

Senator HASTINGS. May I inquire whether or not any actuary has made an estimate of how much money it would be necessary to have now in a single fund to support this plan?

Mr. WITTE. To support this plan, the contributory system?

Senator HASTINGS. Yes. Suppose., for instance, in order to support it you had a fund drawing 3 percent interest, has anybody made an estimate of how much that fund would have to be for the moment?

Mr. WITTE. The estimate, Senator, is expressed in terms of an annual contribution. If you wish to have a flat annual contribution, the annual contribution would be approximately \$500,000,000.

Senator HASTINGS. You do not understand me. If instead of annual appropriations and collections in the form of taxes to take care of these payments under this section which I have called your attention to, namely section 405, paragraph 1 and 2, if you are going to put that in existence and wanted a fund to support it-1 was wondering whether any actuary had estimated how large a fund you would have to have at the time it went into effect?

Mr. WITTE. \$17,000,000,000, sir. That assumes that instead of levying taxes you support this system out of interest. If you fund on the same basis the appropriations for veterans' pensions the sum would be only a little smaller. If you fund the Townsend plan, you would probably get figures such as the newspapers have reported in a suit in Los Angeles, where one man had sued another for septillion dollars. That would be approximately the amount you would have to have funded if you wish to support the Townsend plan from interest earnings.

Senator GORE. We would have to let the printing presses loose.

Mr. WITTE. Yes, sir.

Senator GORE. There is one question. Believing in the constitutionality of this bill as you do, you do not have any objection to the insertion in the bill of a provision authorizing any taxpayer or association of taxpayers to test the constitutionality of it?

Mr. WITTE. I think that is their right, isn't it, Senator?

Senator GORE. I do not think so under the Frothingham case. The Supreme Court held that there was no way Frothingham could get into court.

Mr. WITTE. Would an act of Congress make any difference?

Senator GORE. I think so.

(For the remainder of Mr. Witte's statement, see p. 187.)

The CHAIRMAN. Miss Perkins, just proceed in your own way in an explanation of this bill, please.

STATEMENT OF HON. FRANCES PERKINS, SECRETARY OF LABOR

Mr. Chairman, I am very appreciative of your offering me an opportunity at this time to make a statement with regard to the bill which is before your honorable body, and with regard to the principles which the President's Committee having the matter in charge considered, and with regard also to various recommendations which they made.

As you know, last June, after the President's message to Congress, he appointed a Committee on Economic Security and asked its members to study the ways, means, and the technical methods by which we could achieve, through the techniques of legislation, a program of

social security which would cover the major social hazards of life in the United States of America. This committee which consisted of four members of his Cabinet and the Administrator of Emergency Relief, has been at work throughout the summer and autumn, meeting with regularity every week to consider the problems as they were set up for us by a staff which was particularly engaged to study the more technical and difficult aspects. The staff engaged was familiar with one or another phase of the problem. It also discussed these problems with the technical board, which consisted of persons already in the employ of the Government, and themselves capable judges in the field in which the special investigations were being made. We therefore feel that we have, while not necessarily a perfect system, one which represents a conservative, a practical, and a flexible method of providing at least a minimum of social security against the major and more regular hazards of life in the United States of America.

The President's message outlined to Congress some of these major hazards which many citizens face at one time or another. It emphasized that there is a problem of dependency in childhood which is sometimes very devastating to the immediate present of the children and also to their future life. The message intimated that there ought to be some regular provision for the care of children and for bringing all the children under the benefits of a home life, rather than a scattered, intermittent care by institutions and foster parents.

The President also outlined what most of us have become aware of in recent years, the hazards of the wage workers in the United States of America.

We have all come to recognize, I think, the fact that a large proportion of our aged people find themselves, when they are 65 years old or over, either without personal means of support or dependent not upon their immediate families but upon some charity from the public, or voluntary gifts of people who are strangers to them. In addition to the combination of these hazards, together with that of illness which, when it does arrive, becomes a complicating factor in every family life, we have superimposed in recent years the particular hazard of unemployment. We have to recognize that these factors, although each exists alone as a hazard to security, may be combined. In any one particular family you may have all of these factors spelling a ruination of that family's prospects.

Most of us here recognize that these are factors over which they have no particular control. The incidence of illness or death, of old age, and of unemployment are hazards which no individual can control for himself, and our way of life in these days, our method of living by manufacturing and by merchandising, and only partly by agriculture, has complicated this situation and has made any family exposed to these hazards practically helpless, so far as anything which they themselves as individual units can do.

We have, therefore, come to recognize that these hazards are largely social in their nature. They have their origin in the way in which we carry on our business, industry, and financial systems, and therefore the method of protecting against them ought to rise out of some cooperative means. This, of course, means actually a mechanism devised by the Government to protect its citizens against some of these worst hazards.

All of us realize that originally! in more primitive society, matters which pertained to the security of individuals were essentially regarded as matters of the locality and were handled locally. The breaking down, however, of the barriers between localities due to transportation and rapid communication, and our industrial and financial systems, has made it quite clear that what happens to the people of a State or town or city, is not necessarily caused by any action which has been taken in that town or that city, or by any lack of wisdom on the part of those who conduct the affairs of that locality. Neither is that locality in the position financially always to meet the devastation which has come to the individuals of that community.

Therefore we have recognized that the Federal Government has for the first time, in stepping into the picture in the form of relief, realized the general national responsibility for these social disasters and devastations which have accompanied this depression, but many of which were present, at least potentially, in other years.

The Government has had, and must continue to have, a view of the future. It is of course in the viewing of the future that sound statesmanship consists. The fact that people who are now Members of Congress can conceive of a future situation in which children who are now young may find themselves faced with a hazard either of old age or unemployment, or sickness, for which no provision has been made, and can recognize that unless there is a social provision for them the life of the generation that follows us may be infinitely complicated, in evidence of the sound statesmanship of your honorable body. Many of your Members have long been concerned with the ways and means by which some such social provision can be made for laying up in advance the reserves out of which some kind of assistance can be provided in the future.

The problem of unemployment, and at least for the present, the problems incident to the other forms of dependency, are partly national and partly local. When a national crisis engulfs the great majority of the working people, unemployment is clearly a national problem, as we have all recognized in these last few years. In normal times, and even during periods of slight or minor depressions, many workers are thrown out of employment for short periods of time and their difficulties are much more acutely recognized by officials in charge of the local and State governments than they are by the National Government.

We have come to recognize that no local government and no individual employer can be held responsible for the unemployment which accrues during these world-wide depressions, that that is really a situation over which he individually has no control. But we recognize that certain parts of the seasonal unemployment, of that due to technical improvements, and of that due to the practice of certain industries in keeping large numbers of men partially attached to the industry for use in rush periods or peak loads are due to an inadequate social conception by the employer of the problem which is before him. It can, therefore, properly be assessed as blame upon him, and he should properly, under the stimulation of his local and State governments as well as of the National Government, be urged to find ways and means to prevent the very unemployment which forms a real cause of poverty and destitution when it does occur.

Nevertheless, we recognize that the accumulation of these various types of unemployment, together with world-wide depressions which are partially financial and partly economic in their causes, creates a situation over which no employer has any control. The thing for us to do as a group is to provide socially for the method of taking care of the people who are most adversely affected by such a depression. We recognize of course that everyone is affected under such conditions, but the suffering is not the same in degree. Some people are put in the position of complete destitution by a depression which causes unemployment, while others are only somewhat handicapped and have their incomes reduced.

Therefore it becomes necessary for us to consider ways and means by which we may regularly, over a long period of time, provide for a small but regular income for those who are put out of work during periods of depression through no fault of their own, for those affected for shorter periods due to technical improvement of machinery or to the seasonal fluctuations of industry over which they have no control, and for those affected by movements of industry from one section of the country to another. For instance, the general trend of one industry from New England States to the Southern States has put out of work in the New England States a large number of people who were formerly attached to that industry. For those who were left behind in those eastern industrial States there was a prolonged period of social readjustment for which no particular provision was made, and which constituted, in those States, a very serious cause of destitution. So, all things considered, it seems wise to take steps in advance to provide for a steady income to people when they are unemployed through no fault of their own, a steady income to people who are old and therefore no longer in a position to earn their own living, and a steady and certain method of living for dependent children who are deprived of their natural breadwinners while they are still young and dependent. We should provide, too, for at least such assistance as is necessary to provide proper medical care to persons whose incomes are taken away from them by the fact of illness either of the breadwinner or illness of some important member of the family whose illness makes a drain upon the savings and earnings. The savings and earnings of a family which is already in the low-income group can be quickly devastated by any unfortunate circumstance.

This bill, therefore, has put together, and this report which accompanied the bill has considered all these aspects of social security together. We should have to pay a much larger sum, I think, if we thought of each of these aspects of life as separate and independent problems, when they are really related problems. They all relate to the same general group of people in the community, those who work for wages, whose opportunity to make a living depends upon the enterprise, the ingenuity and success of others who are in charge of the industrial life of the community. It affects the low-income group primarily and those who never, in the course of their working years, are in the position of becoming both substantial purchasers of the mass production of our great community and at the same time suffer the lack of sufficient funds to tide themselves over unfortunate periods.

In thinking of the validity of a social means of providing against social insecurity, we have to recognize that in a method of production by machinery and by the application of power to machinery we have

built up a positive necessity for mass consumption to balance our mass production. If people are not able to buy in large amounts the product of our great industries, those industries cannot continue to operate to produce goods, to make them and to sell them at profit sufficient to attract to that industry the capital of the country. Without purchasers with money in their pockets, the wheels of that industry cannot keep going on the basis of a large machinery investment, a large building and plant structure investment, a large investment in overhead of engineering and the management skills necessary to keep up the mass production. So we must anticipate in the future the building up, within this community, of a large and steady purchasing power for a large number of people.

Senator COSTIGAN. In asking us to think of the subject's contained in the pending bill, as in t errelated, are you sugges ting to the commit tee that administrative expense would probably increase if we were to have separate measures rather than a consolidated measure?

Secretary PERKINS. I think the administrative expenses would be greatly increased, sir. I also think that if these bills were adopted piecemeal over a period of years the total cost upon the industrial system would undoubtedly be larger eventually. 411 of us arc concerned with the fact, for instance, that old age in many instances today begins at 50, if the man who is laid off for some reason or other during the depression finds he cannot get back to work on the theory that he is too old. We could gradually be asked to extend our old-age coverage to cover a man of that age; but no industrial system which any of us sets up today could possibly afford to maintain all the people over 50 years of age who happened to be without work. But if we think of it as a problem of unemployment, if we think of the man of 50 as being a part of the unemployment problem and realize that the cost of his maintenance should be properly assessable against the unemployment fund: then we begin to treat his problem in a different way. We begin to recognize the extent to which we may, as a group, expect his services and his energies and abilities to be fulfilled in some form of public work or public service during the years between 50 and 65, when he becomes superannuated according to any technical definition. In the long run we should find it a much more economical system for the whole of society if we consider all of these measures as dovetailing with each other.

The CHAIRMAN. Miss Perkins, would you prefer not to be interrupted until you have made your first statement?

Secretary PERKINS. Perhaps I was getting loquacious, sir.

The CHAIRMAN. No; I thought perhaps you would rather not be interrupted; I thought you would rather make your full statement and then answer the questions.

Secretary PERKINS. I shall do whatever seems best to you, sir. I will try to be quick and to run over what I think will be the outline of the case first.

The old-age problem is stated in this bill in two ways. First it recognizes that we have the present aged, those who are now 65 years of age and over and who are needy. Some method must be found of providing for them. The Committee on Economic Security; after canvassing the situation, thought it best to recommend to your honorable body that there should be provided a system of old-age pensions. By the word "pensions" we mean free, noncontributory

allotments for the support of aged and indigent persons. There should be a system of these old-age pensions based upon cooperation between the States and Federal Government. The Federal Government should annually make appropriations sufficient to meet one-half the cost of maintaining such pensions to the aged and indigent in the various States, matching the appropriations which each State might make, providing that the Federal appropriation should not in any event be more than \$15 per month per case. That does not of course limit the amount, as has been explained to you, which any individual State may choose to appropriate to its pensioners.

If the State desires to make an appropriation of over \$15 per month and to raise the total pension to \$40 or \$50 by virtue of its own appropriation, there is nothing to prevent it. However, in order to bring some reality to the study of what might eventually be expected of the Federal Government, it was our thought that we had better recommend that the maximum which the Federal Government would contribute would be \$15, and this represents the practice of the more generous States at this time. Only two States, Massachusetts and New York, I think, appropriate more than \$30 a month, and they have larger pensions than that only in cases where the need is peculiar for some reason or other, such as illness.

A part of the bill, therefore, which deals with old-age pensions is, on the whole, relatively simple and merely provides for an annual grant in aid from the Federal Government to the States, to assist them with their old-age pension laws.

As you know, there are 28 States which now have old-age pension laws. In many of them, however, there has been a curious device by which although there was a law with regard to it in the States, the counties were directed to pay the pensions out of their own funds. There is often no mandatory requirement upon the counties that they raise the funds and pay them out. It has been merely permissive to the counties, and the result is, in many instances, that poor counties have found themselves with an undue proportion of the aged and indigent, and have been unable to meet the demands upon them. The law on the books is therefore practically ineffective. It has been felt that we should make it a requirement that the States must, in every case, make a contribution themselves, and must make the payment of the counties' share, if it is done partly by the county, mandatory on the county.

The allotment to the States is left to an administrator who has to compute the costs annually and to make the appropriations to each of the States on the basis of their having met the standards set up by the bill; and their having provided the administrator with the proper reports as to the expenditures of the previous months. It is very important that we provide the administrator with authority to set standards as to the character and the amount of the pensions and the method of determining what is the necessary amount of the pensions: First, so that these funds shall not be wasted either by unduly and unnecessarily large pensions; and, second, so that they shall not be wasted by unduly small pensions which will not be really productive of purchasing power or anything that could possibly be called security.

A part of the essential assumption upon which this whole idea rests is that by paying over moneys to persons who would otherwise not have any income, you are creating purchasing power which will regu-

larly, year after year and month after month, sustain the purchases which are to be made from the great manufacturing and mercantile systems of the country. A part of the benefit of this pension is that it supports the individual and takes him off the relief rolls, and the other part of the benefit is that he creates a regular market for his local merchant and, through his local merchant., for the many manufacturing establishments which provide them with work.

Senator HASTINGS. Which one of the two is the more important?

Secretary PERKINS. I think they are equally important, sir.

Senator HASTINGS. You think that the expenditure of this money by the Federal Treasury to increase the purchasing power is of equal importance to furnishing food and clothing and a decent place in which the fellow lives?

Secretary PERKINS. I think the two things are inseparably related to each other. A part of the whole civilization of the United States of America rests upon the fact that we have been able to achieve a high standard of living. We have it not only because each individual has relatively a somewhat higher income, but also because our joint incomes create a large purchasing power which makes it possible to make a demand upon our manufacturers so that they have large mass production, which in turn lowers the price. It is a system which is really within a circle, and I think it is impossible to separate one from the other.

Senator HASTINGS. Well, the Townsend plan would create the greatest purchasing power of any, would not it?

Secretary PERKINS. It would create it perhaps for 1 month.

Senator HASTINGS. If that is true, that the purchasing power is important, why limit it to \$15?

Secretary PERKINS. Merely because, sir, we had upon the Committee persons who have, as one of their primary obligations in the Government of the United States, the safeguarding of the Treasury and of the funds of the United States. It was felt by them and by those of us who willingly accepted their analysis of the problem, that it was very unwise to make a raid on the Treasury for a matter of this sort, and we should keep these original appropriations within perfectly safe limits. If we find that we have got a larger national income than we think we have, we can act differently later; but so long as the national income is not greater than it is today it seemed wise to keep this whole appropriation within quite definite limits.

Senator HASTINGS. It is quite shocking to me to have you state that in your judgment the Congress ought to appropriate money for old-age pensions in order that the purchasing power of the country might be increased. I assumed all the time that the old-age pension plan was to make certain that the person receiving it had principally food and clothing and a place in which to live. Certainly no amount that has been recommended would do more than that, and I assumed the object, the whole object of it was to make certain that aged persons did not go hungry and did not suffer, but you state that in your judgment it is of equal importance that the purchasing power of the country be increased. That is what I understand you to say.

Secretary PERKINS. Yes, sir.

Senator HASTINGS. All right.

Secretary PERKINS. Because insofar as the purchasing power of the country is increased you get the demand upon industry for production

of goods, which will in turn make employment for persons now unemployed, and part of that you will revive their employment and revive their normal part in the life of the community.

Senator HASTINGS. I had assumed the purchasing power part of it was merely incidental and not an important part to be considered.

Secretary PERKINS. Perhaps I overstated the importance of maintaining purchasing power, but I think that it is a matter so related to the maintenance of the individual as to warrant our considering it at the same time that we considered the desirability of keeping an aged person alive. That is, he is important to himself and he is also important to the community insofar as he spends his money.

Senator HASTINGS. I should not have interrupted you except I thought you had overestimated it.

Secretary PERKINS. Thank you, sir, for your interruption.

Senator CONNALLY. You would not recommend that they spend each month their allocation in order to get the next month's pay?

Secretary PERKINS. No, sir.

Senator LA FOLLETTE. It probably would be necessary.

Senator CONNALLY. It may not be necessary. That is the feature in some of these plans. I did not assume it was in this plan.

Secretary PERKINS. Whether the allowance is small or large, I think to require it to be spent within any 30 days would not result in its most satisfactory expenditure either for the individual or for the community.

The portion of the bill which deals with old age insurance is based of course upon another assumption. It is based upon the assumption that individuals now young, now of working age, can, during their working years, make provisions for their own future, so that as a part of a social system they may, when they come to the age of 65, have as an earned benefit a certain monthly allowance, which they have regularly built up over all the years of their working life.

We have tried to follow the injunction to make this a self-maintaining system, and to provide that the contributions in the form of premium by working people and their employers over the years of their working life shall be sufficient to guarantee an earned income, to which they have a contractual right, which they do not have to get as a matter of need or poverty but which represents a percentage of their earnings during their working years. The annuity should also have some relation to the number of contributions made on their behalf, some relationship to the number of years over which wages have been earned and contributions have been made.

The plan which is called old-age insurance therefore rests upon a fund built up gradually over a long period of time. No insurance policy is very easy reading and most of us I think never get beyond the first preamble of the policy which we buy for ourselves.

Senator BARKLEY. It is rather good reading after the life of the insured.

Secretary PERKINS. But most of us, during the life of the insured, do not read it. Sometimes after the life of the insured we read it with some astonishment. Life insurance, however, is much more thoroughly understood than endowment insurance, annuity insurance, accident and health insurance, and all those sorts of policies which is full of complications. As we know, in recent years there have been many variations even upon a straight life policy which have been introduced

as interesting features, and which are sometimes difficult for the layman to understand.

The plan here recommended has the advantage of being a relatively simple and easily understood method of insurance. It is based on the conception that there should be payments made regularly by those at work, those who are employed, and by their employers, in equal amounts. We have suggested that the contributions begin at the rate of 1 percent of pay roll in the year 1937, and that there should be an increase up to 5 percent at the end of 20 years. It will be necessary, in order to support this system of payments which are recommended in the bill, to anticipate that eventually 5 percent contributions will be needed—2½ percent from employers and 2½ percent from employees. It seemed better to us not to suggest imposing this tax immediately because, first, it would be possibly something of a shock when it first goes into effect, and, second, the moneys will not be needed to pay out for such a long time, that in the original years of the fund the income will greatly exceed the outgo because the vast majority of those contributing will be young or relatively young and therefore will make contributions in excess of the amount required for the retirement of aged persons.

In order to make the system entirely self-supporting, however, and to provide relatively large annuities for persons who are now 50 and 55 and therefore will not have the opportunity to pay over a long period of years, it will be necessary either to borrow from this fund which is contributed only by those who are now young, or to put the original payments at a much higher level than 1 percent. If the initial tax rate is 4 percent, you could carry substantial earned annuities to those who are now 50 and 55 years old. Or we could anticipate a relatively long period in which there is a borrowing from the fund contributed by the younger people to pay the annuities to persons who become 65 but who, at the beginning of the system, are 50, 55, and 60 years of age and therefore get to the retirement age before they have had time to build up, by individual contributions, a reserve adequate to meet the payments which they can naturally expect.

I think most of us, in looking at the picture, would not be willing to accept a system in which persons now over 65 years of age are entitled to a free pension because they are indigent and in which persons who are now 30 years of age, by making the contributions, can assure themselves of an annuity of \$30, \$35, \$40, and \$45 when they are 65 years of age, but in which the persons now 45, 50, and 55 can look forward to an annuity of only \$10, or \$8 per month. The group that will receive, at the age of 65, only their earned benefits, under the insurance scheme would be getting too low a sum either to satisfy our sense of social justice or really to provide them with the things that they need.

Therefore it seems best to include in the system persons who are now too old to make full contributions to their own old-age benefit and to provide for the payment of their annuities either out of a somewhat larger assessment at the beginning or out of the system of borrowing from the fund during the earlier years and then, at some later date when the fund gets to the point where the claims upon it become greater than its annual income, pay out of appropriations of the Government what is owed to the fund on those accumulated borrowings.

Senator LA FOLLETTE. Have you any estimate as to what those appropriations would be?

Secretary PERKINS. You mean at a future date?

Senator LA FOLLETTE. Yes.

Secretary PERKINS. If we should borrow every year, from 1942 on until 1965, sufficient sums to pay the claims of persons who had not made a full contribution, in 1965 the outgo of the fund would be a slightly larger figure than the income from payments, and beginning at that time there would have to be an annual appropriation which would work up to a peak about 1980. In 1980 you would come to the point of making the largest annual contribution, and from that time on that would have to be probably sustained in order to repay the fund from the earlier borrowings. That would amount to a billion and a half a year. That of course is an actuarial estimate based upon plans which we gave to the actuaries.

That has no significance, except that if you start at a low rate and do not borrow to pay annually out of appropriations, the total amount paid by the Government, to aged people will be greater. That is, if you make annual appropriations for old-age pensions for the next 25 or 30 years, the total amount paid by the Government out of general taxation will be somewhat larger than would be the total paid if you made the appropriation at the end. At any rate, there are some who think it better to keep the reserves smaller, that is, not to have the accumulation of a very large reserve fund, which would inevitably be created, if you took in income and did not pay it out. An ordinary insurance company which has reserves never uses the reserves, as you know; it pays its annual claims out of the income from interest and premiums, and it does not touch its reserves except in a case of liquidation or a very great emergency.

It has been thought by those who studied this matter from the point of view of the Treasury, and from the point of view of financial management, that it was wise not to let the reserves become too large. Fundamentally, in a case of this sort, the real security back of the system is the security of the Government and the large reserve is not needed, as it would in a regular insurance company in order to preserve the security of the fund.

The security of the bond rests upon the security of the Government, upon the credit of the Government! which of course is the only security which the insurance companies themselves have when they buy Government bonds.

Their security rests back eventually upon the credit of the Government to which they have loaned the money represented by the bond, and upon the Government's ability and intention to pay the interest annually to them, which is due upon those bonds.

In this case of a Government-operated old-age insurance you have the credit of the Government itself as the basic part of the reserve structure. Therefore it has been thought best by those who have specialized on the financial side to recommend that the reserve should not accumulate but that the collections annually should not be allowed to build up the reserve but that we should use them by borrowing from them to pay out the annual claims as they come up currently. It is perfectly possible to make a revision of that without impairing the system at all and to provide either that the fund shall be self-maintaining, with regard to the persons now 50 years of age, by putting a larger tax on pay rolls originally, that is an assessment

up to 4 percent, or that there should be an annual appropriation out of general tax funds to pay the supplementary benefit to persons who, though now 50, become 65 before they have earned the benefit under the insurance system. If they have earned the benefit of \$10 a month, which is theirs as a contractual right, there could be an appropriation by the Government to give them an additional or supplemental benefit up to a living standard. It is a simple matter to change it one way or the other. We know the problem, and it is a question of policy, really, as to which is the best way to provide. We thought it wise to recommend the borrowing system.

Senator LA FOLLETTE. Would you have someone furnish for the record, Madam Secretary, the necessary material to show what would have to be done in either one of these two alternatives that you have suggested in order to make the fund sound from the beginning?

Secretary PERKINS. Yes, sir. We can show you the alternatives, and we would be glad to check up the various alternatives. The actuaries have been working on those various alternatives and will be glad to present them to you, sir. At any event the total cost will be about the same one way or the other, that is the total cost to society. It is a matter of what pocket you take it from and the rate at which you take it.

Senator BARKLEY. Depending on whether you grant to the one fellow of advanced age the full benefit or only partial benefit?

Secretary PERKINS. Exactly. May I say, in order to explain that—and we talked and thought about this a great deal in the committee—may I say what brought us eventually to the decision of recommending the system of borrowing from the fund in the early years to pay the excess claims against it. It does make a situation whereby the younger people of each generation are contributing to the maintenance of the older people of that generation. That is, in 1945 and 1946 you borrow from the contributions of the young of that period to pay for the support of the people who become aged while that generation of persons (now 20 and 30 years old) is still young and contributing. This goes on until they in turn become 65, at which age the people who are then 20 and 30 are contributing to the fund out of which they are paid annuities.

Senator LA FOLLETTE. As I understand it, under the plan set up in the bill, you are going to borrow so heavily from the present generation for the care of the aged that by 1980 it will be necessary, as I understood you, to provide an annual appropriation of something like a billion and a half dollars.

Secretary PERKINS. Yes, sir. If you wanted to build this fund up and pay no benefits until persons now 30 years old became 65 years old, that is, postponed all the benefits for 35 years, you would not have any of that trouble. But you are starting with the problem of what to do with those who can make only partial contributions.

Senator LA FOLLETTE. I am not suggesting that you postpone the pay or that you pare down the benefits to those who are now approaching the age of 65, but knowing a little something about the reluctance and the difficulty of getting taxes increased, even in the face of the extraordinary expenditures already made for recovery efforts, it seems to me a little bit optimistic to assume it will be so easy to get that billion and a half dollars in 1980.

Secretary PERKINS. Well, sir, I have only this to say, that I think we certainly are entitled to anticipate that out of measures of this

sort there will come a substantial increase in the total national income. We are beginning to appreciate that income depends upon the velocity of the movement of money from hand to hand, and as income provided by the various security measures is plowed back into the population for spending it, moves more rapidly and you get that increase in national income out of which taxes flow rather naturally and rather easily.

I realize that we must not bear down too hard upon the people in 1980 merely because none of us here present expects to pay taxes in that year. It is, of course, possible to spread that over a period of years and build up the fund earlier and in advance.

The matter of policy really to be considered is whether or not you want to build up your reserve or whether it is better not to build up your reserve and pay as you go. We came to the conclusion that it was better, from the point of view of maintaining and building up the national income, not to build up the reserve but to pay as you go. You could impose taxes earlier and repay the borrowings in partial payments every year over a long period of time and so make the total much less in the end, but you would be doing just the thing we were seeking to avoid—namely, building up a large reserve. It is, of course, a matter of policy to determine whether or not that reserve should be built up, and there are authorities much wiser than I am on the question of that particular policy. The people in the Treasury, and those associated in the Treasury, in financial advice, have given that matter much consideration. I naturally am bound to be advised by those who know more on that subject and have a wider experience than have I in that particular matter, so I concur with them.

Senator BARKLEY. Miss Perkins, would it give this more appeal to the public, and would it give more stability to it if instead of these borrowings we did build up the reserve, because the reserve will be invested? After all, that would be a matter of bookkeeping.

Secretary PERKINS. It would be a matter of bookkeeping.

Senator BARKLEY. That appeals to me, because you start off the business in a rush the first day you open the doors. We do not know that that is going to be permanent. There might be a wave of prosperity that would wipe the thing off the books.

Senator CONNALLY. We could more easily pay back what had been borrowed.

Secretary PERKINS. These bonds, in any event, would be Government bonds. It rests upon the integrity and the security of the Government, in either event. I hope very much that you will discuss this with those members of the Treasury and financial experts rather than with me.

Senator LA FOLLETTE. I would just like to say, not to interrupt you further, that having been here in an era of alleged prosperity and also in one of economic crisis, I found the willingness of the Congress and Executive in both instances to tax being marked by its absence.

The CHAIRMAN. Miss Perkins, it is now 12 o'clock and the committee will have to go to the floor. Could you be here in the morning?

Secretary PERKINS. Yes, sir.

The CHAIRMAN. Would 10 o'clock suit you?

Secretary PERKINS. Yes, sir.

The CHAIRMAN. Thank you. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at the hour of 12 o'clock noon, the committee adjourned until 10 a. m. of the following day.)

ECONOMIC SECURITY ACT

FRIDAY, JANUARY 25, 1935

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10 a. m., in the Finance committee Room, Senate Office Building, Senator Pat Harrison (chairman) presiding.

Present: Senators Harrison (chairman), King, Walsh, Barkley, Connally, Gore, Costigan, Clark, Byrd, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, Metcalf, Hastings, and Capper.

The CHAIRMAN. Miss Perkins, you may proceed where you left off yesterday.

STATEMENT OF HON. FRANCES PERKINS, SECRETARY OF LABOR-Continued

Secretary PERKINS. I think, sir, that I should perhaps begin at this point on the discussion of the part of this bill which deals with unemployment insurance.

The CHAIRMAN. I think you have finished with reference to the pension feature.

Secretary PERKINS. I think I have finished all that I personally can develop on' that.

The CHAIRMAN. Are there any questions any Senator desires to ask on the pension feature that was discussed yesterday? If not, Miss Perkins you may proceed with the unemployment-insurance feature of the bill.

Secretary PERKINS. I should like to say with regard to unemployment insurance that the circumstances of the last few years have certainly impressed most of us with the necessity of making preliminary provisions for benefits to unemployed persons in order to carry them, as individuals, through periods of depression when, through no fault of their own, they are without work, and also to provide that preliminary provision for their individual needs, or at least modify the relief programs as they affect localities, States, and even the Federal Government.

We have also by observation of the condition of other countries having a modest scheme of unemployment insurance, come to a recognition that the small merchants of a locality, and those who provided them with their stock, had derived a benefit because persons out of work continued to buy the necessities of life and therefore helped to make a market for the whole community. That, of course, in its own turn, has a very definite and advantageous effect upon employment in other lines than in that first depressed.

Senator COUZENS. As I understand it, Miss Perkins, there is no contemplation of taking any of the premium out of the employee but out of the employer, is that correct?

Senator PERKINS. No, sir; that is not quite correct. This bill that is before you is merely a tax bill. It imposes a tax upon the pay rolls of all employers, which they pay into the Federal Treasury. This tax is not used in any way for purposes of making payments to the unemployed; it is merely tax paid into the Federal Government. The employer may offset against that tax any contribution which he has made to a compulsory unemployment insurance system under the laws of the State in which he does business. In other words, so far as the Federal Government goes, all it does is to put an ordinary excise tax upon the pay rolls which the employer must pay.

The CHAIRMAN. Is that up to 90 percent?

Secretary PERKINS. It may be offset up to 90 percent. The reason for not offsetting 100 percent is to have a 10 percent of 3 percent fund for administration. The experience of other countries indicated it cost about 10 percent as a proper and suitable provision for the administration of any such system.

Senator COUZENS. What becomes of the tax that goes into the Treasury?

Secretary PERKINS. It goes into the general tax fund.

Senator COUZENS. It is used for any purpose whatsoever?

Secretary PERKINS. It is used for any purpose that the Congress may determine in its appropriation bills. In other words, there is no advantage to the State in allowing the employers merely to pay the Federal tax. The State, then, has got to pay for distress due to unemployment in the form of relief, or something else. The advantage to them is having a compulsory unemployment insurance law in every State, to which every employer will be contributing. Such funds will be used for regular benefits to the unemployed persons in that State.

Senator BARKLEY. The tax is not taken out of the wages, it is not deducted from the wages of the employees?

Secretary PERKINS. The tax to the Federal Government is not deducted from the wages of the employees.

Senator BARKLEY. It is a tax on the employer?

Secretary PERKINS. It is a pure excise tax.

The CHAIRMAN. In other words, it does not work like the old-age pension proposition?

Secretary PERKINS. No. In the old-age pension proposition the Federal Government itself is running the system. It is collecting the funds and is responsible for their distribution and for the terms on which they can be distributed. In the unemployment insurance scheme, as recommended by this committee, provision is made for a State system of unemployment insurance, cooperating with the Federal Government, so that the funds are in the custody of the Treasury and therefore subject to the same care in every State. Also under this plan you get the advantage of this large protection and the credit of the Federal Government back of all these funds, wherever they are collected. The credit of the Federal Government is back of all of them and therefore there can be no question of the bankruptcies of any particular funds over a period of time.

Senator COUZENS. Now you spoke of the committee that worked on this.

Secretary PERKINS. Yes, sir.

Senator COUZENS. Did that committee reach any conclusions as to the question of contributions from employer and employee?

Secretary PERKINS. Our recommendation is that rather than a national system, that is, a Federal system run by the Federal Government, that there should be State insurance systems under laws by the States.

Senator COUZENS. I quite understand that.

Secretary PERKINS. The State should be free to make any kind of law it wants with regard to the source of unemployment insurance contributions or with regard to other matters.

Senator COUZENS. Miss Perkins, you understand there has been a good deal of discussion about the Federal Government taking the leadership.

Secretary PERKINS. Yes, sir.

Senator COUZENS. That is, I take it, largely on the theory that the leadership is put on the Federal Government to encourage unemployment insurance in the States.

Secretary PERKINS. Yes, sir.

Senator COUZENS. Have you any formula that you would recommend to the States in reference to that leadership?

Secretary PERKINS. Yes, sir.

Senator COUZENS. Will you tell it to us?

Secretary PERKINS. Yes, sir. It is not important from the point of view of the soundness of the fund and from the point of view of getting benefits into the hands of the unemployed when they are unemployed how the fund should be collected. That is not a significant matter. That is a matter of policy, as to how and from whom you want to collect the assessments. We have, therefore, thought it better to recommend to Congress that the States determine that for themselves in each case. Whether or not there should be contributions from employers alone to the State funds, or contributions from employers and employees, or contributions from employers, employees, and Government is a matter for each State legislature to decide.

There are three general points of view with regard to how these contributions should be collected and different people hold different views. The States are likely to want varied experiments on this point. The Committee thought it well to allow for this variation and to try out the theories in regard to collections of assessments, from the point of view of the soundness of the insurance fund and the security of the benefit payments to the persons who are entitled to those benefits when they are out of work. The important thing is that they shall be collected and that they shall be distributed at the time when the hazard arises against which that insurance has provided, and distributed to the persons who are legitimately unemployed. Therefore we have thought it wise to recommend to the States that they decide for themselves, as to whether there should be employer contribution, whether there should be employee contribution, and whether there should be contributions from the State government out of general taxation. It is a matter on which, in the different States, you will find rather different types of opinion. The opinion has something to do with the experience and the background of the State and its degree

of industrialization. It has something to do with the size of the population and the number of persons in the State who are going to be covered. In a State where there is a tremendous number of low-paid employees the difficulty of collecting the fund is perhaps going to be insurmountable in the minds of the legislature of that State, and the same thing applies to States where they have relatively a small population, with only two or three prominent industries.

Senator WALSH. You leave it to the States to determine the amount of insurance to be paid?

Secretary PERKINS. Yes.

Senator WALSH. You leave to the States the method of collecting the fund, of raising the money. Now do you leave it to them as to how it should be paid?

Secretary PERKINS. Yes, sir; as to how it should be paid, how long the waiting period shall be.

Senator WALSH. Does not the bill fix that amount?

Secretary PERKINS. They have to pay the 3-percent tax to the Federal Government if the State does not set up a fund which is adequate to maintain an insurance system which will pay to an individual a percentage of his previous earnings. The number of weeks of compensation has to be balanced with the length of the waiting period; naturally. If you have a long waiting period you may then have a longer period of benefits. If you have a short waiting period you will have a shorter period of benefits, naturally. It will not cover so many weeks because the cost will be much higher.

Senator COUZENS. May I pursue one more question? You say your committee did not determine the question of contributions to the fund. When you reached that conclusion may I ask if the committee studied the question of the wages provided in N. R. A. codes?

Secretary PERKINS. Yes, sir; and they took into consideration the general wage levels of the country, both in the codes and before the codes.

Senator COUZENS. Now, if the codes are in existence—and it seems to me as though they may be perpetuated—it does not seem conceivable that any committee could reach a conclusion that there was any opportunity in the world to get contributions from employees.

Secretary PERKINS. In some cases, sir, there are State commissions appointed to study these problems which have recurred to these States that there should be employee contributions.

Senator COUZENS. Miss Perkins, I am still at a loss to understand why the Federal Government, which is to assume the leadership, should go out and assume to lead the States into some form of unemployment insurance, with the contemplation in mind that they may deduct some of it from employees, when the wage scales provided in the codes do not leave any leeway for a deduction from the employees, when they are outrageously low. I think it poor leadership on the part of the Federal Government if they are going to leave to the States the judgment of deducting revenues from the employees, with these low standards of wages, to create unemployment in turn.

Secretary PERKINS. Senator, if I were voting in the legislature of the State of New York, of which I am a resident, I should certainly vote against any employee contributions. I agree with you in practice as to the sources of collection. I am opposed to employee

contributions. I think they are unnecessary, troublesome, and not justified by the average level of wages in this country at this time.

Also, I think that the employees will pay off these costs in a variety of other ways over the course of a lifetime. That is inevitable. Nevertheless, I voted in this committee for the idea of permitting to the States the freedom to experiment in the matter of contributions, the source of contributions, as I was fundamentally impressed with the wisdom and the propriety of allowing the building up of some experience in this country with regard to particular methods of contributions, as well as with regard to the matter of whether the funds should be pooled or whether they should be plant reserve funds. If I were voting in the State legislature I would vote in favor of a pooled fund rather than plant reserve funds, as I think it is more secure, more sound, less troublesome, and on the whole have better results. But very conscientious citizens in some States are in favor of reserve funds for their States and want to experiment with them, believing they have a new idea, a new conception that may be utilized to operate to prevent a certain amount of unemployment. I do not think that we ought to cut off the people in the States from any experimentation that they want to give to various aspects of this problem, provided only that the Federal Government assures itself that the funds received are properly taken care of and are used for the benefit of the unemployed. With that I believe the States should be permitted considerable freedom. We shall probably get a better system at 20 years of experimentation than we will have by enforcing generally at this time my view or somebody else's view as to how the funds should be collected. As you know, there is a great difference of opinion among honest, informed people as to whether or not there should be contributions from both sources or from only one source.

Senator COUZENS. I am not trying to force the States to adopt any policy. It has been stated over and over again that the Federal Government should be the leader. I am not trying to force the States to do anything, but as long as we are assuming to be leaders in this question it seems to me we ought to have some definite views about what we would like the States to do and leave it, of course, to their judgment, as to whether they do it or not.

The CHAIRMAN. You do that, don't you?

Secretary PERKINS. No, we do not. We voted to allow the States considerable freedom.

The CHAIRMAN. I thought you said the States called on you for suggestions and you had certain suggestions to make to them.

Secretary PERKINS. I personally have certain suggestions to make to them, and the committee has several alternative model bills, so to speak, which can be drawn with reference to the methods of contribution. You do understand, I am sure, that the 3 percent, which is a Federal tax, is collected from the employers alone and not from employees.

Senator COUZENS. I understand that quite well, but, Miss Perkins you know that when you collect, the tax from the employer he has every opportunity to pass it on to the consumer,

Secretary PERKINS. Yes, sir.

Senator COUZENS. While the employee has no chance either to get his wages raised or to pass it on.

Secretary PERKINS. Yes, sir. That is one of the reasons why I personally believe there is no necessity for having the employee contribution.

Senator BARKLEY. Since reference has been made to the scale of wages under the codes I should like to inquire how the scale of wages compares with the scale in the same industries prior to the adoption of the codes?

Secretary PERKINS. When one speaks of the scales one usually means the wages of the various classes of employees in the various industries, from the unskilled up to the highest skilled. In general the codes have operated to raise the income and the scale of wages of the lowest paid and the unskilled, and, in general, they have not operated to increase either the scale of wages or the earnings of those in the semiskilled and highly skilled groups. It was, of course, the purpose of the codes to lift the level of those who were paid below the subsistence level. There was no effort in most of the early codes to modify or to influence in any way the daily or hourly rate of wages in the skilled groups or above the subsistence level groups.

Senator BARKLEY. Did the reduction in hours affect the higher strata of employees?

Secretary PERKINS. The reduction in hours in some instances reduced the total weekly earnings of those in the highly skilled groups.

Senator WALSH. That is one of the claims in the textile industry, isn't it?

Secretary PERKINS. Yes; it is one of the claims, but that is not quite so, because there was an increase in the actual amount of employment over a year, so that the total earnings did increase.

Senator WALSH. The code does not grade and fix the wages in the different grades above the minimum?

Secretary PERKINS. The code does not fix the wages above the minimum, merely indicating that those persons in the industry *who*, at the time the minimum wage was adopted, were receiving what now became the minimum but which had formerly been above the minimum, should have a proportionate increase. That is, that those who received \$12 before that became the minimum should be raised to a point where they were as much above \$12 as they were above the lowest paid below their previous low pay.

Senator COSTIGAN. Miss Perkins, is it a fair conclusion from what has been said that the codes have operated to raise the minimum wages?

Secretary PERKINS. Yes, sir; very substantially, and by that to increase the total of money going into the pay rolls.

Senator COSTIGAN. The total annual earnings of those who were in the lower groups?

Secretary PERKINS. Yes; the total annual earnings of those who were in the lower groups.

Senator BARKLEY. Did the reduction in the weekly hours of work of those in the higher groups result in hiring more people in those groups, or was there an increase in compensation per hour or per week to the aggregate of those groups who were employed?

Secretary PERKINS. That has varied, sir, between different industries. In some industries the answer would be "Yes," and in other industries the answer would be "No." It has depended considerably upon the actual market demands upon that industry and upon

the degree of equipment for production in that industry. That whole subject is being studied now by the Division of Research in the N. R. A., as well as by the United States Department of Labor. The answers are intricate. You cannot make general answers from hearsay.

Senator KING. Perhaps the question I will propound is not germane to the general discussion.

Secretary PERKINS. I may not be able to answer, sir.

Senator KING. I think you can. A number of complaints have come to me from persons who were conducting what might be denominated smaller business enterprises and they claim that the codes have compelled them to shut down entirely. I was wondering whether the closing out was sufficiently great, whether there was a sufficient number of those in the smaller industries and businesses as to reduce in the aggregate the number of employees who belonged to the minimum wage class.

Secretary PERKINS. I think I am safe in answering that, sir; although I should like to write you a memorandum on it after making a careful statistical study on it through our Department. I am quite sure that even in the minimum level groups there has been the same general proportion of increase in the number of persons employed as has been shown throughout the total industry. Practically every one of the manufacturing industries shows an increase in the number of persons employed since the code went into effect. There are a few industries which can be said to be declining industries, such as carriage making, for instance, where there has been no increase in the number of persons employed. In practically every leading industry in the country there has been an increase in the total number of persons employed. I think that the same proportion of increase has been in the minimum wage groups as in the other groups, although we have never analyzed it in that way. There has been a total increase in the number of persons employed in each of the industries.

Senator KING. Has not the complaint frequently come to your Department, and echoes found in the public press, perhaps in the addresses made by public men, that the codes have tended to increase the monopolistic power of a more limited number of organizations?

Secretary PERKINS. Not very often, sir. The complaints of that nature which have come have been relatively few and on investigation usually seemed to be unfounded. Of course I do think that every precaution should be taken in the development of these codes to protect those small enterprises. I am not certain that they can best be protected by giving them a favorable differential in hours and wages over the larger group. There is really no reason why they should not pay a wage and have working conditions which furnish at least a sufficient standard of living.

Senator BLACK. Miss Perkins, I want to ask you one or two questions. Senator Couzens brought up the question as to the imposition of contribution on the people at work. Is it not true that the tax employed under the bill necessarily is, in the main, a tax on the people at work?

Secretary PERKINS. Well, it will not be collected directly from them.

Senator BLACK. Certainly.

Secretary PERKINS. You mean, sir, I suppose, that it can be translated into the price?

Senator BLACK. Most of the consumers of consumable goods, are they not the people of low income?

Secretary PERKINS. Yes, sir.

Senator BLACK. Then is it not true that under this tax, as imposed, it will, in the main, be loaded upon those who purchase consumable goods and therefore will, in the main, be loaded upon those with smaller incomes?

Secretary PERKINS. Yes, sir.

Senator BLACK. Then is it not true that up to that extent it does not increase the aggregate purchasing power of the Nation.

Secretary PERKINS. I think it will increase the purchasing power.

Senator BLACK. Let me make it a little clearer. If a tax is imposed upon a wage earner who gets a thousand dollars a year and you impose a tax of 3 percent, directly or indirectly, through increasing the price of goods, or otherwise, upon that person, that naturally would not increase the aggregate purchasing power of the Nation, it simply would be shifting it from one person to another, would it not?

Secretary PERKINS. Possibly so, but you see in the imposition of a tax upon the pay roll you do, in a very large proportion of the cases, impose a tax at a point where it cannot all be passed on in price, and this is particularly true with the highly competitive industries that have to do with selling services and not with the selling of goods.

Senator BLACK. Yes.

Secretary PERKINS. You also impose a tax in this case upon persons who are retail merchants and have a pay roll on that account and only to a limited degree can they pass on portions of that tax in the form of price.

You also impose the same tax upon manufacturers of durable goods where also it is very difficult to pass directly to the low-income consumer any substantial portion of that tax. You get in to the hands of the low-income groups, if an unemployment insurance fund is raised, a steady cash income which will be spent rapidly during periods of unemployment. The more rapidly it is spent, the more rapidly it turns over from hand to hand, the greater is the increase in the total income of that locality. The same dollar handed by me to the grocer is handed by the grocer to the druggist and by the druggist to the dry-goods man and becomes \$3 of income for that locality almost within a few minutes. So by putting cash into the hands of those who are the quickest spenders because they have the greatest unsatisfied wants, in periods at the beginning of depressions, an increased total income results. By maintaining their immediate purchasing power, you do, I think, increase the total income.

Senator BLACK. That is the stabilization of purchasing power by spreading out the purchasing power over the year rather than increasing it, is it not?

Secretary PERKINS. I do not think I agree with you. I think it does amount to an increase, because the people who spend their income most rapidly do create a greater increase in income.

Senator BLACK. In other words, a thousand-dollar-a-year man usually spends it all as quickly as he can, doesn't he?

Secretary PERKINS. Yes; but if you cut off, by virtue of unemployment, \$200 from his natural income, you do reduce his purchasing power. If you, by virtue of the unemployment-insurance benefits,

are paying him a portion of that \$200 at a time when otherwise he would have nothing to spend, you keep up the spending power and in that way you keep up the natural increase that arises from it, as he hands it to other people and they in turn spend it.

Senator BLACK. What I was trying to get at, if that tax was imposed upon those with such large incomes as are economically called surplus incomes, incomes over the amount necessary for the individual to buy consumable goods, then you would really be diverting money from the class that would not spend it to the class that would. That is correct, isn't it?

Secretary PERKINS. Perhaps I do not altogether follow you.

Senator BLACK. Let me see if I can make it clear, because it is coming right down to the way the tax is drawn.

Secretary PERKINS. If you would like my opinion as to what I think perhaps will be done, I could answer it easily.

Senator BLACK. I understood you to say yesterday, and I thoroughly agree with you, that under our economic system it is no longer possible to say that one locality should be charged wholly and completely with the care of those who have suffered by reason of the economic hazards. That is correct, is it not?

Secretary PERKINS. Yes. I was discussing that with regard to old-age pensions.

Senator BLACK. That is because, as I understood it, the economic system works in such a way that frequently the locality that produces the most wealth will not be the locality that contains the most wealth. That is the theory on which that is based, isn't it?

Secretary PERKINS. Well, possibly.

Senator BLACK. As I understand the unemployment insurance tax, it does not provide in any way whatever for \$1 of Federal aid to the States.

Secretary PERKINS. Not directly under an unemployment insurance tax. May I say that was considered, as to whether or not there should be a contribution out of general Federal taxes to maintain the systems. I am very glad to have you raise the question so that I may explain it. We decided that the greatest hazard to any of these funds and the greatest strain on any of these State funds, and the greatest insecurity and uncertainty arises regularly in the periods of world-wide or national depressions over which no group has any control and where the unemployment runs unpredictably long periods of time. We, therefore, after giving this matter very long and conscientious consideration, concluded that the best time for the Federal Government to make its contribution would be at times of long-term depressions and therefore long-term unemployment. So we recommended a supplemental system of work benefits which would be available after cash benefits had been exhausted. That is, we expect the States to provide systems of unemployment insurance which will pay cash benefits for limited periods of time, a period limited by the size of the fund and by the actuarial principles of keeping the fund sound.

Senator BLACK. A maximum of 6 months?

Secretary PERKINS. Fifteen weeks, perhaps or 26 weeks; the duration depends on various factors.

Senator BLACK. Yes.

Secretary PERKINS. Then, after any periods that became extreme depressions, as they will be when people have been unemployed more than 6 months, the Federal Government should step into the picture with a work program, paid for out of Federal taxes, and the persons unemployed beyond the exhaustion of their cash benefits should be entitled to a works benefit. We believe that you will, by that combination, get the advantage of establishing within the State where there is a small group subject to education and improved management, under some kind of State leadership, the benefit of the attempts to prevent unemployment and the attempts to stabilize, and that you will get a sound insurance fund which is not likely to be bankrupt. You will not have the anticipated contributions from the Government out of taxes to be raised at a period when they are least easy to raise. You will have the benefit of some employment stabilization, and at the same time you will have the added security, at the time of long depressions, of the Federal Government coming in with the works benefit, which will be paid for out of Federal taxes.

Senator BLACK. The long and short of it is, so far as unemployment, insurance is concerned, the bill provides a method whereby the Federal Government taxes the industries in a State, and the Federal Government, contrary to all previous experience in Federal aid, does not aid the State with one dollar of any funds raised by the Federal Government outside of that which comes directly from the State itself.

Secretary PERKINS. Except for administration.

Senator BLACK. That is 10 percent of the total raised; yes. As I understood it yesterday, on the old-age pension proposition, if the borrowing system is followed, then you likewise have a contributory system whereby the Federal Government would not assist in that, would not assist the State. It is contemplated, in the second plan proposed, the plan of annuity, that it be contributed by the employers and employees within the State.

Secretary PERKINS. That goes directly to the Federal Government.

Senator BLACK. Sure; it goes directly to the Federal Government, but they get paid back in proportion to the amount they pay within the States.

Secretary PERKINS. No.

Senator BLACK. I want to be clear on that. As I understood the second proposal, or suggestion made for old-age pensions, under the first alternative that you outlined to Senator La Follette, the idea of Federal aid is abandoned on old-age pensions and we depend upon the contributions solely.

Secretary PERKINS. That is not within the State, sir. The compulsory old-age annuity plan is to be administered by the Federal Government and the collections will be made by the Federal Government, and the payment will be made to the Federal Government through whatever agency the Federal Government chooses. It is anticipated that the fund will carry itself as an insurance fund, except for the fact that we have the problem of making adequate provision for the persons who are now 40 years of age and over but not 65 and who, therefore, will not have, during the remaining period of their working years, sufficient time to make or have made on their behalf, contributions sufficient to give them the total benefit at 65 which those now 20 will get at 65 on the basis of an earned premium.

So you have that transition group, so to speak, as a problem for which some provision must be made in the interest of simple justice.

There are two or three alternatives. Either the Federal Government may appropriate out of general taxation currently to supplement their benefits when they become 65, or it may borrow from the contributions which are being made by the younger people.

Senator BLACK. People that work?

Secretary PERKINS. The younger people, people in the 20-year and 30-year group.

Senator BLACK. Yes.

Secretary PERKINS. It may borrow from those contributions to pay the supplementary benefits, but the Government will eventually have to pay them.

Senator BLACK. That is a question for the Senate committee to decide in passing the bill, but the difference between those two plans of raising taxes is the difference between the method adopted by the Federal Government which might be on large incomes or excess profits, or the methods provided in this bill of levying a tax on the employer, which eventually goes to the consumer. That is the difference in the two methods, is it not?

Secretary PERKINS. No, sir. I think without regard to which method you take, one is a method of raising taxes collectively and the other is a method of borrowing first and then raising taxes in 1965.

Senator BLACK. As you stated yesterday, one is taken from the younger workers and the other is a question of raising taxes by the Federal Government, if it ever will adopt it and follow it, by putting a tax upon excess profits, excess salaries, excess bonuses, high incomes, and high inheritances. If I understand this bill, if we pass it as it is written we are tied down absolutely so far as the 3 percent is concerned to the method of taxing the employer.

Secretary PERKINS. For unemployment insurance; yes, sir.

Senator BLACK. All right. So we are left no alternative, and the State is left no alternative, the State itself, insofar as that 3 percent is concerned—I am not talking about this addition, but insofar as that 3 percent is concerned—if they wanted to tax in New York State, for example, if they wanted to substitute for that 5-percent tax on the employer a tax on high incomes, high profits, high bonuses, and high salaries its hands would be tied, insofar as that 5-percent tax is concerned?

Secretary PERKINS. No, sir. I think there is a misconception there, if I may say so.

Senator BLACK. All right.

Secretary PERKINS. The 5-percent tax is a Federal tax to be paid into the Federal Treasury and not to be used for unemployment benefits. If the State in which the employer is operating has a compulsory unemployment insurance law to which he makes any contribution, or to which he makes a 3-percent contribution, then he is exempted entirely from paying the Federal tax, but he must pay a premium up to 3 percent into the compulsory fund of his State. His State is not prevented from making any contribution which it chooses to make out of its State funds, nor is it prevented from raising those funds in any way which it chooses. A State may make a law, that requires of all of its employers a 2½-percent contribution of their pay rolls and require no other contribution from anybody except

from the State itself. It might make a very large contribution from the State funds themselves in excess of the employers' contribution, matching it or doubling it or tripling it. A State could raise those funds in any way it chose, by inheritance taxes or any other method.

Senator BLACK. I understand that. Let us get back to the 3-percent proposition.

Secretary PERKINS. The employer will have to pay 3 percent.

Senator BLACK. Certainly he has to pay 3 percent in the State.

Secretary PERKINS. Yes, sir.

Senator BLACK. The State could not keep him from it if he wanted to.

Secretary PERKINS. He would have to pay it, either to the State or to the Federal Government.

Senator BLACK. If there were some other employers, that were making 200-percent profit, that were paying million dollar bonuses, if the State wanted to put the tax on them instead of the particular employer, it could not do it under this law, could it?

Secretary PERKINS. It could put an excess-profits tax on them in addition to the 3 percent and use it for any purpose it wished.

Senator BLACK. But this law fixes it to where the State is absolutely compelled, so far as those employers are concerned, irrespective of the fact that it may want to graduate that particular tax according to the profit made, on the income derived, its hands are tied and it cannot bear it.

Secretary PERKINS. The effect, if I might say, of the 3-percent tax is to equalize the competitive cost of manufacturing between the States, so that we will not have the argument (and sometimes it is a legitimate argument) that the lack of a certain cost upon an employer in one State is sufficient to give that particular employer the advantage, in competitive bidding, over the employer who makes the same line of goods in a State where they do have a charge which falls directly upon him. In other words, it equalizes the competitive factor by equalizing the amount of the contribution.

Senator BLACK. Did the committee find any precedent for a system of Federal aid, we will call it, or Federal coercion—that is what it amounts to, as far as I am concerned. I am for the Federal aid and if it be coercion, for this kind of insurance, but is there any precedent of any kind where the Federal Government has forced the passage of laws by States and where the Federal Government has not contributed in some way to that State? I am curious to know that.

Secretary PERKINS. Is not the inheritance tax on that basis?

Senator BLACK. The inheritance tax. Is there any other?

Secretary PERKINS. I do not at this moment think of one, but I am not an expert on all the statutes.

Senator BLACK. Of course, the inheritance tax is quite a different system from this.

Secretary PERKINS. But it was a device by which taxes were raised for the Federal Government and at the same time an incentive was given to the States to utilize a similar method.

Senator BLACK. If it, be true, as stated by you yesterday—and I am sure that all who study modern economy in this country agree to it—that locally the people are a part of one national economic system. The hazards that are created are not created by them alone. They are thrown out of employment, frequently in Maine by reason of

something that might perhaps happen economically in California or New York.

Secretary PERKINS. With modifications, sir, that is correct.

Senator BLACK. All right. Let us assume it then with modifications. As stated by you yesterday, as I understood it the economic system is such that it does bring hazards for which the local community is in no wise responsible economically.

Secretary PERKINS. It does bring some hazards for which the locality is not responsible.

Senator BLACK. They could not prevent it at all.

Secretary PERKINS. Some hazards; others they could.

Senator BLACK. Yes; some of them. The economic system operates in such a way that it will frequently take the wealth from one part of the Nation, produced by that part of the Nation, into other parts of the Nation. Why is it not fair, if the economic system does concentrate it into certain hands in certain communities, to have a Federal-aid system that will aid in counteracting such a tendency?

Secretary PERKINS. I think, sir, we have attempted to provide at least the basis for that in recommending to your honorable body direct appropriations for grants in aid to the State for old-age pensions for its aged and indigent, direct appropriations by the Federal Government of grants in aid to the State for the protection and care of dependent children, and for the protection and care of crippled and handicapped children, and for grants in aid for the care and provision for preventive activities on behalf of those who are sick. In those large aspects of misery and social adversity for which you cannot think up any really sound economic preventive methods, we are recommending direct grants in aid by the Federal Government to the State, beginning with small amounts, such as are recommended in this bill, to take care of present conditions. But with regard to unemployment insurance we have believed that to some extent unemployment is preventable in some businesses and localities, and perhaps that pressure for the development of preventive methods can be put most easily and most successfully upon various industries by local attention to the local situation.

There are industries in this country which, by improvement of their management methods, have actually stabilized or come near to stabilizing the amount of employment which they give. That has not meant, in those particular industries of which I have knowledge, any considerable cutting down of the number of persons employed. It has rather been an intelligent use of all of their resources to equalize employment throughout the year and over a long-year period. Hence they were able to cut the price of the manufactured article so that it had a wider sale and therefore made for an extension of their industry and at the same time to give steady employment to their employees.

Now, that has happened in individual cases and in enough cases so that I am convinced there is a possibility for advance in that particular field.

There are certain forces over which no employer or manager, however good, intelligent, or well-intentioned, or however favorable the economic circumstances in his industry might be, has any control and which might sweep the best system off its feet. Those particular plants in which there had been careful planning for the purpose of

preventing unemployment and stabilizing employment has the least ill effects in their response to the deflationary or economic forces to which all industries have been subjected in degree. We have, of course, sufficient data from which to draw conclusions. It may be said that only those industries that in a natural favorable economic situation are the ones from which we have gotten the data and that certain industries are, by their nature, seasonal. There is nothing I can think of at this moment to overcome some of the seasonal characteristics of that industry, but there are other industries which have shown, historically, a regular rise and fall, a seasonal period of high production and high employment, and a following season where there were wholesale layoffs. There are certain features that have convinced all of us who have studied the situation that we can, by definite human planning, prevent that extreme seasonal dip, and can iron out, as we do, the peaks and valleys.

Canning is about as seasonal an industry as there is, but, as it does to the crops, but there are two or three canning factories in this country where, by planning, they have ironed out the peaks and valleys and have come to a practically stable amount of production and a practical stable amount of employment, and they have a regular monthly pay roll.

As you know, the automobile industry has regularly shown in recent years, these extreme peaks and valleys of employment and production. There is now a group which believes that by changes in the method of planning and of selling they can reduce the seasonal variation in the amount of employment and prevent unemployment. My own belief is that we have begun to explore the possibilities of preventing unemployment by preventing unemployment, due to minor depressions, and to technological changes. We have begun to explore the possibilities of preventing some of that unemployment. There are other aspects that cannot be prevented by any means now known to the human mind. These great major depressions create so much incidental unemployment that no preliminary planning can seriously affect it. I think the combination of all of them is the important thing to consider.

Senator BLACK. Let me see if I understand the basis of your point for distinguishing between the two. As I understand it it is your view, so far as unemployment insurance is concerned, it takes care of temporary unemployment only?

Secretary PERKINS. That is all.

Senator BLACK. Probably caused by technological changes from one plant to another, or temporarily closing down of a plant?

Secretary PERKINS. Seasonal variation.

Senator BLACK. So far as that is concerned it is your opinion, perhaps the opinion of the committee, that it is proper for the Government to take care of locally on the theory that if local communities take care of it it would be an incentive to reduce such temporary unemployment?

Secretary PERKINS. Yes, sir.

Senator BLACK. But insofar as unemployment lasting over a long period of time is concerned, the hazards of health, hazard to the young, age—

ECONOMIC SECURITY ACT

Secretary PERKINS. And dependency of youth.

Senator BLACK. And dependency of youth, over a long time that the committee is of the opinion that that is not purely local, would call for Federal aid to the localities.

Secretary PERKINS. Yes, sir,

Senator BLACK. Thank you.

Secretary PERKINS. That is the principle involved in this bill.

Senator HASTINGS. Miss Perkins, the tax is the same on the locality that is well managed, so far as it relates to its unemployed population, is upon the industry that is not managed so well, isn't it, under the bill?

Secretary PERKINS. That will depend entirely upon the State, sir. A given State, in its unemployment insurance law, might provide for a higher premium for industries with a higher rate of unemployment, if it wished to.

Senator HASTINGS. A State could not do that.

Secretary PERKINS. Yes, the State could assess an employer a rate it wished to fix.

Senator HASTINGS. Yes, but they could not levy a 3-percent tax on an industry on one side of the street and a 4-percent tax on an industry on the other side of the street.

Secretary PERKINS. Yes,

Senator HASTINGS. I do not know of any State constitution that would permit that.

Secretary PERKINS. That is not a tax, you see, it is an assessment to a fund. Wisconsin, in its present law, attempts to do that. There are ways by which you can permit them to contract out, if they wish to do it, under the State laws, contract out on the basis of the cost of their own unemployment.

Senator HASTINGS. Is it hoped that the various legislatures will meet within this short period, while they are now in session, to work out all those details and pass a law so they may take advantage of this 3-percent tax?

Secretary PERKINS. Yes, sir; it is hoped that a great majority of the State legislatures now in session will pass some form of unemployment insurance suitable for their locality and which will be approved by the people in that State think is the wisest way of carrying on an unemployment insurance system.

Senator BARKLEY. Miss Perkins, let me ask you a question. Heretofore we have held out a sort of an inducement to the States to do the right thing along different lines, such as building roads, investing in public health activities, vocational training, agricultural extension, and other things, by providing certain funds out of the Treasury and stating to the States that, "If you match this appropriation at least dollar for dollar you can take advantage of the appropriations made for the purposes." That was a sort of inducement under which they could take advantage of the general tax for the benefits of schools, farms, and what not.

Now, in this, we have departed, it seems, from the theory of inducement, because we levy this tax against the employers of all the States and we say:

If you pass a law yourselves you can keep your share of this, whatever it is. If you would pay into the Federal Treasury you can keep, but if you do not pass a law as this, this money goes into the general fund and it may be used for

ployment insurance or it may be used to build battleships or anything the Federal Government might want to expend it for.

I should like to have your theory as to the justification of a form of coercion or intimidation or whatever it is. It is different from inducement, because the theory is a little different. I am bothered, as I told you yesterday, about the theory that you collect a tax from the States and say, "If you do not do it yourself we are going to take it away from you, and you get any of it back."

Secretary PERKINS. You see, sir, if it is given back to the States we will say for unemployment relief, you have then a disincentive to the State to pass a suitable law of its own. The purpose of the Federal tax is to equalize the cost of doing business in every State, so far as it can be equalized, with regard to the cost of unemployed persons.

Senator BARKLEY. Many States have passed the relief law and there has been great opposition to it, in that one State because it did not apply to other States bordering it, there is an injustice to the merchants in the States in which the tax is levied. There is a good deal of justification, I think, for the uniformity of the tax so as to put all manufacturers and all employers on the same basis. But let us assume that only 10 States would pass an unemployment insurance law and the entire fund of 3 percent is collected in the Federal Treasury. I think it fair to assume that there would be a surplus in the Federal Treasury out of that fund over what would be paid on unemployment insurance in the States. If the enacted laws, there would be additional funds in the Treasury.

Secretary PERKINS. Which would probably be used for unemployment relief, if that were the case.

Senator BARKLEY. That is a different matter. Do not you think it would be a good idea to earmark all the tax money that is collected by the 3 percent that is collected for unemployment insurance in all the States do not take advantage of it and enact the law so they get back into the State for unemployment purposes. The amount of tax raised, do not you think that that money should be earmarked in the Treasury for that purpose alone and not for general public purposes, so when the time came that a State had enacted this uniform system, or most of them enacted it at other time, that money collected from employers for unemployment insurance, either through the distribution of the Federal Treasury or the States, should go for that purpose and not for general public purposes.

Secretary PERKINS. That would seem to me, sir, not to be an inducement or any incentive for the passing of these laws, but to get it back anyhow in the form of unemployment relief.

Senator BARKLEY. I am not speaking now of each State getting back the identical money it paid in.

Secretary PERKINS. Using it for unemployment insurance.

Senator BARKLEY. But using it for unemployment insurance in some capacity somewhere.

Secretary PERKINS. Ordinarily such revenues are not earmarked.

Senator BARKLEY. Congress can earmark it by providing for it by providing that it shall be put into a fund. It seems to me there is serious objection to the collection of a tax for a definite purpose.

like unemployment insurance, and then use a considerable portion of that tax for general Government's expenses.

Secretary PERKINS. This tax is not collected for unemployment insurance. This is a general tax. It is assumed that the Federal Government has an ample use for taxes and is always seeking new sources of revenue.

Senator BARKLEY. We would not be levying this tax except to provide for unemployment insurance.

Secretary PERKINS. To raise general funds for general purposes, and to encourage the States to pass unemployment insurance laws of their own.

Senator BARKLEY. And penalize them if they do not?

Secretary PERKINS. It only penalizes the employers, not the State generally.

Senator BARKLEY. It does not penalize the Government.

Senator COUZENS. In other words, if this was earmarked to go back to the States at some future time, there would be no incentive for the States to hurry up and create an unemployment-insurance law.

Secretary PERKINS. That is my thought, sir.

Senator HASTINGS. That is not Senator Barkley's suggestion.

Senator BARKLEY. I think the fund ought not to be dissipated for general purposes; it ought to be kept intact for unemployment insurance.

Secretary PERKINS. It might be kept intact in a fund from which the Government will draw to pay, for instance, for public works, which it is anticipated will have to be thrown in to provide a work benefit after the tax benefits have been exhausted in periods of deep depression. I am told by the Treasury that things like that are merely a bookkeeping procedure. If the Government has an obligation it has to pay the obligation, and whether you have earmarked the fund or not does not matter.

Senator BARKLEY. You do not believe that this tax, which is levied for the purposes of unemployment insurance, that any part of it ought to be spent for the support of the Army and Navy, or the diplomatic corps, or some other normal branch of the Federal Government?

Secretary PERKINS. It does not matter how this specific money is used, just as it does not matter whether, in paying my rent, I take the money out of the savings bank or out of my salary check.

Senator BARKLEY. That is your money.

Secretary PERKINS. The same is true with the Government, isn't it?

The CHAIRMAN. Miss Perkins, so far as you are concerned, and so far as your committee is concerned, you have no objection to making it a special fund, have you?

Secretary PERKINS. Except I would have a very great objection to making it a special fund which was ever to be returned to the States for paying unemployment insurance benefits. If you do that it is an advantage for each State to postpone the enactment of its own law.

The CHAIRMAN. Senator Barkley inquired on that proposition.

Senator BARKLEY. That is not the point of my inquiry.

Senator HASTINGS. Senator Barkley, may I make this suggestion and see if I get your point clear. It seems to me the point made by Senator Barkley is a good one, upon this theory, that if, for instance,

the Federal Government found it necessary at some future time to appropriate a certain amount of money for unemployment relief and it had an accumulated fund of \$100,000,000 that came from this act, it would feel very much easier about making the contribution upon the theory that it was originally collected for that purpose.

Senator BARKLEY. That is a kindred idea, yes.

Secretary PERKINS. I know very little about Treasury operations, but I presume if they had a hundred million dollars they offset that against some other borrowings they have to make, some other financing they have to do. It becomes a matter of purely technical methods of financing current expenses, and I do not think it makes any difference.

The CHAIRMAN. We will get the Treasury's viewpoint.

Senator GORE. Does the theory underlying this proposal here concerning which Senator Barkley has been inquiring proceed on the assumption that the Federal Government knows just a little better what the people in a given State ought to do on this subject than the people in the State?

Secretary PERKINS. No, I do not think it does, sir.

Senator GORE. I want to ask you another question. Do you want to ask a question on that particular point, Senator Walsh?

Senator WALSH. Senator, is not that implied in the provision here that the States must fix the age limit of 65 or rather than leaving that proposition to the States themselves?

Senator GORE. I think the whole implication is to that effect. I want to get her reaction on that.

Now, Miss Perkins, something was said yesterday about the Townsend plan. Doctor Witte said your committee had given some thought to that subject.

Secretary PERKINS. Yes.

Senator GORE. I would like to get your reaction to the Townsend plan, and the reaction of your committee.

Secretary PERKINS. The Townsend plan of course has been proposed in various communications to almost every public officer, in recent months.

Senator GORE. It certainly has.

Secretary PERKINS. It naturally came to those of us who were members of this committee, and it was considered at more than one session. After giving it what seemed to us due consideration, it appeared that it was impracticable and impossible from any kind of reckoning that we were able to do at this time.

Senator GORE. Was your objection to it then based upon principle or was it merely based upon the theory that the monthly payments were too large?

Secretary PERKINS. The total sum involved was too large, not only the monthly payments but the degree of coverage.

Senator GORE. What I want to get at is this: Does the Townsend plan differ from your plan merely in degree or is it different in kind and different in principle?

Secretary PERKINS. It is quite different in principle, in kind, and in degree.

Senator GORE. In what respect?

Secretary PERKINS. The old-age provision in this bill——

Senator GORE. The noncontributory part of it?

Secretary PERKINS. The noncontributory part of this bill provides for a pension for those who are aged and needy. Not those who are

aged and have funds, but those who are aged and needy, as judged by the people in their own locality.

Senator GORE. Then if the Townsend plan was limited to those who are aged and needy it would obviate your objection to it, would it?

Secretary PERKINS. Except as to the amount involved, which is too large.

Senator GORE. The amount is merely a matter of degree, it is not a matter of principle at all. That is all a matter of discretion.

Secretary PERKINS. That depends.

Senator GORE. Does the proposal involved in this legislation seek, in any sense, to substitute social security for the struggle for existence?

Secretary PERKINS. No, sir.

Senator GORE. It does not?

Secretary PERKINS. The struggle for existence, I take it, is a biological thing which goes right on.

Senator GORE. It has gone on for a long time, hasn't it?

Secretary PERKINS. Yes; and I suspect it will continue.

Senator GORE. Do not you think that we will, through cooperation between individuals, reach a stage in civilization where the struggle for existence will no longer be necessary?

Secretary PERKINS. No, sir.

Senator GORE. The major part of it?

Secretary PERKINS. No, sir.

Senator GORE. What factor would interfere with it?

Secretary PERKINS. Of course, my views on this matter are not important. I think the question of cooperation between individuals has accounted for as much civilization as any personal struggle. That is just my philosophical view:

Senator GORE. Can you secure people against the struggle for existence, and have the struggle, too?

Secretary PERKINS. Most of us have tried to give a certain security to those who are dependent upon us from the more serious aspect of the struggle for existence, and to a very large extent we have succeeded in civilizing society. That is the purpose of civilization.

Senator GORE. Those who receive security against the struggle you think will struggle anyway, and I suppose they will, as a general rule. Of course, there will be exceptions.

Secretary PERKINS. I do not think there has been any cessation in the struggle for existence because some who were subjected to infants' diseases were protected. Those who have not had infants' diseases have grown to be just as robust and bear the burdens of life as other people.

Senator GORE. We often hear that the children of the rich do not sometimes fare as well as those who have been up against realities in their youth, who have learned how to struggle. For some reason there is the impression that the children of the rich do not succeed. Some people suspect that is because they do not have to struggle.

Secretary PERKINS. A great many children of the rich do appear to me to be quite successful as human beings. But it is very difficult to draw conclusions. The number of children of the rich are comparatively few.

Senator BARKLEY. It is rather difficult to say what would have happened if something else had happened that did not happen.

Senator GORE. Now then, here your statement yesterday was that there were two objects in this whole old-age pension; one was to provide for the aged, to protect them against hunger and cold, and the other was to provide them with a purchasing power.

Secretary PERKINS. Yes.

Senator GORE. The two, as I understood you, were equally important?

Secretary PERKINS. Yes.

Senator GORE. You stated mass production called for mass consumption and when you provided these old people with a purchasing power they expended it for the manufacturers' product at retail. Does not this plan contemplate taking the purchasing power away from the manufacturer, which he has earned, to take the purchasing power away from the merchant, which he has earned, and transfer it to these aged pensioners, which they have not earned, in order that they can use the purchasing power to buy from the manufacturer, whose purchasing power you took away to start with? It comes to that, does not it?

Secretary PERKINS. I think you may be overlooking the difference between income and wealth. Income arises from the velocity with which the medium of exchange moves from hand to hand, whereas wealth, of course, is more solid and substantial. The machines, the land, and the buildings are real wealth.

Senator GORE. However much we sympathize with the old people who obtain this purchasing power under this pension, a part of it will be taken away from wage earners who would have used it for purchasing the necessaries and comforts for themselves. Now, you have taken from their income the purchasing power which they would have used to purchase the manufacturers' goods, which they have earned and which they will need, and you have transferred it to somebody that did not earn it, to say the least. That is not an addition to the purchasing power of the community; that is limited to the income now.

Secretary PERKINS. You may be right, sir.

Senator GORE. Well, now, if you subtract a part of the merchants' purchasing power under this plan and transfer it to the aged, he cannot raise the wages of his employees to that extent and add to the purchasing power of his employees to that extent; that is a fact, is n' t i t?

Secretary PERKINS. I would not think of disputing that, sir.

Senator GORE. The manufacturer could not give that purchasing power to his wage earners; he could not add to his plant no matter how much he needs to, to the extent of the purchasing power that you have taken away to give to somebody else to purchase from him.

Now what I am trying to get at is this, Miss Perkins: Your assumption is that it is a function of the Government to take purchasing power away from the citizen who has earned it-and we will say earned it honestly-and transfer it to another citizen who has not earned it; that is the principle in this bill at least, so far as the purchasing-power end of it is concerned, is it not?

Secretary PERKINS. No, sir; I do not think it is the function of the Government to take the purchasing power away from one individual and give it to another. I think it is the function of the Government to provide a method by which those who are dependent in their old age

may be provided for against the devastating ravages of poverty when they are old. I tried to indicate yesterday that I believe that an incidental advantage which the whole community will get, and the aged person as well, is that there will arise a new location of purchasing power which will be useful to all of the community who have contributed to the fund into which the taxes going to support this plan are paid. But the prior duty is to the aged.

Senator GORE. There "is no doubt about that. You used the expression yesterday that it was creating a purchasing power when you gave a pension to the aged. I think Senator Black called your attention to that point. Is it not a transfer of purchasing power instead of a creation of purchasing power?

Secretary PERKINS. I do not believe that I used the word "create." I thought I indicated that it provided a new source of purchasing power, but I may have misspoken myself. I am sorry if I did.

Senator GORE. In the first instance it is a transfer of purchasing power from one citizen to another, is not it?

Senator COUZENS. May I say, Senator, I do not think so, because what you would take away from me might increase the purchasing power that you might have.

The CHAIRMAN. There are not many like Senator Couzens.

Senator GORE. I think it is a matter of supreme importance. What we all want to do is to stimulate the creation of purchasing power—something that will pull us out of this bog. The transfer of purchasing power from one citizen to another does not go far. It may help the individual who gets the purchasing power, but it hurts the one who parts with it. You take the processing tax, for example. You take hundreds of millions of dollars out of one set of pockets and put it into another set of pockets. That is not creating purchasing power; that is transferring it. This distinction is fundamental.

Now speaking on the incidental advantage, our government, for months after the war, made loans to foreign governments, and for 6 years, from 1923 to 1929, our financial institutions loaned some six billions of dollars to those governments or peoples. That purchasing power was put into their hands, and with it they purchased goods from us, but that plan did not work out very well in the long run, did it? Some of its effects helped to bring on and to aggravate the depression.

Now, then, we will come back to the first proposition of taking this power, this purchasing power, from the manufacturers and the merchants and transferring it to the aged. Now I would like to get your reaction on this: The Government decides that John Doe, a manufacturer who created this wealth—this purchasing power in an honest way—is not as much entitled to it as Richard Roe, who has no purchasing power, and the Government of the United States, equally charged with the protection of both of them, takes it from John Doe and gives it to Richard Roe. I do not see how you can escape that conclusion. You may justify that on social considerations but that is what happens.

Senator CONNALLY. Senator Gore, is it not true that under our relief system we are taking money, through taxation, from one set of persons and giving it to another? As I understand Secretary Perkins, she wants to provide a method that will set up a reserve fund so that these people, instead of spending directly out of the Treasury, will

get results from' their own plan, to which industry ought to contribute just as much as the employee?

Senator GORE. I am speaking of the noncontributory portion of this bill. Anybody who thinks that the relief plan is a substitute certainly ought to devote more thought to the subject.

Senator CONNALLY. That is what we are trying to get rid of now; that is why we are trying to devise something to take its place.

Senator GORE. I do not know whether making it chronic instead of acute will help any. Senator Long of Louisiana is espousing a plan for the redistribution of wealth in this country. Now his contention is that the Government ought to take purchasing power, wealth, and income—I will use both terms—away from those who have it and transfer it to those who do not have it. Now how does that differ, in principle, from this plan?

Secretary PERKINS. I think it does, sir, because the difference in degree frequently relates to principle itself. If you take all of the wealth, or even a very substantial part of the wealth away from the sources where it is created, you do, of course, dry up the possibility of creating any more wealth at that place. Now the creation of wealth, as I tried to indicate, is the creation of machinery, of tools, of houses, of substantial products out of which there can flow those goods, comforts, and earnings which make income. To merely divert a portion of the income which derives from a wealth-producing manufactory, or wealth-producing mine, to divert a portion of the income which derives from that to a source which needs income and has not, for some reason or other, been able to maintain income into the years of old age, does not seem to be in any way a distribution of the wealth of the ordinary income-producing agency. Maintenance of the income-producing agency is of course extremely important. That is the structure under which we are living, and within which we are operating our economics.

Senator GORE. Income is wealth. The matter of replacement is not a matter to be ignored. The country's plants have to be replaced every few years.

Secretary PERKINS. The portion of income which should go for replacement is an open question at this time. We are recognizing that one of the factors which enter into the complications of this last depression was that a large part of the income earned from the machine structure, was used to expand that structure further, and further, so that we had a very large investment of current income, in the expansion of our capital structure.

Senator GORE. That is true.

Secretary PERKINS. So there is a time element in the matter that is perhaps important to the creating of a balanced economic life.

Senator GORE. Your answer, as I understand it, is that under your plan you would not take too much of a person's income, and Senator Long would take too much of a person's income. Now what is the standard? Who is to decide how much is too much and how much is not too much?

Secretary PERKINS. The Congress of the United States.

Senator GORE. Congress has found this bill on its doorsteps. What guarantee is there? Has the citizen got any constitutional guarantee? Has the citizen got any legal or moral guarantee under

this plan that some man might not come into power who would take more than he ought to take from one and give to another?

Secretary PERKINS. He has the guarantees, sir, which were, I suppose, established in building up our representative system of government by the elected representatives of the people, who decide how much tax to impose and where to impose it. I do not know of any other formula which seems to me so adequate at this time.

Senator GORE. I know the theory of private property used to be—I do not say it is now—that the man who earned the dollar honestly has a better right to it than anybody else.

Secretary PERKINS. I would not dispute that.

Senator GORE. What I am trying to get at now is whether this legislation is not out of line with that once established principle. A Congressman said the other night they were organizing a club, and one man said, "If you want to come back to Congress you better vote for this Townsend plan." Now who is to decide? Is it the people who want this wealth given to those who haven't got it? Has a citizen no guarantee, under our constitutional system, that that thing cannot be done? Do you think he has? Isn't this plan, and the Long plan, in effect to take private property for private use?

Senator COUZENS. Isn't that a question for the Supreme Court to decide?

Secretary PERKINS. It is not for me to decide. Thank you, Senator.

Senator GORE. Perhaps we can tell you more about that when they hand down the gold-clause decision.

Senator COUZENS. I am quite conscious of the fact that the whole matter is in the air. I do not think we can decide it around the table. I do not think we can decide whether it is constitutional or not.

Senator BARKLEY. Is not it a question of degree, as to how much is not to be taken by the Government? As a matter of fact, from time immemorial a part of what some people have has been taken by the Government—either the city, the county, or the State—for the purpose of looking after indigent people, whether they are old or not.

Secretary PERKINS. And sometimes for worse purposes.

Senator BARKLEY. What?

Secretary PERKINS. Sometimes for worse purposes.

Senator BARKLEY. I agree; but the question of taking away money from people who have it, in the form of taxes, for the purpose of caring for the poor is not a new question. It has been with us for a long time. We do it in many respects besides the mere caring for old and poor people.

Senator GORE. As far as the State is concerned, there isn't any doubt but what it has the power and the duty to take care of its indigent people, but it is a new theory as far as the Federal Government is concerned. I was wondering about that.

Senator BARKLEY. I do not know whether the gold-clause case has any effect on the power of Congress to appropriate money for this.

Senator GORE. What is that?

Senator BARKLEY. I do not think the decision of the Supreme Court in the gold-clause case has anything on the power of Congress to appropriate money for this purpose or any purpose that concerns the general welfare of the people.

Senator GORE. The Senator forgets that some of us are Irish and that reference to the Court was a bit of humor.

Senator COUZENS. May I ask Miss Perkins if the gasoline tax does not, in part, answer Senator Barkley's question? I remember the debates in Congress when we proposed the gasoline tax, that it would help to liquidate the expenses that the Government was put to in making good roads, and we did not segregate the gasoline tax for the purpose of good roads and therefore we are not proposing to segregate this tax for the purpose of unemployment.

Senator BARKLEY. That was the theory on which the matter was discussed. The fact of the business is, and we all know who are on this committee, that we reached the point 2 or 3 years ago where we had to have \$150,000,000 in order to balance the Budget and we did not have any other funds to get it from except to tax gasoline, and we justified it on the theory that the Federal Government was contributing money toward the building of highways, therefore we ought to levy this tax.

Senator HASTINGS. There is this difference, and this distinction which has to be made: There was no surplus, as far as the building of roads was concerned.

Senator BARKLEY. I would like to get your idea about this, Miss Perkins. It is stated that about 35 or 36 of the States will have sessions of the legislature this year and the others will not meet for a year.

Secretary PERKINS. More States than that, sir.

Senator BARKLEY. This tax goes on at this time?

Secretary PERKINS. Yes.

Senator BARKLEY. What would you say to the suggestion of not using this money, or withholding in a special fund the amount of this tax over and above the distribution to the States who pass laws, and provide if and when any State does enact this legislation then the amount collected from that State shall be available to it for unemployment insurance? For instance, 12 States will not have a session of the legislature until next year. Would there be any objection to withholding any general distribution of the surplus of this fund, to give those States a chance to pass legislation without having to call an extra session of the legislature, and then provide that the amount collected this year, or any other year prior to the enactment of such legislation, could be available to the States for the purposes for which it was collected?

Secretary PERKINS. Forty-four States have legislatures meeting this year. Now we provide that probably 1 percent, instead of 3, is collected the first year, so it is a much smaller amount in the first year of collection.

Senator BARKLEY. Well I think States that cannot comply with or meet this requirement for a year without calling an extra session of the legislature, which would probably cost more money than the tax would amount to, ought to be given an opportunity to benefit from the amount of tax they pay prior to the time when they can meet the requirement of this law.

Secretary PERKINS. I suppose we could not exempt employers in States whose legislatures did not meet before January 1, 1936.

Senator BARKLEY. I do not think that would be fair.

The CHAIRMAN. That is not a matter you would raise any objection to, if we wanted to write it into a bill, is it, Miss Perkins?

Secretary PERKINS. I think not, except that it should be so safeguarded that it is not an encouragement to a State to postpone its

action, or to believe that it will get the money back. In that case it will not pass the law and the funds will not be accumulated as they ought to accumulate for the benefit of the unemployed.

Senator GORE. Miss Perkins, there is one more question. Yesterday I think you mentioned that there were people who were 45 years of age or 50 years of age, men who had accumulated experience who were thrown in the discard. To me this is a living tragedy. Have you made any study of that? Can you tell us to what extent, if at all, the fact that they are thrown into the discard is due to industrial insurance, the raising of the premium on those men who are of advanced years? Does that have anything to do with it?

Secretary PERKINS. In some forms of group insurance it has been thought that that was a part of the reason for the discarding of the older members of the working group, because the total premium would be lower if the largest proportion of the workers engaged in the group are young men and not so near their assumed death date, and therefore the collection date. Not all forms of industrial insurance do that. I should say that it is perfectly possible to write a policy, and such policies have been written and should be written, where the older person collects a lesser benefit than those who come into the scheme at a younger period.

Senator GORE. I was wondering whether you had given thought to that proposition. It seems to me perfectly just to establish a fund, or to require industry, employers, and employees, to raise a fund out of which this excess premium, the extent to which the premium for these men of advancing years is in excess of the average, a fund out of which that excess premium could be paid. It looks to me like that would be a legitimate charge on the employer and employee, which would avert a portion of this loss.

Senator BLACK. I would like to ask Miss Perkins one or two questions in regard to this medical proposition. Doctor Witte made the statement, as I understood it, that it was probable that a report would be made to the Senate which would go more fully into some kind of a provision for medical assistance. I am very greatly interested in that. I have a resolution pending before the Senate at the present time for legislative study, which I do not want to make if it did not cooperate with the committee. I want to ask two questions.

Is it not true, insofar as the failure to receive the necessities of life is concerned, that there are more people affected in the United States from the single cause of failure to receive adequate medical and dental and hospital treatment than any other one individual cause which you have been studying?

Secretary PERKINS. You mean as a cause of poverty?

Senator BLACK. Yes.

Secretary PERKINS. I think we would have to rate unemployment higher than lack of medical assistance as a cause of poverty.

Senator BLACK. I mean the number of people who are not receiving adequate medical, dental, and hospital treatment, if it is not greater than the number of people who are unemployed, and if it is not greater than the number of people who are old? I do not mean in the aggregate, I mean separately.

Secretary PERKINS. That might be so. As soon as you use the word "adequate" the discussion is raised as to how much treatment constitutes adequate medical treatment, but if you use the opinion

of the group who think that adequate medical attention is of a substantial amount, I suppose that is correct.

Senator BLACK. Of course, you know the committee has studied the reports of the commission which was set up to study medical aid?

Secretary PERKINS. Yes.

Senator BLACK. You are familiar with the fact that 30 percent of the people who were dropped in the World War were declined admission into the Army for reason of the fact that they were physically unfit for service. Is it not true that the committee making this study found if adequate medical treatment could be received by the people, that this number would be greatly reduced, and we had numbers of people who were not working full time, with hundreds of thousands of people who failed to receive medical treatment?

Secretary PERKINS. No doubt about it.

Senator BLACK. Would you object to stating whether or not it is the intention of the committee to make a report recommending further legislation along this line?

Secretary PERKINS. We are recommending here, an appropriation to be used through the State public health services for the purpose of preventing illness and for furnishing at least a minimum of medical and nursing care in the States. The committee which is making a further study is made up of physicians, dentists, and hospital authorities, who are working definitely upon the request of the general committee to see if they can devise a system of health insurance which seems to them, as professional people, working in the field, to be both fair and constructive for the profession itself and at the same time to furnish the necessary provision of medical care to people now with it. Whether they will recommend legislation or not at this session I am not at this moment prepared to say. This subcommittee asked for a longer time than the other subcommittees, because their problem is a difficult one. The professional matters to be considered are difficult, and they have frequently caused controversy within the professions affected. Therefore we thought it well to give the subcommittee the extra time so that they might arrive at at least a considered opinion. I do not know whether they will recommend legislation to the President's Committee on Economic Security, or whether the President's Committee on Economic Security will be in the position to recommend legislation to your honorable body at this session.

Senator BLACK. I do not understand that the President's committee is going to follow necessarily the action of this committee of doctors and dentists.

Secretary PERKINS. Not necessarily, but we will consider their findings.

Senator BLACK. You will consider their findings, and their advice in connection with trying to reach a fair conclusion?

Secretary PERKINS. Yes.

Senator BLACK. Is there any reason why, so far as you know, the cause would be injured or assisted by an open public hearing before a legislative committee which gives access to the physicians, the dentists, and all people interested to present their views and have an open study of it by the committee?

Secretary PERKINS. I do not think anything is hurt by a public discussion, but I should very much like, Senator, before you proceed

to that, if you would talk with perhaps the chairman of this subcommittee.

Senator BLACK. Who is the chairman?

Secretary PERKINS. Mr. Sydenstricker has the matter in charge. He has two or three committees working. I would be very glad if you discussed the matter with members of that committee. Dr. Harvey Cushing is the chairman of the medical committee.

Senator BLACK. It is true, is it not, that many of the other countries who have adopted social insurance systems have adopted this one first, for medical treatment?

Secretary PERKINS. Yes, sir.

Senator BLACK. And you are seeking now the advice of the council of physicians. May I ask whether you are obtaining cooperation?

Secretary PERKINS. We are.

Senator BLACK. From the medical association and the dental association?

Secretary PERKINS. Yes, sir. That is one of the reasons that makes us very hopeful of a constructive report. They have been extremely cooperative and are working with great intelligence and with an unselfish point of view of citizens as well as professional men.

Senator LONERGAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Senator Lonergan.

Senator LONERGAN. Madam Secretary, how many persons are out of employment now in this country?

Secretary PERKINS. I think, sir, that you have probably realized from the statements published from time to time that there is no completely accurate figure of the unemployed. The reason is because we have no unemployment insurance system. Countries that can publish an accurate figure every month as to the number of persons whom they know to be actually unemployed are those with unemployment insurance benefits, under which persons entitled to the benefit's are registered and counted. In this country we have estimates of unemployed, based upon our knowledge of an index of employment. We know, in general, what the percentage of employment was in the year 1930, and we know from the census of that year how many persons were employed by different groups of employers who made a pay roll return. We know now how many fewer are returned, are employed, by the returns of the employers, and we therefore deduce that there must be so many unemployed. Perfectly honest people can sit down and make their own estimates and their own allowances, and their own weightings for this, that, and the other thing, and they will come out anywhere from two to four million apart in their estimates.

Senator LONERGAN. What is your estimate?

Secretary PERKINS. We have made our own computations and we therefore make an estimate based upon it, and our estimate is that there are probably in the neighborhood of 9,000,000 unemployed. But again that is an estimate, and I think that should be recognized as an estimate.

Senator LONERGAN. What is the estimate of your Department as to the number of unemployed in normal times?

Secretary PERKINS. There is no estimate at all that is worth its salt. You will always find a certain number of people who will say they are unemployed. Many of those are in the group that was

referred to the other day as unemployables who never will be employed except for an odd job. They are people who are sometimes sick, some times defective, sometimes not really having any need of the work. You will find that particularly the case sometimes in the younger or older members of the family in which there is a breadwinner who earns a sufficiency for the family. You sometimes find the young daughter in that family working for pin money a few weeks at Christmas time in the department store. She is always laid off and she only works, year after year at Christmas time, and yet if you counted her as having been employed in the Christmas rush and is now out of work, in January, you might say, "Well, she is unemployed," and yet actually she is not what you and I are thinking of as an unemployed person because she does not seriously intend to have a job as a permanent thing. So many of those who can be regularly employed in good times are counted among those who are not employed at other times.

There are always, on a given day, a number of men out of work who will not be out of work tomorrow. A census today might indicate that they are out of work because they have just finished the job at Jones' and they haven't begun the new job on Main Street. That is particularly true in the building trades. You will find periods when they have a day, or 2 days, or a week or 2 or 3 weeks in between the times that they work.

There is also, of course, in addition to this the seasonal fluctuation, in which people are out of work during the season when the trade is not working. There is a certain amount of technological unemployment. That is, some process has been changed and those people are out temporarily until they find either another kind of job or a job in another plant.

There is no sound estimate of the number of persons unemployed in normal times, because the fact is they are intermittently employed.

Senator LONERGAN. I have read at times it was 2 million, 3 million, of 4 million.

Secretary PERKINS. Many people have amused themselves in their idle hours making those estimates, but if you ask me, as a responsible Government official, to say what it is, I would have to qualify it very much.

Senator LONERGAN. Have you any estimate as to the number that will come under the unemployment insurance plan when it becomes operative?

Secretary PERKINS. You mean the number of employed persons?

Senator LONERGAN. No, the unemployed persons who will come under this plan.

Secretary PERKINS. The only persons who will come under this plan will be that percentage of the persons ordinarily employed who happen to be laid off.

Senator LONERGAN. Yes.

Secretary PERKINS. Now the total number of persons in the U. S. A. who were employed in 1933 was 26 million people, on a coverage of this sort, and if the index of employment went down to 70, 30 percent of those would be eligible for benefits.

Senator LONERGAN. Our greatest problem is unemployment, is it not?

Secretary PERKINS. It is at the present time; yes, sir. In normal times it is not our greatest problem, but it is a hazard that is always possible just ahead of us.

Senator LONERGAN. I am going to volunteer an opinion. I believe that there are sufficient means in this country to start a substantial portion of industry in this country and the things that are lacking are a wider confidence and a more liberal credit system. Have you any opinion on that?

Secretary PERKINS. Well, I do not qualify as a specialist on credit systems, sir. Credit, as I understand, is the ability to borrow, is it not?

Senator LONERGAN. Yes.

Secretary PERKINS. I have never been able to borrow anything, so I know very little of it.

Senator LONERGAN. Most of us have borrowed too much and cannot pay it back.

Senator BARKLEY. Miss Perkins, of the 9 million unemployed are you able to say how many of them are unemployable?

Secretary PERKINS. It is a very difficult thing to gage but there are four and one-half to five million heads of families now on relief. Those are the people whom you can study. The relief agencies, with statisticians of the Department of Labor assisting them, have estimated, from the reports on those families, that 80 percent of those heads of families are able-bodied, healthy employable persons having no defects or no complications. So 80 percent of the 5,000,000 are employable. That means 20 percent of the 5 million may be classed as unemployable. It is probably true that most of the unemployable workers of the country are embraced within the relief group.

Senator GORE: You use the word, "unemployable" as embracing those who could not work?

Secretary PERKINS. We mean the sick, the deaf, and so forth. For instance, you take the mother of a large family, she may be able-bodied and all that, but we classify her as unemployable because if she works the children have got to go to an orphan asylum.

Senator GORE. Do you think there is any danger of creating an additional class of unemployables?

Secretary PERKINS. No, sir.

Senator GORE. Those that would not work?

Secretary PERKINS. I do not think so, with the rising American standard of living. Everybody wants a little more than he has ever had in the way of comfort and luxury.

Senator WALSH. Miss Perkins, your figure of 9,000,000 is an estimate, and it is probably somewhat over that, but it does not include these exceedingly large number of people who are working a few hours a week or a day or two a week?

Secretary PERKINS. No, sir; it does not include the partially employed.

Senator WALSH. And that is a very large number?

Secretary PERKINS. It is a very important part of our present economic problem.

The CHAIRMAN. Miss Perkins, it is now 12 o'clock. You have been very patient and very kind. The committee is deeply apprecia-

tive of the suggestions and the information that you have given us. Have you finished your statement?

Secretary PERKINS. I think I have, sir; to all practical purposes.

The CHAIRMAN. Does the committee desire that Miss Perkins return Monday morning?

Senator BARKLEY. Unless she has some additional formal statement that she desires to make, that we prevented her from making through our interruptions.

Secretary PERKINS. If I find, sir, there is anything I would like to say, perhaps I had better file a memorandum of it.

The CHAIRMAN. You can file a memorandum. We will be glad to hear from you.

Secretary PERKINS. Thank you very much for your courtesy, sir.

The CHAIRMAN. The committee will adjourn now until Monday morning.

(Whereupon, at the hour of 12 o'clock, the committee adjourned until Monday, Jan. 28, 1935, at 10 a. m.)