ECONOMIC SECURITY ACT

THURSDAY, JANUARY 24, 1935

House of Representatives,
Committee on Ways and Means,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The Chairman. The committee will be in order. We will continue hearings on H. R. 4120. We will hear Mr. Murray Latimer, chairman of the Railroad Retirement Board, as our first witness.

Mr. Latimer, will you come forward, give your full name and address, and such other information of your present and past activities as is pertinent in making a statement to this committee?

STATEMENT OF MURRAY LATIMER, CHAIRMAN RAILROAD RETIREMENT BOARD

Mr. Latimer. Mr. Chairman and gentlemen, I am chairman of the Railroad Retirement Board and have been chairman of the subcommittee of the technical board on old-age security.

Mr. Jenkins. Mr. Chairman, would it not be wise to have the witness state his qualifications, so we may know something of his background, before he presents a formal statement to the committee? I always find that is very advisable.

The Chairman. We shall be glad to hear the gentleman's past experience and qualifications that enable him to make a statement on this subject before the committee.

Mr. Latimer. I have been in the research division of Harvard University. I was instructor in finance there. Since 1926 until last year I was on the staff of the Industrial Relations Counselors, Inc., in New York, in the course of which I was adviser on annuities and pensions to a number of the large industrial corporations, including the Standard Oil Co. of New Jersey, Standard Oil of California, Standard Oil of Ohio; and a considerable number of other corporations. I was a member of the advisory committee to the Secretary of Labor, special agent of the Bureau of Labor Statistics of the Department of Labor, and a member of the staff of the Committee on Government Statistics and Information Services. I am the author of a two-volume work entitled "Industrial Pension Systems in the United States and Canada", and "Trade Union Pension Systems in the United States and Canada", and of a number of pamphlets and articles dealing with old-age insurance and related topics.

I was adviser on old-age insurance to the Federal Coordinator of Transportation, and conducted a study of the economic and actuarial phases of old-age insurance for the Coordinator covering railroad employees.

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Since July 21, 1934, I have been chairman of the Railroad Retirement Board, which was created by the last Congress. I was chairman of the subcommittee on old-age security of the technical board which has been working on this economic-security program.

I have prepared a statement, Mr. Chairman, which I shall read in part. I shall confine my remarks this morning to that part of the social-insurance program which deals with old-age security and parparticularly the parts of it which deal with old-age insurance.

I shall pass over, very briefly, title I of the proposed bill. It contains a proposal which has been before the Congress for several years. I take it that there will be little disagreement that the time is ripe for the enactment by Congress of a scheme of this nature. I should like to devote my time, therefore, to a discussion of two further questions. Ought the type of system which would be created by title I be the permanent and sole measure for old-age security in this country? If not, what would be the nature of a further measure, and when should it be initiated?

The answer of the President's Committee on Economic Security to these questions we know: There should be created immediately a national system of compulsory, contributory old-age insurance which would supplant, insofar as such is found practicable, and as quickly as is feasible, the system of old-age pensions.

This answer seems to me to be wise. I wish to present the line of reasoning which leads me to this conclusion.

The purpose of title I, as is indicated by the various section headings, is to provide "assistance for the needy" aged. This sort of security measure might be adequate and permanent if the "needy" aged were to be a minor part of the whole aged group of the population. We can be reasonably certain that such will not be the case.

Just now the degree of dependency among the aged persons is higher than it has ever been before, and we are likely to think that that is on account of the depression. Such is probably not the case. There is every reason to suppose that unless we change the existing situation quickly, dependency among the aged will be as bad, if not worse, 5 or 10 years from now, as it is at present. So far as the aged group is concerned, this depression bids fair to cause a rising trend of dependency for at least another generation, for at least 30 years.

The reasons for this are fairly obvious. First of all, we shall have a rapid rise in the number of our aged. Five years from now there will be probably 1,000,000 more persons 65 and over than there are now. And in 30 years the number will reach about fourteen and a half millions.

Second. The trend of employment among the aged has been downward for 40 years. While this has been due in part to the shift from agriculture to industry, a process now temporarily at least ended, there appears no good reason to suppose that industry and other nonagricultural occupations are likely to absorb any larger proportion of the aged, or, indeed, any greater absolute numbers of them.

Third. Not only will most of the persons in the aged group itself who are now unemployed never again be able to obtain employment, but it is likely there will be a large amount of permanent unemployment among the middle aged. This was beginning to be a serious problem before the depression, but it will be far more acute in the future than it has been in the past.

Fourth. Persons over middle age who do succeed in securing employment will in many instances owe their success to a willingness to make a sacrifice in the customary wage or be content with a highly routine job. The end result will be a wage which will not permit any appreciable surplus for old age, or indeed any surplus for any purpose other than the current maintenance of a rather low standard of living.

Fifth. While we are without quantitative data, it is reasonable to suppose that a large proportion of the savings of the middle-aged group have been wiped out. This fact, coupled with the increasing unemployability of the group, means that the relatively small percentage of the aged which in the past has been able to live on savings, or income from property, will in the future, as at the present time, be almost nonexistent.

Sixth. The economic difficulties of the members of the aged and the middle-aged groups will bear heavily on their children; thus depleting any surplus income which they may possess, and the dependency rate among that group will continue to rise. Of course, all this assumes that we do nothing at present to change this situation.

Looking at the whole program from a little longer range point of view, it is rather obvious that there will be a marked rise in the level of the social welfare generally if we made some arrangement whereby there would be continuously a clearance of the aged persons from among those who seek jobs.

The presence of rather large numbers of these old persons who are able and who want to take the jobs at any rate that they can get or any kind of a job that they can get, has long been a depressing influence on wage rates. The trade unions have recognized this by attempting to formulate annuity systems of their own which would remove from the labor market the aged group of their members. They have been unsuccessful, although, for a while, they seemed to be getting along fairly well. But these systems have fallen down because it has been found impossible for the trade unions to supply the funds to maintain them.

The result has been that union dues have had to be raised, and one of the great difficulties that a number of unions have had in organizing is the fact that as compared, for example, with company unions, in order to maintain these benefits the legitimate trade unions have had to charge such high dues that their attractiveness to their potential membership has not been as great as it should have been.

A measure of this sort would be of very great assistance, as I see it, to trade unions, in enabling them to lower dues and make membership in their organizations more attractive to persons who should be attracted to them.

There is another side to this labor-market situation, and it is very strikingly illustrated by the railroads. Even when older men are in employment, it is likely to produce bad effects among the younger fellows. These young men see their way blocked to promotion by these older men. There is inability to absorb the unemployed. The older men, in a great many cases, tend to be a burden rather than an aid to production and efficiency and if they could be removed from employment at an annuity or an income which would be sufficient for support, there would be probably a considerable increase in the level of efficiency and the general morale of the younger employees.

In general, therefore, the older workers are a disrupting factor in the labor market when both unemployed and looking for a job and frequently when employed. Under such conditions I submit that old-age pensions of the type contemplated under title I of the bill under consideration would be found increasingly unsatisfactory as the main form of old-age security.

First of all, their intimate connection with the "means" test will prove a drawback. Under a situation where the problem of old-age dependency is less acute than it now is, and particularly in the initial stages of legislation of this type, a grant of pensions conditional upon a "means" test may be satisfactory. If, however, the attempt were made to extend this type of system to substantially the whole of the aged population, as the permanent exclusive form of old-age security, great difficulties arise. First, the "means" test would not be a permanent deterrent to making application for the pensions; claiming the benefit would tend to become the customary practice. This is clearly shown by the experience of other countries under noncontributory old-age pension systems. Use of the "means" test would set up certain arbitrary distinctions between the several classes of the community, and would be apt to cause some discontent among the more fortunate persons who are for one reason or another able to be self-supporting. In the end the pressure for change or abolition of the "means" test would be strong. Nor, if there were to be no other system, would such a change be undesirable.

Second, the level of pensions, even if raised considerably above existing standards, would not be high enough to induce any considerable voluntary withdrawals from the labor market; nor would employers be able to retire superannuated employees without friction. Moreover, the "means" test would have a bearing in this connection since employers in handling their personnel problems could not, and should not, differentiate as between employees on the basis of their private means.

Third, the rapid growth in the aged population, combined with the diminishing deterrent effect (or modification) of the "means" test, would almost certainly produce a rapidly mounting volume of expenditures under the State old-age assistance laws.

In the immediate future, the expenditures under these laws will probably not be very great relative to what they might become later on. What they would be in the future, after a period of operation, is a matter upon which we may only conjecture. The actuaries have made estimates as to what the level of costs might be, based on certain arbitrary assumptions as to the rate of dependency. Except insofar as these estimates are based on projections of population, actuaries have no more competence to make estimates of cost than anyone else.

As a matter of interest I should like to insert in the record some figures as to the estimated population at some few dates in the future, together with estimates of what the expenditures would be on the assumption of various rates of dependency and various amounts of per capita benefits.

The figures which have previously been presented to this committee as to the amount of subsidy, for example, in 1980, have assumed that 50 percent of the population 65 and over would qualify under these laws and that the average subsidy by the Federal Government would be $145 per annum; that the cost of administration would be 5 percent on top of that, making a total of $152.25 as the expenditure by the Federal Government for each dependent person in 1980.

Of course, these are totally unreal figures.

I will insert in the record this table of estimated population 65 years of age and over at specified years in the future with possible expenditures for old-age pensions under certain assumptions.

(The table referred to follows:)

Estimated population 65 years of age and over at specified years in the future with possible expenditures for old-age pensions under certain assumptions

	1940	1945	1965	1980
Population 65 and over (in millions)	8.32	9.55	14.34	17.00
(1) 20 percent of aged population qualify; $20 per month average per capita expenditure (in millions)	399.2	458.6	689.2	816.0
(2) 20 percent of aged population qualify; $30 per month average per capita expenditure (in millions)	598.8	687.9	1,033.8	1,224.0
(3) 30 percent of aged population qualify; $20 per month average per capita expenditure (in millions)	598.8	687.9	1,032.3	1,224.1
(4) 30 percent of aged population qualify; $30 per month average per capita expenditure (in millions)	898.2	1,031.9	1,548.5	1,836.2
(5) 40 percent of aged population qualify; $20 per month average per capita expenditure (in millions)			1,376.5	1,632.1
(6) 40 percent of aged population qualify; $30 per month average per capita expenditure (in millions)			2,064.7	2,448.1
(7) 50 percent of aged population qualify; $20 per month average per capita expenditure (in millions)			1,720.6	2,040.0
(8) 50 percent of aged population qualify; $30 per month average per capita expenditure (in millions)			2,580.8	3,060.2

This table contains certain assumptions as to the proportion of the population in the aged group which would qualify for these pensions, together with certain assumptions as to the monthly average per capita pensions. These assumptions may be varied indefinitely, according to anyone's ideas about the amounts of pensions which should be paid and the proportion of the group which will qualify.

For all the foreg›ing reasons it seems to me it is wholly unwise to contemplate reliance on a scheme of the sort provided in title I as the permanent and sole reliance against old-age dependency.

I should like to point out that this same experience, this same situation, has been facing other countries which have attempted to maintain systems of this sort indefinitely and that the almost universal answer has been the change from the relief type of old-age security to a contractual contributory compulsory system.

The main questions are, What should be the specific provisions of such an old-age insurance measure, and when should it be adopted.

The specific provisions of an old-age insurance measure ought to be framed first with an eye to conditions which are to be met, and second, with due care that in meeting these conditions we set in motion no further sequence of maladjustments.

First of all, the amount of annuities to be granted should be fixed, having in view not only the benefit of direct payment to the recipient himself, but with the purpose of inducing as many as possible to withdraw from the labor market, so as to be rid of the depressing influence on wages, to provide for the reabsorption of the unemployed, the ordinary absorption of the younger generation as they begin to seek employment, to aid in the organization of labor by enabling trade unions to lower their dues, and finally, but not least, to take off the backs of children already overburdened the further burden of their parents. Nor should the advantages of the maintenance of a large and continuing stream of purchasing power directed almost entirely to consumers' goods be overlooked. Clearly, the larger the annuities, within reasonable limits, the greater the extent to which we shall realize these subsidiary aims. I submit that from this point of view the annuities scheduled under title IV of this bill constitute a minimum standard for such a program. Even with the annuities as scheduled, the full benefits of the program will not accrue before 15 or 20 years. If annuities payable were to be only those earned by employees in the separate age groups, with the taxes as scheduled in title III, the result would be that the full benefits of an old-age insurance system could be obtained only after a period twice as long. Even by exacting large initial contributions, annuities on an earned basis of the amounts here proposed could be paid only in 20 to 30 years, and the initial amounts would be much under those included in the bill. But, by so doing, there would be created other factors which now seem undesirable, to which I shall revert in a moment.

The question may be raised as to why the level of benefits in this proposed scheme should be materially lower than the benefits under the railroad retirement system created by the last Congress. While that system and the insurance scheme now under consideration have certain factors in common, there is a fundamental difference. The main purpose of the Railroad Retirement Act is to promote efficiency and safety in the national transportation system. The major premise in the creation of the railroad retirement system was that generally the employment of persons over 65 in the railroad industry tended to lessen the efficiency of the system and was a standing menace to the safety of the traveling public. Hence it is provided that retirement from the industry is to be compulsory at the age of 65, with certain provision for temporary continuation in service by mutual agreement, but within a few years in no event will any employee of a railroad from the president down be permitted to continue after attaining the age of 70. That, of course, is subject to the ruling of the Supreme Court, which will be made in the next few weeks.

No such factor is involved in the bill now under consideration. If it were, obviously the situation would be materially different. It is also obvious that where a legislative body by its own fiat decrees that persons having a certain characteristic, as age, are prohibited from following their customary occupation, that decree must necessarily be accompanied by a payment for life of an annuity which should be distinctly higher than an annuity which accompanies voluntary retirement. Voluntary retirement is permitted under the Railroad Retirement Act at ages under 65 but the annuities are reduced materially in such cases. Precisely what the relation of the annuities under the two circumstances should be is a matter for the exercise of judgment. I submit that the ultimate level of annuities as now set forth in the bill are at least not unreasonable as compared with the annuities provided under the Railroad Retirement Act. Another factor which ought not be overlooked in this connection is that superannuation in the railroad industry is heavier, relative to total volume of employment, than in any other comparable industry. The measures adopted in such a situation have been and ought to have been related therefore to this specific problem.

But to return to the specific system under discussion. Having fixed a level of benefits the question presents itself as to what parties should make contributions to support those benefits. Speaking broadly, it is obvious that both employees and their employers gain from the establishment of a system of old-age insurance. It is reasonable to require, therefore, that each contribute to the provision of these annuities. I know of no scientific standard by which the division of costs as between these two parties can be determined. General economic considerations point, however, to the desirability of maintaining the general wage level in terms of the wage available for current expenditure at as high a level as possible mainly because the effects of such a level on the market for the products of consumers' goods industries. Without going into detail, it may be pointed out that insofar as deductions for old-age insurance are made from the pay of employees, the result is to a considerable degree, a redirection of purchasing power from consumers' goods to capital-goods industries, which would in the first instance have results which seem undesirable in the short view, and may have still more unfortunate results in the long run unless the transfer is made gradually and great care is taken with the investment policies.

Dr. Brown will deal perhaps at a little more length with this, but I wish to point out that in the bill under consideration ultimately about 40 percent of the employees' contribution is used for the payment of death benefits on a savings-bank basis, so that the employer is paying in fact for between 60 and 65 percent of the cost of the annuities insofar as the total costs of the system are assessed against employers and employees. In other words, the ratio of employer to employee contributions toward the purchase of the annuities themselves are in the ratio of 5 to 3. I submit that this is not unreasonable.

A further set of considerations relate to the problem of whether the Government should make contributions to the support of the old age insurance system. The dangers which such contributions involve are well known. There is perhaps too constant a temptation to regard the system as a bottomless well from which all may draw irrespective of their rights in the fund. There is apt to be encouragement for the payment of annuities which are unreasonably high relative to the incomes being received by that part of the population which is producing the national income. Too little attention is likely to be paid to keeping the payments made by future beneficiaries in reasonable line with the benefits which they will be entitled to receive. Discriminations are likely to arise between various classes of beneficiaries, based not on rights arising out of contributions, but on extraneous considerations. Continuity of policy may be influenced by changing political influences.

There are, however, weighty factors on the other side. High contributions on the part of the employees will tend to reduce standards of living, particularly among persons receiving relatively low pay. Contributions by employers may be passed on either in the form of higher prices for their products or low wages or greater unemployment. The accumulation of funds may tend to direct to an undesirable degree streams of purchasing power from consumers goods industries into capital goods industries. Assuming the funds which the Government would contribute to be raised by socially desirable forms of progressive taxation, these undesirable consequences of levies on employers and employees would be mitigated provided no great reserves would be built up. Progressive taxation has tended to grow in disfavor in recent years on the ground that it is an unreliable yielder of revenue in periods of depression. Such an objection has no great weight in connection with old-age insurance funds if adequate contingency reserves are maintained since temporary decreases in current income will not seriously endanger the operation of the fund. Given adequate experience on which calculations could be based, projections of expenditures can be made so far in advance that a firm basis of planning for the future can at all times be maintained with a higher degree of accuracy than in almost any other field.

But there are still further considerations which would justify a Government subsidy. The introduction of a system of old-age insurance will, as has already been pointed out, for a considerable period of years result in great savings as compared to a straight system of old-age pensions. On the basis of figures as to costs which have already been submitted to this committee in connection with the old-age provisions of title IV, and in connection with what the expenditures would be under title I without the old-age insurance, I have calculated that if the savings up to the year 1970 were set aside in a fund and accumulated at 3 percent interest, the total accumulation would be in excess of 10 billions of dollars. A similar saving would be made by the States. These savings deserve to be recognized in any consideration of the contributions of the Government to the old-age-insurance scheme.

I submit that it is the experience of the great majority of foreign countries that the Government must support in part the old-age insurance system, and this experience ought to be given considerable weight. The standard contained in the draft convention formulated by the International Labour Office, to which this Government has recently adhered, provides that "the public authority shall contribute to the financial resources of the benefits of insurance schemes covering employed persons in general and manual workers." This standard was adopted after a most exhaustive study by the International Labour Office and after a long period of discussion by representatives of governments, employers, and workers.

Again, it is generally conceded that a major factor in insecurity is the maldistribution of wealth and income. Social insurance may not only contribute directly toward the provision of security, but indirectly by assisting toward the elimination of these inequities. Finally, if it is true that the existence of a sound social insurance scheme is essential to the maintenance of social peace, then the state, whose chief mission is to maintain peace within the nation, should obviously contribute largely to the support of insurance.

A word as to the main reasons why it seems to me essential that the old-age system be on a national basis is perhaps in order. Administrative and economic considerations both point to the necessity for national administration. First of all, except on a purely pay-as-you-go basis, rather large sums will necessarily be accumulated, even though the reserves will be far from those which would be maintained if the system were operated on the reserve standards which private insurance companies must necessarily maintain.

It is unlikely that most of the States could build up effective agencies for investing considerable funds. Any such investments would, of course, have a vital effect on the fiscal policies of the Federal Government; and as a matter of protection, from the standpoint of both fiscal and currency and banking policies, the Federal Government must retain control over investments. Second, population shifts in this country are still considerable. From the point of view of a system of old-age insurance, the whole working life of the typical worker must be taken into account. Shifts from one State to another will have very decided effects upon reserves and it would be wholly erroneous to assume that the shifts would cancel each other out within individual States. Moreover, the shifts themselves would effect changes in the value of benefits themselves and consequently would be extremely difficult to deal with on any actuarial basis. Even if legislation in 48 States were absolutely uniform, the value of an annuity of a given amount to an individual, payable some years in the future, would vary widely from State to State.

Third, under a system of compulsory contributory old-age insurance, in which benefits are considerably more liberal than under existing old-age pension laws, distinct effects on both the demand and the supply side of the labor market may be expected. The boundaries of the labor markets, of course, do not follow State lines; and in some industries, at least, the market is essentially national. Any assumption that the laws in the 48 States would be uniform is probably absurd, and would tend still further to produce disparate results in different geographical sections of the labor market. Old-age insurance is on the whole the most costly form of social insurance. Difference in the provisions of the systems in the several States would, on the whole, tend to be a more disrupting influence in competitive situations than would differences in probably any other form of social insurance. Finally, to rely on State action would mean precisely what has been the case in most other forms of social legislation, that action would be inadequate and long delayed.

It seems to me clear that all these considerations lead to the conclusion that the old-age insurance system not only is necessary but ought to be initiated at the earliest possible moment. This line of reasoning also leads to the view that while the benefit rates should start at a relatively high point, large initial contributions from either employers or employees would be undesirable; first, as impeding the progress of recovery; second, as building up excessive funds, creating new investment problems, and disrupting existing channels of investment; and third, as transferring purchasing power from one set of industries to another in an undesirable manner.

The system as set up will be self-supporting for a generation at least. It does not seem to me a serious obstacle to the adoption of a sound system of social insurance that the exact manner of financing the scheme 40 years hence cannot be determined accurately at the present time.

I wish to point out that until a system of this sort is started, all calculations as to costs and expenditures, and hence all the fundamental data on which a sound decision can be made, are based on assumptions which are open to a large margin of error. It may be of some value to enumerate briefly the type of assumptions which have been necessary to arrive at the actuarial estimates which have been submitted to this committee. These estimates have been made by competent actuaries and have been subject to the scrutiny of the advisory board, whose professional competence is beyond question. Other actuaries would perhaps arrive at somewhat different results. It is only fair to these actuaries to say that they realize the calculations contain assumptions which may prove wide of the mark, and that they are of a fundamentally different kind from those which actuaries are called upon to make in connection with fixing premium rates and making valuations for private insurance companies.

First of all, these estimates involve a projection of the total future population. This projection was taken largely from the studies of population experts such as Drs. Thompson and Whelpton, of the Scripp Foundation for Population Research, and Dr. O. E. Baker, of the Department of Agriculture. It has been assumed that the population will rise gradually to 150 million in 1975 (?). On the basis of this first assumption age distributions have been projected on the basis of the 1930 census, with the assumption that the mortality among white males in the population in the period 1920–29 will apply to the whole population in the future. This makes some slight allowance for improved mortality. It has been assumed that initially the insured population would be about 33 million and would rise by 1980 to approximately 48 millions of persons. It has been further assumed that in the early years of operation of the system, 33 percent of the population 65 and over would qualify for annuities under it, and that this proportion would rise gradually to 60 percent. It has been assumed that the changes in salaries and wages by age would be such that the cost calculations could be based on the assumption that salaries remained constant. It has been further assumed that the net immigration would be 100,000 per year, distributed as to age according to immigration in recent years, and that survivorship of these immigrants could be determined on the basis of the same mortality table as was used in the other calculations. And finally it has been assumed that interest would be earned at the rate of 3 percent per annum on any accumulated funds. All allowance for shifts in and out of insured occupations is implicit in these foregoing assumptions.

The calculations which have been presented could not have been made at all without some assumption, implicit or otherwise, on all these points; and there will be no serious disagreement as to their reasonableness. In the absence of a system of old-age insurance which would yield data permitting specific measurements of each of the factors involved, no better estimate could be made 5 years from now. But until the system of old-age insurance yields its own data there can be no competent final determination of the financial foundations for this or any other scheme of old-age insurance. We can proceed as soundly today on measures of this sort as we can 1 year or 5 years or 10 years in the future.

Mr. Lewis. Dr. Latimer, is it your belief that the Government itself should contribute to the unemployment insurance fund? Is that what I understand from your statement?

Dr. Latimer. No, sir. I am speaking of the old-age insurance. The bill provides directly for no governmental contribution. I have tried to give both sides of the picture, whether or not the Government should contribute. The point I wish to make is, this system is self-supporting for at least another generation; that at that time, after we get the figures on which accurate calculations can be made, I am not saying that the calculations which have already been presented are not accurate, but they are subject to wide margin or error. When we begin to get data on which we can be certain as to the accuracy of them, the decision can then be made as to how the system should be supported.

There is no commitment, as I see it, by the Government, to support it, under this bill.

Mr. LEWIS. Then it would not be correct to infer that you would eliminate the clause providing for contributions by employers and employees to old-age pensions?

Mr. LATIMER. No, sir; by no means.

Mr. HILL. You confined your statement this morning to the subject of old-age annuities?

Mr. LATIMER. Insurance; yes, sir. I did not touch the voluntary annuities at all.

Mr. HILL. You did not go into the unemployment-compensation phase of the bill?

Mr. LATIMER. No, sir. I have been chairman of the committee on old-age annuities of the technical board and only to a limited degree have I gone into the unemployment-insurance side of this discussion.

Mr. HILL. You made the statement in substance that since both the employer and the employee are interested in the old-age annuity——

Mr. LATIMER. Insurance.

Mr. HILL. Which is the subject of this bill, they both should contribute.

Mr. LATIMER. I believe so; yes, sir.

Mr. HILL. I was just wondering if there would be anything to distinguish the interests of the employer and the employee in the old-age annuity proposition from a similar interest or a similar situation with reference to unemployment compensation.

Mr. LATIMER. There is a fundamental difference there. There is nothing that anyone can do about a man getting old. He is either going to die or get old. There is, at least we now think there is, some possibility of reducing the amount of unemployment, if proper incentives are given to the employer to make all the rearrangements, the planning, control of production, and so forth, which are at his disposal, to eliminate unemployment.

All the socially desirable incentives are not in unemployment insurance, in the direction of lowering of cost. All the socially desirable incentives as regards old-age insurance will increase the cost. That is, if we reduce the mortality rate, which is a desirable thing to do, old-age insurance costs more. If you reduce unemployment, on the other hand, unemployment insurance costs less.

Mr. HILL. I do not know whether I follow you on that. I suppose it is perfectly clear, but I wish you would make it a little clearer to me. I understood you to say that the reduction of the mortality rate made old-age insurance more costly?

Mr. LATIMER. Yes, sir.

Mr. HILL. Just why?

Mr. LATIMER. In the first place, given 1,000 persons, let us say at age 20, under the present mortality rates as I remember them, about 665 survive to 65. If we reduce the mortality rates—and the calculations presented here assume a certain rate of mortality—you put up so much money now and by 65 together with interest accretions this fund will provide for 665 men on the basis of the present mortality tables, but suppose that instead of 665, or whatever the figure may be, 800 survive. In other words, the mortality has gone down. You have got to put up more money in order to provide for that greater number of persons who are going to reach age 65, or age 60, or age 70.

Mr. HILL. But you would not pay out the money.

Mr. LEWIS. Oh, yes, you would.

Mr. HILL. Yes; that is correct.

Mr. LATIMER. Yes, you would.

There is a second factor. Under the tables that have been submitted, I think that the length of time that a man receives annuities after 65 is about 12 years. Suppose that should go up to 14 years. That would cost more money.

Mr. HILL. You relate the subject of old-age insurance, as I understand it, to the question of unemployment. In other words, if men retire upon receiving annuities—retire from active employment—it leaves room for more people to get jobs.

Mr. LATIMER. It should. That, of course, depends.

Mr. HILL. But it is a voluntary retirement. It is not a compulsory retirement.

Mr. LATIMER. It is a voluntary retirement; so far as I know, outside of the railroad industry, it has never been found practicable, at least by Governmental policy, to force persons to refrain from gainful occupation.

Mr. HILL. The chances are that a man who is in good health and in vigor, upon reaching the age of 65, if he still has an opportunity to work at his job at a higher rate of compensation than he would get simply from an old-age annuity, would continue to work at it, or even try to supplement his old-age annuity.

Mr. LATIMER. Not always. Experience with voluntary retirement in industry has shown that there will be very considerable numbers who will retire even though in very good health on their own volition. You cannot expect, however, to wipe out the whole of the population, from gainful employment the minute they reach 65.

Mr. HILL. You did not get into the subject of unemployment compensation. But, on the basis of your statement that both the employer and the employee are interested in old-age insurance and hence both should contribute to it, would not the same principle hold true as to a contribution by both employer and employee in the matter of unemployment insurance?

Mr. LATIMER. As I pointed out, there is another factor there which does not appear in old-age insurance, namely, that by putting all the cost on the employer, you give him a greater incentive to stabilize employment. It may be that your incentive will not work. But the theory has been that we ought not to discard that effort until it has been proved definitely that it will not work.

A great many people believe, it seems to me with good reason, that those incentives will not work. Nevertheless, we do not really know

Mr. LEWIS. You had under study particularly, I inferred, the subject of the recent act of Congress, the railway retirement act?

Mr. LATIMER. Yes, sir.

Mr. LEWIS. Do not answer this question if, because of your position, you ought not to give mere conjectures in the matter of figures. But I should like very much to know, if you can tell us, what is thought to be about the average pension that would be paid the average railroad employee under this recent act, accepting the present railway rates of wages?

Mr. LATIMER. Accepting the present railway rates of wages?

Mr. LEWIS. Yes.

Mr. LATIMER. Of course, under the Railroad Retirement Act, the annuities which will be paid in the next few years will be determined almost entirely by the level of wages between 1924 and the end of 1931, which gives them a very considerably higher figure than it would be if the last 3 years were included in that prior service period.

Mr. LEWIS. Any rate of wages that you accept as a basis for your thought, I should like to have, in getting an estimate from you.

Mr. LATIMER. We have made some rather extensive calculations as to how those annuities would run, and the average, as we figure them during the next several years, will be around $950 a year initially; in other words, about almost $80 a month. That will rise slightly to about $1,000 and then will tend to fall slightly because of the fact that in the future the annuity is based on the average compensation during the whole period of the service.

There is in the railroad industry at least a distinct rise in the level of pay after the first few years of service, although not in the maintenance occupations, nor station agents and telegraphers and tower men and miscellaneous groups, where there is a decline in earnings after about 40 to 45.

Mr. LEWIS. About $950 a few years hence on the present rate of wages; is that right?

Mr. LATIMER. Not the present rates, but on the wage rates that were effective in the period 1924 to 1931. The annuity is based on actual earnings, so that not only are wage rates a factor, but short time and things of that sort, except if short time is concentrated rather than being 3 days a week or 2 days a week.

Mr. LEWIS. $950 a year, then, would be the average?

Mr. LATIMER. Yes, sir.

Mr. LEWIS. Just one other question with regard to stabilization. Let me first state my thoughts and then get your reaction. There are two kinds of stabilization. In a seasonal industry, where they work 6 months a year and are idle 6 months a year, where the employees are idle for 6 months a year, the extension in such an industry to 9 or 10 months of continuous employment by whatever means would be a real stabilization.

Mr. LATIMER. Yes.

Mr. LEWIS. But there is another kind of stabilization, Dr. Latimer, that you cannot fail to notice. Let us say that the work available drops one-third. The employer and perhaps some of the senior employees insist upon dropping one-third of the employees. Those retained continue their work steady. The industry goes on steady. But, in effect, one-third of the employees have been disemployed You would not consider that as real stabilization, would you?

Mr. LATIMER. No; that is not stabilization. Of course, employment insurance is, as initially conceived, at least, through this bill, not insurance against long depressions.

In the railroad industry we have made some computations which tend to show the relative effect of seasonal as compared with cyclical unemployment. Employment in the railroad industry has dropped roughly from 1,700,000 to under 1,000,000. There is a difference of 700,000.

So far as seasonal employment is concerned, we find that the number of seasonal employees in 1933 were about 75,000, whereas in 1929, on the same basis, they would probably have been roughly double that, perhaps something more, because about 65 percent of the seasonal employees come in one small group of occupations.

The unemployment-insurance measures are directed obviously mainly toward short periods of unemployment rather than those long periods of almost catastrophic declines in employment.

Mr. LEWIS. Will you give the committee a concrete example of what you would conceive a stabilization achievement by an employer such as would entitle him to a credit for it under the unemployment-insurance feature?

Mr. LATIMER. I would much prefer if you would ask that question of Professor Hansen, because he has been chairman of the subcommittee which has dealt with that, and I have not.

Mr. LEWIS. I shall do that.

Mr. VINSON. Dr. Latimer, do I understand that you have looked at this problem from a 10-year viewpoint?

Mr. LATIMER. No, sir.

Mr. VINSON. Did I not understand you to say that the plan that you suggested would run for 10 years, and you would then take a breath, look around, and a future Congress could build for the future?

Mr. LATIMER. The plan as suggested will run on a self-supporting basis for at least 30 years, according to actuarial calculations. I am inclined to think that it will probably run a little longer.

Mr. VINSON. What was it that you said about a 10-year period?

Mr. LATIMER. I was saying that if you do not do anything now, you will not know any more about it 10 years from now than you do today, because all of the basis of any final determination of the financial foundations of a scheme of benefits——

Mr. VINSON (interposing). What is the situation that will exist at the end of 30 years, under your plan?

Mr. LATIMER. Thirty years from now, as nearly as we can see, the income and the outgo would just about balance, with the outgo rising somewhat faster than the income.

Mr. VINSON. With the outgo rising somewhat faster than the income?

Mr. LATIMER. That is correct.

Mr. VINSON. That is the situation that exists under the plan set forth in the bill as of 1965.

Mr. LATIMER. I am speaking of the plan in the bill; yes, sir.

Mr. VINSON. Do you suggest contribution on the part of the Federal Government?

Mr. LATIMER. I am not definitely suggesting it.

Mr. VINSON. An annuity contribution?

Mr. LATIMER. I have tried to outline here what seemed to me the advantage of Federal Government contributions which other countries and other times and places, including the present time, have found.

I also tried to point out what seemed to me the dangers which would be attendant upon such Federal Government contributions. But I also tried to point out that to start this system with much heavier contributions than you have scheduled would also be attended with some dangers; and I tried to point out that it would be reasonably safe to start on the present basis, accumulating data which would be required in order to make a sound decision, make the decision then when you have some basis on which to make it.

Mr. VINSON. Do you make any suggestion as to different contributions than those which are contemplated under this bill?

Mr. LATIMER. Calculations have been presented here on a number of different rates of contribution.

Mr. VINSON. I understand that, Doctor, but I am asking you, What do you think?

Mr. LATIMER. My own feeling is that they should not be started off at much higher rates than have been scheduled in the bill, if higher at all.

Mr. VINSON. I thought I heard you say that you felt that there was no assurance in this bill that the Federal Government would back up the old-age annuities.

Mr. LATIMER. That is true. There is no commitment on the part of the Federal Government.

Mr. VINSON. You thought, as I got it, that there should be a Federal contribution?

Mr. LATIMER. Not initially; no, sir.

Mr. VINSON. To the annuity fund?

Mr. LATIMER. No, sir. I am trying to say, you have got several things you can do. You can have high contributions, whether from the Federal Government, employers, or employees, and build up large funds. That seemed to me to be undesirable.

Mr. VINSON. I recognize your position. You were a member of the technical advisory committee—what was that?

Mr. LATIMER. The technical board.

Mr. VINSON. The technical board. As such, you may have personal views that you have not expressed; is that correct or not?

Mr. LATIMER. I am trying to give my personal views now.

Mr. VINSON. I realize, though, that the committee has made a report here.

Mr. LATIMER. Yes, sir.

Mr. VINSON. And that is the composite view of the committee?

Mr. LATIMER. Yes, sir. It happens, however, to be quite in line with the report made by the experts on the technical board who assisted in the preparation of this program.

Mr. VINSON. Have you any personal views to express, any suggestions to make, that have not been presented to us by witnesses heretofore or by yourself in your statement today?

Mr. LATIMER. No, sir. I have given, I think, my views. My suggestions are pretty much what the bill calls for, namely, to start off with a low initial contribution with relatively high rates of benefit. Then to determine, not immediately, but as soon as the data are available, what shall be the policy of the Federal Government with regard to making its own contributions, with regard to the proportion which should be assessed against employers and employees. Now, my own personal feeling is that the Federal Government should make a contribution; not now, but should make them.

Mr. VINSON. Why not now? That is the point I cannot quite grasp, except for the burden upon the Treasury, and, of course, I realize that.

Mr. LATIMER. Not only the burden on the Treasury, but why should we build up extremely large funds which would tend, perhaps, to get us into unwise channels of investment?

Mr. VINSON. Of course, if a person has the power to look forward to 1980, actuaries can make computations and say that there will be 75 billion reserve, and that that is unthinkable, and so forth and so on. But it is a difficult matter for me at least in my weakness, to ascertain with exactness what conditions are going to be in 1980. So far as I am concerned, it is a pretty hard matter for me to figure out what is going to happen a year or 2 or 5 years from now, or possibly next week.

The thought occurs to me that we ought to be on the safe side and start this thing with a fair Federal contribution. Then, as we go along, and have our figures and experiences, build for the future with just a little more certainty.

I am inclined to think that regardless of what we may think, how we may visualize 1965 or 1980, there will be intervening Congresses that may not have those views.

Mr. LATIMER. That is quite true, sir. The thing that stops you, when we begin to think about accumulating those funds, is, first of all: How will they be invested?

Mr. VINSON. I know, but I am not talking about building up such a reserve or keeping that reserve for such a length of time that it would gum up the works.

Mr. LATIMER. You have got to keep it, if you build it up.

Mr. VINSON. When you get to that point, or before you get to that point, let us assume that we go along with a reasonable Federal contribution for 5 years. You are not going to have any such reserve that we could not take care of; then build from that foundation and from that experience.

Mr. LATIMER. I am not sure that I understand. Would you dispense entirely with employer and employee contributions?

Mr. VINSON. No, no, I am not saying that. What I am trying to do, thinking out loud, is to avoid passing this buck that is going to put a $2,000,000,000 annual burden on the folks who pay taxes in 1965 to 1980 and thenceforth.

Mr. LATIMER. I am not advocating passing the buck to 1980, by any means.

Mr. VINSON. That is what we are doing in this bill. They tell us it is going to be a burden when it levels off, in 1980, of about $1,900,000,000.

Mr. LATIMER. It would be perfectly all right to write in the bill a provision that 5 years after the system was in operation, and you have all of your data together, you can then restudy it. You can put that prescription in the bill.

Mr. VINSON. That study is going to be made whether we write it in the bill or not.

Mr. LATIMER. That is what I assume.

Mr. VINSON. Congresses are going to be here, and they are going to study this problem. The thought occurs to me, if you had a reasonable Federal contribution in conjunction with the contribution from the employer and the contribution from the employee, then we would be on a firmer basis when we try to visualize the future.

Mr. LATIMER. If the Federal Government by implication shall take over the liability for making good and keeping funds at a certain level, I wonder if you really need any more contribution on the part of the Federal Government. Suppose this is a contribution of $100,000,000 or whatever it may be. Suppose the Federal Government meets that by giving its note. In what way are you better off? I am not asking you the question. I am asking myself, and I do not know that we are.

Mr. VINSON. We might not be better off, but the folks in the far-distant future would be better off.

Mr. LATIMER. They would still have to raise the money to meet the note.

Mr. VINSON. Oh, they would not have to raise quite so much.

Mr. LATIMER. I think it comes down to this. In 1980 or 1970—let us say in 1980, according to the calcuations that have been presented here, there will be 10,368,000, as I remember the figure, persons who will be receiving annuities.

Mr. VINSON. I think it is 9,368,000.

Mr. LATIMER. I don't care. Call it ten million.

The money which they get, if you forget the monetary aspects of it, the goods and services which they purchase are going to be produced in that year. The main question is, Are they going to rely for their command over those goods and services on the interest of the funds which have been built up, to which they, in effect, hold title, or are they going to rely on their title to those goods and services from the taxing power of the Congress in that year?

Mr. VINSON. We are not going to decide that, are we?

Mr. LATIMER. I beg your pardon?

Mr. VINSON. We are not going to decide that, are we? It would be difficult for us to decide that.

Mr. LATIMER. It would, sir. No matter what you decide, no matter how much you decide to start at, the command over the goods and services in 1980 on the basis of the annuity rolls in that year, is going to depend on the act of Congress in that year.

Mr. LEWIS. I believe the present computations show 5.4 percent of the population is above 65 years of age.

Mr. LATIMER. That was in 1930. I think it is a little higher than that now.

Mr. LEWIS. The proportion could also be found of the number of children who are under 16.

Mr. LATIMER. Yes, sir.

Mr. LEWIS. Between those ages, excepting invalids, you have a working population. When you speak of the dependency proportion having reached 9½ millions, as you did a moment ago——

Mr. LATIMER. No, sir. That was not dependency. That was the number of persons who would be entitled to receive an annuity.

Mr. LEWIS. The eligibles, those above 65.

Mr. LATIMER. Yes, sir.

Mr. LEWIS. That would be 9½ millions.

Mr. LATIMER. That is not the total of the population over 65. The total population, according to the projections which have been presented here, is 17,000,000, of whom there are something over 10,000,000 that would be entitled to receive an annuity.

Mr. LEWIS. There are about 7,000,000 now, under the 5.4 percentage.

Mr. LATIMER. Seven and a half million.

Mr. LEWIS. And you say that in 1980 it would be about 17,000,000?

Mr. LATIMER. Yes, sir.

Mr. LEWIS. Will you tell the committee on what data, experience, or reasonable inference it is expected that the "super-65's are going to jump from 7,000,000 to 17,000,000, although the population will not have increased more than 20,000,000; that is, from 130,000,000 to 150,000,000.

I must say, although I have not studied the subject, that the inference seems utterly extravagant to me.

Mr. LATIMER. That is a figure which is probably more certain than almost any other projection that can possibly be made.

All the people who will be 65 or over in 1980 must have been born in 1915 or before. We know today precisely how many there were at the 1930 census. We know during the period 1920 to 1929 the number of people at each age, precisely how many died at each age.

We found (or rather the Census Bureau did) the ratio of the number of deaths at each age in the period 1920–29 to the total numbers at each age who were exposed to the risk of dying in that same period. These ratios, the mortality rates, were treated mathematically to smooth out irregularities and we applied those based on white males to the number of persons at each age in the 1930 census to find the number of survivors in 1931. Starting as we did with projection of the total population we then worked backward to get the number of births. This process, carried through for each year, indicated that 16,336,000 persons in the population of 1930 would be living at ages 65 and over in 1980. Mortality rates, up to middle age at least, have been declining in recent years using the mortality rates for white males amounts, in effect, to assuming a slight further improvement in mortality.

I spoke of the assumption as to immigration a while ago. I believe that the number of persons 65 and over who, by the assumption, would have come into this country after 1930, and who will be 65 and over in 1980, is 664,000.

Mr. LEWIS. Seventeen million would be about 12 percent of one hundred and fifty million, would it not?

Mr. LATIMER. Yes, sir.

Mr. LEWIS. The percentage of people over 65 now is 5.4 percent.

Mr. LATIMER. Yes, sir.

Mr. LEWIS. Seventeen million would be about 12 percent in round figures. In other words, it is the inference of those actuaries—at least, their tables are based on the inference that the number of people over 65 years is going to double in proportion in the next 45 years.

Mr. LATIMER. Yes, sir, and making some slightly different assumption about the future birth rate, you can get a considerably higher proportion.

Mr. LEWIS. I would like to wait and see, but I am afraid I am not going to be permitted.

Mr. VINSON. If you will allow me to interject, of course, the science of medicine, particularly preventive medicine, is going to be materially helpful in lengthening the span of life.

Mr. LATIMER. Yes, sir; if the doctors find a cure for two diseases—heart disease and cancer—there might be 20,000,000 age 65 and over in 1980.

Mr. LEWIS. You can also take into consideration the decline in infant mortality.

Mr. VINSON. Yes; they are taking care of babies better, too.

Mr. LATIMER. As far as 1980 is concerned, of course, the only two factors are the survivorship of the present population of the United States and immigration and migration to other countries. There has been practically no migration out of this country. There has been a little in the last 2 or 3 years, but previously the great bulk of the movement was inward.

Mr. LEWIS. What are the comparative figures in the older countries that have not experienced immigration effects?

Mr. LATIMER. The age distribution has been somewhat higher than in this country.

Mr. LEWIS. Do any of them show a 12 percent figure.

Mr. LATIMER. Not yet; no, sir.

Mr. LEWIS. What do they show above 65, if you know the figure?

Mr. LATIMER. I would rather not give it offhand.

The CHAIRMAN. If there are no further questions, Dr. Latimer, we thank you for your appearance and the information you have given this committee.

At this point, if there is no objection, we will adjourn, since the House will be in session this afternoon, until tomorrow morning at 10 o'clock.

(Whereupon, a recess was taken until 10 a. m., Friday, Jan. 25, 1935.)