another 300,000 that would or should be eligible today who are not getting the mothers' aid, and consequently the number ought to be just about double.

The amount that is given in the bill is not as much as is now being spent by the relief administration for the care of families that roughly come into this category. I say "roughly" because they haven't actually been investigated to find out whether they meet every one of the legal requirements of the mothers' aid laws in the various States, but they generally belong in that category.

Senator BLACK. Excuse me just a minute.

Miss ABBOTT. Yes.

Senator BLACK. You said the amount is less. Do you have the figures there of how much the relief administration is spending?

Miss ABBOTT, I do not have it so I can give it to you easily. I would be very glad to put it in the record. I have it in my notes, but it will take a little time to find it.

Senator BLACK. You say the amount is less. Do you recall how much less?

Miss ABBOTT. Something like $10,000,000 or $15,000,000 less, but I should be very glad to put that into the record.

These laws are predicated on the theory that long time care is necessary for the children, that the mother's services are worth more in the home than they are in the outside labor market, and that consequently she should be enabled to stay home and take care of the children, and we expect she will have to do so until the children reach the working age. Consequently the great value of putting the mother in a separate category for mothers' aid is that you establish and give security then to the mothers on this basis in the care of the children, they know what they are going to get, they know they are going to get it over a period of years and they can really plan for it, so it is much better done that way than it otherwise would be.

Now, I am *sorry* to say I do not agree with the lodging of the administration of the mothers' aid in the Federal Emergency Relief Administration, or, as the Act provides, such other Government bureau as the President may designate. This contemplates permanent legislation. The Federal Emergency. Relief Administration is temporary, it deals with temporary agencies in the states. The mothers' aid laws are administered by permanent agencies in the States, and, generally speaking, we hope they will be administered State departments of public welfare and local departments of public

welfare. It seems to me a very great mistake to lodge this in the Federal Relief Administration. I think it belongs in the Children's Bureau, where the mothers' pension has been a subject of study for all the years that the Children's Bureau has been in existence, and I think you would find that state departments of public welfare would generally prefer administration by the Children's Bureau 'to administration by the Emergency Relief Administration which is, after all, in another category entirely, as a temporary emergency administration

Then I would like to speak also about the child-health provisions of the bill, and the general health provisions of the bill. I am very much in favor of this provision of grant-in-aid to be administered by the Children's Bureau for the promotion. of the health of mothers and children.

That there is at the present time a great need for this legislation is evidenced by the fact that, generally speaking the child-hygiene divisions of the State departments of health have suffered very much during the depression. Their budgets have been seriously cut and their effectiveness has thereby been greatly lessened.

We always need, in addition to the provision that has been made for the general health, a special provision for the children. The measures that take care of adults are not adequate for the care of children, because childhood is a period of growth and development and we need a special program, if we are going to insure maximum care of the children, development of the children.

I am especially struck with the need of this when I see the difference in the urban and rural rate of infant mortality. Now, one would expect, of course, that the rural rate would be lower than the urban rates. Normally the country is regarded as a safer place for children, and it ought to be a safer place for children. It has one of the advantages that belongs to country children as a birthright. Although they miss certain other opportunities, at least it should be a healthier place for children to be. Well, now, it used to be. But as the services for the care of children have been developed by city health departments and infant welfare societies, and other agencies of that sort, the urban community has gained- on the rural community, so that since 1928 the urban infant death rate has been lower than the rural infant death rate. For example, we had in 1918 an urban death rate of 108 and a rural death rate of 94. By 1920 the urban death rate was 91 and the rural rate was 81. By 1929 the urban rate was 66 and rural rate was 69. That meant that the rural rates, when you go through it in detail, were higher than the urban rates in 22 States. Those 22 States are Arizona, California, Colorado, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, Minnesota, Montana, Nevada, New Jersey, New York, North Dakota, Oklahoma, Oregon, Pennsylvania, Urah, Vermont, Washington, and Wyoming, a very representative list as far as coverage is concerned. Since that time they have varied somewhat. Sometimes the urban rate has been a little higher, or the rural rate, where they were close together, has remained higher.

I have these represented in two graphs, one for the birth-registration areas since 19 15. The dotted line is the rural area, and you will see in 1929 it passed the urban and became higher than the urban rate was, and has remainded higher from that time on.

This one is for the area as of 1921, because that is a constant area. The numbers in the birth-registration area having increased since that time, so it is a little more accurate. I should like to leave these with you.

The CHAIRMAN. I wish you would properly designate them so they can be identified, and I wish you would turn them over to the clerk.

Miss ABBOTT. I would be glad to.

Senator BLACK. I do not exactly understand who is included in that death rate. Does that include all the deaths that occurred?

Miss ABBOTT. No; the babies that died in the first year of life. It is the proportion of those that were born and that died in the first year of life.

Senator COSTIGAN. Miss Abbott, have you given an explanation of your reasons for these changes in relative death rates?

Miss ABBOTT. I would like to reemphasize that. The reason is that we have steadily developed in the urban area the type of services that enable the mother to give expert care in the raising of her children-the rearing of her children-and she does not get those in the rural areas. The reason why we want this money to be distributed through the child-hygiene divisions of the State departments of health, in cooperation with the Children's Bureau, is to make available in rural areas the same type of facilities that in the urban areas have reduced infant-mortality rates, and we hope very much that we shall get an opportunity to do what it seems to me means a restoring to the rural child what ought to be its birthright, not the same rate but a lower rate than the urban child has, because it ought to be easier to do it in the country than it is in the city, where the complications of one kind and another make it harder to safeguard health than it is in the rural area.

Now, of course, the unit cost in the rural area is higher than in the urban area because of the numbers that are served in the small area in the city and it is for that reason that we think a subsidy is particularly needed in order to make sure that the interests of the child are safeguarded.

Senator BLACK. Miss Abbott, would you be diverted if I asked you a question?

Miss ABBOTT. I would be delighted to have you ask me any question you want.

Senator BLACK. I am interested very much in the observation you made. I am wondering if you would go a little more in detail as to what, in your judgment, has brought about this decreased mortality in the city, what nature of services. In other words, somebody will say, "Well, they have more doctors who can wait on them."

I would like to get your idea as to how much of that you attribute to State health and Government health agencies. In what way has that help been given, whether by medical treatment, nurses, hospitalization, or how?

Miss ABBOTT. Well, of course the greatest value, so far as the children are concerned, is to prevent them from becoming sick, and the way to prevent them from becoming sick is to have them under medical supervision from the beginning, and they get good medical supervision in large numbers through child-health centers that are established in urban communities by city health departments. The mother goes there with her child and she gets instructions in the scien-

tific care of the children, advice is given as to feeding, the child is weighed, the child is kept under care. If the child is sick, it is sent to another place. This is a preventive health measure that I have in mind here and not the care of the sick children.

Of course, there are many factors in a low infant-mortality rate but the most important thing in not only reducing the infant-mortality rate but of making the children healthier, stronger, better children is this education of parents in the care of children. Mothers do not know, just because they are mothers, how to care for children in a scientific way, and if they get that supervision, they do know it.

Now, of course, a well-to-do mother employs a pediatrician to supervise the child. The poorer mother goes to the child-health center for the same type of supervision, and, more than anything else, that is the explanation of the reduction in the death rate. Of course, it is a very low measure of the effectiveness of such centers, because, after all, just keeping your life is relatively little. The point is that they are not only kept alive but they are enormously happier, they are better-developed children than they are under the other circumstances.

Senator BLACK. Do I get it clear that your idea. is the well-to-do get no better service, necessarily, than they did, but the benefit comes as a whole from the fact that those who have heretofore been unable to obtain the proper training and learned the method of preventing disease have a chance to grow and get it without cost to themselves?

Miss ABBOTT. Yes. Of course we have done a great deal in educating parents in child care. For instance, the Children's Bureau publication "Infant Care" has been circulated by millions, it has been sold by millions as well as circulated free, it is in the hands of the mother and is a scientific instruction in the care of children. It has been written by some of the ablest pediatricians in the country, in cooperation with the pediatricians for the Children's Bureau.

No two children are alike. They talk with the doctors not in terms of a general child but in terms of the individual Mary or Johnnie, with whom the advice on infants' care does not work, and consequently they need explanations, and of course all of us profit by that kind of checking it out, as well as by reading about it, and consequently we need that child health center.

Now, the thing that would be done is that in the child-hygiene division of the State department of health they would try to establish this type of center in a rural area. A great many have been established in rural areas, and there is a chance for them to get that information, but it is very, very far from being adequate over the country. The numbers have been reduced during the depression, consequently there has been a real loss as the result of that fact.

I think, unless there are some questions, that I will not undertake to say anything more. I did, however, have in mind to say, when I was talking about unemployment compensation, that I feel very strongly, if I may revert to that, that employees should not be taxed. If we tax the employees, it merely becomes a compulsory saving device and it is not a matter of fundamental justice to employees in this matter of unemployment . Even if we enact the Wagner-Lewis bill, and any type of State bill that I have heard under consideration, the heaviest burden of unemployment will fall on the worker. That is,

he has a waiting period in which he bears the whole cost of the unemployment. During the period that benefits are paid he gets not to exceed 50 percent of his wage for a limited time, after that he becomes again dependent upon his own resources. So that the heavy burden will fall upon him in any event.

It is, therefore, extremely important that we should not have an employee contribution. On page 31 of the bill, section 5, the language there suggests that it is contemplated that employees should contribute under the State laws, and I think that that language ought to be amended.

Senator COSTIGAN. Are you referring now to unemployment insurance, Miss Abbott?

Miss ABBOTT. Yes; section 5, on page 31, Senator Costigan, it says: "All of the money raised by contributions of employers and employees under such State law." I think, at least, it should be: "And in the event that employees are taxed under such State law." It does not seem to say that we are actually contemplating a tax on the employee, in addition to the fact that the worker will bear the heaviest part of the burden anyway. The employer gets a chance to pass on, in most cases, most of what he pays. So it seems extremely important. If I were to write any standard, that would be the first standard I would write in, that the employees should not have to pay.

Senator COSTIGAN. Miss Abbott, when the bill now before this committee was introduced the announcement was made that the general program is to turn back to the States the unemployables and to employ the employables under a public works act, in order to get away from what has been popularly termed the "dole." Is it your judgment, as a long-time student of this problem of unemployment, that there will be no further need for direct grants-in-aid to the unemployed if a liberal public-works program is inaugurated?

Miss ABBOTT. Well, Mr. Senator, I am very much in favor of a public-works program. I should like to see it, however, fixed so that those who were to be employed, on it were not limited to those on relief. If we limit it to those on relief; as is proposed, we shall have the relief rolls continue to grow instead of decline, because it will be the only way to get a certain type of security.

I also do not believe that by any stretch of the imagination it is possible to put all the employable to work on the public works program. After all, there are a large number of people who are employable who could not work on public work. There are, for example, a very large number of women who are unemployed and who are not eligible for that type of work. To label them "unemployable" is of course to misbrand them and injure them very much.

There are also types of people, most of those I see before me, and myself, who would not be employable on any such basis and who yet would be employable for many kinds of work. I think it is a great mistake to attempt to put in what is, after all, an unscientific category, the category of employable and unemployable, because of the fact that the employable depends on the labor market. If there is a great demand for labor, almost anybody can get a job. For example, during the war period, the so-called "unemployables" that we had in Chicago, along Madison Street and Canal Street, disappeared entirely, the queerest stick could get a job, and could get a job of the kind that he could get on at, and his employer was prepared

to take a little trouble to fit him into a position in which he could do the work, so that the group almost entirely disappeared. Very seriously handicapped people got jobs. At this time, when there are millions to pick from, it is easy to label anybody that you did not like the looks of as unemployable. Of course, that seems to me a very unscientific category. It cannot be carried out.

I think we shall have to have grants-in-aid for the relief administration, and I think it is only fair that we should have that in a definite form. I should be glad to have that nut in a definite form, in a legislative form, so that the States would assume a more uniform share of responsibility for the care of the poor who remain unemployed after the public works program is put into effect, because I am sure that it will amount to about 50 percent.

Senator COSTIGAN. Would you say, Miss Abbott, that it will be greatly emphasized if it should appear that many of the States regard themselves as unable to take care of their own unemployed?

Miss ABBOTT. Yes; I think it would, and I think the testimony as to that, the social-work group would be united with me on that. We might differ as to the form that an unemployment compensation act would take, and vary greatly as to the health insurance provision, or something else, but as to the fact that those in need will not be taken care of completely if we send back to the States all of those who cannot be employed on a work program, I think it is impossible to send them back.

Senator COUZENS. Have you devised, Miss Abbott, any way for the States to do a greater portion of this relief work for the unemployed?

Miss ABBOTT. Well, Senator, I think that as it is now when all that we do is negotiate with them, enter into a game of bluff and see which one gets the most from the other, it is not possible to do it. Some of the States are much more successful at that game than others, apparently, because the rates differ tremendously as between States, and I think that if the rate of the grants-in-aid were actually fixed in the statutes, the States would know what they could expect and they could meet it. As it is now, it is a general hopper out of which everybody plucks something, and they all try to get as much as they can, with the result that New Jersey gets much more than Nebraska, and Florida gets more than New Jersey, and so on around. I do not know why, but that is the way it goes. I think that we could have some elasticity so that areas of special need were to get a larger amount, but I think the basis of that ought to be definitely fixed by some indexes just as we do in an equalization fund in the State, so that we had an equalization fund which would take account of the real differences in the States and as to the ability to meet the needs, just as we do as between counties in our equalization fund.

Senator COUZENS. What you have said is very interesting but you have not answered my question yet as to how these States should raise the money for their proportionate share.

Miss ABBOTT. They would not raise it by any single formula. Some of them would raise it in one way and some would raise it in another.

Senator COUZENS. So you have not devised in those States any formula for raising this money by the States?

Miss ABBOTT. No. Some of them have no income tax and they could throw an income tax. Some of them have no bonded indebtedness, and they could have bonded indebtedness. If they cannot raise it, I am in favor of the Federal Government raising it.

Senator COUZENS. Do you believe the Federal Government should adopt a form of tax, and the States another, and confusing the tax system and tax situation all over the country?

Miss ABBOTT. I do not think it would confuse it. I would be glad to pay an income tax in Nebraska.

Senator COUZENS. There have been a lot of meetings held in Boston and elsewhere by Governmental officials in an effort to develop a unified taxing system. This idea would still further complicate that.

Miss ABBOTT. When we leave to the States only the general property tax, we make it pretty hard.

Senator COUZENS. There is no way that the Federal Government could reach all of those people.

Miss ABBOTT. By contributing, you mean?

Senator COUZENS. No; by taxation.

Miss ABBOTT. Yes. I am in favor of the larger area of taxation, and I am in favor of the Federal Government staying in the picture, and I am in favor of the Federal and State cooperation on the genera1 public assistance program.

Senator BLACK. Miss Abbott, following up the figures you gave us a few moments ago on children up to a year, I have some figures here which I shall not give you in detail because I know you are familiar with them; but I wanted to get your idea as to the reasons for this, from your vast experience. Let us take, for instance, the State of California. We find that the percentage there of 65 and over is 6.7 percent; we find that the percentage of 5 to 19 is 23 percent. Take the State of North Carolina, the percentage of 65 and over is 3.7 percent.

Miss ABBOTT. Of the aged, you mean?

Senator BLACK. Yes. And from 5 to 19 goes to 37 percent; in other words, from 5 to 19 is 37 percent in North Carolina as against 23 percent in California; but those who manage to live on over 65, by the time they do that in California, it is 6.4 percent as against 3.7 percent in North Carolina. Take my State, Alabama, it is 3.8 percent over 65 and 35 percent from 5 to 19. Take Maine, 8.6 percent over 65 and 27.9 percent from 5 to 19.

Senator COSTIGAN. Have you the average for the country?

Senator BLACK. I have them for each particular section.

Senator COSTIGAN. You have not the average percent over 65 for the country?

Senator BLACK. No, I do not recall the average for the country, but I find that for instance an old age pension as it will operate, of course it will put a great deal smaller amount of money in the States where they have the fewer aged, and to that extent it is interesting, but if we attempt to benefit all of those who need it, it is necessary, as you said, to go further into the idea of medical treatment and preventive medical treatment and things of that kind.

Miss ABBOTT. Then we will have more to take care of because they will live longer.

Senator BLACK. One of the objects of government is supposed to be to see, if it is as I understand it, that they have proper treatment under some kind of system?

Miss ABBOTT. Yes.

Senator BLACK. What in your judgment are the underlying reasons why in some sections they have so many more in proportion of children and so many more in other sections reached the age of 65?

Miss ABBOTT. Of course, you get a higher birth rate in some sections than others, and in that case you have more children. If they do not settle in that State and migrate from those States, you have them migrating, as adults. There are certain areas to which the aged migrate. They migrate to a warmer climate in large numbers, so that you get a heavy percentage of the aged in that group, and of course the death rate itself would explain it. If you have a high death rate, not as many would live to be past 65 as a low death rate, so there are many factors in it.

Senator BLACK. That shows, does it not, carrying out your idea of a few minutes ago with reference to the children, that in certain States where they are poorer and have advanced as far as they might, in order to try to take care of people and give them preventive measures and medical treatment, that we have an unnecessarily high death rate, simply shown by the figures which we cannot excape.

Miss ABBOTT. There is no question that the death rate can be reduced and should be reduced, and there is no question also but what even more important than the actual death-rate figures, which is the only statistical method of measuring the benefits of our preventive program., that as we reduce the death rate, we also increase the physical efficiency of the people so that those that live function more efficiently and with fewer illnesses and hazards and handicaps of that sort than they would if we did not have those preventive programs. We have no way of putting that into the record the way we can the death rate, but the death rate alone is a very accurate measure of the benefits.

Senator BLACK. Those are striking indications of the fact that there are millions of people in those places that are suffering from undernourishment and debilitating weaknesses which could have been prevented and are prevented in the other places.

Miss ABBOTT. Yes, sir.

Senator BLACK. And is it not also a rather strong argument for what you said you favored, of an award by the Federal Government to those States which are backward in that connection?

Miss ABBOTT. I think it is very important. and of course there are areas in every State that are backward 'and that has a very heavy burden to "bear. The individual counties in the States are very uneven in their ability to bear the burden, and I think we should have inside the State as well as from the Federal Government to the States, the equalization principle in the distribution of the fund. Unless there are further questions, I am very much obliged.

Senator COSTIGAN. Senator Black, will you please put in the record the figures for Colorado?

Senator BLACK. I do not have the figures for Colorado specifically, but I have it for sections of the country. The Mountain States are, over 65, 4.9 percent; from 5 to 19, 30.8 percent.

(The newspaper article referred to by Senator Costigan is as follows:)

[Reprinted from The Washington Post, Feb. 19, 1935]

GROUP OPPOSES INSURANCE PLAN IN SECURITY BILL-UNITED STATES PROPOSAL TO PROVIDE FOR IDLE HELD UNSOUND, SUBSTITUTE URGED

The unemployment-insurance provisions of the social-security bill were assailed as inadequate and unworkable in a joint statement issued yesterday by a group of labor leaders, social workers, editors, and university professors.

The statement, while commending the old-age-pension provisions of the bill, declared the unemployment-insurance provisions would produce "a multiplicity of diverse and uncoordinated State programs", and that they would result in a duplication of tax-collection machinery.

Moreover, the statement declared, "the present proposal levies the tax on the earnings of all employees including the highest-paid executives, yet the States are left free to limit benefits to workers earning less than designated amounts."

POINT TO FLAWS

"Workers moving from one State to another are left wholly unprotected", it continued, "while under the subsidy system it would be possible to provide for such workers by a simple administrative device."

The statement urged the adoption of an unemployment insurance plan based on Federal subsidy and adequate minimum standards for State laws.

"The subsidy plan", the statement said, "will foster effective Federal-State cooperation in the development of an unemployment-insurance system suited to our national needs. It is simple, clear, and certain, and easily and economically administered. It would achieve a substantial measure of uniform protection and yet leave the States free in making more liberal provisions. At the same time it would guard effectively against unfair competition among the several States."

GROUP SIGNING STATEMENT

The statement was signed by the following: Prof. Barbara N. Armstrong, University of California; Bruce Bliven and George Soule, editors of the New Republic; Prof. Paul Brissenden, Columbia University; Prof. Douglas Brown, Princeton University; Prof. Eveline M. Burns, Columbia University; Prof. Edward Corwin, Princeton; Abraham Epstein, executive secretary, American Association for Social Security; Prof. Carter Goodrich, Columbia; Prof. H. A. Gray, New York University law school; William Green, president American Federation of Labor; Helen Hall, head worker of the Henry Street Settlement; George L. Harrison, president Brotherhood of Railway Clerks; Stanley M. Isaacs, President United Neighborhood Houses, N. Y.; Paul Kellogg, editor of Survey; Estelle Lauder, executive secretary of the Consumers League; John L. Lewis, president United Mine Workers of America; Prof. Broadus Mitchell, Johns Hopkins University; Mary K. Sinkhovitch, head worker Greenwich House, New York; Prof. Sumner Slichter, Harvard University; Bruce Stewart, author; Robert J. Watt, executive secretary Massachusetts Federation of Labor; Margaret Wiesman, executive secretary Massachusetts Consumers League.

The CHAIRMAN. At this point in the record I am submitting a letter relating to S. 1130 which Senator Gore has received from Mr. Roger Sherman Hoar, attorney at law, 1265 Fairview Avenue, South Milwaukee, Wis.

(The letter is as follows:)

SOUTH MILWAUKEE, WIS., *February 14*, 1935.

Hon. THOMAS P. GORE,
United States Senate, Washington, D. C.

DEAR OLD FRIEND: Fortunately you are a member of the committee to whom the Wagner social security bill has been referred.

I believe that you well understand the difference between a State unemployment reserve law (which, by making unemployment a direct cost of the individual establishment in which it occurred, would stimulate steady employment) and an unemployment insurance law (which would actually increase unemployment by

enabling each irregular employer to pass off onto a State fund the cost of his own irregular operations).

Cannot we depend upon you to stand out to the last ditch for amendment which will permit absolute State freedom of choice, subject only to the requirement that contributions by an employer under a State system can be deductible only if the State law is amendable?

Certainly using this law to bolster up the Wagner-Peyser system of Federal employment agencies, and the requirement of depositing all unemployment funds with the Federal Government, and the requirement that all State laws recognize section 7 (a) of the N. I. R. A., are all absolutelv dragged-in and irrelevant.

The adequacy of contributions will be automatically taken care of by the natural desire of employers in the various States to avail themselves of the maximum possible set-off against the Federal 3-percent tax.

The stimulus to regularization intended by sections 607 and 608 will not be realized, unless the criteria of these sections by made much less stringent. Why not merely provide that any system of scaling down contributions to correspond to reduced unemployment in the establishment of the employer, shall be acceptable, if the Secretary of Labor certifies that such system adequately protects the employees against a consequent reduction of benefits?

With best personal regards,

Very truly yours,

ROGER SHERMAN HOAR.

(Mr. Hoar subsequently submitted the following statement:)

STATEMENT OF ROGER SHERMAN HOAR

I am an attorney at law, located at South Milwaukee, Wisc., and have been active in the unemployment-compensation movement for the past 12 years. I have been official consultant for the Wisconsin Industrial Commission in putting the Wisconsin system into effect and have published three books on this subject.

Probably every member of this committee will agree that the chief advantage of the Senate bill 1130, so far as unemployment benefit legislation is concerned, is that it is intended to leave each State free to enact its own type of law. This will have two distinct advantages : First, while compelling adequate State action, it will nevertheless leave each State free to adopt the system which it' feels is best adapted to its local needs ; and seconclly, by permitting 48 distinct experiments, we stand an excellent chance of developing some valuable new ideas on the subject, which 'otherwise would be lost to the world.

As a member of the President's Conference on Economic Security last November, I distinctly remember his insistence in his address to us, on the encouragement of differing State systems. And the Cabinet committee, in their report to him-on which report the Wagner-Lewis-Doughton bill is supposed to be based--distinctly stated :

" We believe that the Fecleral act should require high administrative standards but shoulcl leave wide latitude to the States in other respects, as we deem varied experience necessary within particular provisions in unemployment-compensation laws in order to conclude what types are most practicable in this country."

And again :

" The States shall have broad freedom to set 'up the type of unemployment compensation they wish."

Accordingly, it will probably come as somewhat of a surprise to you gentlemen to learn that the bill as it now stands fails to grant this freedom in several important respects.

In spite of the President's quite definite words to us that he wanted individuality of State laws, there persisted throughout the Conference of last November a determined movement to thwart the President's wishes and to impose Procrustean standards on the States, depriving them of all freedom of choice and experimentation. This movement appears thus far to have succeeded to a considerable extent.

Let us, for a moment, review the present situation as to unemployment-benefit legislation in America. One State has had a law on the subject since January 1932—over 3 years. All other States are laggards, none having any legislation whatever on the subject. Accordingly, it is proposed that the Federal Government force the laggard States into line.

What should be the first criterion of such Federal legislation? I am sure that any fair-minded man would immediately say : " Why, such Federal legislation ought, of course, to be directed at the laggard States rather than at the State which has already pioneerecl. The State which has pioneered is certainly entitled to tbe permitted to continue its experiment unhampered."

Yet the bill as it now stands would wipe out the fundamental basis of the Wisconsin law.

There are two schools of thought in America on the subject of unemployment-benefit legislation.

One, usually known as " the Wisconsin idea ", calls for individual plant reserve accounts and no employee contributions. (In this connection, pooling the individual accounts merely for investment, does not depart from the individual nature of the accounts.)

The other, usually known as " the Ohio idea "-although its propoents have been unable to secure its enactment even in Ohio-calls for a pooled fund and compulsory employee contributions.

In this connection, I wish to submit, to be printed with my testimony as,, exhibit A, an article by H. W. Story, vice president and general counsel of the Allis-Chalmers Manufacturing Co., entitled " Sound Unemployment, Protection ", which I will briefly summarize as follows :

As to plant reserves versus a pooled fund, Mr. Story points out the analogy between unemployment-benefit legislation and minimum-wage legislation, the former of which deals with the long-time wage total and the latter of which deals with the short-time wage total. No one in his right mind would suggest that an employer who pays a living wage be forced to contribute to a pool to eke out the sweatshop wages paid by his competitors. And yet the proponents of the Ohio idea make the exactly analogous proposal that the efficient and regular employer be forced to contribute to a pool, to eke ou the irregular wages paid by his competitors.

Furthermore, it is only by reducing an employer's contributions, in proportion to his reduction of unemployment, that an unemployment-benefit law can constructively tend toward stabiliaztion. The Wisconsin law does this. The proponents of the Ohio idea, on the contrary, frankly admit that they intend to set up a mere dole-a palliative for unemployment, rather than a cure.

In fact, by offering no inentive to regularization, and by subsidizing unemployment, the Ohio type of law would actually encourage the laying off of men.

Presiclent Roosevelt realizes this. In his address of November 15, 1934, to the Economic Conference, he said:

" Unemployment insurance must be set up with the purpose of decreasing, rather than increasing, unemployment."

And in his social-security message of January 17, 1935, to Congress, he said :

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

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

Yet the bill now before your committee practically forecloses this possibility. Section 608 requires an employer, even under an individual plant reserve plan, to contribute at least 1 percent to a pooled fund, and requires contributions at the maximum rate for at least 9 years, i. e., 1 percent for 1 year, 2 percent for 1 year, 3 percent for at least 7 years, less the 1 percent a year to the pooled fund, in order to build up the required 15 percent in the individual reserve, before contributions can be reduced as a reward for stabilizing employment. **Thus,** unless this section be materially modified, it will obviously preclude any possibility of any State doing anything to encourage the stabilization of employment.

And if sections GO7 and GOS should by any chance be stricken out, then even the slight possibility of encouraging stabilization of employment would be destroyed.

You gentlemen would be pleased and surprised if you could see the intensive stutlies which all large Wisconsin employers are now making of their employment records, in preparation for July 1, 1935, when benefit payments start under the Wisconsin law. They are finding that a degree of stabilization, hitherto undr'eamecl of, is going to be possible.

But, if Senate bill no. 1130 passes in its 'present form, Wisconsin employers might just as well cease their studies, pay their contributions, and hire and fire at will, as in the past.

We who believe that a proper State unemployment-benefit law can do much to reduce unemployment are nevertheless not attempting to force our views on anyone else. If we had it in our power to dictate to the several States the form of unemployment-benefit law to enact, we still would believe in State rights, in the hope that perhaps some State will evolve something that is as much better than the Wisconsin idea as the Wisconsin idea is better than the Ohio iclea.

All that we ask is that Wisconsin, the pioneer State, be left free to continue its experiment, and that other States be left free to copy it, or even to improve upon it, if they will.

A word on the subject of employee contributions. Fortunately, the bill, as it-now stands, leaves this question up to the States. The A. F. of L. is seeking to amend the bill to prohibit employee contributions. The Chamber of Commerce of the United States is seek-ing to amend the bill to require employee contributions.

Personally I am opposed to employee contributions. Mr. Story's article, already referred to, ably sets forth the reasons against employee contributions. I would add just this :

Employee contributions are not necessary, nor would they even assist, to secure employee interest in the system. Individual plant reserves are what are needed to this encl.

If there is a large, remote pooled funcl, then regardless who contributed to it, the contributors are irretrievably gone, and every employee and employer will try to get as much out of it as he can. But with a relatively small plant account, then, regardless who contributed to it, every employee will be a watchdog to guard against malingering.

However, this matter should be left up to the States, as the bill now leaves it.

To summarize my remarks:

1. Presiclent Roosevelt's idea is that the States should be induced to adopt individually varying laws on the subject of unemployment benefits.
2. This object is twofold : First, to permit each State to adapt its system to its own needs ; and secondly, to afford opportunity for social experimentation.
3. The bill as it now stands appears to be directed more toward penalizing the only State which now has an unemployment benefit law, than toward bringing the laggard States into line.
4. There are two schools of thought in America on unemployment-benefit legislation, i. e., individual plant reserves without employee contributions versus a pooled fund with employee contributions.
5. A pooled fund would subsidize the unstable employer at the expense of the stable employer and would tend to increase unemployment. Individual plant reserves would tend to decrease unemployment.
6. Presiclent Roosevelt has definitely declared that the States should not be foreclosed from enacting laws to encourage the reduction of unemployment.
'7. The bill as it stands effectively bars such laws and therefore should be amended.
8. Employee contributions would not accomplish employee interest. Individual plant reserves would.
9. The bill is 0. K. in this connection.

In view of the fact that a great many actuarial conclusions are being drawn from table VI on pages 216 and 217 of volume II, of the report of the Ohio Commission on Unemployment Insurance, and from similar tables similarly prepared from similar data, it may be useful to your committee to know the absolute undependability of these tables and of the data on which they are based.

The introductory remarks which precede the Ohio table state that the data " were graduatecl' by the Bureau of Business Research at Ohio State University." Unfortunately, these data do not appear to have been subjected to mathematical analysis, before publication.

I happen to hold the degree of M. A. in mathematics, and to be a Reserve major of the technical staff of the United States Army, in which connection my duties with relation to ballistics have made it necessary for me to familiarize myself with that branch of mathematics known as " the calculus of tabular functions." Associated with me in this work has been a former professor of mathematics, who has specialized in and taught this subject.

The first thing that a mathematician would do to check a table of this sort, would be to tabulate its " first differendes " i. e., subtract the second item from the first, the third item from the second, the fourth item from the third, etc.

Then find an interpretation for this resulting auxiliary table, and see if it is reasonably smooth.

The professor and I did so. We found, by reasoning with which I shall not burden the record, but which, any mathematician can verify, that if the Ohio table be taken (as it is) to represent a general situation, persisting from week to week, then its first differences represent the number of persons, out of 21,506 initially unemployed, who may be expected to secure reemployment each week.

But this auxiliary table is so ragged, and gives such startling results, as to demonstrate the utter undependability of the main table from which it is derived.

The reemployment rate drops to 27 per week in the 11th week, and remains at exactly that figure through the 18th week ; whereupon it begins to rise, until it reaches 795 in the 28th week. Then it drops to 14 in the 31st week, and remains constantly at that rate thereafter.

Thus the auxiliary table constitutes a reductio ad absurdum of the main table.

Any table, from which one is forced to conclude that, out of 21,596 initially unemployed, 27 per week would become reemployed in each of the 11th to 18th weeks, 795 (!) would become reemployed in the 28th week, and 14 would become reemployed in the 31st week and in each week thereafter-any such table is so inherently absurd as to be utterly useless for all purposes ; and any conclusions drawn from such a table do not deserve to be listened to.

I may add that the professor and I spent several hundred hours attempting to smooth out the Ohio table, so that its first differences would make sense, even going to the extent of revert-ing to the original data, (the U. S. Unemployment Census of 1930) on which it was based ; but we were finally forced to give up the task as impossible. We previously had constructed perfectly sensible comparable tables out of similar data kindly furnished us by. the Ministry of Labor of Great Britain.

Accordingly, I can unhesitatingly state that I have yet to be shown any American actuarial data *on* unemployment, from which any conclusions whatever can be drawn as to the expectancy of unemployment.

EXHIBIT A

[Nation's Business, October 1934]

SOUND UNEMPLOYMENT PROTECTION

(By I-I. W. Story, vice president Allis-Chalmers Manufacturing Co.)

The subject of unemployment insurance has been debated in the United States for 13 years. Its importance has greatly increased as compulsory legislative action has become imminent and general. But, in the confusion of momentous current events, the importance and continued progress of the movement are being overlooked.

That compulsory legislative action is now imminent is evident by the attention which various legislative bodies have given to the matter.

One State has had its unemployment-compensatiop law since 1932.[1] In 1933 bills were introduced in 25 legislatures and passed 1 house in California, Connecticut, Maryland, Minnesota, New York, Ohio, and Utah.

This year only nine State legislatures were in session. Five of them, considered legislation of this sort. Unemployment insurance passed the New York senate, had a pledged majority in the assembly and was prevented from enactment only by a parliamentary fluke. In Massachusetts, the King bill had the support of both labor and industry, but because other States failed to enact legislation in this field this year, the matter was referred to a recess committee which will report to the 1935 legislature. In addition, Congress considered the Wagner-Lewis bill. This bill, imposing a discriminatory tax on all States which do not enact unemployment-compensation laws, had the active support of President Roosevelt and is likely to pass, the next session.

[1] For a complete history of the movement in Wisconsin, the Wisconsin law fully annotated, and a discussion of the various voluntary plans available in that State, see Wisconsin Unemployment Insurance, by Hon. Roger Sherman Hoar, the Stuart, Press, South Milwaukee, Wis.

To many employers the term " unemployment insurance" is just a name applied to something radical and expensive. A majority appear not to know thgt proposed systems of unemployment-benefit legislation differ widely-so much so that, although one extreme type has potentialities of grave danger to society, yet the other extreme type is practically indistinguishable from the basic principle which the Chamber of Commerce of the United States has already gone on record as favoring.

There is a sound middle ground between the proposals of the impractical sentimentalists and the attitude of the do-or-die reactionaries. The vision of the former is shrouded by impractical idealism which takes no account of the selfish weakness of human nature; the viewpoint of the latter is obstructed by the walls of the rut of ultraconservatism which does not recognize the emotional strength of human nature.

Since legislation providing for some type of unemployment-benefit system will soon be enacted in the various industrial States, it seems highly desirable for industrial leaders to focus their intellectual ability upon this problem, to the end that the legislative enactments will be upon the sound middle ground.

WHAT IS SOUND?

The object of this article is to discuss the fundamental points which employers must consider in determining which type of legislation they should support.

The discussion will cover only three points :

1. Shall funds be pooled or segregated? Otherwise stated, shall all contributions by all employers within the State be placed in a common pool for the benefit of ail unemployed in the State or shall the contributions of each employer be kept in a separate fund for the benefit of only his own employees.
2. Who shall contribute? Shall contributions be made jointly by the State, the employees, and the employers, or by the employers alone?
3. Shall employers who establish adequate individual systems be exempted from the State system? In other words, shall some flexibility be permitted in the establishment of individual employer plans in order to meet the varying needs of employees in different industries?

Shall the funds be pooled or segregated?

From its social implications, this is the vital question. It is the question which constitutes the issue between two schools of economic thought in America-unemployment reserves versus unemployment insurance ; " the American plan " versus " the European plan."

What are. the social intendments of these 'two contrasted proposals? What differences in viewpoint are involved ?

ASSESSING THE MOST EFFICIENT

Advocates of the European system generally express themselves as mainly interested in adequate. benefits. , They take a defeatist attitude and regard unemployment as unpreventable; or at least treat the prevention of unemployment as of secondary importance to its alleviation, Regarding employers as a class as responsible for unemployment, they propose to assess the cost of unemployment upon the most efficient and least blameworthy' members of the class.

As stated by the leading. American advocate of the European system of 'unemployment insurance, Dr. I. M. Rubinow; in the Annals of the American Academy of Political and Social Science for November 1933:

" If in insurance it is difficult to determine the average amount of unemployment and the average cost of benefits and to establish a definite premium rate and a definite benefit scale, how much greater are the chances that a rate formula will work out in each individual plant reserve? The lucky or efficient ones are likely to have more money than is needecl, and the others less than is required to pay the benefit scale."

Thus, Dr. Rubinow actually advocates penalizing the prevention of unemployment.

Contrast the attitude of those who advocate the American system of unemploymen t reserves. Their plan is designed not only to allocate social costs correctly, but also to encourage stability of employment.

Prof. John R. Commons is rightly regarded as the dean of unemployment benefits in this country. From 1921 to 1931 he sponsored the Commons unemploy-

ment insurance bill in the Wisconsin Legislature. And then, as stated in chapter I of Hoar's Wisconsin Unemployment Insurance :

" The most important development of the year 1931 was the change of view by Professor Commons. * * * Dr. Commons now reached and publicly announced the conclusion that this end could not be attained if the individual employer were permitted to insure his risk. Accordingly, an entirely new idea was promulgated of requiring each employer to set up a reserve against the payment of benefits for unemployment resulting in his own establishment alone."

And Hoar, a keen student of the subject, with an intimate knowledge of the practical problems of the employee and the employer, and with a wealth of experience with this type of legislation says in chapter XV:

" This new bill took from its opponents nine-tenths of the arguments which they had successfully used for years against unemployment insurance."

In the Annals of the American Academy of Political and Social Science for November 1933, Prof. Paul A. Raushenbush, a brilliant intellectual who will go far in the field of social economics, says :

" Since every program for the regularization of employment must come to a specific focus in the individual business enterprise, the American plan of employer-financed company reserve funds is the plan most clearly designed to induce each business unit to exert its maximum efforts toward regular employment for its men. No outsider can tell a good business executive just how to run his plant steadily. But the reserve plan can assure him that if he operates steadily and pays little or no benefits, his reserve will accumulate and his contributions may drop or cease, while those of his irregular competitor will continue. Each employer's contribution rate varies directly with the current adequacy of his own reserve to meet his own unemployment costs. He can be sure from the start of the full savings resulting from his own performance, which is never true under an insurance scheme."

The pooling of funds-that is, the State fund-which is an essential part of the European idea of unemployment insurance, necessarily sacrifices much of the incentive to employers to regularize their employment and may actually work in the opposite direction.

STEADYING EMPLOYMENT

Recognizing the justice of this accusation, Dr. Rubinow suggests the following partial compromise :

"Authorization to vary premium rates is based not only upon financial considerations but also upon the purpose of meeting the idea of regularization halfway. This idea is that through a fluctuating rate, unemployment insurance may be made a factor in encouraging efforts toward regularization."

To which Professor Raushenbush replies :

" Under any system of pooling contributions, the employer who regularizes gets only a partial and uncertain reward for that achievement."

In the course of the debate on this subject in the pages of various magazines of political economy, more and more weight has gradually come to be given to considerations of " social cost-accounting." These considerations may be summarized as follows :

The basic idea underlying a system of unemployment reserves, as contrasted with unemployment insurance, is to allocate the cost of unemployment to specific industrial concerns. Regardless of the degree to which prevailing irregularity in employment can be eliminated, the proponents of the American plan believe that it is highly important to make at least part of unemployment a cost of producing specific commodities instead of an overhead cost of production in general.

The reason for 'this belief is revealed by an analysis of costs from a social point of view.

There is today in the United States a wide variation in regularity of operation between different industries, and between different plants within the same industry. This means a wide variation in the degree to which industries and plants are themselves carrying the entire cost of their products and reflecting that cost' in the prices obtained. For example, the industry or plant with widely fluctuating employment repeatedly dumps some or all of its workers upon the community. Unless these workers can be utilized at such times in other concerns or industries, they must be supported by somebody. Correct

social cost-accounting requires this to be done by the concern or industry for which they are, in effect, a labor reserve. Otherwise such a concern or industry is not paying the full cost of its production. Instead it is in effect receiving a subsidy.

A pooled insurance fund, raised by taxation or three-party contributions, would formalize and materially increase the extent to which irregularly operating concerns and industries are now thus subsidized. And the subsidy would come largely from the more regular plants and their employees. The effect of this arrangement coulcl be definitely antisocial.

If the consumer buys the goods which appear to be the cheaper because the selling price does not include the full cost of producing them, he may force out of business the concern which really produces most cheaply, if all the costs are counted-the concern which maintains its own workers the year round without being subsidized by the community or by other industrial concerns.

Thus the effect of a pooled unemployment-insurance fund would be to confirm and facilitate a species of unfair competition. Such unfair competition coulcl occur between plants in the same industry or between industries-either as the product of one industry is substituted for the product of another,or as all products compete for the consumer's dollar. Pooling would thus tend to promote the survival of the concerns which are socially the least fit.

This danger is evident when we think in terms of daily rather than yearly wages. No one suggests that the wages of sweated workers be supplemented from a pooled fund to which all employers, and perhaps all employees and taxpayers, should contribute. Such a remedy would facilitate the cutthroat competition of the sweatshops. And yet the proposal of a pooled unemployment-insurance fund is logically indistinguishable from a pooled wage fund.

To this line of argument, the proponents of the European plan in America reply that the worker is more interested in immediate protection than in the long-range prevention of unemployment, or in the general welfare of the community. In this they are somewhat like the anticonservationist politician who exclaimed. " What has posterity ever done for me? "

INSURING INDIVIDUAL RESOURCES

Nevertheless, it must be conceded that there is some merit to their argument, It will have to be met. It is met by a suggestion which arose toward the end of the 1934 Massachusetts legislative session, and which is likely to be reflected in a redraft of the King bill at the 1935 session. By this plan a very small percentage of each employer's contribution to his unemployment reserve would be diverted to a pooled fund to guarantee the solvency of all the various inclividual reserves.

For public welfare, then, it is essential that each employer set up an individual reserve for unemployment benefits rather than contribute to a pooled State fund. A system of inclividual reserves is consistent with proper social cost-accoanting and will tend to stimulate, rather' than to discourage, the reduction of unemployment. Such a system should prove more equitable to the employers, as it would enable each employer to profit by his own efficiency. And it should be more desirable to the working men, who are certainly more interested in employment assurance than in unemployment insurance.

Who shall contribute?

It must be conceded at the outset that unemployment is a joint concern of employers, employees, and the community. But from this premise it does not necessarily follow that all three should contribute to a system of unemployment compensation.

Inasmuch as the adoption of an unemployment-benefit system will relieve the taxpayers of considerable expense, it is only fair that they should stand some of the cost of the new system.

Thus it seems proper for the State to stand the entire administrative cost of the system.

But this should be the limit of the State's responsibility, lest the system develop social evils which will offset its social benefits.

So long as the State does not contribute to the benefit funds the system can be kept within reasonable bounds. But, if the State contributes, the system is certain to degenerate into a creature of politics, an unlimited endowment of idleness, like the dole of England and the corn laws of ancient Rome. Such a system, in addition to the demoralizing effect it would have on the community, is certain in the end to cost the average employer far more-in contributions

plus taxes—than the cost of a system to which employers are the sole contributors.

Accordingly, although it is advisable that the State bear the entire administrative cost, it would be fatal to provide that the State should contribute anything to the actual benefit funds. The Socialists propose that the entire cost should be borne by the State, out of funds raised by graduated income and inheritance surtaxes. So much as to contributions by the State. What as to employee contributions?

At present, in the absence of unemployment compensation, the burden of unemployment falls almost entirely on the employee, with the community-not only by relief-taxes, but also by loss of rents, store trade, and other business—sharing a large part of the loss.

Under any system which can be devised-except one which sets the benefit rates so absurdly high as to place a premium on loafing-the employee will continue to bear the brunt of his own unemployment; so why ask him in addition to contribute to an unemployment-benefit fund?

But there is a further and more important reason than mere fairness why employees ought not -even be permitted---much less be required-to contribute to a compulsory unemployment-benefit system.

Experience has shown that there is never any difficulty in getting employees to understand that a fund, contributed by their employers at a fixed percentage on pay roll, will not be able to stand unlimited drains, and that it is not fair to expect that it should do so. But, if the State contributes, there can be no acceptable excuse for shortages ; and no amount of logical explanation can convince an employee that a fund to which he has been required-or even permittecl-to contribute can with any justice be allowed to become inadequate to pay him full benefits in case he becomes unemployed.

Accordingly, the moment that the Government -requires-or even permits—contributions, by employees to a State system, it thereby writes an unlimited guaranty of solvency of the fund. If such a system be adopted, we can forecast the following inevitable chain of events:

Sooner or later, clue to severe drains brought about by a period' of depression, the fund will prove temporarily inadequate to finance full benefits. The fund will then be forced to borrow, and the only available source of loans will be the State. These loans will be made with little or no expectation of repayment; hence the system will rapidly degenerate into a State-financed dole, as in England.

. This result would be indefinitely worse from the public viewpoint, and in the long run more costly to industry and less advantageous to labor, than a straight 100-percent employer-financed system. Accordingly, the latter seems 'advisable.

The proponents of employee contributions argue that employees must, participate in order to assure reasonable adequacy of the fund.

But to a great extent, at least, adequacy can be obtained by setting up a system of individual employee reserves, under which each employee would have his own reserve which would suplement the benefits which he would be entitled to receive from his employer's fund.

In the midst of this great social swing, let us preserve as much as possible of individuality ; and,. accordingly, refrain from supporting a system of employee contributions which does not recognize individual saving and, therefore, is merely a form of collectivism.

. Experience 'teaches' that employees will participate voluntarily in setting up individual reserves or savings ; but, in any event, if compulsion is necessary, it should be directed toward individual savings in the form of individual reserves rather than collective sayings in the form of contributions to a pooled fund.

Shall employers who establish adequate individual systems be exempted from the State system ?

This question is somewhat tied up with the vital question of pooling or segregation of funds, for it is obvious that a State which sets up the European pooled-fund system could not consistently permit certain employers to withdraw and establish their own independent systems. But a State which sets up the. American system of individual employer reserves could have no possible objection to permitting individual variants from the standard plan, provided only that these variants satisfy sufficient criteria of equal beneficiality.

Accordingly, any advantages which we may now find in favor of permitting individual variants from the standard system will constitute additional reasons in favor of the American plan of unemployment reserves.

The advantages to the employer are self-evident. The freedom to choose and adopt an unemployment benefit plan of his own will not only free him from hampering restrictions in the conduct of his own business but may also eliminate unnecessary governmental control.

From the viewpoint of the employees, there will be the advantage that any plan particularly adapted to the specific needs of the industry, in which they are employed, is more likely to be beneficial to them. Furthermore, now that the N. R. A. has made employee-representation the rule rather than the exception, any legislation which prescribed, in strait-jacket terms, the details of the employer-employee- relationship would be just as hampering to the employee group as to the employer. What good is the bargaining power granted by the N. R. A. if another law promptly takes away this bargaining power with respect to unemployment benefits?

And there are advantages from the viewpoint of the public as a whole. No one legislator or economist, or group of 'legislators' and economists, is wise enough to devise an ideal unemployment-benefit system, perhaps not even a system that will be passably workable. Only experimentation—years of it-can produce the best.

Hence, the chief advantage of permitting individual systems is that only by permitting such 'flexibility will wholesale experimentation be possible.

But care should be taken to insure that this experimentation is carried on under adequate safeguards, lest the permission to experiment degenerate into a license to dodge fair and equal responsibility.

Wisconsin's law-the only one yet on the statute books--provides that 'the' industrial commission shall exempt from the compulsory State system- " any employer or group of employers submitting a plan for unemployment benefits which the Commission finds : (a) makes eligible for benefits under the compulsory features of this act; (b) provides that the proportion of the benefits to be financed by the 'employer or employers will on the whole be equal to or greater than the benefits which would be Provided under the compulsory features of this act ; and (c) is on the whole as beneficial in all other respects to such employees as the compulsory plan provided in this act."

Note the broad equivalency introduced by the repeated use of the words " on the whole."

Furthermore, consistent with the underlying theory 'that " employment assurance is better than unemployment insurance ", the Wisconsin law also permits the exemption of individual plans which guarantee employment for 42 weeks a year at two-thirds normal hours, rather. than to provide for the payment of benefits for unemployment.

Thus it is seen that an unemployment-benefit law which permits the adoption of special plans by'. individual employers under adequate criteria is certain to be as beneficial as a law which does not, and in addition will provide a system which will have the following characteristics:

. 1. Flexibility to meet the individual'needs of each industry ;

' 2. Freedom' from restrictions which would hamper the fullest &operation between employees and employers ;

3. Requirement for only the minimum of bureaucratic supervision ; and .

4. Adaptability for social experimentation along constructive lines.

Accordingly, there appear to be overwhelming advantages from the standpoint of employee, employer, and. the State, in the American plan -of unemployment reserves with' segregated individual employer funds, contributions by' employers alone, and flexibility in the adoption of individual plan.

Unfortunately, however, a small but well-organized group is working strenuously to promote legislation in the various' States along the lines of the European' system. Consequently, unless there is a concerted countermovement to support legislation based upon the American plan of unemployment 'compensation, employers may 'suddenly be saddled with the English dole system.

The President of the United States has recently announced his intention to ask Congress at its next session to enact lams providing for unemployment compensation. It may, therefore, be confidently expected that Congress will enact' such laws.

Hence it is imperative that employers give immediate thought to the problem and determine for themselves whether they agree with the recommendations made here.

If they believe that the American plan is the most constructive, they should promptly, through their various trade organizations, join with labor in supporting legislation for the establishment of the American system of unemployment reserves and compensation.

The CHAIRMAN. The next witness is George B. Chandler, of the Ohio Chamber of Commerce.

STATEMENT OF GEORGE B. CHANDLER, REPRESENTING THE OHIO CHAMBER OF COMMERCE

Mr. CHANDLER. May I state, Mr. Chairman, that as you know, I come from a State which is fourth in point of wealth and population in this Union and third in point of production, and I represent the largest State-wide business organization in the State, comprising every line of business, including agriculture, the learned professions, manufacturing, banking, and those groups which enter into normal society. I represent some 4,000 members, and I represent over 100 local chambers of commerce which are members of our organization; therefore we come to your committee respectfully, and I am sure you will listen to some of our views even though they are not in accordance with the obvious views of this committee.

May I first be permitted to indulge in two general observations: first, that Ohio business protests against the coercion of the States by the Federal Government as represented by the assessment on pay rolls and in other ways. We deem this procedure repugnant to American institutions, destructive of the historical relationships between State and Nation, and calculated in the end to do permanent harm and. little immediate good.

Senator KING. Will you pardon me if I ask a question?

Mr. CHANDLER. Yes'.

Senator KING. Didn't your State' levy a tax on pay rolls for insurance? .

Mr. CHANDLER. For unemployment insurance?

Senator KING. Yes.

Mr. CHANDLER. We have not yet. . It is being considered.

Senator KING. Is that not expressed in a report and in a bill which was passed?

Mr. CHANDLER. In a bill which was passed? There has been no bill passed by the Ohio Legislature.

Senator KING. That was recommended in a report?

Mr. CHANDLER. It was recommended in the report of a committee appointed by Governor George White.

Senator COSTIGAN. Are you opposing that measure?

Mr. CHANDLER. We did at the last session of the general assembly, because it would place us in competition with other States adversely. The second observation is of a general nature, and I hope you will be patient with me although it seems more or less platidutinous. Ohio business believes that legislation of this class will permanently weaken the fibre of the American people. Self-reliance has been the key to American success. It has been the initiative, thrift, and