

sumer must pay. From every point of view, then, as well as from the point of view of building consumer purchasing power, the reserve principle is the soundest.

I want to leave with you the idea that if we attack irregularity of work, we shall make a start in a road to a system of unemployment compensation that will be solidly grounded in American experience and adapted to American psychology and economic needs.

The CHAIRMAN. Mr. Elbert.

STATEMENT OF ROBERT G. ELBERT, AIRY HALL PLANTATION,
GREEN POND, S. C.

The CHAIRMAN. I wish you would, for the record, state to the committee your business and what study you have made with reference to this particular subject matter, Mr. Elbert.

Mr. ELBERT. Mr. Chairman, my name is Robert G. Elbert. My residence is Airy Hall Plantation, Green Pond, S. C. I have developed in my statement, if I may be permitted to read it, more about my background, and so forth.

The CHAIRMAN. Very well.

Mr. ELBERT. Mr. Chairman and gentlemen of the committee, I have prepared a statement which I would like to read, as it is written for the sake of form and continuity.

In reading the testimony that has so far been presented to the committee, I notice that most of those who have appeared here have been concerned chiefly with the old-age pension feature of the bill. I believe the unemployment-insurance feature should be equally important, and the major part of what I have to say will be on that line.

I shall point out some vicious features of the bill as it now stands. I am convinced that the unemployment-insurance features embody a complete surrender to big business, and by that I mean it would be captured by the big business man and the big farmer, to the exclusion of most of the smaller people whom it should be designed to help.

In the course of my remarks I shall develop the proposal to put all these social-welfare activities under one head, namely, to create a Department of Social Welfare, which should have equal rank with other governmental departments, and be presided over by a Secretary of Social Welfare.

Mr. Chairman, with your permission, may I read the statement I have prepared?

The CHAIRMAN. You may go ahead.

Mr. ELBERT. My interest in this matter of social security goes back for some considerable time. Long ago I realized that, in our economic system, too much emphasis was given to finance and mechanism, and too little attention given to the security of the worker, who is an integral part of the cycle of production and consumption. Social security simply means economic stabilization.

In appearing before you today I may say that while I am interested, as a citizen, in the entire purport of the bill that is being considered, my special interest is in its unemployment-insurance features.

I am a member of the Business Advisory and Planning Council, and last year I served as a member of the Industrial Advisory Board. While on the Industrial Advisory Board, Mr. W. E. Woodward and I were appointed by the chairman as a committee to investigate various

forms of unemployment insurance and to formulate a plan which would be adapted to American economic conditions.

We made a report to the Board on June 18, 1934. Because of numerous requests, it was necessary to have thousands of copies printed and distributed. I spent all of last summer abroad making a thorough study, first-hand, of the way in which other countries were meeting their social problems. As a result I wrote a book on this topic, the title of which is Unemployment and Relief, in which I propose a plan which I believe to be the most practical one for America to adopt.

The problem of social welfare is a practical problem; it is concerned with a just distribution of earning power and the conservation of human energy. It cannot be solved in terms of idealism, nor in terms of greed. As a practical people we must do what can be practically done.

Having been a laborer myself and having in turn employed others, I think I know both sides of this question, and in my book I have tried to present both sides in a composite mechanism of social service which in the long run will, in my opinion, be for the best interests of all our people.

There are some who think that through social-welfare legislation they can redistribute wealth. They fail to appreciate that the more wealth there is in the country the greater the opportunity for employment of labor. By the process of redistributing wealth we distribute poverty.

The CHAIRMAN. Have you available a copy of the book for each member of the committee?

Mr. ELBERT. Yes, sir. Mr. Chairman, I sent every member a copy of this book, but I would be delighted to send every one on the committee another copy of it.

The CHAIRMAN. I received one, but I did not know that you sent it to each member of the committee.

Mr. ELBERT. Yes, sir. Any legislation which interferes with the activity of industry automatically and definitely stops the employment of labor.

Uneconomic taxation or too generous donations will destroy morale and kill initiative. Initiative is our greatest asset and has made us a great Nation. If we would protect labor we must protect industry because it is the foundation of our wealth. Industry is already sorely pressed by too high taxes. Let me mention only 22 of the taxes more than 200,000 manufacturers must meet: State franchise tax; Federal corporation tax, between $13\frac{3}{4}$ and $14\frac{1}{2}$ percent; capital-stock tax; Federal income tax on undistributed income, a penalty tax up to 50 percent; excess-profits tax; real-estate tax; city, town? village tax; State tax; county tax; light tax; fire tax; police tax; paving and sidewalk tax; park tax; employers'-compensation tax; sewerage tax; N. R. A. code tax; school tax; telephone tax; gasoline tax; check tax; and documentary tax.

I do not mean to say that all these taxes are oppressive, or unjust, the point being that they are excessively numerous, confusing, and, in the aggregate, too high. The entire system of taxation is in urgent need of simplification. The proposed Wagner-Lewis excise tax adds to the confusion.

Another objectionable feature is that which puts the whole burden of employment insurance on the employer.

This bill, S. 1130, is one of the most important pieces of legislation that has ever come before Congress. I would respectfully suggest that this bill, for so important a piece of legislation, is badly drawn and should be broken down into several separate bills. I do not believe that I am exaggerating when I assert that, as a turning point in our history, it is as important as the Declaration of Independence.

When our forefathers signed their immortal Declaration they declared for independence; now, when a social-welfare bill of the far-reaching scope of this one becomes a law it will be an announcement to the world that the American people have declared for mutual independence. It will express our national solidarity. You cannot solve any economic problem if you get all tangled up with preconceived theories or with prejudices for or against anything or anybody. Yet there is no use arguing with a man who is hungry and cannot get a job, and who sees his wife and children in rags. It is useless to try to explain to him that it will not help if he tried to pull down the Constitution and destroy our American institutions.

I believe in the general principles outlined in this bill, because if proper legislation is enacted and administered it will do much to assist in maintaining the balance between consumption and production.

Mr. Chairman, there is no doubt that this committee and Senator Wagner, the proposer of this bill, are endeavoring to create legislation that will contribute to a solution of our social problems. In a similar spirit of helpfulness I feel impelled to criticize certain features of the proposed measure. It is hardly necessary to say that anything that is done will, at first, be in the nature of an experiment subject to future changes; but, at the same time, we should endeavor to make the experiment a sound and sensible one, and profit as much as possible from the experiences of other nations.

The bill, as framed, leaves the actual form of unemployment insurance to the States. This means that we shall have 48 different State systems, and 48 costly administrations and much duplication. I think this arrangement will be found impracticable. Here is one thing, for instance. Many large industrial concerns have plants in several States. Their operations will be covered by various types of unemployment insurance. Their workers are frequently transferred from one plant to another. An employee may be insured one way in New York, and, upon going to the Illinois plant, will be insured in another way under the Illinois law. What becomes of the contributions made to the insurance fund in his behalf under the New York law? There will probably be some administrative provision for transferring contributions from one State to another, by making book-keeping entries in the books of the Federal Treasury, and in the records of the State administrations concerned, or otherwise, but the bill does not say how this is to be done; and, in any case, it will lead to a vast amount of clerical work and correspondence.

It is assumed that a direct national unemployment insurance measure would be unconstitutional. That assumption may or may not be sound, but it is not the unanimous conclusion of the best legal minds, by any means. That the Federal Government has a constitutional right to levy an excise tax on employers is conceded by everyone. Does not the National Government have the correlated right to distribute the proceeds of such a tax to unemployed persons? And

if contributions are required from wage earners under the system, as I certainly think they should be, is there anything to prevent the Federal Government from levying such contributions by means of an income tax based on a percentage of wages and deducted from the workers pay?

The geographical argument against a national system has no merit, according to my best judgment. This argument is that, on account of the size of the United States and on account of the varying wage standards and living standards in different parts of the country, one uniform system would be inapplicable to the whole Nation.

Under the Elbert plan, proposed in my book, this objection is overcome; it is fallacious, anyway. The Elbert plan provides for percentage contributions from both employers and workers; that is, both contributions and benefits are based on a percentage of wages and salaries. It should not make any difference, in principle, if the accepted wage is \$15 a week in one place and \$40 a week in another place. The contributions and the benefits should vary in the same proportions. So far as the employer's excise tax is concerned, this percentage arrangement is provided for in the Wagner bill, but the same provision should apply to workers, and there should be a flexible, sliding scale of benefits.

The most vital of all objections to these proposed State systems is that in all probability they will, in many instances, degenerate into local political machines of enormous power and evil influence. There is a danger of destructive political influences, in any event, even if there is a national system; nevertheless our history as a Nation shows that Federal institutions, operating locally, are more likely to be conducted on a nonpartisan basis.

Senator KING. You appreciate the fact that the Federal Government and the Congress are subjected to perhaps as high a pressure as any State legislature, don't you?

Mr. ELBERT. Yes, sir; I do appreciate that.

Senator KING. We have a Nation-wide propaganda that seems to sweep like a torrent over the country. It affects Congress.

Mr. ELBERT. I realize that, sir. I also realize, when I look at a Senator, I see thousands of people back of that Senator, or millions of people, scrubwomen, workers, elevatormen, and they stand back of every one of you gentlemen and you are here representing them, as I see it. I think that is the main consideration, to think of these poor devils who are looking to you, regardless of pressure. That is the way I feel about it, sir.

Senator CONNALLY. Will you read the last sentence again?

Mr. ELBERT. There is danger of destructive political influences, in any event, even if there is a national system; nevertheless, our history as a Nation shows that Federal institutions, operating locally, are more likely to be conducted on a nonpartisan basis.

Senator CONNALLY. I thought perhaps you had it the other way around.

Mr. ELBERT. I am sorry, sir.

Senator CONNALLY. It is through the relief organizations that we set up, operating through State organizations. The Federal Government has turned over this relief money in most cases to State agencies.

Mr. ELBERT. Yes, sir.

Senator CONNALLY. Isn't it a fact that it has been, in many cases, utilized for political purposes, dishing out Federal money without any State responsibility at all?

Mr. ELBERT. Senator, that is most difficult to say definitely; that it is or is not. I would prefer not to comment on that, sir, if I may avoid that question.

Senator CONNALLY. You were generalizing there. I was wondering whether you could not elaborate on your illustration.

Mr. ELBERT. I think, Senator-, where money is being doled out, or handed out, or given out, even in private business, there are always some forms of graft. May I continue, Mr. Chairman?

Many of the apparently difficult questions that surround this proposed plan of unemployment insurance are not really as perplexing as they seem to be at first sight. They arise from a misunderstanding of the true nature of unemployment insurance and its economic purpose. Its primary purpose is to sustain purchasing power, to strengthen the stability of the national economic structure. Now that can be done only by adopting the well-tried insurance principle of mutual assistance, applied to the whole Nation, regardless of State boundaries.

Senator CONNALLY. Would it divert you if I asked you a question?

Mr. ELBERT. No, sir.

Senator CONNALLY. I have heard a good many testify that the main thing about this insurance is to maintain purchasing power. I thought the main purpose was to take care of these people when they are out of a job. I do not subscribe to the idea that it is 100 percent for sustaining the purchasing power, so they can spend the money as fast as they possibly can get it in order to make a profit for somebody else. I might advocate it to take care of somebody that might otherwise be on charity.

Mr. ELBERT. Senator, an efficient unemployment insurance will take care of jobless people and tend strongly to maintain purchasing power. That will be its economic effect. It is when our consumption falls off and production increases and builds up inventories that causes unemployment, sir.

Senator CONNALLY. Certainly.

Mr. ELBERT. That is the reason I am thinking of it from an economic angle. Of course I think of it from a human side too, but in thinking of it as correcting the economic evil we automatically correct the human side of it by giving people constant employment, and by providing a fund to meet unemployment.

Senator CONNALLY. I think that ought to be the major consideration.

Mr. ELBERT. The major consideration, sir, is to keep people at work, as I see it.

Senator CONNALLY. Many people appeared here and always talked about increasing the buying power, as if their object was to confer benefits on people in order that some corporation can grab the benefits away from them in order to increase business.

Mr. ELBERT. Senator, as I see it, the wealth of the Nation is not in its production but in what it can consume. That is what makes a nation wealthy, its consumptive ability or purchasing power.

Senator Couzens. It does not make money to produce if you cannot consume.

Mr. ELBERT. No, sir. An inventory represents money invested. If a business man gets too much stock on hand he cannot help himself; he has got to shut down, that is all. If you can keep up the buying power the manufacturer will keep employing men. Senator, you would hire every man in the United States if you could make money doing it.

Senator COUZENS. There are some of them that I would not hire. [Laughter.]

Mr. ELBERT. I say if you could make money doing it. That is the object of the business man. He is just, out to make money. Is that all, Senator?

Senator COUZENS. That is all for the present.

Mr. ELBERT. I consider the segregation of State reserves as provided for in the bill to be a serious defect. The bill reads that all funds contributed by any State shall be deposited in the Federal Treasury and held there in trust for that State only. We all know that there are periods when business and industry are depressed in one section of the country - with a consequent large increase in unemployment - while industrial conditions are good in other sections. Is it the purpose of the backers of this measure to permit the insurance funds of one State, or of several States, to become exhausted through the effort to meet unemployment benefits while other States have surpluses to their credit in the Treasury? Evidently that is what is meant, and my comment is that this provision is contrary to the most elementary of insurance principles. The whole country is one economic entity, and whether we believe it or not the fact is that we are all in the same boat.

It is just as important to relieve unemployment in Maryland as it is to relieve unemployment in Colorado. To that end I suggest that all contributions for this purpose be pooled into one national fund from which benefits shall be paid, under proper conditions, regardless of geographical distinctions.

Business and industry are national in scope; the border lines of States are mere shadows in their relation to the needs of a Nation-wide commerce, or in respect to the mutual relations of capital and labor. In administering certain parts of the social security program - such as public relief and other forms of governmental charity - I think it advisable for the States to cooperate, both with funds and executive intelligence, for such matters can be handled more efficiently, and with less expense, through local contact with the situation.

But unemployment insurance is another matter altogether. It is not a charitable enterprise; it is meant to be, and should be, self-supporting. Does anyone believe for a moment that it would be wise to compel the large life-insurance companies to break up into 48 small companies, with 48 separate administrations and 48 varying scales of premiums and benefits?

The segregation of State funds is a bad feature of the bill, but it contains another invidious distinction which is even worse. I am referring to the provision made near the bottom of page 46 of the printed bill for what are termed "Reserve accounts" and "Guaranteed employment accounts."

Under the first of these provisions, that of "Reserve accounts", an employer or a group of employers may be permitted to pay their

contributions into individual accounts, held in trust for that particular concern or group.

Senator KING. You are condemning the Wisconsin plan, then, are you?

Mr. ELBERT. Yes, sir; I think it is the most vicious unemployment-insurance measure that has ever been enacted, as far as the worker is concerned. It is fine for big business.

Senator COUZENS. May I ask you a question at that point? You have used the term "big business" several times. Can you define what you mean by that?

Mr. ELBERT. The General Electric! the International Harvester, the United States Steel, and corporations of that kind, sir. That is my idea of big business.

Senator COUZENS. From your study of the problem, have you any view with respect to the limitation of capital investments as differentiated between big business and ordinary business?

Mr. ELBERT. No, sir; I think it would be a difficult task to do that, because big businesses are, after all, primarily owned by small stockholders.

Senator COUZENS. They are not controlled by small stockholders?

Mr. ELBERT. Now, I did not say that.

Senator COUZENS. In most cases they might just as well not be owned by small stockholders, as far as the management is concerned?

Mr. ELBERT. Yes, sir. I think that is true in a good many cases and should be rectified. I agree with you. The small stockholder has not a great deal to say, but I think the security bill that you put through in Congress last year, and also the stock exchange committee, will eventually work out something to correct that evil.

Senator COUZENS. You referred to page 46 of the bill?

Mr. ELBERT. Yes.

Senator COUZENS. And you said at the beginning of your statement that this bill was in the interest of big business. Was it because of the language at page 46 that you said that it was in the interest of big business?

Mr. ELBERT. No, sir. Senator, if I am permitted, I will explain that I will tell you what reserve accounts are and what guaranteed employment is and I am against them because they favor concerns that are wealthy and strong. I am talking against my own interest to a certain extent in making that statement.

Senator COUZENS. Are you in big business?

Mr. ELBERT. I am retired now; I am not in any business, and I am not connected with any business.

Senator COUZENS. Why did you say it was against your own interest?

Mr. ELBERT. Because I have money invested in some big concerns. I own stock and things like that.

Senator COUZENS. But you do not run these big businesses?

Mr. ELBERT. I have nothing to do with any of them. I am devoting most of my time and thought to social service.

Now, if I may continue, payments made from these fenced-in reserves will cover only unemployment insurance compensation to the workers in that particular industry or group, the reserve account may be set aside to the credit of one employer only. The employers included in these groups have no liability except to their own employees.

The intent of this provision is apparently to allow employers in these groups to reduce their percentage contributions after a certain reserve has been set up to their individual credits.

In England this practice is known as "contracting out." It was tried years ago over there, before the British had gained much experience in unemployment insurance. The disastrous effects were so obvious that the "contracting-out" law was quickly repealed, but not before the insurance and banking industries had set up their own systems. All contributions in England today, with the exception of those made by banks and insurance companies, are paid into a single national pooled reserve.

The "guaranteed employment" provision, as the committee knows, is a device by which employers who guarantee their employees full wages for 42 weeks a year are enabled to escape from the necessity of contributing to the general state or national fund.

Both of these devices are bad.

Senator CONNALLY. Do you mean by that that they are exempted away from the general provisions in the bill and are permitted to segregate themselves off?

Mr. ELBERT. Yes, sir.

Senator CONNALLY. Why should that be?

Mr. ELBERT. They should not be. That is the surest way to kill unemployment insurance and make it a failure, and if I may read, I will tell you why.

Senator BLACK. That is the distinguishing characteristic of the Wisconsin plan that you have just condemned.

Mr. ELBERT. Which I do not like.

Senator BLACK. Which you do not like.

Mr. ELBERT. I do not think it is practical.

Senator BLACK. In other words, it permits business groups to have insurance pools of their own instead of having them all pooled together?

Mr. ELBERT. That is it, and that is the only way, a pooling together, in which you will ever make unemployment insurance work.

Senator KING. May I ask you a question?

Mr. ELBERT. Yes, sir.

Senator KING. The Wisconsin plan seems to recognize that a big concern that conducts its business in a prudent way and initiates all of the improvements, the technological developments possible for the purpose of making life safer and preventing casualties, ought to have some consideration and ought to have some marks of credit, and as those marks of credit increase, obviously it would mean that their casualties and unemployment are less and therefore there ought to be a lesser tax levied upon them.

Mr. ELBERT. Yes, sir; that is the principle.

Senator KING. You do not approve of that. Take two employers, for instance. One is rather careless and indifferent to the technological developments and to those things that would increase the output and make a better situation for his employees; and the other is very scrupulous in that regard, meticulous in watching all improvements and watching the market so that his product would not be unsold and so that there would be a larger employment for his employees, don't you think that he ought to have some credit for those efforts which

he makes to stabilize employment and maintain a uniform employment?

Mr. ELBERT. In my opinion, the state of affairs which you have outlined has nothing at all to do with unemployment insurance. We are mixing two ideas which do not belong together. Inefficiency in industry is deplorable, but we should not try to correct it through the insurance system. There is a different approach to that problem.

Senator KING. Would you favor a plan that would crush the plans of about 400 organizations that have enacted such plans?

Mr. ELBERT. I am going to cover that in just a minute.

Senator KING. Companies like the Eastman Kodak Co.? Would you destroy those plans?

Mr. ELBERT. The Rochester plan, on the whole, has been a failure, though I have no doubt that strong concerns, like the Eastman Kodak, are capable of maintaining their own insurance systems, but I do not consider these separate systems desirable from a social standpoint. Nearly all of these plans are failures. I cover those things, Senator. I have tried to anticipate and figure out what you would want to know and if I am privileged to go on, I think I will save your time.

As I said, both of these devices are thoroughly vicious.

They are the conceptions of "big business", and have been smuggled into this bill, under one guise or another, by those who are opposed to its primary purpose and plan to make an abortive thing of it, to cripple it to such a degree as to render it ineffective. They favor "big business" and the "big farmer." I do not say this in the sense that I am especially opposed to big business because if I were I would be against my own Government. Most big businesses we must remember are owned by small stockholders with an average of about 10 shares each. Proper legislation should be enacted to protect the worker and conserve his funds.

Under the "reserve account" provision of this proposed bill-if and when enacted into a law-the big business groups and the big farming groups would set up their own insurance funds at once.

Other employers whose personnel is composed chiefly of technicians and skilled workers, in occupations where the stability- and continuity of employment are on a high level, would put themselves under the "guaranteed employment" provision.

These segregations would be unjust in many ways. In the first place they would be unfair to other employers who are carrying on their enterprises under conditions which forbid the creation of special reserve accounts, and who cannot guarantee-because of the nature of their industries-employment to anybody for a stretch of 42 weeks: In short, it would serve to give a distinct advantage to large concerns and semimonopolies over their smaller competitors. How would that come about? The answer is that with carefully selected personnel and highly skilled labor, employed by strongly entrenched companies, the employment shifts would be slight, and the cost of carrying on this group insurance might very well drop down to a minimum of 1 percent of the pay roll.

But over the vast extent of American industry the unselected personnel must be taken care of. Unemployment insurance, as I conceive it, is not intended only to cover trusted office clerks and skilled electricians and linotype operators, and other similar classes. To do what we expect it to do it should include, on an equal basis, the

whole rank and file of American workers. It cannot be done on an equal basis if you permit thousands of tight, closed-in insurance systems and employment guaranties to carry on at the same time. The result would be a patchwork system under which the percentage rate of contributions would eventually have to be raised on behalf of those who belong to the general mass of workers-and there you would have an additional discrimination against the small employer.

Senator CONNALLY. Is it not the whole theory of this legislation that those who continue in their employment regularly should contribute something to take care of the casuals?

Mr. ELBERT. Absolutely; it will never work otherwise.

Senator CONNALLY. Is not that the theory?

Mr. ELBERT. Yes, sir; but this bill does not work it out.

Senator CONNALLY. That is the theory, that the efficient ones who have continuous employment will contribute to some whose employment is not so favorable?

Mr. ELBERT. Yes, sir.

Senator CONNALLY. The big company is going to have its efficient men and they will never be discharged until they get too old.

Mr. ELBERT. That is right.

Senator CONNALLY. Unless you make both the efficient industries and the efficient workers contribute to take care of the casuals, and the inefficient, who are going to be the first to lose their jobs, you are not going to accomplish anything.

Mr. ELBERT. You have hit it right on the head, Senator.

Senator CONNALLY. I am enjoying your discussion. Therefore, if you permit these big efficient corporations, like the Standard Oil and the International Harvester to segregate themselves off into watertight compartments and run their own system, you are going to destroy the whole basis of this legislation.

Mr. ELBERT. I think so; yes, sir. Unemployment insurance will never work that way.

Senator CONNALLY. I agree with you thoroughly.

Mr. ELBERT. Thank you, sir.

Senator KING. Do you not have efficiency in some of the smaller enterprises?

Mr. ELBERT. Yes, sir.

Senator KING. It has been said that there is a point at which big industry will suffer in economies and in cost of production in comparison to the cost of small plants and institutions which are as efficiently managed. There is a point where the law of diminishing returns becomes applicable.

Mr. ELBERT. There is no doubt about that.

Senator KING. I know of many small mines that are operated much more economically and efficiently and more satisfactorily to the employees than the large mines, and the same with some small businesses in contradistinction to large business enterprises.

Mr. ELBERT. That is true.

Senator KING. So that I think you postulate or assume that big business is necessarily more efficient than the small business, and I do not think that is true.

Mr. ELBERT. They usually have greater resources. There are probably some four or five hundred that have built up enormous surpluses of money and insurance. What would they do? Immediately

they would go in here and guarantee the 42 weeks and put up the necessary money to do that. In doing that, they are exempt from the s-percent excise tax as the bill reads. Then what else will they do? What do they do when they set up that money necessary to do that? They will take the money to be used for distributing dividends, and reducing the income tax. So they are beating the Government two ways. I have to pay somewhere around 56 percent to the Federal Government besides State taxes on my income. If that money is set aside and built up as a reserve, it saves me 56 percent from the Federal Government on income tax, whereas if it is paid to me in dividends, I am out that much and have to pay it on income tax. It is a bad thing, and that is my objection to it.

May I continue?

The CHAIRMAN. Yes, proceed,

Mr. ELBERT. There are two underlying purposes behind these proposals. One of them is to arrange things so that big business—both in industry and agriculture—can eventually reduce the percentage cost of their contributions to a level below what the common welfare would require. The other purpose is to enable big business and the big farmer to tighten their hold on labor. The dictatorial power over its own employees would certainly be increased in the case of any concern that has a stranglehold—disguised but real—on the unemployment fund which is designed to protect its own people,

In considering this matter I think it might be well to keep in mind that employers may set up their own employment-insurance systems right now, without the enactment of any law—and some have already done it. Moreover, any employer may guarantee employment if he is moved to do so, and some have already done that, too. You do not need a bill for such things. The purpose of an act of Congress in this field should be to get rid of these private ventures by making them unnecessary.

In the event the bill is passed with the provisions that I have just been discussing still included in it I have no hesitation in predicting that its effectiveness as a measure of social welfare will be reduced by at least 75 percent. Moreover, when it becomes a law it will be a sign to all men, as plain as a newspaper headline, that “big business” has captured the strategic points of the unemployment-insurance system and that it will be conducted as an adjunct or subsidiary of the large corporations instead of fulfilling its proper function as a broad measure of social welfare in which all workers may be included on terms of equality.

Going further, there is another feature of the bill that I look upon as a serious defect. It is provided that contributions amounting to 3 percent of the pay roll shall be paid by employers. Nothing is said in the text about contributions from insured workers, though by implication it is assumed that any State may enact a law which will require such contributions. In the general hodge-podge of varying State laws which will result from this bill, if passed in its present form, there is every possibility that some States will require worker contributions, and there is an equal probability that other States will not require them. I am strongly in favor of uniformity in this matter. The insured worker should contribute something to the insurance system from which he will benefit. The so-called “gift system”, under which the worker pays nothing, but receives all the benefits, has never

worked anywhere, and it is not in use in England or in any other European country, so far as I know.

The gift system will lead to fraud, which should not be surprising when one considers that those insured under it will have none of their own funds in it. As a universal grab bag it will furnish a distressing spectacle for a few years and a fertile field for congressional investigations. After that is over it will probably be thrown on the junk pile and some other system more closely in accord with practical sense will be adopted.

Senator KING. I assume that your investigations showed that nearly all countries where they have successful unemployment insurance laws, if there is any country that does have it, the employee makes contribution?

Mr. ELBERT. Every country, and Sweden has gone so far as not to allow anybody to contribute except the employee. It is human nature that when an employer figures that he can get more out of his product because they have placed a tax on his pay roll, the industry will immediately take that money and turn it right around as though it were a sales tax and absorb it in its overhead, whereas if you make it smaller for them, they are apt to absorb the cost instead of putting it on the article. The higher we get our costs of production, the worse off we are as far as competition and reduced buying are concerned. If we could get Ford cars on an average from the \$600 they are now down to \$300, there would be many times more of them sold and many times as many more people employed. Whereas if you tax Ford, we will say, or any concern—I am merely using that as a name—and get the price up to \$1,000, where they had been absorbing these things, there would probably be one-third of them used. It just works that way economically. What we want to do and what I am interested in is trying to get more people employed. That is all I am interested in.

The unemployment insurance system should be a mutual concern, the worker contributing half and the employer half of its funds. The worker ought to be willing to do this as a matter of personal self-respect. It will give him a stake in the system; he will be part owner of all its funds, and he will endeavor to protect them against unjust claims. Labor should be adequately represented on all insurance administrative boards from the highest to the lowest.

In my book I suggested that the worker and his employer each contribute 2 percent, or 4 percent in all. Two percent of the worker's wage is equivalent to 1 week's earnings in the course of a year, and the employer's contribution of 2 percent would mean only 1 week's addition to his pay roll.

Surely any concern can afford to set aside a week's pay roll, and any employee ought to be willing, I should say, to protect himself in time of adversity, to set aside 1 week's pay out of a year.

Senator COUZENS. What have you to say with respect to the ability of the employer passing it on to consumption while the employee is unable to do that?

Mr. ELBERT. That is a danger, Senator, that will be done by business if it gets too high. That is why I would like to keep it down low.

Senator COUZENS. Whether it is high or whether it is low, the employer can pass it on in his costs.

Mr. ELBERT. A great many will do that.

Senator COUZENS. But the employee cannot.

Mr. ELBERT. No, sir; the employee cannot. It is unfair, but I do not know any way that the employee can pass it on.

Senator COUZENS. Is not that an obstacle to your conclusion?

Mr. ELBERT. Well, it is a fact, and it is a situation. I do not see that it improves matters not to allow the employee to contribute at all, because then he wont feel that he has any interest in it, and everywhere it has been tried it has failed.

Senator KING. And you think the advantages to be derived over-balance the disadvantages?

Mr. ELBERT. I think it is so much better for the employee's sake because if he is contributing money himself he will be alert to see that no one takes any part of it wrongfully. Another thing, the 2 percent from the employer amounts to a 2-percent raise to him really; it is really an increase in his pay. Suppose he does put it on and he has to absorb it, he has got it, isn't that so?

Senator KING. If he does what?

Mr. ELBERT. Suppose the employer does add that to the cost of production, he is giving it to the fund for the benefit of the employee, and theoretically sometime that employee will get out of a job and use it. That 2 percent is tantamount really to an increase or a spread in the wages for the benefit of the employee.

Senator KING. Yes; but it is not costing the employer anything, because he is taking it out of his buyers.

Mr. ELBERT. Yes, sir; it does cost him something.

Senator KING. How?

Mr. ELBERT. Through the cost of his material and all that. People that are in competition—every industrialist wants to fight to keep his costs down, and he will be forced to absorb a great deal of that.

Senator KING. You have spoken of competition. Is there any competition under N. R. A.?

Mr. ELBERT. Yes, sir; I think so.

Senator KING. You think there is?

Mr. ELBERT. Yes, sir.

Senator BLACK. In your book, although you do advocate employee contribution, you call attention to the number of millions of American workmen who make so little now that you would simply be taking away a part of an income which is altogether inadequate to support them. I think you have a chapter devoted to the maldistribution of income?

Mr. ELBERT. Yes, sir.

Senator BLACK. Calling attention to the number of millions who do not make enough to contribute anything, and that you would simply be shifting that purchasing power to somebody else.

Mr. ELBERT. No; not necessarily. I think, Senator, unemployment insurance really amounts to a spread in wages; that is about all. It amounts to a reserve fund and a spread in wages.

Senator BLACK. You do have the figures in your book, do you not, of the millions who are receiving inadequate incomes now "to live? You call attention to that as I recall, very forcibly.

Mr. ELBERT. Yes.

Senator BLACK. And insofar as that group is concerned, it would still more greatly reduce the inadequate income which they now have.

Mr. ELBERT. It reduces it to the amount of 1 week's pay in 1 year.

Senator BLACK. And to those who are drawing under \$500 a year, that is a tremendous sum, isn't it?

Mr. ELBERT. Yes, sir; I would say so.

Senator CONNALLY. But that is the very class that would benefit mostly? The class that Senator Black mentioned?

Mr. ELBERT. Yes, sir; that is the very class, but the insurance system can do nothing about it. In many industries wages should be higher; in some they are too high. There should be a remedy for that, and I believe there is, but it has nothing to do with unemployment insurance any more than it has to do with life insurance.

Senator CONNALLY. The casual workers and the lowest-paid workers would get the most benefit out of this law?

Mr. ELBERT. Yes.

Senator CONNALLY. And it will be an incentive for them to keep the system working properly, to keep the chiselers from attempting to get something that they were not entitled to?

Mr. ELBERT. Yes, sir; you are quite right.

Senator COUZENS. What would you say to an excess-profits tax as a fund to take care of this job?

Mr. ELBERT. I do not think that would work out, personally.

Senator COUZENS. You do not think it would?

Mr. ELBERT. It would complicate things. We have got a similar tax to that. We have State franchise tax, a Federal corporation tax, capital-stock tax, and Federal income tax on undistributed income, excess-profits tax--

Senator BLACK (interposing). We have no excess-profits tax. We had it during the war and shortly thereafter, but not now.

Senator KING. You have a corporate tax, and we have increased the taxes upon corporations.

Senator CONNALLY. There is a dividend tax.

Senator KING. Then we have an income tax.

Mr. ELBERT. I got my figures from a chartered accountant on the taxes of a firm, and I would like to look that up. That is from the taxes of some 200,000 manufacturers, which they have to pay, and there is excess-profits tax there, according to what they tell me.

Senator COUZENS. I think you will have to check that up. Since we have the capital stock tax, I think the enforcement of an excess-profits tax would not be difficult.

Mr. ELBERT. Senator, I feel that contributions from employer and employee is the soundest way to work it, because that is based on the soundest practical experience of other nations. England has had about 25 years of experience, and I think of all of the other systems, it would come nearest to fitting in, because we are all Anglo-Saxon and it works better than anything I have ever seen.

Senator BLACK. The State contributions; if levied, would come from high incomes and from profits largely, would they not?

Mr. ELBERT. In England the employee pays one-third, the State pays one-third, and the employer one-third.

Senator BLACK. So that if we follow the English system, we would have to have a contribution out of the United States Treasury?

Mr. ELBERT. I will come to that.

Senator KING. You do not forget the fact when you speak of the employers that more than half of the employers of the United States pay no taxes at all, because they are in the red.

Mr. ELBERT. That is true.

Senator KING. And a good many of them have been wiped out.

Mr. ELBERT. And I think, Senator, if you owned 100 shares of stock of every corporation in the United States, your income would be about one-half of 1 percent, if that.

Senator BLACK. A great many of those that show up to be in the red have been demonstrated by investigations to be in the red because of the payment of excess bonuses and excessive salaries, watered stock, and draining the companies through subsidiaries and associates and affiliates.

Mr. ELBERT. I agree with you absolutely. I think it is a bad practice and ought to be stopped.

Now, continuing, it seems to me that, anyone on a wage or a salary, and subject to the disastrous consequences of unemployment, ought to be willing and eager to contribute 2 percent of his earnings to insure his own welfare, particularly in view of the fact that his employer is contributing an equivalent amount.

Under the Elbert plan, the compensation, or benefits, in case of unemployment are considerably larger than the benefits proposed by the President's Committee on Economic Security. For example, under the plan that I worked out, with a rigid regard for actual conditions, so far as they could be ascertained, the combined d-percent contribution would pay benefits for 26 weeks, in amounts ranging from 35 to 55 percent, of the jobless worker's former wages. The variation in benefit percentages depends on whether the beneficiary does or does not have dependents. I am convinced that a J-percent contribution would take care of all unemployment in normal times and in minor depressions.

I do not believe the proposed 3-percent contribution is adequate, in any event, and from the text of the bill it is to be further reduced in effectiveness by a deduction of 10 percent of the amount to cover the cost of administration. The cost of administration should be on the Government—that would be the Government's sole contribution to the insurance system.

I am of the opinion that it would help greatly in getting the system started off on the right foot if this present measure were amended so as to include a model bill—a standardized act—which the States would be required to pass before being entitled to a share in the excise-tax fund. In suggesting this I am assuming that a national law is not possible, and that we must have 48 State laws and State administrations, whether we like it or not, assuming also that such a model bill can be incorporated constitutionally in a taxation measure.

In the model State bill I would include a provision that the States require insured workers to contribute 2 percent of their wages and salaries, and in the present Federal bill which is now being considered the employer's excise tax would be correspondingly reduced to 2 percent. The result of this would be to make the body of insured workers owners of the system to the extent of 50 percent.

The proposed method of collecting the employer's excise tax is open to objections. The bill provides a plan of collection identical with the prevailing method of income-tax collection. It would be much more efficient, and much less clumsy, to settle this tax weekly—OF monthly, if wages are on a monthly basis—by using stamp books. Under this method every insured worker is provided with a small book

which he carries in his pocket. It contains his name, address, occupation, name of employer, and amount of wages or salary. There are blank spaces, numbered and dated by weeks. On pay day the worker presents his book to the paymaster, and the paymaster pastes in a stamp representing the correct percentage of the man's wages. These stamps, used for this purpose only, would be on sale at every post office. The insured worker carries with him the evidence of his insurance protection; the stamp book is the equivalent of an insurance policy.

Under this plan the worker is not, tied down to any one job or place. On taking a new job he presents his book on pay day, and his new employer pastes in the stamps.

Suppose, under the method of annual collection, the employer fails in business—say in December. He goes bankrupt, he is unable to pay any taxes. What happens then to his insured employees? Are they insured or not? Evidently not, as nothing has been paid in on their behalf for a year, and their employer has gone broke. It would appear that their policies had lapsed.

And take the case of a contractor who is digging a sewer. He employs 25 men—all casual laborers. The work on the sewer is done in 3 months; the gang is discharged, and the men scatter. What evidence have they that they are insured at all? To say nothing of the infinite number of disputes and errors that will arise when that contractor makes out his pay-roll tax return. Under the stamp-book method these difficulties would not appear.

Public employment offices are an absolutely necessary feature of any workable plan for unemployment insurance. They are so important, indeed, that I would put them at the head of the list of all the administrative paraphernalia of the system. You cannot get along without them. They keep track of insured workers; they pay out benefits to the unemployed; they look out for new jobs for those who need them; and, being on the spot, they will be efficient agencies for detecting frauds.

In my book on unemployment insurance I suggested that agricultural laborers, and domestic servants and Government employees be left out of the system for the time being—at the beginning, at any rate—and that the insurance coverage be limited to establishments employing three or more people. The proposed bill puts the limit at establishments employing four or more people.

The insurance should cover everyone engaged in manufacturing, mining, mercantile, and office work, transportation, communications, and so on, regardless of the number of employees. Otherwise, it amounts to discrimination against the employee of small concerns.

Senator WALSH. Would you include barbers, for instance?

Mr. ELBERT. Yes, sir.

Senator WALSH. And people working in small laundries?

Mr. ELBERT. Yes, sir.

Senator WALSH. Bakers?

Mr. ELBERT. Anybody that employs one person or more, excepting domestic servants and farmers. Except Government employees and State employees; I would like to see them excluded.

Senator CONNALLY. I thought you proposed three, and now you say one.

Mr. **ELBERT**. I have changed my mind since I made my study in England, and also there was much consideration and study given to it by a great number of people very familiar with the subject, and they say it is a mistake because they are discriminating against the little fellow. Sir William Beveridge brought that out. In the English system, if you hire anyone who is not a domestic servant, you pay the tax, and he has the record in the stamp book.

Senator **WALSH**. Are not domestic servants included in the German plan?

Mr. **ELBERT**. I think they are, but there are very few domestic servants in Germany. They are included; I am reasonably sure they are.

Senator **BLACK**. With reference to your correspondence in England, I read somewhere that there is an amendment offered at the present time or in process of preparation to include agricultural workers and domestic employees?

Mr. **ELBERT**. Yes, sir; I had a long talk with Sir William Beveridge about it. I think he is the greatest living expert in the world on it. He is a director of the School of Economics of London. He invited me to lunch with him, and we spent a whole afternoon talking about it. He said:

If I could only devise some way that could work out practically; I am working on that, to try to include agricultural workers.

Senator **BLACK**. Hasn't there been a report made by a commission on that subject?

Mr. **ELBERT**. I do not think that report has come out yet. I have not seen it, and he usually sends me data of that nature.

Senator **KING**. In a small compact country, with the population congested such as it is in Great Britain, there would be fewer difficulties administratively than you would encounter in a country so broad as ours?

Mr. **ELBERT**. That is true. If farm hands and domestic servants are included it will lead to a terrific question of administration; it will ruin you. I think farm hands and domestic servants should be left out for the present; and, of course, all Government employees.

In the discussions that I have had with business men and industrialists on the subject of unemployment insurance, one question always comes up, and that is, What will you do with this very large reserve?

Gentlemen, may I say here that when I talk to the Englishmen they all say, "You are not going to have big reserves in this thing." But I do not agree with them. I believe that the combined reserves will eventually amount to a billion dollars or more. The British think we will never reach that amount because they say it will always be squandered by legislation giving increased benefits.

If you use the money to buy bonds or other securities it will cause their prices to rise above their natural market value; and when the time comes to sell them they will be thrown on the market in a time of depression, and accelerate the downward course of prices. If the money is merely deposited in banks it will serve to increase credit expansion in boom times when expansion is not needed, and it will be drawn out in times of depression when its withdrawal will be a further depressing influence on the banks.

That is a question of grave import, and it needs a well-considered answer. My answer is that the reserve funds should be sterilized in some manner, and I suggest this plan. They should be deposited with the Federal Reserve banks, in the various districts; and it should be written in the law that the Treasury Department would be ordered to use these funds for the reduction of any outstanding debts, paying to the fund interest on the basis of that then being paid on such outstanding indebtedness.

For example, if the Government was paying 4 percent on long-term money and, let us say, 2 percent on short-term money, the fund should be credited with 3 percent, or the average between long-term and short-term money. I cannot imagine any valid reason why the bill provides that the Treasury shall pay interest on unemployment funds at a rate equal to the average rate of Government obligations, less one-eighth of 1 percent. Why the deduction of one-eighth of 1 percent? Why should not the Treasury pay as much on an average—for the use of these funds as it does for any other funds?

Let us assume that the unemployment reserve fund has accumulated \$1,000,000,000, and that the Government's outstanding debt is \$30,000,000,000. I do not see how the Government debt could be considered as reduced if it uses this billion dollars; it would simply be transferring the ownership of its outstanding securities. Obviously, the position of the Government so far as its outstanding indebtedness was concerned would be unchanged.

It would simply insure the safety of these funds at a fair rate of interest consistent with such safety.

This method would also act as a tremendous stabilizing influence and automatically force the central banks to restrict credit in times of booms and expand credit in times of depression.

Senator KING. I do not think we need to worry much about the benefits or evils resulting from large reserves, because we will have none.

Mr. ELBERT. I am hoping that we will if the system is administered properly.

As I was saying, it would expand credit in times of depression and would thereby—to all intents and purposes—be the same as open-market operations. During boom times this method would have a tendency to draw down the reserves of the member banks, inasmuch as the fund would gradually increase, because of more employment, thereby forcing the member banks to call loans and to be more strict in loaning on collateral, and so forth. During times of depression it would force the Federal Reserve banks to convert these bonds into cash, which would be paid out, thereby expanding the credit structure—building up the reserves of the member banks so they could expand credit about nine times.

The “tax remission” device proposed in this bill is open to some valid objections, but I shall not go into them here. I merely want to go on record with the statement that the “Federal subsidy plan” is, in my opinion, the best way to get the excise money back to the States.

Before concluding I would like to make a final suggestion. It seems to me highly inefficient, and inadvisable to have the responsibility for this proposed social-security program scattered about among various departments of the Government.

Would it not be the wiser course to create a new department, to be called the "Department of Social Welfare"? This department would include the unemployment-insurance system, the old-age-annuity system, the Public Works Administration, public relief of all kinds, the civil conservation camps, the health service proposed in this bill, and all other forms of social welfare. The head of the department should be a Cabinet officer.

No man can read the future with complete certainty, but I am willing to predict that we shall have the unemployed with us for a long time, and that many so-called "emergency resources" are destined to become permanent fixtures of the Federal administration. We get nowhere by deceiving ourselves. That is why I suggest that we abandon the haphazard method of trying to handle these problems through indiscriminate bureaus.

The whole set-up is in urgent need of coordination and centralization. Obviously, that can be best accomplished by a Department of Social Welfare. Even if the purely emergency measures are found to be unnecessary, in a year or two we would still have in this proposed Department the old-age annuities, the unemployment-insurance system, the health service, and a number of other activities.

One of the important functions of the Department would be to plan public works, housing programs, and so on, for years ahead. Then, in case the index figure of unemployment reaches a certain predetermined high mark, the public-works program could be put into execution without delay, and almost automatically. The undoubted result would be a powerful check on a depression at its inception.

Senator CONNALLY. Let me ask you this: You advocate a Cabinet officer?

Mr. ELBERT. Yes, sir.

Senator CONNALLY. Wouldn't you, then, immediately get it into politics?

Mr. ELBERT. No, sir; no more than any other department. Is there politics in the Navy Department?

Senator CONNALLY. Well, the Navy Department has not got the far-flung organization that this would have.

Mr. ELBERT. Senator, can you get it in any worse politics than it is in now?

Senator CONNALLY. Let me make this suggestion: You want this system absolutely divorced from politics. You pointed out the danger of its becoming a political machine.

Mr. ELBERT. Yes, sir.

Senator CONNALLY. Why wouldn't it be better, instead of having a Cabinet officer, to have some permanent board of overlapping terms? There is nobody as political as a Cabinet officer, because most of them are running for President, and if you establish a Cabinet officer and put him in charge of this, you would certainly open it up to a tremendous political machine, it seems to me.

Mr. ELBERT. Well, it is our form of government.

Senator CONNALLY. It is our form of government to control and manage those agencies and put those agencies where we think they ought to be. We do not have to put them in a Cabinet office. We have not got one for it.

Mr. ELBERT. No, sir; but I think it would be much more efficient and better run and have one source.

Senator CONNALLY. I grant you that. Have a department.

Senator KING. Have a bureau.

Senator CONNALLY. I would rather trust some of these bureaus that stay in all the time than some of these Cabinet fellows.

Mr. ELBERT (interposing). I have suggested boards to manage each function of this, and I have a chart that I would like to submit a little later and showing a board controlling each of these operations and under the direction and head of a Cabinet officer.

Senator CONNALLY. I do not think there is any sanctity about a Cabinet officer. Every time we have a new movement, they demand a Cabinet officer, and it immediately becomes a mere political engine.

Senator WALSH. You stated that it would probably be many years before we could suspend appropriations for public works and relief. Would you be willing to indicate how many years?

Mr. ELBERT. Senator, I could not do that unless I figure out what you gentlemen are going to do and what the President is going to do, and I could make a guess then, perhaps a good guess.

Senator WALSH. Do you think it is necessary for us to continue the present program of excessively large appropriations?

Senator KING. \$4,800,000,000.

Senator CONNALLY. I do not think it is fair to the witness to interrogate him on that.

Mr. ELBERT. Gentlemen, I would like to continue on this.

Senator WALSH. The witness shows some financial knowledge, and I thought I might like to have him hazard an opinion as to when we would be through with that.

Mr. ELBERT. May I say that the idea of a department of social welfare is not merely an off-hand suggestion on my part. I have devoted much time and study to this matter during the past 12 months, and all that I have learned through my investigations lead me to the conviction that a social welfare department ought to be created, and that it should take equal rank with other departments of the Government and that its responsible head should be an officer of the Cabinet.

It would be the most effective remedy for the endless and mystifying confusions that now seem to emanate from the various scattered bureaus. It would lead to a coordination in policy and to efficiency in administration, as well as a reduction of expenses.

Before closing, Mr. Chairman, I would like to respectfully make one more suggestion to the committee and that is that the Federal Emergency Relief Administration should be revised and converted into a permanent National Public Relief Administration of five members, all appointed by the President, with the approval of the Senate.

Senator CONNALLY. Why not a Cabinet officer?

Mr. ELBERT. It would come under the Cabinet officer under my suggested plan.

Two industrialists, two labor men, with a chairman. The purpose of the permanent relief administration is to superintend Federal relief measures. It ought to be entirely separate from the unemployment-insurance system, yet should be under the general direction of the Secretary of Social Welfare.

The purpose of unemployment insurance is to provide a friend for the jobless worker, through his own cooperation and that of his employer. As long as the insurance reserve fund lasts a jobless man who is insured and has not drawn all the weekly benefits coming to him is not destitute.

At the beginning of a major depression the insurance system will act as a dam against the rising tide of distress, but it will not be strong enough to withstand the pressure as the list of the unemployed runs up to seven or eight millions.

What then?

The answer is that when the unemployment-insurance fund can no longer take care of its beneficiaries an organized system of public relief must provide for them. The human material with which public relief will have to deal consists of--

1. Insured workers who have been out of a job so long that they have received the full number of weekly benefits to which they are entitled.

2. Uninsured workers who are not covered by the insurance plan, and who have no resources of their own.

3. People of a higher social grade than manual workers who have lost their income and resources and are not able to get on their feet again.

4. The hopelessly incompetent and unfit who have never done much work, if any, and who are destined to be a permanent burden on society.

Public relief should not precede, but follow, unemployment insurance in carrying out its functions; but in the United States this natural course of things has been turned around, owing to the fact that we have never had any unemployment insurance worth mentioning, and public relief necessarily has to be considered first.

In the course of my studies on this subject I prepared a chart which shows in rather brief form the activities of this proposed Department of Social Welfare in the sphere of unemployment insurance, old-age pensions, public works, public relief, and vocational training schools for the unemployed. I am handing a copy of this chart to the committee to be included as a part of my statement.

Senator LONERGAN. I would like to ask the witness a question. Have you recommended the maximum period within a calendar year for the payments, and then the minimum amount to be paid?

Mr. ELBERT. Maximum amounts of payments?

Senator LONERGAN. No; the maximum period for payment within a calendar year and the minimum amount; to be paid each week?

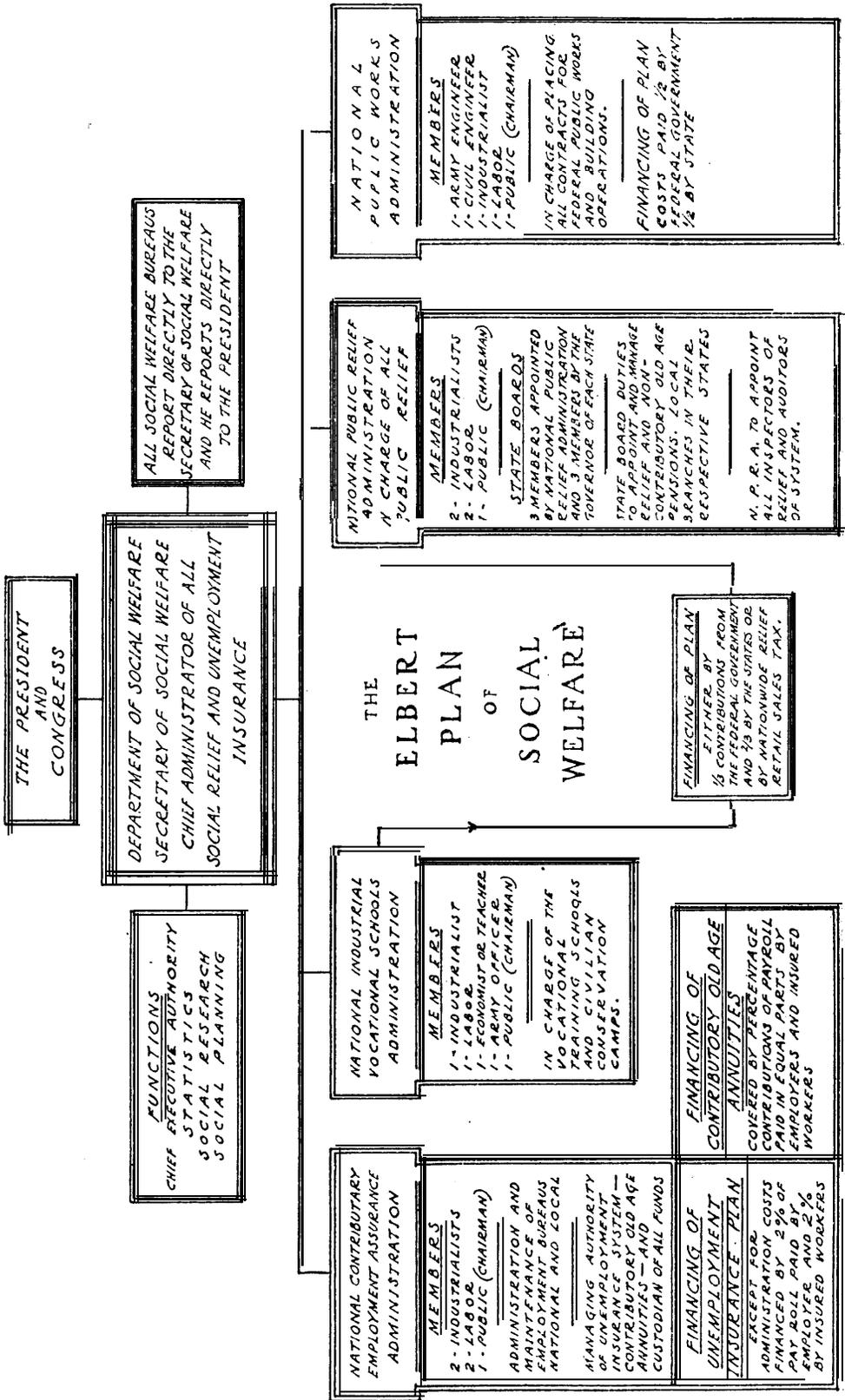
Mr. ELBERT. Yes, sir.

Senator LONERGAN. What is your recommendation on that?

Mr. ELBERT. My recommendation is 26 weeks by the contribution of 2 percent by the employee and 2 percent by the employer. That makes a contribution by each side of 1 week's wages each year. That figured out, taking Government figures for the estimates, I should say it should allow for 26 weeks of benefits to the unemployed.

Senator LONERGAN. And a minimum amount of how much?

Mr. ELBERT. At 35 percent of his income if he is single and up to 55 percent, depending upon the dependents that he has. It is more generous than the plan you gentlemen propose now with 3 percent.



Senator LONERGAN. That is 35 percent) of his weekly average earnings.

Mr. ELBERT. Yes, sir; based on that. If in the South it is \$15 a week, and the same amount of labor anywhere else is \$40 a week, it does not matter where you go, you have a stamp book and you are paying on a percentage basis. It is much better, and the book is there as the evidence. Take it for instance as in England—a man that is getting 2 pounds a week as wages and another one getting 5 pounds—they both get the same amount. The insurance benefits do not mean much to the man that gets 5 pounds, it does not mean as much on a percentage basis as it does to the man that gets 2 pounds, so it encourages loafing. He would rather not work. I am opposed to this English plan of paying a flat rate; the benefits ought to vary according to contributions. Is that what you want to know?

Senator LONERGAN. Yes.

Senator BLACK. All of the ideas which you have expressed here are contained in a little book which you have written?

Mr. ELBERT. Yes, sir; except that I have modified them somewhat.

Senator BLACK. Have you put the name of the book in the record?

Mr. ELBERT. Yes, sir; and I would be delighted to send a copy of it to each member of the committee.

Senator CONNALLY. I hope that you will send us your book.

The following report was submitted by Mr. Elbert:

REPORT OF UNEMPLOYMENT INSURANCE COMMITTEE TO THE
INDUSTRIAL ADVISORY BOARD

WASHINGTON, D. C., June 18, 1934.

MR. GEORGE H. MEAD,
Chairman Industrial Advisory Board,
Washington, D. C.

DEAR MR. MEAD: Complying with the request of the Industrial Advisory Board that we act as a committee to make a study of unemployment insurance systems, and submit a plan for consideration of the Board, we respectfully submit the following data.

The report has been somewhat delayed on account of the magnitude and complexity of the subject. In organizing our work we came to the conclusion that the proper method of procedure was to begin at the bottom, without any preconceived convictions, and develop the subject by testing—as far as possible—every element about which there could be the least doubt.

The idea is a new one in America, so we had to proceed without having any tangible body of past American experience to guide us. There has been much difficulty in getting even the census figures properly correlated, as the census has been compiled without any thought of unemployment insurance. But we have been helped greatly by surveys made during the present depression by independent organizations.

We are particularly indebted to Mr. Warren Jay Vinton, director of research of the American Association for Social Security. He has given much time to the committee and has furnished us with a mass of pertinent facts and figures.

In the course of our investigation we have consulted most of the leading American authorities on the subject, all of whom have willingly been of service. Among them are Dr. Alvin H. Hansen, professor of economics at the University of Minnesota; Dr. Eveline Burns, of Columbia University; Mr. Abraham Epstein, of the American Association for Old Age Security; and Dr. I. M. Rubinow, the actuary of the Ohio Unemployment Insurance Commission.

Your committee also wishes to express its appreciation of the cooperation of Mr. Albert L. Deane, vice president of the General Motors Acceptance Corporation.

Yours truly,

W. E. WOODWARD,
ROBERT G. ELBERT,
Committee.

PREFACE

Unemployment insurance-or compensation—is so flexible in its mechanism that it may take any one of several different forms. It may take the form of a company plan, each concern considered as a unit, both as to contributions and benefits. Or it may be self-insurance by the members of a trade union; or a State-wide plan, or a national plan under Government supervision.

One of the duties of the committee has been to examine every plan that is sponsored by well-informed people with the object of determining a set of principles on which a scientific and socially useful scheme of unemployment insurance should be based.

We shall say here, in anticipation of what we shall say further on, that our studies of this subject have convinced us that—

1. In any well-conceived plan both the employer and the employee **should** contribute. The State-or the Nation-should not contribute.
2. It should be compulsory on all workers in insured industries up to a certain wage limit.
3. The benefits should be paid to the unemployed as a right and not as a charity.
4. Benefits to an unemployed worker should be paid only for a definitely fixed number of weeks.
5. Funds should be pooled, including all industries and all employers and workers in the same field.
6. There should be a labor bureau or exchange with numerous branch offices, throughout the country, for the purpose of finding jobs for the unemployed, and for administering the insurance system.

The Government should not be required to contribute for the reason that a large proportion of the people (farmers, for instance) will receive no benefit from the system. Furthermore, the people as a whole will necessarily pay a share of the cost through the slightly increased prices of commodities.

Our calculations have convinced us that 4 percent of the workers' wages will be sufficient to carry on a satisfactory plan; of this, 3 percent to be paid by the employer and 1 percent by the worker.

No plan will be satisfactory, in the end, unless its income is sufficiently large to take care not only of transient unemployment but to set up, also, a body of reserves which may be used in case of serious depressions.

PART I

We shall not take up the time of the Board in discussing the desirability of unemployment insurance of some kind or other. Our appointment as a committee to devise a sound plan presupposes an acceptance of the principles of unemployment compensation.

Unemployment insurance, under any plan whatever, is based on the idea that a reserve fund will be accumulated in normal times to meet the contingency of unemployment in eras of depression. It should also carry the insured over out-of-work periods in normal times. All insurance is necessarily limited in the extent of its compensation. If you die and leave an insurance policy for \$10,000 the insurance company will pay that amount and no more; you cannot expect the company to support your widow and family to the end of their days. The same thing is true of unemployment insurance. It is intended to carry the unemployed worker for a certain length of time, and no longer.

The term "insurance" as applied to unemployment is misleading. There is really no such thing as unemployment insurance if we accept the word "insurance" according to its definition by insurance companies. Insurance can be applied only to future hazards which have an actuarial basis of probability so clearly defined that it is possible to predict their occurrence and extent with reasonable accuracy.

Frederick H. Ecker, president of the Metropolitan Life Insurance Co., says:

"In view of the many and changing causes of employment variation and the fact that such a large proportion of ordinary employment is the result of voluntary human actions, it appears that the application of insurance principles to the individual risk of unemployment is absolutely hopeless."

That is doubtless true; but the principle of "compensation" for unemployment, within certain limits of money and time, is practical and sound. We recommend that the word "insurance", as used in this connection, be dropped and "Unemployment compensation fund" be used instead.

WHAT ARE WE TRYING TO DO?

It is always well to have a definite objective; to know what we are trying to do before we start. Now, as we conceive it, the reserve fund should be accumulated with three objectives:

I. The primary object of unemployment insurance is to afford a guaranteed income to workers when they are unable to find jobs.

(a) In times of general prosperity there is always a certain amount of unemployment due to seasonal variations, technological changes in industry, etc. Unemployment insurance up to 26 weeks will cover practically all individual unemployment during general prosperity.

(b) In times of general depression workers will be guaranteed an income during the first 26 weeks of their unemployment after a waiting period of 4 weeks. Unemployment insurance will not, however, be able to care for the whole problem during a major depression. The proportion of the unemployed receiving benefits will decrease as the depression is prolonged. Those who have exhausted their right to benefit must be cared for by governmental relief in a major depression.

II. In connection with the administration of unemployment insurance a series of labor exchanges will have to be set up. These will, both in good times and bad, serve to bring workers into contact with jobs. They will do much to smooth out and regularize the supply of labor.

III. Unemployment insurance will have an important economic effect in stabilizing industry.

(a) The amounts paid out as benefits will sustain the purchasing power of workers who are without jobs and thus help prevent the disastrous curtailment of consumption which now marks both major and minor depressions.

(b) Under present conditions at the onset of a depression even the workers who have jobs curtail their expenditures for fear of becoming unemployed. If they are guaranteed an income of at least 26-weeks when unemployed, this hectic saving will be much reduced. This will further tend to stabilize consumption, especially at the onset of a depression, and keep it from developing as far as it otherwise would.

(c) Premiums are to be paid by industry and by the workers during good times and saved for consumption purposes in bad times. If investment is carefully made the effect of these funds will be to somewhat reduce consumption in good times and expand it in bad times and thus aid in smoothing out the business cycle.

(d) If a system of unemployment insurance is in effect production can be immediately curtailed at the beginning of a depression without too much hardship on the workers. At the beginning of the present depression President Hoover for humanitarian reasons urged industry to avoid laying off men. As a result overproduction was continued, and the conditions which led to the depression were not corrected quickly enough. Had unemployment insurance been in force, production could at once have been curtailed, while at the same time the unemployed workers would have received some income and have continued consuming more or less normally. The depression would have been of much shorter duration with a more rapid return to economic balance, provided the Federal Reserve banks had cooperated efficiently by open-market operations and other means within their power.

PART II

THE PLAN WE PROPOSE

We have drafted this plan as a Federal measure, but we are aware of its possible unconstitutionality. In case it is considered unconstitutional we recommend that similar standards be required from the States to qualify under the Wagner-Lewis bill.

Compulsory and national.—The plan should apply to the whole country uniformly; and every employer and worker who falls within its provisions ought to be made to go into it.

Coverage includes.—All employees in industrial and manufacturing establishments that employ three or more people.

All transportation systems: Railroads, busses, street railways, steamship lines; and also all systems of communication, such as telegraph, telephone, and radio.

All workers in mines.

All workers in forestry (except those employed by the Government), such as timber-cutters, if three or more are hired by one employer. All workers in fisheries, etc.

All clerical labor in establishments where three or more persons are employed. All workers in stores, wholesale and retail, if three or more persons are employed.

Coverage *excludes*.—Farm laborers, domestic servants, but not servants in hotels and restaurants.

Professional people, such as physicians, lawyers, engineers. But it should not exclude their employees.

All employees of the Federal, State, county, and city governments, except in cases where the major portion of the income of the individual comes from an employer other than the government, in an establishment that employs three or more people. Casual workers for the government should not be excluded.

School teachers in public schools, but not those in private schools operated for profit.

The near relatives of the proprietor or manager in any business, such as sons and daughters, brothers, sisters, nephews, and nieces.

Contributions.—Four percent of the total pay roll (of those on the pay roll entitled to protection under this plan), of which 3 percent is to be paid by the employer and 1 percent by the worker. The contributions are to be sent to the treasurer of the unemployment compensation fund and pooled into one large reserve.

Eligibility.—Any insurable person who has worked 100 days in the past 52 weeks, or 160 days in the past 104 weeks, is qualified for benefits.

The weekly payment of benefits should be limited on the ratio of 1 week's benefit to 3 weeks of insured employment during the past 2 years; that is, 1 weekly benefit payment to every 3 weeks of work, but in no case should the weekly benefit payments exceed 26 in 1 year.

The idea here is to restrict the benefits that would be received by idlers who merely work enough to qualify for unemployment insurance. A man who has worked less than 100 days in the past year, or 160 days in the past 2 years, gets nothing.

The real worker, who works right along, can get 26 weekly payments when out of a job.

The time a man has worked in the past year (or 2 years) is not to be counted by weeks, but by days. The requisite 100 days of employment may run along 2 or 3 days a week instead of being 5 days a week for 20 weeks.

Waiting period.—An employee who loses his job must report within 3 days to the local Federal employment office. In the cities this will be a regularly equipped office with a manager whose whole time is given to the matter of looking for jobs for the unemployed. In smaller places some other arrangement will have to be made; the employment official might well be the postmaster.

The unemployed worker's name is registered and an effort is made to get him a job, and he is expected to look for one himself. He should report three times a week to the unemployment office.

He does not get any unemployment benefits until he has been out of work for 4 weeks. Prof. Paul H. Douglas, who has made extensive first-hand studies of unemployment, says that even in normal times 5 to 10 percent of the total number of wage earners are out of employment; but he says, more than half of them find jobs in less than 4 weeks. By making the waiting period 4, instead of 2 weeks, funds are conserved for the more serious cases of unemployment.

After a waiting period of 4 weeks an insured person goes on the benefit pay roll. He continues to report to the unemployment office three times a week.

The waiting period of those who are discharged for misconduct should be extended to 8 weeks. Then they should be on the same basis as others who are unemployed. An employee who quits his job voluntarily ought to be made to wait for 8 weeks also.

Amount of benefits.—The weekly benefit should be varied according to the number of dependents of the jobless worker. We propose this scale, tentatively:

	<i>Percent of weekly wage</i>
Adult, without dependents- _____	40
Adult, with 1 dependent _____	50
Adult, with 2 dependents _____	60
Adult, with 3 or more dependents _____	65
Young men and girls, under 21, who live with their parents, and whose parents are not dependent on them.....	30

The benefits paid to an adult (out of a job and qualifying) who has earned \$30 a week would vary from \$12 a week—if he is unmarried and without dependents—to \$21 a week if he has a wife (also unemployed) and two or more children.

A stenographer who has been employed at \$20 a week in an office and who lives with her parents (not dependent on her) would receive 30 percent of her former pay, or \$6 a week.

In calculating former wages on which to base the benefits the weekly salary or wages of the last 6 months should be averaged.

Most of the plans that we have studied have a top limit of salary or wages for insurable persons. It seems to us that anyone earning up to \$60 should be included; indeed, we think it would be better to take in anyone earning any amount as wages or salary, as long as they were taken in on a \$60-a-week basis. Why not include a man who gets \$100 a week, but let him make his contributions on a \$60-a-week basis, and receive benefits on the same scale when he is out of work? The inclusion of anyone earning more than \$60 a week would, of course, be voluntary.

No benefits should be paid until the plan has been in operation 1 year.

COMMENTS

Non-, the cruestion arises as to how much the 3-percent tax on the pay roll would increase the cost of goods to the consumer. It is extremely difficult, if not impossible, to say, on account of the lack of data. The raw materials used in some establishments go through three, or four, or even more processes in other establishments before they are assembled for final completion.

As a working basis we may take the relation of labor costs in manufacturing to value of product for the year 1929, as given out by the Census Bureau.

(The following figures cover "manufacturing" only, and are taken because the census gives the value of the product. The number of persons employed in manufacturing and mechanical industries is much larger, about 14,000,000.)

Wage earners in manufacturing establishments- - - - -	8, 838, 743
Wages paid during year- - - - -	\$11, 620, 973, 254
Cost of materials - - - - -	38, 549, 579, 732
Value of products - - - - -	70, 434, 863, 443

It appears that the relation of wage-cost to value of product over the whole field of manufacturing is 16.5 percent. The average yearly wage is \$1,314.80. (The average wage would undoubtedly be lower for 1933, and the proportionate labor cost, in relation to value of product, would be higher.)

Three percent of the total sum of wages is \$348,626,196. Compare this with the value of the completed product, and we see that the relation of unemployment compensation cost, paid by the employer, is 0.48 percent (forty-eight hundredths of 1 percent).

That is not all, however. There are the materials and some of them were created, or handled, by insurable labor, and that charge must be added. We can only guess, but as a guess we may say that the increased cost of materials owing to unemployment contributions may be one-half as much, or 0.24 percent. These two charges together make 0.72 percent. Then comes the transportation of the finished product, and its sale. These operations may add another 0.24 percent. The total comes to 0.96 percent, which we think (as a guess) is somewhere close to being correct. By that we mean it would be correct for the whole assembly of industries-undoubtedly so, if the census figures are right-but there would be, nevertheless, great variations.

Some of the variations are shown in the following list:

Percentage cost of labor to value of product

Percent

Boots and shoes (not rubber) _____	22.0
Iron and steel products (not including machinery) _____	19.2
Printing, publishing, and allied industries- - - - -	19.8
Textiles- - - - -	18.8
Rubber products- - - - -	17.2
Motor vehicles- - - - -	9.9
Chemicals and allied products _____	9.3
Fertilizers _____	7.9
Cigars and cigarettes, - - - - -	7.8
Paints and varnishes - - - - -	7.4
Products of petroleum and coal _____	6.2
Sugar refining (cane sugar) - - - - -	3.5

There are individual variations that are remarkable. For instance, in 1929 the entire electrical industry produced goods valued at \$2,300,916,000 and paid \$456,000,000 in wages. The labor cost-in comparison to product value-was 19.8 percent.

That same year the General Electric Co.'s labor cost (including wages and salaries) amounted to 38.8 percent of the value of the company's product.

For the past 3 years the reports of the General Electric Co. give these figures:

	Net sales	Wages and salaries
1931.....	\$263, 275, 000	\$106, 656, 000
1932.....	147, 162, 000	61, 414, 000
1933.....	136, 637, 000	55, 287, 000
Total.....	547, 074, 000	223, 357, 000

It is not possible to differentiate between salaries and wages, as they are both considered as one item in the company's annual reports, but the total outlay for labor amounts to 41 percent, as compared with the value of the product. Even if we assume that one-fourth of the total expenditure should be put under the head of salaries the remainder, given to wages, is far in excess of the usual average percentage.

This example is brought in here for the purpose of showing the difficulty of ascertaining the cost of wages in proportion to product except by taking industry as a whole.

A tax of 3 percent for unemployment compensation would certainly make little difference to a sugar refiner, whose labor cost figures out only 3.5 percent of the value of his product; but it would be a matter of some importance to the General Electric Co. where the labor cost is as high as 30 percent or more.

NUMBER OF WORKERS UNDER THE PLAN

How many workers will be covered by insurance under this plan? Our estimate is that about 22,000,000 people are insurable, and of course all of them will be included under a compulsory scheme. The average wage seems, according to our data, to be about \$20 a week, or a total of \$440,000,000 weekly.

Let us assume, then, that 22,000,000 are insured under this plan, and that in normal times 6 percent of them, say 1,320,000, are unemployed.

Not more than 4 percent, or 880,000, of the unemployed will be entitled to benefits in normal times-owing to the 4 weeks' waiting period. Two percent of them, at least, will be provided with jobs before the 4 weeks have passed. The average benefit will probably be \$12 a week. It should be understood that all this is guesswork. It is as intelligent a guess as we are able to make, with the data at hand.

Weekly contribution from 22 millions at \$20 a week or 440 million dollars in all, at 4 percent _____ - _____ -- _____	\$17, 600, 000
Paid out to 880,000 unemployed weekly at \$12 a week- _____	10, 560, 000
Added to reserve---weekly _____	\$7, 040, 000
Annual addition to reserve _____	366, 080, 000

In five good years, while industry is moving upward, the reserve ought to accumulate about \$1,800,000,000.

A sensible plan should be devised to take care of this large money reserve. If deposited in banks it will lead to inflation. Investment in securities is not advisable, in our opinion, for the reason that an investment of this proportion will unduly raise their prices in normal times, when prices are going up, anyway; and in the downward turn of the industrial cycle the selling of these stocks and bonds (to provide funds for unemployment benefits) will have a depressing effect.

The fund might be deposited in the Federal Reserve under a special arrangement whereby it would be sterilized and not used for credit expansion.

Another way of managing the fund would be to invest it in a special issue of Federal Government bonds, paying (let us say) 2 percent. These bonds should be sold to the unemployed compensation fund, and be nontransferable; and the Treasury should redeem them on demand.

Employment offices

One of the vitally important factors in this proposed system is a nationally coordinated network of labor exchanges or employment offices. All the unemployed who are covered by insurance will be registered. The employment system will be in constant contact with the labor situation, with the flow of supply and demand. Needless to say, this would tend to reduce unemployment, and to shorten the period of being without work from months to weeks, and from weeks to days.

Mr. Ralph E. Flanders says, in an illuminating paper on unemployment, which he read at the Hot Springs meeting of the board: "To this institution (the employment office) must go every one who would draw on his unemployment reserve and every one who seeks subsistence employment. It should also serve as the logical (though not exclusive) recruiting station for labor required on great construction works, whether private or public.

"Such a system would give us definite information at any given moment as to the amount, location, kind, and duration of unemployment. For no one should be deemed as unemployed who does not register. Registration will be inevitable on the part of the honest and needy worker, for due and respectable relief comes to him through that act. Nonworkers who will not apply are pathological or criminal rather than economic problems. They will by this means be readily recognized and should not be numbered among the respectable unemployed. This system will give us, for the first time, a definite knowledge of the size and character of our problem and we can attack its solution by logical process. Our ignorance hitherto has been fundamental. There are no reliable unemployment statistics in this country. There is no substitute for the practice of gathering them at the point where relief is offered."

FEDERAL LAW

It seems to us that it would be much better for any plan of unemployment insurance to be Federal rather than State.

But in case the Constitution makes it impossible to have a Federal law we think the present plan might be made an amendment to the Wagner-Lewis bill. The bill, as it now reads, provides certain conditions with which a State must comply in order to have its excise tax refunded. The conditions are that the State sets up employment insurance and the Wagner-Lewis bill insists that certain features be adopted in the insurance scheme.

The entire plan which we have outlined here might be included in the bill as an amendment, as a condition with which the States must comply to get their money back.

In that case the excise tax of 5 percent (according to the Wagner-Lewis bill) would be brought down to 3 percent, and an amendment to that effect would be necessary.

THE BRITISH SYSTEM

Unemployment insurance on a large scale began in Great Britain. The British unemployment insurance system is credited by English economists with being one of the most potent factors in keeping up the buying power of the Nation during the years of depression. The Royal Commission on Unemployment Insurance, after an exhaustive study in 1932, said in this connection:

"Since 1929 * * * unemployment in this country, although worse, has not increased to the extent and in the degree that it has in the United States and other countries. This difference may in part be due to the maintenance of working class spending by unemployment relief, when spending generally was contracting and investment in new enterprises drying up. * * * One of the advantages of self-supporting insurance scheme is that if properly controlled it accumulates reserves when spending is active and employment is good, to disburse them automatically at the time when trade is depressed and spending needs to be stimulated in order to give employment." (Final Report, p. 103.)

Unemployment insurance in Great Britain was started in July 1912, and applied to a limited number of industries. In 1920 it was extended to practically its present coverage. In the beginning the system more than paid its way, and at the commencement of 1921 had a reserve of over £22,000,000. In 1921, due to the extensive unemployment, it was decided to pay not only the regular benefits but also so-called extended benefits to workers who had exhausted their right to benefit. These extended benefits should never have been paid out of the insurance scheme, for the premiums had not been arranged to provide for them. As a

result of this mistaken policy the British system ran a large deficit for a number of years.

In 1931 it was finally decided to treat extended benefits as relief rather than insurance. They are still administered by the unemployment insurance offices, but are paid only to those in need, and their entire cost is borne by the exchequer. As a result, the British system is now self-sustaining despite the extended unemployment in that country. The results of the system in 1933 and for the first four months of 1934 are as follows:

	1933	1934, Jan. 1- Apr. 28
Receipts for premiums.....	£58,835,000	£19,596,000
Disbursements:		
Benefit payments.....	43,335,000	12,592,000
Administrative cost.....	3,797,000	1,263,000
Interest on old deficit.....	5,338,000	1,643,000
Miscellaneous.....	240,000	97,000
Total disbursements from insurance fund.....	52,710,000	15,595,000
Extended benefit, paid by the Exchequer.....	54,310,000	16,310,000

Note that the British system is paying interest on the advances made by the Exchequer, and expects to liquidate this debt.

The British system is compulsory and covers all manual workers and all non-manual workers receiving less than £250 per year. The following occupations are excluded: Agricultural workers, domestic servants, permanent employees on the railways and public utilities, certain classes of government employees, and persons employed by their husbands or wives.

Equal premiums are paid by the employer, by the worker and by the government. The weekly rates prevailing today in American money (at present exchange, £1 = \$5.04) are as follows:

	Men	Women
	<i>Cents</i>	<i>Cents</i>
Employer.....	21	18.9
Worker.....	21	18.9
Government.....	21	18.9
Total.....	63	56.7

Lower rates are paid by boys and girls under 21 years of age.

Benefits are limited to 156 days. The following are the present weekly rates of benefit in American money:

	<i>Weekly rate</i>
Men 21 to 65 years.....	\$3.81
Women 21 to 65 years.....	3.40
Additional benefit for dependents—	
For an adult dependent.....	2.02
For a dependent child.....	.51

Lower benefits are paid to boys and girls under 21 years of age.

Workers are qualified for benefits when premiums in respect to them have been paid for not less than 30 weeks in the preceding 2 years. Benefits begin after a waiting period of 6 days. In the case of workers who have lost their employment through misconduct or voluntary quitting the waiting period is increased to 6 weeks. No benefits are paid for loss of employment during a trade dispute in the worker's own establishment.

THE GERMAN SYSTEM

The facts concerning the German system are not quite up to date, but we give what we have.

The German insurance system was started on October 1, 1927. It includes two kinds of benefits: (a) Regular benefits which are paid out of the premiums of the workers and their employers; and (b) emergency benefits which are paid by the Government, and which are for those who have exhausted their right to

regular benefit. In the first years of the system contributions were set at too low a rate and, as a result the system ran up a large deficit. At the present time, due to the increased rate of premium and to the fact that a very large percent of the unemployed have exhausted their right to regular benefits, the regular system is much more than self-sustaining. Its surplus is now being used to aid in the payment of emergency benefits.

The German system, like the English, is compulsory. Its coverage is now similar to that of the English system. Agricultural workers and domestics were formerly covered, but have recently been excluded. Manual workers earning over 3,600 marks per year and nonmanual workers earning over 8,400 marks per year are excluded.

Unlike the English system, both premiums and benefits vary with the worker's earnings. For this purpose all workers are divided into 11 wage groups, and for each group a basic wage is set.

Premiums are shared equally by the workers and employers, each paying $3\frac{1}{4}$ percent of the basic wage, making a total of $6\frac{1}{2}$ percent. No premiums are paid by the Government for regular insurance, its contribution being limited to the cost of emergency benefits.

Regular benefits are limited to 20 weeks. The benefits vary according to the wage class of the worker and are set at varying percents of the basic wage. The lowest-paid workers, those in class I, receive 75 percent of the basic wage, and the percentage decreases until in class XI the highest-paid workers receive 35 percent of the basic wage. There are additional allowances for dependents.

Workers are qualified for benefit after 52 weeks' employment in the previous 2 years. The waiting period is 14 days for workers with no dependents, 7 days for those with 1 to 3 dependents, and 3 days for those with 4 or more dependents.

Emergency benefits, financed by the Government are paid only to those in need. Their duration has been repeatedly changed and varies for different classes of persons.

Because of the great length and severity of the depression in Germany regular insurance benefits paid out of premiums have taken care of only a small fraction of the unemployed. The remainder have been forced to rely on emergency benefits paid by the Government and on poor relief paid by the local authorities.

PART III

THE WISCONSIN PLAN

Wisconsin is the only State in which an unemployment insurance law has been enacted. It will go into effect on July 1, 1934. Following is a skeleton outline of the Wisconsin plan:

Covers workers in establishments employing 10 or more persons, also all workers whose wage is not more than \$1,500 a year. All that is needed to qualify for benefit payments is that the worker has been employed for 2 weeks, but the benefit is limited to one weekly benefit for each 4 weeks of employment and not more than 10 weeks of benefit as a maximum.

Excludes domestic servants, public officers, farm laborers, interstate railroad employees, school teachers.

Fund is contributed by employers only. Workers pay nothing. Employers pay 2 percent of pay roll until a fund of \$55 a worker has been established; thereafter 1 percent until the fund (for that one corporation or concern) amounts to \$75 a worker. After that nobody contributes anything until and if the reserve falls below \$75 a worker.

Segregation of funds under the names of the contributors, though all the funds are administered by the State industrial commission. This means that a worker on the benefit register must depend on the fund contributed by his employer. Whenever that is exhausted he receives no more benefits.

Waiting period is 2 weeks. That is, a worker who is laid off gets no benefit for 2 weeks thereafter.

Benefits are \$10 a week or 50 percent of average weekly wage, whichever is lower. That is to say, if an employee has a \$29-a-week salary (the high limit under the plan), and is laid off, his weekly benefit will be \$10 instead of \$14.50. If the employer's fund is unable to meet these payments they may be reduced. 411 factory workers who have worked 2 weeks and all salaried employees who have worked 1 month are covered.

Maximum duration of benefits is 10 weeks in 1 year, but no benefit shall be paid out of an employer's fund if the worker has not been employed by him during the past 6 months.

Eligibility.—If a man quits his job voluntarily he is not entitled to the benefits. No payment when a man is discharged for misconduct or inefficiency nor when he refuses to accept "suitable employment" after losing his job; but it is provided that the beneficiary has a right to refuse a new job if the wages, hours, and conditions are not those prevailing in similar work in the locality.

Exemptions.—Companies which guarantee 42 weeks employment in a year to their workers are exempted from payments. Also concerns which have a plan of their own that is approved by the State industrial commission.

DR. HANSEN'S OPINION

Dr. Alvin H. Hansen, professor of economics in the University of Minnesota, has made a detailed study of the Wisconsin plan, and of the motives of its creators. He says:

"It was the primary purpose of the Wisconsin bill to serve as an incentive for stabilization of employment rather than to serve as a means of alleviating unemployment.

"It provides that when an employer has built up a reserve of \$55 per employee his contributions may be reduced to 1 percent, and may cease when the reserve reaches \$75 per employee. Having once built up this reserve, the cost to the employer would be in direct proportion to the stability of his employment.

"It was recognized that the small benefit of a maximum of \$10 a week for 10 weeks would go only a little way toward relieving the distress growing out of unemployment, but it was believed that the establishment of company reserves would be an effective means of causing the employer to stabilize employment.

COMMENTS ON THE WISCONSIN PLAN

We consider the segregation of reserves by companies, as embodied in the Wisconsin plan, a fundamental defect. We are opposed to any form of segregation of funds or of benefits, either by companies, industries, or associations.

Unemployment compensation is, primarily, a social service. It does not make a bit of difference, as far as the social order is concerned, who employed a man before he got out of a job.

We advocate the pooling of all unemployment funds—the benefits to be paid out of a common reserve.

As to the pooling of reserves' a study of the records of 14 Ohio concerns, from 1923 to 1931 was used in estimating the cost of an individual establishment unemployment plan. The estimated costs for the different companies varied from 0.3 to 3.4 percent of pay roll. Another estimate showed a variation in cost from 0.5 to 6.7 percent. If contributions of 3 percent had been required, 8 out of the 14 companies would have been unable to pay full benefits if they had held their funds in separate reserves. On the other hand, if the contributions had been pooled the average cost would have been only 2.5 percent. The required benefits could have been paid and the fund would have remained solvent.

It seems to us that some method might be devised for the grading of industrial concerns in respect to the permanency of employment in their plants. To grade them in classes, such as A, B, C, and D would be a simple matter of statistics. One company employing 1,000 workers at the beginning of last year, let us say, laid off or discharged for one reason or another 100 workers in the course of the year. Its labor turn-over (or its loss of employing power) was 10 percent. Another company, in the same line of industry, had 1,000 employees and laid off or discharged 500 of them, or 50 percent.

It may be possible to grade them in this way and set up a varying scale of payments into the fund, starting off with 1 percent or some other small percentage for class A, and up as high as 4 percent for class D.

The Ohio Commission on Unemployment recommended the creation of a State pooled insurance fund. However, because of the variations in the rate of unemployment in different establishments, it provided that after a plan had been in operation for 3 years, the contributions should be varied for each employer within the limits of 1 percent and 3.5 percent of pay roll.

The Wisconsin law declares that no benefits shall be paid to a worker who is discharged "for misconduct." We do not approve of this provision because it will certainly lead to grave abuses.

Misconduct is a vague term; a charge of misconduct can be brought up against almost anybody. This provision will certainly be held as a whip over workers that the employer does not like. In many cases labor union officials will be dismissed for "misconduct" without hope of unemployment compensation.

It would be better, in our judgment, merely to increase the waiting period, in case of discharge for misconduct from 2 weeks to 4 or 5 weeks. In England it is raised from 1 week to 6 weeks when a worker is discharged for misconduct. That ought to be sufficient penalty.

THE WAGNER-LEWIS BILL

This measure is now before Congress. All the members of the Board are no doubt familiar with its provisions, so we shall set down here only the barest outline as a matter of record.

It is proposed to levy a Federal excise tax of 5 percent on employers' pay rolls throughout the United States on employers who have 10 persons or more in their employ. In paying the tax the employer may omit the wages of:

1. Agricultural laborers.
2. Domestic servants.
3. Teachers in schools, colleges, and universities.
4. Physicians, surgeons, hospital attendants, etc.
5. Physically handicapped people employed by charitable institutions.
6. Wife, children, father and mother of the employer.
7. All employees of common carriers.
8. Any employee for whom unemployment compensation is provided directly by act of Congress.
9. All persons who earn \$250 or more a month.

The 5 percent excise tax when collected will go into the Federal Treasury. Employers in States with approved systems of unemployment insurance will be entitled to a rebate on the tax equal to their contributions to the State system.

Employers in Wisconsin for example, will pay 5 percent of their pay rolls to the Federal Government (if Senator Wagner's bill becomes a law), less the 2 percent they shall be assessed under the Wisconsin law; in short, they will pay 3 percent to the United States and 2 percent to Wisconsin.

The State to qualify must set up an unemployment insurance law, requiring contributions from employers. Every employer who pays a contribution under the State law is entitled to credit the amount of that contribution against the Federal excise tax levied under the Wagner Act.

The purpose of the bill is to encourage State action, and it will probably do it, as all States will naturally pass an unemployment insurance law merely to keep the money at home, if nothing else.

Note that the Wagner bill says nothing about contributions from the worker.

The bill sets forth some few specifications for an unemployment law to be passed by the States, and which will be acceptable, but we think the specifications are inadequate.

Eligibility.—It specifies that an applicant for benefits need not show a record of having worked for more than 10 weeks for his last employer in the past calendar year.

Benefits.—Seven dollars or more a week, as a minimum, or else the employee's average wages for 20 hours of a week. (This, in most cases, would mean half his weekly wage.) Benefits are to continue for 10 weeks, generally speaking. There is a complicated provision which permits employees of long service to receive 15 weekly benefits.

No employee receiving benefit payments shall be required to act as a strike-breaker; or to accept new employment if the wages, hours, and other conditions are less favorable than those prevailing for similar work in the locality; or if acceptance of such employment would either require him to join a company union or interfere with his "joining or retaining membership in any bona fide labor organization."

COMMENTS ON THE WAGNER-LEWIS BILL

We are opposed to the 5-percent tax; it is unnecessarily high. Our own calculations lead us to a conviction that 4 percent is quite enough, and of that the worker should pay 1 percent, leaving 3 percent to be paid by the employer.

This committee is not in favor of any plan to which the worker does not contribute something. All European systems require worker contributions. The employee ought to be sufficiently interested in his own welfare to contribute a part. Besides, his payments would increase his self-respect and dignity. He would realize that he had done his share instead of being a passive recipient of the benefits as a gift.

It is possible that some of the States—in case the Wagner-Lewis bill be, law-may put into effect an unemployment-insurance plan which will ^{cover} contributions from the worker; but even in that case, the employer would have to pay his 5 percent just the same. It seems to us that Senator Wagner's bill might be amended so as to require all State systems to provide for workers' contributions.

The American Federation of Labor is strongly opposed to any contribution from employees, and no doubt that influenced Senator Wagner in drawing his bill. In England the British Trade Union Council was also against the inclusion of workers' payments, but they consented to it eventually.

Respectfully submitted.

W. E. WOODWARD,
ROBERT G. ELBERT,
Committee.

PART IV

A number of industrial concerns have unemployment-insurance plans of their own. Some of the trade unions have also put in operation various schemes to relieve their unemployed members. These have worked out with varying degrees of success. Most of the trade-union plans have no fixed scale of contributions or of benefits. They assess their members from time to time for whatever is needed in the way of funds.

APPENDIX A. THE GENERAL ELECTRIC CO.

In 1930 the General Electric Co. devised a plan for employment assurance to apply to the plants or departments manufacturing incandescent lamps. It was not unemployment insurance at all, but a guaranty of employment. It began on January 1, 1931. Under the plan 50 weeks' work of not less than 30 hours each week was proposed for 1931. All employees with 2 or more years of service were eligible.

When an employee goes into this plan he agrees that the company withhold 1 percent of his weekly earnings; the amount withheld is credited to him, with 5-percent interest. If he leaves the employ of the company, principal and interest are given to him; if he dies, his heirs get the money.

The General Electric Co. has, in addition, a plan of unemployment insurance which is operating, but not in the incandescent-lamp department. Mr. Swope said, on March 25, 1934, in his testimony before the Subcommittee of the Ways and Means Committee of the House:

"The results have been highly satisfactory. Since the plan's adoption in June 1930 normal contributions, half by the employees and half by the company, with interest, amounted to almost \$400,000, and is retained in a trust fund. The emergency provisions of the plan went into effect December 1, 1930.

"From that date to March 1, 1934, \$4,877,000 was contributed. Of this amount—and I want you to get these figures, because it seems to me these are very significant—of this total amount of almost \$5,000,000, approximately \$1,160,000 was contributed by the people who are eligible to benefits, and \$1,151,000 from other employees who are not eligible, and \$2,311,000 from the company; \$3,561,000 has been disbursed, leaving an unexpended balance of \$1,316,000 in the unemployment emergency fund on March 1, 1934. The plan is still functioning."

The contributions are about 1 percent from employees and the same amount from the company. There is a curious provision in respect to an "unemployment emergency." In the event of an unemployment emergency 1 percent of everybody's salary is taken, no matter whether he is in the insurance system or not—everybody's salary, from Mr. Swope down. These contributions have made a very material addition to the fund.

The experiences of the General Electric Co. are interesting, but we do not think they contribute a great deal toward the formulation of a Nation-wide plan of unemployment insurance. The company is in a strong financial position; it is excellently managed; its employees are above the ordinary level of manual workers in intelligence, thrift, and steadiness. In short, the General Electric Co. is not a typical industrial concern. A Nation-wide plan must include all sorts of establishments and workers of every grade.

Mr. Swope advocates the segregation of insurance funds by companies; that is, each concern to do its own insuring, in combination with its employees. His own experience shows that it works out very well with his own company, but would it not turn out badly in the case of most concerns?

APPENDIX B. DENNISON MANUFACTURING CO.

One of the earliest of company plans of unemployment insurance is that of the Dennison Manufacturing Co. The company started it in 1916. It has been financed entirely by the company, which has made contributions to the fund from time to time.

The characteristics of this plan are: 1. Only permanent employees benefit. 2. A permanent employee is one who has had 6 months' continuous service with the company. 3. Unemployed persons, without dependents, receive 50 percent of their normal pay (but not more than \$18 nor less than \$8); employees with dependents receive 70 percent of their normal pay (but not more than \$24 a week nor less than \$8). 4. The plan is administered by an unemployment-relief committee; half of the members are appointed by the company and half are elected by the employees.

In 1929 the total pay roll was \$3,780,000 and the total benefits paid were \$10,646. In 1930, with a pay roll of \$3,308,000, the benefits ran up sharply to \$58,325. Since then it has been necessary to lay off an unusually large number of employees. By June 1932 the fund had been reduced to about \$15,000. It was decided then to withhold payments until fall, as it was felt they would be of more value during the winter months.

In the fall of 1932, when the matter was again considered, it was the recommendation of the works committee that payments be indefinitely suspended and be resumed upon 2 weeks' notice from the works committee. Since that time the fund has been entirely inactive.

One of the defects of the Dennison plan is the irregular method of financing. It started off with a fund of \$147,000 in 1919, and only a few contributions have been made since, in irregular amounts. It would have been better, in all probability, if the company's contributions to the fund had borne some definite relation to the annual pay roll.

The whole scheme, though bearing witness to the company's generosity, is quite unscientific as a plan of unemployment insurance.

APPENDIX C. THE SOCIAL SECURITY BILL

The American Association for Social Security has prepared a model bill similar to that of the Ohio Commission. This was drafted in the summer of 1933 by a committee of experts including two of those who prepared the Ohio bill. It is based on the principle of a state pooled fund.

Coverage.—Employees of establishments having three or more employees, including employees of the State or political subdivisions thereof. Excludes nonmanual workers with salaries of \$3,000 per year or more; farm laborers; domestic servants where less than two are kept; workers in interstate commerce; Government employees and teachers on an annual salary basis; and the spouse, parent, or child of the employer.

Premiums.—Employers, 2 percent of pay rolls, subject to adjustment after 3 years. Workers, 1 percent of wages; State, 1 percent.

Adjustment of employers' premiums.—After 3 years' experience the employers' premiums are to be adjusted with respect to the hazards of unemployment in the various establishments. No premiums are to be less than 1 percent nor more than 4 percent of pay rolls. There is to be no adjustment of workers' or State premiums.

Benefits for total unemployment.—Single worker, 40 percent of full-time wages not to exceed \$10 per week. Additional or dependent spouse 10 percent of wages, not to exceed \$2.50 per week. If one dependent child, an additional 5 percent of wages, not to exceed \$1.25 or if two or more dependent children, an additional 10 percent of wages, not to exceed \$2.50.

Benefits for partial unemployment.—When the loss of wages in partial unemployment exceeds 20 percent of full-time wages, benefits are paid equal to 50 percent of the loss in excess of said 20 percent, plus supplements for dependents. This benefit scale is designed to encourage the acceptance of partial employment. The total of earnings and benefits during partial employment always exceeds the benefit for total unemployment and always increases as the percentage of employment increases.

Duration of benefits.—In any consecutive 52 weeks the total benefits shall not exceed 26 times the benefit for 1 week of total unemployment. After exhaustion of benefits, no further benefit shall be paid until the worker has had 60 days of unemployment and also satisfies the qualifications mentioned in the next paragraph.

Qualifications for benefit.—To be entitled to benefits a worker must have had 104 days of insured employment within the preceding 12 months, or (alternatively) 160 days of insured employment in the preceding 24 months. No benefits are paid during a strike or lockout.

Waiting period.—No benefits are paid until the wage loss equals 4 weeks full-time wages. Such loss need not be consecutive but may be accumulated over a 12-month period. Only such waiting period shall be required in any 12 months. The waiting period is doubled for an employee who has lost his employment for misconduct or has voluntarily quit without just cause.

Seasonal industries.—In seasonal industries the right to benefit shall apply only to the longest seasonal period which the best practice of such industry will reasonably permit. The commission is to determine such seasonal period and fix the proportionate number of weeks required for qualification and the proportionate number of weeks for which benefits may be paid.

Insurance fund.—All contributions are pooled in one fund from which benefits, the expenses of administration, and the cost of free public employment bureaus are to be paid.

Administration.—A n unemployment insurance commission of three members is provided to administer the system. There is also to be a State advisory council of nine members. District offices, if necessary, and local free employment offices are provided. Appeals from decisions of local managers may be taken to district appeal boards and then to the commission. Only when questions of law are involved can an appeal be taken to the courts.

Comments

The benefits are quite small.

The provision for paying benefits on account of part-time employment is worth considering, though we are not prepared at present to endorse it.

APPENDIX D. THE OHIO COMMISSION BILL

The General Assembly of Ohio, on April 9, 1931, created an unemployment insurance commission, whose nine members were appointed by the Governor. This commission reported on October 26, 1932. Their report includes a thorough survey of the entire question and actuarial estimates on the cost of unemployment insurance.

The commission drafted a bill based on the principle of a State pooled fund. This bill was introduced in the legislature in 1933 and was passed by the house but failed of passage in the senate.

Coverage.—Employees of establishments having three or more employees. Excludes nonmanual workers with salaries of \$2,000 per year or more; farm laborers; domestic servants; workers in interstate commerce; Government employees; and short-time or casual laborers for a period of less than 4 weeks.

Premiums.—Employers, 2 percent of pay rolls, subject to adjustment after 3 years. Workers, 1 percent. No State contribution.

Adjustment of employers' premiums.—After 3 years' experience, employers' premiums are to be adjusted with respect to the hazards of unemployment in the various establishments. No premiums are to be less than 1 percent nor more than 3½ percent of pay rolls. There is to be no adjustment of workers' premiums.

Benefits of total unemployment.—Benefits are to be 50 percent of full-time wages, not to exceed \$15 per week. No supplement for dependents.

Benefits for partial unemployment.—Where the loss in wages in partial unemployment exceeds 40 percent of full-time wages, benefits are to be paid on the following scale:

Loss:	Benefit (percentage of full-time wages)
40-55 percent.....	10
55-70 percent.....	20
70-85 percent.....	30
85 percent and over.....	40

Where full-time wages amount to more than \$30, these percentages are to be calculated on \$30 only.

Duration of benefits.—In any consecutive 12 months the total benefits shall not exceed 16 times the benefit for 1 week of total unemployment.

Qualifications for benefits.—To be entitled to benefits, the worker must have had 26 weeks of insured employment within the preceding 12 months, or (alternatively) 40 weeks of insured employment in the preceding 24 months.

Waiting period.—No benefits are paid until the wage loss equals 3 weeks full-time wages. Only one such waiting period shall be required in any 12 months. The waiting period is doubled for an employee who has been discharged for just cause or has voluntarily quit without just cause.

Seasonal industries.—In seasonal industries the right to benefit shall apply only to the longest seasonal period which the best practice of such industry will reasonably permit. The commission is to determine such seasonal period and fix the proportionate number of weeks required for qualification and the proportionate number of weeks for which benefits may be paid.

Insurance fund.—All contributions are pooled in one fund from which benefits, the expenses of administration, and the cost of free public employment bureaus are to be paid.

Administration.—An unemployment commission of three members is provided to administer the system. Branch offices and local free employment offices are provided. Appeals from decisions of local managers may be taken to local appeal boards and then to the commission. An appeal may be taken from the decision of the commission to the court of common pleas.

The CHAIRMAN. Thank you very much.

The next witness is E. J. Harding, of the Associated General Contractors of America.

Mr. W. A. SNOW. I am here representing Mr. Harding.

STATEMENT OF W. A. SNOW, REPRESENTING THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

Mr. SNOW. I am a member of the national staff of the Associated General Contractors. I have a statement here I would like to present to the committee on behalf of the association and in the interest of brevity if you so decide, I will turn it over to the reporter.

The CHAIRMAN. Thank you very much.

Mr. SNOW. The Associated General Contractors of America, whom I represent, desires to place before your honorable committee certain facts pertaining to the probable effect on the business of general contracting and construction industry, which will result if and when the present provisions of S. 1130 are enacted into Federal Law.

(1) Section 606 under title VI exempts governmental agencies from the definition "employer" who is required to pay the excise tax as specified in section 601.

General contractors, in bidding on public work, will have to include this excise tax as a part of their cost. On the contrary, the governmental agency when compiling its estimate of cost is relieved of this cost item, thus setting up an unfair competitive situation between the general contractor and the governmental agency, all in favor of the latter. This is due to the fact that governmental agencies most generally resort to the day-labor method of construction when they believe that, based on their estimates, the work in question can be done by themselves at a less cost than the lowest responsible bid received from general contractors.

We therefore recommend that the bill be so changed as to provide that when any governmental agency performs construction operations with its own forces, that is, utilizes the day-labor method, it shall contribute to State and Federal social-insurance funds in an amount equal to that which a general contractor would have had to contribute if he had performed the same construction operation under contract. And further, that such contribution be made from the appropriation for the specific construction project and become a part of the cost thereof.