

2 represent water transportation, and 1 is the immediate past president of the chamber. There are also 8 officers of the chamber who are ex-officio members of the board, to wit: The president, first vice president, treasurer, and five district vice presidents.

We respectfully submit that the conclusions reached in this thorough way, by a body of this character, in a State of the magnitude and traditions of Ohio, are worthy of your serious consideration.

The CHAIRMAN. The next witness is Mr. Henry E. Jackson, of New York.

STATEMENT OF HENRY E. JACKSON, PRESIDENT SOCIAL ENGINEERING INSTITUTE, NEW YORK CITY

Mr. JACKSON. Mr. Chairman and gentlemen: For 5 years I was working in the Federal Government in the Department of the Interior under Franklin K. Lane, as a social engineer, working in the Federal Government in the field of government and community organization. Since then I have been working as a social engineer in connection with large industries, trying to persuade them to adopt voluntarily just such a protection plan as this bill aims to compel them to adopt. For example, 5 years ago I drafted and installed for the Westinghouse Manufacturing Co. in Pittsburgh a plan covering 40,000 employees, a scientific trustee community plan, which has been working successfully for 5 years, and they are so pleased with it that they have extended it to three additional subsidiary companies. They are not only pleased with it but they have discovered that it is not only not a burden from expense but that it is a means of saving them expense.

Senator KING. You are directing your remarks principally to the unemployment insurance, are you, now?

Mr. JACKSON: I am speaking at this moment on the retirement annuities.

Senator KING. Pensions?

Mr. JACKSON. Pensions: I merely say that to indicate that I have drawn some matured conclusions based on a rather large experience with industry, and after some very careful thought.

Senator COSTIGAN. Are there any evidences that your plan for the Westinghouse employees was breaking down the moral fiber of those employees?

Mr. JACKSON. On the contrary, it is stimulating it. It is on a 50-50 basis, the employer paying half, the employee paying half, so that the employees are preserving their self-respect and they are taking part in its administration as well.

The CHAIRMAN. Is that largely on the same plan that the Eastman Kodak people operate?

Mr. JACKSON. Somewhat; excepting that Westinghouse is operating it wholly itself on a trustee basis involving no insurance company and saving itself a very large sum of money on that account.

I did not ask for an opportunity to come here and speak to you, but in speaking to a friend of mine, a Senator, he urged me to do it and he wanted me to come.

The CHAIRMAN. We are glad to hear you.

Mr. JACKSON. Thank you, sir. I hesitated to come because I thought you were already deluged with great numbers of suggestions.

The CHAIRMAN. That is quite true, too. [Laughter.]

Mr. JACKSON. But more particularly I hesitated to come because I did not want to appear as a critic of this bill, because I am not. I mean to say that I agree with its objectives heartily. I may say that I am 100 percent in favor of its objectives, and about 75 percent against the methods proposed in the bill of obtaining those objectives, but I appear as a very friendly critic. I never thought that I earned the right to criticize any proposed measure unless I had something better to offer as a substitute.

The CHAIRMAN. We will be very glad to hear your constructive suggestions.

Mr. JACKSON. Thank you, sir.

Senator KING. And your critical suggestions, too.

Mr. JACKSON. I believe I have a substitute plan to propose that will be much more efficient and much more workable and infinitely less expensive to the Government.

The CHAIRMAN. That is with reference to unemployment insurance?

Mr. JACKSON. That is with reference to the whole social-security program, including all of the major hazards of industry, including unemployment.

It is of course impossible in the short time that you could give me to explain that, and it so happened that I was asked by the editor of a leading magazine in New York to prepare an article making a comprehensive statement on such a constructive social-security problem, which might be a substitute for this measure, and I finished it last week and I took it to him. But since coming here and talking to my friend who indicated to me what a serious problem this is for this committee, I decided to withdraw that manuscript from the magazine and submit it to you in the hope that it may help you do it.

The CHAIRMAN. We will be very glad to insert that in the record.

Mr. JACKSON. Thank you, sir. That states in orderly fashion a constructive program and the figures and facts to sustain it.

I think I may be most helpful if I should take a few minutes to just name very briefly, the chief yardstick principles which the article expounds which I think would be helpful on this in the reconstruction of this measure.,

Senator KING. Would you permit an interruption before proceeding?

Mr. JACKSON. Yes, sir.

Senator KING. Does the paper which you were kind enough, to furnish us discuss the question or the proposition as to how the Westinghouse and these other organizations which have been set up may be preserved insofar as they are valid and have merit and integrated with any sort of an organization such as you indicate?

Mr. JACKSON. Quite so, sir. Using the Westinghouse experience as an illustration of the cost and schedules and so forth.

Senator KING. Thank you. Then I won't ask you anything further on that.

Mr. JACKSON. I would suggest then some leading facts that might indicate to you something that may be helpful if you would give the paper very careful reading. While this document is in the form of a magazine article which will make it more comfortable reading for you, it nevertheless attempts to be a demonstration like the demonstration of the problem in geometry, that it is possible to enact a social-

security program without any doles, without increasing the public debt or the public taxes.

That is rather audacious, I grant, but that seeks to be a demonstration of that fact. That is to say, it can be made wholly self-supporting.

That indicates further that it would be wise in my judgment if this bill were divided into two bills or if that is not possible, certainly into two distinct parts. It would be better in two bills. First, those provisions which are permanent in their nature and which can be made self-supporting. Those that are self-supporting only to be included in a social "security program", because that is a permanent thing and it would be in keeping with the meaning of social security.

Second, in the second part of the second bill, only those parts which are designed to be temporary in their nature as a relief to emergency need and which calls for expenditure of money.

Those two separate measures are wholly different. They rest on wholly different economic foundations, require wholly different systems of financing and administration.

They do not belong together. It seems to me it is impossible to add them together any more than to add 3 quarts of milk to three-quarters of a mile. It is a contradiction in terms. Therefore, I would urge you to consider the separation of those two sets of measures.

We may disregard now for the moment those measures which are temporary or emergency relief. We all are agreed that we must render assistance to less fortunate fellow citizens while it lasts, but we can very well do that if we realize that it is temporary in its nature, and especially if we can get going at the same time a measure which will prevent the need of its recurrence. It seems to me that no relief measure is economically or socially sound which does not provide in itself a means of eliminating the need for relief.

Third, the article seeks to show how we can get a much more uniform measure throughout American industries., that is to say we can guarantee a uniform social security program in American industries, and at the same time secure a much larger degree of freedom on the part of the States in their cooperation with us than this bill proposes. I think that is a very vital thing. As it stands now, this measure calls not for 1 law but for 48 laws. But we do not know what this law will be until the 48 States take action, if they all do, which is somewhat uncertain. Therefore, instead of 48 laws, uncertain, we are to have one law which is certain, and as I say I think it is a meaningless courtesy as stated in the bill, this courtesy to the States, because the bill proceeds immediately to take almost every bit of freedom from the States. I think the States ought to have real freedom of action and the States can be utilized to function in a very great way, a necessary way, in a country the size of this, in administering a bill like this, if we grant them the freedom, but our great problem is how to get concerted action in the whole and yet preserve freedom in the parts. I think we can do that much better than the way provided in this bill. The article seeks to do that.

Fourth, I think it is a bad economic principle and unsound as an economic principle, for any measure to state the amount of cost or tax which is to be imposed on the industries for the cost of any

protection program for the simple reason that nobody knows or can know what the cost is. Therefore, I think that ought not to be in any measure. Instead of that, all that is necessary is to state the schedule of required benefits which an industry is asked to yield. That schedule of benefits required to yielded-that is 'all, and that is sufficient. The cost of it will vary with almost every industry. For example, for one illustration of a scientific annuity plan, the parent company of the Westinghouse cost 1.3 percent of the pay roll, but for a subsidiary, the Westinghouse Lamp Co., the identical same program cost it 0.9 percent. That is a real variation.

Therefore, if we would just require industries to yield a certain schedule of benefits and let them regulate the cost, allowing the industries the freedom to use whatever methods they choose which they think best to secure those results, so long as those methods are sound, of course. An industry could operate it itself on the trustee basis, 'it could use an insurance company if it wished or it could use a State pooled fund if the State created a pool fund. It would make no difference to us what method it used so long as it produced the required results contemplated in the bill. There is just an illustration of how you can get freedom in the parts and yet concerted action.

Senator KING. Your plan however would contemplate notwithstanding the freedom which is given to industry itself to formulate and execute these plans for social insurance, nevertheless the State would have authority to proceed and create a pool or permit each industry to function for itself.

Mr. JACKSON. Precisely. As supplementary legislation, it would be most valuable in the administration of this Federal law.

Fifth, it seeks to show that an unemployment wage reserve plan required to be set up by industries, ought to be designed and expected to yield a protection only for that degree of unemployment which you may call occasional unemployment or seasonal unemployment, that is to say a certain portion of an employer's employees are laid off for 3 months or 6 months so that he may not overstock his market with goods. Such a degree of unemployment is always an essential factor in efficient management in industry. There always will be that degree of unemployment and always ought to be; It is no problem however if a wage reserve protection plan is set up to care for those men over those periods. They are thereby regarded as a reserve labor force, which is an important thing to him.

If all industries did that, that would take care of 2,338,000 employees, that is to say, the average yearly amount of unemployment existing between 1920 and 1929 inclusive, which is a very typical period, both prosperous years and unprosperous years, was that amount—2,338,000.

You will please note that that would be no burden, it would not be a burden on industry; that is not expensive for any employer that has a production cost, to take care of these main hazards, like old age, disability, and so forth—the four major hazards in American industry—and the cost for those four programs is not burdensome, not burdensome unless we make it so by our legislation. It is not burdensome, as I say, and it is a proper charge against production costs. The depreciation of human machinery is a proper charge against production cost, and can be absorbed as a production cost, and if our industries

are all on the same basis, then there is a fair basis of competition and no problem. Our problem begins after that.

I would say that those four ought to be made wholly self-supporting with no charge to the Government of any kind.

Now, our trouble begins at this point. When our volume of unemployment came to be 4 or 6 or 8 or 10 million, this excess volume of unemployment, it is impossible, of course, not only unfair but impossible, physically impossible, to expect industry to set up any reserve then that would care for that excess volume of unemployment. It could not be done. Because that occurs not in consequence of the operation of the industry as the seasonal unemployment, but in consequence of the breakdown of our whole economic system, and to make that very dramatic, when I installed the plan for the Westinghouse, their pay roll was \$70,000,000. In 1932 the pay roll was \$28,000,000. The difference between \$28,000,000 and \$70,000,000 represents that differential. No industry possibly could be required to set up a reserve then to take care of that amount of unemployment,

Therefore it seems to me we ought to include in this bill a way by which that excess unemployment can be absorbed. It seems to me that that is the real problem before the United States now, and there is only one answer, gentlemen, please. This is not only a terrific problem of the moment, but that is a continuing problem because these displaced workers are going to continue to be displaced by improved machinery. It is the thing we have to face primarily in the solution of this problem. To provide a way by which these men could earn their living that is our problem.

This paper attempts to say what has taken me 20 years to conclude, namely, that the self-supporting homestead village is the answer to that problem; wholly self-supporting and costs the Government nothing; self-liquidating debts. Two generations ago this Government, installed the homesteading policy by furnishing free land to the men who were not absorbed in other industries and who wanted a chance to earn a living. Those freelances are now gone, but the land we have left; we have endless land left, not free but which can be acquired upon such easy terms that it makes the solution of the problem perfectly feasible, and it can be demonstrated to be a self-liquidating proposition. I go into that at some length, because I think that is the heart of that problem.

Just in passing, that is not only in my judgment a means of relieving immediately the unemployment problem and promoting the capital-goods industries, making work all over the country in every way, but aside from that it seems to me it is the most profoundly important project from the standpoint of the national welfare and the development of a self-reliant citizenship that this committee has ever been called on to consider. I think it is the most important thing for this Nation to consider now or at any time. I cannot go into that because it is too big.

The implication of that, the far-reaching helpful consequences on manhood, on childhood, on the future, is enormous.

Just for the moment I will make this little illustration. Owen Young states it this way, which is very picturesque, very concrete, and very good. When he went back to his village, the little village in which he was raised, there used to be a village blacksmith, a village shoemaker, and a village tailor. He said that in hard times those

men usually had their little homestead and a little ground and a cow and their pig. In hard times they were no problem to anybody. There was no dole, they got along very well, but now, he said, "I go back there and those men are not there. Where are they? They have been enticed or driven from those villages and congregated around these industrial centers, living in little shacks on little lots, 20 by 30, and they have no cow, pigs, and no vegetable garden." He said, "Now, the employer did that for the sake of increasing his profit, also to furnish shoes cheaper to society, therefore society getting a financial benefit from that movement, and the employer getting an increased profit from that movement, they have done it at the expense of the village blacksmith." And Mr. Young said: "Therefore we owe the village blacksmith a debt. We ought to undo that injustice."

As a matter of fact, there are of course many types of those homestead villages, but it seems so obvious that a homestead village within 4 or 5 miles of any industrial plant or city anywhere, with a little homestead and 1 or 2 or 3 acres of land, and those employees who are just given the right to acquire that on long-term amortization plan, that little homestead, you see we have restored the condition that Owen Young speaks about, which is a wise and sound course to pursue. That little homestead itself, please to note, is a part of your social security program, a really vital part, not only that, but if John Doe has the privilege of occupying such a homestead, it would be a great easement on the reserve fund set up both for the pension benefit and the unemployment benefit. Neither the employer nor John Doe would need to set up such a large reserve for those two purposes as they otherwise would. So that it means immediate money to all employers all over America, and a great additional service to John Doe.

It just occurs to me that I forgot to mention this in passing. We usually have segregated the idea of a pension plan from the unemployment plan and considered it a different thing. I call your attention, please to note, the organic relationship between a pension plan and the unemployment problem. For example, if a scientific retirement system was operating in all American industries, it would immediately put on the retired list over 1,000,000 employees of 65 years and over. That is the number I calculate are at the present time engaged in American industries. Those men are taken off the regular pay roll, but they are not put in the streets to die, they are put on the pension roll. That makes immediately room for 1,000,000 other employees to take their place. That takes care of a very large lot of the unemployment problem, and it automatically keeps on doing so in the future. That is a very important thing, too.

Senator KING. Are you justified in assuming that the million men to whom you have just referred to over 65 are employed?

Mr. JACKSON. Now employed; yes. I have those facts and figures.

Just one more thing: Incidentally if this bill were rewritten, I mean a substitute bill rewritten, organized on the basis of self-support wholly, that is the social security part of it, it would vastly simplify the bill, which is a very important thing. It is almost impossible for a man, it seems to me, to read this bill without suffering from mental fatigue.

Senator KING. If he reads it twice there is more mental fatigue.

Mr. JACKSON. It reminded me when I first read it, of a remark I made about a similar document. I said, "Some subjects are complex by nature and some achieve complexity, and some have complexity thrust upon them by persons in whose interest it is to inject into such measures an impressive incomprehensibility." It seems to me that one of the distinguishing marks of this bill is its impressive incomprehensibility. I do not know how it occurred; I cannot imagine how it occurred.

Senator COUZENS. We can tell you.

Mr. JACKSON. Thank you sir, I would like to see you afterwards.
[Laughter.]

President Wilson used to say that the function of experts seemed to be to make utterly confusing, what everybody knows.

Senator KING. The expert, you know, is the man that knows more about less and less.

Mr. JACKSON. Quite correct; very good. Now, friends, I say that as a serious matter, because in a bill that deals with a public subject hoping to get the cooperation of the States and the cooperation of industries, it ought to be understandable, and it ought to be made understandable. It is a serious handicap when it is not so.

I want to say just one word in closing. I sympathize with you men in the difficulty of your task, but I want to congratulate you on the enormous opportunity you have. It is a very serious opportunity. I believe it is perfectly easy to write a bill that is understandable. I think it is perfectly easy to write a bill that would be wholly self-supporting, without any public taxes or increase.

Senator KING. Doctor, will you essay that task?

Mr. JACKSON. I would be very happy to.

Senator KING. I am sure some of us would be very happy to receive your contribution.

Mr. JACKSON. I could make it clear and understandable English, but I am not prepared to translate it into the typical congressional form. You have men that can do that.

I only have one thing more. You know, 20 years ago England faced just what we are facing here in this room now. England made a profound blunder. It adopted a plan that was basically conspicuously defective. They have spent 20 years in trying to undo those defects. They have had 13 amendments, and it is still very defective. I beg of you gentlemen to consider whether or not if you cannot save America from repeating that experience. It does seem usually that the simple and direct way of doing anything is always the last thing discovered. It is so in mechanical machinery, it is so in social machinery, but I beg of you to see if we cannot reverse that method now and do it in a simple, clear, direct method, so that we will not spend the next 20 years with a large army of administrators trying to find out what the bill means and explaining it to others.

I think that that is all I have to say. I think that that is an important thing, and I believe it is a beautiful opportunity. You can do it. It is a little bold and clear thinking that is needed now.

The CHAIRMAN. It is very refreshing, Doctor, that you have made it so simple for us.

SOCIAL SECURITY WITHOUT DOLES-HOW UNEMPLOYMENT AS A PROBLEM MAY BE ABOLISHED WITHOUT PUBLIC EXPENSE OR PUBLIC DOLES

By Henry E. Jackson, President Social Engineering Institute

GOVERNMENT BY DISCUSSION

The greatness of the Athenian Republic flowered at the western end of the Agora, or Market Place, of Athens. Here was cut out of the solid rock a theater open to the sky, large enough to seat 6,000 citizens. It was the Pnyx, the Place of Assemblers. The platform was a portion of the native rock, so placed that to ascend it a speaker must step forth from the body of citizens as from among his equals. While speaking, he wore a laurel wreath to indicate that temporarily he was the teacher of his fellows. The citizen who succeeded him accepted the laurel wreath in turn. Thus the citizens went to school to each other.

Here was evolved the soul of the Republic. The name, Pnyx, means a fist, and was applied to the Forum, because as a fist is formed by the assembling of the fingers so the Forum enabled the citizens to operate with the impact of concerted action. It was the process used to develop social intelligence, to discover the nature and solution of public problems.

Our American Republic was designed to reproduce the Athenian Republic on a larger scale. The essential formative principle of our democracy is, likewise, government by discussion. Whatever their form of government, all nations are in fact governed by public opinion. During the past 4 years, we have been engaged in a national discussion on the subject of social security, which hitherto has glared by its absence, and which the suffering entailed by the depression has made still more glaring.

We have completed the first stage of our discussion, the stage preparatory to action, and are now beginning the second stage, the stage which is concerned to discover the appropriate action to meet the determined demand for a degree of security against catastrophic hazards.

What our national preliminary discussion has arrived at is the fact that compulsory Federal legislation on a social security program seems to be an unescapable necessity. Pressure through organized and intelligent public opinion will compel action by the Government.

THE ABANDONED MAN

The persistent continuance of the depression has made crystal clear to the average industrial worker the social injustice from which he has suffered as a consequence of our industrial evolution. The fact that this social injustice may not have been consciously inflicted on him, but is inherent in our industrial system, does not make it any the less tragic or inexcusable, if unremedied. The eminent head of one of our large industries has stated the essential nature of this injustice with brevity and clarity. During his boyhood, he said, there existed in his native village, a village blacksmith, a village tailor, a village shoemaker. They had their little homesteads located on plots of ground sufficiently large to be useful. During hard times they had the means of self-support to a large degree from products of their cows, pigs, chickens and gardens, and needed no doles. But now these independent village workmen are conspicuous by their absence. They have been driven or enticed from their village and congregated in factory centers. They live in rows of little monotonous houses built on bits of land little bigger than the houses, and like the houses they too have dwindled down into substitutes for the specialized pieces of machinery not yet invented. During hard times now, they are humiliated by dependence on private or public doles. Our American democratic theory of self-dependence has been destroyed.

Whether this industrial evolution is a movement upward or downward is a debatable question. What concerns us here is that this industrial process has yielded increased profits for employers and cheaper products for consumers, but has been ruinous to the village blacksmith. The financial advantage to industry through increased profits, and to society through cheaper goods has been bought at the village blacksmith's expense.

He has been separated from "Mother Earth" as his source of protection in need, and has been abandoned to the control of adverse forces over which he has no control. Does not our sense of fair play and sportsmanship compel us to conclude that industry and society ought to be able and willing to compensate the village blacksmith for the injury he sustained in the process of benefiting them both? But hitherto he has been the abandoned man in the process.

He refuses to be abandoned any longer. The crystallized public opinion supporting his demand is moving with the irresistible might of the law of moral gravitation. This great and terrible depression has burned this social injustice deep into the souls of millions of citizens. The moral sense of the nation, including the moral sense of a large number of employers, cannot suffer this injustice to go unredressed. It is this moral protest against an obvious and unbearable injustice, which furnishes the dynamic motive back of the demand for a national plan of social security. It seems to me a totally blind misreading of the signs of the times unless we vividly realize that this demand has gone far beyond the stage of compromise or expediency or optional choice. It has arrived at the stage of an outraged moral sense over a primitive injustice. When any demand reaches the simple stage of moral passion, it is not to be denied. Public opinion in its behalf is expressing itself in terms disturbingly similar to the burning words, applied by Emerson to another industrial conflict, which two generations ago involved us in a needless and preventable civil war; words like the following

"God said, I am tired of kings,
I suffer them no more;
Up to my ear the morning brings
The outrage of the poor.
" My angel-his name is Freedom—
Choose him to be your king;
He shall cut pathways east and west
And fend you with his wing.
"But, laying hands on another
To coin his labor and sweat,
He goes in pawn to his victim
For eternal years in debt.
"Pay ransom to the owner
And fill the bag to the brim.
Who is the owner? The slave is owner,
And ever was. Pay him."

IDEALS IN A CASH BOX

The fixed determination of the great mass of average citizens to right a moral wrong, while sufficient, is not the only reason why the adoption of a national social-security program seems a foregone conclusion. Economic pressure on the part of employers is likewise operating powerfully in its behalf. To support millions of citizens in idleness at public expense creates a huge tax burden, which naturally falls most heavily on the employing class of citizens. Employers are beginning to discover that the injustice done to John Doe has destroyed his buying power and has robbed the employer of customers for his products. Employers are also beginning to discover that a distinguishing function of a sound and adequate social-security program is to create and sustain mass buying power at a time when it is most needed. The pocketbook motive is a powerful ally in the movement to undo a social injustice.

These then are the two powerful motives, which will guarantee the adoption of a national social-security program; the people's desire to undo a social injustice, and the employer's desire to undo an economic blunder. It will be just as advantageous to employers as to employees. It would not be complimentary to us to suppose that we will not undo a social injustice; until we see that it pays financially to do so. We need question no man's motive except our own; we need only to observe in passing, the interesting fact that to do justice pays financially. In this case the mass desire for social justice, and the employers' desire* for mass markets are riveted together, and both are working for the same desired goal. "If you see deep enough you see musically" said Carlyle. As soon as we examine the problem of social security basically, we perceive that the interests of all classes involved in it are harmonious, that it is advantageous to employer, employee, and the Nation alike.

For these reasons the necessary conclusion seems clearly to be not only that we ought to have, but that we will have, a social-security plan made national by compulsory legislation. By common consent we have entered the second stage in our national discussion of the problem. We no longer debate whether or not we shall have a plan. It is generally agreed that we shall. The question we are now beginning to consider is what kind of a plan we ought to have. It is, therefore, relevant to submit for public consideration a definite plan of social security,

'Certain plans on one or another industrial hazard are already before the public, *and many more will no doubt be presented both in and out of Congress. This is all to the good. The national policy involved in this proposal is so new and far-reaching in its effect, it has such large possibilities for stabilizing American industry, and it is so easy to make critical blunders in drafting it that no pains should be spared in discovering a sound and adequate plan. Let us examine suggestions from all quarters, and out of a thoughtful discussion the best plan will finally emerge and, by common consent, can be adopted. Congress ought to do nothing in a hurry, because the issue involved is one of the most important ever presented to the Nation for a decision. It is my conviction that it is entirely possible to draft a plan that is so structurally sound and adequate that it will not have to be changed after its adoption. It will, of course, need to be modified and adjusted progressively in its detail provisions as experience may require, but not changed in its essential structure. If we are honest with the facts and with ourselves, we have sufficient social intelligence to determine beforehand what goal we desire to reach and the best road for reaching it.

As yet no scientific comprehensive plan, covering the chief minimum number of hazards to meet the needs of social security, has been presented for our consideration. Several plans have been proposed in Congress. Many more will doubtless follow. One State has adopted a plan. Some of them seem to me to be glaringly defective, some of them have real merit, no one of them is without some merit. But the defects of long-term plans involve consequences of so much potential danger that no pains should be spared to discover a sound plan before, and not after, it is adopted.

The distinguished plan now before Congress is the plan prepared by President Roosevelt's committee of experts and embodied in "The Economic Security Act", introduced in Congress by Senator Wagner. The mere fact that such a plan was devised and recommended to Congress in itself marks a conspicuous and significant stage in our progress toward social justice and economic wisdom. It opens a new chapter in the social history of the United States, a chapter that in all probability never will be closed. The President's courage in opening it has placed the Nation permanently in his debt.

The objectives of the plan are so altogether desirable, and the President's devotion to them is so sincere, that one hesitates to offer any criticism at all of the method proposed for securing these objectives. But the President's sincere devotion to these objectives will insure his eager acceptance of any different methods which may more effectively achieve them.

The origin of the administration's plan is similar to that of the social-insurance plan of England. The English plan was the joint composite product of social workers, experts, politicians, and business men. In consequence, it is only natural that its marked characteristics should be that it is complex; that it is formulated on poorhouse standards; that it combines relief doles with self-supporting, annuities; that it is actuarially unsound; that it commits the Government to uncertain and increasing future expense; that it is not self-supporting; that it requires an army of office holders to administer; and that it makes no attempt to remove the cause of unemployment but only to relieve the suffering produced by it. Our American plan has been handicapped with one additional factor of wasteful inefficiency, which the English plan did not have to face, that is, the assumed necessity that the States be co-makers of the plan, so that we cannot know what our plan is until after the 48 States have adopted their own measures.

All of these essential defects could be eliminated before and not after the plan starts, but it is quite improbable that they will be, because of the composite forces sponsoring the plan. The simple effective way of doing anything or solving any problem is almost invariably the last thing discovered and is the result of laborious effort. This has been true in the development of mechanical machinery and also of social machinery. In the slow process of emerging by painful experience out of the complexities and inefficiencies of the proposed plan into simple direct effective methods, nothing is more helpful than to keep before us the type of a simple efficient plan as a goal, toward which we may progressively advance as a desired goal. The most helpful criticism one can make of other plans is to offer a yardstick of basic principles to judge them by, and exhibit these principles in a concrete plan of his own, which he believes can efficiently achieve the conquest of insecurity.

Such a plan I am about to present. It is the product of long experience and careful study. It sounds audacious to say that I do not think it is a pretty good plan, but the best plan there is. If I did not believe it to be the best, how could I offer it at all? But it is offered in the hope that it may be of some service in help-

ing us to secure a plan, which is even approximately good. This is the most that we can expect, because Congress naturally has to operate on the basis of the lowest common denominator.

All men naturally desire a degree of economic independence. A degree of economic independence after a lifetime of work is the natural birthright of every citizen. All men naturally desire and deserve a degree of social security against catastrophic hazards, against which they individually have no adequate defense. If you ask any average employee what fears spoil his happiness most and minimize his efficiency as a workman, he invariably answers: The fear that I will lose my job; that after working all my life, I will be dependent in my old age; that my death may leave my family in want; that my disability may rob my wife and children of their breadwinner. These are the fears most on his mind. My conclusion is that the four chief risks, which the evolution of modern industry has caused to be progressively more hazardous, are death, disability, dependence in old age, and involuntary unemployment.. These are the essential risks to be covered in a social-security program, because the greatest of these hazards is unemployment, and the other three are so organically related to it, as we shall see, that there can be no adequate and wise security against unemployment unless they are included in the program.

YARDSTICK PRINCIPLES

For the sake of clarity, I first state a few facts, which ought to serve as formative principles to guide the construction of any plan which may be adopted if it is to avoid basic defects and dangerous consequences.

1. Social insurance against industrial hazards, and relief for those in want are radically different ideas and cannot be included in the same program without serious injury to both.

2. A public dole to those in need is a substitute for the poorhouse, but a benefit paid under a social-insurance plan is an earned reward for faithful service. The emergency requiring doles can be safely treated as temporary, because we can remove its cause and terminate it.

3. The risks involved in the hazards of death, disability, and dependence in old age can be ascertained and calculated and their expense budgeted, but the risks in the unemployment hazard are not ascertainable, and protection against them can be secured not by using the insurance principle but the banking principle..

4. It is a financial fallacy for a legislative measure to impose on employers any definite cost of a social-insurance program, but should specify only the schedule of benefits to be provided, because the cost of the same program will vary greatly with the nature of the industry and the methods of operating the program.

5. It is not humanly possible for industries to provide a reserve fund sufficient to cover the large volume of excess unemployment which exists not in consequence of their natural operations but in consequence of the breakdown of our whole industrial system. No social-insurance plan, therefore, is feasible unless it provides a way to absorb such excess of unemployment.

6. The cost of a scientific social-insurance plan is a proper charge against production costs and may not be an added expense to industry, but on the contrary a means of saving expense, without taking into account that it is an effective means for creating and sustaining mass buying power for the products of industry at a time when it is most needed.

7. It is possible that a national social-insurance plan can be made to be entirely self-supporting and eliminate the use of doles, and not add to the public debt or increase the tax rate.

It is on the above basic principles that the plan here proposed has been constructed. Any program to be effective and economical ought to cover three large classes, which suffer from the hazard of unemployment; worn-out workers, whose unemployment is due to old age; seasonal workers, whose unemployment is due to the natural fluctuations of industrial process; and displaced workers, whose unemployment is due to industry's inability to absorb them. In the first and third classes the unemployment is permanent, and in the second class it is temporary. As we proceed to exhibit a definite social-security plan, it will become increasingly clear that these three large classes, while suffering from the same hazard of unemployment, face distinctly different types of unemployment, which require different types of protection. If a social-security program properly protects all three classes, unemployment as a problem can be abolished permanently, and we cannot morally or financially afford to make anything less than this to be our goal, especially when we discover that this goal can be achieved without any public expense.

WORN-OUT WORKERS

In constructing a remedy for the problem of unemployment, the place to begin is at the beginning. It will doubtless be surprising to many, if I maintain, as I do, that in the attack on unemployment the logical and easy beginning is an old-age retirement plan. The organic and causal relation of a pension plan to the abolition of unemployment is as yet realized by almost none, but the facts are so obvious that they only need to be stated to be accepted. Is it not clear that if older employees past the normal retirement age were honorably separated from the service with an earned annuity, positions for other and younger employees would be available and unemployment decreased to that extent? This is what industries as a whole do not do, because they do not have scientific retirement plans in operation. When an industry's retirement plan is on a haphazard charity basis instead of a scientific reserve basis, as almost all of them are, the invariable consequence is that they retain worn-out workers in the service far beyond the period of their usefulness, because it is a painful process to pay the retirement benefit; because employers are too kind hearted to turn them out on the street like old horses to die; and because if they did it would cause a revolution among their employees, which would be more expensive than retaining worn-out workers on their pay roll.

Is the number of worn-out industrial workers, who ought to be refired to make room for other workers, sufficiently large to make their retirement a real factor in decreasing unemployment? Contrary to the general impression, it is. From data supplied by the United States Census Bureau, and typical industries, I have made a conservative estimate which shows that in American industries at present there are 1,015,388 employees who are 65 years old and over. This byproduct and necessary consequence of a scientific annuity plan renders a conspicuous service to abolition of unemployment. During depressions of ordinary severity, the decrease in unemployment to this extent would constitute an impressive percentage. It should be noted that the number of unemployed would not only be decreased to this extent by the adoption of sound annuity plans, but would be kept automatically decreased to this extent.

Do not these facts compel the conclusion that the first natural item in a social-security program is a scientific annuity plan? It eliminates a large bloc of the unemployment problem to begin with and does it most easily. The thin edge of the wedge is its efficient end. A pension plan would meet less resistance than any other item on the program, because employers everywhere realize that it is not only a fair, but a necessary equipment of industry, wholly apart from its relation to the unemployment problem. This is indicated by the fact that there are now about 400 volunteer plans operating in the United States. It is true that elements of merit in these plans glare by their absence. Almost without exception, these home-made plans are basically defective, unsound financially and inefficient in operation, satisfactory neither to employers nor to employees. They are not cooperative and therefore they yield very inadequate retirement income; they are not secured by a reserve, and therefore are not dependable; their benefits are distributed as gratuities or charity doles, and therefore are morally damaging to the benefactor and beneficiary alike; their cost is annually mounting to an unknowable extent; they provide no way by which to charge off as an operating expense the pension liability arising out of each year; they have certain conditions attached which nullify the good effect they might otherwise have on employees, and therefore yield a very inadequate return on the money expended.

The economic justification for a sound annuity plan can be stated in a sentence. It enables an employer to eliminate superannuation from his plant at a time when the good of the service requires it without doing his employees an injustice. A few employers have discovered that such a plan may not be an added expense at all, but rather a means of saving expense. The Federal Government, therefore, without any misgiving can require the general adoption of sound annuity plans, because employers who have not already discovered that they are financially advantageous to them are certain to make this discovery from experience.

What is a sound type of plan with a fair minimum schedule of benefits, which the Government could properly require industries to adopt? To be considered sound and effective for its purpose, a plan, in my judgment, should be contractual cooperative and secured by a reserve fund actuarially calculated to be sufficient. The employer as his share should provide a retirement income equal on the average to 1 percent of the employee's wage for each year during his whole period of service. To simplify the matter, let us call these amounts, provided each year by the employer, annuity units. They are deferred annuities. An annuity unit is one which yields an income of \$1 per month, beginning at

the normal retirement age of 65, and lasting for life. The employer provides each year 1 annuity unit to workers receiving \$1,200 a year; 2 annuity units to workers who get \$2,400, and so on to the \$7,200 worker who receives 6 units.

But a few lower-salary classes receive more than the percentage schedule of benefits and a few higher-salary classes receive less. This result is achieved by assuming, for purposes of the plan, that no employee receives less than \$1,200 a year or more than \$7,200. Thus one annuity unit per year is the least any worker can receive and six the most.

In order to use educational methods instead of compulsion, an employer can stipulate that employees, who buy each year for themselves as many units as the employer provides will receive as a bonus one-quarter unit for each unit so bought, on the theory that it is better to reward men if they do, than to punish them if they don't.

Thus if employees cooperate with the employer, such a plan is designed to yield to average employees a retirement income equal approximately to 50 percent of an employee's average salary for a normal period of service. For example, John Doe enters the plan at age 35; his wage is \$100 per month and for the sake of the illustration, we assume his wage remains the same for his 30 years of service until he is age 65. Each year his employer buys 1 annuity unit, and if he buys 1 for himself, he receives $7\frac{1}{2}$ units extra as a bonus. Thus at age 65 he will have $67\frac{1}{2}$ units, which will yield him a life income of \$67.50 per month, or $67\frac{1}{2}$ percent of his average wage. By thus organizing the plan on a cooperative 50-50 basis, we halve the expense to the employer, and double the return to the employee for the money he invests.

In order to safeguard the employer against the temptation to discharge an employee before he reaches retirement age to avoid paying him his annuity, the plan should stipulate that any employee, who has served 25 or more years, has a vested right in the annuity units to his credit, if before he completes his full term he is separated from the service for any cause and that his annuity units will be matured and paid just the same as if he had remained until retirement age.

Employees who leave with less than 25 years of service receive the full amount of their own deposits plus interest compounded at 4 percent. Thus the plan is a good savings plan for employees, who leave after a few years of service, and a guaranteed life-income plan for those who complete a 25-year term, a full term of service.

Such a plan is efficient and inexpensive. Its character value and money value have both been demonstrated in actual practice. The cost will be considered presently. We are here concerned to indicate the minimum schedule of benefits, which a social security program ought to provide.

It should be noted that the life annuity paid under a plan so organized is in no sense a dole or charity. John Doe with his own money buys his half of the income. The other half of it, furnished by the employer, is justified on strictly business grounds. It enables him to prevent the waste of hidden pensions, to eliminate inefficiency from his plant honorably, and to decrease his pay roll at no extra cost, when emergencies make it necessary.

In the classification of worn-out workers, we should include workers who are temporarily worn out through disability and workers who are permanently worn out through death. This means that an annuity plan should have attached to it a death benefit and a disability benefit, that is group life insurance and disability insurance, both of which may properly be classified under the caption of the unemployment hazard. When a worker is disqualified for work on account of his disability, he is unemployed for such a period. If a family loses its breadwinner by death, it suffers hardship because of his permanent unemployment. All workers who suffer from the hazards of death, disability, and old age, are accurately described as worn-out workers and should be protected in the way here indicated, as the natural obligation of the industry in whose service they have been worn out.

An employee is exposed to the hazard of disability any time, and therefore, the disability benefit should be made available during his entire period of service and cease only when his retirement benefit begins. This program is an advantageous to employers as to employees. The relationship of life insurance to annuities is reciprocal. They are exact opposites and complementary in their financial operation. What the reserve fund loses on one, it gains on the other. If John Doe dies, the fund pays the death benefit, but not the retirement benefit; if he lives, it pays the retirement benefit, but not the death benefit.

It is suggested that a fair and feasible minimum death benefit would be an amount equal on the average to about 1 year's wage, and a wise and workable

disability benefit would be an amount equal on the average to one-fourth of the monthly wage and payable while disability lasts, but not after the pension benefit begins.

The organic and logical relation of the death and disability provisions to a scientific annuity plan may be described with brevity and clarity in terms of John Doe's experience. John Doe's goal is to acquire a degree of economic independence after a lifetime of work. His employer's goal is to assist John Doe to acquire such independence so that he may be retired from service when the efficiency of the industry requires it.

But on John Doe's way to this goal he may meet two hazards which will defeat his purpose; one is death, the other is disability. In order, therefore, to insure his purpose, protection against these two hazards should be attached to the annuity plan as temporary provisions, to be discarded when John Doe arrives at retirement age and his annuity benefits begin.

Of these three items in a scientific pension plan, the annuities come first in importance, both for the employer and employee. Sickness is preventable; death may or may not be an advantage, but want and humiliation in old age, "the bitterness of eating other peoples' bread and climbing other peoples' stairs at night" is certain tragedy to John Doe. To his employer it means both moral embarrassment and economic waste. Thus the evil consequences of unemployment, due to death, disability, and old age may be removed or mitigated by a comprehensive annuity plan as indicated.

SEASONAL WORKERS

The next type of employment which can be abolished as a problem by systematic and inexpensive protection is unemployment due to the natural and unavoidable fluctuations of business. It is occasional or seasonal unemployment, lasting for irregular brief periods. Such occasional unemployment always has existed and always ought to exist for efficient operation of industry, so that production may be adjusted to consumption. We, therefore, cannot abolish unemployment altogether, but we can altogether abolish it as a problem by furnishing protection against this hazard.

Let us here note the fact, which will be considered later, that it is only occasional unemployment that can be covered by systematic protection. The only suitable and dependable type of protection for this type of hazard is a wage reserve plan, which will enable seasonal workers to subsist for periods of 1 year or less and be sustained as a reserve labor force undeteriorated and ready for use when the slack period is ended.

A fair and wise wage benefit during occasional periods of unemployment would be an amount equal to one-half of the average current wage during the previous 5 years and payable for 1 year if the required reserve has been completed, or for shorter periods while the reserve is being accumulated.

The protection on the three hazards of death, disability, and old age can be operated on the insurance principle of pooling the risk. It can be calculated and the expense involved can be ascertained and budgeted. But to the unemployment hazard it is not possible to apply the insurance principle. It is not an insurable risk. It involves elements which it is not humanly possible to know or calculate. The term "Unemployment insurance" therefore, is false and contradictory. Any plan attempting to apply it must be unsound and is unsafe unless the taxing power of the State guarantees it. Even then the expense involved can never be known.

But what cannot be done on the insurance principle can very easily be done on the banking principle of a limited liability. On this basis the idea is to build up, during 5 or .6 prosperous years, a reserve fund definitely calculated to yield specified benefits for a specified time.

While the actuarial principle can never safely be applied to the unemployment hazard, the insurance principle of pooling the risk can be applied to this fluctuating risk, if industries are willing to obligate themselves to meet the possible deficits. All the industries of a State might contribute a flat percentage of pay roll to a State fund, and if one industry had 100 unemployed for, 3 months and another industry had 500 unemployed, the specified wage benefit would be paid out of the common fund to both groups of unemployed alike. This, of course, could be done, but I believe it is an unjust and unwise procedure. The employer who, by his ingenuity and effort, regularizes his employment will be furnishing funds to pay the employees of an employer who makes no such effort. Thus the application of the insurance principle to this haphazard risk defeats the primary purpose of the plan, which is to decrease unemployment to a manageable volume and not merely to relieve it. If any employer can draw from a common fund more than

he contributes to it, we remove from him the chief incentive, the pocketbook motive, to stimulate him to prevent unemployment.

It seems obvious that this risk is not the kind of risk that can be safely pooled. Unemployment is a preventable calamity. It is a man-made hazard! and hence is essentially different from the hazards of death and old age, which are not man made, but operate by natural law in an orderly way! and can be estimated. The only feasible method is a wage-reserve fund, which yields stipulated benefits for a specified time. Thus only can the maximum expense be known and budgeted.

These then are the four major permanent hazards, which ought to be covered by a permanent protection program in all industries, death, disability, dependence in old age, and occasional unemployment. Whatever other hazards we may or may not at any time include in a social-security program, these four ought at least to be covered first, because they would eliminate approximately definite sections of unemployment due to known causes, before we attack the new and difficult types of unemployment, and because the programs covering these four hazards can be made self-supporting without any expense to the Government.

WHO PAYS THE COST?

The cost of these four programs is definitely a production expense and a proper charge against the depreciation of human machinery. The necessary conclusion is that the cost should be paid by industry as a regular operating expense.

The expense of this protection should be paid by industry rather than by taxpayers as a charity to employers, not only because it is just, but because this program is a financial advantage to employers. The economic justification of a scientific annuity plan is that it enables an employer to eliminate superannuation from his plant honorably, when efficiency requires it, and thus is a means of decreasing expense. The economic justification of a reserve fund to maintain a reserve labor force is that it saves the expense and time of collecting and training a new labor force, an important factor in certain types of industry. The economic justification of the whole program is that it is the effective way of creating and maintaining mass buying power, thus preventing depressions or mitigating their severity. Prevention is better than cure and cheaper. A few progressive employers have discovered that such a protection program pays financially, and all intelligent employers will eventually make the same discovery.

It seems clear enough that this is an operating expense of industry, but should it be paid by the employer alone or shared with the employee? Hitherto many employers have preferred to pay the whole cost themselves, because if employees participated in the cost, they would have the right to participate in the management of the plan. "Who pays the piper, calls the tune." Some employers are willing to pay the piper, because they want to call the tune.

It seems to me a decidedly wiser policy for the cost to be shared jointly on a 50-50 basis as nearly as may be, so that it may be on a self-supporting and self-respecting basis. Thus the cost to the employee is halved and the return he gets is doubled. Moreover if the plan is operated by the industry itself on the trustee basis under the joint management of employer and employee, the cost to both is the lowest that is possible.

If is maintained by some that the employer ought to pay the whole cost, because it is passed on as an increase in the cost of goods to consumers. Employees, being consumers, would thus bear their share of it. But if they also paid for their share of the program, they would be paying twice. This sounds like a plausible argument. But its merit is apparent, not real. It rests on a fallacy.

It may or may not be true that the employer's share of the cost will be passed on to consumers. It may come from a decrease in dividends to stockholders, or in surplus, or in higher salaries. But assume that it is added to the cost of goods. All operating expenses, wages, salaries, dividends, have to come from the proceeds of the business. They can come from no where else. Does an employee object to his regular wages, because a certain portion of them is paid by him through an increase in the cost of goods? Certainly not. It is the necessary consequence of the wage system now in operation. If an employer increased his wages 10 percent, would the employee refuse to accept the increase, because he may pay a fraction of it through the increased cost of that portion of his own factory's goods which he happens to buy, if any?

As soon as the cost of the employer's part of the program is classified as an increase in wages, the subject is at once clarified. It is basically important that it be so classified. The employer's part of the program should not be regarded as a charity to be given or withheld at his pleasure, but be treated as a contractual addition to wages, so that it may become the standard practice in American indus-

try that an employee's compensation shall be a wage for current service, plus the employer's share of the cost of a social security program as a deferred wage as an earned reward for fidelity and length of service.

But do all employees receive a sufficient wage to enable them to pay the expense of their share of the social security program? They do not. That is why the contributory plan should be adopted. It will exhibit this to be a fact and compel its correction. If John Doe's wage is not large enough to enable him to carry his side of the program, it is not large enough. It is merely a living wage. It will have to be a cultural wage with margin enough to permit him to do something for himself and conserve his self-respect. One of the chief byproducts of a contributory plan naturally ought to be the adoption of a cultural wage scale as a standard American practice. When a social security plan is jointly supported and managed by employer and employee, it is more economically and efficiently operated, and if we consider in addition the two large byproducts here named as necessary consequences of this cooperation, it seems clearly to be the wise policy. It is mutually advantageous to employer and employee, which is at it should be among partners in a joint enterprise.

WHAT DOES IT COST?

If a social-security program on unemployment covering the four chief hazards organically related to it, as here indicated, is organized on the cooperative basis, the cost of the plan to employers will not be at all burdensome-a fact highly significant to consider in any proposed legislation inaugurating the plan because we must consider not only what is ideally desirable but what is humanly possible.

As has been suggested in our discussion, and for the purpose of exhibiting the probable cost, let us assume that a fair schedule of benefits which such a plan ought to adopt as the goal to be achieved by the joint contributions of employer and employee is as follows:

1. A retirement annuity equal on the average to half an employee's average wage during his period of service.
2. A death benefit on the average equal to one year's wage, the same he received at the time of his death.
3. A disability benefit equal on the average to one-fourth his 'monthly wage and payable while his disability lasts, but not after his pension benefit begins.
4. An unemployment compensation equal to one-half of the average current wage during the previous 5 years and payable for 1 year, if the required reserve has been completed.

[NOTE.—For the purpose of determining benefits payable under the above schedules, no employee is classified as receiving a salary in excess of \$7,200 per year.]

What would the employer's part of such a protection plan cost? It is, of course, not possible to say until an actuarial calculation is made in each case. The cost will vary considerably among different types of industry. But a clear idea of the approximate cost may be indicated by quoting the cost, based on actual experience and estimates, in a large typical company, which operated its own plan on the trustee basis. In this company the full reserve to cover its matured pension liability, that is, for those on the pension roll and those put on the pension roll when the plan started, was 1 percent of pay roll. This, of course, was paid only once. The annual cost thereafter for all active employees after 1 year of service, and covering both past and current service, was 1.22 percent of pay roll. The annual cost of the death protection on the same basis is 0.25 percent of pay roll, and the cost of disability protection 0.37 percent of pay roll. This company had accumulated a large number of old employees. In two other companies where the same plan has been operated, the cost is less. But even if the cost should be 2 percent it would be very low.

As to the cost of the wage-reserve program, that is only a contingent expense, which is quite different. The reserve required to yield the above benefit is 2 percent of pay roll for a period of 5 years. This is not the cost. Inasmuch as all employees would almost never be on the unemployed list at any one time, the cost will always be considerably less than 2 percent. The cost is only that part of the reserve fund which needs to be distributed in benefits. The cost, therefore, will vary from nothing up to 2 percent. One company has so regularized its employment that its wage-reserve plan never cost it anything.

If an employer allocates 5 percent of pay roll as the maximum possible cost of his part of the social-security program on all four of the major hazards here named, knowing that the actual cost will tend to be less, and if he considers the wastes which such a program eliminates and its other definite helpful by-products, he will conclude that its net cost is a negligible operating expense. He will

discover that it is a means of saving expense and the wisest investment he ever made.

It is to be noted that the costs here quoted apply only to the employer for his share of the program. As to the employee, his cost will be exactly similar amounts for his half of the program on all four plans except retirement annuities. With annuities it is different. The average cost to employers is 2 percent of pay roll or less. The average cost to a whole group of typical employees of various ages is 4 percent of wages. An employee can decrease the cost by paying annuities at an earlier age. Although under the plan proposed the employer agrees to buy on John Doe's account exactly the same number of annuity units which John Doe buys for himself, yet his cost is less for a reason that will be obvious. The employer furnishes annuity units for those employees only who remain in his service until retirement age, and therefore gets credit on account of those employees who leave the service before retirement, but John Doe, when he leaves the service before retirement, receives all he has invested in annuities together with the accumulated interest.

HOW IS IT OPERATED?

These, then, are the four major permanent industrial hazards: Death, disability, dependence in old age, and involuntary idleness. Whatever other types of protection an industry may have, protection against these four hazards ought to constitute the foundation of a social-security plan in all organized industries.

We have observed how these four hazards are organically related to the paramount problem of unemployment; that the cost of protection against them need not be at all burdensome; that the cost is a natural production expense and a proper charge against the depreciation of human machinery. As a necessary consequence the plan should be entirely self-supporting, and its operation a standard practice in industry everywhere.

What is the most efficient and economical way in which such a program can be operated? What I think is the one correct answer to this question is indicated by the proverb, "The proper nurse for Moses is Moses' mother." The need for a protection plan was created as a consequence of the industrial process. It is industry's own child. Industry created the need and understands it, and is, therefore, best equipped to administer the remedy. The items in this program can be efficiently operated by no one except by the industry itself; nor can it be operated properly by an employer alone, but only by the employer in cooperation with his employees. For example: no outside agency has the means of ascertaining whether John Doe is pretending to be sick 3 weeks, when he is in fact sick only 1 week. But if employees play a real part in operating the plan, and if it is made to Bill Brown's financial interest that John Doe does not make unjust drafts on reserve funds, then we have the effective means to prevent malingering and needless waste. This principle of reciprocity applies to the whole program, and operates not only to prevent financial loss but to secure other economic and moral results of large financial importance.

While industries themselves are best equipped to operate their protection programs effectively, yet they have not volunteered to do so, not in sufficient numbers to protect the great mass of employees against these hazards, nor to protect society against the consequences of these hazards. The function of a social security plan is to protect society as well as the individual workman.

Inasmuch as industries in general have been unwilling or unable to adopt such plans voluntarily, it has become clear that the desired goal can be achieved only by compulsory legislation. It would not be fair to say of all employers that they will adopt this wise and just policy only when they are compelled by law to do so. Leaders in certain industries have made sincere efforts to persuade member industries in their group to adopt such plans voluntarily, only to discover that a large number of "rugged individuals" refused to cooperate even for their own advantage. The advantage which they could not obtain by voluntary action can be obtained by legislation. If all alike must adopt the plan, each one is protected against an unfair basis of competition on production costs.

The one and only purpose for which we need compulsory legislation is to secure a uniform and standard practice throughout American industries. Industries can best operate their own plans. All they need is to be compelled to do so. A uniform practice can be secured if compulsory legislation will contain two essential requirements; namely, a stipulated minimum schedule of benefits, which industries are required to furnish, and a reserve fund which is actuarially calculated to be sufficient to produce them. These are the only two essential items needed. Each

industry should be permitted the freedom to operate any type of plan it thought best suited to its needs. So long as an industry furnished the specified benefits and maintained the required reserve fund on a sound basis, what difference could it make to the Government what type of plan an industry used?

The probable cost to average industries for the suggested schedule of benefits is here stated merely as an illustration to ease the mind of employers. The assumed cost of this program ought never to be included as a provision in any legislative act, for the simple reason that the cost will vary greatly in various industries, and it is impossible to know beforehand what the cost will be in any case. Instead of any flat blanket cost imposed on all industries, what a legislative act should contain is a minimum schedule of benefits, which all industries are required to provide, letting each industry furnish these benefits by any sound reserve method it desired to use. It might operate the whole plan itself on the trustee basis, or engage an insurance company to underwrite the whole plan, except the wage-reserve program which no insurance company handles, or operate part of the plan on the trustee basis and have part underwritten by an insurance company. So long as any industry's plan yields the specified benefits, and is secured by an actuarially sound reserve, the employer and his employees are justly entitled to the advantage of any economies in cost they can secure by eliminating needless expense. The possible advantage of such saving is very considerable.

On account of the present depression, it would be conspicuously wise legislation to require all industries to adopt the above social-security plan now and, on account of the present depression, it would be an equally wise provision to require industries to set up the necessary reserves not now but progressively as and when business conditions improve. A good formula to determine when reserves shall be set up, and in what amount, would be that proportionate deposits in the reserve of the social-security plan shall be made whenever dividends are paid to stockholders.

ONE LAW FOR ONE NATION

If a social-security system is to be national in scope, effective in operation, and uniform in essentials, obviously it requires Federal legislation, and Federal legislation which does not make the operation of the law contingent on the action of the States. But this is what the Economic Security Act, now before Congress, does, and thus it provides the means for the defeat of its own purpose.

Some States may and some may not cooperate, so that there is no assurance that the law will be national in scope. The States will necessarily be slow in acting, so that the law will be delayed in becoming effective. If and when they do act, it is practically certain that there will be 48 various laws. A law with 48 variations will be complex, conflicting, needlessly burdensome and expensive to the many industries, which operate in several States. If, to secure uniformity in essentials, the Federal Government stipulates what the State laws must contain, then its apparent courtesy becomes a meaningless formality.

It is wiser to face facts as they are. What we need is 1 law, not 48. A nation is the will to be one people. We are a nation. Our Nation has become an economic unit. A social-security act ought to fit the economic facts of today, not the political facts of a century ago.

It is quite possible to have 1 law for 1 nation, and still preserve our democratic traditions. The essential aim of our democratic theory is to secure concerted action in the whole and yet preserve freedom of initiative in the parts. The practice of this theory is basically important.

This American principle will be operated if the Federal legislation will require all industries to adopt social-security plans with a stipulated schedule of benefits and a sound reserve fund to secure them, as indicated above, but permitting industries to operate any type of plan they think best suited to produce the specified results. This is to say, that in establishing a national social-security plan, the Federal Government would apply to all industries in the Nation the same practice now applied by some States in their workmen's compensation laws. Industries in these States are permitted to operate their own plans, use the State insurance fund, or use a private insurance company. This combines uniformity in results to be achieved with variety in methods of achieving them.

It should be noted that this method preserves freedom of action not only to individual industries, but also to the States as well. There is still left sufficient scope for cooperative action by the States in the administration of the act. The unique circumstance that out States existed as political entities before the

Nation was organized need not be an obstacle to prevent effective concerted action in the Nation, but can be utilized to facilitate concerted action. If the States had not already existed, it would have been necessary, in a Nation as large as ours, to subdivide it in units somewhat like the States for the sake of administrative efficiency.

Thus the States could perform a large service in helping to administer a unified national-security act. They could verify the facts and report when and if the industries located in their territory adopted plans of the required standard. A State could set up the machinery of a State insurance fund for the use of its own industries. It could provide a way, by which its industries could pool their risk or each carry its own risk. This question could be decided by each State for itself without in any way affecting the plan's designed purpose. Thus the democratic principle of decentralization would be applied to the handling of the reserve funds as to other detail features of the plan. Aside from political reason, it would be far more efficient for the fund to be handled locally by industries or by groups of industries or by States than to concentrate the fund in an enormous volume in Washington. Aside from fairness to the economic enterprizes of local States, funds can be handled more productively when in a normal-sized volume than in an abnormally large volume. When any enterprize gets too big, the law of diminishing returns is sure to operate.

A unified national plan, with a large measure of freedom for industries and ample scope for the States to function cooperatively, could be directly and effectively constitutional. Congress has the undisputed right to impose an excise tax or a super tax on the incomes of corporations. It could impose such a tax, equal let us say to 5 percent of the pay roll. The amount is a matter of small importance because the tax is not designed to yield any revenue, but solely for compulsory purposes. Let the act stipulate that the tax will be automatically canceled in the case of those employees who, before the expiration of a specified time, shall have adopted a social-security plan, covering the four industrial hazards here named, and which is designed to yield the standard minimum schedule of benefits stated in the act, and to establish a reserve fund actuarially sound.

It will be observed that a law which thus distributes the work of operating the plan among the industries themselves, and among the States will not only be more effective in securing the desired results, but will obviously effect enormous economies in administration.

Under such a plan, the only machinery needed in Washington is a comparatively small bureau in the Treasury Department, whose only function would be to ascertain from industries or from a State on behalf of its industries, whether standard plans had been adopted by industries, and use this information for the purpose of remitting their contingent tax, or not remitting it.

IT PAYS ITS OWN WAY

If we want to get anywhere, it is wise to start from where we are. In starting to construct a social-security program is it not clear that we ought first of all to include the four major hazards here named? Protection plans on these hazards, are already in operation, however defective and inadequate they may be. Plans on 3 out of the 4 hazards have voluntarily been put into operation to a wide extent. On the fourth hazard, the unemployment hazard, a few employers have adopted wage-reserve plans, which is a sure indication that such plans are approved in principle by a large number of employers. To begin with what is already admitted by common consent to be necessary, smooths the way to the desired goal.

The road to this goal is cleared also by the fact, comforting to taxpayers, that the plan involves no expense to the Government. Aside from the cost of administration in Washington, which under the plan here proposed is quite negligible, the expense can be wholly absorbed as a production cost in the industrial process. That is where the cost properly belongs, because depreciation of human machinery is a production cost. We are seeking to demonstrate that a social-security program can be made to pay its own way, and it seems self-evident that the four items in the program here listed as the first essentials, not only can be self-supporting, but ought to be.

If, then, this social-security program were put into operation by an effective-Federal law, to what extent would it abolish the problem of unemployment? To this extent, namely. The annuity program operating throughout industry, I calculate, would eliminate 1,015,388 old workers, putting them on the pension, pay roll, making room for that number of younger workers. That is the estimate, based on conservative data, of the number of employees 65 years old and over.

now in American industries. This would not only decrease the unemployed to that extent, but automatically keep them decreased to that extent in the future.

The wage-reserve plan, when in operation will abolish unemployment as a problem to the extent of 2,348,000. This is the average annual number on the unemployed list during the 10-year period, 1921 to 1929, inclusive. It is a typical period, including both a depression and some prosperous years. This means that there will always be a volume of unemployment, and always ought to be a reserve labor force for the efficient conduct of business. But it will constitute no problem, if those occasionally unemployed are protected by a wage reserve as here proposed.

The number of unemployed thus eliminated as a problem, in these two classes, by the annuity plan and the wage-reserve plan is 3,363,388. Would not the elimination of this number of unemployed from our problem be a notable achievement? The road to it is clear and straight. Inasmuch as the cost of this achievement can be easily absorbed as a production cost in industry without any public expense, there ought to be no difficulty in obtaining general assent to a proposal at once so feasible and so advantageous.

DISPLACED WORKERS

So far so good. But what about the third class of unemployed, the displaced workers? The annuity plan will absorb roughly about 1,000,000 unemployed. The wage-reserve plan will absorb roughly about 2,000,000 unemployed. It is designed to protect only the occasionally unemployed. Industry can be justly required to bear the cost of only that amount of unemployment which occurs as the consequence of its own operations.

But when the number of unemployed came to be 4, 6, 8, 10, 12 millions, it became evident that it would be physically impossible for industry to build up a fund sufficient to care for this large volume of unemployment, which occurred not as a consequence of its own operations, but as the consequence of the breakdown of our whole industrial system. The Government could provide such a fund by putting an unbearable and increasing burden on taxpayers, but wholly apart from the mountainous financial burden involved, I assume we are agreed that to support this large number of men in idleness by a public dole as a permanent policy would inaugurate a national calamity of the first magnitude. The scope of the calamity is enlarged when we realize that the invention of improved machinery is progressively replacing more and more workmen, who cannot be reabsorbed in industry. Obviously a large volume of the present excess of unemployment is not a normal reserve labor force, but an abnormal displaced labor force, which requires a wholly different solution.

SUBSTITUTES FOR POORHOUSES

In the huge and abnormal volume of excess unemployment at present existing, it is customary to include the large group of unemployables; that is, the aged and indigent, widowed mothers with no means of support, and dependent children. The Economic Security Act submitted to Congress by the administration provides relief for these groups.

It is altogether fitting that relief should be furnished to these groups, and such measures exhibit the traditional and conspicuous readiness of the American people to aid citizens in need. They ought to meet universal approval. Such relief is more than an act of ordinary kindness but a wise conservation of our human resources. Children constitute not only the ground floor of life, the stuff out of which men and women are made, but the largest financial asset of the Nation, our most important class of citizens. It is not kindness, but common sense, to conserve such wealth.

It is fitting also to furnish such relief as direct aid from public appropriations. These pensions are substitutes for poorhouses and private charities. They will cost no more—probably less; and they are more dignified.

It is fitting also that the Federal Government should share this burden with the States. If the administration of public and private charity in local communities is inefficient and wasteful, as it frequently is, the Federal Government's contribution can be utilized as a lever to elevate the standards of local administration. The way to elevate them is not the disuse of local machinery but its right use. With this improvement, the work will be better done through local machinery than apart from it.

While pensions for these groups are worthy and wise, they do not properly belong in a social-security program, but ought to be covered in a separate legislative measure. The method of financing them is essentially different, and the method of administering them is essentially different. It is hoped that the need for such pensions is temporary. At least it is a reasonable expectation that the need for them will progressively decrease. We ought to operate on this theory, because we can make the need decrease.

But social security is a permanent need. The aim of a social security is a permanent need. The aim of a social-security program is to furnish a degree of economic independence in the face of certain permanent industrial hazards, not as a charity which may be continued or withdrawn at the will of a legislative body but as the earned reward of service. This goal can be achieved only if such plans are made to be self-supporting.

Using words accurately and honestly, a social-security program is one which furnishes security against known hazards; security which insures not only the individual against these hazards but insures society as well. This is the obvious meaning of the term "social security". Therefore, such a program ought to include only those plans which, whether a large or small amount, can be absorbed as a production cost, and in consequence treated as a supplement to wages, so that the protection may be contractual and dependable. Otherwise it is not security, but temporary relief.

HOMESTEAD VILLAGES

Our purpose is to demonstrate that a social-security program can be wholly self-supporting, entailing no expense on the Federal Government, and be a better program on that account. We think it has already been demonstrated, so far as concerns the four hazards considered up to this point: Death, disability, dependence in old age, and occasional unemployment. It seems clear that they can be, and ought to be, self-supporting through a compulsory plan, operating in all organized industries, and which the large majority of industries would recognize as just and feasible, if made universal.

This is that part, and the only part, of our problem, for which industry can justly be held responsible. But as to the large army of employables, men able and willing to work but now out of work, it is neither just or physically possible for industry to provide a sufficient fund to maintain this army as a reserve labor force. This is the crux of our problem, and will continue to be so just in proportion as improved machinery displaces manpower, as it is doing, and ought to continue to do, and just in proportion as our productive capacity exceeds the power of consumption, as it now does, and as it ought to continue to do.

The excess volume of displaced workers is the heart of our problem, but it glares by its absence in the Economic Security Act now before Congress. Is it not clear that there can be no social-security program, even approximately effective, if it omits this paramount part of the unemployment problem?

It ought to be obvious that legislation requiring industries to adopt a program covering only the four hazards so far listed in our discussion can yield protection only to those workmen now employed in industries. If it stops here and contains no provision covering workmen now displaced from industry, and who will continue to be displaced even when business revives, it is offering to the public a false hope, and is foredoomed to become a bill of broken promises. President Roosevelt in his radio address of November 31, 1934, expressed what must be our true guiding principle when he said, "I stand or fall by my refusal to accept as a necessary condition of our future a permanent army of the unemployed." Any legislation on the problem of unemployment not constructed on the President's formative principle is like playing Hamlet with Hamlet omitted.

Unemployment has been correctly defined as the involuntary idleness of those willing and able to work. The vast numbers of them at present existing is the symptom of a serious social disease. Concerning the personal tragedy of it, Thomas Carlyle expressed the unexaggerated truth when he said, "A man willing and able to work and unable to find work is perhaps the saddest sight that fortune's inequalities exhibit under the sun." Is it not clear that some method of eliminating this personal tragedy and social disease must be given priority in any serious consideration of our problem?

Inasmuch as it is impossible for industry to maintain this huge number of unemployed employables as a reserve labor force, and inasmuch as it is unthinkable that the Federal Government should permanently support in idleness men able and willing to work, what shall we do with them? As I see it, there is only

one correct answer to this question. The law of cause and effect makes it obvious. It is this. We must somehow create a new opportunity for these men to earn their own living.

This answer is general and is self-evident. If we come to a bill of particulars and inquire what concretely is the best way in which these men can be given a chance to earn a living, there is probably ample scope for difference of opinion. There may be several good projects designed to achieve this purpose. But it is too self-evident to need demonstration that some way for idle men to earn a living must be found, and I believe can be found.

The project, which many years of thoughtful investigation have convinced me is best designed to achieve this purpose, is the "homestead village" or "farm village" project. It is wholly self-supporting; it creates and maintains purchasing power; and it is in itself social security on the principle that the best insurance against unemployment is employment. During many past centuries, the use of land has furnished the answer to the same problem which confronts us, and it is the convincing answer now. It is not without large significance that the land has been called "Mother Earth." This is not a mere sentiment but an economic fact. A return to mother earth is like going home; going to the original and permanent base of support for mankind.

In a brief treatment of a subject like this, involving as it does a new way of life, a whole volume must be left in the inkstand unsaid. A few facts are sufficient to indicate its conspicuous merits and large possibilities. There are three distinctive types of homestead villages; those in which homesteaders depend wholly on the soil for a living; those in which they depend on an industry for a cash income; and those in which they combine these two activities, depending partly on the soil and partly on industry.

Omitting the large social and economic values in these various types of homestead projects, the central advantageous idea can be clearly illustrated in the industrial type. The homestead as here used, is a modest inexpensive but comfortable and artistic house, built on an area of productive land, ranging, in this type of village, from 1 to 3 acres. The payments for principal and interest are amortized over a period of 15 or more years at a low rate of interest, not over 5 percent but 3 percent would be better. .

If and while a homesteader was employed full-time in a neighboring factory, he could supplement his wages by a partial use of his land, with the assistance of his family, by raising a few vegetables and keeping chickens or a pig and cow. During periods of unemployment, he could make as full use of the land as possible, and partially or wholly support himself, instead of becoming the victim of public or private charity.

Thus a homestead of this type becomes his social security and a means of economic independence. Homestead villages ought to be an integral part of every industrial social-insurance plan. Is it not clear that an employer operating a pension plan and a wage-reserve plan, would not need to provide for those employees occupying homesteads half as large retirement pensions and unemployment wage benefits, as otherwise he would have, to provide? This is an easement to the reserve funds and also an advantage to John Doe. It is the social-security principle applied to home building.

By way of contrast, an employer, whom I have long known, built a few years ago 100 houses near one of his New England mills and made them available to his employees. The average cost was \$3,500, making a total of \$350,000. It was a typical building enterprise, the houses were double, and built in rows on meager town lots. Shortly after the employees began to use them, the depression occurred and they lost their jobs. The houses were thrown back on the employer's hands and so were the workmen or thrown on the community to be supported by public or private charity. The investment is totally frozen. The employer has offered to sell the houses for \$100,000, less than one-third the cost, and cannot find a buyer at that.

When I told him that his enterprise had been a 100-percent failure, he said we have discovered that by experience. If he had gone a little distance from his factory and built these houses on plots of 1 to 3 acres of fairly good soil, and if he had built not merely houses, but a community, operating as an independent village, not as a mill village, these houses would not now be a liability, but an asset. It is all the difference between plus and minus. John Doe could have carried this type of house, if he were employed on a small-work schedule or if he were covered by a social-insurance plan as he ought to be. But there are ways in which he could carry it if he had neither a job nor social-insurance protection.

If my employer friend had built the homestead-village type of house, he would probably now have 10 buyers for every homestead. At least this has been the average number of applicants for each homestead which up to the present has been offered in the Government experiments.

If, in the homestead-village method, the amortization period used is 20 years, and the interest rate is 5 percent, the monthly cost to John Doe for principal and interest, is \$6.60. If this type of homestead can be furnished him at \$3,000, as it can be, John Doe's monthly cost is \$19.80; at 5-percent rate, it is \$18.18; at 4-percent rate, it is \$16.65. This is very considerably less than the rent demanded for such a place, and, in addition, John Doe will automatically own his homestead.

It is a new and different process. It is a social-security type of homestead. I make no mention of the human and educational values. For my present purpose, I merely stress its financial advantage to employers and to the Nation. Money talks. It opens up the social-security way of life. This is not only the safe and sane way of life for factory workers, but for all classes of people.

Therefore, the facts compel the conclusion that the homestead-village project has the possibility of being an enterprise of large national significance. Much of our housing is unfit for human habitation. Much of it is obsolete. We are now 5 years behindhand in our normal building schedule. The homestead-village project would greatly stimulate the capital-goods industries; it would create and sustain buying power in large volumes, it would furnish work for large numbers of idle men, it would open an independent way of life for the unemployed who cannot be reabsorbed in industry; it can be made either self-supporting or profit making, it would involve no expense to the Government or to anyone else. My own conviction is that the need for this project is so urgent and the field for it so large, that it can be made an enterprise second in importance only to the automobile industry, which a generation ago was sufficient, if other factors had not intervened, to have guaranteed the economic prosperity of any nation. As an alleviation and prevention of unemployment cycles, homesteads have many advantages over automobiles. Homesteads grow food; automobiles do not. The homestead-village project presents an open door of opportunity to rebuild large sections of America on a saner, sounder, more self-supporting basis, more worthy of American citizens and the Nation's ideals.

RIGHT TO EARN A LIVING

This project can be made a national large-scale enterprise, if it were financed by the Government. The Government could finance it not only at no expense to itself, but also at low rates to homesteaders. It could make loans to any extent required, because they are self-liquidating debts. It could secure money in the usual way by selling its bonds to banks and the public. It can get money at 3 percent and lend it to homesteaders at 4 percent, using the 1 percent margin to cover operating expenses, thus making the enterprise self-supporting even in its administration.

The Government could render a huge additional service and at no public expense if it would finance this project not in the usual way of borrowing the money from banks by selling them its bonds, but by buying the bonds of homestead villages, paying for them with money issued by itself, at no cost for interest, money secured by first mortgages on productive real estate. It is the use of what we may call "land currency" recommended by Benjamin Franklin. It needs no other security, but the Government merely for sentimental reasons, could give it additional security by a reserve of gold which now exists unused in its possession. The currency so used would be automatically retired as and when the loans were liquidated by monthly payments, making it a finished transaction.

The time was when the Government furnished homesteaders with land free of charge. It now has no land left to give, but in the new frontiers of opportunity to earn a living, which lie within easy reach of almost every town and city in the Nation, the Government could furnish homesteaders with the means to acquire land free of all interest charges, except 1 percent to cover operating expenses. On this basis the monthly cost to John Doe per thousand dollars on an amortized basis of 20 years, would be \$4.62 and for a homestead costing \$3,000 he could liquidate the debt by a monthly deposit of \$13.86 as contrasted with \$19.80 on a 5-percent basis as above stated. The monthly difference of about \$6 is an enormous difference to John Doe, and may be all the difference between success and failure to large numbers of citizens in the process of acquiring homesteads. On our present emergency the use of land currency to help abolish unemployment would exhibit the exact and proper function of money. It is like the function of a postage stamp in carrying a letter. The letter is the important thing; the postage

stamp is merely the means used in the business of transporting the letter and is destroyed when the transaction is finished. This method of financing the project would also eliminate one of the chief causes of our industrial break-down and one of the chief factors retarding recovery, the factor of excess interest.

Nevertheless it is only too probable that the method suggested for the use of land currency is too sound, too simple, too inexpensive, too daring to warrant the expectation that Congress will adopt it in the near future, if ever, even though it is supported by the great name of Benjamin Franklin, our most distinguished philosopher of thrifty finance and although it was successfully operated for 50 years in the Pennsylvania colony. If our tragedy of unemployment continues or grows worse, it may be that we will be compelled to use simple direct feasible solutions. In the meantime the best we can hope for is that the Government may finance the homestead-village project -by securing' funds in the usual way.

Neither of the two methods involves the Government in any expense, the financing of the project presents no obstacle. Our one obstacle lies elsewhere. If this enterprise is to be self-supporting so that it can be utilized to absorb displaced workers and be made an effective means of social security, there is one guiding principle which must be resolutely faced and honestly accepted.

The Federal Government has spent \$25,000,000 in starting the construction of "subsistence" homestead villages as an experiment. Its specified purpose is "subsistence" only. Homesteaders are not permitted to sell their products and earn a living. If a homestead village is to render any real service in helping to solve the problem of unemployment, it is self-evident that its objective must be to furnish not mere subsistence, but a means of livelihood. How otherwise can it offer a self-supporting way of life to displaced workers?

The ('subsistence" theory, applied to a homestead village, not only defeats its designed purpose, but is a basic fallacy. The right to earn ,a living is a natural right, which no class of citizens can monopolize and deny to other citizens. If it is not a right of all, it is not a right of any. The -American democratic doctrine, as Walt Whitman indicated, is that no citizen claims the right to enjoy anything which all other citizens cannot enjoy the counterpart of on like terms. Any citizen who violates this principle does so at his own peril, the risk of losing his own rights.

Strangely enough the right to work was not included among the basic natural rights listed by Thomas Jefferson in the great declaration which gave birth to the Nation; only the rights to life, liberty, and the pursuit of happiness. But the right to the pursuit of happiness is merely theoretical and meaningless unless one has a right to the things which produce happiness; the right, to liberty is theoretical and meaningless unless one is in a position to exercise it; the right even to life itself is theoretical and meaningless unless one has a right to secure the means necessary to support it. The right to work, to earn a living, to secure enough to support a family in decency, is a prior antecedent right, without which no other rights have any value.

Jefferson's omission of it seems strange to us now, but it did not seem strange to him. It never occurred to his mind Why? Because the famine for work had not been created. 'It is the hyproduct of our modern industrial system.' Ir Jefferson's day work in America was regarded only as a duty which men were urged to perform; a moral duty, not an economic right. The revolutionary transformation in our conception of work from the status of a duty to be reluctantly accepted to the status of a right to be belligerently demanded is one of the most interesting and disturbing events which has occurred in our industrial and mental evolution during the past hundred and fifty years. It is a fact big with consequences and significant of much. How much, could be discovered dramatically if one would go to an audience of unemployed men, willing and able to work, and try to make an address on the duty to work. It would create a scene so tragically amusing that no one would have courage to try it. So dwindled down is now the demand made on life in this period of plenty by vast numbers of citizens that the supreme happiness which these men seek is merely the right to work and earn a living. That is the pathetically meager limits of their demand. It must be granted to them, not only as their birthright as citizens, but as a measure of national defense and social security.

ABOLITION OF UNEMPLOYMENT

Inasmuch as industry cannot absorb the volume of excess unemployment and ought not to be blamed for not furnishing what it does not have, it Is here suggested that the Government ought to open to all unemployed employables a

way to earn a living, and that the most feasible way is in self-supporting farm villages. But it is not yet apparent that the Government will be able to meet this need. If it cannot discard the "subsistence" fallacy and organize these enterprises on the livelihood basis, then they cannot be self-supporting. And if they are not self-supporting, then they cannot furnish a livelihood, or increase buying power for the products of industry and help restore the balance between production and consumption. If those who, while exercising the right to earn a living for themselves, desire to monopolize this right and deny it to their less fortunate fellow citizens, are able to influence Congress sufficiently to prevent the Government from conducting this enterprise on a self-supporting basis, then it can be conducted as a private enterprise on a profit-making basis.

The Government is compelled to operate on the lowest common denominator, which sometimes is quite low. Therefore, it is only too probable that the Government will not be able to conduct this project, as a self-supporting enterprise at present and may never be able to do so. Hence, it is a fortunate circumstance, that whatever the Government may or may not be able to do, this project can be conducted successfully as a private enterprise. There are distinctive advantages, which can be secured for homestead villages only if the project is conducted as a private enterprise, and if conducted privately it offers a large opportunity for use of unemployed capital as well as unemployed men. Therefore, in any case, it ought to be a volunteer enterprise, but it ought to be conducted by the Government as well. The need and scope for it are so vast, that there is ample room both for the public and private type of enterprise.

The experiment on this project, which the Government has been conducting for the past 2 years, has rendered a conspicuous public service by directing the Nation's attention to the need for it. Many mistakes, of course, have been made. But it is the right of the Government, as it is the right of any individual, to learn by making mistakes. When Gladstone was asked how he had acquired such an expert knowledge of the rules of parliamentary procedure, he answered, "by breaking them." Negative results may have positive value. The Homestead Division has been useful in exhibiting what not to do as well as what to do; and on both counts has accumulated valuable information available for general use.

Needless to say, it has been handicapped by the apparently unescapable and usual red tape. To a creative type of enterprise like this one, red tape is more uncongenial than to any other, because it is more wasteful and more damaging to efficiency. The damage done by red tape is often so great as to reach the limit of humor—the type of humor exhibited in the experience of a cultivated Chinese and his wife living in San Francisco. They made a 3-month visit to their native land, and during this visit they became the parents of a new baby. When they returned, the immigration officer at this post admitted the father and mother, but ruled that their infant baby could not be admitted. The law provided that while Chinese living in the United States could leave and reenter the country, no new Chinese could be admitted. When a strenuous protest was made to the Secretary of the Interior, the immigration officer sent on his papers to Washington with a memorandum defending his ruling. Is not this baby a 'new Chinese'? Is not this the law? The formula seems entirely correct. The Secretary returned the papers on which he had written this brief instruction: "Burn these papers; don't be a damn fool." If there were attached to the Homestead Division an engineer who officially could order the burning of red-tape rules and formulas, the increase in its efficiency would be conspicuous.

But the serious handicap of this experiment of the Government lies in the fact that it is attempting to do the impossible. The enterprise was sincerely undertaken, and those who inaugurated it gave to it their unstinted devotion. They are progressively discovering what ought to have been obvious from the first. They are trying to balance the budget of the homestead villages they construct, but the law which authorized the project distinctly specifies that it must not be self-supporting. It is a mathematical certainty that we cannot add together a balanced budget and nonself-support, any more than we can add together three quarts of milk and three quarters of a mile. The necessary conclusion is that unless the Federal law controlling this project is fundamentally revised, the project can never achieve its designed purpose, and that it must be conducted as a private enterprise on a paying basis. The present value of the Government's experiment is its usefulness as a pump primer to stimulate the use of private capital in the construction of homestead villages, and this was one of the Government's avowed purposes in starting it.

There will be no lack of capital as soon as it is discovered that the project can be made to yield a fair and dependable return on the investment of brains, labor, and money in the enterprise. No profit-making homestead village has as yet been constructed. That is why it ought to be as soon as possible. They will never be constructed in large numbers, as they need to be to absorb excess unemployment and yield social security, until they exhibit their profit-making possibilities. It is not possible to escape the law of economic determinism. The effective way to make this project serve social ideals is to make it pay its way financially. The proper place for ideals is a cash box.

It is necessary immediately to clarify what is here meant by profit making lest it be misunderstood. This project will be foredoomed to failure if it is commercialized in the customary manner hitherto prevailing. There must be no exploitation, no promotion-scheme methods, and no element of speculation—only profits which are created by labor and honestly distributed. There is no objection to profits if they are honestly made and justly distributed to those creating them. On this basis the larger the profits the better for all concerned, and this should be the legitimate aim of the project.

The new type of homestead village, as here conceived, is a city of refuge and escape from several conspicuous hazards of modern industry and modern life; it also exhibits the operation of several conspicuous principles in our American theory of a democratic way of life and education. Both classes of advantages become obvious enough as soon as the project is examined with any degree of care.

What has not yet been discovered is the fact that this project can be a profit maker. All the activities involved in the enterprise have separately been long in operation and demonstrated successes. What is needed to make the homestead village as an enterprise to be a profit maker is the integration of these activities. It is essentially a social-engineering task, which while complex is not difficult. Social engineering is the process of integrating all those elements needed to produce a designed and desired result in any field. This is the key to the financial success of a homestead village. The process of integration at once eliminates a large number of burdensome and needless wastes, which means an increase of profits, because money saved is money made. It also creates new wealth which adds still more to the profits.

If then this engineering principle of integration, which is a universal law of the physical world, is applied to this project, it can be demonstrated, as I believe, before any investment is made, not only that the investment is the safest anywhere to be found but also that a satisfactory return on it can be definitely assured. I say definitely assured, because the four chief sources of income, not the only sources, but the four largest known definite sources of profit are under the control of the management of the enterprise, and therefore not an uncertainty.

If these results are to be assured, it cannot be overemphasized that this project is essentially not a house-building project but a community-building project. This is a short sentence, but a whole volume would be justified to stress its importance. It is another way of stating what is the key to its financial success. It is a way of saying that the kind of method used ought to fit the kind of a project it is. This is merely saying that what we need to apply to it is organized common sense.

The profit-making possibilities of this enterprise, together with its obvious contribution to the permanent solution of unemployment, are so significant that it is within the bounds of sober truth to say that there is solid ground for the expectation that during the next 20 years it may become one of our major national enterprises, capable of creating and sustaining economic prosperity in large measure.

PURCHASING POWER INSURANCE

The homestead-village project obviously is a long-term project, and in consequence of its nature must be developed slowly. It could be started on a large scale, but its development ought to proceed only as rapidly as is consistent with its healthy growth, because it is concerned not only with building machinery but with human machinery. This is the only safe formula to follow. We ought not to expect the fruit the day after the tree is planted.

Because the soundness of the project requires its slow development, special measures are necessary to meet the emergency of providing work immediately for the unemployed. This the Federal Government plans to do in its relief program through public works on a large scale. Some of them are needed improvements, some of them add to the permanent wealth of the Nation, but most of them create debts, which are not self-liquidating. We would not add to our national debt by undertaking them in this period of depression if we did.

not need "made-work" to meet an emergency. Both the conservation of natural resources and the conservation of man power furnish ample justification for this investment in public works.

The public-works program is covered not in the Economic Security Act, but in a separate legislative act, which is as it should be. Public works for relief purposes are temporary and not self-supporting, but a social-security program ought to be, and therefore ought to contain only those activities, which are self-supporting. Whatever measures we adopt for temporary relief we ought at the same time to adopt a project for the elimination of the need for relief, like the homestead-village project, designed to be a self-supporting method of absorbing the unemployed and keeping them absorbed. As homestead villages progressively open to the unemployed the means of earning a living, the money expended on public works can be progressively decreased.

This can unemployment as a problem be abolished. Not the relief of unemployment, but its abolition is the only goal worthy of America. A dole ought to have no place in our social-security program. A dole is demoralizing both to the giver and receiver of it. A dole is no solution, but an aggravation, of our problem. It does nothing to end unemployment, but insures its continuance. It accepts and recognizes unemployment as a permanent condition. It is an easement to the conscience of a nation, which has not sufficient social intelligence or good will to discover and remove the cause of unemployment. It may be a necessary evil to a nation whose golden age lies in the past, but not to a nation like America, whose golden age lies in the future. We are not conducting a retreat, we are going the other way. We refuse to surrender to a condition, which has no justification for existing at all.

A self-supporting social-security program is worth all it cost, whatever it costs. The interesting fact is that its cost is not an expense, but the means of saving expense. The attitude of industrial leaders to a social-security program would be immediately transformed if they ceased thinking of it as a charity or a relief measure or an added expense, and began thinking of it as it actually is. Its true significance would be exhibited if we selected a short descriptive term disclosing its economic purpose. We would discard the term "unemployment insurance" and substitute the term "purchasing-power insurance". This insurance, unlike other types, does not pool the risk, because there is no risk. It assures a definite benefit to all. The aim of a sound preventive self-supporting program of social security is to create and maintain mass buying power which is a benefaction to all classes, and without which economic prosperity cannot be restored or maintained. As soon as industrial leaders began to think of the program as it is, and to judge it by the fruits it is designed to yield, they would cease trying to make it cost as little as possible and try to make it cost as much as possible, and as is consistent with sound economics. Considered in terms of its big objective; that is, as purchasing-power insurance, a self-supporting social-security program, with a generous schedule of benefits, would merely apply to business the same policy which years ago Henry Ford applied to it in his policy of a large minimum wage scale, not how small a wage the labor market made possible, but how big a wage he could afford to give. This smart policy originated in the simple discovery that his employees were also his customers, that they could not buy his automobiles if they lacked the means to buy them. -It is the logic of common sense and mathematics. Two plus two equal four and cannot be made to equal anything else. The way to restore purchasing power is to restore it.

The social-security program, here described, is recommended not because it is merely self-supporting, but because it is equivalent to purchasing-power insurance; it is recommended not because it means no increase in the public debt, no increase in taxes, no distribution of doles, but because it makes possible the abolition of unemployment as a problem. To achieve this purpose, the proposed program includes three distinct plans to cover the three chief and outstanding classes of the unemployed; the self-supporting industrial-annuity plan for those, whose unemployment is due to the natural hazard of old age, furnishing them a minimum of economic independence after a lifetime of work; the self-supporting wage-reserve fund for those whose occasional unemployment is due to the natural fluctuations of business, sustaining them physically and morally as a reserve labor force; and the self-supporting homestead village to absorb displaced workers, furnishing them the means of earning a living and relieving taxpayers of the burden of their support.

The tragedy of life lies not so much in what men suffer as in what they lose. The tragedy of the great depression lies not only in the suffering entailed on the innocent and guilty alike, but in the huge volume of wealth we have lost by our

failure to utilize the creative labor of millions of unemployed citizens. If this tragedy is to be prevented from persisting, it is essential that a social-security program must be organized not on the policy of doles and increased taxes, but on the policy of self-support and prevention.

The simple way of doing a thing or solving a problem is almost invariably the last step in the process to be discovered. This has been the usual experience in the development of mechanical machinery. If there be any who object to the simple direct method here proposed for the abolition of unemployment as a problem, I can only say that I think the sufficient answer is to ask them the wise question stated in the Greek proverb, "If water chokes, what can one drink to stop choking?"

The **CHAIRMAN**. I desire to submit in the record a statement on the pending bill by Mr. Richard W. Hogue, director, Independent Legislative Bureau, Washington, D. C.; also statements by the Washington branch of the American Association for Social Security, and by Mr. Clarence A. Kulp, University of Pennsylvania, Philadelphia, Pa. There is also submitted a letter from Mr. Percival Hall, chairman, executive committee, Conference of Executives of American Schools for the Deaf, Inc.; and a letter addressed to Senator Robert F. Wagner, of New York, by Mr. Ralph Whitehead, executive secretary, American Federation of Actors, New York City.

STATEMENT BY RICHARD W. HOGUE, DIRECTOR, INDEPENDENT LEGISLATIVE BUREAU, WASHINGTON, D. C.

Mr. Chairman, in view of the very, full testimony, already placed before you, I shall offer only a brief written statement. I should not do this but for the fact that only a few passing references have been made to two matters which seem to others besides myself of really major importance.

The references that have been made to the first of these matters convey a very erroneous and unjust impression. This should be corrected for the sake of the record. The impression has been given that consideration of social-security legislation has been suddenly thrust before an uninformed and indifferent Congress. This has been implied by certain witnesses, particularly in regard to old-age pensions. It has been conveyed by a part of the daily press to a large portion of the American people. What are the facts?

For several years Congress has been seeking to evolve a sound and an effective plan of Federal old-age assistance. In the Seventy-third Congress the Pension Committee of the Senate and the Labor Committee of the House unanimously agreed on and reported out identical measures. Overwhelming sentiment for the passage of this legislation existed in both Houses. Appeals were made to the President and to administration leaders to allow the legislation to be placed on the administration's "must" program. This was not done. The bills were not permitted to come to a vote in either body after the President announced that he would present a program for social security to the Seventy-fourth Congress. This statement of fact should have a place in the record of these hearings.

The demand for national old-age pension legislation has existed in Congress and throughout the country for many years. Twenty-eight States and the Territories of Alaska and Hawaii have old-age pension systems. A campaign of education and active legislative effort has been carried on for many years by many forces, notably by the American Association for Social Security. Nation-wide sentiment has been crystallized during the depression. Certain last-minute organizations have set out to capitalize this sentiment. Each one of them claims that it is forcing action by a reluctant Congress, under the fear of political reprisals. This claim is both unfair and unfounded. It would be less worthy of notice were it not for the tragic disillusionment that awaits the aged poor who have invested their faith, as well as their small savings, in the claims and promises of these privately organized and controlled old-age pension movements.

THE MAJOR ISSUE

There is one chief factor that will determine the success or failure of old-age annuity and unemployment-insurance legislation by Congress. Beneath the structure of administrative methods and legislative standards its foundation