We are strongly opposed to proposed amendments to the Constitution which would give Congress power to regulate hours and conditions of labor and to legislation proposing to limit hours and conditions of labor, which latter is without a vestige of constitutional support.

At cur meeting in New York we also recorded our opposition to the scheme of embodying all sorts of social-welfare measures in one bill? such as has been clone in the pending bill. We recommend and request that the several measures be separated and proposed in separate bills, so that each will be considered upon its own special merits and demerits.

Heretofore many so-called " Federal aid " measures., embodying the same vicious principles that appear in the pending bill, have been urged. Some hare been adopted, others defeated. In all cases they have been supported by a plea that they were intended only to stimulate the States to put into effect social schemes proposed by lobbyists and bureaus in Washington.

As so often happens in the administration of stimulants, the constant dosage of the States with financial stimulant from the Federal Treasury has made of the States and local communities " stimulant addicts." The cumulative effect of " Federal-aid " legislation in the past has been that during the period of depression and now we find the States and cities lying like mendicants at the door of Congress, begging Federal alms, instead of going about the business of trying to solve their local problems in their own respective ways. And this, too, in spite of the fact that many of the States and communities will in the long run have to contribute to the Federal Treasury much more than they ever receive.

The CHAIRMAN. Thank you very much.

STATEMENT OF HUGO E. CZERWONRY, WASHINGTON, D. C.

The CHAIRMAN. Mr. Czerwonky, you represent yourself, I see.

Mr. CZERWONKY. I have been down here in Washington a year last November? and for the first part of my stay down here I was employed as senior materials engineer with the Agricultural Adjustment Administration, to make an engineering study of the problem of distribution.

Senator KING. Distribution of commodities ?

Mr. CZERWONKY. Of everything, just the general problem itself. That may seem rather ridiculous, but that was the fact.

Senator KING. Just like some other problems suggested in other departments.

The CHAIRMAN. Are you in that work now?

Mr. CZERWONKY. No, sir; I am associated right now, just in the past week, with the National Monetary Conference, which has just been formed.

Senator KING. You mean the one that Senator Owen is connected with?

Mr. CZERWONKY. Yes,, sir. I just want to explain briefly what my study involved. It involved, in the first place, a thorough-going analysis of our exchange methods, how the exchange of goods was facilitated, in an effort to find out where it broke down.

The CHAIRMAN. All right, Mr. Czerwonky, you may go ahead with your statement.

Mr. CZERWONKY. That was a theoretical study. Then immediately after that, at the suggestion of Mr. Baker, who is F. E. R. A., who stated to me at that time, " Hugo, you are not doing anything right now anyhow. Supposing you make a study of the self -help cooperative movement, and at the same time continue your study along those particular lines." So I began my assignment with the division of self-help cooperatives with but one thought in my mind. I began to make a thorough-going dispassionate, impartial study of how the exchange mechanism functioned.

After that assignment was completed last October I made some diagrams in which I pictorially attempted to show just how that exchange mechanism functioned and where it broke clown. I have gone to considerable expense in doing that particular thing. The National Monetary Conference will possibly use it.

The CHAIRMAN. You may proceed to discuss the bill, Mr. Czerwonky.

Mr. CZERWONKY. The problem essentially is this; in discussing this problem we have to look at it in a most dispassionate way. I want the committee to understand I am 100 percent for social security.

The CHAIRMAN. Are you for this bill ?

Mr. CZERWONKY. I just want to point out some assumptions in this bill. Those assumptions are very important. There are, of course, several schools of economic thinking—possibly some of you gentlemen never heard of the school of thinking on the question of economics as it applies to a nation. There was a school of thinking likewise who think in terms of economics as it applies to an individual. That school of thinking is represented in the thinking of Marshall. You gentlemen are possibly acquainted with Marshall. He defines economics as how an individual earns his income and how he spends it.

Senator KING. Some of us have read Marshall and John Stuart Mill.

Mr. CZERWONKY. And Adam Smith.

Senator KING. And Adam Smith and down to Mr. Dewey. We know them, so you need not assume that we do not know anything about national economics as well as individual economics.

Mr. CZERWONKY. The entire teaching of those textbooks represents the economics as it applies to an Individual. There is an altogether new school of thought which is represented by Frederick Soddy, and which is represented likewise by Major Douglas, who are approaching this problem from the national viewpoint.

In other words, the problem, stating it briefly, is not how an individual earns his income and how he spends it, but how a nation earns its income and how it spends it. We are approaching the problem, you might say, from the dynamic standpoint. For instance, we do not define money as a medium of exchange, we look at it from a functional angle. Money is the medium for effecting the exchange of goods and services.

Senator KING. That means purchasing power really, doesn't it?

Mr. CZERWONKY. Dollars are normally used for buying goods. I bring that out in just a few words to point out to you that there are two distinct lines of approach.

This entire bill was approached, mind you, not from a viewpoint of whether unemployment insurance was sound. The objective in presenting this bill was to present a method by which reserves could be kept up.

Now the question that you gentlemen will have to decide, first of all, is this: These are the assumptions that are back of this bill, and you have to understand the monetary theory in order to grasp its significance. The assumption is that by selling the reserves for dollars that the depression will be broken, that bonds will be sold to people who would otherwise accumulate or hoard dollars. That is one of the big assumptions. Another one is that the reserves will be able to be disposed of for a price which is the base price inscribed thereon.

Now in setting up these unemployment reserves it must be remembered that as soon as the Treasury Department receives the dollars that are contributed by the manufacturers, or by the individuals, from the tax on their pay rolls, that those dollars have to be immediately disposed of. The Treasury Department no longer holds the dollars. As soon as it gets them in its possession it attempts to dispose of them. Now they can go out, you understand, and buy United States Government bonds. If they buy United States Government bonds, of course, the dollars are no longer in the Treasury Department.

If they hold the dollars—looking at our economic system in a functional manner-our economic system breaks down, because the dollars that are taken away from employers and from employees form part of the selling price of the goods that are for sale in the markets of the Nation.

If the reserves are in the form of United States bonds and a depression sets in, then unemployment takes place, and, of course, it is the function of the Treasury Department to dispose of those bonds. But I say it has to dispose of those bonds to those people. who would not otherwise exercise claims to goods-in other words, people who would hoard dollars. To that extent can it assist a trifle to overcome some of the effect, but the primary cause of unemployment is unborn purchasing power. The dollars now are originating and the goods are accumulating in the markets of the Nation because the manufacturers cannot dispose of the goods profitably that they currently bring to the market. Manufacturers do not close their plants down willingly. They do that as a last resort. They reduce prices to the extreme. When they can no longer get cost, then they have to discharge their employees. The humanitarian factor has to temporarily be permitted to go by the boards, if you will, because it will break the concern otherwise.

Now you are bringing up in the House the. Steagall bill, and this Steagall bill has a. tremendous effect as applied to unemployment insurance. The Federal Reserve is going to resort to open-market operations. It is going to buy bonds and give dollars, or give reserves to the member banks for the bonds which they are now, holding. The object of that particular method is to furnish the necessary dollars with which to pick up the goods that are 'for sale in the markets of the Nation.

In the open-market operation we are adding more dollars' into the system, dollars that did not exist before. Now, to explain how that

procedure takes place will take a little time. I will not go into details, but the open-market operation, essentially, was the. purchase by the Federal Reserve Board of bonds which are not claims to goods but are deferred claims to dollars, and exchanged for with dollars. They are new dollars that come into the system.

Now, if the Senate and House are going to pass the Steagall bill, its object then is to give us economic security by seeing to it that no clogging of goods in the markets takes place. The object is to overcome unemployment in that very process. So, if that procedure be followed, then there is no need for setting up unemployment reserves, because, in effect, the Government is going in and just buying the bonds and originating new dollars to take the place of the bonds which the parties hold. You are just needlessly punishing the community, the employers, and employees, in that process.

So, my reason for opposing the unemployment-insurance bill, if you will, is primarily this, that it does not get at the bottom of the thing. It just leads, you might say, to forced saving by the community, and that in itself does not create any new dollars when the depression takes place.

I have these diagrams, as I said before, but I cannot explain them very well in a few minutes.

Now, there are just a few things that I would like to mention in connection with the old-age security. That is a matter of prime importance. I believe you gentlemen will agree, though, that in any old-age security measure the attempt should be made to get as few elements in determining the eligibility of individuals in the measure as is possible. For instance, putting it this way, if we make a provision that a person just has to certify his age as 65, it is a simple bill, because then all the person has to do is provide his birth certificate, and there is absolutely no discrimination then. Most people can get those birth certificates, or can get data to substantiate their age.

Now, if we introduce other elements in the measures, for instance that the individual must not own property more than a certain amount, we introduce another element of confusion and another element of investigation. If we institute another one, that a person is only eligible providing he has no children who can support him, we institute another one of these provisions which amounts to an element of confusion.

Senator KING. You certainly do not think that the Government ought to pay benefits to a man who is worth a million dollars?

Mr. CZERWONKY. Now, let me get to that.

Senator KING. Can you answer that question?

Mr. CZERWONKY. I will come to that question, yes.

Senator KING. You are criticizing some of the provisions. You say it is the introduction of new factors and elements into the measure. Undoubtedly that is true, but do you think that a bill ought to be passed which provided that just as soon as you produced a birth certificate that stated you were 65 years of age you ought to get an old-age pension, although you might be worth a million dollars?

Mr. CZERWONKY. I think it is possible. Understand I am not recommending the immediate advocacy of old-age income assurance at this moment. My viewpoint is this, that we should get industry

running at full speed again, and after we get industry running at full speed, when our income is up to, we will say, $89,000,000,000 or $90,000,000,000, as it was in 1929, or if we go to a hundred billion, we can very easily tax away from the citizens a small part of their income. and divert it, if you will, to our old people.

We think, if the Steagall bill goes through, we would have an agency for the first time in our economic system which will have the power to counteract the tendency of people to accumulate dollars through habit? which breaks up our system, because through the market operations it is going to neutralize the accumulation of dollars by individuals, and then, because we have the element of resistance, we can resort to a new type of taxation which previously was absolutely unsound, that is a general, graduated, manufacturers' sales tax on finished products, understand, and by that method divert. to our old people a small amount of income.

The method of providing for old age by the investment method is sound when it is applied to an individual, but as far as providing any adequate income for old age to a nation, I believe it is not as practical.

There are 10½ million people in this Nation who are beyond the age of 60. If we desire to provide them with $1,000 a year income, or taking $1,200 for round figures per year, that would be $100 a month; I am not advocating that large an amount, but. if that was our intention, that would mean if there were 10,000,000 people who were eligible, $12,000,000,000 would have to be provided for our old people per year. Now, $12,000,000,000, figured at 6-percent interest! would mean we would have to have an investment of 200 billions of dollars from which we would get a return in order to provide for these old people.

Now, it is physically possible, with the equipment that we have today in our industrial plants, to turn out considerably more than the quantity of products that we turned out in 1929. The Brookings report, for instance, showed we could have produced at least 15 percent more, and that was basing it on the operation of our plants for 51 hours. It did not include, for instance, the operation of the machinery two shifts a day. So it is perfectly possible, with even the equipment we have today, to turn out a considerable quantity of goods in excess of what we did in 1929. The only reason we did not produce it this year is because the goods could not be profitably sold in the markets of the Nation.

The primary problem then is, as I say, to provide in such a way that everybody contributes, and in such a way, likewise, that does not have in it the element of pension.

The method proposed for providing income for people in old age should not be termed "an old-age pension plan." A pension is an allowance on account of past services or some meritorious work. It therefore comes very near to being a gift or an act of charity.

This system of graduating the general manufacturers' surtax is a system for providing for old age in which all people in the Nation contribute. It does not, however, require building up income-producing properties. It is a plan in which a prosperous and self-respecting people can concur. There is no charity motive behind it, nor a dependence on the Government for providing sustenance. As I say, it is a most sound and self-reliant method for a nation, what I

would call an old-age income assurance plan. It is not an assessment against manufacturers or merchants as an acknowledgment of underpayment of employees. It would be no burden to employers. It would be an income which is paid to all individuals, regardless of their income status-that answers your question; Senator—whether employed or unemployed, and regardless of what anybody makes per year. After all, looking- at it from a national sense, no matter how rich you are, you can only enjoy a certain degree of goods, and we no longer are living in an era where we have to be so niggardly. Any class economics, any class legislation that way, would be absolutely unnecessary.

I do not know if I have made myself clear.

Senator KING. If you desire to submit any brief in further elaboration of your views it will be put in the record.

The clerk tells me that Mr. John Harrington, representing the Illinois Manufacturing Association? who is on the list of witnesses to appear this morning is unable to be present. A representative of Mr. Harrington has left with the clerk the statement which Mr. Harrington had intended to give to the committee on the pending bill. I am placing it in the record at this point.

STATEMENT OF JOHN HARRINGTON, OF FYFFE & CLARKE, GENERAL COUNSEL FOR THE ILLINOIS MANUFACTURERS ASSOCIATION

Mr. HARRINGTON. My name is John Harrington. I am a member of the firm of Fyffe & Clarke, attorneys, general counsel for the Illinois Manufacturers Association, of 120 South La Salle Street, Chicago.

I am appearing here as general counsel for the Illinois Manufacturers' Association to speak in opposition to S. 1130, " The Economic Security Act."

This bill would impose a direct tax upon everyone in the United States who pays any remuneration to any employee under the age of 60, excluding only governments and railroads.

The manufacturer, the storekeeper? the farmer, the housewife, and every other employer would be required by this bill to pay a direct tax if he or she employs anyone to do anything; even for a day.

If such an employer employs as many as 4 persons within each of 13 calendar weeks in a year, he must also be required to pay another tax under this bill.

Then, in addition, this bill would impose a direct tax upon the gross income of every one of the employees of every one of these employers.

There are several million employers, and probably 40,000,000 employees, who would be required by this bill to pay direct taxes based upon the amount of the pay roll, in the case of the employer, and based upon the amount of the pay envelop, in the case of the employee.

The amount of taxes involved under this bill might be expected to run up into the hundreds of millions of dollars, or even billions of dollars, annually.