

STATEMENT OF MARION B. FOLSOM, ROCHESTER, N. Y., ASSISTANT TREASURER, EASTMAN KODAK CO.

Mr. FOLSOM. I am the assistant treasurer of the Eastman Kodak Co. and I am appearing here as a member of the advisory council of the Committee on Economic Security, one of the five employer representatives on the council. Since no employer member of that council has appeared, I would like very much to have enough time to give a statement of the position of the advisory council on this legislation, and particularly the employer members.

The CHAIRMAN. Proceed.

Mr. FOLSOM. I might say I happened to be appointed one of the subcommittee of the advisory council that spent considerable time in going over the proposed legislation from the middle of November until the latter part of the year. I spent over half of my time down here, and I became quite well acquainted with the details of the plan. I was in constant consultation with the various members of the staff who worked on it.

I have also had practical experience, both in unemployment benefit plans and old-age pension plans, in our own company. I spent considerable time in 1928 in devising the old-age annuity plan of the Eastman Kodak Co., which was adopted at that time, not only for the employees of the company in this country but also for the employees of this company in several foreign countries. I am in touch with the situation in these foreign countries.

I have also had experience with the Rochester unemployment benefit plan, which was adopted in 1931 by several Rochester companies. I think that is the best experience we have had in this country with an unemployment benefit plan. That plan was set up in the first part of 1931, under which the individual companies built up a reserve from which they intended to pay benefits to people who might become unemployed after the first of January 1933. We had 2 years in which to build up the reserve.

Beginning the first of January 1933 these companies started to pay benefits to the people who became unemployed. That plan, so far, has achieved what we expected it to achieve. We had in mind if we built up a reserve of that sort that the individual companies would try to make a better effort to stabilize employment, so there would be less unemployment, and in case we did have unemployment we could pay benefits to the people who were laid off. We have paid benefits to those people who were laid off during the 2 years 1933 and 1934. Although there were 13,000 persons employed in those 7 companies only 477 people have actually been laid off.

It is true during the time that we had an upward trend in business, but there has been considerable fluctuation in employment in many concerns and in business as a whole; yet these seven companies have been able to keep employment so stable that there have been very few lay-offs. Considerable credit must be given to this plan.

This is an illustration of what a number of companies have done throughout the country to provide security for their own workers. Only a few have adopted unemployment benefit plans but we have a record of several hundred companies who have adopted formal pension plans, covering 2,000,000 workers all together.

Senator KING. That does not include railroads?

Mr. FOLSOM. No; just industrial companies. There are several reasons why these companies have adopted plans of this sort. In our own company we have a plan not only of old-age annuities and unemployment benefits, but also disability benefits, life insurance, sick benefits, and a wage dividend. The company pays the entire cost, with the exception of the unemployment-benefit plan. We have a provision that in time of emergencies the employees contribute something to provide benefits for those who are laid off.

The CHAIRMAN. Have you ever had any trouble with employees with reference to that matter?

Mr. FOLSOM. No, sir. Of course, we haven't put, that part into operation yet. That was intended for future depressions.

As I was saying, the cost of these plans is borne entirely by the company. The plans we already have in force will cost us more, or a greater percentage of the pay roll, than the plans that we are considering here.

Senator COUZENS. Do I gather from that that you are against the pooling idea?

Mr. FOLSOM. Yes, I am; but I will get to that later.

Senator COUZENS. Very well.

Mr. FOLSOM. These plans, as I say, have been developed not only in my own company but in a number of other companies. They were adopted and developed not from a paternalistic or a charitable point of view, but from the point of view of good business.

The CHAIRMAN. You say there are 400 companies in the United States that have adopted this plan?

Mr. FOLSOM. Pension plans.

The CHAIRMAN. And those companies have how many employees?

Mr. FOLSOM. Two million all together. We feel that it is good business to have an annuity plan, for instance, because you are able to retire persons after they have outgrown their period of usefulness and replace them by more efficient workers. Therefore in the long run they pay for themselves.

Under the unemployment benefit plan you place a burden on the company and the company will try to prevent unemployment as a result of it, and the resulting stable work will enable you to produce your products at a lower cost. The workers will have steadier work. You can cut your cost down and therefore the consumers will undoubtedly benefit from it.

Senator GEORGE. Do you know how many industrial companies have provided for unemployment?

Mr. FOLSOM. I do; yes. We started originally with 14 companies in Rochester. Several of them, the smaller companies, because the depression became much worse after 1931, could not continue the payments. But those 7 companies which have continued the plan and set aside the fund have proven that plan is practical. Only a handful of companies outside of Rochester and Wisconsin have unemployment benefit plans, the General Electric Co. among others. Pension plans, on the other hand; have been steadily increasing all over the country. Even during the depression pension plans have been adopted by many companies. I might say that most of those which have been adopted recently are on a sound actuarial basis, where the money has actually been put in insurance companies as trustees. In our own case, in 1928 we actually turned over

\$7,000,000 to an insurance company to pay the accrued liability. We have been putting money in since to take up the current liabilities.

Senator KING. That was for pensions?

Mr. FOLSOM. Yes.

Senator KING. You differentiate between pensions and unemployment benefits?

Mr. FOLSOM. Yes, sir. Under the unemployment plan each company builds up a fund by taking a certain percentage of their pay roll, based upon their experience over a period of years, from which they pay benefits. So far the benefits we have paid out in our company have not been as much as the interest that we have received on that fund. We have got that fund, which we are accumulating for future periods of unemployment. We hope we can keep a large part of the fund intact for the next period of heavy unemployment.

Senator KING. I should be very glad if you would indicate whether the plan proposed in the bill under consideration is going to destroy or mutilate or have any effect, and if so what effect, upon the plans in force today.

Mr. FOLSOM. It will take me quite a little time to get to that phase, but I would like to get the whole picture before the committee first. Many people felt that you could build up enough interest in these plans, so that most of the companies would adopt the plan voluntarily and there would not have to be any legislation. I was among those several years ago who hoped so. The employers who are on this Advisory Council—you will recall they are Mr. Teagle, Mr. Swope, Mr. Lewisohn, Mr. Leeds, besides myself—reached the conclusion that you must have legislation in order to provide security for the workers in general, which many companies are already providing, because voluntary action would be so slow. You cannot expect these industrial plans to give general security. Therefore the employers on this Council approved, in the main, the aims and purposes of this bill, but we have certain suggestions to offer which we think will make it more workable. Most of those suggestions were included in the recommendations of the Advisory Council. Our Advisory Council submitted the recommendations to the Cabinet Committee, and you have a copy on file of those recommendations.

We feel there are some very necessary precautions to be taken so the introduction of this plan will not have a bad effect on business and commerce in general, and also you must take precautions that you do not build up too large an administrative organization and take away too much from the benefits to be paid to the workers.

Senator CLARK. You are speaking of the unemployment insurance?

Mr. FOLSOM. Of the whole business. We have had some experience in foreign countries where our own company operates. In Germany, for instance, the administration expenses are too high. We are hoping that this legislation will prevent such a large bureaucracy from developing. We know that there will be a tendency to build up a large bureaucratic agency to administer it.

Senator KING. You cannot hope for much improvement in this country in the light of the tremendously large bureaucratic government that we are building up.

Mr. FOLSOM. No. I think you have got to keep it down as much as you can.

Now in regard to unemployment compensation, I want to call your attention to the fact that the purpose of this legislation is to pro-

vide, or to build up, a fund from which to pay benefits to people who are laid off, but that the benefits could only cover a limited period. The actuaries estimate that at the 3-percent rate you may buy benefits from 16 to 18 weeks; but if you have a long-service man who has not drawn benefits for long periods, you will give him an additional week's benefit for each 6 months' service, a maximum of 25 weeks. It is not intended to meet at all the present situation. Some of the people feel this is going to meet the present situation. This is not intended at all for the present depression-it is not intended for deep depressions in the future even; it is intended for fluctuations of unemployment in normal times, for seasonal unemployment, technological unemployment, and for minor depressions such as we had in 1921. It will probably cover the first year of deep depressions. All the estimates are based on the periods such as we had from 1922 up to 1933.

Senator KING. Do you know Dr. Epstein?

Mr. FOLSOM. Yes.

Senator KING. He emphasized the points, as I understand, that you are now making.

Mr. FOLSOM. Yes. And also it is not insurance. It is clearly stated it is compensation and not insurance. So many arguments are advanced for a certain type of unemployment compensation that will take care of the period of depression. This is not for the period of depression at all. You have got to depend on relief to take care of the tremendous load that you have during depressions.

The Federal legislation which was submitted to our council first considered the system of the Federal Government as a whole; that is, one system. We do not think-and the President indicated he did not think-it was desirable. In the first place, it is almost impossible to devise one system that would be good for one section of the country and would be good for other sections, because the conditions in the country vary so much so that very early in our deliberations we discarded the one Federal system.

We think the States should be given the opportunity to experiment with different systems. There were two plans submitted to us for Federal and State legislation. The first is the plan provided in this bill, which we call the Wagner-Lewis type, under which you tax in Washington the pay roll of all employ&.' They will receive as a credit on this 90 percent of any payments made to a State unemployment plan. If a State passes no law the money stays in Washington to be used for any purpose, which is a bad feature.

The second is the grant-in-aid scheme, under which the taxes are to be levied on all the pay roll, but the money is actually to come to the Federal Government; and then the money would be voted back into forms of grants to the States which would pass such legislation for unemployment compensation, meeting certain minimum requirements and standards provided in the Federal law.

We had a sharp division of opinion in our own council on this type of bill. The majority, including the employers, and also Mr. Green and some of the social workers, favored the grant-in-aid plan; because they felt you could put more standards, in the first place, into the Federal law without running into constitutional objections, and also you could permit industry funds to be set up and have experimentation along industry lines as well as along State lines, or some new experimentation along N. R. A. lines.

Also that plan could be changed-very easily, because the standards could be changed by the administrative agency from time to time, and, if later on you wanted a system more uniform throughout the country you could get it.

Now the arguments in favor of the Wagner-Lewis type bill are that that bill will set up a State system. If anything happens, because of constitutional reasons, to Federal legislation, you will still have a State system intact. I know you have heard arguments for and against that, so I will not go into details, but I will say the majority of the council did favor the grant-in-aid type of bill rather than this type. We know there are good reasons for this type as well as the other type, but I wanted to bring to your attention the recommendations of our council.

This bill, the Wagner-Levis bill, now has very few standards in it. We recommended that any type of legislation should have a certain minimum standard, so that some States can get out from under with a very weak legislation. This bill has fewer standards than the Wagner bill last year. I imagine some were dropped out because of constitutional reasons. On the other hand, this bill contains certain restrictions that now appear to be as much regulatory as the standards that were left out. Some of those restrictions we think are not desirable at all. I will indicate which ones they are, and I will indicate the changes that I think should be made.

The first is with regard to a type of system that permits freedom to the States. This is the most important point I can bring to your committee today, and I think you should give it very serious consideration. The Advisory Council, by unanimous vote of all 20 members, of whom only 5 were employ&S felt that freedom should be left to the States to decide what type of plan they *should put up—whether they should have a straight pool plan, a separate account system, or a combination of the two. By “pool plan” I mean one under which every company should contribute 3 percent, less the 10 percent going to Washington—contribute all, this fund into one pool covering the employees for the whole State.

Senator KING. The Ohio plan?

Mr. FOLSOM. The Ohio plan. The other type is a separate account system. By the “separate account” system I do not necessarily mean the present Wisconsin bill. By “separate account” system we mean one in which the money would still all be in the Federal Government, the Treasury Department; but the State will keep a separate account in each employer's name for few or many as can meet certain requirements fixed by the State law. Before an employer can get a separate account he must give a guaranty sufficient to convince the State agency that he can pay his benefits to his own workers, and he will make contributions just the same, at the 3-percent rate, until he builds up a reserve account which is considered adequate to pay the benefits. So everybody will contribute the same rate for the first 3 or 4 years. Eventually, after his reserve account has reached the amount which is considered adequate, if he has a good record of employment in his plant, then his contributions are reduced. That is called a “separate account” system, with adequate guaranties.

Senator KING. Would that plan encourage or permit insurance or unemployment benefits to be developed by each corporation?

Mr. FOLSOM. Yes.

Senator **KING**. To supplement any Federal and State legislation?

Mr. **FOLSOM**. Yes. The third plan is a combination of the two. You may start out with a pool plan, but rather than let the company getting the credit for the whole 3 percent in its own account you give the company credit for 2 percent and leave 1 percent in the pool.

We feel, that is our advisory council with Mr. Green agreeing and with the labor people agreeing, in fact it was a unanimous vote, we feel that the choice should be left to the States. If one State wants to develop a separate account system, like Wisconsin, or pool system or a pool system with some separate accounts, we think it should be left free to choose for itself. Wisconsin will have to change its law to put the guaranties in. We all agree that the guaranties should be there. Unless a company has enough in the guaranty or reserve, to be sure the employees will be protected there should be no reduction of rates. Even if we have got the guaranties there there should be no reduction in rates until you build up the reserve to a reasonable level. We feel the States should be permitted to experiment along, that or other lines.

Senator **HASTINGS**. Do you mean that it would reduce it to 3 percent in some cases?

Mr. **FOLSOM**. This bill now proposes your contributions would be reduced. You are given additional credit on your tax.

Senator **HASTINGS**. I do not know where that is.

Mr. **FOLSOM**. After you reach the E-percent, level.

The **CHAIRMAN**. What is that provision of the law?

Mr. **FOLSOM**. I intend to reach that in just a minute.

Senator **HASTINGS**. All right.

Mr. **FOLSOM**. So our advisory council, in making this report, stated two objectives of this legislation should be: First, the payment of compensation to people who are laid off; and, second, it should serve as an incentive to employers to reduce unemployment, or to stabilize employment.

I would like to read just two sentences from the President's message of January 17, wherein he says:

An unemployment compensation system should be constructed in such a way as to afford every practical aid and incentive toward the larger purpose of unemployment stabilization. * * * Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of unemployment.

My contention is that the present provisions of section 608 do actually foreclose States from setting up such a system as the President urged.

Senator **KING**. Pardon me just a minute. Did you say section 6088

Mr. **FOLSOM**. Section 608, sir.

Senator **GERRY**. What page is that?

Senator **COUZENS**. Those were the sections that Dr. Epstein eliminated yesterday.

Mr. **FOLSOM**. He wanted the whole section eliminated, but if you did this nobody would ever get a reduction. That section provides, I will indicate briefly, that before an individual company can get any reduction in rates under a plan which provides a separate account system-you get the idea from this bill that you are actually permitting these States to set up separate account, systems, but the restric-

tions are so great that for all practical purposes no company would be able to meet them. It is for this reason: It states before any employer can get a reduction under the separate account system he must, in the first place, put 1 percent in the pool; and, in the second place, he must guarantee full compensation to all the workers; and, in the third place, his reserve must be at least 15 percent.

Now figure it out. If the company had no unemployment at all it would not be possible for that company to get any reduction in rates until 1946. If you assume 1 percent in 1936, 2 percent in 1937, and 3 percent thereafter. In the first year his whole 1 percent would go to the pool. In the second year he will have two-tenths of 1 percent going to Washington and he will have credited to his account only eight-tenths of 1 percent, the other 1 percent going to the State pool. You figure that out year by year and you will see he will not get up to the 15 percent level until 1946, even assuming he has no unemployment.

My contention is no employer is going to do anything now to reduce his fluctuation of employment or to stabilize employment, on the chance that in 1946 he might get a reduction in rate. I think that is obvious. That is not the intention at all of the Advisory Council's recommendation.

I want to mention again that there was a unanimous vote on our part. We felt that you should give that first entirely to the States, and we felt that you should have a reasonable reserve, but it should not be so strict as this, which would practically eliminate any possibility of the company having an incentive to reduce the fluctuation of employment or to stabilize it.

Senator COUZENS. What did you think of Dr. Epstein's comparison yesterday between this form of compensation through an insurance company which did not preserve the difference between a good man and a bad man?

Mr. FOLSOM. I want to give you, before I get to the next point, the arguments which were advanced for the pool system and the other system. You heard arguments advanced here for the pool system, and they have been advanced almost entirely by people, who have had no practical experience, who approached it purely from the theoretical point of view. I studied the subject quite a long time, myself. For the last 4 years I have had actual experience in our own plant in Rochester. I am also in touch with the experience in the other plants in Rochester such as Bausch & Lomb Optical Co., the Stromberg-Carlson Co., the Taylor Instrument Co., the Gleason Works, and the other companies who are in the plan. We all believe that a plan of the right sort will serve as an incentive to stabilize employment.

In our own company we have made a study of stabilization for the last 35 years. We have a very great seasonal fluctuation in the sales of our product, and yet we have been able, to produce our product at a stable rate of production. This graph will indicate what we have done. This is starting in January at 4 percent of the year's sales and reaches the peak of 15 percent in July, and then it goes down to 2 percent in November, and this other line indicates the way we actually produce during the year. We build up the stock in the spring and we sell it in the summer. This is roll film that we sell in the summertime when the people are taking pictures. We have been developing this system over a period of 35 years.

There was one of our plants where we had not been able to do such a good job in stabilization. They said it could not be done, and yet when that plant on the 1st of January 1933 started to pay benefits to the people who were laid off, and the record of the benefits went to the head office, to the president of the company, that plant was very much concerned about it. They started to do a better job. They called on our planning and statistical department and that department did everything it could to help them out. As a result we have been able to do a better job in stabilizing that plant. I say to those, people who say that nothing can be done about stabilization simply do not know what they are talking about.. I am talking from practical experience. There may be companies that will not agree with me at all on this, but that is because they haven't tried it. Any company—I do not care what industry it is in—in normal times can do a better job in stabilization than they have done. I do not think there is any question that the automobile industry can do a very much better job on stabilization than they have done. If the automobile industry had to pay the rate which they would actually have to pay if that did not do anything about stabilization, it would mean the people in the automobile industry would try to do everything they could toward reducing the fluctuation in employment and toward stabilizing employment.. Since we adopted the plan in Rochester one of the executives of one of the large automobile companies came to me to find out if they could not adopt the same system. He showed me his employment record, I said, "You cannot adopt this plan with your record of employment." He said, "Why not?" I said, "It will just break you. You have too much fluctuation. You have a labor turnover of 100 percent a year and you just cannot do it. If you once adopt this system you will have to change your policy."

Under the "pool plan" every company has got the money in one boat; you are not going to make any particular effort to reduce your own unemployment on the chance you will help the pooled fund. On the other hand, it will have the reverse effect.

I maintain if you have a pool system, when you have to reduce your production, if you are going along at full production and have to reduce it 10 percent, you will not reduce the hours of everybody 10 percent but you will lay the people off immediately, the most inefficient people, and put them on the pool. We can always produce at lower cost by keeping the force occupied all the time. The tendency would be to reduce the force right away and you will increase unemployment. The actuaries who have estimated this thing have actually put a loading in to take care of the unemployment due to the introduction of the pool system, and the Cabinet Committee stated that the actual benefits to be paid on the individual company plan would be greater than under a pool plan, for the very reason that you have got the incentive to keep people occupied.

The CHAIRMAN. Senator Wagner, if you want to inquire at any time, you may.

Senator WAGNER. Mr. Folsom and I have discussed this.

Mr. FOLSOM. Senator Wagner, of course, is on record a number of times as stating that one of the purposes of this legislation is to serve as an incentive toward stabilization. Exactly the same proposition came up under the Workmen's Compensation Act. Although the Workmen's Compensation Act was fought by a number of employers

I think he will bear me out in saying that the Chamber of Commerce in Rochester was the only body of employers in the State of New York that favored the workmen's compensation legislation.

Senator **WAGNER**. Yes; I can verify that.

Mr. **FOLSOM**. I also want to bring out the fact that I appeared here last year on the Wagner-Lewis bill, favoring the Wagner-Lewis bill at that time with some changes.

When it comes to this matter of argument for the pool system, most people think of depressional unemployment.

Now, to go back to the insurance argument: Practically all insurance is based on the risk that is involved. The rate of the premium is based on the risk. If you have got a good risk, you have a lower rate than you have on the poor risk. Again, I want to say that these people who are arguing for the pool system to a large extent have not had any practical experience. All we ask is—and I will state it very frankly—that industry be given that incentive to stabilize. . . It is my firm opinion if that incentive is given the industry they can do a much better job than they have done. Some say, "Why should they not do a good job, anyhow?" Look at the Workmen's Compensation Act. Most people thought that wouldn't work, but it has done a good job, so why should not this do a good job? I know in our own case we thought we were doing a good job in reducing accidents, and yet our accidents are now only about 10 percent of what they were back in 1911 and 1912. It has also meant that we have saved money. If we can reduce expenses or actually save money, if there is any plan that permits us to do it, we certainly try to do it. You might say that we should have done it before. Of course, we should have done it before. We did not do it because we did not know how to do it. We do it now because there is money saved by doing it. This plan should provide the same incentive for the reduction of fluctuation of employment.

Now, it will not take care of the depressional unemployment. This plan is intended to cover just the type of unemployment which the company can prevent, if it has got an incentive to do it. Under this bill you are practically barring all experimentation along that line. So this plan is the one we feel; that is, I feel and a number of employers who have studied the subject feel that it is the best plan for the future.

Senator **KING**. The pooling plan you think rather encourages slovenliness on the part of some?

Mr. **FOLSOM**. Yes. Another point: It has been pointed out also before your committee by some of the theorists that a pool plan gives a better guarantee to all the workers, because you have got them all together in one pool. You know, with so much money in there it is a question of who is going to get it. Do you want to give it to the people, the casual workers who haven't any right to unemployment benefits, who are transferred back and forth because of inefficiency; the people that you will lay off first? That applies especially to seasonal industries. In England, for instance, the employees in the seasonal industries got too much from the fund and there was very little left for the other people. Under this pool system, you are going to give that protection to that type of worker. Your stable workers, the regular workers, when they are laid off, there will not be any money left in the fund, because they will be in the depression when the fund is gone.

Senator WAGNER. The depression may last longer than the fund?

Mr. FOLSOM. Sure. My whole contention is that you are placing on industry, and you should place on industry, the responsibility of giving regular work to their regular employees, to try to keep the people employed all during the year, and if you put the incentive on them they will do the job. Then the people who drift back and forth from one industry to the other—the casuals, the inefficients, those who might have jobs during very good times and no jobs during bad times—that burden should be placed on society as a whole. Industry will share the burden through taxes, but it should be borne by society as a whole. If you put the responsibility on industry, industry will see to it that there will not be as much fluctuation as there has been.

As I say, do not decide the point now. I do ask you not to bar the States from experimenting along that line. I do know in our own State of New York there has been a tremendous drive up there for that pool system, yet the employers so far haven't had a chance to do anything, they have never been consulted about it. I am hoping we can get our story across to the people in charge, of legislation in Albany, so we can convince them that the best plan, as far as the reduction of unemployment is concerned, is along this line rather than the pool line.

On the other hand, I do not want to see any system adopted unless you have adequate guaranties there.

Senator BARKLEY. Have you prepared a substitute?

Mr. FOLSOM. I will just eliminate that section.

Senator CLARK. Eliminate section 608?

Mr. FOLSOM. Eliminate subsection (a).

Senator KING. The section or just the paragraph?

Senator GERRY. That is paragraph (a)?

Mr. FOLSOM. Subsection (a) should be eliminated entirely.

The CHAIRMAN. What page?

Mr. FOLSOM. Page 48.

The CHAIRMAN. Paragraph (a.), page 48.

Mr. FOLSOM. Then there is another part of section 606 in which there is a definition, on the top of page 46. It says, "This fund shall never be less than 1 percent of the pool."

The CHAIRMAN. Where is that?

Mr. FOLSOM. Top of page 46, in parentheses on top of page 46, the second line.

The CHAIRMAN. You would eliminate that?

Mr. FOLSOM. I would eliminate that. Then, on page 49, where there is a reserve mentioned of 15 percent, I would change that to 10 percent. Now, even if it is 10 percent, you would not get any reduction for 5 years; not until 5 years after the plan, assuming no unemployment at all.

The CHAIRMAN. Make the same change on line 17, page 498

Mr. FOLSOM. Yes, sir. Then, on page 50, section (cl), that is to come out again, that 1 percent. That takes care of the plan under which you start out with the pool system. You say, after a period of years, if the company gets a good record, they can get a reduction of rates.

I would like to call your attention to the fact that that plan does not serve nearly as good an incentive as the other plan, because you simply say there, "We are going to put all the money in the one pool

for 3 or 4 or 5 years, and if you have a good record then we are going to give you a reduction in rate." That is the plan they had in England. The British plan had that system-this pool system. When that time came for reduction the Government did not give a reduction.

I do not think many employers are going to do much about stabilizing if you say, "We are going to keep the money in a pool and use it for stabilizing the industry."

Also there is another very important point, and that is that the record of the companies for the last 3 or 4 years is not a good indication of what the unemployment situation in the industry really was. The heavy-goods industry, which now has a very low level of employment, should have almost a perfect record in the next 2 or 3 years. A company which has been reduced from a thousand employees to 200 employees ought to keep the 200 people employed in the next 2 or 3 years.

The **CHAIRMAN**. With those suggestions, those are the only changes you would make in the unemployment-insurance plan?

Mr. **FOLSOM**. There is one other plan in the guaranteed-employment section. Some employers feel there is opportunity to assure employment rather than pay benefits, and they think you ought to have a reasonable guaranty plan. In this bill you actually say the company can set up a plan which will guarantee 40 weeks' full wages. I do not believe any company will guarantee that. You might say 40 weeks at three-fourths wages or two-thirds wages guaranteed, you might get some companies to do that, but I do not believe that very many companies would guarantee the full 40 weeks at full pay. That is the second change I would suggest.

The other change is for the same reason that this tax should not apply, as Dr. Epstein pointed out yesterday, to the whole pay roll. No bill which has been drafted in this country in any State has the tax apply on any part of the pay roll not eligible for benefits. That provision was not recommended by our council. It should be changed. You should eliminate entirely the people who were making over \$250 a month, the clause which you had in the old-age security part of the section, or you can tax that part of every person's pay which is below \$250.

We thought, that is, our advisory council did, that the latter was a better plan, because otherwise if you have a man making \$251, he does not get anything, and the \$249 fellow would get the benefit. We thought you could tax the pay roll up to \$250. You have a lot of white-collar worker&ho used to earn 4 or 5 thousand dollars and who are unemployed now; they should certainly be entitled to benefits up to \$15 a week, which is the maximum in most bills.

Senator **KING**. Assume that they are taxed up to the \$250.

Mr. **FOLSOM**. Yes, sir. Do not tax anybody above that, because it is obviously unfair.

The **CHAIRMAN**. Before you leave Washington and after you have finished your testimony, may I suggest to you that you get in touch with the experts here and with the drafting service, and draft what in your opinion meets your suggestions so that we can have the matter here in a substitute form.

Mr. **FOLSOM**. I will, sir; I will be very glad to.

Senator **KING**. Before you leave this point-is it your view that, if you have the pool, you should not make any contributions to it?

Mr. FOLSOM. I think that should be left to the States. The Wisconsin people feel very strongly that you should not have any pool at all. They want to start with these individual companies. The other people feel that it is all right to start with a pool, but to let the companies who can put up the guaranties and have separate accounts have their own account.

Starting from right now, I would not be opposed to that system of starting with a pool and letting companies have separate accounts when they put up adequate guaranties. I think in the long run the Wisconsin plan might be just as good with the proper guaranties, but I do not think we have to decide that; but I do not know that these people in Wisconsin do not like the idea of putting anything into a pool. Personally, I do not like it either; but some States might want to require partial pooling. I do not think that should be done here. I think it is better to leave it to the States enirely. You are giving them the choice of almost everything else—the number of weeks of benefits, the paying period—and yet in the most important point you restrict them. To be consistent throughout the bill, you have to give them that choice.

The CHAIRMAN. Would you put other standards in the bill?

Mr. FOLSOM. We recommended quite a few other standards, but I understand they were left out for constitutional reasons. But on the other hand you have the main standard in there, that they must use this money for unemployment compensation. The model bills being drafted now should serve as a guide; but I am afraid that they might have the benefits so large in some of the States that the funds will be exhausted too soon. I think it is better to let them have their own standards in this legislation.

Senator WAGNER. Would you favor the restoration of the standards fixed in the so-called "Wagner-Lewis bill" of last year?

Mr. FOLSOM. No; I prefer the standards which our advisory council recommended. They have changed it in several respects. Last year the Wagner-Lewis bill had a minimum. We feel that it is impossible to set a minimum which would apply to the whole country. A minimum which is all right for New York State would be too high for Mississippi or Georgia, for instance, but we do think you can say it is 50 percent of the normal wage.

The CHAIRMAN. Your suggestions are incorporated in the record?

Mr. FOLSOM. Yes; the Advisory Council's report is a very short report, and I hope that every member of the committee will have a chance to read that; I feel strongly that the recommendations of that report constitute the best system which has yet been advised and that was worked out by this group of 20 working for several weeks. A subcommittee of 6 worked steadily on it, with the larger committee being brought back from time to time.

Senator GERRY. Are you putting that report in?

Mr. FOLSOM. It is in the record already.

Senator GERRY. What is the name of that report?

Mr. FOLSOM. The recommendations of the Advisory Council on Economic Security. Some members of the Council have appeared before you and advocate a higher rate than 3 percent, but the Council as a whole, voting as a body, were in favor of 3 percent. We were also strongly in favor of that provision which states that if industrial production did not reach a certain level, for the first year it

shall be 1 percent, then 2 percent, and then 3 percent. We think that is very important for business.

This plan is not intended to cover the present situation at all. This is taking care of the future, but we think it should be gradual. We think that is a very important point. Some are going to argue strongly otherwise next week. I understand that the labor commissioner of New York State is going to come down here and argue very strongly to have the 3 percent start right away. I think it will have a very bad effect on recovery if you do that.

Then there is the question of who should pay the 3 percent. In the first place, we think the 3 percent is adequate. The actuaries have had very little experience to base this 3 percent on, and they have been very conservative. I feel that experience is going to show, if you have the separate account system, that your 3 percent will pay longer benefits than provided in the estimates of the actuaries, and that is based on our experience, but on the other hand I agree with the actuaries that we should operate on a very conservative basis and not get hopes up too high. You can easily extend the benefits later. So I would not have them go above 16 weeks or 18 weeks to start with.

Who shall pay the 3 percent? Naturally, there is a sharp division of opinion as to whether employees should pay part of it. I agree thoroughly with the position that the chief burden should be placed on the employers because the employers can do something about it whereas the employees cannot do anything about reducing unemployment. On the other hand I feel that a small percentage should be placed on the employee for the simple reason that he will be much more interested in the system, and he won't be looking into benefits as a gratuity but something where he has got his own money at stake. He is going to get better administration that way, less abuse, fewer people trying to get benefits who are not entitled to them, and less malingering.

Therefore, although a majority of our council voted against employee contributions, the strong minority favored it, feeling that you would get a better system if you would at least get one-half of 1 percent from the employee and 2½ percent from the employer. The bill now provides that the States can put an additional amount over the 3 percent on the employee if they want to. I do not think they will do it. In the first place, they will think that 3 percent is adequate. The only way you can get employee contribution is by putting it in here. Especially if you are going to start out in the security section with one-half of 1 percent of the employee, I do not think you are going to get any more objection from the employer. And you will get a much better system. Russia is the only country abroad that has not had employee contributions, and you will find quite a few of the labor people are for employee contributions for the simple reason that they think they will get a better system and better administration.

Senator BARKLEY. In Russia, if they had employer contribution, it means that nobody in Russia but the Government would contribute, because the Government employs everybody.

Mr. FOLSOM. Yes; that is true.

Senator KING. I have talked with hundreds of employees who were out of employment and they did not get a cent. They said the fund,

if there ever was, had been consumed by the Government in liquidating some of its expenses.

Mr. FOLSOM. Those are the suggestions which I would make in the unemployment-compensation section.

I would like to take up this old-age security.

Senator LONERGAN. Pardon me at that point. What is the turnover in employment in industry in this country?

Mr. FOLSOM. It varies tremendously. In some industries it might be in 1 year as high as 100 percent. If you have a force of a thousand people, there might be as many as a thousand people leaving. On the other hand, some companies might get a turn-over down as low as 10 percent.

Senator LONERGAN. In dealing with permanent employees, at what point would you start? Suppose we set up this system. The employer would start with the persons who have been employed by him for a certain period of time.

Mr. FOLSOM. That would depend entirely on what system you set up. If you have a pool system, you do not have any qualifying service at all, because everybody goes right to the pool and gets the money. If they have been only a few weeks in employment and are laid off, they go to the pool and get the money. But with a separate account system we should have some reasonable period of qualification before a person is eligible to give the company a chance to see whether the employee is qualified or not. Otherwise you will have your initial requirements so high that the persons who might appear to have any handicap at all might not be employed. That is a matter entirely for the States, however.

Senator LONERGAN. In separating the system of payments as suggested by you, the employer would take care of the permanent employee and then another system would be set up for the temporary employee?

Mr. FOLSOM. Oh, no. I was just saying that that would be what would actually happen in the long run. The company would still have to pay benefits to the person in short service, but it would be based on service. You pay 1 week of benefit for every 4 weeks of employment. That is in any plan, whether it is the pool plan or a separate account plan. The benefits you pay are based on the length of service of that employee. If you have a man working for 6 months, he would get 1 week of benefit for every 4 weeks that he would work. He would get 6 weeks benefits for 6 months, and a man working 12 months would get 12 weeks of benefit.

Senator LONERGAN. In the systems already existing of private concerns, they are all based on contributions of employers as well as employees.

Mr. FOLSOM. Yes. The General Electric Co. is a contributory system, 50-50. The employees put in just as much as the company. With the Rochester plan, the company pays the first amount which is up to 2 percent, but in case of an emergency like during the depression, then they ask their employee who is working to put in 1 percent.

Senator LONERGAN. I understand that less than one-half of 1 percent of the concerns in this country have such a system.

Mr. FOLSOM. There has been only about 15 companies in the country that have unemployment-benefit plans.

Senator HASTINGS. Before you leave that subject, may I ask you what you think of this? Section 602 provides that any employer may credit against the tax that is due, up to 90 percent of the tax, the amount of his contribution. If you would add right after that these words, "plus the contributions of his employees, if any", you would then leave an opportunity for the States, if they cared to, instead of us deciding it; you would leave an opportunity for the States to adopt that if they wanted to. But under this plan they cannot do it; but if they wanted to adopt your suggestion and you put in those words so that the employer would get the credit not only for what he paid but for what his own employees paid to the fund, you would then leave it to the States. What do you think about that?

Mr. FOLSOM. Off-hand, I would not like to express an opinion. I think it might be a good way to do it, but I would like to give it more thought, and I would not like to express an opinion off-hand.

Senator BARKLEY. Let me ask you how you propose to do it with this sort of a situation. I can understand how you can stabilize your employment, because over a period of years you have a pretty good idea of the average sales of your company and the demand for your products. Take a building contractor who employs carpenters. The amount of that employment depends on the number of houses that are to be built and whether he gets the contract to build them. Let us say that an individual contractor would employ on the average 10 carpenters or more. Any one of those men working for him for a month, and then he will be off a month, because nobody is building a house. Then he may have another month's employment with another contractor, and all through the year he has that precarious employment situation. How can you deal with that, as between the employee and the employer, and as between the employer and the State?

Mr. FOLSOM. I think in the building industry or an industry like that, it would be a lot better if the industry itself would set up a fund. All of these plans provide as a separate account plan, that you can have an account with one company or with a group of employers; and I think the only way to handle that is to have a plan for the building industry as a whole in a State or in one locality.

Senator BARKLEY. But this is a bill that taxes that pay roll of that contractor if he works more than four people.

Mr. FOLSOM. Sure they are all going to be taxed all right, but as far as giving them additional credit if they stabilize, in that way you could let a company instead of having its own account, they will come in with several other companies and have a group which will cover the building industry in this particular locality; and those people, if they group in that way and keep the people steadily employed as all the building employers in that group, then they will get this reduction. If they don't they will have to keep on paying the 3 percent.

Senator HASTINGS. That is, the law might provide that the building trade of a State should constitute a separate fund?

Mr. FOLSOM. Yes. All of these State plans provide that either an employer or group of employers may set up a separate account.

Senator BARKLEY. Of course, in an industry like that, the chances are much greater that the fund will be exhausted sooner than in a stabilized industry like yours.

Mr. FOLSOM. Of course, our industry is by no means stabilized, And also one of these companies in Rochester that has adopted this plan is not stable. They are making gear-cutting machines for the automobile industry. That has fluctuated if anything has. In normal times, on the other hand, employment in the building trades does not fluctuate as much as you would think it does, in times of depression. We are apt to give too much emphasis now because we see how much unemployment there are in the building industry, But in normal times the total number of people employed in the building industry does not vary so very much.

Senator BARKLEY. There is a good deal of variation at any time, isn't there ?

Mr. FOLSOM. Then I believe thky should get into an industry fund. But if the automobile industry cannot stabilize so that they can prevent this fluctuation, you should not let the other industries that can subsidize the industries to that extent. If the automobile industry cannot give steady employment, they should pay some of the cost of that through a higher rate. I do not think that burden should be placed on the other industries.

Senator HASTINGS. Would you leave' it to these groups to join voluntarily, or would you have some compulsory plan?

Mr. FOLSOM. I think some of the State laws provide that the Industrial Commission after adequate hearing, may compel employers. in certain groups to do it.

Senator HASTINGS. But that is the only way you could make it effective ?

Mr. FOLSOM. Yes. The old-age security part of this bill is naturally a complicated section. The question of pensions is naturally very complicated anyhow, and this is further complicated by the fact that we have three different sections in here. I would like to explain as briefly as I can and as clearly as I can what seems to me to be the significant facts of this thing.

Senator KING. Pardon me if I interrupt to ask ask you a question. Do you see any good reason why this bill should not be divided and treated separately in each of these important provisions—one dealing with old-age pensions and the other with security and so forth—take them as separate bills?

Mr. FOLSOM. It seems to me that is purely a legislative question, and I would not be prepared to answer that. I know it would certainly simplify it as far as trying to understand it. There might be very good reasons from a legislative point of view.

Senator BARKLEY. It would take about seven times as long to pass 7 bills instead of 1.

Mr. FOLSOM. I have no objection to combining them or keeping them separate.

Senator KING. Sometimes a fuller discussion is thus brought: about and greater independence is manifested by persons in expressing their will if you have such separate bills than if you have an omnibus bill.

Mr. FOLSOM. It is a very complicated measure now; there is no question about that.

The CHAIRMAN. We mill all agree to that.

Mr. FOLSOM. This old-age assistance part, I am fairly well convinced that we have got to do something about the old-age assistance..

I think the case has been pretty well established. We have a large number of people who are now dependent. This system of old-age pensions which has been adopted in some 29 States is better than the poor house. I am speaking now on the point where the Government is going to vote a subsidy now to the States with an old-age pension law to people who pass the means test. We are taking care of that question now in 29 States by these old-age assistance laws, and some of them are quite adequate and others are not. In New York State there is a maximum of about \$30 a month which is adequate, and in other States they are quite low.

Senator **GEORGE**. That is the highest?

Mr. **FOLSOM**. Yes; in New York State. In several States I think it would be entirely too high, especially in the southern States.

Senator **KING**. Dr. Epstein contended that to go beyond that would be unwise.

Mr. **FOLSOM**. Yes; undoubtedly it would be unwise. A lot of these old people are also on relief now. It is a lot better to have these people on a definite pension, these old people, of so much a month, rather than to have them depend on relief, because relief agencies might change at any time, and you don't know whether it is definite. So that I think it is all right to have these old-age assistance laws and have the people on them rather than on relief. We may expect that during the depression and because of the depression more older people have been put on relief, because the younger people in the family have been unable to take care of themselves, and a large part of the increase in the dependency has been due to the depression..

I think we must expect some sort of public assistance, but we must be very careful that we do not start out with too high a rate, because the cost goes up very rapidly. We have had estimates by the actuaries as to what this will cost in the future, and they go up at a very alarming rate for a very simple reason. Even if you had no increase at all in the number of old people in the next few years, this old-age assistance would go up fast, because you are putting on a different group of people every year. First you put on the people who are now 65, and the people at 65 will live for 11 years on the average. Next year you add another group, and they are going to live 11 years, and very few of the first group are going to die the first year. So, gradually, you are putting new groups on and the costs won't become stable until as many people die off as you are putting on, and you won't reach that point for about 20 years.

But in addition to that, you have more people reaching 65 every year, and the actuaries estimated that in 20 years from now you are going to have twice as many people over 65 in this country as you have now, so that would double it. Because of those two factors, the increase is very sharp. In addition to that, you have got to estimate how many of those people are going to be dependents. There is no reliable estimate available as to how many people are going to be dependent 20 years from now.

We do know that in foreign countries where they have pension laws, there is a high percentage of people dependent: So they have estimated that ultimately 50 percent will be given assistance. I have a chart here which indicates how fast the cost goes up.

Senator **BYRD**. Your committee and you think that 50 percent of those who are now above 65 years of age will be eligible for these pensions?

Mr. FOLSOM. That is a long way off.

Senator BYRD. I am speaking of today.

Mr. FOLSOM. No. This estimate now is not based on 50 percent immediately. It starts in with 15 to 20 percent and gradually goes up to 50 percent dependent. During the first few years while the laws are being enacted, there will probably not be so many on the rolls as estimated.

Senator BYRD. I am speaking of those who are actually dependent.

Mr. FOLSOM. You mean those that are dependent?

Senator BYRD. In other words, of the people in America today 65 and over, what percent of them, in your judgment, would be eligible for a pension if the legislation were to be available to give it to them?

Mr. FOLSOM. The estimates are based on 15 to 20 percent to start with.

The CHAIRMAN. Who prepared those estimates?

Mr. FOLSOM. The actuarial staff of the committee on economic security.

Senator GEORGE. Is that an estimate of the actual percentage of dependents, or the number that would actually get on the pension rolls immediately?

Mr. FOLSOM. Those who get on the rolls.

Senator GEORGE. Immediately?

Mr. FOLSOM. Yes.

Senator GEORGE. But not necessarily the percentage that is dependent?

Mr. FOLSOM. No.

Senator BYRD. The report that I assumed you signed said that 50 percent of those over 65 are dependent?

Mr. FOLSOM. That would be eventually. In 1960 it would reach that amount.

The CHAIRMAN. Give us those figures that you have there. You say immediately, 20 percent. How does it travel up?

Senator BARKLEY. Do you mean by that, 20 percent of all those above 65, or 20 percent of the dependents above 65?

Mr. FOLSOM. Twenty percent of all those above 65.

Senator HASTINGS. That would be 750,000 people approximately?

Senator KING. Doctor Witte, in my recollection of his testimony, stated that a very small percentage of those over 65 in the next few years would be available?

Mr. FOLSOM. The first few years I think 20 percent is high.

The CHAIRMAN. We did get the impression from certain witnesses here that 50 percent of those above 65 would be able to obtain this pension.

Mr. FOLSOM. I think they had in mind the estimates as the 50 percent, which you would reach eventually.

Senator WAGNER. The State itself of course would have to pick out the individuals first. In the first place they would have to pass a law which would authorize the expenditures, and then the State by a means test would ascertain who the individuals are before the Federal Government is even asked to contribute anything, and at the present time only \$40,000,000 is being spent in that way. While these people may exist, it will be a long while before we will reach them all.

Mr. FOLSOM. I think the estimate during the early years of the actuaries is high, but the eventual estimates I do not think are.

Senator KING. Doctor Epstein stated, if I recall, that \$50,000,000 for the first year and \$125,000,000 thereafter would be ample, and that there would be a surplus.

Mr. FOLSOM. When you get in the future years, he is all wrong. This chart indicates how fast this cost goes up based on the estimates of the actuaries. I think it is high in the first year. It starts with \$125,000,000 the second year. For 1940, according to their estimates, there will be over \$400,000,000.

Senator BYRD. Your statement is a direct contradiction of the report of the committee or the commission. It says on page 20:

At this time a conservative estimate is that at least one-half of the approximately 7,500,000 people over 65 years now living are dependents.

Mr. FOLSOM. I am saying that not 50 percent of these people are going to be on your old-age assistance laws.

Senator BYRD. That is due to the difficulties of the legislation.

Mr. FOLSOM. No; they might be dependent on their own family. A lot of these people are dependent, but members of the family have to take care of them.

Senator WAGNER. Many of the States now, and New York is one, for instance, where although an old person may be dependent, if the child has any income above that which the child needs for its own support, we can compel that child to make a contribution toward the support of the parents, and in that way we have kept our old-age pensions down by compelling the children to carry a part of the burden.

Senator BYRD. If the child is married and has a family of his own, can you still compel him to do that?

Senator WAGNER. Yes; we can, if his means permit.

Senator KING. Most States have laws of that kind.

Senator WAGNER. We do not let him abandon the parents if he can afford to make a contribution to the parents' support.

Dr. WITTE. Gave detailed figures.

Senator BYRD. What I wanted to get from Mr. Folsom clearly is this. He thinks that this report that says that 50 percent of all dependents means that 30 percent of those will be still maintained by their relatives and children and so forth, and 20 percent will go under the old-age pension laws.

Mr. FOLSOM. They estimated 20 percent of the total, which would be 40 percent of the dependents.

Senator BYRD. There is some other testimony here that I cannot put my hands on at the moment, showing that only 15 percent of those over 65 years of age are now supporting themselves? Is that correct?

Mr. FOLSOM. Of course there is no reliable estimate on any of these. That 50 percent is not based on any actual figures.

Senator BYRD. We all know that when you start a pension system, you will go by leaps and bounds and nobody can estimate it.

Mr. FOLSOM. This chart [indicating] will show this. You start at \$125,000,000 to begin with. I think that is too high to start with, but assuming the people to go on and assuming 20 percent of the people over 65 are dependent to start with, and eventually 50 percent are going to be on the rolls, you go up to a point in 1950 to where you reach \$700,000,000; by 1960 you reach over \$1,000,000,000 a year, and eventually in 1980 it will reach \$1,300,000,000 a year.

Senator **KING**. The Federal contribution ?

Mr. **FOLSOM**. Yes, sir. And of course the States will put in an equal amount. That is what you will get into with the old-age assistance law and nothing else. Assuming a maximum of \$15 and making an assumption that in 1960 half of the people will get on.

Senator **WAGNER**. If conditions improve, it will reduce the number of dependents in old age. There is the speculation.

Mr. **FOLSOM**. Yes. This is probably the maximum figure, but it is entirely within reason.

Senator **WAGNER**. We hope that we can improve our economic life so that the old people won't be dependent.

Mr. **FOLSOM**. It is based upon the experience in foreign countries where people get on it in some way or other.

Senator **BYRD**. In your judgment, would the minimum requirement of 65 years, under our political system, be maintained if it is made an issue in political campaigns?

Mr. **FOLSOM**. I think that is a danger in the law.

Senator **BYRD**. Won't it be reduced to 60 years in a few years?

Mr. **FOLSOM**. I think there is danger.

Senator **BYRD**. I have already received a number of letters asking that the bill be reduced to 60 years.

Senator **KING**. I have one asking that it be reduced to 50.

Mr. **FOLSOM**. Originally it was started at 70 and now it is down 5 years in a short time.

Senator **BYRD**. In a.11 your estimates, you entirely ignore the political situation where all of this will be made an issue in every campaign, both as to the age and the amount of the pension.

Mr. **FOLSOM**. That is entirely up to legislators in the future.

Senator **WAGNER**. Has that been the condition in foreign countries?

Senator **BYRD**. Foreign countries have not the same political system that we have.

Senator **WAGNER**. None of them has abandoned it.

Senator **BYRD**. We are more responsive to those who want to draw benefits under such a system.

Senator **WAGNER**. It is true, though, that we are reaching a more stable population, aren't we ?

Mr. **FOLSOM**. Yes.

Senator **BARKLEY**. You said it would be several years before the States can enact the necessary legislation. That leads me to ask you what your opinion is of what the justice and the propriety is of leaving this 3-percent tax on the employee pay rolls of all of the States, covering it into the Treasury, and using it for the general purposes until such a State has seen fit to enact legislation?

Mr. **FOLSOM**. That is on unemployment compensation?

Senator **BARKLEY**. Yes; but the things are linked together.

Mr. **FOLSOM**. I think there is objection to that. You get around that in the grant-in-aid scheme which I mentioned.

Senator **BARKLEY**. I wanted to ask you that question when you were on unemployment insurance.

Mr. **FOLSOM**. This chart shows you the danger of making the grant any higher than \$15 as a maximum because of the tremendous cost involved, anyhow, and also what you are getting into with this system. That is why the advisory council were convinced that once you started this old-age assistance scheme that you have got to start a contributory system, otherwise you are going to have a tremendous drain

on the Federal Treasury. Also, we think it is very bad to have a pension system throughout the whole country in which you tell a man that "If you need anything else to live on when you get to be 65, we are going to give you up to \$25 or \$30 a month." If you have been thrifty and saved anything, you do not get anything. That is the wrong psychology.

So that we feel that a contributory system is necessary. The big thing in a contributory system, where they are putting the money in, where workers and industry both put money in, is what you are going to do with this accrued liability, based on past service, the service which has already been rendered, because people of all ages are already in your population. If you had a group of people 25 years old starting in, they could put in a small percentage of the pay rolls and the company could match it and you would have a sound system, but you have to take the condition as it is with people of all ages. In individual companies like, well, take our own. We put \$7,000,000 into the insurance company to take care of that accrued liability.

Senator KING. For employees' pensions?

Mr. FOLSOM. Yes, sir. Individual company plans must be put on a sound actuarial basis, otherwise some time in the future you are going to have a lot more money going out than you can afford, and a company plan should be put on a sound actuarial basis.

But in the Government plan it is a different story altogether. It is almost impossible, and no country in the world has ever yet operated a scheme which is actuarially sound, if by that you mean the accumulation of proper reserves, for the very simple reason of the tremendous investment problems involved. The full reserves under this plan would be \$17,000,000,000 at the start. That is not necessary, for the very simple reason that for a long time you are going to have a lot more money coming in than the contributions from all of the people 25 years up than you will have going out to the people over 65. So it is not necessary to put that money in initially, but if you pay out any money to people during the first few years in excess of what then their employers contributions will provide, you are building up a deficit which must be made good some time in the future.

You have got several ways in which to meet this problem. In the first place you can pay out to the people in annuities only what their contributions and their employers' contributions will actually buy. In that way you will have a low pension for a long time to come. So a man now 60 years old, in 5 years, can accumulate very little on a pension. A \$100 a month man at 60 with 1 percent contributions will have accumulated at the age of 65, only about \$0.50 a month, and that won't solve your pension problem.

Your second plan is to have the Government finance all of this initial accrued liability, caused by no reserves having been put up in the past and that is not necessary because you do not need the money for a long time.

The plan which our advisory council recommends would state that you should as far as possible keep it on a pay-as-you-go basis, and not attempt to build up this huge sum-which eventually would reach \$75,000,000,000. We do not see how in the world you could invest such a sum, with all the other implications involved in it. We

thought that you could start in with the plan which the staff originally recommended in which a person aged 60 now would in 5 years—assuming that a man makes \$100 a month—he would have a \$15 annuity, and he actually has earned only \$0.50. So you are paying him quite a little more than he has earned. For a long time you would be taking so much more money into the system than you are paying out, that that won't cause any drain on the Federal Treasury until 1965, but from that time on, because you have paid out more money today to these people than their contribution would provide, the Government in the future has to make that good. That is probably the reason for the amendments recently suggested by Secretary Morgenthau, because they are worried about the deficit in the future from 1965 on.

I do not think anything like as much consideration has been given the disadvantages of trying to put the system on a sound actuarial basis from building up this fund of \$37,000,000,000, which the Secretary's estimates of income would be required to put it on an actuarial sound basis.

Also, if you use that fund to retire the public debt, it is putting entirely too much of a burden on this present generation. What you are doing is that you are making this generation pay not only for the old age of the people already old and who should have been taken care of by the previous generations, but you also make them pay for the full amount of their old age in the future; in other words, you are putting two loads on this present generation of workers under 45. I do not think it is at all feasible, and for that reason I am much inclined to favor the original plan which was recommended by the advisory council and by the staff rather than the suggested amendments of Secretary Morgenthau. The staff stated very clearly when we were deliberating on these things that the Treasury experts told them that under no condition, under no plan should they have the reserve reach a limit of over ten or twelve billion dollars, for we simply could not handle the investment problem. So we are very much at a loss to understand why a plan is suggested now which will involve a \$37,000,000,000 fund. They say it can be used to retire the debt. It does not make any difference how you are going to use it—the investment problem is there just the same.

Senator KING. Do you think it is possible to get a fund which will reach the magnitude that you have indicated?

Mr. FOLSOM. In the first place, if you had such a plan which for the first few years would result in so much more money coming in than going out, you are going to have a very strong tendency 1.0 years from now—

Senator KING (interposing). You increase everything.

Mr. FOLSOM. I will give you the figures. On the original in 1945 the contributions would be, roughly, \$500,000,000.

Senator KING. That is from the Federal Government?

Mr. FOLSOM. No; that is from employers and the workers. There is no Federal Government coming into this at all. This is on the contributory system.

You would have \$500,000,000 coming in, and you would pay out in benefits only \$200,000,000, which is not so great a difference; but under the Morgenthau suggested changes in 1945, within 10 years from now, you are going to be taking in \$1,200,000,000, and you are

going to pay out only \$200,000,000; in other words, you are taking in six times as much as you are paying out, and at that time in 1945, according to the Morgenthau suggestion, the balance in your fund is going to be 6½ billion dollars.

I think there would be a very great tendency to have, as early as 1945, a tendency either to increase your benefits or to cut down your rate of contribution. Then you are putting it on an unsound basis immediately.

The CHAIRMAN. You think politics would get into it then? The argument would be made that you have such a gigantic fund that the benefits should be increased?

Mr. FOLSOM. Yes. And I would like to say—I would not care to have this go on the record—

The CHAIRMAN. The reporter will not take it if you do not wish it taken.

(Off the record.)

Mr. FOLSOM. All the experts agreed that it was not at all feasible to try to get this on a sound actuarial basis, and I think the people who argue for a sound actuarial basis have not realized the difficulties involved. Just think of trying to build up this fund of \$37,000,000,000. You might say it is a good thing to wipe out debts, but that is too much of a burden on this generation.

So that what I would recommend on that point is that this committee give very serious consideration to the implications from an investment point of view, and also from the point of view of the burden on industry which you are starting in so quickly. Under this scheme you will very soon have 6 percent coming into the Federal Treasury. You will have 3 percent for unemployment compensation and 3 percent for pensions; that means 6 percent, which is taken out of the regular productive channels and sterilized here or put into a separate fund here, and I think that is too sudden a jolt.

Senator HASTINGS. That is not quite right, is it?

Mr. FOLSOM. Well, I did not mean exactly sterilized—

Senator HASTINGS (interposing). No; the figures. It is 3 percent unemployment insurance. One and a half of 1 percent is on the employer, and the employee—

Mr. FOLSOM. I am speaking of the Morgenthau-suggested changes.

Senator HASTINGS. I beg your pardon.

Mr. FOLSOM. Which goes up to 3 percent in 1940. So that 'in 1940 you will have 3 percent for contributory pensions and 3 percent for unemployment compensation, making 6 percent. I think that is entirely too much to take out.

Under the plan which we had in mind and which our council originally recommended and had the approval of the Cabinet committee, you start in with only 1 percent in 5 years and very gradually you went up, and it had very little adverse effect.

The CHAIRMAN. Each industry is different in the amount of its pay roll as a proportion to the cost of its production, and so forth; but, as a rule, what percentage is in the pay roll as to the cost of the production?

Mr. FOLSOM. I think, roughly, you might say it is 50 percent, but even so practically all of it is labor because, while it might be 50 percent in our company, the raw materials we buy from another company, they have 50 percent for labor; and if you work it right down, the great bulk of it is labor. So that it depends upon how you look

at it. I am not basing this alone on the fact that it is going to increase the cost of production of a company-of course, it will-but I am saying that you are going to take this 6 percent, in a very short time, out of the regular channels. Also, the investment problems involved are terrific. If you will build up this fund to \$10,000,000,000 within 10 years' time, that means \$10,000,000,000 of securities are going to be taken out of the market, and the amount of Government securities in the hands of the public are going to be affected, and you are going to make interest rates very low by artificial means.

All that I am pointing out is that it is a very grave question whether this plan suggested by Secretary Morgenthau is feasible, although, on the face of it, you are putting it on a sound actuarial basis. It is thus evident that what is sound actuarial practice for a private company is not sound practice for a government.

Even under the plan of Secretary Morgenthau you are still paying out annuities in excess of what the initial contribution will provide. But, instead of putting that burden on a future generation, you are putting a large part of it on the present generation.

In the original plan, while it called for an eventual reserve of 11 billion dollars, it could be handled from an investment point, of view especially in view of the subsidies to the old-age assistance plan.

I agree that agricultural workers and domestic service should come out. Our advisory council recommended that it be excluded also. The Cabinet committee plan included them, but we think they should be excluded. Eventually they might be brought in, but right now we would cut them out.

We believe that the voluntary annuities is a good plan up to \$100 a month. That part of the scheme should be kept on an absolutely self-supporting basis, in other words, the Treasury should not sell these voluntary annuities unless they can break even, including administrative charges.

Senator **KING**. Why should the Government go into that?

Mr. **FOLSOM**. Well, you are not competing very much with insurance companies on that, and also you are going to have people who will be in this system for a short while and then out of this system, especially if you exclude domestic service and agriculture. A girl who might be in a factory, in industrial service for a time, and then in domestic service, she ought to be given a chance to buy additional annuities if she wants to. Very few people will do it anyhow. In Canada the law did allow it, but the only ones who bought it, bought it because they thought they were getting a bargain. They were allowed to buy up to \$5,000. So they changed that plan to cut it down to a maximum of \$1,200, which we recommend. But I do not think you will find very many people taking it, especially if they are priced on a self-supporting basis. But if you are going to have the Government providing these annuities at bargain rates, then you are going to have a lot of people coming in to get the bargain.

The **CHAIRMAN**. Do I understand you to say that the tax should not be imposed on the employer in agriculture?

Mr. **FOLSOM**. They would not be eligible at all.

The **CHAIRMAN**. How about a fellow when he got to be 65 years of age, who had been engaged in agriculture! Would he have to depend on the pension?

Mr. FOLSOM. On the old-age assistance. If he has not any means of support. That is why your old-age assistance, even in the future, is going to cost around \$100,000,000 a year, even with the introduction of this contributory system.

Senator WAGNER. Unless he had enough income to buy one of these annuities.

Mr. FOLSOM. Yes, but very few of them will. The insurance companies could not do any business unless they had agents to go out and sell it, so I do not think it is going to compete. This is a type of business which the insurance companies do not go after very strongly anyhow.

Senator KING. I hate to take up your time, but I do not quite understand why the Federal Government should be selling annuity policies.

Mr. FOLSOM. Only to take care of the people once in the system and who are going out, and they might want to keep up their contribution. That is the main purpose of it.

The CHAIRMAN. All right; proceed.

Mr. FOLSOM. The next question is the question which Senator King asked about the company plan, the effect that this plan would have on the individual company plan; especially the companies that have sound pension plans. There are two ways in which you can take care of that. We have had experience in several countries abroad with this problem, where we have our own pension plans, and where the governments came in.

Senator KING. When you speak of pension plan, which are you speaking of?

Mr. FOLSOM. Just the annuity plan. Not the unemployment schemes at all; just talking about the private company pension plans. This proposed Government plan covers people only up to \$250 a month. A company which has a plan already, covers the whole pay roll-everybody. They usually have a maximum, though.

Those people in the plan in the future would be taken care of in one of two ways; first, you can just continue the company' plan and the money which has already been put up with insurance companies would still be left there and the people would still be entitled to all the annuities which went into it, but from now on instead of paying the entire 3 or 4 percent into the insurance company you pay part of it to the Government on the Government scheme and part to the insurance people. For the people over \$250, you would still put all of the money into the insurance company. Eventually, especially with the Morgenthau plan, the companies will be putting, for people under \$250, almost all the money with the Government, and then those people who will get all of their annuities from the Government. But for a long time the employee when retired will get part of the annuity from the insurance company and part from the Government. That is one way you can do that, looking at your system as supplementary to the Government, system.

There is another plan which could be adopted and which I think I would offer as a choice for the individual companies, and that is that if an individual company scheme meets certain requirements and specifications set up by the administrative agency, that they be permitted to operate their own system. It would be specified that

when anybody leaves their company before retirement then the company must provide that man with annuities which he would be eligible for under the Government scheme ; in other words, the company would either give him a paid-up annuity or have transferred reserves from the insurance companies to the Treasury. Of course that will cause administrative questions, but on the other hand it will cut down quite a lot of administrative work in Washington if you have these companies handle it themselves.

I believe the bill should permit such a choice being given. I do not think you will have to put all of the administrative details in this bill. Especially would I recommend that system if you make the amendment which Secretary Morgenthau suggested, because if these company funds are invested with insurance companies, that means it will take just that much money from the investment problem in Washington? and the insurance companies can invest it in other channels, industrial, railroads, and so forth.

SENATOR HASTINGS. Before you leave that, is not that last suggestion which you made—would the result of it not be that the company was taking care of their own but was sharing no part of the burden of the old-age pensions generally?

MR. FOLSOM. Well of course under this scheme of the contributory system, each company puts up half the cost and the employee puts up half, and the company would still have to pay just as much money in, and most of these company plans would be paying out more than under the Government scheme, so they are not getting out from under anything. If you let these people lay them off and not pay anything, they would be getting out from something. But they are paying just as much under one system as under the other. Most of these company plans are more liberal and they should be more liberal. I do not think the Government contributory plan should attempt to cover anything more than a minimum.

SENATOR HASTINGS. I got the impression from your statement that one of the ways in which the company and its employees could protect itself grows out of the fact that they are now contributing more than this and they could merely take that much away from what they are now contributing, and leave themselves in the same financial position, that they were before.

MR. FOLSOM. I am mentioning two plans there. Under the first scheme, they put part of the money into the insurance company and part to the Government. Under the second scheme they put it all to the insurance company, but when a person left their company, they would have to give the person a paid-up annuity or take the reserve from the insurance company and give it to the Government. The administrative agency would have to see that no company got away with anything and they would have to meet certain rigid requirements fixed by the administrative agency.

THE CHAIRMAN. Let me ask you a question before Senator Byrd leaves, because he is interested in this. This definition of those who are entitled to get assistance "compatible with decency and health," was there much discussion with reference to the definition?

MR. FOLSOM. No; we did not discuss that very much. I am inclined to think personally, without talking it over with any of the Advisory Council, that that is a matter which should be left more or less up to the States.

Senator **CLARK**. Under this bill, it is left entirely to the Federal administrator?

Mr. **FOLSOM**. I am inclined to think it should be left to the States. I do not think anybody in Washington can say what is a proper level of decency in Utah, Mississippi, or any other State.

Senator **BYRD**. The Federal administration is given the arbitrary power to discontinue the allotment to any State which does not meet those standards.

Senator **WAGNER**. That is the old-age system.

Senator **BYRD**. The same provision applies to dependent children and other things throughout the bill.

Mr. **FOLSOM**. We simply made general recommendations. We did not have a detailed bill before us.

The **CHAIRMAN**. What is your reaction as to that?

Mr. **FOLSOM**. I do not see why that matter should not be left to the States, myself.

The **CHAIRMAN**. Would you lay down any definitions with reference to this?

Mr. **FOLSOM**. I am inclined to leave it up to the States.

Senator **BARKLEY**. I do not recall that there is anywhere any legal definition of "decency." I am wondering just really what that does in the way of fixing a standard.

Mr. **FOLSOM**. I am not sure either that this matter should be left up to one individual. I am inclined to think that a board would be a better method of handling it.

The **CHAIRMAN**. There might be some difference of opinion as to what is "good health."

Mr. **FOLSOM**. There is all the chance in the world for argument, and I do not see why that is not a matter for the States anyhow. If the State is going to pay half of the cost, I do not see why they should not have some say as to what they will pay.

Senator **KING**. It is just as difficult to define that as to define what books should come to the United States, or as to alleged moral or immoral features or the decency or indecency in them.

Senator **WAGNER**. In connection with that, may I just ask this question. I think we can easily reach an agreement on the matter that was just brought up, but should not the Federal Government before it pays this money, have some sort of a report so that they may ascertain whether the States provide a means test and all of that?

Mr. **FOLSOM**. Oh, yes; I think you should get all of the reports and try to check up and jack up some of the States on it, but I can see all sorts of possibilities for arguments in that particular provision now.

Senator **WAGNER**. May I ask just one further question and then I won't bother you any more? On the so-called "recommendations" of Secretary Morgenthau, that would result, would it not, in the first place, in addition to the difficult question of investment which most people that have been studying this question think more difficult even than the question of future contributions of the Government; that is, one difficulty that would result, and the other is, and you did indicate it, that the present generation would have to carry this burden of assistance which has been neglected so long and it would result in these younger workers when their time came to pay their pensions, in

getting less than an earned annuity. That may very well happen if we keep the present system.

Mr. FOLSOM. They would be contributing something, but not very much more ; but they figure this rate would eventually go up to 6 percent. The actuaries figure that the younger fellow might be able to build up his annuity at 5 percent.

Senator WAGNER. Somebody must make up this difference, because we are going to give the older people more than they have earned. But someone must make up the difference.

Mr. FOLSOM. The first plan said the Government should make up the difference after 1965. People are very much alarmed over that deficit. I imagine that if you did not do anything at all the people in 1965 would have to take care of a much greater load than the deficit under this plan. And the accumulated deficit by 1980 to the Federal Government under this contributory plan is less than it would be if you had only the old-age-assistance plan. I do not think these points have been clearly enough understood.

The CHAIRMAN. The committee thanks you very much, because your statement has been quite illuminating and helpful, and no doubt the committee will want you to stand around.

Mr. FOLSOM. I will be very glad to at any time.

The CHAIRMAN. Some of the members may want to confer with you.

Mr. FOLSOM. I have some charts which I did not explain, but which I will be glad to explain to you.

Senator BYRD. I would like to compliment you, Mr. Folsom, for having given us one of the clearest statements I have heard.

Mr. FOLSOM. Thank you.

Senator KING. When you have nothing to do before the committee here, the District Committee room will be available, and some of us may want to confer with you there.

Mr. FOLSOM. I will be glad to stay over tomorrow anytime, or any other time you want me to. I have spent a great deal of time on this and I will be glad to spend some more time if you think it will be of assistance to the committee.

The CHAIRMAN. I would like to get you and Dr. Epstein together, myself.

Mr. FOLSOM. We do not agree on all these things.

SUPPLEMENTAL STATEMENT TO SENATE FINANCE COMMITTEE BY M. B. FOLSOM, ASSISTANT TREASURER EASTMAN KODAK Co., MEMBER ADVISORS COUNCIL ON ECONOMIC SECURITY, RE UNEMPLOYED SECURITY BILL, S. 11.30, FEBRUARY 8, 1935

I am glad to appear before your committee. I am a member of the Advisory Council on Economic Security appointed by the President, and assistant treasurer of the Eastman Kodak Co. My views on unemployment compensation and old-age pensions are based upon a study of these subjects extending over a period of years and upon practical experience from the operation of such plans in our company. Through our companies in foreign countries we have also had experience with the governmental insurance plans abroad. I have also been in close touch during the past 4 years with the operation of the Rochester unemployment benefit plan.

At the outset I would like to call your attention to the fact that many individual companies throughout the country have already adopted employee benefit plans in order to provide greater security for their workers. Thus, 400 companies have adopted old-age-annuity plans, 300 of which are backed by reserves in the hands of life-insurance companies or other trustees.

As an illustration, the Kodak Co. has benefit plans which include a wage dividend, sickness benefits, disability benefits, retirement annuities, life insurance, and unemployment benefits. The entire cost of all of these benefit plans is borne by the company, with the exception of a provision for an emergency contribution by employees under the unemployment benefit plan. The cost of these plans as a percentage of pay rolls is greater than that contemplated in the proposed legislation.

These plans were adopted by this and other companies not from any paternalistic or charitable point of view but as a matter of good business. It was felt that these plans would be advantageous to the workers, to the stockholders, and also to the community at large. Many years' experience has confirmed this opinion. To illustrate, with an annuity plan we are able to retire workers after they have passed their period of usefulness and are able to replace them with more efficient workers and to improve the morale of the whole organization. In the long run these advantages will offset the cost. Since the adoption of the unemployment benefit plan there has been a greater incentive throughout the whole organization to reduce fluctuations in employment. Savings which result from providing steadier work will offset the cost of the benefits which are paid to workers who might be laid off.

It was the hope of many in industry that voluntary adoption by companies of annuity and unemployment plans would increase and become sufficiently wide-spread so that legislation would not be necessary or else postponed until we had a wider experience in this country. It is interesting to note that there has been a considerable increase in the adoption of industrial pension plans in recent years; even during the depression. The financial problems faced by most companies during recent years, however, have been such that the voluntary adoption of these plans on a large scale could hardly be expected. We, therefore, have reached the conclusion that legislation is necessary to provide this security for workers in general. We hope that the legislation will be such that it will accomplish this purpose without, at the same time, involving serious disadvantages to industry and commerce and without too large a proportion of contributions being spent for administrative purposes. We know that in some of the foreign countries such a large bureaucracy has been built up to administer the plans that the benefits actually received by the workers are considerably less than they should be.

We are in sympathy with the general aims and purposes of this bill. We would, however, recommend certain changes in the unemployment compensation and old-age security sections which, in our opinion, would enable it to better accomplish the purposes in view.

EMPLOYMENT COMPENSATION

Since 1931 seven companies in Rochester, employing 13,000 workers, have operated an unemployment benefit plan. Each company has accumulated its own reserve fund, the amount of the annual appropriation depending upon the experience of the company, with a maximum of 2 percent of the pay roll. Since January 1, 1933, benefits have been paid to workers laid off or those working on part time below a specified amount. Payments to date by most companies have represented only a small portion of the fund accumulated, and the companies already have a substantial fund available for the future.

The experience of these companies—it is probably the best actual experience with unemployment compensation we have in this country—would indicate that the plan is practical and that the maximum contribution of 2 percent would be sufficient for the benefits fixed in the plan—2 weeks' waiting period, maximum of 13 weeks' benefits of 50 percent normal pay, and a maximum of \$18.75 per week.

The rate of contribution was fixed only after several companies had made a study of their employment record over a long period of years. A lower rate than 2 percent was found sufficient for some companies because of their work in stabilization. The Kodak Co. has been working on stabilization methods for 35 years, and as a result shows comparatively little fluctuations in employment in normal years, although faced with a very difficult seasonal fluctuation in sales.

The experience already indicates that with the plan in operation greater effort is made by the entire organization of a company to plan better, to spread work, and to adopt other means to prevent layoffs in order to avoid paying unemployment benefits for which nothing is received in return. The total layoffs in 1933 and 1934 by the 7 companies have been only 477-337 in 1933 and 140 in 1934—in a force of 13,000.

We are convinced of the desirability of the general adoption of unemployment compensation plans, but feel that the kind of legislation enacted is very important.

As a member of the Advisory Council, I have heard the arguments offered by the various members of the staff relating to a Federal system of unemployment compensation and the two types of Federal-State systems. There are many arguments for one Federal system, but the compelling argument against it is that it is almost impossible for any group to devise one plan which would be workable or desirable for the whole country with conditions so different in the various sections. Because of the very limited experience in unemployment-compensation plans, it is very desirable, as the President indicated in his message to the Economic Security Conference, that we experiment with different plans. If a Federal system were adopted we could experiment with only one plan.

Several of us on the Advisory Council, a majority, in fact, were in favor of a grants-in-aid plan rather than the plan provided by this bill. We felt that under the former system it would be possible to set up industrial plans covering more than one State, and that an entire industry could do a better job in stabilizing and reducing unemployment than individual companies in any industry could do in individual States. We thought there should be experimentation along industrial as well as State lines. It was also felt that the workers would be better protected because more minimum standards could be included in the Federal law under the grants-in-aid plan than under the proposed plan. There would still be considerable freedom to the States, but only above certain minimum standards. We appreciate, however, that there are also good reasons for adopting the proposed type of bill.

The Advisory Council recommended a number of minimum standards which it felt should be incorporated in the Federal legislation regardless of the type of plan decided upon. These standards related to number of weeks benefits, the amount of benefits, the waiting periods, etc. We understand that one reason why these standards were omitted from the bill was the possibility of constitutional objections.

There are certain other specifications imposed upon the State legislation in the present bill which are just as much regulatory as the standards the Advisory Council recommended and would, it seems, run into the same constitutional question. Some of these specifications also restrict, in a large measure, the freedom of the States to experiment and are otherwise objectionable.

Referring to section 407, subparagraph (a) (4) and also section 602, subparagraph (b), it is required that all unemployment compensation must be paid through public employment offices of the State. If this means paid "by the public employment office", it seems to us that this is a matter which should be left to the States to determine. If the State should desire individual companies to pay unemployment compensation direct to their workers, they should be permitted to do so. This would simplify the administration and would reduce the administrative costs to the State government. The States generally permit self-insurers to pay workmen's compensation claims direct and the situation would be quite similar for unemployment compensation. Records of payments, of course, would be sent to the State agency and claims handled through the agency.

Section 608 requires as conditions for obtaining the additional credit allowance that at least 1 percent of the employer's pay roll must be contributed to a pooled fund in the State, that the full payment of compensation must be guaranteed, and that no reduction in contribution will be permitted until the reserve account reaches 15 percent of the total pay roll. In his message to Congress on January 17, 1935, the President stated that :

"An unemployment-compensation system should be constructed in such a way as to afford every practicable aid and incentive toward the larger purpose of employment stabilization * * * .

"Moreover, in order to encourage the stabilization of private employment, Federal legislation should not foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment."

It is my opinion, which is shared by many others who have been working on the plan, that the provisions in section 608 of the bill for all practical purposes do "foreclose the States from establishing means for inducing industries to afford an even greater stabilization of employment." If these provisions are allowed to stand, reduction in contribution, which an employer might receive because of good employment record, is so distant in the future that there is

practically no incentive for him to stabilize. If we assume that the rate will be 1 percent in 1936, 2 percent in 1937, and 3 percent thereafter, and that 1 percent is paid each year into the pooled fund and 0.3 percent into the Federal administrative fund, the reserve account of an employer would not reach 15 percent until 1946 and he would not receive any credit for good employment record until that time. Obviously an employer would not do very much about stabilization in 1936 and 1937 on the chance that he might get a reduction in his rate in 1946. These provisions would also make it very difficult for smaller companies to receive a reduction in rate because of inability to furnish the required guaranties.

These provisions are not at all in accord with the recommendations made by the Advisory Council on Economic Security, on which were representatives of employers, labor, and the general public. (There were 5 employers, 5 labor representatives, and 10 from the general public.) We were in accord with the President's message to the Economic Security Conference that the States be permitted to experiment along different lines. These provisions cited above practically bar States from experimenting with a system of separate accounts and will prevent experimentation in the one field which employers who have had experience with unemployment-benefit plans feel is the most promising one. We want to try to reduce unemployment in the future and not to pay benefits. We are convinced that with the proper incentive considerable progress can be made in this direction.

The plan which the advisory council recommended and which was acceptable to the labor and public representatives, as well as the employer representatives, provided that the States could adopt State-wide pooling of funds, a separate account system, or a combination of the two. In case a separate account system were adopted we recommended that the employer to obtain a separate account be required to put up adequate financial guarantee while his account was being built up and that no reduction in rate be allowed until his reserve was adequate. The provision that all funds are to be invested by the Federal Government and that adequate guarantees must be put up by the companies with separate accounts, overcome many objections which have been offered to the separate-account system. We feel that if a State wants to permit separate accounts under these conditions, that it should be allowed to do so. We would, therefore, recommend that subparagraph (a), section 608, be eliminated entirely, that corresponding change be made in definition under paragraph 606, and that the amount of the reserve be changed from 15 to 10 percent of pay roll.

We realize that there is a decided difference in opinion as to the two principal systems of unemployment compensation—the pooled system and the separate-account system. Many of the experts and those who are approaching the subject from a theoretical point of view favor the pool or so-called "insurance system" on the theory that unemployment is an insurable risk: to get proper coverage you must pool all the risks and make them all pay the same rate. Practically all actuaries contend that unemployment is not an insurable risk. Even if it were, there is no reason why rates should not vary according to the risk as in all other forms of insurance.

We thoroughly agree with the theory back of this bill that unemployment compensation should cover only a limited period. We agree with the great majority of actuaries who contend that unemployment is not an insurable risk, and are glad that this bill does not attempt to handle the problem as insurance.

These experts also contend that individual employers cannot do anything about reducing the fluctuations of employment and that there is thus no need for offering an incentive for stabilization. Many do not agree with them. One of the chief purposes of this legislation, as advocated by the President, Senator Wagner, and others in the past, is that there should be incentive for employers to reduce unemployment. That should be the goal rather than the actual paying of benefits. The straight pool system under which all employers contribute at the same rate cannot serve as an incentive to stabilize. On the other hand, it will change the whole employment policy of a company and will undoubtedly result in greater layoffs during the early stages of a depression. There will be no incentive for a company to spread employment, and when it is necessary to curtail production the least efficient workers will be laid off immediately and the other workers kept on full time. The actuaries, we understand, have assumed that under a pool plan an allowance must be made for an increase in unemployment. The report of the security committee pointed out that larger benefit payments are possible under the separate accounts system.

Those who contend that nothing can be done about stabilization have in most cases had no practical experience. The companies with unemployment *benefit*

plans in operation all state that they do serve as a strong incentive to stabilize. This has been the case in Rochester. Even those companies which previously had a good record in employment stabilization have found that they could do a better job. This has already been the experience in Wisconsin, where the law only went into effect in July 1934 and benefits are not yet payable. (The present "Wisconsin plan" could, of course, not operate under the provisions in this bill.) We feel that if the employer has an incentive, and the only incentive which really counts is the possible reduction in his rate, the great majority of employers can do a better job than they have done and that much steadier work will be provided to a great many workers. We feel that progress can be made in this direction exactly in the same way that self-insurers under workmen's compensation have reduced accidents in recent years. If a company or industry can provide steadier work, it will generally result in lower costs—a steady worker can produce more per hour and lower prices to the consumer. Thus all three interests benefit—the worker, the employer, and the consumer.

Those, including some employees, who say that individual employers cannot do anything about unemployment generally have in mind deep depressional unemployment. The plan set up in this bill is not intended to take care of depressional unemployment but only unemployment during normal times, minor depressions and the first year of a deep depression. It is this type of unemployment which an individual company can do much to prevent. If this can be done, a larger portion of the fund would be conserved for the depressions and would serve as a better means to prevent the depression from going so low. Companies can also do a better job with depressional unemployment.

The employers on the Advisory Council do not take the defeatist attitude that nothing can be done but ask that industry be given some incentive to reduce unemployment. We would therefore strongly urge that these changes be made in the bill so that the States will not be prevented from offering the incentive the President urged in his message. We don't ask you to decide between the two plans but to permit States the freedom to select the plan they desire.

The provisions in section 606, relating to guaranteed employment, require such high guaranties that extremely few companies are likely to take advantage of this provision. Many thoughtful employers consider the guaranty of employment very promising. Some progress has already been made in Wisconsin, where a reasonable guaranty of employment plan is permitted. It is better to assure employment than to pay benefits. The Advisory Council recommended that a guaranteed employment plan should be permitted in the States if at the first of the year employment were guaranteed for at least 55 percent of a year's work. We would recommend that this condition be changed to permit guaranty plans if 30 weeks of full wages were guaranteed or 40 weeks of only three-fourths wages. Such a plan would actually provide greater benefits than the compensation plan.

Referring to subparagraph (d), section 608, it is recommended for the same reasons as given above that the compulsory contribution to the pooled fund be eliminated and also that variations be allowed at the end of 3 years after contributions are first paid instead of 5 years. The States could still require either or both of these conditions but they should not be made compulsory. It should be emphasized, however, that this so-called "merit rating pooled fund" system cannot serve as nearly so good an incentive to the employer to stabilize. There is no assurance that he will actually receive the reduction even should his employment record be good. England had such a provision in their unemployment insurance plan but it was never put into effect.

Ten percent would seem too high for the administrative costs of the plan. This should be considered a maximum and not as a regular charge.

The bill as it now stands imposes a tax on the total pay roll of employers. While there are no standards in the bill as to employees to be covered under the State bills, practically all the State bills which have been proposed cover both for tax purposes and benefits only workers who receive less than \$50 per week. Under the Wagner-Lewis bill of last year, the tax applied only to the wages of those eligible for unemployment compensation and did not apply to any part of the wages of those receiving over \$250 per month. In order to simplify the administration, our Advisory Council recommended that the tax should apply to the first \$50 per week wages of everyone and that everyone should be eligible for benefits with a maximum of \$15 per week. It is obviously unfair to have the tax apply to that part of the pay roll which cannot be considered for benefits. In the Old-Age Security section of the

proposed bill employees receiving over \$250 a month are excluded entirely, both for contributions and benefits. We therefore recommend that either this provision be adopted in the Unemployment Compensation section of the bill or, if desirable for administrative purposes, the first \$250 per month of all employees be included in the pay roll subject to the tax.

The bill as proposed places the tax entirely upon the employer. Therefore the only way in which the plan can be made contributory is to have the States place an additional tax on the employees. We feel that the 3-percent rate is entirely adequate to set up an unemployment compensation system to achieve the purpose which this bill has in mind, that is unemployment during normal years, minor depressions and the first stages of a deep depression. Based upon the experience of the Rochester companies, the 3-percent contribution should provide, with a 4-week waiting period, longer benefits than the actuaries have estimated. The actuaries have very meager data on which to base their estimates and I am in accord with the conservative position which they have taken. I believe, however, that with a system set up to provide the incentive to reduce unemployment, the experience will show that the 3-percent rate will give longer benefits than the actuaries have estimated.

Although some members of the Council have recommended to you that a higher rate be assessed, I would call your attention to the fact that the Council as a body recommended the 5-percent rate. The employers and many others on the Council feel this rate is adequate and in addition that it would be detrimental to business in general to impose a higher rate. We also consider it very important that those provisions be retained which assesses lower rates in 1936 and 1937 if business does not recover to a stated extent.

Although a majority of the Council voted against employee contributions, many of us thought that the plan would be more successful if the employee contributed a small amount, say one-half of 1 percent. We agree that the first charge of unemployment compensation should be on the employer as he can do something about reducing unemployment while the employee can do very little. Employee contributions, however, would provide more effective administration and would cause the worker to regard the plan as partly his own and not as something given to him as a gratuity. It would thus operate to prevent malingering and similar abuses. In all the systems abroad, with the exception of Russia, the employees contribute.

Referring to section 602, subparagraph (d), which reads in part as follows :

" Compensation is not denied in such States to otherwise eligible employees for refusing to accept new work under any of the following conditions * * * (3) if acceptance of such employment would either require the employee to join a company union or would interfere with his joining or retaining membership in any bona fide labor organization."

The Advisory Council recommended a different wording for this condition which seemed fair and impartial and reads as follows :

" If acceptance of such employment would affect the applicant's right to accept or refrain from accepting or retaining membership in or observance of the rules of an organization of employees."

We recommend this change be made.

SUMMARY OF CHANGES RECOMMENDED IN UNEMPLOYMENT COMPENSATION

1. Payment of benefits direct by companies with separate accounts should be permitted.

2. In order that a real incentive be furnished employers to stabilize, the compulsory pooling features of the bill should be eliminated and States should be permitted to establish the separate account system under adequate guaranties, and employers with separate accounts should receive a reduction in rate after their reserve reaches a reasonable amount.

3. Guaranteed employment plan should be permitted if 40 weeks of work at three-fourths of full wages, or the equivalent, are guaranteed.

4. If a State wishes to establish a pooled system with merit rating, a reduction in rates should be permitted within 3 years.

5. The pay-roll tax should apply only against that part of the wages which are considered for benefits ; i. e., the first \$250 per month.

6. Employees should contribute one-half of 1 percent of pay roll and employers 2½ percent; the employees would become more interested in the plan, would provide more effective administration, and prevent abuses.

7. The wording of the clause relating to employee organizations should be changed to the impartial wording recommended by the Advisory Council.

OLD-AGE SECURITY

The subject of pensions is a very involved one and with the complicated sections in the proposed bill, setting up three different forms of old-age security, it is difficult to get a clear idea of the provisions and the ultimate effects of the bill. To simplify the problem for my own study I have prepared a number of charts which are based upon the studies made by the actuarial staff, and which I am glad to present to the committee. In general, we are in favor of the three-point program recommended by the committee on economic security and the old-age security section of this bill. There are certain changes we would suggest.

Very strong arguments can be made for providing pensions in a systematic way to aged persons who have no means of subsistence. A larger percentage of these people are more dependent than formerly, due in part, but not wholly, to the depression. Due to the depression it has become more and more difficult for the children to take care of the aged, which has thrown a larger number of these people on relief. A number of the middle-aged people have lost their savings during the depression and it will be difficult for many of them to make up this loss before retirement age. The difficulties of the older worker in industry have been greatly exaggerated, as surveys of the security committee show that the percentage of lay-offs among older workers is much lower than among younger workers. It is true, nevertheless, that when an older worker loses employment it is difficult for him to find reemployment. It must be expected that many of the older group now among the unemployed will find it difficult to get jobs even when normal business conditions return. It would therefore seem that this country is facing, as practically all other countries in the world have faced, the pension problem.

The first step has already been taken by 29 States inaugurating a system of old-age assistance, giving stated amounts to the aged who have no means of livelihood or very limited means. The poor-house method of taking care of this problem is not a desirable one and is probably more expensive than the assistance method.

The total amount of the grants under the present State plans would be considerably larger if many of the aged were not on relief rolls of local governments, State and Federal Governments. The Government, through relief, is already giving assistance to many of these people. Granting of pensions is a more systematic way of meeting the problem and provides greater sense of security to the aged. The Federal bill will also raise the standards in some of the States. The average grant is now \$19.74 per month.

The actuaries have estimated the cost to the Federal Government of these grants—the annual appropriations increase at a surprising rate. This is due partly to the fact that the number of old people in the country is gradually increasing, but largely to the fact that for many years more people will be added to the rolls each year than are taken off. The cost will not become stabilized until the population has been stable and until the number of pensioners who die each year equal the new pensioners who are added. Actuaries estimate that in 25 or 30 years the actual number of old people will have doubled, even should there be no further decline in the mortality rate. Another important factor in estimating the amount of the Federal subsidy is the dependency ratio used. There is very little basis for estimating dependency in the future, and I feel the estimates used are probably maximum. Chart no. 1 shows the amount of Federal subsidy to the old-age pension assistance plan, assuming there is no contributory system in effect. It is evident from this chart that the subsidy of the State old-age pension plan will, in the course of a few years, involve a heavy drain upon the Federal Government, reaching one-half billion dollars in 1945 and over a billion dollars by 1960. This heavy drain upon the Federal revenue is one of the principal reasons why once the State and Federal Governments have embarked upon old-age assistance plans it becomes necessary to adopt a contributory system. Also, it would be bad psychology to have a pension plan in this country based on the principle that a person with no means of subsistence would receive a pension and those who had been thrifty would not receive one. Under a system of this sort only a minimum pension could be granted, because of the tremendous cost involved in granting a more adequate pension. For the same reason it would also be necessary to apply the means test. The tremendous cost involved in increasing the amount of these Federal grants above \$15 per month is obvious from a study of the chart, and we would not favor any larger grants.

These are considerations which led the Advisory Council to accept the recommendation of the technical staff that, simultaneously with the adoption of the assistance plan, a contributory annuity system be inaugurated. In considering a sound plan of annuities, either for a company or for the whole country, it is important to realize that there is a large accrued liability existing at the time that a plan is inaugurated. A group of people starting in an annuity plan at age 20 or 25 could finance a pension plan on a sound basis with annual contributions of modest sums. We are faced, however, with the situation as it exists in which there are people of all ages. (In the case of the Kodak Co., at the time our plan was inaugurated in 1928, we paid to the insurance company over 7 million dollars to take care of the accrued liability which covered service rendered by employees prior to the adoption of the plan.) The actuaries have estimated that under the contributory annuity plan recommended, this accrued liability to the Government would be about 17 billion dollars. Obviously it is not necessary for the Government to put this sum into the plan now because the payments which are to be made will be small for a number of years. This sum could be spread over a period of years but again the actuaries point out that this is unnecessary because the income will be sufficient to pay the annuities for a long time. They therefore discarded the plan under which the whole accrued liability would be financed initially by the Government.

The second plan which could be adopted was to pay out to the individuals in annuities only the amount which they actually earned through their own and their employers' contribution and to keep the plan on an actuarially sound basis. This would result in very small annuities for many years and would also result in an accumulation of a very large reserve amounting, it is estimated, to \$X&000,000,000. It would be very difficult, if not impossible, to invest this huge sum. For many years, because of the small annuities, the pension problem would not be met. The plan which was finally recommended by the committee and staff and approved by the Advisory Council and Economic Security Committee was a compromise plan between these two extremes—partly pay-as-you-go but also accumulating a reasonable reserve, but not the total reserve. This will help solve the pension problem and prevent the accumulation of too large a reserve. At the same time it means that the Federal Government at some future date, beginning, it is estimated, in 1963, will find it necessary to make up the deficit caused by the middle-aged and older people during the first years of the plan drawing out in pensions more than they earned. The charts show how these various factors work.

It should also be pointed out that with this plan in operation there would be a considerable reduction in later years in the amount of money which it would be necessary for the Government to give the States to subsidize the assistance plan. The difference between the subsidy with and without a pension plan can be considered as savings, due to the inauguration of a contributory system. These savings should be compared with the deficit which the Federal Government will later have to make up, due to paying the older people more than they earned during the first years. Upon making this comparison it is found that up to 1980 the cost to the Government under the combined insurance and assistance plan will be less than under the assistance plan alone and we would have had a good pension plan all during that time.

I have not had an opportunity to study carefully the changes in the bill recommended by Secretary Morgenthau. With two of these suggestions I am in accord. In the plan recommended by the Advisory Council, domestic servants and agricultural workers were excluded because of the tremendous administrative difficulties involved. It was felt that these might later be included if the administrative difficulties could be overcome. We would, therefore, agree that these groups of workers should be excluded from the present bill.

I would also agree with the suggestion that the sale of voluntary annuities be transferred from the Social Insurance Board to the Treasury Department. We see no serious objection to having these annuities sold, provided the amount sold to any one individual is limited, as the bill now provides; and also provided that this part of the plan is self-supporting and will not involve any cost to the Government.

I am not inclined to agree with the suggestion that the rates of contribution be increased to the extent suggested. I think that too great emphasis has been placed on the deficit which must be met by the Government 35 years from now and that not enough attention has been given to the investment problems involved in handling tremendous reserves of \$37,000,000,000 which will be built

up under the proposed amendment. Even if it is used to retire the Government debt, it is too much of a load to put on the present generation that must also **bear** the load of pensions to the aged of the present generation not provided by the previous generation.

Most actuaries and students feel that you cannot consider the Government plan on the same basis as the company plan. While it is unsound to have a company plan on anything but an actuarially sound basis, the difficulties involved in putting a Government plan on an actuarially sound basis are so great that a plan on a pay-as-you-go basis is the more practical one. Under the original plan recommended by the advisory council, the reserve would reach \$11,000,000,000, but this fund could actually be used to finance the Federal subsidies to the State old-age assistance plans. Under the proposed plan, the reserve will reach \$6,000,000,000 in 10 years, \$15,000,000,000 in 15 years, and \$37,000,000,000 eventually. Even if the fund were used for payment of the subsidies to the States, it will still reach a large sum.

When the reserve fund reaches the 10- or 15-billion-dollar level during the early stages and the income is far in excess of the benefit payments, there will be a strong tendency either to enlarge the benefits or to reduce the contributions, with a resulting deficit to be met by the Government in later years.

The original plan had the big advantage of going into effect gradually over a period of years, with little danger of an adverse effect on industry and commerce. The proposed plan, together with the 3 percent tax on unemployment compensation, will soon take a very large sum away from regular consumption channels, with a possible depressing and deflationary effect.

It should be pointed out that under the proposed plan, the older workers are still to be paid annuities in excess of what their own and their employers' contributions will earn. Instead of placing this burden on the Government in future years, the proposed plan puts it on the younger workers and on industry at present.

I would therefore recommend that the committee give very serious consideration to the implications involved in building up this huge fund and to the depressing effect on business of increasing the tax rates so quickly.

An important consideration is the possible effect of this proposed governmental plan upon the industrial pension plans already in **effect**. Most of these plans provide more liberal pensions than the Government scheme will provide for many years and also cover people in the higher wage groups who are not covered under the proposed Federal plan. These plans provide security to a larger number of workers in industry. Many of these plans are now on a sound actuarial basis and the reserves have actually been set aside with the insurance companies or other trustees. The Federal plan will not affect in any way the amount which has already been set aside and it will not affect the annuities which have been earned because of service up to date.

There are two methods of fitting these individual company plans into the Government plan. The company plans could be considered merely as supplementary plans and the companies would deduct from their annual contributions for current liability the amount which they contribute to the Government; the annuities which accumulated in the future from employers' contributions would be reduced by the amount of the annuity paid for by the employer under the Government plan. This method would not necessarily result in the abandonment of company annuity plans and this method has been used abroad. For many years employees with wages less than \$250 per month would receive, if retired, annuities from both the Government and the insurance company. Those above \$250 per month would still be under the insurance company plan.

It would seem, however, that another plan should be devised under which companies would be permitted to operate their own plan for the entire force so that the Federal plan could be relieved of the details of the administration. The reserves accumulated under the company plans could be invested through

the insurance companies and trustees partly in high-grade long-term investments other than Governments and thus reduce the investment problem which must be faced by the Treasury in investing the large reserve funds. This would be especially important if the proposed amendments were adopted. Under such a plan there would probably be less likelihood of any of the present provisions of a company plan being reduced.

There would, of course, be the provision that before a company plan could be recognized it must meet certain standards as to reserves and benefits, and that provision must be made for the employer's paying to the Government the proper reserves when the employee leaves his employment, or giving the employee a paid-up annuity. The details of such a plan could be worked out by the administrative agency. It would seem desirable that the bill should contain a provision which would permit such an arrangement in case the administrative agency found upon further study that it was desirable and feasible.

Due to the adoption of a Government plan, it is likely that many companies which have not already adopted an annuity plan or did not have their plan on a sound basis, will take steps to adopt a sound plan which will cover more people than the Government scheme, and for many years will provide larger annuities. If the companies would be permitted to administer their own plans under the proper regulations, there would probably be greater incentive to adopt them, and the more industrial plans which can be established with larger benefits than under the Government plan, the more security will be provided to the aged in the future.

SUMMARY OF CHANGES RECOMMENDED IN OLD-AGE SECURITY SECTION

1. The voluntary annuities should be sold by the Treasury on a self-supporting basis, with no cost to the Government.
2. Private annuity plans with benefits equal to or exceeding those of the governmental plan should be permitted to operate under conditions fixed by the Social Insurance Board.
3. Agricultural workers and domestic servants should be excluded from the contributory annuity plan.

M. B. FOLSOM.

WASHINGTON, D. C., *February 8, 1935.*

The **CHAIRMAN**. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12 o'clock noon, the hearing was adjourned until Saturday, Feb. 9, 1935, at 10 a. m.)