Dr. WITTE. The unearned annuities are much smaller than the old-age pensions, and they will be in decreasing amounts. For the man that only contributes 5 years, there is a considerable unearned annuity. For a man that contributes 10 years, it is much less; it decreases. That is a provision to take care of the situation of these people that are growing old and have very little earning capacity left. That is where the unearned annuity comes in, to take care, to some degree at least of those people. The man who is now 45 and has lost his job will have lesser benefits than he had before, probably, but he is not going to remain completely idle. He will build up something, and the unearned annuity does come in to help that man to some extent.

The CHAIRMAN. And it would be helpful in view of the old-age-pension benefits provided for in this measure.

Mr. VINSON. One question further, please, Doctor.

I asked you some time ago about that table, where they tax the employees at 1 percent and the employers, 1 percent. Have you that table there?

Dr. WITTE. Yes; I have that table. That will have the effect, if you start with 2 percent right away, and step up in 5-year intervals, which is still a low tax, of reducing the ultimate cost by $500,000,000 a year.

Mr. HILL. I take it that in the consideration of this legislation, of course you gave very serious attention to the question of the adequacy of these old-age pensions. What did you use as a criterion to measure the matter of the adequacy of these pensions?

Dr. WITTE. The standard that we have here is that the State must provide that the old person be given enough of a pension to live in reasonable decency and health, and the Federal Government pays half the cost up to $15. There is no pension law at the present time that pays more than $30 a month as a maximum, except the laws of Massachusetts and New York, which have this very clause that is provided in this bill.

Thirty dollars a month, under normal circumstances, probably is the maximum pension that will be granted in rural areas. In cities it will be higher, and if you feel that that $15 limit on the Federal Government is too low, I think that you can raise it without making very much difference in costs, because actually the pensions will not average very much higher, except probably in certain cities. In the City of New York, at the present time, the pensions average $40 a month, although in the State they average $22; so in the City of New York this would add somewhat to the cost, if you took off the upper limit.

Mr. HILL. That is an adjustable proposition. If you raised the maximum amount that the Federal Government will contribute from, say, $15 to $20 or $25, of course the States would have to match that and could match it where the situation in the cities, as you say, and the particular circumstances of individuals necessitated a higher pension than $30 a month.

Dr. WITTE. If you did that, you ought to increase the total appropriation somewhat.

Mr. HILL. How much?

Dr. WITTE. You cannot really estimate, but it will not have such a pronounced effect at the beginning. Ultimately it might have a very considerable effect.

Mr. HILL. You would have the safeguard of the States keeping down their cost as much as they could in the matter of these old-age pensions? It would be a safeguard to that extent against a larger payment by the Federal Government?

Dr. WITTE. Certainly.

The CHAIRMAN. The whole purpose of this bill is not to prohibit the States from contributing more than 50 percent of the amount necessary?

Dr. WITTE. Of course not. In fact, they are required to.

The CHAIRMAN. If the $15 that is contributed by the Federal Government and matched by the State is not adequate, then the States will be expected to contribute the necessary amount to meet the standards that you set up in this bill?

Dr. WITTE. Certainly; that is the provision.

Mr. KNUTSON. I understood you to say that it is intended that the States shall administer this law. I am fearful, if you leave it to the States, that it is going to result in building up political organizations. I base my thought on the fact that out in Minnesota, where we have a radical administration in power now, it is almost impossible for indigent Democrats and Republicans to qualify for relief, and the result is that they are all joining up with this radical party in order to get relief and relief work.

A thing like that could not happen to quite that extent if it were administered in Washington.

Dr. WITTE. I think that actually to have direct administration of that by the Federal Government at the present time would mean such a large machinery that it is almost inconceivable that the Federal Government would administer such a system from Washington.

Mr. KNUTSON. Could you not set up in each State an organization similar to that of the Veterans' Bureau? We were told that the Government could not administer that at one time.

Dr. WITTE. Presumably you would have to pay the whole cost, then.

Mr. KNUTSON. Yes; but it would be worth it to see that you were doing exact justice to everybody, regardless of politics.

There is no politics in what I am saying now. I am merely trying to be constructively helpful.

Dr. WITTE. I think that your situation is exceptional.

Mr. HILL. In this bill, Doctor, somewhere you have a provision that the State administrator shall be selected with the view that it shall not be partisan. I do not know whether it is in the old-age pension part, or in the unemployment compensation.

What does that relate to? The old-age-pension provision?

Dr. WITTE. To the unemployment compensation.

Mr. HILL. I was not sure.

The CHAIRMAN. Doctor, you may proceed to the next subject in the bill, if you are ready.

Dr. WITTE. I would like to pass, then, to the unemployment compensation.

Mr. COOPER. I suggest that, as we have concluded this part of the bill, before we take up a new section we adjourn until tomorrow.

Mr. HILL. Let him get started on this.

The CHAIRMAN. I think that we had better continue for a while.

Dr. WITTE. Title VI begins on page 34 of the bill and relates to unemployment compensation. It is not necessary to spend much time on the seriousness of the problem of unemployment. I think that you all appreciate this as well as I do. It is known by everyone that unemployment is at this time the major cause of destitution; it is a major hazard that we have to take care of.

It is also a quite well-known fact that there is unemployment even in periods of prosperity. We have no unemployment statistics in this country—unemployment statistics exist in European countries; but we have no unemployment statistics, but we will get them under the unemployment compensation system. The best we have are some statistics of employment, from which we can make some estimates on how much unemployment we have.

The best estimates that we had in the 20's were those made for President Hoover's Committee on Recent Economic Changes, and they indicated that, of the whole period of the 20's, the year in which unemployment was lowest was 1923, when there were on the average over 1,500,000 people unemployed in this country, over 5 percent of industry's workers, of all types of workers. For several of the years of the prosperity period, the average was over 2,000,000 men unemployed. These figures, moreover, relate to the entire group of employed persons. If you confine the figures within the groups that you can bring within unemployment compensation, you get a much higher rate of unemployment.

Among nonagricultural workers, it is the estimate of our statisticians and actuaries that the average rate of unemployment from the period 1922 to 1929 was 8 percent, and from 1930 to 1933, it was 25.8 percent.

I am just citing those figures to call to your attention the seriousness of the problem that we are dealing with.

Mr. LEWIS. What would the 8 percent mean, in gross figures?

Dr. WITTE. From 1,500,000 to 2,000,000 people unemployed at all times.

Unemployment insurance is an institution which was developed abroad, to take off part of the curse of unemployment—only part of the curse; you cannot take it all off. It was started this way: The trade unions in European countries set up funds, just as trade unions have in this country, to take care of unemployed members. These funds got into difficulties in periods of depression. In the Swiss cantons and in Belgium, which were the first to take up this movement, the Government stepped in and subsidized these trade-union funds.

England, in 1911, enacted another type of unemployment-insurance law, the first compulsory unemployment-insurance law. By this time there are compulsory laws in 7 foreign countries, 13 Swiss cantons, and in the Province of Queensland. The Dominion of Canada is enacting a law this year.

Besides that, there are 9 countries and 11 Swiss cantons which have voluntary laws under which funds are set up to which employers

and employees contribute, and to which the Government gives a subsidy.

The CHAIRMAN. Name those countries.

Dr. WITTE. I have given them to you in tables that I have included in the record.

The CHAIRMAN. Very well.

Mr. COOPER. In that connection, will that give some indication of the type of laws, and the type and amounts of the benefits?

Dr. WITTE. Yes, most of the foreign laws have been enacted in the last 10 years. All of the unemployment-insurance laws of the foreign countries have had serious difficulties in this depression period. That is an undeniable fact, and has to be recognized. But they have all survived, at least in form; the only country that started unemployment insurance and suspended it is Russia.

In England, during the period of depression, and England has had a depression since 1920, the government has made large contributions to the funds, and benefits have been somewhat reduced, and contribution rates have been increased.

That is pretty much the picture all over, but the important thing is that in all countries unemployment insurance has survived even the depression, with the sole exception of Russia.

Mr. DINGELL. Let me ask this question——

The CHAIRMAN. I believe it was understood that we would not interrupt until the witness was through with his general statement.

Dr. WITTE. European laws generally provide rather low benefits. The English system provides for flat-rate benefits, and flat-rate contributions. Regardless of the wage of the employee, he gets the same benefit. It figures out, on the average, in England, for a single person, 30 percent of his wage, and, for a person with three dependents, about 40 percent of his wage. Of course, because it is a flat benefit, it is a higher percentage for a man with a smaller wage and a lower percentage for a man, such as a skilled mechanic, with a higher wage.

On the Continent, the benefit rates are lower. European countries nearly all provide for contributions by the employer, the employees, and the government.

In this country there has been discussion of unemployment insurance since such an act was passed in 1911 in England, and particularly since the depression of 1920. At that time there was introduced in the Wisconsin Legislature a bill which has been more or less of a model for all unemployment compensation bills in this country since—a bill which contemplated contributions only by the employer. Up to date, however, there has been only one State that has enacted an unemployment-compensation law. That is the State of Wisconsin, which passed an unemployment-compensation law in 1932. Contributions under it began July 1, 1934—and in listing my experience I forgot to state that before I came here I was in charge of the Administration of the Wisconsin law—the first unemployment-compensation act in this country.

In the meantime, also, there have been voluntary systems started in this country, the first one in 1916, by the Dennison Manufacturing Co. By this time 22 large companies have set up voluntary unemployment-compensation plans. Plus that, there are trade-union plans and some joint trade union and employer plan.

There were about 50,000 employees covered by company plans in 1931, about 45,000 by trade-union plans, and about 65,000 by joint labor and employer plans, or a total of 160,000 people, which is not very many, but represents at least some slight experience with these plans.

These voluntary plans, also, have had quite a bit of difficulty in this depression. In fact, every type of institution has had plenty of difficulty in this depression, as you gentlemen well know; and some of these plans have fallen by the wayside entirely. Others have survided.

On our advisory committee was Mr. Swope, whose company, the General Electric Co., has maintained a voluntary system since 1930 that is now in very good financial shape. The Eastman Kodak Co. and 14 other companies in Rochester have maintained such a system for some time.

There has developed increasing interest in this general subject with the passing of the years. Bills for unemployment insurance or reserve systems were introduced in 25 State legislatures in 1933. In seven of the States, the bills passed one house of the legislature. At this time, right now, in the past summer, there have been functioning nine interim legislative committees, most of which have made their reports to their legislatures, again awaiting action by Congress before there will be action in the States.

The American Federation of Labor, formerly opposed to unemployment insurance, came out in its favor in 1932, and in the same year the Democratic National Platform promised unemployment-insurance legislation through State action, a promise which has not as yet been fulfilled.

In that connection, too, let me read the statement of the Republican National Committee of June 22, 1934, adopted by the Republican National Committee:

> Our country has been backward in legislation dealing with social questions. We welcome the recognition that these questions demand attention of the Government, but we insist that all of these problems can best be solved within the framework of American institutions, in accordance with the spirit and principles of the founders of the Republic, without destruction of individual freedom.

That is a less definite committal, but nevertheless one that commits the Republican Party as well as the Democratic Party to the enactment of legislation on this subject.

Mr. WOODRUFF. Will the gentleman yield?

Mr. VINSON. I make the point of order that the gentleman has not concluded his statement.

Mr. WOODRUFF. The gentleman has concluded his statement.

Mr. VINSON. I do not think so.

The CHAIRMAN. Mr. Woodruff was not here this morning when our rule was adopted.

Mr. WITTE. I have not explained the provisions of the bill. I might elaborate this introduction, but I think it is not necessary. I think you realize the importance of the problem that we are dealing with. I only wish to repeat, as I stated in the beginning, that this Unemployment Compensation Act is not a complete program for dealing with the hazard of unemployment. It is complementary to the proposal of a work program.

The first recommendation of the Committee on Economic Security is employment assurance. The thought is not that unemployment compensation is complete protection. It is merely a first line of defense, with limited benefits, but a benefit paid in cash during a period while a man has a reasonable opportunity to get back to his old employment.

Beyond that, the Government is in the picture to provide opportunities for employment and to stimulate private employment in every manner possible.

Mr. LEWIS. May we not adjourn? It is half past 4, and the witness certainly has done his part today.

The CHAIRMAN. We will take a recess until 10 o'clock, to meet in executive session to hear a statement from the Treasury with respect to the funding bill, and then resume these hearings at 10:30 a. m.

(Thereupon, at 4:33 p. m., an adjournment was taken until Tuesday morning, Jan. 22, 1935, at 10:30 a. m.)

ECONOMIC SECURITY ACT

TUESDAY, JANUARY 22, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 11 a. m., Hon. Samuel B. Hill presiding.

Mr. HILL. The committee will be in order.

Mr. Witte, you may proceed with your statement on the feature of the bill before the committee dealing with unemployment compensation.

STATEMENT OF E. E. WITTE—Resumed

Mr. WITTE. Mr. Chairman and gentlemen: I reached the point yesterday of the discussion of the provisions of the bill itself as they relate to subject of unemployment compensation. This is dealt with in title VI, which begins on page 34 in the bill.

This bill contemplates what the report of the committee called a "cooperative Federal-State system" of unemployment compensation. It is a system built up on State lines, but with the Federal Government making it possible for the States to act and with the Federal Government assuming the responsibility for the safeguarding of the reserves.

States are accorded wide latitude in other respects, but must expend the entire amounts collected for unemployment-compensation purposes.

Section 601 on page 34, and section 606, on page 43, should be read in conjunction, section 606 being the definition section. The effect of the two sections is this: An excise tax is imposed on employers. It is imposed on employers who employ four or more employees, excluding governmental units and excluding employers in any industry for which Congress may set up a separate unemployment-compensation system. There is no such system now, but in the event that Congress should see fit to set up a separate system, for instance, for railroad employees, or for the employees of interstate carriers, this bill would not apply; or if you saw fit to set up a separate system for any other industry, that is within your control.

Mr. LEWIS. How about Government employees?

Mr. WITTE. Government employees are excluded from the tax, for obvious reasons. The Federal Government cannot impose a tax on the States or the political subdivisions of the States. This is a tax measure. The committee in its report recommended that the States should make their own laws applicable to Government employees, but

nothing that Congress can do can compel them to do that, if they do not wish to do so.

The tax is to begin January 1, 1936, and the rate after January 1, 1938, is 3 percent. In the first 2 years, the years 1936 and 1937, the rate is to be governed by the index of production, and the best index of production we have is the index of the Federal Reserve Board. If the index of production is 84 or less in a period which ends on January 30, 1936—that is a misprint, there, on page 35; the date should be 1936——

Mr. COOPER. What line is that?

Mr. WITTE. That is on line 12 and line 15.

Mr. COOPER. You say that ought to be 1935 on line 12 and 1936 on line 15?

Mr. WITTE. I beg your pardon; no——

Mr. COOPER. Let us get that straight right now.

Mr. WITTE. It is all right. The previous paragraph (*a*) governs the first year. It is correct in the bill. I was looking at the wrong section.

If in the 12 months ending September 30, 1935, the index of production is 84 or less, the rate is 1 percent. It is 2 percent if the index of production is more than 84 and less than 95. It is 3 percent if it is 95 or above.

Those figures work out this way. At the present time, the index of production is approximately 80. If present conditions continue, if over this whole year period that we are in, conditions do not materially improve, the rate will be 1 percent. It will be 2 percent if there is substantial but not complete recovery, and it will be 3 percent if there is complete recovery.

The same provision applies for the next year following, after which the 3 percent rate takes effect in any event.

The tax is computed on the entire pay roll.

I do not think it is necessary to elaborate upon the collection provisions. They were drafted by the Treasury Department. They are the provisions that are quite customary in excise taxes.

Against the Federal tax a credit is allowed under section 602, page 36, for contributions to State unemployment compensation acts. The credit is up to 90 percent of the Federal tax. In any event, 10 percent of the Federal tax is to be collected. The purpose of the entire scheme is to make it possible for States to enact unemployment compensation acts. States cannot very readily burden their employers with the cost of unemployment compensation, unless they know that their competitors in other States will also have that same cost. That is a necessary measure to enable the States to act. The cost of unemployment compensation—and these rates are admittedly moderate; and will only pay moderate benefits—the cost of unemployment compensation is appreciably greater than workmen's compensation. If the States are to act at all, there will have to be uniformity in this major respect—uniformity of cost.

The system operates so that employers in a State that does not enact an unemployment compensation act will have the same cost as employers in States that do enact an unemployment compensation act. The disadvantage that a State puts itself under by enacting such an act is removed by this bill.

As to the conditions of credit: Credit is allowed under State laws which meet certain minimum requirements. These minimum requirements are set forth in section 602, pages 36 and 37. First, a State must have accepted the Wagner-Peyser Act, the act which Congress passed last year, establishing a cooperative Federal-State system of public employment offices. Everywhere the world over unemployment compensation has been linked to the public employment offices, because unemployment compensation is compensation for involuntary unemployment. A man, to be compensated, must be compensated only if he is unemployed involuntarily. The employment office is the best test. A nation-wide employment service, a really functioning employment service, is the best test that can be worked out of willingness to work. So this bill provides that the State must accept the provisions of the Wagner-Peyser Act.

Paragraph (b) provides that payments of compensation must be made through the employment offices, and that no benefits are to be paid until 2 years after contributions take effect. That is to give a reasonable chance to build up something of a fund, so that there is a fair chance of having the State funds prove successful. If benefits are paid before any fund has been accumulated, there is grave danger of bankruptcy, particularly under the provision we have in this bill that, in the first and second years, the rates may be 1 or 2 percent instead of 3 percent. This renders it vitally necessary that no benefits be paid for the first 2 years.

Paragraph (c) provides that all funds, all unemployment-compensation funds collected by the States, must be deposited with and be invested and liquidated under the control of, the Secretary of the Treasury. That is a function that the Federal Government assumes in the interest of promoting stability, rather than to run the danger that in the early stages of a depression, when unemployment compensation funds will be drawn on heavily, the throwing of securities upon the market will actually increase unemployment. The purpose of this provision is to prevent such a result.

Paragraph (d) is in many respects the most important condition. The money that the State collects must under all circumstances be spent for unemployment-compensation purposes and no other purpose. That is a condition of recognizing a State law. The money which is collected—and the States can determine for themselves what benefit rates they wish, what waiting periods, and so forth—must be used for unemployment compensation purposes, and they cannot use it for anything else. We believe that this removes all necessity of inserting any standards regarding benefit provisions or anything of that sort. The States cannot spend the money for anything else, and sentiment in the States will certainly insist that the money be spent, if it has been collected.

The next paragraph provides that no State may deny compensation to employees under the following conditions: If they refuse to accept employment in a place which is vacant due to a strike, lockout, or other labor dispute. That does not mean that compensation is paid to men who are on strike. It does provide that compensation cannot be denied to a man who refuses to take a job as a strike-breaker.

Second, compensation cannot be denied if the wages, hours, or other conditions of work offered are substantially less favorable to the employee than those prevailing for similar work in the locality. The employee cannot lose his compensation rights because he refuses to accept substandard work. That does not mean that he cannot be required to accept work other than that in which he has been engaged; but if the conditions are such that they are substandard, that they are lower than those prevailing for similar work in the locality, the employee cannot be denied compensation.

Third, compensation cannot be denied if the acceptance of such employment would either require the employee to join a company union or would interfere with his joining or retaining membership in a bona fide labor organization. This says that the employee cannot lose his compensation rights because he refuses to join a company union or because he would have to give up his union membership in order to receive this work.

Finally, there must be in the State law a provision under which no vested rights will be built up against change or modification. If, in the course of time, Congress should see fit to insert additional conditions, we want the door left open to insert such additional conditions as may become necessary. No vested right shall be created against change of the law. That must be inserted in the State act. In the last section, on page 63, section 902, we also provide very specifically that nothing in this act shall prohibit alteration, amendment, or repeal by the Congress. We wish to make it doubly certain that if the Congress desires to insert further conditions at a later date, it may do so, if that should become necessary.

There is a section on additional credits which is section 607 and also 608, beginning at the bottom of page 47. This provides that under certain circumstances in the future, not immediately, employers may receive additional credits against the Federal tax beyond the amounts which they have paid in that particular year. Normally the Federal tax is assessed at the end of the year, or, rather, after the close of the year, and the credit is the amount which the employer has actually paid during the taxable year. Under certain circumstances the employer may get additional credits. That additional credit is allowed if the State law permits the employer to pay a lower rate of contribution than other employers are required to do, because he has stabilized his employment, because he has cut down his unemployment, and has built up an adequate reserve fund.

Such additional credit must be surrounded with safeguards and this bill has very comprehensive safeguards.

Referring to section 608: The additional credit may be allowed in States where employers are permitted to have their own individual accounts. In such States, additional credit is allowed only if the employer has built up a reserve fund of 15 percent of his pay roll. He cannot build up that reserve fund short of a very long period. This 15 percent is approximately three-fourths of the maximum liability that can be computed. Assuming that every employee were discharged all at once, and assuming that every employee were entitled to the maximum benefits and were unable to procure other work for the entire period that the benefits would run, this is approxi-

mately 75 percent of the maximum liability. That is a very strong safeguard. There is the further safeguard that such an employer must continue to contribute at least 1 percent. Similarly, employers under a so-called "guaranteed-employment fund" can, under certain circumstances, be allowed additional credit, but only if they have observed all their guaranties and if they have built up a reserve fund of at least 7½ percent of their total pay roll.

Under pooled funds, States may establish so-called "merit-rating provisions", which will permit employers that have a very good employment record a lower rate, but only on the basis of their experience, and only after 5 years.

In other words, this additional-credit provision will come into operation only in the future; and for the moment I think I will pass it and permit you to ask questions upon that point, realizing that I have perhaps not made it entirely clear. But the idea is that employers who have stabilized their employment, who have little unemployment, who have over a period of years developed an experience which is favorable, if permitted by the State—and that is always the condition—may be allowed a credit against the Federal tax. The State law is controlling upon this point. It is in accordance with the thought emphasized by the President in his message to the Congress that unemployment compensation should, so far as possible, encourage the stabilization of employment. This is an attempt to do that.

I want to say a word at this stage about the investment of the fund. That is covered in section 604, on page 38, a section, again, written by the Treasury Department. That section contemplates that State funds collected for unemployment-compensation purposes shall be deposited in the United States Treasury in a separate account, a trust account, for the benefit of the State; that the Secretary of the Treasury shall have control of the investment and the liquidation of such funds. He is authorized to buy any securities from these funds if he deems this advisable. The provision is for investment in the securities of the United States, and an interest earning is to be credited on these funds equal to the average interest earnings on all obligations, primary obligations, of the Government, adjusted to the next lower one-eighth percent, if the fraction is different.

The funds are to be invested in the best security we know of, the security of the United States Government, and are to be handled in such a way that these funds will promote stabilization rather than the reverse.

The provisions regarding the Federal part of the administration of this plan occur in section 401 and section 402 on page 21. There is set up a social insurance board within the Department of Labor. That social insurance board, in addition to administering unemployment compensation—the Federal part of it—is to have responsibility for the compulsory annuity systems that we discussed yesterday, and is to have responsibility for any other systems of social insurance that may subsequently be provided by act of Congress.

The board is to consist of three members appointed by the President for 6-year terms, staggered in such a way that the term of one member will expire each 2 years.

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There is an appropriation to the board at this time of $1,000,000 for the performance of its duties. The board will allot to the States for administration of their unemployment compensation acts in the first year $4,000,000, in the second year $49,000,000, the total being $5,000,000 for the two administrations combined in the first year and $50,000,000 in the second year. The source of that money, as we vision it, is the 10 percent retained from the Federal tax. That is the source of the money which will pay the administration costs.

The provisions under which the grants to the States are made for administration occur in section 407, which begins on page 30. The conditions are set forth in that section.

The employees concerned with unemployment compensation, and most of these employees are the employees in the public employment offices, financed jointly by the State and Federal Governments, shall be selected on a nonpartisan basis and on a basis of merit under rules and regulations prescribed or approved by the board.

There is a requirement that the grants shall be conditioned upon the board's being satisfied that there is efficient administration; that there is a fair hearing procedure under which employees who are claiming unemployment compensation can get a fair hearing to determine their rights; and that necessary reports are made to the Federal agency to enable the Federal agency to collect statistical data, and to determine what changes are desirable in the unemployment-compensation system.

And finally, the grants are conditioned upon observance of section (6), on a work benefit, on page 31, a section which states that after an employee has exhausted his rights to a cash benefit under a State unemployment-compensation act, he shall be certified as entitled to a work benefit through the agency of the United States charged with the administration of public works or other assistance through public employment. That is the language providing for the link between this unemployment-compensation system and the work program which the Federal Government is launching; the link which means that after the exhaustion of cash benefits, an employee, if still unemployed and at that time unable to procure other employment, shall be entitled to a work benefit.

Actual payments of the amounts for administration are to be made to the States monthly under section 408, which is to be found on page 32.

So much for the detail. Now a few general comments, if I may be permitted.

Our actuaries and statisticians calculated that if a system of this kind had been in operation on a nation-wide basis in all States in the year 1933, approximately 16,000,000 workers would have been brought under the unemployment-compensation system. If there had been a 100-percent employment in that year, something like 25 or 26 million workers would have been brought under the system, about one half of the people gainfully employed, and a much larger percentage of the workers.

If a system of this kind had been in operation from 1922 to 1933, with the 3-percent contribution rate contemplated, the average collections on a nation-wide basis would have been approximately $825,000,000 a year, or about $10,000,000,000 for the entire period.

In the twenties the collections would have considerably exceeded the benefits.

By the time the depression set in, after 7 years of the system, a reserve fund of something in excess of $2,000,000,000 would have been built up. That would have been available in the early period of the depression and, on the basis of benefits that the committee suggested to the States as the ones that they had better start out with, a basis of benefits which contemplates that you have a 4-week waiting period, a 50-percent benefit with a maximum of $15 a week and a limit on the maximum period of 16 weeks—under such a system, this fund would have run through 1931. In that period there would have been available, in the early stages of the depression, this reserve fund, which would, of course, very materially have helped to sustain purchasing power and, unquestionably, would have helped at that stage to check the depression to some degree. We do not suppose that it could have stopped it, but it certainly would have had a beneficial effect.

Unemployment compensation is a program of insurance and, as set forth here, is a program in which compensation is divorced from relief. The program is contemplated to be self-sustaining. There are no Government contributions toward unemployment compensation, the governmental contributions being made to provide work. That is the major governmental contribution.

The benefits would necessarily be limited. The benefits will vary with the rate. If you have a higher contribution rate, you can pay larger benefits. But with any contribution rate that you contemplate, so long as the system is strictly an insurance system and relief money does not get into the picture, the benefits necessarily will be limited to a given period and a time will come in a severe depression when people will run out of their benefits. This bill contemplates that at that stage they shall be given a work benefit rather than a cash benefit.

While limited, the benefits are, we believe, valuable. The benefits come in when the employee first loses his employment, after a waiting period. At that time the employee still has a reasonable prospect of getting back to his old employment. At that stage it is certainly to the interest of the employee that he should not be forced to accept a job on public works that may take him away from his opportunity to get back to his old job.

If his unemployment continues beyond such reasonable limited period, then obviously, as our committee sees it, the better thing to do is to provide a work benefit rather than an extended benefit which comes in cash out of the Government, the idea being a limited benefit on strictly insurance lines for a period during which the employee has a reasonable opportunity to get back his old job quite soon—when he is daily expecting to get back to his job.

I also want to say something at this point about the distribution of the costs contemplated. The Federal tax is imposed on the employer alone. The States may, if they see fit, add contributions by employees and contributions from State funds. That is up to the States. If they do so, that will increase the benefits.

The contribution by the employer is made uniform because it is impossible for the States to act unless the cost to the employers throughout the country is uniform. I think that is elementary.

The costs to the employer, of course, mean costs that are shifted to the consumer. This is not, however, to be regarded as a sales tax. This is part of the wage bill. You do not call it a sales tax when the employer pays the wages. You do not call it a sales tax when the employer pays workmen's compensation on account of accidents. That is part of the wage costs.

Similarly, as we vision unemployment compensation, this limited benefit during a period while the employee is waiting to get back to his old job, when the employer is encouraging him to wait—when he tells the unemployed worker, "We have not got an order this week, but next week we will probably have orders, and you will probably come back"—is part of the wage bill, and should be so regarded.

Beyond that, for unemployment in a severe depression—prolonged unemployment—it is not contemplated that the cost of that shall be charged to the employer alone. At that stage the Government comes in. But under this program that we are presenting, the Government comes in to provide work rather than a dole. That is the program of this bill.

These governmental contributions are larger than those that any foreign country has ever made to any unemployment-compensation system. But they are compensations in the way of providing work rather than providing an extended cash benefit, beyond this rather limited period when the employee may reasonably expect to get back to work.

That concludes my discussion of unemployment compensation, Mr. Chairman, and I shall be glad to answer any questions.

Mr. LEWIS. Doctor, we were speaking now of credits that may be allowed the employer under the tax that may be imposed. Will you take the concrete case of the Swope organization, for this purpose, and apply the credit provision to that Swope organization, assuming that it comes in under the act as a competent institution. You told us that the act does not apply to Government employees—State or Federal. I want a concrete picture of how it applies to some private organization, and I am suggesting the General Electric Co., of which Mr. Swope is president.

Mr. WITTE. Mr. Swope is the president of the General Electric Co., a large employer, with plants in many States, but the largest of its plants are in the State of New York.

Since 1930 the General Electric Co. has had a voluntary unemployment-compensation system, the largest single unemployment-compensation system in this country; a system, I think, that applies to about 50,000 employees at the present time. That means more employees than there are in some States. It is a system which has stood up remarkably well during this depression.

Let me deal with the plants of this company in the State of New York, where the largest number of these employees are to be found. If the State of New York permits what are known as "individual accounts," individual-plant accounts—and the administration bill

now pending in the New York State Legislature does not permit such accounts—it will be up to the State whether it wishes to permit individual accounts or not, but, assuming that it does permit them, then the General Electric Co. presumably could set up an individual account. The General Electric Co. can set up an individual account. I take it for granted, the company is financially responsible, so that it can satisfy the State administration that it can maintain an individual account.

Assuming that the State of New York imposes a tax of 3 percent as the Federal act will require, in the first year under the act the General Electric Co. will pay to the State of New York a 3-percent contribution on its pay rolls. Under State unemployment-compensation acts these are not usually called taxes at all, but they are called contributions or premiums—either one. Normally they are collected monthly.

We will assume that the State of New York will pass an unemployment-compensation act shortly after this Congress has enacted the bill we are discussing. I think that that is a fair assumption because Governor Lehman has stated that the unemployment-compensation bill which he has had drafted is bill no. 1 on his calendar and has advised his legislature that as soon as he knows what will be required he will push for the enactment of the unemployment-compensation bill now pending in that State.

Assuming that bill is in effect January 1, when this act takes effect, and also assuming for the sake of simplicity, that we will have during the next year such recovery that the 3-percent rate will be in effect, the General Electric Co. will pay during that year monthly contributions to the State of New York, of 3 percent of its pay rolls. That will continue until the General Electric Co. has build up the reserves that are required for additional credit under the bill.

The State will maintain a separate account with the General Electric Co. in which it will credit, on one side, the payments made by the General Electric Co. and, on the other side, it will charge the compensation paid to employees of the General Electric Co. for unemployment compensation. That is what we mean by an individual account. That account will be kept by the State.

The actual money will be deposited in the United States Treasury, just as will be the money of every other employer who is not permitted to have an individual account. The State keeps the entire record with the General Electric Co.—not the Federal Government. The State administers the payment of the compensation to the employees of the General Electric Co. under such rules and regulations as it may adopt, through the employment offices.

At the end of the first year, let us say in January 1937, the General Electric Co. will be required to make a report to the Treasury of the United States on its pay rolls for that year; as a credit against the 3-percent tax which the Treasury will figure out on the General Electric Co. pay roll, there will be allowed as an offset the payments which have been made by the General Electric Co. under the New York act during that year, up to 90 percent of the Federal tax. Three-tenths of 1 percent of the pay roll will be collected from the General Electric Co. and every other employer subject to this tax in any event and at all times.

Mr. LEWIS. That means, then, in general, that a private company can have a separate account for its own institution, dependent upon what the State legislature has to say about it.

Mr. WITTE. Certainly. The State legislature can say, "We will have nothing to do with individual accounts. We will amalgamate all of these funds in a central pooled fund. We will take the money of the employers and will pay out compensation to the employees regardless of whether they were employed by Tom Jones or Harry Smith."

But it can, if it so desires, keep a separate account with the employer, and make him pay for his own unemployment compensation and nobody else's. That depends upon the State law.

If New York permits separate accounts, the General Electric Co. can have one. If New York does not want that, nothing in this act compels New York to have it. New York can decide for itself on what basis the employees of the General Electric Co. who work in the State of New York shall be compensated.

I have not dealt with this additional credit. The additional credit will come in under the laws of New York at a time when the reserve fund of the General Electric Co. has been built up to 15 percent of its pay roll. That will be a long time in the future—how long in the future depends upon how much unemployment the General Electric Co. will have. If it has built up its reserves to that point, and if the State law permits the General Electric Co. to pay a lower rate of contribution than 3 percent, the Federal Government will give the same credit that the State law gives to the General Electric Co. That is the scheme. But we add the restriction that in no event may the State law reduce that rate to less than 1 per cent, which must be contributed to the central pooled fund of the State. The idea is that although the General Electric Co. may have taken care of its employees in an exemplary manner in order to have the benefits of the insurance features, it should make some contribution to the general unemployment fund in the State. That is the central idea.

This additional credit is not something that will come into effect immediately. The States are required to start with uniform rates, but, if they so desire, they may establish these individual accounts, and may give special credits to employers who have stabilized their employment, and they may do that even if they do not permit individual accounts. They may, after 5 years, make different rates for different industries. They may give lower rates for employers who have had a good experience; that is the merit-rating provision. You can have that with a law such as Governor Lehman has pending in New York, in which there will be no individual accounts. But under such a law reductions cannot be permitted until after 5 years, because a reduction based on less than 5 years is on such a short period of time that there is no real basis for determining whether that is due to special efforts at stabilization or whether it is just merely accidental in a particular year.

If that has not explained the point, I shall be glad to elaborate it further.

Mr. HILL. On that point of the State allowing a lower rate to a particular industry on the basis that it has done a good work in sta-

bilizing employment in that industry, how does that affect the credit which such an industry may have as against the tax levied by the Federal Government?

Mr. WITTE. That is the additional-credit provision. Assuming that this is not an individual account that you are thinking about, but a general State pooled fund, in which certain industries are permitted to have lower rates—that is, after 5 years— a State may, for instance, grant a lower rate to banks, let us say. That is because banks probably have relatively little unemployment; certainly much less than, for instance, contractors. Or they may grant a lower rate to employers who, on their own individual experience, have had a very favorable experience during these 5 years.

When that lower rate comes into effect we say that although we grant you a credit, you must always pay 1 percent as a minimum. That is provided in this section. The State cannot make the rate less than 1 percent. Let us assume the State allows the maximum reduction that is possible.

The Federal tax is 3 percent. Three-tenths of 1 percent has to be paid anyhow, for administration. One percent has to be paid to the State fund, in any case. But there is an additional 1.7 percent which, under the State law, we are assuming will not have to be paid because this is an industry that has a low rate of unemployment or because this is a plant which has had a very favorable experience. In that case we say that if the State does not require you to pay that 1.7 percent, the Federal Government will not either.

Mr. COOPER. Will the gentleman yield?

Mr. HILL. I yield.

Mr. COOPER. Doctor, if I understand the underlying principle supporting the idea of a Federal tax, it is to make it uniform throughout the entire country?

Mr. WITTE. Yes, sir.

Mr. COOPER. Thereby meeting a difficulty that would naturally arise on account of the element of competition.

Mr. WITTE. Certainly.

Mr. COOPER. That is, competition between certain business enterprises. If the system is to make allowance for certain industries to have special accounts, does not that strike at the very principle that is supposed to prevail through the whole system?

Mr. WITTE. It does to a very slight extent, possibly; I will grant you that. But there is a balancing of that against the other fact or that everybody realizes—that unemployment compensation should be something more than merely a payment of benefits on an insurance basis. As the President expressed it, unemployment compensation should furnish an incentive to reduce unemployment. It is a question of balancing items.

Through this additional credit you do allow, for instance, the General Electric Co.—assuming that the General Electric Co. has much more favorable experience and that under the laws of New York it would be permitted to have an additional credit—to have a lower rate than its competitors, the Westinghouse Co., or the Allis-Chalmers Co., in our State, which are competitors with General Electric Co. In a sense, that destroys the element of uniformity. But we are

doing that for a definite purpose, the definite purpose being to encourage employers to stabilize their employment—to reduce unemployment if they can. This provision of additional credit does not become effective immediately. The provision takes effect quite far off in the future. But it is something set up to give the employers an incentive to look forward to in reducing their unemployment to the maximum degree possible.

Mr. COOPER. Just on that point, I am sorry, but I am unable to follow you exactly on that. You speak of the effect in the future. That is exactly what I have in mind. If a certain industry is to receive a preferential rate, and, as time goes on, these various industries are able to establish further preferential rates, how then does that contribute to the principle of uniformity that is sought to be accomplished by this system?

Mr. WITTE. To a slight extent it is a deviation from uniformity, we will grant you that.

Mr. COOPER. It may be slight and it may become greater as the prefential rates are granted various industries throughout the country. Is not that true?

Mr. WITTE. Under the plant-reserve system, it probably will not be very great because the number of plants that will build up a 15-percent reserve is likely to be very small. Through varying rates in the States it may in time become quite material, but there is a great deal to be stated for varying rates. It is a pretty crude system that levies the same rate of contribution on the bank as on the contractor. There is a different sort of a risk. As in all other types of insurance, we should try to measure the risk. In course of time it may be that the Federal Government should impose different rates on different industries. We are not in a position to do that now, because we do not know; we have not had enough experience even to begin to do that.

Mr. COOPER. Just on that point, you use the illustration of a bank and some industry. What I have in mind is the same industry operating in different States, for instance, the illustration you have repeatedly used, of the electrical-appliance industry. Assume that one State of the Union allows a preferential treatment to the part of that industry operating in that State, and another State does not allow a similar preferential rate to a branch of the same industry. It occurs to me that you strike very vitally at the principle of uniformity that is sought to be accomplished by the imposition of this Federal tax.

Mr. WITTE. Frankly, that is a departure from absolute uniformity, and you can be either for or against it. The General Electric Co. which we have been using as an illustration, by regularizing its employment, by having little unemployment, is relieving public expense for unemployment, and probably is making a large contribution in keeping its employees at work. The only way a concern can get this extra credit is through consciously pursuing a policy, for instance, of distributing work in the slack times. This employer distributes work among its employees instead of throwing a part of its employees on to the public for support. It is all a question of balance. It does depart from the rule of uniformity, but the employer is meeting another cost when he stabilizes his business.

Mr. COOPER. I get your viewpoint of it all right, but we are legislating for a long time in the future here. I may be unduly apprehensive, but I can see how in the course of time there is the opportunity for considerable special favors being granted in this very system here.

Mr. HILL. This 10 percent out of the 100 percent of the tax that the Federal Government collects in any event is, you say, to be used for administrative purposes?

Mr. WITTE. Yes, sir.

Mr. HILL. How is that to be divided between the State in the administration of its unemployment-compensation act and the Federal Government?

Mr. WITTE. In the first year we appropriate $5,000,000. That is less than 10 percent, but we do not need much money at the start. At the start you pay no benefits. The States are merely collecting contributions. You do not need a very large amount of money. That sum we divide, $1,000,000 to the Federal Government and $4,000,000 to be allotted to the States.

The next year after that, you are not yet paying benefits but will have to set up additional employment offices and get ready to administer benefits. We still keep that $1,000,000 for the Federal Government, and we turn $49,000,000 over to the States. The $50,000,000 total represents about 10 percent of the tax that we would collect on the 3-percent contribution rate on the basis of employment the way it was in 1933. We will probably collect that in the first year, and somewhat better than that, assuming that all States act. Probably not all States will act, but $50,000,000 is an approximation of the amount you will probably collect under this 10 percent of the tax.

Mr. HILL. The idea is, then, that out of this 10 percent is to be paid all of the administrative expense by the States and the Federal Government?

Mr. WITTE. Ninety-eight percent goes to the States under the bill.

Mr. HILL. Ninety-eight percent? That takes a portion of the 10 percent that the Federal Government will collect.

Mr. WITTE. Yes; 98 percent of the 10 percent.

Mr. HILL. Suppose one or more States should not act in passing an unemployment-compensation law. The Federal Government will collect the total amount of the tax. What would it do with that from the State that has no compensation law?

Mr. WITTE. Put it in the Treasury of the United States to be disposed of by the Congress.

Mr. HILL. It does not have to be distributed out among the employees in other States?

Mr. WITTE. No; there is no such provision.

Mr. HILL. It is just held there?

Mr. WITTE. You can do with it as you see fit. You can use it for relief or for any other purpose that you wish. It is not held. It is put in the general funds of the Government.

Mr. HILL. Of course, 10 percent is put in the general fund, too, is it not?

Mr. WITTE. Yes; certainly.

Mr. HILL. The only special funds you have are the accounts with the different States?

Mr. WITTE. Yes. They are not appropriated by Congress at all. They are just trust accounts held by the Treasury.

Mr. HILL. Each State then is a territorial unit as to these accounts, and the account of each State is for the specific benefit of employers within that particular State?

Mr. WITTE. It is its own money; it is the State's money.

Mr. HILL. You say that in the case of the General Electric Co., for instance, where the State might allow an individual account, that constitutes a matter of bookkeeping for the State and not for the Federal Government. The Federal Government keeps one account with the State and no individual accounts with certain industries?

Mr. WITTE. That is entirely correct.

Mr. HILL. But they must have reports from these industries as to the credit they will be entitled to in order to know how much credit to allow them on the Federal tax.

Mr. WITTE. Of course, that will be the way it will work. In the future if they are allowed a lower rate of tax, they, of course, will claim that, and the Treasury makes rules and regulations for the collection of the tax. The Treasury undoubtedly would require some evidence that they are permitted a lower rate under a State law.

Mr. HILL. Is this particular subject of this bill what you call "unemployment insurance?"

Mr. WITTE. Instead of the term "insurance", we deliberately use the term "compensation."

Mr. HILL. That is what I want to get, if you make a distinction between "compensation" and "insurance."

Mr. WITTE. They are used interchangeably but in the last analysis, unemployment insurance is not insurance of the same kind as other types of insurance. I think everybody must concede that. Past experience does not give us much of a guide to predict future unemployment. Life insurance is insurance in a strictly technical sense, because we can compute what the life expectancy is. At this time we do not have even past statistics on unemployment that are halfway adequate. In course of time we will have statistics. But experience has been that, at least so far, nobody can tell with absolute exactness or even with approximate exactness, on the basis of past unemployment experience, what the unemployment will be in the future. It is not strictly an insurance concept.

We regard unemployment compensation as very closely parallel to "workmen's compensation"—which is really accident compensation. It is a limited benefit, a statutory right, which has features of an insurance plan, but technically I think should be called "unemployment compensation", rather than "unemployment insurance." Popularity, of course, the two terms will be used as synonymous.

Mr. HILL. Under this bill, is there any provision that affords any assurance that a particular State will pay the unemployed within that State according to any plan of compensation? In other words, will it be a flat rate or will it be determined as a certain portion of the wage that the employee has customarily received?

Mr. WITTE. Theoretically you can have a flat rate, as in England. In this country nobody has proposed unemployment compensation on any other basis than a percentage of the wage. We leave wide discretion to the States to do what they see fit in this matter. I think that you need not worry much that the benefits will not be liberal enough. The danger will be that with the small amounts with which you start out the benefits will be higher than the States can afford to pay. That may be a danger. The report of the committee asks caution in that respect. We must first build up some reserves before we become too liberal with benefits.

But we have this safeguard: One of the conditions of allowing the credit to the State is that it will spend every dollar which it collects for compensation. It cannot use any of the contribution for anything else. And we have the money in the Treasury here. The Secretary of the Treasury is given express authority to make such rules and regulations as he sees fit governing the withdrawal of funds.

The actual benefit rate in this country probably will be a percentage of the wage. This subject is not new; I think your committee considered a bill very similar to this last year. The subject has been before State legislatures in most of the States. It has been before State legislatures in many of the industrial States annually at each session of the legislature since 1921. All bills in this country have contemplated payment at a rate of wage ranging from 40 to about 65 percent, with a maximum limit. We suggest that on the basis of the whole experience throughout the country and a 4 weeks' waiting period that a rate of benefit be paid of 50 percent of the wage, not exceeding $15 per week, and for not exceeding a maximum period of 16 weeks, except that you may allow additional credits for people who have been long employed without drawing any benefits.

That is for the average of the country. In a model State bill that we are preparing, we are putting in a clause saying that the States may depart therefrom. Unemployment has differed very greatly in different States. For instance, it is very easy to understand that the District of Columbia, which has the type of industries—stores, laundries, and so forth—in which there is relatively little unemployment, can pay a much more liberal benefit than can, let us say, a coal mining State.

Mr. HILL. What I want to get at is whether it is any concern of the Federal Government under this bill whether one State should have a flat rate of compensation or another State or other States should have a wage percentage base of compensation, so long as all the money to the credit of each State is spent for compensation.

Mr. WITTE. No, sir.

Mr. VINSON. That is exactly the point that I want you to develop. This is levied under the taxing power of the Federal Government, and that rate is one rate, either 1, 2, or 3 percent of the pay roll. Is that correct?

Mr. WITTE. Yes, sir.

Mr. VINSON. Wherein is there any power in the Constitution to say that a State shall have unemployment insurance laws that would levy a 3-percent tax upon pay rolls in that State, and then another

State could have laws that would in effect say, "We will levy 3 percent on most of them, but here are some particular few that may be able to build up reserves; they can get off with 1 percent." Now, justify that constitutionally.

Mr. WITTE. I would prefer to refer that question to the Attorney General, who I believe will appear before you.

Mr. VINSON. What is your judgment about it?

Mr. WITTE. My judgment is that it can be done. We have a case of the Supreme Court that seems to be directly in point. That is the case of *Florida* v. *Mellon*.

Mr. VINSON. That was an estate-tax case.

Mr. WITTE. An inheritance-tax case, in which your act, which is still in effect, provided that the amounts payable under the Federal Estates Act shall be reduced by the amounts that have been paid under a State inheritance-tax law.

Mr. HILL. Let us defer this until after the recess, and I will yield to you further.

Mr. COOPER. There is the roll call now.

Mr. HILL. I move a recess until 2 o'clock.

The CHAIRMAN. Without objection, the committee will take a recess until 2 o'clock.

(Whereupon, at 12.20 p. m., a recess was taken until 2 p. m., Jan. 12, 1935.)

AFTER RECESS

Upon the expiration of the recess, the hearing was resumed.

STATEMENT OF DR. E. E. WITTE—Resumed

The CHAIRMAN. The committee will be in order.

Dr. WITTE. I believe that I was still open to questions on unemployment compensation.

Mr. VINSON. I had a question, and I do not recall whether you had answered it to your complete satisfaction.

Dr. WITTE. No; I had not. The question, I believe, was a question of constitutionality, on which I profess I do not pretend to be an expert, but is is my belief that the constitutionality of this act is governed——

Mr. VINSON. I do not think that you ought to take a broadside of it. It is not the constitutionality of this act but of this particular feature; that is, the constitutional point involved is whether or not you can levy a tax of 3 percent on pay rolls, a Federal levy, and then permit a State, under a State law, to say that certain privileged business, or certain business coming under the purview of that statute, would be exempted from paying 3 percent, which otherwise would be the universal rate.

I think that that is the constitutional point.

Dr. WITTE. The question you have is on the constitutionality of the additional credit?

Mr. VINSON. That is the point.

Dr. WITTE. On that point, I am hardly qualified to speak. I think the advice that the committee has is that the act is constitutional; but let me also call your attention to this fact—that that is a clearly separable provision of the act, and if that additional credit provision is invalid, it would not affect the constitutionality of the entire act.

Mr. VINSON. I know you well enough, having worked with you to know that you would not want us to have a clause in here that we thought to be unconstitutional.

Dr. WITTE. No. If you think it is unconstitutional, you should take it out.

Mr. VINSON. If I understand it, you do not care to express yourself further on that point?

Dr. WITTE. On the general proposition of a credit as an offset of amounts paid, the credit of amounts paid under a State law against a Federal tax, I think that that is controlled by *Florida* v. *Mellon*. Whether you can allow an additional credit of the amount not paid is a different question, I grant you.

Mr. VINSON. Let us discuss the matter of policy. Mr. Cooper this morning raised the question of uniformity in respect of this credit feature. I would like to ask you what you think about the question of certainty of payment of the unemployment compensation if you permit these private accounts to be set up?

Dr. WITTE. That is the idea of the 15-percent reserve. With a 15-percent reserve, the plant accounts will undoubtedly pay them in full. Once they have a 15-percent reserve, theoretically that is only 75 percent of the possible maximum liability.

Mr. VINSON. You say 15-percent reserve would be 75 percent——

Dr. WITTE. Of the possible maximum liability.

Mr. VINSON. What about the real maximum?

Dr. WITTE. The real maximum is less than 75 percent in any actual case. It would never happen that all of the employees would be discharged at once and that every employee would be entitled to the maximum compensation.

Mr. VINSON. But suppose that a plant burns and immediately stops operation; then you would have 100 percent unemployment. Would you not have your maximum, then?

Dr. WITTE. No. You do not have the maximum, for several reasons. In the first place, some of those employees will get employment elsewhere and, of course, compensation stops that minute. Likewise, some of the employees would already have exhausted part of their benefit rights before that. Under all compensation systems ever proposed, there is a ratio between benefits and the periods of employment. The usual ratio is 1 week of benefits for 4 of employment.

Mr. VINSON. You have some additional benefits in here, if the man has worked 1, 2, 3, or 5 years additional, have you not?

Dr. WITTE. Yes.

Mr. VINSON. But if you build up a 15-percent reserve, you feel that there is no question about this certainty of coverage?

Dr. WITTE. I think there is none in practice.

Mr. VINSON. Have you told us how much pay-roll tax 1 percent would be, annually?

Dr. WITTE. On the present pay rolls, approximately $200,000,000.

Mr. VINSON. Would it increase the proper ratio at 2 percent or 3 percent?

Dr. WITTE. Certainly; and, as employment improves, that amount will increase.

On the pay rolls of 1929, a 3-percent tax would have amounted to $1,000,000,000.

Mr. VINSON. I believe you said that in the administration of it you would have some group that would hear complaints. Is that correct?

Dr. WITTE. You mean, the actual administration?

Mr. VINSON. Yes; hear complaints of employees in respect to claims for benefits under the law.

Dr. WITTE. This Federal Act provides that there must be a fair trial procedure. The usual provision in bills proposed in this country is that, at the time a man loses his employment, he goes to an employment office and registers for other employment, and if he does not get employment within the waiting period, then he becomes eligible for a benefit.

But suppose that the employment office says, "Although you claim that you are employed, we have a report here from the employer which says that you really never worked for him," or something of that sort; that man is entitled to a trial. The appeal procedure provided in this country is either one or two methods: One, the method of the workmen's compensation acts, a hearing before a referee, a single person, and the other, the one in the Wisconsin law, which is a procedure in which there is a local board which is also one employer member, an employee member, and a neutral member. The procedure of the British act, in England the board is made up of a panel of employer and employee representatives, and usually the neutral member is a permanent official.

Mr. VINSON. What method have you adopted in this bill?

Dr. WITTE. We prescribe only that the Federal administration must be satisfied that there is a fair trial procedure.

Mr. VINSON. You think you prefer to set that up by regulation rather than by legislation?

Dr. WITTE. I think the sort of trial procedure you need in the varying conditions of this country will vary. In the remote areas of our rural western States, the sort of procedure that you can have is quite different from the one that would work in a large metropolitan center.

Mr. VINSON. What do you mean by that? That is a general statement. What do you mean by "different", when you come down to a claim for money from this insurance fund?

Dr. WITTE. In the State of Montana you have stores—and places employing 4 or more employees that are 20 or 30 miles from any other place, and in New York City you have a very different sort of condition.

Mr. VINSON. Of course, we all understand that.

Dr. WITTE. Yes.

Mr. VINSON. Now, in regard to your board that administers it, you will have that done, generally speaking, under State law?

Dr. WITTE. Yes.

Mr. VINSON. And it would most probably be in the capital or more convenient centers?

Dr. WITTE. The hearings in these cases should not be in the State capital. The amounts of money involved are small, and those employees should not be compelled to go from one end of the State to the State capital.

Mr. VINSON. Did you think that anybody would want that done?

Dr. WITTE. No.

Mr. VINSON. What I am trying to get at is whether or not it is contemplated that there would be any appeal to the courts, or whether this board or commission or what not would have the final say?

Dr. WITTE. It cannot have the final say under our American system. There can be an appeal to the courts, finally.

Mr. VINSON. Let us see about that. Take your Workmen's Compensation Board. So far as facts are concerned, they speak finally.

Dr. WITTE. So far as facts are concerned.

Mr. VINSON. And so far as some of the States at least are concerned, the only way that you can get into court is through error of law. You do not contemplate that the employer could take the employee into the courts?

Dr. WITTE. No.

Mr. VINSON. To determine whether or not he would have these benefits?

Dr. WITTE. All bills propose substantially the same sort of provision in regard to appeals to the courts that are now in the workmen's compensation act.

Mr. VINSON. Where is the section in this act that says anything about appeal?

Dr. WITTE. Fair trial procedure—it is in this in this section 407, on page 30, which reads:

(3) Unemployment compensation is paid as a matter of right and in accordance with the terms of the State unemployment-compensation law to all persons eligible thereto under such law, and that all persons whose claims for compensation are denied are given a fair hearing, before an impartial tribunal.

That is the provision.

Mr. VINSON. Does that say anything about appeals to courts?

Dr. WITTE. No. It is up to the State.

Mr. VINSON. As I caught it, this impartial tribunal might be a board or a commission—is that correct?

Dr. WITTE. Yes.

Mr. VINSON. In other words, certainly we do not want to have a bill here that would permit hardships and injustice practiced upon employees who are making claims for the benefits under this bill.

Dr. WITTE. This is a condition which must be met in order to get any part of the administrative fund—this bill contemplates that the social-insurance board will actually carry out this provision and will not give any allotment to any State which does not have a fair trial procedure. We are doing just as in workmen's compensation. In some States it is provided that the appeal to the courts may be had