'This brings me to " title VII " of the Economic Security Act headed " Maternal and child health." Section 701 of this act would appropriate $4,000,000 annually from funds in the Federal Treasury in order to enable the Federal Government to cooperate with State agencies of health in extending and strengthening services for the health of mothers and children! especially in rural areas and in areas, suffering from severe economic distress. I may say that it is in these very areas where sections 211, 245, and 312 of the Criminal Code do their greatest damage to the health of mothers and children, beca use reliable means of contraception must generally be transported to rural areas, which transportation is prohibited by. the Criminal Code, and parents who are unemployed and families who are largely dependent upon charity clinics and public hospitals cannot afford bootleg methods of contraception which their more fortunate neighbors demand and get from the private physicians.

Many relief workers from the headquarters in Washington to the most distant rural areas realize the pressing need of making available reliable methods of contraception to families on relief, especially in rural districts, but their hands are tied by the Criminal Code.

Perhaps it is not in order to recommend that the Economic Security Act inclues an amendment to sections 211, 245, and 312 of the Criminal Code which would enable the medical profession and through it the Relief Administration to make available contraceptive information to families on relief, but the facts would appear to indicate that until the hands of these agencies are set free in this respect the health and lives of many mothers and children will be endangered: and the existing evil may even be nourished on taxpayers' money which might be more wisely spent if relief were accompanied by contraceptive ihformation.

The **CHAIRMAN.** I am placing in the record a letter and statement on the pending bill from Dr. Eveline M. Burns, of Columbia University, New York City.

COLUMBIA UNIVERSITY,
New York, N. Y., February 15, 1935.

HON. PAT HARRISON,
Chairman Committee on Finance,
Washington, D. C.

MY DEAR MR. CHAIRMAN : I am enclosing herewith a statement in' regard to the Economic Security Act (S. '1130) for the' consideration of the committee. In this statement, I draw attention to certain features of the bill which in my judgment will render it unworkable and are likely to postpone rather than to encourage the establishment of unemployment insurance.

I have for many years been making a special study of the problems of unemployment compensation, both in this country and abroad, and have written various articles and read papers before the American Economic Association on the subject. In 1933 I was sent to Europe by Columbia University to investigate the operation of the German unemployment relief system. Last fall I acted as a consultant to the Committee on Economic Security. Since 1928 I have been a member of the granite faculty of economics at Columbia University,

During the past few years I have played an active part in the movement to secure unemployment insurance legislation in New York State and have worked closely with such organizations as the New York Conference for unemployment insurance, the American Association for Social Security and other groups, and have appeared at Albany on several occasions. As vice president of the Consumers League of New York and member of the national board of the Y. W. C. A. I am continuously consulted by these organizations in regard to the problems of social legislation and especially of unemployment insurance.

Yours faithfully,

EVELINE M. BURNS.

THE UNEMPLOYMENT COMPENSATION PROVISIONS (TITLE VI) OF THE WAGNER-LEWIS-DOUGHTON BILL (S. 1130)

Statement by Dr. Eveline M. Burns, Columbia University, for presentation to the Senate Committee on Finance

I shall direct my attention to title VI of the bill, and with all respect would make the following criticisms of the proposed method of bringing about unemployment insurance. The bill is to my mind objectionable for the following reasons:

1. It will not bring about unemployment insurance to any significant extent.
2. It will lead to great lack of uniformity and to confusion.
3. It adopts a clumsy and duplicating administrative mechanism.
4. It fails to make provision for effective stabilization programs.
5. It is unnecessarily conservative in many respects.
6. It is badly drafted at many vital points.
7. More satisfactory methods of bringing about unemployment insurance are available.

1. IT WILL NOT BRING ABOUT UNEMPLOYMENT INSURANCE TO ANY SIGNIFICANT EXTENT

(*a*) The absence of essential standards in the bill largely nullifies the alleged protection against unfair competition,

It is claimed by the exponents of the bill that the 3-percent tax will make it easier for States to set up unemployment-insurance schemes because it will remove the justifiable fears of business men of unfair competition from States which do not institute such systems. But unfortunately the bill refrains from laying down the essential standards to be required of approved unemployment-insurance schemes. Nothing is said about such vital matters as the amount and duration of benefit and the waiting time which must elapse before benefit can be claimed.

The absence of such vital standards seriously limits the extent to which the general 3 percent tax levy protects business men from unfair competition from States which enact inadequate unemployment-compensation lams.

The act permits the full tax credit up to 90 percent of the Federal tax to be claimed by employers in States which sanction plant or industry reserves, even though the individual employer is paying no more than the 1 percent minimum, because he has accumulated the reserve required under his State law. So long as such an employer's reserve is intact, he need pay no more than this 1 per-cent. It was clearly the intention of the bill that this provision would offer an inducement to employers so to stabilize operations that their reserves would remain intact. But plant reserves can be preserved intact by methods other than positive stabilizing action on the part of employers, They can also be protected by rigid requirements which make it difficult for unemployed workers to draw upon them.

Under the bill as now drafted there is nothing to prevent a State, interested merely in permitting the employers to obtain the maximum rebate, from setting very low benefits for but brief duration and requiring long waiting periods. Under these conditions the plant or industry reserves would remain largely intact, employers in such States would have satisfied the legal requirements, pay only 1 percent to the State fund, and, if the highest rate of contribution required in the State of any employer or employers is 3 percent (sec. 607), collect the full Federal rebate and be 2 percent better off than their competitors in States which insist on more adequate benefits calling for a continuous payment of the full 3 percent by all employers.

To make the equalization of competition more nearly a reality the Federal Government should lay down minimum standards on amount and duration of benefit and maximum length of waiting period which must be satisfied by any scheme, whether State pooled reserve or industry or employer fund.

(b) It is highly doubtful whether many States will act under the bill.

Apart from the alleged removal of the fear of unfair competition, which is in fact rendered largely illusory by the absence of essential standards, the act affords no strong inducement to States hitherto indifferent or hostile to set up unemployment-insurance schemes.

Presumably, it is hoped that. they will hasten to set up schemes in order to get back their share of the tax paid by their employers and to obtain their

share of the $49,000,000 grant for administration under section 406. But it is doubtful whether the inducement is strong enough. . .

Certainly there will be little inducement to employers. At best, except in the case of the plant-fund provisions which can scarcely benefit them for many years, they will be financially unaffected. They will pay the tax to the State instead of to the Federal Government and will suffer the added inconvenience of having to make out two sets of tax and wage-payment returns. If their State system should call for a contribution of more than 2.7 percent of the pay roll they will actually be worse off, for the bill permits them to credit contributions to a State system up to 90 percent only of the 3-percent Federal tax. Should their State impose a tax of 3 percent therefor the employers would have to pay in total 3.3 percent of pay rolls, an increase of 0.3 percent. It is unlikely, therefore, that employers will promote the passage of State laws. . .

To the State legislatures the inducement to act offered by the bill is also far from obvious, especially when the real nature of the choice before them is understood. At first sight it would appear as if they would hasten to set up insurance schemes in order to get back into their own State funds that will otherwise flow to the Federal Treasury. But there are other ways of getting hold of Federal funds to assist in the burden of relief. Despite the expressed determination of the administration to withdraw from this field, it is clear that under the guise of public or emergency work or relief. the Federal Government is in fact committed to assist the citizens of any State that is unwilling or unable to protect its citizens from death from starvation. Those States already hostile or indifferent to unemployment insurance know therefore that even if they do not get hold of Federal money by setting up an insurance scheme, they will eventually get help through the Federal relief or emergency work schemes.

To such States, Federal funds obtained by setting up an approved unemployment fund have two disadvantages as compared with funds obtained out of the general relief program. They involve placing unemployment assistance upon a basis of rights and status rather than public charity. Fewer conditions can be required of workers for the receipt of unemployment insurance benefits. And once a scheme is set up it is likely to be permanent, persisting after the present depression has passed. Any Federal control over administration imposed upon States as a condition of receiving Federal assistance in the present emergency can be disregarded as soon as the emergency has passed.

It should be noted that this requirement, that the States must spend the proceeds of the pay-roll tax on unemployment compensation (sec. 602d) sharply differentiates the pay-roll tax device from the superficially similar tax credit permitted under the Federal inheritance-tax law. In the latter case there was a strong inducement to the States to act, because no conditions whatever were attached to the spending of the money which was thus prevented from flowing into the Federal Treasury. Hence expectations as to the stimulating effect of a tax-credit device based on the successful Federal inheritance-tax law are ill founded.

For these reasons it seems improbable that action will be taken by any States, other than those already strongly in favor of unemployment insurance. At best, therefore, the bill will promote a very partial adoption of unemployment insurance and many workers will be deprived of this type of protection.

(c) The schemes set up by the States may be completely. insignificant in the absence of any minimum standards,

There is nothing to prevent a State from setting up a scheme paying benefits as low as $2 or $3 for as short a period as 2 weeks and after a waiting period lasting many months. And the inducement to do so will be considerable where. plan funds are permitted. It must also be remembered that the protection against unfair competition extends only to contributions up to 3 percent of pay rolls, and it is highly improbable that States will collect more than this sum from their employers. Benefits will therefore be adjusted to what a 3-percent tax will yield. The Committee on Economic Security estimated that, averaging unemployment over the country as a whole, 3 percent could not provide benefits for more than 15 weeks in those States in which unemployment is especially heavy; benefits, if they are to be covered by a levy up to 3 percent, will be even less generous and adequate.

Experimentation in the, absence of standards and with protection against unfair competition limited to 3 percent at most will inevitably. be experimentation at the expense of the protection to the worker.

But if the benefits paid under State laws are insignificant, it becomes questionable whether the protection afforded justifles the tremendous administrative. work involved in assessing and rebating the pay-roll tax on employers in every. part of the country. Furthermore, such a tax will inevitably disturb business to some extent and give rise to considerable economic stresses and strains through the efforts of employers to shift it on to consumers and wage earners. These inevitable disturbances and readjustments may be a small price to pay for the institution of a comprehensive, adequate, and Nation-wide unemployment compensation system. When the bill is likely to promote, at best, systems in' a limited number of States, many of which may offer entirely inadequate protection to workers, the justification for the economic disturbance involved in levying the, tax is much more doubtful.

The Federal Government has a real interest in the adequacy and duration of the protection that is afforded unemployed workers by the State systems.. For many years it is likely that the Federal Government will have to take care of the majority of the unemployed not assisted through the insurance schemes. It is essential that in return for permitting the States to utilize a convenient source of revenue that would otherwise be available to it to help meet the costs of unemployment assistance, the Federal Government should require that the State systems play a significant, part in reducing the burden that would otherwise fall on the Federal Treasury. The only way to do this is to require that all States meet certain standarcls, and in particular assure a minimum amount of benefit for a minimum number of weeks and after a maximum number of weeks of waiting.

Under the present bill, the Federal Government undertakes a tremendous administrative task and foregoes a convenient source of revenue with no certainty that the residual burden of unemployment relief inevitably falling upon it will be materially reduced.

2. IT WILL LEAD TO GREAT LACK OF UNIFORMITY AND TO CONFUSION

Because of the failure of all States to act, the protection that any worker will receive will depend upon the State in which he happens to be employed. But not only will there be many States in which no protection is afforded ; even in those States which have acted the protection will vary from one system to another. The 3-percent tax, on the basis of which the committee estimated that benefits might be paid up to 15 weeks, is calculated upon a national average. But in fact it will be spent upon a State basis, and unemployment varies enormously from State to State. (There is a span of 100 percent between the worst hit and the lightest hit State in the period 1930–33.) Many States may find that they can pay benefits for only half the 15 weeks; in others the yield of a 3-percent tax may make possible benefits for twice that time.

There is no provision in the bill for' any reinsurance fund. It would indeed be almost impossible to provide for reinsurance without requiring certain minimum standards, and the present tax-credit device would make such reinsurance technically very difficult to administer. The existence of such wide differences in protection will seriously interfere with the mobility of labor.

3. IT ADOPTS A CLUMSY AND DUPLTGATING ADMINISTRATIVE MECHANISM

(a) Federal control will be difficult to exercise.

The fact that the proceeds of the tax will be in the hands of the States in the first instance enormously weakens the control that the Federal Government can exercise. The only ultimate pressure that the Federal Government can exert on States that fail to meet even the formal standards at present required in the bill is to refuse to permit possibly thousands of individual employers to claim the rebate.

Such a system of penalizing individual employers for shortcomings in the administration or provisions of laws over which they hare at best an indirect control (especially in States where the legislatures meet infrequently) is highly unsatisfactory. It is not merely an inconvenient and slow-working method of control and costly to administer, it is also very drastic * * * so drastic that the Federal Government may well be inhibited for political reasons from applying it in many cases in which control should be exercised.

(*b*) Constitutional difficulties may make impossible centralization of funds.

In a number of States there are constitutional provisions governing the custody of State funds that may make compliance with the provision of the bill relating to the deposit of the funds with the Federal Treasury difficult, if not impossible.

(c) There will be dual administration.

The tax-credit method involves a duplication of taxation. Employers, whatever their State contributions, will always have to pay at least 0.3 percent of pay rolls to the Federal Government. They must complete two sets of returns in respect of pay rolls. The Federal Government will have to set up an organization to inspect and supervise the operation of the State schemes to ensure that they comply with the requirements of the act.

Great emphasis is placed in the bill on the interest of the Federal Government in assuring high standards of administration. The likelihood that the Federal Government may be in a position to call for the removal of individual administrators is likely to raise the issue of paternalism and Federal domination in its most unpleasant form. Issues such as that arising in the recent dispute between New York State and the Federal administration in the case of Mr. Moses are likely to be generalized.

(Q) The protection of the rights of mobile workers will be difficult to insure.

Under the present bill, which visualizes 48 different schemes, the only way to protect the rights of employees now in one State and now in another, but working always in employments subject to the act, is to provide for reciprocity agreements between all the different funds. Should all States take advantage of the opportunity to conduct experiments—on which so much emphasis is placed by the framers of the bill-each State will have to conclude an agreement with all 47 others, if mobile workers are to be assured full protection of their accumulated rights.

4. IT FAILS TO MAKE PROVISION FOR EFFECTIVE STABILIZATION PROGRAMS

I believe the possibilities of stabilization through action by individual firms to be greatly exaggerated. The major causes of irregularity of employment lie beyond the control of individual firms, and in many cases even of individual industries. The greatest hope for such action as is possible along these lines would seem to lie with the larger concerns and through action on the part of industries as units, In the hope of stimulating stabilization, the bill provides for the setting up of plant reserves and for reduced contributions by firms who have a lower unemployment record. But industries or firms operating on an interstate basis can carry through such stabilization schemes only if they obtain the consent of and meet the requirements laid down by every individual State in which they have a plant. The bill thus renders practically impossible precisely that type of action which is most likely to be productive of results.

The neglect of the possibilities of attack upon instability by an industry as a whole on an interstate basis is the more inexplicable in that the whole emphasis of the National Industrial Recovery Administration is upon such an. approach. Under the Recovery Act conditions of wages, hours, and other items affecting costs, as well as selling practices and price policies, are regulated upon a national basis. The present bill will introduce confusion and a new principle by regulating costs clue to unemployment upon a State basis and will in practice confine efforts to stabilize to what can be accomplished by firms, units of firms, and units of an industry operating within the borders of any given State.

5. IT IS UNNECESSARILY CONSERVATIVE IN MANY RESPECTS

(cc) The postponed imposition of the full 3-percent tax is undesirable.

The provision that prior to January 1, 1939, the full 3 percent should be levied only if the Federal Reserve Board's index of production—basis 1923–25—rises as high as 95 seems to be unduly conservative. In view of the improbability that so high a level of production will be attained, the stimulus to the States to act is reduced in two ways.

In the first place, in those States which have insurance plans under way, the contributions risualizecl have been in the neighborhood of 3 percent, and, for the very good reason that a contribution of much less than this amount will afford too little protection to the unemployed to enlist the interest of those who believe that unemployment insurance is a valuable first line of attack upon insecurity due to unemployment. If the Federal bill provides for a tax of

only 1 or 2 percent, employers in these States will receive inadequate protection against unfair competition, the main objective of the bill will have been lost, and the movement in favor of insurance systems in the various States will suffer a serious set-back.

And in the second place, if the tax is only 1 percent? little pressure will be exercised on the already indifferent States to set up schemes so as to regain the taxes paid by their own employers.

(*b*) A 3 percent tax will provide inadequate protection.

Even if standards were to be written into the existing bill, it is clear that it would be impossible to insist upon standards higher than those indicated by the Committee on Economic Security in its report. A 3 percent tax, even if risks are pooled orer the country as a whole, cannot yield on present estimates benefits equal to 50 percent of wages after a 4 weeks' waiting perior for more than 14 or 15 weeks.

Yet it is well known that even in normal times the duration of idleness for a considerable proportion of the unemployed is larger than this. In April 1929 in Philadelphia, at the height. of prosperity: 50.6 percent of the unemployed had been idle for over 3 months ; in April 1931. after only 18 months of depression, the corresponding proportion had risen to 75.5 percent. The contribution made to the total unemployment-relief problem by a benefit system limited to 14 or 15 weeks is thus very slight. The Committee's own estimates indicate that a 4 percent pay-roll tax would provide benefits under similar conditions for 24 weeks.

In order that full advantage should be derived from the existence of an unemployment compensation system that, once set up, is simple and convenient to administer, in order that this mechanism shall materially contribute to the vast problem of unemployment relief, it is suggested that the tax rate be increased to 4 percent.

6. IT IS BADLY DRAFTED AT MANY VITAL POINTS

(a) The bill taxes all pay rolls, regardless of amount of earnings.

As at present drafted the bill covers all employed persons working for an employer with four or more workers, irrespective of the level of their earnings. Taxes would be paid in respect of all employees, including the $100,000 a year executive. There is nothing to force the States to pay benefits to so wide a group ; and in fact, all existing State bills provide for an income limitation. Under the present act, therefore, it is highly improbable 'that any employer mill be able to claim a rebate in respect of Federal taxes paid by him on the earnings of his higher executives, since these will not be covered by the proqisioris of the State laws.

(b) Section 602b is oppdsed to the evident intent 'of the act.

Section 602b is in need of amendment. As it stands no rebate can be claimed by employers contributing to State schemes which make pnyment of benefit within 2 years after contributions are first made. It is presumably not the intention of the act to encourage postponement of benefit payments and the words "not more than " should be inserted before the words " 2 years " on page 36, line 18.

(c) Section 608 is so badly drafted as to lead to misunderstanding and confusion.

The provisions governing the right of employers to obtain additional tax rebates are by no means clear. It is the evident intention of the bill to permit the setting up of separate funds only on condition that at least I percent pay-roll tax is paid to the State fund. (See sec. 606, " unemployment fund.") As section 608 now stands, subsections (*a*) to (d) might be read as alternatives so that the requirement to contribute 1 percent to the State pool could be held not to apply to the schemes described under (*b*) and (c) . And on the other hand, it might be argued that any employer could obtain credit provided only that he has contributed the required 1 percent of his payroll to his State fund. It would avoid confusion and legal disputes if paragraphs (*b*) to (cl) were made special subsections of paragraph (n) instead of as now being made coordinate with that paragraph.

Even the meaning of section 608a is obscure owing to the insertion of an unnecessary comma after the word claimed on line 24, page 48. As now drafted the section could be read to mean that an employer could get additional credit if he had regularly made contributions of at least 1 percent of his pay roll attributable to such State, and is required to continue to contribute an undefined amount to a pooled fund.

7. MORE SATISFACTORY METHODS OF BRINGING ABOUT UNEMPLOYMENT INSURANCE ARE AVAILABLE

(a) A national system.

Apart from the technical errors in drafting, nothing short of a national scheme would meet all the above objections. This alternative was rejected by the committee for reasons which appeared to them sufficient and obvious, but on which they did not enlarge to any extent. Their preference for a Federal-State scheme cannot have been made on grounds of constitutionality since they recommended a Federal scheme for old-age pensions.

In the main, the committee laid their emphasis upon the greater possibilities for experimentation that would be available under a Federal-State scheme. But again, they failed to indicate the fields in which experimentation would be most fruitful and which had not already been adequately explored in the 24 years in which unemployment-insurance schemes have been in existence in various parts of the world. Nor did they suggest the extent to which experimentation can usefully be carried on by 48 States bound together by close economic ties and constituting essentially a single economic unit, without giving rise to confusion and disorder.

In fact there seem to 'be but two main problems in unemployment insurance of vital interest to America on which the 24 years of European experience throws little light: The first of these is the extent to which unemployment-insurance schemes could be developed upon an interstate industry basis. The second is the extremely difficult question of the extent to which it is possible to administer on a uniform basis an insurance scheme covering so vast a geographic area as the United States. It is obvious that the present bill, in confining experimentation to individual States, will make impossible precisely the type of experiment of which we are most in need.

Spokesmen from the technical board of the Committee on Economic Security have suggested to members of the Senate Committee on Finance other reasons why a national system was rejected. It has been argued that existing State interest and activity " would be nipped in the bud by passing forthwith a national law, or if it appeared that a national law were in the offing which for one 'reason'or another might not materialize." (Hearings on Economic Security Act, p. 447.) No support was offered for the former of these contentions and it is obvious that the reaction in the States to a Federal law would depend upon the form of that law and its specific provisions, especially in regard to the evolution of administration. And the weight to be attached to the danger that failure of an attempt to pass a national law would set back incipient State activity depends upon the probability that a national bill would be more likely to fail of passage than one on a State-Federal basis. The popular reaction to the security bill suggests that once the administration has decided to embark upon unemployment-insurance legislation there is a real interest in adopting the best technical methods. All criticism of the present title VI has indeed been from this point of view. If the committee had felt that the technical merits of a national plan were superior to those of Federal-State operation, I believe that a program embodying such a scheme would have been more certain of approval than the present proposals.

To some extent it is inevitable that attempts at any kind of Federal action will, during the process of legislation, give rise to uncertainty. And in fact, the present inadequate and ambiguous proposal has had precisely the discouraging effect that the technical board feared from the attempt to provide a national scheme. Because of the failure of the Federal Government to take up a position in regard to essential standards, the movement in many States has already suffered a severe setback.

In the second place you have been informed that a Federal system was discarded because of the " honest disagreement among people who have been particularly concerned with the question with respect to the type of unemployment-insurance bills that should be passed." (Hearings on Economic Security Act, p. 447–8.) Especial reference was made to the conflicts concerning the importance to be attached to plant reserves in place of pooled reserves, a conflict of opinion, I may add, which is yearly assuming less importance in expert circles. It does not follow that a national scheme would preclude the possibility of experimentation along the lines of plant reserves. Indeed, as I have pointed out above. there is reason to believe that the most fruitful experiments along these lines can only be made by a scheme that is fundamentally Federal

'in *coverage. And it is doubtless because of the importance that they attach to this feature of unemployment insurance that many of our larger industrialists would favor a national scheme which would make possible experimentation on an interstate industry basis. It is indeed curious that the Committee on Economic Security, in view of the obvious disadvantage of a Federal-State measure did not make greater attempts to explore the possibilities of permitting contracting out and merit rating under. a Federal System, instead of discarding, with the unsupported assertion that " under a national system no experimentation on a relatively small scale would be possible", a system that was believed by its own experts to be superior.

In the third place you have been told that one of the main weighty considerations leading to the rejection of a Federal system was the fear that " eventually the sources out of which unemployment insurance were paid might be tapped from general Federal revenues if a national bill were passed than would be the case if we had State laws which * * * would be more likely to keep -the cost definitely upon industry itself." (Hearings on the Economic Security Act, p. 448.) In regard to this assertion I would submit two comments for your consideration. Firstly, the experience of the two countries which have 'had the longest history of unemployment insurance suggests that pressure to make the unemployment-insurance fund responsible for more and more of the unemployed and to charge the resulting deficits against the proceeds of general taxation depends entirely upon the adequacy of the alternative kinds of relief available. When the assistance available to those not covered by the insurance system was extremely inadequate and poorly administered, there was tremendous pressure to extend insurance benefits beyond the field originally budgeted for. Since more orderly and adequate methods have been adopted in both England and Germany for dealing in a more uniform manner with those persons not covered by the unemployment-insurance scheme, the 'pressure on the insurance fund has been relaxed, and in both these countries the insurance funds today are not only solvent but are accumulating a surplus. 'To avoid a raid upon the Federal funds, therefore, we should not sacrifice an otherwise satisfactory Federal system for one that is inadequate and unworkable from the start, but we should direct attention. to the evolution of more satisfactory and more orderly methods of dealing with those not cared for by the strictly limited insurance system.

In the second place, the argument as presented to you by members of the technical board disregards the nature of the unemployment relief problem as a whole. If it is deemed worthwhile to institute a system of financing at least -some types of unemployment benefits by taxes upon industry, in order to protect the Federal funds, it is important that the scope of this industry-financed scheme should play at least a significant part in the total relief set-up. As I have indicated above, the only way to insure adoption of a system financed in this way upon any considerable scale is by a national system. Under the scheme as at present proposed, it is true that the Federal funds may not be called upon to finance extended benefits given by the few insurance schemes that will be set up. But the smaller the scope and coverage of the unemployment insurance systems thus set up the greater will be the residual relief 'burden falling upon the Federal Government to be dealt with on the present hand-to-mouth principles and the greater will be the total vulnerability of Federal funds to raids on account of unemployment assistance.

(*b*) The subsidy system.

Certainly the reasons given by the committee for rejecting a national scheme did not convince the majority of the experts who have studied this problem. But even if for political or other reasons it were deemed advisable to explore the possibilities of Federal-State cooperation, it is difficult to see why the committee adopted the clumsy and ineffective Wagner-Lewis principle in place of the more convenient method of the Federal subsidy, which was, in fact, recommended to the committee by its own advisory council and by the experts as the next best thing to a national scheme.

Under the subsidy system the Federal pay-roll tax goes directly into the Federal Treasury. The proceeds would then be paid to those States which set up approved unemployment insurance plans. Before any State plan could be approved it would have to comply with the uniform minimum standards of benefits and administration prescribed in the Federal law.

Such a system would avoid the worst consequences likely to follow from adoption of the proposed tax credits method. It would make possible the writing of essential standards into the Federal bill without involving constitu-

tional challenge. By strengthening control of the Federal Government which would itself have control of all the funds, it would make observance of these standards more certain and give assurance that the schemes set up were in fact worthy of the name of unemployment insurance. By providing for only one taxing system, it would enormously simplify administration. Under the subsidy proposal, provision for the worker who moves from State to State could be more easily made.

Only one substantial argument has been urged against the adoption of this more workable procedure. It is held that the necessity of making annual appropriations would introduce an undesirable element of uncertainty into the institution of unemployment-insurance schemes. This fear which is based upon the experience of the grant under the Shepherd-Towner Act, does not seem to be well founded. Unemployment insurance is likely to effect many millions of workers, and it can scarcely be argued that a measure of such vital significance to so large a section of the population would be permitted to lapse by Congress through a failure to vote funds at some future time. The danger would be real only if the systems set up are so insignificant as to command little popular interest.

The further argument that the tax rebate device is to be preferred because, containing no standards, it will more easily secure passage and thus encourage early State action has already been disproved by the facts. It is the absence of standards in the bill which renders it at the present time most open to challenge. In any case, it would seem highly doubtful whether a measure of such importance, embodying so many doubtful features and subject to so much expert criticism would be rushed through Congress with the speed that was anticipated by those who favor a system containing a minimum of standards.

For these reasons I would respectfully urge on the committee the undesirability of enacting title VI into law as it at present stands. Instead of encouraging unemployment insurance, it is likely to postpone the institution of satisfactory schemes of this nature for many years.

(Whereupon at 12 noon the hearing adjourned until 10 a. m. on Saturday, Feb. 16, 1935.)