There is nothing new in having each working generation support the preceding generation of workers. That has been the practice of families and society for uncounted generations. Only a few in each generation have laid aside enough to support themselves after their working lifetime.

While the foregoing proposal is sound for a country, attention should be called to the fact that company pension plans cannot be built with safety on the principle of paying pensioners from current operating income. Companies rise and fall over relatively short intervals and hence cannot safely assume that there will always be a younger generation to pay the pension costs of their predecessors. As an example, the railroads are now facing a continual increase in number of pensioners and decrease in the number of active employees.

Serious inflation would destroy the value of a reserve type of pension, but would not greatly disturb the above proposal. If prices are doubled, the monthly pension would need to be doubled, but the national (taxable) income or pay roll would also double, requiring no change in the tax percentage.

The committee's proposal involves a tremendous clerical task of recording individual contributions of a few cents per week and accumulations thereof. It would seem that the national problem is to supply a minimum income, which should be alike for all. Then voluntary accumulations, in the established savings media, provide a larger income for those with larger incomes or thriftiness. The proposal outlined above may be financed by whatever system is simplest and currently acceptable to Congress. Its immediate payment of full normal benefits and the collection of the needed funds would have no appreciable effect on current business.

Furthermore the Wagner-Lewis bill makes no provision for the women who are not gainfully employed or for the large number of farmers or others who are working on their own behalf.

STATEMENT OF HON. WILLIAM M. COLMER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. COLMER. Mr. Chairman and gentlemen of the committee, I am intensely interested in the Economic Security Act now under consideration by your committee. I am naturally interested in anything that tends to the betterment and the economic stability and comfort of the aged. President Roosevelt assured the Seventy-third Congress that he would recommend social legislation of this type. The people of the country as a whole, both young and old, are intensely interested in the problem. I have read with meticulous care and increasing interest the bill of the distinguished gentleman from North Carolina—Mr. Doughton—the chairman of this committee, which proposes to put into actual operation legislation seeking economic security and comfort for the aged, the unemployed, and the unfortunate cripple. The theory of this piece of legislation is beautiful, but I am very much concerned about its practical operation. We are all agreed that some legislation looking to this end is desirable. This committee has had many plans submitted to it, some most fantastic and impractical, some more practical and logical. But I desire to discuss briefly one feature of the legislation introduced by your distinguished chairman, as I feel that that particular bill in some form will be the one most likely reported by your committee.

The point that I want particularly to call to your attention is the provision which requires that the States must contribute an equal amount to that provided by the Federal Government up to $15 per month. As I understand the bill, the Federal Government will contribute to the aged people over 65 who can qualify thereunder an amount up to $15 per month, provided the State or other subdivision of the Government of which that particular aged person happens to be a resident will contribute an equal amount.

This means that, before the unfortunate aged person who is in need of this pension can receive the benefits thereof, or even the amount contributed by the Federal Government, the State or other subdivision of the Government must contribute a like amount.

I want to say in all frankness and candor to this committee, who I believe are really desirous of reporting out and enacting into legislation a bill that will be practical and workable, that this will not work. It may work in some States, but there are many others in which it will not work. This for the reason that the States are unable financially to meet the requirements. I can best illustrate this by taking my own State of Mississippi for example.

According to the census of 1930 Mississippi had 77,443 persons who are over 65 years of age. By the time this law is enacted, there will be very little variation in the figures. If anything, there will be an increase. It is estimated that, of this number, approximately 13,000 are on relief. I have no definite way of arriving at what percentage of the 77,443 would apply for a pension, but it is reasonable to assume that a considerably larger portion would apply for the pension than applied for relief. I think it would be fair to assume that somewhere in the neighborhood of 75 percent would apply for the pension. If the State matched the $15 provided for in this legislation, which is the maximum the Federal Government would provide under the bill, for 75 percent of the aged over 65, Mississippi's contribution would amount, in round figures, to $10,500,000 per annum.

Mississippi is not a comparatively wealthy State. Its total revenue receipts for the general fund in 1934 were only $14,000,000. The people in our State are already taxed by the State to the point where taxation has become onerous and burdensome in its efforts to carry on its school systems, road building, and other necessary expenses. It is quite obvious, therefore, that the State of Mississippi could not function under the set-up of this legislation and its dependent aged would be cut off from any benefits whatever. I am satisfied that the picture presented above, so far as Mississippi is concerned, is true in many other States of small comparative wealth.

Now, what I desire is some practical form of legislation. Thirty dollars a month is small enough, but if the people of many of our States are to be denied the privilege of sharing in the contribution of the Federal Government because of the financial inability of the subdivisions of the Government to contribute as substantially as the Federal Government, we are faced with a serious dilemma.

It might also be pointed out that, although the old people of a State that cannot match the Federal funds will not share in the benefits of this bill, the people of that State will be forced to contribute, in the form of taxes to the payments to the aged of the other and more fortunate States. This will be taxation without benefit.

I think that old-age pensions and the care of crippled children should be recognized as a national problem. Therefore, if this committee concludes that it is impractical to make as much as a $30 a month contribution to the needy aged by the Federal Government, the provision requiring the equal contribution by the State or other subdivision of the Government should be eliminated from the bill. And these needy persons in this aged class, who have contributed so substantially to the upbuilding of this Government, should at least be permitted to enjoy whatever amount in the form of a pension is granted by the Federal Government.

The CHAIRMAN. So far as the Chair knows, this concludes the hearings. The witnesses have been heard and the hearings will be closed.

The committee will now stand in adjournment.

(Whereupon, at 12:25 p. m., the hearings were closed.)

MEMORANDUM SUBMITTED BY DR. PAUL H. DOUGLAS, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CHICAGO, ON UNEMPLOYMENT INSURANCE FEATURES OF THE WAGNER-LEWIS BILL FOR SOCIAL SECURITY (S. 1130; H. R. 4142)

I am in hearty agreement with the general purposes of this bill. It is impossible to rely exclusively upon State action if we are to protect the aged poor and those thrown out of work by unemployment and through no fault of their own, for each State will be reluctant to levy an extra assessment upon the employers within its confines lest in doing so it should place these enterprises at a competitive disadvantage in comparison with employers in other States which do not have to pay such taxes or contributions. The tendency, therefore, is for the States to hold back and for much needed social legislation to be prevented or at the least greatly delayed.

It is greatly to the credit of the administration that it has seen this fundamental difficulty and that it proposes to have the Federal Government attempt to get united action on much needed types of social security. If I must criticize some of the details of the bill as presented, I do not want to be understood as attacking the primary purposes which it seeks to fulfill. On the contrary, as one who has been advocating unemployment insurance and old-age pensions for at least 15 years, I heartily approve of the general aim of this program. I believe, however, that these fundamental purposes could be effected better if certain vital changes were made in the bill, more particularly in those sections dealing with unemployment insurance.

I. THE COMPARATIVE UNDESIRABILITY OF THE OFFSET METHOD

Choosing to adopt a Federal-State system rather than an outright Federal law, the method which is proposed of obtaining favorable State action is that of a tax-offset. The Federal Government imposes a tax on pay rolls which by 1938 must amount to 3 percent. In States which pass unemployment insurance laws employers are then permitted to have the amounts which they contribute to the State systems credited as an offset against the Federal tax up to 90 percent of the latter amounts. If a State passes such an unemployment insurance act, it does not, therefore, impose any additional expense upon its employers, but merely permits these enterprises to make their contributions to a local fund which will relieve the local unemployed instead of these moneys going to Washington, and possibly being spent on entirely different objects.

This plan is most certainly ingenious, but in my opinion it is vitally defective in a number of important features:

(1) The bill lays down very few standards to which the State systems will have to conform to in order to be credited with the offsets. This was apparently because of the fear that if many such standards were set up, the act might be declared unconstitutional on the ground that it was using the taxing powers for a purpose which was primarily if not exclusively regulatory. As a result, the act leaves a State free to enact almost any kind of unemployment insurance system which it wishes, subject to a few simple rules governing eligibility for benefit and to the requirement, under the distribution of the residual funds for administration, that the personnel of the State services be on a merit and nonpolitical basis and that the benefits must be paid out through the State employment offices.

But no standards are set on such vital matters as (*a*) the minimum or maximum length of the waiting period, (*b*) the minimum or maximum length of the benefit period, (*c*) the average percentage of weekly wages to be paid in benefits, (*d*) the minimum and maximum weekly benefits, (*e*) provisions for part-time employment, (*f*) whether plant reserves, industry reserves, or State-pooled funds are to be used, (*g*) the salary limit for including nonmanual workers. While some variation and experimentation between the States may be desirable, it is apparent that under the method proposed, a bewildering variety of provisions is likely to result which will give widely varying degrees of protection to workers in different States.

(2) The bill in its present form does not make any provision for the wide differences in unemployment between the various States. Thus in April 1930 when the average percentage of unemployment among the nonagricultural workers was 8.5 percent for the country as a whole, the average for Michigan was 13.9 percent, for Rhode Island 11.2 percent, Montana 10.7 percent, and for Illinois 10.1 percent. On the other hand, the average in South Dakota was only 3.9 percent.[1] In other words, there was almost four times as much relative unemployment in the State with the highest percentage as in that with the lowest. If the 4 years from 1930 to 1933 are taken as a whole, the actuaries of the Committee on Economic Security estimate the average for the country as 25.8 percent. Michigan, which was again the high State, however, had an average of 34.3 percent while Georgia, the lowest State, had an average of 17 percent.[1] Here the highest State had a volume of unemployment which was relatively twice that of the lowest.

It is apparent, therefore, that under the proposed bill, if each State levies the assessment upon employers of 3 percent which it is hoped that they will, the amount of benefit which can be given will vary greatly from State to State. States with a high volume of unemployment will be able to pay only a few weeks' benefit to their unemployed while those with a low volume will be able to provide much more. There will be no justification for any such treatment. The unemployed in the States where the benefit period is short will be just as innocent as those where it is much longer. There is, in fact, no justifiable reason for penalizing them because of the accident of their location.

(3) The proposed bill will also result in 48 different sets of central records and probably in a bewildering variety of forms and administrative procedure. Anyone who has spent any time studying the handling of the central records of the British system at Kew will realize the necessity of a relative concentration of these records in at least large districts. There is good evidence to indicate that most States are too small administrative units to handle this work effectively.

(4) The proposed bill makes no provision for those workers who acquire eligibility in one State and who on moving to another become unemployed. It therefore largely leaves migratory workers out of its protection. The numbers of this class are, in absolute terms, fairly large. And many of them need protection against unemployment more acutely perhaps than any other group. Yet the present bill, by making eligibility occur exclusively within a State and not the country as a whole, debars this class from aid.

(5) The proposed bill, so far as its "offset" features are concerned, will be ineffective in enforcing such few standards as it prescribes for the States. If a State violates any of these standards the only way the offset provision can be used will be to declare that an employer's contributions to a State fund will not be credited against the Federal pay-roll tax. If this were done the employers would have to pay double. In practice the Federal authorities would be almost completely unwilling to invoke such a severe penalty against private parties who would not have been guilty of any offense. In practice, therefore, the offset features would be almost completely ineffective in maintaining uniform standards on these few points now covered in the bill. Nor could they be used to lay down further standards in the future.

A greater degree of control can be exercised by the Federal Government through the 10 percent of the pay-roll tax which it retains, and then presumably redistributes to the States in order to provide for their administrative costs. These sums can be withheld if the States do not conform to proper standards of personnel. This is important, but it should be noted that it is effective only by abandoning the offset feature so far as this part of the funds is concerned and resorting to an outright Federal subsidy plan.

(6) In practice, employers will have to make two sets of contributions. The first will be to the States under the State unemployment insurance laws. The second will be to the Federal Government for the three-tenths of 1 percent of the pay roll which is to be used, through redistribution, for administrative expenses (sec. 406 and 602). There will be some extra difficulty imposed upon employers in paying their contributions to two different sets of officials.

(7) Perhaps most important of all is the fact that the offset law will tend to confine not only the present but the future financing of unemployment insurance to a levy upon pay rolls. For such is the nature of the Federal tax. A

[1] Supplement to the Report to the President of the Committee on Economic Security (1935), pp. 5–6.

State cannot, therefore, obtain offsets for its citizens if it wishes to finance a portion of the costs from income or excess-profits taxes. These could not be offset against a Federal tax on pay rolls since they would not fall exclusively on the same persons or to the same degree upon identical persons.

It may well be held by some, however, that a portion of the costs of standard benefits should be met by taxes upon those who can best afford them and which will not either be shifted backwards to the workers or forward to the consumers. The offset method prevents this method of financing from being used within the range of protection afforded by the pay-roll levy.

There are also many who, while they would be initially willing to finance unemployment insurance from a pay-roll tax would wish to have some of the financing later shifted towards income and excess profits taxes or at the very least would like to have this possibility left open. But this cannot be done so far as the basic protection is concerned as long as the principle of offsets against pay rolls is retained. The proposed measure, therefore, forecloses future as well as present recourse to these other methods of finance. For all these reasons, therefore, the offset feature, while better than no Federal actiton at all, is seen to be clumsy and comparatively ineffective.

II. NATIONAL SYSTEM OF UNEMPLOYMENT INSURANCE

From the economic and administrative standpoints, there can be little doubt that an outright national system of unemployment insurance, under which the Federal Government would at once collect the money and disburse the benefits would be superior to any other system.

1. It would provide a uniformity of rules and provisions for the country as a whole.
2. Administrative records could be relatively centralized and a standardization of forms effected. The country could be divided into some eight or ten administrative districts, each of which would have a set of central records.
3. Migratory workers and those transferring from one State to another would not lose their claim to benefit.
4. Since the insurance fund would be Nation-wide in scope, a uniformity in benefits would be provided. The unemployed in States with high unemployment would not be penalized because of the accident of residence, but would share equally with all.
5. There would be no problem of keeping the localities up to minimum standards, since this would follow from the fact that the administration would be in central hands.
6. Employers would make their contributions to only one governmental agency.
7. The Government could, if and when it wished, use other methods of financing the payment of unemployment benefits in addition to the levy on pay rolls.

I presume that the objections which are chiefly advanced against such a national system are primarily constitutional and (in the better sense of the term) political. I am not a constitutional lawyer, but it should be noted that the bill properly calls for a national system of old-age annuities in which the contributions of employed persons and of employers are paid into a Federal fund. This is the only practicable way of handling this situation in view of the way in which many people move from State to State during their working life. But what I chiefly want to emphasize in this connection is that the drafters of this legislation evidently believed that such a national system of old-age annuities would be constitutional. If this is so, there would seem to be at least equal reason to believe that a national system of unemployment insurance would also be constitutional.

In fact, the case for the constitutionality of a national system of unemployment insurance would seem to be appreciably stronger than that for old-age annuities. For old-age annuities will be paid steadily, irrespective of whether we are in periods of prosperity or depression. Unemployment insurance benefits, however, will be paid out primarily in periods of depression. As such they will consequently serve to build up and steady consumers' purchasing power during such depressions and hence decrease their severity. The prospect of benefits will, moreover, lessen the hectic savings of the working classes during the early stages of a depression and will lead to a better distribution of these savings over longer periods of time. The decrease in the demand for

consumers goods and services at such periods and the piling up of idle savings in banks where they are "sterilized" will, therefore, be lessened and a further cumulative cause of depressions will be reduced.

It would seem to me, therefore, that a national system of unemployment insurance can be defended constitutionally on the added ground that it helps to protect the integrity of commerce and trade as a whole and that it thus falls within the power of Congress "to regulate commerce * * * among the several States", and the implied powers which were stressed by the great jurist John Marshall as falling within the provision that Congress could "make all laws which shall be necessary and proper for carrying into execution the foregoing powers."

Furthermore, if there is still any doubt as to whether a national system of unemployment insurance would be declared constitutional, I would suggest that this can be lessened by Congress passing two acts instead of one. The first could collect the funds; the second could outline the benefits. Congress would certainly have the power to tax in this way. There are, moreover, almost no limitations upon the spending powers of Congress, so that the payment of unemployment benefits would seem to be above legitimate criticism as constitutional. Even if a national system of unemployment insurance were to be declared unconstitutional, if these two features were to be joined together, (which I do not believe) I suggest that it should be able to run the constitutional gamut if they were put asunder.

I do not feel competent to pronounce on the broader political aspects of a national system of unemployment insurance, but I believe that the Congress of this country is well able to pass upon such considerations and if they decide that it is proper from this standpoint, I would be more than willing to accept their judgment. From the administrative and economic aspects of the problem, a national system would most decidedly be superior.

III. A FEDERAL TAX REMISSION SYSTEM

If it should be decided, however, that an outright national system was not practicable or expedient, a Federal-tax remission plan would be preferable to the offset method. Under the tax-remission plan, the Federal Government would levy taxes to collect the necessary funds and it would then distribute these sums back to those States which passed satisfactory unemployment insurance laws. Such a system would have distinct advantages over the tax-offset method.

1. It would permit more thorough-going and adequate standards to be laid down as a basis for State action.

2. By withholding a portion of the sums collected for a national reinsurance fund, aid could be given under proper controls to those States with relatively high unemployment, so that a uniformity of minimum benefits could virtually be assured to the unemployed of all States. Judging by the experience for the years 1930–33, it would seem fairly safe for the Federal Government to retain one-third of the total receipts for such purposes and for those mentioned in the next paragraph.

3. With such a central fund it would be possible to take care of those workers who transferred from one State to another.

4. The Federal Government would have a much greater possibility of keeping the States up to satisfactory standards, since it could simply refuse to remit the taxes if a State failed to carry out the proper administration of the plan. Uniform records, etc., could rather easily be obtained.

5. Taxpayers would have to contribute to only one agency, namely, the Federal Government, instead of to two. The Federal Government would subsequently remit these taxes.

6. The way would be left open for other sources of revenue than the pay-roll tax to be used if and when, in the judgment of Congress, this became desirable. A portion of these taxes could be remitted between the States in the precise proportion in which they were collected, while another portion could be distributed according to the relative ratio of unemployment.

IV. OTHER SUGGESTIONS IN THE FIELD OF UNEMPLOYMENT INSURANCE

1. The provision that the maximum assessment against the pay rolls shall not exceed 3 percent seems much too cautious. The actuaries attached to the Presi-

dent's Committee on Economic Security have estimated, on the basis of the 1922–30 experience, that such an assessment (when combined with a 4 weeks' waiting period and benefits equal to 50 percent of the wage, subject to a maximum weekly benefit of $15) would only provide for 15 weeks of benefit, and if a 3 weeks' waiting period were used, for only 14 weeks of benefits.[2] This is very inadequate, particularly in view of the failure of the bill to make any provision for those who will exhaust their claims to standard benefits but still be in need. While this benefit period may be extended in some States by levying a small contribution upon the employees, it is not certain how many will adopt this method. Such a policy is, moreover, opposed by large and influential sections of popular opinion.

If a pay-roll tax is, therefore, to be used as the exclusive method of raising funds, it would seem wise to increase the maximum assessment to 4 percent. According to the actuaries, this would provide 24 weeks of benefits with a 4 weeks' waiting period; while if the waiting period were reduced to 3 weeks, 21 weeks of benefits could be paid. In other words, by increasing assessments by one-third, the length of the benefit period could be extended from 50 to 60 percent. Nor would this constitute too heavy an ultimate burden upon industry. An assessment of 4 percent upon the pay roll would amount on the average to only around nine-tenths of 1 percent of the sales value added by manufacturing, although the ratio would be higher in the service trades. It should also be remembered that the added 1 percent could be met by the Federal Government itself from taxes imposed on the upper income brackets and upon excess profits.

2. The bill is much too cautious in levying a tax of only 1 percent upon pay rolls if the index of production for the years ending October 1, 1935, and October 1936, does not exceed 84 percent of the 1923–25 average, and only 2 percent if the index is between 84 and 95 percent. These sums will be inadequate and will not accumulate a sufficient fund for protection. I would much prefer to have the assessment 3 or 4 percent from the outset, but if this cannot be done, I would suggest that the assessment be fixed at 2 percent if the index of production is less than 90, and if it exceeds this figure for it to be raised to the full amount.

3. As at present drawn, the tax upon pay rolls is levied on the basis of the total amount of the pay roll. I would suggest that this be modified to include only the amounts paid to those who are subject to unemployment insurance. These could be defined as (*a*) all wage earners and (*b*) all salaried workers receiving less than $50 or $60 per week. In this way the employers would not have to pay, as they should not be compelled to do, for employees who are not under the protection of the unemployment-insurance system.

4. The bill is correct in including establishments which employ four or more wage earners. Because of administrative reasons, it would not be wise initially to lower this form of coverage any further. It is probable, however, that certain specific types of employment should be excluded initially because of the low unemployment ratios, excessive seasonal unemployment, administrative difficulties, or political reasons. I would suggest that agriculture and fishing should specifically be excluded in the beginning, and also public employees and those employees of religious and charitable institutions employed on an annual salary basis. Some of these classes might be included later.

V. SUGGESTIONS IN THE FIELD OF OLD-AGE PENSIONS

While the unemployment-insurance provisions of the bill are most in need of amendment, I would suggest that the maximum amount which the Government would contribute towards old-age pensions be raised from $15 a month (sec. 7) to at least $20 a month. In many cases, particularly in urban communities, a total of $30 a month may not be adequate to provide "a reasonable subsistence consistent with decency and health" (sec. 4).

I think the provision that the States must pay half the cost of such old-age pensions will restrain them from granting excessive amounts in pensions. There is little justification, therefore, in providing that the Federal Government will not give aid in support of pensions which are in excess of $30 a month. By raising the Federal limit to $20 a month, pensions running up to $40 will be made much more possible.

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[2] Report to the President of the Committee on Economic Security, p. 13.

I am not certain that this will necessarily entail a larger appropriation by the Federal Government, since the appropriations provided seem to be based upon the assumption that 1,000,000 old people will receive such pensions. This is five times the present number protected by present State old-age pension plans. This estimate seems to me to be exceedingly generous, and the added $5 might not necessitate the appropriation of any added sums.

NATIONAL LEAGUE OF WOMEN VOTERS,
Washington, D. C., February 8, 1935.

Representative L. DOUGHTON,
Chairman House Ways and Means Committee,
House of Representatives.

MY DEAR MR. DOUGHTON: The National League of Women Voters calls the attention of the committee to the various provisions in S. 1130 or H. R. 4120, regarding the manner of appointment of employees required to carry out the provisions of the act.

It seems to us that it is vitally important to ensure the appointment of eminently well-qualified persons to administer the provisions of this act which will affect the welfare of millions of individuals, both taxpayers and recipients of benefits. There seems to be no sound reason for not including employees in the classified service from the beginning, since this is a long time, not an emergency program.

We earnestly and respectfully urge that the changes suggested here be made by the committee in the bill before it is reported.

In title I, section9, and title II, section 209, dealing with the administration

In title I, section 9, and title II, section 209, dealing with the administration the manner in which the employees are to be appointed. The act creating the Federal Emergency Relief Administration specifically authorized the appointment of their employees without regard to the provisions of the civil-service laws. Whether or not this section of the Federal Emergency Relief Act would apply to appointments made by the Administrator in carrying out his responsibilities under the Economic Security Act is a moot question. Also, we believe that confusion might result should the President transfer the duties and powers conferred upon the Administrator to another officer or agency of the Government. Would these employees, if transferred to a department or agency which operates under the civil-service laws, come under the laws or would they be exempt?

We urge therefore that these sections be amended so that all persons will be placed in the classified service, thus avoiding any possible confusion in the administration of the act.

We also urge that section 401b, of title IV, be changed so that all employees of the Social Insurance Board come within the provisions of the Civil Service Act.

Sincerely yours,

LOUISE G. BALDWIN,
First Vice President in Charge of Legislation.

AMERICAN TRANSIT ASSOCIATION,
Washington, D. C., February 5, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman Ways and Means Committee,
House of Representatives.

MY DEAR MR. CHAIRMAN: In connection with your consideration of the social-insurance legislation now in hearing before your committee, the American Transit Association, representing substantially all of the street, suburban, and interurban electric railway mileage in the United States, together with the operation of some twelve or fourteen thousand motor busses, largely in urban service, desires to make the following observations, and will appreciate having this letter made a part of the hearings of the committee.

(1) Employment in the transit industry is stabilized to a high degree. No other industry can make a more satisfactory showing in regard to stability of employment. There are no seasonal fluctuations of consequence in the transit service, and a large percentage of the transit industry is served by organized labor under a union known as the "Amalgamated Association of Street and Electric Railway Employees of America", which is an affiliate of the American

Federation of Labor, and which is frequently provided, under contract, with a minimum of work per day, week, and year.

(2) Street-railway and motor-bus fares, as well as operations generally, are subject to supervision and regulation under State laws. In most cases street-railway fares are at their upper economic level as fixed by State or municipal authority, and a higher rate than those presently existing could not be utilized. In other words, if street-car fares could be advanced, in most cities the advance would result in diminished earnings, as the fares are as high now generally as will produce the largest revenues. Thus, additional taxes of any kind cannot be passed along to the consumers by this industry as they can be by the production and distribution industries.

(3) A considerable number of companies operating electric railways and motor busses in the transit industry are in receivership or in a precarious financial condition. This is best evidenced by the fact that several of the States have for several years exempted electric railways from the imposition of State taxes. The fact is further evidenced by a letter of the National Recovery Administration, dated September 15, 1933, which was written at the time the Code of Fair Competition for the Transit Industry was adopted. In part the letter states:

"Under the recommended Code, the transit industry will reemploy 7,250 additional workers, according to an estimate made by the Division of Economic Research and Planning. This will increase the annual pay roll of the industry by some $11,000,000 or about 3½ percent. * * * The income account of the transit industry, representing an investment of more than $4,000,000,000, * * * shows a net loss of about $6,110,000 in 1932 as against a net income of about $81,570,000 in 1929. Because of this financial situation it is believed that the burden of increased wages which the industry seemed willing to assume under the Code is all that can be fairly expected at the present time."

The financial condition generally of companies operating in the transit industry is common knowledge, and would seem to need no further proof.

(4) Ability to pay the tax levied by the Federal bill in the unemployment-insurance plan has not been taken into consideration. The tax is levied against all employers alike, whether or not they are operating in stabilized industries such as ours, and whether or not they are earning only bare operating expenses and taxes or even going behind in their operating costs. Obviously, a tax levied against a company that, under economical and efficient management, is not now earning sufficient to pay operating expenses and taxes, results in the acceleration of the abandonment of operations by such company.

(5) There is therefore solid ground for a consideration of some method to prevent the extinguishment of presently operating companies on account of the imposition of the Federal taxes. Authority should be lodged in the administrative board to exempt from the Federal tax such companies as are unable to pay the tax without accelerating their abandonment. The basis for such exemption might well be that the administrative board, after hearing finds conclusively that a company is not earning sufficient to pay its operating expenses and taxes, and that it has no accumulated surplus to which it may turn for the payment of the taxes. As stated, obviously if such a company is not relieved under the conditions set out, the very law itself will create in many places more unemployment than it will relieve.

(6) Specifically then, this organization suggests than an amendment be adopted to the Federal act authorizing the administrative board, after hearing and a showing that is conclusive, to be empowered to relieve a company from the imposition of the Federal tax as long as that company's condition continues to be as stated. Furthermore, that the Federal act specifically authorize the States to adopt similar statutes providing for the exemption of employers under the same conditions.

Your careful consideration of this problem is earnestly requested.

Very truly yours,

C. D. CASS, *General Counsel.*

STATEMENT BY DR. EVELINE M. BURNS, COLUMBIA UNIVERSITY

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 unem-

ployment 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 uiformity and confusion.
3. It adopts a clumsy administrative mechanism where a more convenient method is available.
4. It fails to make provision for effective stabilization programs.
5. The bill is badly drafted on many vital points.

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

(*a*) *The absence of essential standards in the bill 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 do not enact unemployment-compensation laws. The act permits the full 3-percent rebate 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. 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, collect the full 3-percent 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.

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. But it is doubtful whether the inducement is strong enough. Despite the expressed determination of the administration to withdraw from the field of unemployment relief, 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.

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. The mobility of labor may be seriously checked.

(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. It must be remembered that the protection against unfair competition extends only to contributions up to 3 percent of pay rolls.

Since the severity of unemployment varies widely from State to State (there is a span of 100 percent between the worst hit and the lightest hit States in the period 1930–33), there will inevitably be a tendency to adjust benefits to what a 3-percent tax will yield. Experimentation in the absence of standards will almost inevitably be experimentation at the expense of the protection afforded to the worker. Since plant funds are permitted, States can, if they so wish, approve funds providing very low benefits paid for short duration and after long waiting periods.

But if the benefits paid under State schemes are insignificant it becomes questionable whether the protection afforded justifies the tremendous administrative work involved in assessing and rebating the pay-roll tax for millions of taxpayers.

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 the Federal Government to help meet the costs of unemployment assistance, the Federal Government should require that the State schemes 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 State schemes meet certain standards 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 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 scheme 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 up a State basis, and unemployment varies enormously from State to State. 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 rebate 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 ADMINISTRATIVE MECHANISM WHERE A MORE CONVENIENT METHOD IS AVAILABLE

(a) *Federal control will be difficult to 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. This is not merely an inconvenient method of control and costly to administer, it is also very drastic * * * so drastic that the Federal Government may well be inhibited from applying it in many cases in which control should be exercised.

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.

(*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.*—Employers 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 insure 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.

(*d*) *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

As at present drafted the bill makes experimentation by industries or firms operating on an interstate basis almost impossible. Such industries or firms can carry through their own schemes only if they can obtain the consent of and meet the requirements laid down by every individual State in which they have a plant. Yet there is general agreement among economists that the major controllable problems leading to irregularity of operations can be most effectively tackled by action on the part of an industry as a whole. Action by large concerns is especially likely to be productive of good results, but these are precisely the groups most likely to have units operating in various States. Under the present bill it will be very difficult for them to carry through a unified policy looking to greater stability of operation.

The neglect of the possibilities of attack upon instability by an industry as a whole is the more inexplicable in that the whole emphasis of the National Industrial Recovery Act 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 in regulating costs due 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. THE BILL IS BADLY DRAFTED ON 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-yeear 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 can 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 provisions of the State laws.

(*b*) *Section 602 (b) is opposed to the evident intent of the act.*—Section 602 (b) is in need of amendment. As it stands, no rebate can be claimed by employers contributing to State schemes which make payment 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 1 percent pay-roll tax is paid to the State fund. (See sec. 606, Unemployment Fund.) As section 608 now stands, subsections (*a*) to (*o*) 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 pay roll to his State fund. It would avoid confusion and legal disputes, if paragraphs (*b*) to (*d*) were made subsections of paragraph (*a*), instead of as now being made, and coordinate with that paragraph.

Even the meaning of section 608 (*a*) 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.

ALTERNATIVE AND MORE SATISFACTORY DEVICES WERE AVAILABLE TO THE COMMITTEE ON ECONOMIC SECURITY

Apart from the tehcnical 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 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.

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. I assume that the gentlemen of the House committee are sufficiently familiar with the outlines of the alternative subsidy proposal and will not take time to elaborate upon its features. It would, however, avoid a number of the worst consequences likely to follow the adoption of the proposed tax-rebate method. It would make possible the writing of essential standards into the Federal bill which it is alleged cannot be written into the present bill without involving constitutional 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.

For these reasons I would respectfully urge on the committee the undesirability of enacting title IV 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.

EUGENE M. BURNS.

AMERICAN CHILD HEALTH ASSOCIATION,
New York City, January 31, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman House Ways and Means Committee,
Washington, D. C.

DEAR SIR: Owing to my inability to be present at your committee hearing on January 30, may I be permitted to submit the following comments on the economic-security bill, particularly titles VII and VIII, relating to maternal and child health, and public health.

For 18 years, I (Samuel J. Crumbine, M. D.) was engaged in the practice of medicine at Dodge City, Kans. I then became State health officer of Kansas, serving in that capacity for 19 years, and for 11 of these years as dean of the school of medicine of the University of Kansas. In 1923 I came to New York to the American Child Health Association, whose general executive I have been for 10 years.

The experience of these 48 years in private practice, and in public health, is the basis for my belief and conviction that there must be aggressive efforts looking toward the prevention of infant and maternal mortality and the promotion of child health. The loss each year of about 14,000 mothers in childbirth means that a large proportion of the homes in which the deaths occur will be broken. The cumulative effect of this tragedy, during the years that have passed and for the years to come, is an appalling menace to the home, which is the bulwark of our national and racial stability and the foundation of our civilization. Among older children the broken home is often a cause of delinquency. Because of the death of these mothers a mighty army of orphaned children is constantly growing, from which come the ever-increasing army of dependents and delinquents.

A number of years ago this very condition was so apparent to the social workers of the New York Association for Improving the Condition of the Poor that they organized a clinic for prenatal care, one of the first organized in this country for the purpose of not only cutting down the death rate of mothers but also as a means for reducing the annual influx of dependent and delinquent children occasioned by the death of the mother and the consequent disruption of the family.

In my judgment, prenatal clinics should be established all over the country in cooperation with the medical profession and under the supervision of the official agencies. This much-needed program might be attainable under the provisions of the security bill.

Health programs such as these are basic for economic and social progress and for the physical and mental development of the race.

Very truly yours,

S. J. CRUMBINE,
General Executive.

HARTFORD, CONN., *January 28, 1935.*

Hon. ROBERT L. DOUGHTON,
Chairman House Ways and Means Committee,
Washington, D. C.

DEAR SIR: I wish to express myself as heartily in favor of the maternal- and child-health program outlined in Senate bill 1130, title 7.

I have practiced obstetrics in Hartford for 20 years, and am convinced from my thorough knowledge of conditions throughout the State in this field that the rural areas of our State would benefit by the terms of this bill.

Very truly yours,

JAMES RAGLAND MILLER, M. D.

MICHIGAN CRIPPLED CHILDREN COMMISSION,
Lansing, Mich., January 28, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman Ways and Means Committee,
House of Representatives.

MY DEAR MR. DOUGHTON: In reference to Senate bill 1130, section 702, the portion dealing with the care of crippled children, I wish to make the following suggestions for the consideration of the Ways and Means Committee of the House and the Senate Finance Committee:

First, it would occur to me that the term "crippled child" should be defined in this section, and that the age limit should be 21 years, unless it is definitely determined that the definition should be left to each State individually, and that the term "child" is universally accepted in this country as a person under 21 years of age. I would suggest as a definition the following:

"A crippled child, for the purposes of this act, is defined as one under 21 years of age whose activity is or may become so far restricted by loose, defect, or deformity of bones or muscles, or nerves involving bones or muscles, as to reduce his or her normal capacity for education and self-support; an orthopedic or plastic-surgery case which has a definite crippling condition that actually or potentially handicaps the child educationally and/or vocationally."

We believe this is highly important, first, to establish a standard to be used in the various States, and, second, to simplify the problems of administration.

On page 54 of Senate bill 1130, line 4, there appears the statement: "The provisions of medical care and other services for crippled children." Unless it is felt that "other services" may properly be interpreted to refer to special educational advantages or transportation or maintenance for crippled children in the rural districts who cannot get to school because of physical limitations, I think that that phrase should be enlarged or clarified to include such services to crippled children.

Therefore, I would also suggest that, in lines 14 to 18, on the same page, the following amendment which I have italicized:

"The remainder shall be allotted to States for purposes of locating crippled children, and of providing facilities for diagnosis and care, hospitalization, and after-care, *including education when not otherwise available*, especially for children living in rural districts."

On page 55, I would suggest a similar amendment in lines 15 to 19 to read as follows:

"A state plan must include reasonable provisions for State administration, adequate facilities for locating and diagnosing children, adequate medical care, hospitalization, and after-care, *including education when not otherwise available*, and cooperation with medical, health, educational, and welfare groups and organizations."

I might add that my 10 years' experience in Ohio and 4 years in Michigan, as well as my investigations in many other States, have convinced me that one of the greatest types of neglect for crippled children lies in the inability of those living in rural districts to get the type of education which they should have considering their handicaps. We have a record now of 700 cases in Michigan who have had about all the hospital treatment the State is justified in giving them and who are in rural homes or in other locations where it is impossible for them to get to school because of their physical condition.

The agencies in Michigan interested in the care, relief, and education of crippled children endorse section 702 of Senate bill 1130, and feel that it will be of inestimable value in this type of work in the United States if enacted into law.

The investigation of the White House Conference on Child Health and Protection leads to the conclusion that only a small proportion of the total number of crippled children in the United States have secured any kind of real service, and those receiving adequate care are very few considering the country as a whole. The report recommended Federal aid to "properly constituted State service." (Refer to pps. 173 and 178 of the Handicapped Child, published by the White House Conference.)

This report also stated that a Federal program should be one of consultation, education, and demonstration services with financial aid to States and Territories and through them to local communities. That the Federal program should provide for a coordination of efforts with other Federal and State authorities and private agencies, as well as to carry on proper type of research to determine the best way to improve and enlarge existing State and local services. It set forth, too, that special emphasis should be given to the situation surrounding the crippled children of the rural communities.

We believe that this bill provides for the needs which were found in the investigation made by the White House Conference. The enactment into law would be a tremendous service to the crippled children in the United States and, in our opinion, is economically sound.

Very respectfully submitted.

HARRY H. HOWETT,
Secretary-Treasurer.