

Mr. EPSTEIN. I am at your call, Mr. Chairman, at any time. Dr. Hogue represents me in Washington. I might say that I have had the privilege for the last few Congresses to consult in executive session with Senate committees and House committees, and if there is any way that I can be of help, I do hope that you will not hesitate to call on us. We are at your service at any time.

The CHAIRMAN. The committee has a very difficult job before it.

Mr. EPSTEIN. I appreciate it.

The CHAIRMAN. Thank you very much.

Mr. Harold W. Story, Milwaukee, Wis.

**STATEMENT OF HAROLD W. STORY, MILWAUKEE, WIS., VICE PRESIDENT AND GENERAL COUNSEL, ALLIS-CHALMERS MANUFACTURING CO.**

The CHAIRMAN. Were you on the Advisory Council?

Mr. STORY. Mr. Chairman, I was not, but I attended the President's original conference and participated in that. I can give you a little background of my experience. I think I was one of the first industrialists in Wisconsin to recommend voluntary plans. That was about in the spring of 1931, before we had any legislative enactment in the State. I was one of those that I think in part was responsible for calling a meeting of our Wisconsin Manufacturers' Association for the purpose of getting sentiment for the adoption of voluntary plans. The depression came along about that time and we did not adopt the plans voluntarily.

I subscribe to what Mr. Folsom says, that voluntary action will not be effective. You must have compulsory action of the kind that is prescribed in the economic bill.

Incidentally, I am not appearing for the Allis-Chalmers Co. at all. I was requested to present the Wisconsin viewpoint, and I am particularly here for that purpose. I am appearing solely for myself and giving my own viewpoint.

I am going to try to talk just as a business man to you, Mr. Chairman, and give you an idea of the business man's viewpoint on the subject of unemployment compensation.

There are two types of unemployment compensation—the European type and the so-called “Wisconsin type.” The European type professes to be an insurance system. Obviously, it is not, because the term “insurance” implies knowledge of the risks and the adjustment of benefits and premiums to those risks. So, for the purpose of comparing the Wisconsin plan with the English type of plan, I would like to picture the English type as merely a gigantic compulsory unemployment benefit system. Of course, the English plan provides definitely for contributions—at least it did—by the State, the employer, and the employee. The benefits are to be paid out under rules prescribed by the society, which, of course, is the State in that case. There is no vested interest of the employer in the fund in any way; the fund belongs to the State, but distributed in accordance with the rules of the society.

The Wisconsin plan is called the Wisconsin reserves and unemployment compensation plan. I would like to picture it in contrast with the English system as the Wisconsin steady employment and higher annual wage plan.

The theory of the Wisconsin law is that true economic security can come only through a living wage, and a living wage means a living annual pay check. Obviously, steady employment is a fundamental in a high or decent annual pay check. The Wisconsin law aims to give a higher annual wage.

Now, how to go about it? The salient features of the Wisconsin law are simply these: The employer sets up his own fund, to which he makes the sole contribution. It is his fund, deposited with the State or trustee in a way to safeguard the principal. There is a provision that contributions made cease when the reserves of the employers reach a certain size. The State has no part in the picture, except to insure the proper administration of the law.

Now, how does the system operate?

The CHAIRMAN. Is it compulsory?

Mr. STORY. It is a compulsory system, a hundred percent.

The CHAIRMAN. But it is optional to each institution to set up its own manner of insurance?

Mr. STORY. No, Mr. Chairman. The insurance plan is compulsory throughout the State. The only thing that is optional is the method of investment, and that is very little optional at that, because the funds are all carefully safeguarded. The present requirement of the Industrial Commission is that no funds be invested in anything except Government securities. But then, that is merely a detail of safeguarding the investment of funds. I happen to be in favor of placing the money, whether it is through a governmental agency itself or through the deposit in the Federal Reserve System, at least I favor safeguarding that principal in the best way possible, and to that extent I certainly approve of the Federal bill in the method of safeguarding the investment of funds.

We will now come to the incentive. The incentive to stabilize employment comes in the provision which says that you may scale down your contributions when your reserve reaches a certain level. Obviously, if you are paying benefits regularly to unemployment you will never have any reserve, but there is a definite incentive to produce steady employment! for your people, and thus gain the benefit of the reduction.

It has been said many times, and I think Professor Epstein has scoffed at the idea of there being any incentive. I feel that he does not know employers' psychology when he makes that statement. Tax saving as you should well know, Mr. Chairman, is an instinct well-developed in the business man.

The CHAIRMAN. When did Wisconsin pass the law?

Mr. STORY. It passed the law in a special session of 1932-33.

The CHAIRMAN. How much tax did they impose?

Mr. STORY. They imposed 2 percent on the total pay roll, listing out, however, salaries in excess of \$300 a month.

The CHAIRMAN. How has it worked with reference to building up a fund?

Mr. STORY. Well, Mr. Chairman, the law was postponed on an index basis. The N. R. A. came along-or the Recovery-whichever it may be, or both-but listed the pay-roll indices, so that the law went \*into effect only last July-July 1 of the past year.

The CHAIRMAN. So you really have not been able to judge this from experience?

MR. STORY. The ~~his~~ year was a year of accumulation of reserves. I think at the present time they are accumulating at the rate of about \$400,000 a month. That figure may vary a little bit, but that is about the rate, and I think it will be higher, of course, as business improves.

Let me point out to you just the psychology of this incentive that I speak of. The treasurer of a company, the guardian of the exchequer, has a keen eye for cash leaks in any company. When he sees an opportunity to cut down the cash leaks by payment of unemployment benefits which will occur, he is going to be very arbitrary with both his sales and manufacturing departments to attempt to stop that leak. That is simply treasurer's psychology.

Let us assume that you cannot accomplish a 100-percent saving. That is, of course, give 100 percent steady employment. For those employers that get 100 percent employment we have accomplished a real job. We have given them a higher annual wage. If we cannot do it 100 percent, then what happens? Then the employer augments the actual wage of the irregular employee by a deferred wage, limited, to be sure, at the start, and possibly it must be limited reasonably, but at least the plan would pay 10 weeks' benefit in each calendar year, with certain other limitations as to length of employment and features of that kind, but at any rate the theory of the Wisconsin law is to allocate to the individual employer a part of the society's cost of supporting the irregular employee rather than throwing the entire cost on industry as a whole.

For example, why should an employer who gives steady employment subsidize a competitor who does not give steady employment? One who does not assume his fair share of society's burden of supporting that irregular employment? We feel that employment is as much a hazard of industry as accident, and that the employer should to a limited extent, at least, bear that cost in the same way that he is bearing accident costs.

I think there was no effort made when we put through our workmen's compensation law to ask full contributions on the part of the employees. As a matter of fact, the employee suffers enough by his unemployment. I do not see that there is any basis for putting a contribution on his shoulders; he has plenty of wage loss through that cause. He won't get all of his wage loss back, even under the Wisconsin system; it is impossible to do so under any system.

So that we feel that just as in the workmen's compensation system where there was a great hullabaloo raised about the impossibility of preventing or retarding accidents, and we have seen definitely that accidents can be prevented to a large extent: We know that unemployment can, that employment can be steadied. Only experience can tell us how much, but in the very short time that our law has been in operation, we have had tremendous interest in the matter of steady employment. I happen to know that classes are being conducted by a certain organization in Milwaukee that are being attended at the rate of 150 persons for each class, and there have been five series of classes. The interest is there.

What we need is advertence of the employer, and you will **not** have advertence unless you supply the incentive of the Wisconsin law.

There are certain possible economic effects. Mr. Cameron, in a recent Ford Sunday Evening Hour, commented on the share-the-work movement as being detrimental from an economic standpoint. He said you share the work and you reduce everybody to a low level of earnings. The result is a purchasing power that is reduced to a minimum. The Wisconsin plan produces the very opposite effect of the share-the-work movement. To that extent it produces selective purchasing power. Selective purchasing power-I wish Senator Couzens were here-selective purchasing power is the very thing that our great automotive industries need. If we are all down on a level below the ability to buy cars, there would not be any great automobile industries.

The Wisconsin law will tend to build up a selective purchasing power. Just how much of a factor that can be in recovery no one can know, but at least it is a possible factor that by increasing individual purchasing power we can start business on the reverse cycle.

We have heard a lot about technological unemployment. The technocrats have said that we should not have any technological advancement. Of course, that is ridiculous. The difficulty with technological advancement is that it is too quick in the application of the change. Let me give you an example of what I mean. The dial telephone installation of the American Telephone & Telegraph Co. was one of the finest examples of proper adaptation of technological advancement. I have understood that they did not lay off one single employee by reason of that change, in other words, they adapted it to their labor turn-over.

I feel that a system of this kind universally adopted might have a tremendous effect upon the employment which arises from technological advance. Just how much-it is all an experiment, but at least we are moving in what seems to be an economic direction, under the Wisconsin plan.

What possible effect might it have upon the expansion of boom times? With the law in its present form, probably little, but with severe penalties for irregular employment through possibly the addition of dismissal wages larger in amount, I think there might be just enough advertent, to cause a sound hesitancy about overexpansion in boom times. But, in my opinion, that is just a thought. How it would work out time can only tell.

The whole point is to have advertence of the employer with **the** problem of steady employment. You must have that advertence, and you will have it only through incentive.

Let us contrast the theory and possible effect of the Wisconsin plan with the English system. The English fund, of course, belongs to the State. No matter where the contribution comes from, if the state owns the fund, it is immaterial whether the employer contributes all or three of the parts of the possible persons contribute. The state, of course, can change the rules of the society-this gigantic aid society that I have mentioned.

Mass thinking today-and this is an important factor to be considered in this connection-mass thinking contemplates the system

that we are talking about—employment compensation—to be one which will pay liberal benefits for unlimited periods, or rather for the duration of employment to all unemployed, regardless of the length of service prior to that, or any element; in other words, they are thinking of a cash-relief system to take the place of the public-relief system that we have today. Of course, we know that, in the beginning at least this law as now drawn does not contemplate it. Professor Epstein mentioned that you had to have the three classifications in the community and in the old-age assistance—your poor relief, your out-of-door relief, and your compensation.

But what are you going to have with this mass thinking, and particularly with the wording in section 407-A in which there is the statement that this payment of unemployment compensation shall be paid as a matter of right to the employee? I know the purpose of that provision in the law; it is laudable. It is intended to prevent it from sounding like a dole, but the way the public is going to read that clause, this is a cash-relief assistance. It is going to give stimulus to the idea of changing the law as soon as possible so that it becomes a cash-relief system.

What has been the experience in England? England started out, I assume, with a system actuarially sound. Changes in the law were made for extended benefits, for increased rates of benefits. The result has been a trend toward a cash-relief system. And what happened? Obvious insolvency of the fund. That is why the Royal Commission of 1930 was appointed—to find a way to eliminate the insolvency of the fund. And what happens? They come back and restrict the provisions which have been expended and which have actually made the funds insolvent.

I believe from my 15 years of experience in legislative work—and I have been closely connected with it in Wisconsin—that whenever you have a pool fund which belongs to the State, belongs to society, you will always have political pressure enough to make that fund insolvent. I do not think there is any question of a doubt on that score in this connection, because there is no limit to what political pressure can do in that connection.

The English plan, the pool-fund plan, gives no incentive, of course, for stabilization of employment. It gives no incentive against technological development, nor the possibility of stabilization against overexpansion.

The CHAIRMAN. Senator Wagner, if you desire to ask any questions at any time, please do so.

Senator WAGNER. Have you any suggested amendments to the bill?

Mr. STORY. I have only in this connection.

Senator WAGNER. I ask you, because as the bill is now drawn, your present Wisconsin plan could not continue without some modification.

Mr. STORY. That is precisely it. I have only this one feeling: and I can end right now.

Senator WAGNER. You had better go on, because you were developing an interesting question.

Mr. STORY. Allow me to repeat then, please. The English plan has the defect, as I say, of potential insolvency due to political pressure. You gentlemen know more about that than I do. It does not allocate the cost to the industries which allow and have the regular

employment, and it does not work against overexpansion or tend to eliminate technological unemployment ; in other words, all it does, its sole purpose, is to pay benefits.

We in Wisconsin—and I feel that I am entitled to come here and say this, because I did advocate unemployment compensation long before this question on this bill was here—I was pushing for it and I see the need of it. and I advocate this type of compulsory bill ; but my feeling is that no one knows what the Wisconsin law will do. But, on the other hand, speaking of suicide, I will have to poke a little fun at Professor Epstein ; what we are trying to perfect is the suicide for State insolvency of the pool system. Frankly and honestly, that is my feeling in the matter.

I feel that Wisconsin will show the way to stay away from that kind of a situation. All we ask in Wisconsin is this : That you eliminate from the law the requirement that we must pay a certain percentage as a contribution into a pool fund. Show the liberality toward Wisconsin that you do in your other features of the bill. You welcome experimentation and you desire that the States adjust their systems to their local conditions in a large measure. There must be a difference between the North and the South,; there are different conditions in the East and the West. Wisconsin is trying a system ; we went out and started one. All I think is—and I feel this so strongly—that we should be entitled to carry on with our experiment. It is not a matter of how much we pay.

The CHAIRMAN. Thank you very much. Did you want to ask any questions, Senator Wagner ?

Senator WAGNER. You know there is that school of thought on this subject that favors a uniform Federal unemployment insurance system. Do you think that we are prepared for such an act?

Mr. STORY. I can state that I have very definite opinions on that. I do not think a Federal act should be contemplated at all now, and if my reasoning is right, at any future time.; and I base it on this idea, that the conditions in the different parts of the country require reasonable flexibility in the law. I do not think even minimum standards are going to reach your situation. I do not think anyone sitting here in Washington can tell what the various States with their varying conditions need. That is just one thing.

On the administrative side : For 15 years I have worked very closely with the industrial commission of Wisconsin, which is one of the finest we have in the United States. It is that kind of personal contact that will make effective any law. As Miss Elizabeth Brandice put it, “ The law is just a skeleton ; the administration is the flesh and blood.” In other words, it is this close personal touch, the relationship between the industrial commission or whatever the agency may be in the State, with the various employees and employers. That kind of contact can never come under a Federal system. It is impossible.

Senator WAGNER. The reason I ask is because there are some opposed to the act pending here now because it does not provide for a uniform national system.

Mr. STORY. I understand that thoroughly, Senator Wagner, and I feel for those two reasons: I think your N. R. A. indicated that

there is a difference in the situation between various areas, and why try to put a strait-jacket on?

Let me answer just one thing further. You cannot force people to obey the laws; you have got to educate them. The education can be done much better through personal local contacts than it can be done by the writing of rules from one central agency.

The CHAIRMAN. Thank you very much.

Dr. Ellen Potter.

STATEMENT OF DR. ELLEN POTTER, TRENTON, N. J., REPRESENTING THE **NATIONAL COMMITTEE ON CARE OF TRANSIENT AND HOMELESS**

Dr. **POTTER**. I have come as representing the National Committee on the Care of Transient and Homeless to speak particularly about one general phase of the security program as found in this bill, and I am awfully sorry I come with a laryngitis that is quite a match for Dr. Epstein's. I shall try to be brief, therefore,

Reading that bill and contemplating the address that was given by the President which stated that there was to be turned back to the States the care of the chronically indigent or those needing relief, States and local communities to be handled as formerly, with the works program taking care of the large part of the problem that now exists, one realizes that contemplating the old age and other forms of security that are provided here, and also the works projects that are provided, that there will still be left a group of considerable size of persons who will not have security assured to them because of the difficulties that have developed and have become very greatly accentuated during the last 5 years. That group we have talked about during the last 3 years, for want of a better term, as the transient group—that is, a group of men and women, and men with their families who have traveled the country looking for work and to save you time and my throat, I would like to present that document as giving the history that lies back of the transient movement, on the basis of which America actually was expanded by the pioneers, the source from which our seasonal labor was recruited, and the group from which our unemployed floating population was recruited when we mechanized industry and mechanized agriculture so that the number employed was reduced very considerably.

The CHAIRMAN. That will be put into the record.

(Dr. Potter subsequently submitted the following reference to the document referred to in her testimony:)

Federal Transient Program, An Evaluative Survey, May to July 1934, by Ellery F. Reed, Ph. D., director of research, Cincinnati Community Chest, with recommendations by the committee on care of transient and homeless. Published by the committee on care of transient and homeless, R. K. O. Building, 1270 Sixth Avenue, New York City.

(The document referred to is as follows :)

THE PROBLEM OF THE TRANSIENT

(By Ellen C. Potter)

Conspicuous among the problems revealed by the economic collapse of 1929, followed by the long continued depression, was that of the unemployed persons who in rapidly increasing numbers took to the road to find a job and who, at