(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