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Senator CONNALLY. Of course there is no law that we ever passed that we never changed. The world is moving and we are progressing, and we are going to have to change all of these laws from time to time. Did it ever occur to you that the old-age pension and the unemployment will probably help your business?

Mr. LATSHAW. Anything will.

Senator CONNALLY. The unemployed and the aged are the chief newspaper readers now. [Laughter.]

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Mr. HOOKER. I would like to put in my statement and then if the committee is not too tired, I would like to make a few remarks afterward that are a little more direct and a little less carefully studied but perhaps a little more human.

The CHAIRMAN. You may put your statement in the record then. Did you want to read the statement?

Mr. HOOKER. I will bring out the main points in it; yes.

I am president of the Hooker Electrochemical Co. In that capacity I am an employer of labor and have a definite responsibility, which I feel deeply, for the welfare and best interests of those who are employed in my plants. I appear before you, therefore, today as a man faced with an operating responsibility who will., in his particular field, have to carry out the provisions of the bill which you are considering should it become law. I am here also in a broader capacity as a representative of the chemical industry, having been requested to serve by both the Manufacturing Chemists' Association and the Chemical Alliance.

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The matter, however, goes considerably beyond simply a question of the number of employees and the wages paid to them. The chemical industry is a basic industry. It is perhaps more closely related to production in other fields than any other industry in the United States. The reasons for this are not far to seek. Through long hours which its chemists have spent on research problems, through the expenditure of millions of dollars in experimental development,!, it has shown the way to scientific progress which has permitted America to become practically self-sustaining and to lead the industrial nations of the world, Any thing which works in any way to the <detriment of 'this industry and which discourages research and development inevitably slows up the general scientific progress of our Nation.

In presenting this brief I should like to state at the very outset that no one is more interested in providing economic security for the working population in this country than the employers of labor. A satisfied labor force is their chief asset. As employers of labor they have an interest in preventing any legislation or action that may impair their ability to give employment. Employers necessarily think first in terms of cost, because their ability to stay in business and to provide employment depends on their ability to sell their commodities at a price that the consumer can afford to pay.

In estimating the value of the legislation here proposed, therefore, we must think in terms of whether or not the benefits will justify the cost. From this point of view it is necessary to treat the proposal for unemployment insurance separately from the proposal for old-age pensions.

Before discussing the specific provisions of the bill before you, it may be useful to attempt to define unemployment. The definition is simple. People are unemployed when they do not work for money; that is, when they do not have paid jobs. However, people may be unemployed for a variety of reasons.

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Mr. HOOKER. The chemical industry, Senator, has been taking awfully good care of you, too, by what they have been doing, because it has made you independent of the rest of the world and enabled you to get nitrogen from the air and protected you inside of our own borders, and not have our supply of munitions cut off by any other country blocking the coast of Chili as a source of nitrate.

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The length of jobs varies from industry to industry. Workers move from completed jobs to new work, and it is inevitable that in the interim they experience some measure of unemployment. In normal periods, therefore, the pool of intermittent unemployment is not composed of the same individuals. Each day and each week some workers drop out of this pool on the way to new jobs, while other workers become part of it upon the completion of jobs. In view of this fundamental characteristic of our economic system an *extraordinary degree of mobility is required in the labor force if unemployment is to be kept at a minimum. Any scheme of unemployment compensation which impairs mobility of labor or the willingness of workers to make a change will increase unemployment.

In this country there is an appalling lack of information concerning the extent of unemployment and, in particular., concerning the nature and composition of unemployment during periods of normal business

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Whether you realize it or not, this is a particularly unfortunate. time, in the midst of a deep depressional unemployment, to frame. legislation that is designed for an entirely different kind of a situation, because the atmosphere is all wrong. This is the time to frame legislation for depressional unemployment; it is not the time to frame legislation for unemployment insurance that has. nothing to do with the depression, because every condition is adverse to a sane solution of the problem..

My opposition to this bill rests, in the first place, on the ground that, to my knowledge, it has been prepared without an adequate factual study and without the necessary consultation with persons who will be most directly affected by its provisions.

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Senator BLACK. I would fully agree with you if it were attempted to confuse this unemployment insurance with emergency legislation to take care of the depression. A good many of us have studied it very carefully for a long time.

Mr. HOOKER. I think you have separated them and I agree with you entirely, but my point is that we have so much emergency legislation, legislation necessary right now, that we should not take up the problem of this kind until we are in a much calmer mood and much more on an even keel. I would love to give you gentlemen an example of the kind of thing that I believe is calling for your instant and constant attention in the Senate Finance Committee as against this kind of thing at this particular time, and if I am given permission, I will explain that to you afterward.

Senator KING. Your idea is that while we are in the midst of a great depression and perhaps fifteen or ten million people out of employment, and 19 million are recipients of contributions from the relief organizations of the Government, and while industry or many industries are rather prostrate, the atmosphere is not conducive to wise and sound thinking along the lines of permanent legislation looking to unemployment and cognate questions?

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This bill should not be rushed through without a knowledge of the facts. And I contend that there is not a properknowledge of the facts before the country, and men like myself who are going to pay this bill, so that we can form any adequate judgment to help you in' any way, and remember that the Senate Finance Committee stands between us and stands between businesses that are almost prostrate, stands between us and destruction, and we feel that we can come to you for support and for protection. You will have no taxes to pay anything with if you do not keep American industry alive, and we have a right to depend on you gentlemen to do it, no matter what propositions, impractical propositions, are brought up.

Senator CONNALLY. We have got to keep your purchasers alive at the same time, haven't we, the people who purchase your products? We cannot keep industry alive unless we keep alive the people who are going to buy your products and consume them.

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Senator CONNALLY. We have got to keep your purchasers alive at the same time, haven't we, the people who purchase your products? We cannot keep industry alive unless we keep alive the people who are going to buy your products and consume them.

Mr. HOOKER. There are people enough and money enough to buy our products, the trouble is now that we cannot get any prices for our products that enable us to make any money to pay our taxes with, and I would be prepared to show you that.

As I say, this bill should not be rushed through without a knowledge of the facts. We are creating an enormous bureaucracy to take care of a problem the magnitude and significance of which we really do not understand. We do not know whether or not as a result of this bill

the problem of unemployment will be made less serious or more serious. I am convinced that if stable and regular employees, for whom industry is glad to assume its proper share of responsibility, are separated from the pool of unemployment existing in normal times, the problem can be handled by industry without building up a tremendous bureaucratic system the effect of which will mevitably be to increase unemployment and its costs.

My specific objections to the unemployment compensation scheme here proposed are as follows:

(1) It does not give expression to the ideas of the President of the United States that the individual States should have a large measure of freedom in experimenting with various schemes of unemployment compensation, according to their individual State needs and circumstances. The bill, as framed at present, practically forces the States to adopt a State-pooled fund. It forces them, furthermore, to apply a 3-percent pay-roll tax to all nonmanual employees regardless of the amount of annual income. If the States are to comply with the provisions of this bill they cannot experiment with other types of unemployment compensation, such as individual reserve plans.

The President has asked for that and the bill does not give it.

(2) The financial burden on the States would be uneven because the risk of unemployment varies greatly from State to State. I understand that in some States the risk of unemployment is 3 percent and in others it is 33 percent. It is not fair to put a common burden of taxation under those circumstances.

As a result, with a 3-percent pay-roll tax certain States will be able to pay higher benefits than other States. The effect of this would be migration of labor from one State to another to take advantage of higher benefits. The only way to avoid this migration would be for some States to impose a tax of more than 3 percent. This, however, would place industries in those States in a disadvantageous competitive position.

(3) Government employees should bear their share of the costs. If there is this enormous number of public employees, all over the country, all of whom are pretty well fed under this system, this tremendous bureaucratic system we are having here, why shouldn't they pay their share? The poor men working in our plant are not as well off as these *Government employees. Why shouldn't they pay their part?

(4) Elimination of firms employing less than 4 employees is discriminatory. One of the speakers referred to that this morning.

(5) The bill covers only about 50 percent of the gainfully employed or about 25 million out of 49 million gainful workers. If the bill had been in effect during the depression, it would have covered in 1933 only about 16 million workers, according to the Committee on Economic Security, that is, about 9 million would have dropped out of the scheme and become a direct charge on the State.

(6) If the bill had been in effect in 1929, the income from a 3-percent pay-roll tax under the provisions of this bill would have amounted to over one billion. In 1932 the income would have declined to about $560,000,000. When the need is greatest, income is smallest and insignificant compared to needs.

Senator CONNALLY. We are going to build up reserves, aren't we? That is true of your business too? When times are prosperous you make more, and when times are hard you make less?

Mr. HOOKER. We would have shut down before this if we had not built up reserves, and the reserves are now gone.

Senator CONNALLY. That may be, but——

Mr. HOOKER (interposing). But you will have to build up 75 billion dollars-astronomical figures.

Senator CONNALLY. I do not think so.

Mr. HOOKER. That is what it calls for.

(7) The proportion of workers covered would vary from State to State. In some agricultural States only one-fourth of their workers would derive benefits under the plan, while in the highly industrial States as much as three-fourths of the workers would be covered. This situation would be inequitable.

Essentially this bill is an outstanding type of class legislation. It selects from our total gainful population a special group and gives it unemployment benefits as a legal right, while the remainder of the gainfully employed would be compelled in times of unemployment to submit to a test of need in order to obtain relief.

Senator CONNALLY. You are complaining it does not include everybody. Do you favor putting anybody under it?

Mr. HOOKER. I certainly would not. I would not favor even putting these under. Do not misunderstand me, Senator. I am heartily in sympathy with the purposes and spirit of this bill, and I carry this thing out in my works to the last degree and I have no watered stock in my company and I do not have to pay dividends on anything that should not be paid in.

Senator CONNALLY. That is fine.

Mr. HOOKER. And I am trying to carry these things out and I am in sympathy with this, but I want you men to know that business can only carry so much.

Senator CONNALLY. That is all right. You are in favor of the principles but against the bill.

Mr. HOOKER. I am decidedly against the bill.

Senator CONNALLY. It does not help us any to be in favor of the thing on principle. It does not help an employee out of work just to sympathize with him.

Mr. HOOKER. I think this bill should be carefully studied and the conditions of everything in it should be taken up and will be taken up gladly by industry.

Senator CONNALLY. That is why we are here today.

Mr. HOOKER. And that is why I am here too, in order to give you what help I can.

The beneficiaries under the scheme would not contribute anything directly to its financial support. The tax would be paid entirely by the employer. Ultimately the cost of the plan will be borne by the consumers. Thus the Nation as a whole, including those who do not benefit, would be paying special benefits to a selected economic group, who are singled out for special treatment not on any basis of social justice or unusual hazards but purely on the basis of administrative expediency.

A particular serious problem in connection with unemployment insurance is the lack of an administrative apparatus. No matter how good the provisions of the law may be, its effects will be injurious without an efficient and honest administrative personnel. This cannot be created overnight.

The proposed bill will not help any of the people who are now employed. Of course that is clear.

Senator CONNALLY. It would not help any of them?

Mr. HOOKER. Any that are now unemployed. It will help future unemployment but not present unemployment. Ten years from now it would be helping somebody.

Senator CONNALLY. We are legislating for the future.

Mr. HOOKER. We hope this depression is not going to last. Those who are now employed, representing the cream of the labor force, do not seem in danger of unemployment in the near future and their need is not imminent. I see no reason, therefore, to rush the bill through the Congress without the most mature study and fullest discussion. My recommendation would be to postpone definite action in regard to this fundamental proposal of social reform and to appoint a joint congressional committee to study the matter fully and propose legislation at some future session of Congress.

That is very unpopular with the chairman, because that is just what the previous speaker suggested.

Senator CONNALLY. It is perfectly natural than anybody against anything is in favor of delaying it.

Mr. HOOKER. I am very much for this kind of thing. I am carrying it out in my works, but I know what industry is trying to do and what they are going to feel.

Senator BLACK. I want to see if I understand your statement. Do you mean you are for legislation to bring this about, or do you believe in letting the employers bring it about themselves individually?

Mr. HOOKER. I am perfectly glad with an open mind to consider legislation, just as soon as a time in the future that we will be out of this present mess and dealing with our present problems, just as soon as the thing can be brought to a calm and reasonable basis, because everything thnt is in this bill I want to see put in my plants, either through legislation or without it .

Senator BLACK. There are a great many employers, Mr. Hooker, that I think you are familiar with, who have very altruistic motives themselves, and have exceptionally fine plants for their men and pay excellent wages and provide wonderful assistance of reserve. I know some of them myself. Perhaps you realize better than I do, being in business, that that does not help those who do not do that.

Mr. HOOKER. Yes, I realize that Senator, and I am in sympathy with you.

In regard to old-nge pensions I must confess that I am bewildered by the magnitude of the scheme and by the multiplicity of suggestions already made for amending the bill as now stands. I understand that in 1930 there were 6,500,000 persons 65 years of age and over. This represented 5.4 percent of the entire population. The report of the Committee on Economic Security estimates that persons in this age group will account for 6.3 percent of the total population in 1940; 9.3 percent in 1960; and 10 percent in 1975. We are constantly increasing our age limit.

To take care of the aged the bill proposes the establishment of two types of old-age pensions—noncontributory and contributory.

Noncontributory pensions would be provided for persons who are already superannuated or who will shortly become so, and for those who unexpectedly find themselves without means in old age. The

cost of these pensions would be borne by the Federal Government and the States in equal proportions, provided that the share of the Federal Government is not more than $15 per month per individual. These pensions would be payable on the basis of need.

The cost of noncontributory pensions to the Federal Government is estimated by the Committee on Economic Security at $136,000,000 in the first year and at $1,294,000,000 in 1980, if a compulsory system of contributory pensions is not established. If a compulsory system is established by January 1937, the cost to the Federal Government by 1980 will be less than 40 percent of the estimated amount, or about $520,000,000. The States would carry an equal burden.

The system of contributory pensions would be applied to all manual workers and to nonmanual workers earning less than $250 per month, with the exception of Government employees and persons covered by the Railroad Retirement Act. The cost of this scheme would be met by imposing a tax on pay rolls, one-half of which would be paid by the employer and the other half by the employees;

The bill before you provides for a tax commencing on January 1, 1937, at 1 percent of the pay roll and increasing to 5 percent of the pay roll in 1957. The Committee on Economic Security estimates that under this scheme income will exceed payments until the year 1965 when the reserve will amount to $15,250,000,000. After 1965 it is proposed that the Federal Government should make up the difference between receipts .and payments in order to maintain the reserve at that level.

The income from contributions and interest on the reserve will amount to $2,200,000,000 per year by 1980. The contribution of the Federal Government by 1980 will amount to $1,400,000,000 per year. To meet the annual cost of the compulsory scheme in 1980 there will thus be available $3,600,000,000. In addition, the Committee on Economic Security estimates that the cost of noncontributory pensions will be about $1,040,000,000 in which the Federal Government and the States will share equally. Total payment on account of pensions in 1980 is thus estimated at $4,640,000,000.

The plan which is proposed to you is not solvent. To make the contributory scheme actuarially solvent it would be necessary to accumulate a reserve of $75,000,000,000, according to the Committee on Economic Security. The Committee realizes the difficulties involved in connection with the building up and investment of a reserve of this size as well as that it would impose an unfair burden on the younger members of the present generation. You would put 5 percent on the present generation.

Senator KING. I would like to ask for information, because I am rather bewildered when you get to those astronomical figures.

Mr. HOOKER. We are all bewildered.

Senator KING. In view of the fact that there will be so many who will not make contributions to this involuntary assessment, in view of the fact that the number who will make contributions will be, to my way of thinking, only a fractional part, perhaps 50 percent or more of all of those who are employed and who will need support after they attain that age, I do not see how it is possible to accumulate a fund of such magnitude. It seems to me it will be in the red most of the time. I am not at all satisfied that those actuarial figures if they are actuarial figures, rest upon any sound computation or any rational basis.

Mr. HOOKER. Senator, that is why I want this thing studied and studied and studied, and not a 6-months' study or anything like this, involving $75,000,000,000 capitalized, when it only represents half of the people, and it might be $150,000,000,000 if it took in the other half. It is a thing which should be worked out in the calm and quiet of a different time from this.

On the other hand, the committee admits that in its present form the plan will impose a terrific burden on future generations. They found themselves between Scylla and Charybdis, and they recommended to the President a plan which is not perfect and which presents immense difficulties.

In 1980, that is 45 years from today, persons 65 years of age and over would receive an annual sum of about $4,600,000,000. Forty-five years from today-think of it. I am buying power under contracts that have 50 years to run. Forty-five years is nothing. It will be on us before we know it.

. Senator BLACK. Not all of us.

Senator KING. We hope you have immortality. [Laughter.]

Mr. HOOKER. Senator, you are talking to probably the average common or garden-variety of employer who will have to pay this bill. I think I represent a fair cross-section of the man who has built up his own business, is trying to run it, has a deep interest in his employees, more than in anything else in the world, and who wants to keep his business running so that he can keep on employing his employees, and who has not let one man go during the depression and who has lowered the salaries of his employees less and brought them back first, with the officers of his company going down first in their salaries and not having yet been restored. That is the way we care about our labor.

Senator HASTINGS. I do not think you have in the record how many employees you have.

Mr. HOOKER. I am representing 275,000 employees in the chemical industries. I have 600 in my own plants.

Senator CONNALLY. You say you are the type of employer who has to pay tbat bill. Wouldn't you be able to pass any of that on to the consumer.

Mr. HOOKER. Senator, not so long ago you passed a bill down here called the N. R. A.-----

Senator CONNALLY (interposing). I did not pass it; I did not vote for it.

Mr. HOOKER. Excuse me for saying that you did, Senator; I apologize. Under the statements that were made at that time, I was informed that if I met the requirements of that bill, that the large added cost-we were then in the red-that the large added cost would be passed on to the consumer and we could raise our prices accordingly and that it would be of course expected that that would be done.

Senator BLACK. Who told you that?

Mr. HOOKER. Everybody. The spokesman at Washington—whoever that is.

Senator BLACK. I am just interested in knowing who actually said that

Mr. HOOKER. That was in the papers all over.

Senator BLACK. I made that statement on the floor and it was denied to me. I was objecting to it on the ground that they would. pass it on, and I was told that that was not the object.

Mr. HOOKER. You may rest in peace, Senator, because they did not pass it on.

Senator BLACK. Is your business better now than it was then, or worse?

Mr. HOOKER. The amount that we had to pass on to our pay roll-the amount that we had to add to our pay roll at that time—was supposed to be made up by an increased price in our products. Not one single nickel were we able to raise our prices, and every attempt we made to raise our prices was discouraged.

Senator BLACK. That is fine.

Mr. HOOKER. No; it is not fine when you know what our earnings are. Not if you want to get any of this money to pay these bills with.

Senator BLACK. Is your business better or worse?

Mr. HOOKER. It was larger in volume and worse in earnings.

Senator BLACK. How much larger in volume?

Mr. HOOKER. The business is quite largely increased in volume.

Senator BLACK. Is it two or three times as much?

Mr. HOOKER. It is twice as large, and we are making no more money than we did when we were half as large.

Senator CONNALLY. But that volume did give increased employment? It made more men busy?

Mr. HOOKER. Oh, yes ; we are running, and we are running a machine that is marking time.

Senator CONNALLY. In fairness to the N. R. A., if it did even that, it did increase employment.

Mr. HOOKER. The only point I want to make here is that we are not able to pass it on at all, and we had that added expense; of course, with a much larger volume we should be making a great deal more money.

Senator BLACK. What did you make this year?

Mr. HOOKER. If you would like me, I will be frank with you——

Senator BLACK (interposing). I do not care to ask you if you do not care to state.

Mr. HOOKER. I will be glad to tell you.

In 1980, that is 45 years from today, persons 65 years of age and over would receive an annual sum of about $4,600,000,000. This figure is scarcely comprehensible. Since the birth of Christ there have been just about 1 billion minutes. The significance of this figure may perhaps become apparent if we compare it with the share of national income going to some of our major economic groups.

This figure is 18 percent higher than the total income of the 11 million people engaged in farming in 1933. It is 119 percent higher than total dividend payments in the same year. It amounts to almost 90 percent of total interest payments in this country, including interest on about $50,000,000,000 of public indebtedness, Federal, State and local.

Senator BLACK. That is, $1,400,000,000?

Mr. HOOKER. Yes.

Senator BLACK. Do you have figures to show that is $100,000,000 less than 500 men received in income in 1929?

Mr. HOOKER. I do not know anything about those astronomical figures. The taxes in this country are paid by about 10 percent of the people.

Senator BLACK. They are the people that get most of the income.

Mr. HOOKER. You must preserve that 10 percent. I claim that I am a typical dray horse in this proposition of trying to make some taxes with which you will have a fund to spend here in Washington for Government maintenance.

I think that we need more time and more factual information to understand the implications of the plan here proposed. The bill which you are considering would not help the unemployed, and it would not be of much value to the workers who are now employed. Contributions for old-age pensions would not begin until January 1937. There is no need, therefore, for rushing the bill through in such a hurry. As a matter of fact, I am convinced that the people whom it is intended to help would be greatly benefited by a more intensive study of the scheme here proposed and all its implications.

In particular, I should like to urge you not to impose special burdens on industry at the moment when it is trying to pull itself out of the worst depression in its higtory. Any measure which raises costs is detrimental to recovery. The bill you have before you now will eventually place a burden on business equivalent to over 17 percent of the pay rolls affected.

My proposal to you, therefore, is to appoint two joint congressional committees, one to make a comprehensive study of the question of unemployment insurance or compensation and the other to investigate fully the problems of old-age dependency and the best measures for its relief. In the meantime, emergency measures should be devised to take care of the unemployed and the aged who find themselves without adequate means of support.

Twenty-five years ago, here and there in Europe, and particularly in England, were outstanding examples of enlightened self-interest on the part of employers in their relations with labor. Present-day examples, such as Seebohm Rowntree, and the industrial garden cities in England, and Duchemin in France, will serve to illustrate this point. During these last 25 years,, such individuals have multiplied in America, until this country is outstanding beyond all other nations and any other time in generous interest and action in regard to social security. Industry has graduated from paternalism to the basis of generous dealing as a matter of right and reason. There has never been a time when these relationships between capital and labor were as close and as understanding as they are here today, and no one should question the steady upbuilding of employee's security in progress todav here in our midst without governmental intervention.

I sneak of this because such acquaintanceship as I have with the American industrialists convinces me that these *men* are completely in sympathy with any sound and reasonable advance along the lines which are assumed to have inspired this bill and which would be practicable for industry and the Government to carry out.

It is estimated that these proposals would eventually put a total burden on business of something like 17 percent of its pay roll; the Federal corporation tax alone today, even on relatively modest industries, is upwards of 12 percent on their income.

Business in general showed a net loss in this country in 1933 of $4,000,000,000; in 1932 the loss was $9,500,000,000; in 1931 it was $8,600,000,000; and in 1930 it amounted to $5,100,000,000 according to Government figures. Each year the total assets of the Nation were reduced by these staggering amounts.

Referring to a small business enterprise which I founded and in which I am responsible for paying these Government taxes, we have reduced the modest salaries of executives, cut out common-stock dividends and later preferred-stock dividends and then reduced wages last of all for a short period. We then reinstated wages first and at the same time kept all employees at work and materially increased the number of employees by increased volume. We have found 'ourselves with a net loss of a quarter of a million 2 succeeding years, and now under these tax burdens, having reinstated labor's pay, are only earning about the interest on the preferred stock, while the officers' salaries remain at the reduced figure. That example is considered one of the less drastic types of punishment which business has suffered of late years, and just how would such a business as that continue to pay taxes to the Government if it were to have loaded upon it such additional burdens as are here proposed.

Your committee has before it proposed expenditures for the maintenance of Government of about $4,000,000,000 with an income of a similar amount. On top of that you are asked to appropriate $4,800,000,000 for work as emergency relief, unbalancing the Budget by that amount. The security matters we are discussing today are proposed to be added to this burden, which in turn is added to industry's present tax load of today.

Our generation found itself in a war in which we increased the public debt by $27,000,000,000. We are also responsible for $9,000,000,000 of foreign private loans of doubtful security. Our generation has been responsible for the contracting of $10,000,000,000 of war debts as yet unpaid. For myself, I am unable to see how this financial burden is anything but the burden of our own generation. Our children and grandchildren will have their wars and their depressions to pay for, and if we pass on to them the cost of our war and our depression can anyone, from a reasonable point of view, assume that it is fair on top of that for us to indulge our desire for what we would like to do in welfare work unless we pay for it ourselves? They will have their own ideas of what they want to do and they have every right to indulge their generous impulses about these things, but we have no right to foreclose their opportunity to do so. From my point of view, we have an immediate emergency which we must meet with emergency taxation and emergency payments to the unemployed and should pay for it within our own generaton.

After we have done so and taxed ourselves for it, then is the time for us to consider whether we can afford to do these wholly desirable but extraordinarily expensive things and pay for them ourselves.

Senator **KING** (acting chairman). Thank you very much. Is there anything else you wish to submit?

Mr. **HOOKER.** So much for that rather dry document.

As an American business man of the smaller type I feel that we come before you Senators of the Finance Committee as the only people who can protect us in business from the danger of having our business ruined and our possibility of earning taxes for the Government destroyed.

I would like to say a few words about that from the depths of my own experience. Four years ago my company lost $250,000; the next year it lost $250,000. The next year it made less than the interest on its preferred stock. This year just finished it made the interest

on its preferred stock. There is no water in this company; it is an integral unit of the chemical industry. By conference with my competitors, I find that we are doing as well as they are. Our industry in general is considered one of those which have been in the most advantageous position; we have not suffered as drastically as others have. I only know of our own experience.

Senator KING. What is the product of your plant?

Mr. HOOKER. Heavy chemicals. So far as I know, for each $5,000,000 units of honest investment in our kind of business, the earnings over the last 4 years available for dividends, for any increases in salary, or the restoration of salary, or to pay special payments to very successful executives or anything of that kind, for common stock dividends-after a business has been operating for 30 years and has built up a great goodwill, it certainly should be entitled to earn something besides the interest on its preferred stock. Per $5,000,000 unit in that kind of business, so far as I am able to ascertain, ourselves and our competitors have had $100,000 a year of net profits.

Senator BLACK. What did you have in 1929?

Mr. HOOKER. Nothing very large.

Senator BLACK. How much? Can you tell me?

Mr. HOOKER. Per $5,000,000 of investment?

Senator BLACK. No; what was your company's profit in 1929?

Mr. HOOKER. I should think that $400,000 or $500,000 was the maximum.

Senator BLACK. What was the capital stock?

Mr. HOOKER. The capital stock is about $5,000,000.

Senator BLACK. Did you have any holding company or is your company independent?

Mr. HOOKER. Independent.

Senator BLACK. You have no subsidiaries2

Mr. HOOKER. A completely independent company, and I own 50 percent of it.

Senator BLACK. What were the highest salaries and bonuses paid at that time?

Mr. HOOKER. We never paid any bonuses, but they have, and they did not amount to very much. Maybe $20,000 or something like that. My salary was $35,000 a year.

Senator BLACK. That was the highest?

Mr. HOOKER. It is now reduced by two 20-percent reductions.

Senator BLACK. You never did go in like some of them did with $200,000 or $300,000 salaries?

Mr. HOOKER. Never did and never had any use for it.

Senator BLACK. From your experience as a business man, do you think that those $200,000 or $300,000 salaries or $1,000,000 bonuses and salaries are helpful or detrimental to business?

Mr. HOOKER. I never agreed with Senator Norris that $7,500 was the most salary that could ever be earned by an honest man under any conditions. The kind of strain that business men carry and the great burdens of mind that they do carry call for a certain salary away beyond that. I remember when Senator Norris was making that remark to us in the Agricultural Committee, Senator, thnt Senator Underwood sat there by the side of the table and he was paving his superintendent $50,000 a year, and on the other side of the table sat another one of the Senators who was paying the superintendent of his utility company. $50,000 a year.

Senator BLACK. That was the Muscle Shoals hearing?

Mr. HOOKER. Yes.

Senator BLACK. You testified in that, as I recall?

Mr. HOOKER. Yes; I want to say to you Senators, because I think this is the right opportunity, that the way we are staggering under 12 percent of income tas and cannot earn $100,000 on a $5,000,000 investment net, is something that none of you would be satisfied with. You know that business could not go on in that way.

Senator BLACK. Do you believe in an excess-profits tax?

Mr. HOOKER. I do not believe I do.

Senator BLACK. If we had for instance, some evidence to show that some companies have made 3 or 4 or 5 thousand percent a year on their investment! do you think they should be required to pay an excess-profits tax?

Mr. HOOKER. I think you get a lot of misinformation.

Senator BLACK. That was not misinformation; that was taken from their books and they swore to it.

Mr. HOOKER. You can only ask me questions about legitimate and normal honest business.

Senator BLACK. That is what we are trying to do.

Mr. HOOKER. I am talking to you from that standpoint, and I say this, that when we realize that the Senate Finance Committee is the only body we know of to protect us from such expenditures as are going on now through Washington in the power field, you will see why I feel that I ought to appeal to you.

Senator KING. I think perhaps the forum to which you should appeal rather than the Finance Committee is the Committee on Ways and Means of the House.

Mr. HOOKER. No, Senator. These expenditures that are called for here are on top of other things such as this. The administration has asked to build the St. Lawrence Canal. They have asked to develop 900,000 horsepower on the St. Lawrence when there is 400,000 horsepower in Canada that cannot be sold, and 200,000 horsepower in New York State that cannot be sold.

Senator CONNALLY. That does not relate to old-age pensions?.

Mr. HOOKER. That puts a tremendous burden on us..

Senator BLACK. Your company could not have gone many years if it had continued like it was going in 1930 and 1931?

Mr. HOOKER. No.

Senator BLACK. That was impossible, the object in business being to make a profit

Mr. HOOKER. Yes.

Senator KING. Is there anything else you want to submit?

Mr. HOOKER. I only want to appeal to vou not to put the burdens on business of building these power plants in the Columbia River Valley and in the Tennessee Valley and in the St. Lawrence Valley. We cannot stand it and we cannot pay for it.

Senator KING. Our committee does not deal with that.

Mr. HOOKER. You are dealing with passing those bills.

Senator CONNALLY. You are not in the power business?

Mr. HOOKER. I am a consumer. I am a victim of the power business if there is such a thing.

Senator CONNALLY. If vou get cheaper power,. that will be all right for you.

Mr. HOOKER. Not if you destroy the power companies.

Senator CONNALLY. These others will take their place.

Mr. HOOKER. Not if thev do not last.

Senator KING. At this p&t in the record, I am placing a memorandum submitted by Prof. Paul H. Douglas of the University of Chicago.

UNEMPLOYMENT INSURANCE FEATURES OF THE WAGNER-LEWIS BILL FOR SOCIAL SECURITY. (S. 1130; H. R. 4142)

By Prof. Paul H. Douglas of the University of Chicago, Department of Economics

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

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

I. THE COMPARATIVE UNDESIRABILITY OF THE OFFSET METHOD

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

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

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

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

(2) The bill in its present form does not make any provision for the wide differences in unemployment between the various States. Thus in April 1930 when the average percentage of unemployment among the nonagricultural workers was 8.5 percent for the country as a whole, the average for Michigan was 13.9 percent; for Rhode Island 11.2 percent, Montana 10.7, and for Illinois 10.1 percent. On the other hand, the average in South Dakota was only 3.9 percent.[1] In other words, there was almost four times as much relative unemployment in the State with the highest percentage as in that with the lowest. If the 4 years from 1930 to 1933 are taken as a whole, the actuaries of the Committee on Economic Security estimate the averagefor the country as 25.5 percent. Michigan, which was again the high State, however, had an average of 34.3 percent while Georgia, the lowest State, had an average of 17.0 percent." Here the highest State had a volume of unemployment which was relatively twice that of the lowest.

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

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

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

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

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

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

(7) Perhaps most important of all is the fact that the offset law will tend to confine not only the present but the future financing of unemployment insurance to a levy upon pay rolls. For such is the nature of the Federal tax. A State cannot, therefore, obtain offsets for its citizens if it wishes to finance a portion of

[1] Supplement to the report to the President of the Committee on Economic Security (1935), pp. 5-6.
[2] Idem.

the costs from income or escess-profit taxes. These could not be offset against a Federal tax on pay rolls since they would not fall exclusively on the same persons or to the same degree upon identical persons.

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

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

II. A NATIONAL SYSTEM OF UNEMPLOYMENT INSURANCE

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

1, It would provide a uniformity of rules and provisions for the country as a whole.

2, Administrative records could be relatively centralized and a standardization of forms effected. The country could be divided into some eight or ten administrative districts, each of which would have a set of central records.

3. Migratory workers and those transferring from one State to another would not lose their claim to benefit.

4. Since the insurance fund would be Nation-wide in scope, a uniformity in 'benefits would be provided. The unemployed in States with high unemployment would not be penalized because of the accident of residence, but would share equally with all.

5. There would be no problem of keeping the localities up to minimum standards, since this would follow from the fact that the administration would be in central hands.

6. Employers would make their contributions to only one governmental agency.

7. The Government could, if and when it wished, use other methods of financing the payment of unemployment benefits in addition to the levy on payrolls.

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

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

It would seem to me, therefore, that a national system of unemployment insurance can be defended constitutionally on the added ground that it helps to protect

the integrity of commerce and trade as a whole and that it thus falls within the power of Congress "to regulate commerce * * * among the several States," and the implied powers which were stressed by the great jurist John Marshall as falling within the provision that Congress could "make all laws which shall be necessary and proper for carrying into execution the foregoing powers."

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

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

III. A FEDERAL TAX REMISSION SYSTEM

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

1. It would permit more thorough-going and adequate standards to be laid down as a basis for State action.
2. By withholding a portion of the sums collected for a national reinsurance fund, aid could be given under proper controls to those States with relatively high unemployment so that a uniformity of minimum benefits could virtually be assured to the unemployed of all States. Judging by the experience for the years 1930-33, it would seem fairly safe for the Federal Government to retain one-third of the total receipts for such purposes and for those mentioned in the next paragraph.
3. With such a central fund, it would be possible to take care of those workers who transferred from one State to another.
4. The Federal Government would have a much greater possibility of keeping the States up to satisfactory standards, since it could simply refuse to remit the taxes if a State failed to carry out the proper administration of the plan. Uniform records, etc., could rather easily be obtained.
5. Taxpayers would have to contribute to only one agency, namely, the Federal Government, instead of to two. The Federal Government would subsequently remit these taxes.
6. The way would be left open for other sources of revenue than the pay-roll tax to be used if and when, in the judgment of Congress, this became desirable. A portion of these taxes could be remitted between the States in the precise proportion in which they were collected, while another portion could be distributed according to the relative ratio of unemployment.

IV. OTHER SUGGESTIONS IN THE FIELD OF UNEMPLOYMENT INSURANCE

1. The provision that the maximum assessment against the pay rolls shall not exceed 3 percent seems much too cautious. The actuaries attached to the President's Committee on Economic Security have estimated, on the basis of the 1922-30 experience, that such an assessment (when combined with a 4 weeks' waiting period and benefits equal to 50 percent of the wage, subject to a maximum weekly benefit of $15) would only provide for 15 weeks of benefit and if a 3 weeks' waiting period were used, for only 14 weeks of benefits.[3] This is very inadequate, particularly in view of the failure of the bill to make any provision for those who

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

will exhaust their claims to standard benefits but still be in need. While this benefit period may be extended in some States by levying a small contribution upon the employees, it is not certain how many will adopt this method. Such a policy is, moreover., opposed by large and influential sections of popular opinion.

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

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

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

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

V. SUGGESTIONS IN THE FIELD OF OLD-AGE PENSIONS

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

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

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

Senator KING. The committee stands adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 1:35 p. m., the committee is adjourned until Thursday, Feb. 14, 1935, at 10 a. m.)