

ECONOMIC SECURITY ACT

TUESDAY, JANUARY 22, 1936

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

The committee met, pursuant to call at 10.30 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, Bailey, Clark, Byrd, Lonergan, Black, Gerry, Guffey, Couzens, Keyes, La Pollette, Metcalf, Hastings, and Capper.

The **CHAIRMAN**. The committee will come to order. Senator Wagner, who introduced Senate bill 1130, is here this morning, and we will ask Senator Wagner to make an explanation of the bill.

STATEMENT OF SENATOR ROBERT F. WAGNER, OF NEW YORK

Senator **WAGNER**. Mr. Chairman and gentlemen of the committee: For the sake of brevity, I have prepared a statement which I should like to present to the committee, after which I shall be glad to answer any questions that I am able to.

The **CHAIRMAN**. If you prefer to go ahead and finish your statement; very well, and after you shall have finished with it, the different questions will be put to you.

Senator **WAGNER**. I thought that might be the better way of presenting the matter. However, I shall proceed as the committee decides.

The **CHAIRMAN**. Very well.

Senator **WAGNER**. Mr. Chairman and members of the committee: The center around which revolves all the political and economic thinking of our times is the depression of the past 5 years. Even when we infuse concrete facts with the touch of imagination that gives them life, we cannot count the cost of this calamity to the people of the United States. The huge sum of money that has been spent to provide relief and promote revival is a mere bagatelle compared to the \$45,000,000,000 decline in our annual income. And even if some financial wizard could ferret out these losses in all their obscure ramifications, he could not measure the broken hopes, the ruined lives, and the aftermath of suffering that will be visited upon a large part of the next generation. You gentlemen know the truth so far as it can be known—for your hearings since 1929 have constituted a panorama of a nation's woes.

Happily, the forces making for recovery have now been set in motion. But our bitter experience has fastened attention upon three main problems that we must start to solve now if recovery is not to be built upon a bed of quicksand.

First, what must we do to set up safeguards for those millions who suffer privation and neglect during so-called "good times"? This may be called the problem of those disinherited by our economic system.

Secondly, what must we do to protect those who are destroyed by even the slight and short downward dips of the business cycle that may occur in the future despite our best efforts? This may be called the problem of those who live on a narrow margin of security.

Thirdly, and most important, what can human ingenuity do to prevent economic disorder in its most widespread and virulent forms from leading to national disaster? This may be called the problem of industrial 'stabilization.-

Each of these three paramount problems is most at home in the house of want built by unemployment. Even between 1922 and 1929 unemployment kept the level of disinherited workers at all times, above 1,500,000, and the total rose to 4,000,000 in 1928. Unemployment is also the force that attacks and destroys those who live on the narrow margin of security. Lost profits may be regained upon the upward swing of the business cycle, but the working day that is lost is gone forever. Above all, the secret of unemployment is the key to industrial stabilization. In 1929 fluctuations of 600 percent in the volume of unemployment were the storm signals of depression. When we discover how, to keep men at work, we shall have discovered all,

Unemployment insurance ranks high in the list of remedies for unemployment. In respect to those disinherited during normal times, it is more economical than relief because preparedness is better than 'planlessness'; and it is more humane because it does not rest upon the degrading means test which assumes that society has no duty to the idle worker until he is destitute.

The chief merit of unemployment insurance, however, is that it will exert a profound influence upon the stabilization of industry. Employers held to strict accountability for the costs of unemployment will strive more diligently for its abolition. The searchlight of attention upon this problem will tend to prolong jobs just as the study of life insurance has tended to prolong life; The transfer of purchasing power by benefit payments when danger threatens will float the business ship off the shoals of depression to the seaway of prosperity.

There is no better way to measure the worth of unemployment insurance than by estimating what might have been its effects had this bill been passed in 1922. The proposed 5-percent tax upon pay rolls, even if we assume that the business decline would not have been attenuated, would have provided \$10,000,000,000 for unemployment relief between 1922 and 1933. It would have created an accumulated reserve fund of \$2,000,000,000 in 1929. If, in addition, the several States had imposed a 1-percent tax upon wages and contributed an equal amount themselves, the total proceeds between 1922 and 1933 would have been \$15,000,000,000, and there would have been an accumulated reserve fund of \$3,333,000,000 in 1929. Certainly the systematic dealing out of these huge sums to maintain consumer demand would have had a most pronounced leveling effect upon the business cycle.

The argument has been advanced with frequency recently that unemployment-insurance taxes would decrease active purchasing power during times of prosperity, and thus hasten the advent of depression. Those who hold this view advocate instead that unemployment relief be financed by public borrowing in time of stress. Since the relative difficulty of financing in hard times is axiomatic, it will be sufficient at this time to answer the criticisms leveled against the insurance idea.

Depressions are accentuated not by a general debility of purchasing power but by an insufficient proportion of purchasing power in the hands of wage earners and other people with low incomes. It is difficult to see how a tax upon pay rolls, paid by employers, would intensify this maldistribution. It could do so only upon the assumption that the tax would be shifted largely to the wage earner, either by wage reductions or by higher prices. This assumption seems far-fetched, in view of, the innumerable more powerful factors such as custom, bargaining power, and standards of living, which operate in the market. Moreover, if the several States should add their contributions to unemployment insurance they will raise their share through the general taxing power, which always may be exercised so as to redistribute rather than to concentrate income. Even if we assume that part of the costs of insurance would be carried by wage earners, the temporary reduction in their purchasing power would only be a small part of the increased purchasing power that would be returned to them in benefits when most needed.

The notion that the establishment of unemployment-insurance funds would reduce general industrial activity by withdrawing money from the market is equally fallacious. Insurance funds are not locked in a strong box. Particularly under the present bill, which provides that they shall all be managed and invested by the Secretary of the Treasury, they will be continually at work, exercising a stabilizing effect upon industry and a salutary effect upon credit transactions. Their only distinguishing feature is that they will be specially earmarked for the use of the unemployed at the very times when it is best for business that they should be so used.

With growing recognition of the need for unemployment insurance, there has come considerable sentiment for the enactment of a single and uniform national system. Its proponents advance the argument among others, that only in this way can a worker who migrates from New York to New Mexico be kept under the same law at all times. This, of course, is true. But there are an infinitely greater number of workers, and industries, that remain permanently within the boundaries of these two States, respectively, and that are permanently subjected to entirely different industrial conditions. European experience with unemployment insurance has demonstrated that every major attempt, except in Russia, has been successful and has been continued. But it has also shown that widely varying systems have been applied to divergent economic settings. Our own extent of territory is so great, and our enterprises so dissimilar in far-flung sections that we should, at least for a time, experiment in 48 separate laboratories.

On the other hand, so long as the Federal Government remains completely dormant, there will be practically no unemployment insurance at all. Just last year, the Bureau of Labor Statistics estimated that less than one-half of 1 percent of the workers in this

country were covered by voluntary private systems. And after decades of propaganda and education, only Wisconsin has dared to throw down the gauntlet to the interstate competition of other States with lower standards by enacting a law of its own.

Two major plans have evolved for Federal encouragement to Nation-wide State unemployment insurance laws. One of these plans is that the Federal Government should impose a tax upon all pay rolls, and return the proceeds in the form of subsidies to those States which enact unemployment insurance laws. My chief objection to this idea is that, since the State laws would not stand upon their own feet, there would be great pressure upon the Federal Government to make contributions larger than the amounts raised by the Federal pay-roll tax. Thus insurance would be mingled with relief, a method attempted with most unsatisfactory results in England, and generally frowned upon by students of social insurance.

The second proposal for Federal encouragement of Nation-wide State unemployment insurance laws is embodied in the present economic security bill. As a first incentive, the bill appropriates \$5,000,000 for the fiscal year beginning this June, and \$50,000,000 for each succeeding year, 98 percent of which is to be allocated among the States on the basis of need for the administration of such unemployment insurance laws as they may enact. As a more powerful incentive, however, the bill imposes a 3-percent annual Federal Tax upon the pay rolls of all employers with four or more workers, and provides that any employer may offset against this tax, up to 90 percent of its full amount, whatever he contributes to compulsory unemployment insurance funds created under State law. Since the States will be anxious to draw this Federal tax back into their own borders, the natural result will be the enactment of unemployment insurance laws in every State.

While the 3-percent tax is imposed as of January 1, 1936, the bill provides that during the first 2 years thereafter, the tax shall be reduced to 1 percent until the Federal Reserve Board index of industrial production reaches 85 percent of the 1923-25 level, and reduced to 2 percent until such index reaches 95 percent of that level. In this way, business interests are fostered during the years of transition and further revival.

An important feature of this Federal tax plan is the special encouragement which it offers to the stabilization of industry. If any State law enables an employer to reduce the amount of his State contribution because of his good business record, he may offset against his Federal tax not only the amount of his actual payment under the State law, but also the amount of the reduction that he has won. The Wisconsin law gives such an offset for stabilization.

The bill is very careful, however, to guard against the possibility that a State might allow an employer such great reductions as to obliterate the Federal tax and provide no unemployment reserves. No employer will be allowed to offset any reduction unless the State law requires him to continue to contribute at least a fixed percentage of his pay roll into a State-wide pooled fund. Nor will any employer be allowed to offset any reduction in his payments to an individual reserves fund established under State law unless that fund has met all of its obligations and contains not less than a fixed percentage of his total pay rolls.

Practically no restrictions are placed upon the types of laws that the States may enact. They may provide for State-wide pooled funds or for individual company reserves. They may exact contributions from employers or from employees, or from both. They may add their own contributions if they desire to do so. It is estimated that the 3 percent pay-roll tax upon employers alone will provide, after a 4 weeks' waiting period, 15 weeks of benefit payments to the unemployed, estimated at 50 percent of the working wage but not more than \$15. Additional contributions of 1 percent by workers and 1 percent by the States, would raise the weeks of benefit to 30.

While great latitude is thus left to the States, the bill provides that no State shall receive any subsidy, nor shall any employer be entitled to any off-set against his Federal tax, unless the State law conforms to three basic standards.

The first of these standards is that all funds raised under the State law shall be deposited with the Secretary of the Treasury for safekeeping and management. This will protect the unemployed from the hazards of local financial crises. And as I have already stated, the investment of this huge aggregate fund by the Secretary of the Treasury will exert a tremendous stabilizing influence upon industrial operations.

The second Federal standard is that no State law shall deny benefits to any worker because he refuses to accept work at terms below those prevalent in the locality, or because he will not accept as a condition of employment any interference with his right of self-organization. Unemployment insurance is a matter of right, not of charity; it is a mark of freedom, not an instrument of oppression.

The third Federal standard is that every State shall administer its unemployment insurance through employment offices. If it has none, it must set them up. This tie-up between a system of employment registration and unemployment insurance will chase away the bugbear that men will not work if they can keep body and soul together without working. In addition it will be the surest token that unemployment insurance is only an essential part of the all-engrossing task of finding employment for all.

The narrow margin of security to which so many of our people cling in their prime is inevitably the prelude to complete economic disinheritance in their later life. No one can understand the tragedy of old-age dependency without probing the statistics of our national income. A study completed only a few months ago paints the first full-length picture of family earnings in the United States. It shows that in 1929, 6,000,000 families, comprising 21 percent of our national total, averaged less than \$1,000 per year; that 16,000,000 families, comprising 59 percent of our national total, averaged less than the \$2,000 per year which was the minimum necessary to supply the most basic needs of life; that 20,000,000 families, comprising 71 percent of our national total, averaged less than \$2,500 per year. At the same time, 36,000 families at the top of the economic ladder received as much as 11,653,000 families at the bottom.

In view of these truly startling figures, it is not surprising that the overwhelming majority of men and women cannot prepare for a rainy day. In 1929, the 6,000,000 families that were in abysmal poverty were able to save nothing; 42 percent of all American families, who were earning less than \$1,500 a year, could save only 1 percent of

their incomes; and 59 percent of our families, who were earning less than \$2,000, could save only 1.4 percent of their incomes. In contrast, a family earning \$5,000 saved 17 percent of its income, while a family earning between \$50,000 and \$100,000 saved 44 percent.

Senator COSTIGAN. Senator Wagner, what is the authority for the statistics you have been citing?

Senator WAGNER. It is from a study by the Brookings Institute, very recently published. I think it is the most remarkable analysis we have ever received on this question.

This maldistribution of the capacity for self-protection is summed up in aggregate by figures showing that in 1 year '80 percent of the families in the United States made only 2 percent of the savings, while the other 20 percent of the families made 98 percent of the savings.

These citations throw into bold relief the reasons why fully half of the 7,000,000 Americans who are now over 65 years of age have been reduced to a state of bitter dependency. To help them is a grave social responsibility, because they have been drained dry of their productive energies, and then swept aside like deadwood by a heartless system which has not allowed them to help themselves. To help them is also an urgent national necessity, because it will invigorate the whole economic system by releasing younger relatives from excessive burdens and by spreading purchasing power to an enormous extent.

It is impossible to calculate the precise sums required for this task. Opinions will vary greatly as to what constitute fair standards of health and decency. But if we accept \$40 per month per person as an immediate minimum goal, our 3,500,000 dependent old people need assistance to the extent of \$1,680,000,000 per year. And this need will mount with alarming rapidity. It has been estimated that, due to advance in standards of health, the ratio of old people to the total population will be 10 percent 40 years from now, contrasted with 5.4 percent in 1930 and only 3 percent in 1870. In addition, the forces of modern technology are driving those beyond middle age from the protective shelter of employment into the no man's land of enforced idleness. In a brief quarter of a century, 13,000,000 people will be trapped in this desolate area; and, of these, half will probably be dependent and need assistance to the extent of over \$3,000,000,000 per year.

How do our present agencies for old-age assistance measure up to the task before us? The Federal Emergency Relief Administration, the lamentably weak pension laws of 28 States, and union and public retirement pensions are expending \$250,000,000 per year. This is less than one-sixth of what is desirable today; it is one-twelfth of what should be available 25 years from now. The economic security bill proposes to fill in this gap as rapidly as feasible by spreading a blanket of old-age pensions over the entire country.

The keystone of this project is a national system of compulsory contributory old-age insurance. To initiate such a system, a tax is imposed upon all pay rolls, commencing with 1 percent as of January 1, 1937, and increasing by 1 percent every 5 years until it reaches its maximum of 5 percent as of January 1, 1957. While the entire tax is collected from the employer, half of it is deducted from the wages of his employees, thus making their total contributions equal to his own. Only nonmanual employees earning over \$250 per month are excluded from the plan.

Senator COUZENS. How did you arrive at \$250 a month? Is that just an arbitrary figure?

Senator WAGNER. It was arrived at after considerable consideration.

Senator COUZENS. What consideration did you give to the other figure?

Senator WAGNER. It seemed to be the view of most of those who have studied the problem for some years that this figure was a point of demarcation. Of course, that is for this committee to decide. It is merely a proposal.

Senator COUZENS. I am trying to get your advice as to how you arrived at it.

Senator WAGNER. I think, in the beginning, that is about the figure we ought to set.

Senator CONNALLY. You do not tax them above that?

Senator WAGNER. They are not in the system at all

Senator CONNALLY. They are not in it? You do 'not tax those people?

Senator WAGNER. No.

Senator CONNALLY. Why should you not tax them? They are part of the industrial system.

Senator WAGNER. That raises another question which we shall discuss after we finish this one. Of course, to some extent they will be taxed. I will show later on that the Government will be bound for a time to make a contribution, which will be raised by general taxation.

The old-age fund thus created will be used to pay insurance, beginning in 1942, to all employees over 65 years of age in whose behalf taxes have been paid for at least 200 weeks. Of course such insurance will be scaled on the basis of years of participation in the system and average monthly wage. Any employee entering the plan after it goes into full effect in 1957 will receive in benefit's no more than the taxes contributed in his behalf, plus interest. Should he die before receiving this full amount, the balance will go to his legal dependents.

On the other hand, many of the middle-aged and older workers who enter the system before 1957 will receive much more than the amount credited to their accounts. And those who enter before 1942 will obtain a specially high rate of benefits. This is necessary to guarantee security for those too old to build up adequate reserves on a basis of participation. Fairness would be outraged if we gave relief in form but not in substance to those who only disqualification is that society has too long neglected them already.

Obviously the gratuitous portion of the aid offered to these millions of older workers must be paid from some source. It will be paid by the Federal Government, and nothing could be more inaccurate than to say that the Federal Government will not contribute to the national pension plan. However, if the Federal Government decided to spread its total ultimate contribution over a period of years beginning in 1937, it would have to make payments of \$500,000,000 per year beginning at that time. This would have the disadvantage of building up an inordinately large reserve of \$75,000,000,000, and it would tax the present generation for the old age of the next. Therefore, the bill defers Federal contributions until the time when the total outgo of the fund will exceed revenue from pay-roll taxes. That will be

in 1965, and until then the Government' will issue evidence of obligation to the fund. By 1980 Federal contributions will be \$1,400,000,000 per year, and the total annual income of the fund will be \$3,600,000,000.

While the bill does not require retirement at 65 years, no employee will be entitled to add to his prospective pension by contributions extending beyond that age. But he will be required to contribute nevertheless. As a practical result millions of men who are entitled to rest will yield places in industry to the young and the strong who are entitled to jobs.

The compulsory national system of old-age insurance will not provide for those who engage in business for themselves, or who will be over 60 years of age in 1937. To meet these needs, the bill authorizes grants to the States for old-age pensions, amounting to \$50,000,000 for the year beginning next June, and \$125,000,000 for each succeeding year.

While these Federal grants are to be made on an equal matching basis, and are not to exceed \$15 per month per person, there is no reason to suppose that this will limit old-age pensions to \$30 per month. There is nothing in the law which prevents a State from doing more for itself than the Federal Government does for it. In fact, the Federal administrator may refuse assistance to any State which does not go as far beyond the \$30 level as is necessary to provide health and decency pensions to all its needy citizens.

Senator COSTIGAN. Senator Wagner, the impression has prevailed that if the State attempted to enlarge the old-age pension for people now over 60 years of age, the Federal Government would to that extent diminish its contribution—is that your construction?

Senator WAGNER. Of course not; quite the contrary. If the relief administrator finds that, in order to give at least a minimum living to aged persons, there will be required more than \$15 or more than \$30, he may refuse to make any Federal contribution unless the States raise their contributions enough to insure a decent standard.

Senator COSTIGAN. The language of the draft impressed me as somewhat ambiguous.

Senator WAGNER. We will clarify it, then, because the intent is clear.

Senator COUZENS. I notice, Senator, that you constantly repeat the language, "decent living." Have you attempted to define that in any way or have you in your mind any definition of it?

Senator WAGNER. Well, \$40 per month per person has been estimated as the minimum requirement.

Senator COUZENS. Assume that the administrator determined that the application of the State under the system of an equal contribution to the Federal Government did not create a decent living, what sort of definition would be used to determine whether one State should contribute \$15 and another State \$25, or what?

Senator WAGNER. That is a matter of administration. Of course, you cannot make a fixed rule for all of these things, and there ought to be some discretion lodged somewhere. Some States will require a larger sum than others because of different economic conditions.

Senator COUZENS. Let us assume for argument's sake that you administer it. What kind of a definition would you use?

Senator WAGNER. May I suggest, Senator; that I be allowed to finish this statement, and then I shall be very glad to enter into a

general discussion and make whatever slight and humble contribution I can.

Senator COUZENS. Certainly.

Senator WAGNER. The bill also provides that the Government may borrow money to augment the old-age fund by selling annuity certificates to citizens of the United States who are under 65 years of age. No such annuity is to have a maturity value of over \$100 per month. This is the final tower of strength in a fortress against destitution in the winter years of life.

In providing for the old, the economic security bill has not neglected the young. There are now 7,400,000 children under 16 years of age upon the Federal relief rolls. One-third as many are subject to mother's pension laws in 45 States. But in most cases these laws are so inadequate that the average relief afforded is only \$20 per month per family.

This neglect of our future citizens creates a veritable dynamo to generate social evil. Every year, 200,000 children who have been subjected to the harrowing experience of unsystematic and irregular help, are haled before our courts as delinquents.

The bill therefore provides a Federal appropriation of **\$25,000,000** for the year beginning this June, and authorizes a similar amount for each succeeding year, to subsidize the States on a one-to-two matching basis for the care of dependent children. The aggregate sum thus brought into action will be 16 times as much as is now being spent for dependent children by the States and by the ordinary agencies of the Federal Government.

The last few years have left their indelible imprint upon the public health. For the first time in several decades, the death rate in large cities this year has been higher than that of the preceding year. Innumerable social studies have traced the interaction between poverty and disease. In 1933 it was proved that disabling sickness was 50 percent higher among families greatly affected by the depression than among those whose incomes remained relatively stable.

The bill authorizes an annual appropriation for the Public Health Service of \$10,000,000, of which \$2,000,000 is to be devoted to investigation and research, and the remainder distributed among the States on the basis of need.

Since the Federal Government withdrew from participation in a Nation-wide maternal and child health program, the number of States that are virtually inactive in this field has risen from 3 to 23. The bill therefore appropriates \$4,000,000 for the year beginning in June, and authorizes an equal amount for each succeeding year, to be allocated among the States for maternal and child health.

Finally the bill appropriates \$3,000,000 per year for the care of crippled children, and \$1,500,000 for aid to child-welfare services. While it is provided generally that these sums shall be allocated to the States on an equal matching basis, there is enough flexibility to insure help to those localities which at present are suffering under special financial disabilities.

The total Federal appropriation under the economic security bill will amount to \$98,500,000 during its first year of operation. During succeeding years, until 1965, when Federal participation in the old-age plan will commence, the amount will be \$218,500,000. Of this, \$50,000,000 will be supplied from the Federal tax upon pay rolls for unemployment insurance.

Administration of the subsidies to the States' for old-age pensions, and the care of dependent children is centered in the Federal Emergency Relief Administrator; while the Secretary of Labor is in charge of the grants for maternal and child health, the care of crippled children, and the promotion of child-welfare services. The Bureau of Public Health Service of the Treasury Department oversees Federal aid to public health. The Secretary of the Treasury is entrusted with the management and investment of the funds deposited in the Treasury under the unemployment-insurance law and the compulsory old-age insurance system.

The general activities of the Federal Government in connection with unemployment insurance, old-age pensions, and the further study of social security practices and laws, will be undertaken by a social insurance board of three members with annual salaries of \$10,000 per year, serving terms of 6 years. This board will be located in the Department of Labor.

There is no need to urge upon this committee speedy action upon this bill. The economically disinherited must be given a new franchise. The narrow margin of security must be made broader and surrounded by a protective wall. The house of unemployment must be torn down. The ship of industry must be kept on an even keel. You have before you, evidence of a rebirth of that idealism and love for social justice which, is uniquely American. It is the beginning rather than the end of an era.

Senator COUZENS. I notice, Senator, that in one of these paragraphs you refer to certain administration being under the Federal Emergency Administration.

Senator WAGNER. Yes.

Senator COUZENS. Do I understand that that is a permanent agency?

Senator WAGNER. No; but there is a provision, in the bill that the function may be transferred by the President to some other agency in the event that that particular office terminates.

Senator COUZENS. When you answered my question previously with respect to the necessities of decent living, you said \$40 a month, Can you enlighten us—

Senator WAGNER (interposing). That has been estimated as the amount necessary.

Senator COUZENS. What does that include, may I ask?

Senator WAGNER. Studies of several different organizations indicate that in a family of four, \$2,000 are needed per year. That would mean \$500 per year for one, which is about \$40 a month,

Senator COUZENS. So that would mean \$80 for an old couple; is that right?

Senator WAGNER. I should say so, but of course we are dealing with the individual here.

Senator COUZENS. Yes; but I mean an old married couple that were living together, with the computation contemplated, that would be \$80 a month.

Senator WAGNER. Yes.

Senator CONNALLY. Unless the wife had also been a worker, as you term it, she would not get \$40, would she?

Senator WAGNER. No; I did not say that she would. There are, as you see, two separate pension systems here. One is to take care of

the present old who have had no chance to contribute under any fund and who, under our system, have had all their youth drained without being able to earn sufficient to save anything for the winter day, These people are to be cared for by old-age pensions, with the States making contributions, and the Federal Government matching them to the extent of \$15 per month. Of course, the State may decide that both the husband and the wife need aid. That is discretionary with the State.

Senator COUZENS. In that event, the Federal Government would give \$30 to the family.

Senator WAGNER. To the family; yes.

Senator COUZENS. What I am trying to get at is how you arrive at these figures. What is included in the expenditures of a decent living when you arrived at \$40 a month?

Senator WAGNER. I do not recall definitely the specific items. I suppose they came nearer to subsistence than to any kind of luxurious living.

Senator COUZENS. I want to know what you include, to find out whether that was adequate or not.

Senator WAGNER. Bed and board, I suppose. While the study has not been made by me individually, I think uniform conclusions have been reached by most organizations that have made special studies. I am relying upon their investigations.

Senator COUZENS. I presume we will have witnesses who will testify how they have arrived at it.

The CHAIRMAN. There are others who have studied this question who will appear before the committee, I imagine.

Senator WAGNER. Yes. I think we shall be able to get any of these so-called "social workers" to give you exactly what is included in their estimate, how much for rent, how much for eating, and so on.

Senator HASTINGS. Senator Wagner, do I understand that if a State should find itself in a position where it could not raise more than \$15 a month which is admitted would not apply to the requirements here—

Senator WAGNER (interrupting). That is not admitted.

Senator HASTINGS. I got the distinct impression that it took \$40 a month to make a decent living within the definition of this bill.

Senator WAGNER. I think I said to Senator Couzens that in different sections of the country the economic conditions are different. Undoubtedly, in some localities, \$30 would go further than \$40 would in others. I think it is unwise to fix a uniform amount. If my own opinion were asked, I should like to give \$40.

Senator HASTINGS. Take a locality where it must be admitted that \$40 is necessary to make a decent living, but that the States' finances were such that it cannot raise more than \$15 a month to take care of all the aged people. Are we to understand that under conditions like that, the Federal Government would not contribute anything?

Senator WAGNER. No; you should not understand anything of the kind. Undoubtedly the relief administrator would determine if it were utterly impossible for the State to make more than a \$15 contribution, that the Government will add its \$15 to it. The person would not be left absolutely abandoned.

taken care of by the States, the \$125,000,000 appropriated would only allow \$33.33 a year to each person, or only \$2.78 per month instead of \$15 per month.

Senator WAGNER. What is the point or the idea of your inquiry? Is the idea that because we are not making a large enough contribution we ought to abandon it altogether?

Senator HASTINGS. I do not want the public to get the impression that \$125,000,000 annually is going to allow payment to 3,750,000 people of \$15 a month. The general impression is that by this appropriation, the Federal Government has stated that it is willing to take care of all persons over 65 years of age up to \$15 a month, while as a matter of fact it only takes care of them up to \$2.78 a month.

Senator WAGNER. I do not see how anyone could have made that statement, and I do not think anybody did. This is a new field we are exploring.

The CHAIRMAN. Did you take into consideration, Senator Wagner, that perhaps some of the States have not passed the pension laws and perhaps would not get the machinery set up and have this available for the first year?

Senator WAGNER. The first year the Federal Government is contributing only \$50,000,000. The Senator is talking of the second year, when we contribute \$125,000,000. I am sure that as the States make larger grants, the Federal Government will increase its appropriations if necessary to take care of these people.

Senator COUZENS. Certainly the implication of the Senator from Delaware is correct. The impression is that this bill provide's just the very thing that the Senator says, and it is no use fooling the people that this is going to take place if you are only going to provide \$125,000,000. Let us put the full amount in and tell the truth.

Senator WAGNER. I do not think anybody is thinking of trying to fool the people.

Senator COUZENS. I am not charging the Senator with it.

Senator WAGNER. This is a step that no other administration has ever taken. There has never been such concern for the old and the neglected in our economic structure. It is for this committee to say whether to authorize a larger appropriation. If you do, I shall not quarrel with you, because I think we should have taken this step long ago. I used to say so in the New York State Senate, but I was a voice in the wilderness.

Senator COUZENS. The Senator and I do not quarrel about those things.

Senator WAGNER. I understand that.

Senator COUZENS. What I am trying to point out is that the Senator should tell us in his explanation of the bill that this \$125,000,000 is wholly inadequate to carry out —

Senator WAGNER (interrupting). I think I did, very clearly, Senator.

Senator COUZENS. Well, perhaps I missed it, then. It is certainly plain that this bill as it is written will not carry out what the general public contemplates it will do.

Senator WAGNER. It is much more than is now being paid by the States.

Senator COUZENS. Oh, yes; I am not talking about that.

Senator WAGNER. The States are spending about \$40,000,000 per year now, and we are trying to raise this sum so that the States may

pay at least \$125,000,000 per year until we get our contributory system going. Then I think the contributory system will take care of these people and we shall wipe out this destitute class.

Senator HASTINGS. The point I had in mind—

Senator WAGNER (interposing). In Delaware, your pension law allows you to pay \$25 per person, but you are paying only \$9 per person to those you do take care of. Apparently the State of Delaware has not found that it is able to contribute more than \$9 per person per month.

Senator HASTINGS. You are expecting us to contribute as much as \$15 and I have a notion that you would expect us to contribute at least \$25 if we are going to participate in this at all.

Senator WAGNER. I think Delaware can afford it, can it not?

Senator HASTINGS. That is what I supposed.

Senator WAGNER. In spite of the fact you can afford it, you have contributed only \$9 per month.

Senator KING. It may be the State is so prosperous it does not have many people who need it.

Senator COUZENS. I was going to make a suggestion. I think it is a rather prosperous State. I should think it would be willing to pay more than \$9 per month.

Senator HASTINGS. Senator, you have stated that this is more than any other administration has done, and this is a step in the right direction.

Senator WAGNER. It is a forward step, undoubtedly.

Senator HASTINGS. The point I want to make is in this connection, that it is only a step.

Senator WAGNER. Exactly, and I will go along with the Senator if the Senator would like to go further. I do not think it is quite consistent to say in one breath that we are spending too much, and at the same time find fault with the fact that we are not spending enough. I do not quite understand that logic. I will go along with the Senator to make it a much larger sum if we can provide the funds.

Senator HASTINGS. Now, Senator, you are here as a witness and you have done a great job in explaining this bill but you certainly ought not to object to my questioning you.

Senator WAGNER. I withdraw the statement.

Senator HASTINGS. You certainly ought not to object to my trying to find out what is in the bill, without calling my attention to the fact that I objected to spending so much.

Senator WAGNER. That was an impersonal statement. It had no reference to the Senator at all. I am sure the Senator has never taken that attitude.

Senator HASTINGS. I want to call you attention to the fact that if you take care of what the bills says it is necessary to take care of, namely, 3,750,000 at \$15 per month it will require \$675,000,000.

Senator WAGNER. Yes.

Senator HASTINGS. I just want to call your attention to that.

Senator WAGNER. Yes.

Senator HASTINGS. And I want to call the attention of the committee to it.

Senator WAGNER. That is right.

Senator HASTINGS. Now there is one other question that I would like to clear up and that is why this tax of 1 percent on the employee and employer does not take effect until January 1, 1937.

Senator WAGNER. Well, it is a tremendous task to put into operation a system of this kind, with all the preparation necessary.

Senator HASTINGS. Could not it be done by January 1, 1936?

Senator WAGNER. That is again a matter for the committee or Congress to decide. It has been the opinion of those who have been interested in this whole problem that it would take a little longer than 1936 to make the necessary preparations. It is a tremendous task, mind you. We are taking in, as you know, every manual worker, and every other worker of the white-collared class who earns \$250 or less per month. Also, the annuity measurements are complex. But, of course, the opinion of the committee governs.

Senator HASTINGS. I am correct, am I not, in assuming that every housewife who employs one maid will be required to make a tax return, and every farmer who employs one farm hand will be compelled to make a tax return?

Senator WAGNER. Yes.

Senator HASTINGS. Well, the bill says, if you will look at your own bill, it simply states that every worker, with the exception of those earning \$250 a month, is required to make a return.

Senator WAGNER. Yes.

Senator HASTINGS. I want to find out whether that was the intent.

Senator WAGNER. A tax return, you mean, with reference to this particular part of the bill?

Senator HASTINGS. On the old-age pension.

Senator WAGNER. Yes.

Senator HASTINGS. That is correct?

Senator WAGNER. Yes. All these matters are bound to inconvenience some, in order to reach the main objective.

Senator HASTINGS. Have you any idea how many people would be taxed under that old-age pension, that one-half of 1 percent, which is somewhere between 40 and 45 millions?

Senator WAGNER. Oh, no.

Senator HASTINGS. You say it would not be that many?

Senator WAGNER. I do not think so.

Senator HASTINGS. There would be some 45,000,000 gainfully employed?

Senator WAGNER. A great many of them would receive more than \$250 per month.

Senator HASTINGS. Not a great lot of them, not many more than that.

Senator WAGNER. Whatever the number may be, they will all be included. I think off hand it would be about 26 millions, but the Senator may be right.

Senator HASTINGS. I haven't any figures on it, but it would be my guess it would be 40 or 50 millions.

Senator WAGNER. I do not think it would be that many.

Senator HASTINGS. While this tax does not begin until January 1, 1937, the tax for employment insurance does begin January 1, 1936.

Senator WAGNER. Yes.

Senator HASTINGS. Can you explain why one begins in 1936 and one in 1937?

Senator WAGNER. They are entirely separate propositions. We have discussed insurance so long that we are quite familiar with what its administration should be. A number of the State legislatures are

meeting this year, and they are ready to inaugurate systems of unemployment insurance. I think that we are ready to step forward without much more preparation. It is not nearly so complex a task of organization as the national pension system,

Senator HASTINGS. Will you explain the reason why the Federal employees and the railroads were left out of this?

Senator WAGNER. Because they both have retirement systems.

Senator HASTINGS. Have you any assurance that this retirement system will be any more effective and the necessary funds to pay annuities will be accumulated any better than it is under the Federal employees' system?

Senator WAGNER. I think it will be properly administered.

Senator HASTINGS. Do you happen to know that the Government is already short \$100,000,000 in the amount that the Federal employees have paid into that fund, to say nothing about their own-contribution?

Senator WAGNER. The thing to do is to perfect that administration, but not to abandon the idea.

Senator HASTINGS. I am wondering why, while we are doing this great job, we do not put it all in one, why make a distinction between the Federal employees and the railroads on the one hand and all of this other great group of citizens' Constituting the balance of the United States on the other hand.

Senator WAGNER. Through an act passed last year, with which I had the honor to be associated, there was created a pension system for the railway employees, and there is no reason for interfering with it. Now as to the pensions for Government employees, they have been in development all over the country for years, and should not be disturbed. I do not know about the criticism that you make. Most of our State funds in New York are sound. If the criticism, is valid anywhere, corrections in administration should be made. Of course that does not argue against the desirability of this type of system.

Senator HASTINGS. Except to this extent, that if the Federal Government has not succeeded in that small endeavor what assurance is there that it will succeed in this very much greater one, unless you perfect the system in some form?

Senator WAGNER. There may be more efficient administration now.

Senator HASTINGS. Have you any idea how many people it would require to administrate this old-age annuity plan, the collection of all these taxes from every housewife and every farmer, and every citizen everywhere, plus the keeping of the records, and as I understand: the bill, it would be necessary not only to keep the amount of money that the wage earner had accumulated, but it would be necessary to keep a time sheet. of every single worker in the country. I do not intend to criticize. I am tremendously interested in the thing.

Senator WAGNER. You are showing the stupendousness of the task. Therefore, it might require some little time to prepare for it.

Senator HASTINGS. Yes.

Senator WAGNER. But certainly we should not be frightened by the stupendousness of the task if we are satisfied that we seek the proper objective of social justice.

Senator HASTINGS. I just want to know if you have any figures on it.

Senator WAGNER. I am not afraid of that task, Senator.

Senator HASTINGS. Have you got any figures, as to the number of people?

Senator WAGNER. I haven't, but undoubtedly they will be supplied to the committee. The same sort of administrative difficulty argument was used in New York State when I had the honor of proposing the workmen's compensation law, which has become a model for other States.. But within a year the argument vanished, and everybody recognized the law as a great boon and blessing to industry as well as labor.

Senator HASTINGS. Have you undertaken in any way to protect the funds that will be accumulated for old-age pensions by various industries of the country?

Senator WAGNER. We are leaving that entirely to each State to work out.

Senator HASTINGS. Under this plan can a State pass a law that will protect such industries so that they will not have double taxation?

Senator WAGNER. Yes.

Senator HASTINGS. I could not figure that out.

Senator WAGNER. The State may either erect a system of reserves to be held within each industry, or by particular employers, or they may have a State-wide pooling system. Of course if you have in mind plans whereby the worker, if he leaves a particular employment, loses all interest in the funds, that is another thing.

Senator HASTINGS. No; I do not have that in mind.

Senator WAGNER. I do not think it would be very desirable to continue with that type of system, because that interferes with freedom of action.

Senator HASTINGS. I agree with you on that.

Senator WAGNER. Every State is at liberty to select whatever system it chooses, so long as certain standards that we select are complied with.

The CHAIRMAN. Are there any other questions, gentlemen, of Senator Wagner?

Senator KING. Senator Wagner, I was interested in one statement that you made relative to the savings in the banks of the United States. My recollection is that a recent publication indicated that of the 50 billions of savings in the savings banks of the United States, State and national, more than 45 billion dollars of that huge sum had been deposited by persons., the aggregate of whose savings was. \$500 per person, that is, who did not exceed that, it was from \$10 to \$500, indicating that substantially all of the deposits in the savings banks today were by persons of limited means and small wage earners. I was wondering if you had some data on that.

Senator WAGNER. That may be so, but there is a large proportion of our population that never has an opportunity to save anything.

Senator COUZENS. Will the Senator indicate where the reference is that the savers have \$50,000,000,000 in the banks?

Senator KING. I saw it in some newspaper recently.

Senator WAGNER. I do not think anybody denies that there is an unfair distribution of income.

Senator COUZENS. I think that is true, but I doubt whether the workers have \$50,000,000,000 in the savings banks.

Senator KING. I did not say that, I said there were \$50,000,000,000 in the savings banks.

Senator COUZENS. With an average of \$500?

Senator KING. Yes; and the average was \$500.

Senator COUZENS. I was wondering where the Senator got the record from, because I would like to have that checked up. I think the Senator probably got the wrong information.

Senator WAGNER. About 22 or 23 percent of our families in the United States are never able to save a dollar, and 36,000 wealthy families have as much income as nearly 12,000,000 poor families.

Senator COUZENS. That may be, but, Senator, the proposal is to help the needy old now?

Senator WAGNER. Yes.

Senator COUZENS. What definition has the Senator arrived at so as to determine the need?

Senator WAGNER. May I state, Senator, to clarify my answer, that even under the contributory system there are some, who are going to retire soon, who will receive an income more than an earned annuity.

Senator COUZENS. Without regard to needs?

Senator WAGNER. Yes; because they are contributing.

Senator COUZENS. That part is without regard to needs, but there is another scheme, as I understand it, to take care of the needy.

Senator WAGNER. The needy who are now too old to contribute into a fund and are not eligible to join a fund will be helped by the pension-subsidy plan.

Senator COUZENS. What I am trying to get at is your definition of need, to take care of as a group. What is your definition of "need"? What is your definition of it?

Senator WAGNER. Well, it is what is needed by a person of that age.

Senator COUZENS. Yes.

Senator WAGNER. Enough to care for him decently.

Senator COUZENS. That covers the prior question that I asked.

Senator WAGNER. Yes.

Senator COUZENS. Now, I am getting at as to how it would be determined that you needed any aid if you applied for the old-age pension.

Senator WAGNER. The State would provide means tests itself for that purpose.

Senator COUZENS. We are not going to involve ourselves in that at all before we make a contribution?

Senator WAGNER. Well, judging from what the States have done heretofore, they haven't nearly met their obligations to take care of the needy.

Senator COUZENS. That might be true, I admit that.

Senator WAGNER. Some of them have filed reports.

Senator COUZENS. What I am trying to get at is what in your opinion would be a need. Would it be a case where the children had adequate means to take care of the parents and the parents themselves did not have any at all? Just how would you arrive at that need?

Senator WAGNER. I take it there would be some inquiry made to ascertain whether a person is so destitute as to need the aid of the State.

Senator COUZENS. I know cases where children of wealthy parents who themselves did not have much, have applied for Home Owners'

Loan Corporation loans and the corporation denied the loan because the condition of the families as a whole made it such that the applicant was not in immediate need for relief. Now, would that be one of your interpretations as to the need of contributions to an old-aged person?

Senator WAGNER. I can only say that in New York State where parents are destitute, and it is found that the income of the children is more than sufficient to care for the parents, we compel the children to contribute toward the support of the parents.

Senator COUZENS. Then you do not make any contribution in that case at all?

Senator WAGNER. We d'o not, but we see that they are provided for.

Senator COUZENS. Yes.

Senator WAGNER. Where there are wealthy children who have just deliberately refused to take care of their parents, we make them do so. But there are not many such cases, for most children are loyal to their parents, and care for them if they can.

Senator COUZENS. That is the point I am bringing up.

Senator WAGNER. There is now a new class of needy added to the aged, because children have met the same disaster as the result of the depression as the older people. Now, to have added to their own burden, that of caring for their parents, has resulted in many cases in living in poverty and all of the consequences of poverty.

Senator COUZENS. Yes, I understand that. I am trying to get the extent of the Senator's study. I know his sympathies in the situation.

Senator WAGNER. I have tried to exercise business common sense, Senator. I do not allow my emotions to carry me away.

Senator COUZENS. We never think that we may be in error ourselves.

Senator WAGNER. I do not think it a difficult fact to ascertain, whether a person is actually in need of State aid or not. We are doing that every day now on the relief rolls.

Senator COUZENS. What I am trying to get at, so that the public and Congress will understand, is just what the effect of this is going to be. The Senator knows I am entirely in sympathy with his legislation.

Senator WAGNER. I know you are.

Senator COUZENS. I want the country and Congress to understand, if, they can, in what direction they are going and how they are going to proceed. For example, assume the Senator is taking care of his parents—

Senator WAGNER. . . I wish they were here so I could.

Senator COUZENS. I am just using a hypothetical case.

Senator WAGNER. Yes.

Senator COUZENS. Assume the Senator says to his parents, "Now, you can get off my hands by going and applying for an old-age pension", would they be eligible for Federal contribution?

Senator WAGNER. An inquiry would be made, and undoubtedly the children who can take care of their parents will be compelled by State action to do so.

Senator COUZENS. And there would be no Federal contribution?

Senator WAGNER. There would be none in such cases.

Senator COUZENS. That is what I wanted to know. We will have to deal with all kinds of human beings and not only the average..

Senator WAGNER. Yes.

Senator HASTINGS. There is a provision somewhere in here, as I recollect it, that the State shall certify that a person is not made ineligible merely because he holds as much property as \$5,000. Isn't that in this bill somewhere?

Senator WAGNER. It is not there. It was originally.

Senator HASTINGS. But it is not in this bill?

Senator WAGNER. No. A person might have a piece of property which, if it could be sold, might be worth \$5,000, but if it is utterly impossible to dispose of that piece of property and if he has no income, you are not going to leave him lying in that particular lot.

Senator HASTINGS. I thought it might throw a little light on any question that Senator Couzens asked.

Senator WAGNER. That is in the report, not in the bill.

Senator HASTINGS. It is in the report, not in the bill itself?

Senator WAGNER. Not in the bill, because I do not think it is a fair test.

Senator COUZENS. I quite agree that a man might have a home and not have a nickel to buy food with.

Senator WAGNER. That is it exactly.

Senator KING. Senator, the purpose is not to have the Federal Government supervise the action of the State, or to deny the State the power which it now exercises in dealing with its own residents.

Senator WAGNER. Not at all.

Senator KING. It is really to supplement?

Senator WAGNER. To supplement their effort in that direction.

Senator KING. And to stimulate a *case* where they have not made ample provisions to enact legislation more human in character, calculated to care for the needs of the people?

Senator WAGNER. Exactly.

Senator KING. And the administration, so far as it is possible, is to be left to the States?

Senator WAGNER. Yes. I imagine that the subsidies for a while will increase. But once the contributory system of insurance is on a sound basis, there will be relatively little need to care for the old in the manner that we are required to care for them now.

Senator HASTINGS. Senator Wagner, I would like to inquire whether any thought was given to connecting this annuity for old-age pensions with the unemployed. I had this in mind: If this annuity, this forced saving by the employer and employee were paid into a fund under this bill for the purpose of taking care of them in their old age, whether it might not be better to combine the whole thing and then, under certain conditions of unemployment, to permit them to draw on that accumulated fund as long as some board which was acquainted with their condition found it was necessary. I can understand how that would destroy, in a measure, that old-age pension.

Senator WAGNER. I think we are using other methods for that purpose. In the first place we have unemployment insurance to take care of the unemployed, for a period of time at least.

Senator HASTINGS. That is only a period of 15 weeks.

Senator WAGNER. No, sir. It depends on the liberality of the State. In all, we have pensions and insurance to take care of a person in old age, we have unemployment insurance to take care of him when

he is temporarily out of work, and in addition, we have a public-works program, which is to absorb the unemployed when industry is slack. Now, with that threefold program, we ought to provide for pretty nearly everyone.

President Hoover signed a bill I fought for during several years, which created a stabilization board, but unfortunately he did so in the midst of the depression. The purpose of that board was to prepare a publicworks program 6 years in advance. The director was required to keep in touch with economic conditions. The idea was that just as soon as the barometer of business is coming down, we go in with our public-works program, and as the barometer goes up again which means that private industry is beginning to pick up, we ret&d our public construction. It is that program that is called employment insurance. You have employment insurance, you have unemployment insurance, and you have old-age insurance and pensions. I think that three-part program will be a tremendous step in bringing about economic stablhzation and regularization of employment and security in old age.

Senator COUZENS. Would the Senator object if we divided this up into different bills to accomplish the different purposes?

Senator WAGNER. Senator, we are passing \$4,000,000 000 in appropriations, as I understand it, by a separate bill. But it must all be coordinated by a sympathetic administration.

Senator COUZENS. That is not what I was trying to get at Senator. I was thinking about your particular bill. It seems to me we are more or less in confusion because there are more than one different activities contemplated in your bill.

Senator WAGNER. I do not see why we cannot discuss them if they are all in one bill, just as well as if three bills were on the table at the same time, since they are correlated. I should prefer, if you ask me for my opmion, to have them in one bill.

Senator COUZENS. All right. I just want your opinion.

Senator HASTINGS. The advantage in having them separate is that some people might want to support one and not support the other. I-suppose the advantage, from your point of view, is to have them vote for all of it or be charged with being against all of it.

Senator WAGNER. Not at all. You have got your chance to amend the bill on the floor. You do not want to ascribe such sinister motives to me, do you?

Senator HASTINGS. No, no; not at all. Somebody higher up than you, perhaps, is what I had in mind.

Senator WAGNER. There is not anyone higher, so far as my actions are concerned.

Senator HASTINGS. Senator,. I want to ask you one other question. You made a statement a moment ago that the State may do more than that. Is it contemplated under this bill that the State shall use more for unemployment insurance than is paid by the industries and farmers and other people that have to pay this 3-percent tax?

Senator WAGNER. I am sorry. I do not grasp your question.

Senator HASTINGS. I got the impression that this bill undertakes to force the States to enact unemployment insurance laws in order that that State may get 90 percent of what is collected from that State.

Senator **WAGNER**. Of course you know the purpose of that. There are many States, Senator, who want to pass unemployment insurance laws, since they know they benefit the worker and eventually' all. But none of them, outside of Wisconsin, has dared to talk plainly, because they were afraid of the comparative disparity between the States. In one State the cost of production would be increased by the amount of contributions into an unemployment insurance fund, and they were afraid that an adjoining State which was not as progressive and refused to pass an act might have a competitive advantage. To put all States on a parity we provide this tax, so that if a State refuses to pass a law it hasn't that advantage gained by a low standard. That is the purpose of the act.

Senator **HASTINGS**. You got off the point that I intended to inquire about. Under this bill does a State get back all that the people in that State pay, under this 3-percent tax?

Senator **WAGNER**. 90 percent of it.

Senator **HASTINGS**. 90 percent of it?

Senator **WAGNER**. Yes.

Senator **HASTINGS**. That goes back to the State?

Senator **WAGNER**. Yes.

Senator **HASTINGS**. Is it contemplated that the State shall, in order to maintain a proper unemployment insurance plan, contribute anything other than comes from that 3-percent tax, 90 percent of which goes back to it?

Senator **WAGNER**. That depends on for what period it is proposed that the worker shall have unemployment benefits. That is a matter for the State to decide.

Senator **HASTINGS**. In other words, assuming that the 3-percent tax would run to \$5,000,000 for a State and you leave that entirely to the State legislature, as to whether they shall increase that by some other kind of a tax of their own?

Senator **WAGNER**. It may require larger contributions of employers, or it may require employees to make contributions, or the State may decide to contribute something itself.

Senator **HASTINGS**. That is what I mean.

Senator **WAGNER**. As most of the European countries are doing. By the way, Senator, you know that we are the only industrial country in the world that hasn't an unemployment insurance.

Senator **HASTINGS**. In other words, the State may bring that amount up to whatever the legislature cares to make it?

Senator **WAGNER**. We wanted to give the State freedom of action in that regard'. There is' some sentiment for doing it all nationally, however.

Senator **GERRY**. As I understand, the Senator's attitude of turning as much of this over to the States to administer as possible, is on the theory that the State, being so close to the situation, would understand their local situation better and would give better administration.

Senator **WAGNER**. There is another reason, Senator. We are exploring a new field, and I think it much better to have the 48 States as laboratories for the testing of different systems, just as in workmen's compensation laws. Out of these tests will emerge one system superior to the others, which all the States will adopt.

Senator GERRY. As I understand the Senator's theory, then, he is going on the sound principle that the nearer you can get it to the local community to administer the more efficient that administration should be.

Senator WAGNER. Yes.

Senator HASTINGS. Then I wanted to inquire why that same rule does not apply to the old-age pension plan and the annuity system.

Senator WAGNER. That is an entirely different proposition, of course. That takes in every workman in the country. It can easily be made unified without any difficulty.

Senator HASTINGS. Isn't it a fact that it affects every person and that is all the more reason why, you should not divide this great job of collecting the tax and administering this law, by keeping all these records, this savings fund record of every individual, is not that all the more reason why that should not be left to the States also?

Senator WAGNER. No; it is not any reason at all. Are you in sympathy with old-age pensions, or an old-age insurance system?

Senator HASTINGS. It would not make any difference in your answers, would it, to me?

Senator WAGNER. No; but I would understand your questions better. You remember the income tax. The same argument was used: "My heavens, what a tremendous machinery you are going to set up to collect the income tax, therefore we should have no income tax." That sort of argument does not appeal to me, if the objective is a worthy one, and a necessary one.

The CHAIRMAN. Senator Wagner, I want to ask a question. There has just been handed to me a copy of today's Washington Daily News in which there is an article written by Mr. Robert Horton, in which article, in large letters it says, "F. D. wants changes in social security bill." It reads:

President Roosevelt himself demands several major changes in the economic security bill, before Congress, it was reported today. Senate Republicans opened fire on the measure.

It was said that he would not sign the bill as it stands, though it was introduced as an administration measure.

I wanted to ask you if you have any knowledge of any such movement upon the part of the President.

Senator WAGNER. I have not.

The CHAIRMAN. I might say that you have been very close, with reference to the drafting of this legislation-

Senator WAGNER. Yes.

The CHAIRMAN. And, I might say, too that, so far as I know, I have never heard of any such proposition as that.

Go ahead, Senator Black.

Senator BLACK. Senator, I wanted to clarify my mind as to one statement you made in reference to the old-age pension insurance. I want to ask one or two questions about the method of getting the money. I wanted to be absolutely sure. As I understand it under the unemployment insurance, the State, whether it wants to do so or not, even if it desired to raise this money by income taxes and inheritance taxes, would be compelled to, have a tax raised in that State in the method set out in this bill?

Senator WAGNER. The Federal Government raises that tax.

Senator BLACK. Yes; but the State has no way of relieving itself of that particular tax?

Senator WAGNER; No; except that the employer is given credit for any sum which he contributes into a fund.

Senator BLACK. So even if a State desired, in an effort to try to correct the maldistribution of income, as you have set out, even if it desires to do so by an increased inheritance tax and an increased income tax, it would be compelled to accept this method of raising the money to the extent as is set out in the bill?

Senator WAGNER. You mean that the fund used as unemployment insurance shall be supplied by the imposition of a tax by the State on all the people?

Senator BLACK. As I understand it, it is supposed in this bill to impose a 5-percent tax on the employer.

Senator WAGNER. Yes.

Senator BLACK. And so much on the employee.

Senator WAGNER. The theory, Senator, is that either the employer, or employer and employee, or the employer, employee, and the State, may contribute into the State fund.

Senator BLACK. Yes.

Senator WAGNER. Depending upon the decision of the State.

Senator BLACK. Yes.

Senator WAGNER. The 3 percent may not be sufficient for an adequate State fund.

Senator BLACK. Yes; I understand that. I want to be absolutely clear. It is my understanding of the bill that there is no provision for Federal aid as Federal aid, out of the Federal Treasury, by reason of Federal tax-raised money, except as it is included in the money which is raised by this 3 percent tax.

Senator WAGNER. No; there isn't. You see, we keep 10 percent of that, and 98 percent of that 10 percent we are giving back to the States for the administration of their unemployment-insurance laws.

Senator BLACK. I want to get clear on each one of these points as we go along?

Senator WAGNER. Yes.

Senator BLACK; That unemployment insurance does not provide for Federal aid as we understand the term "Federal aid" in laws heretofore enacted?

Senator WAGNER. Except for administration costs.

Senator BLACK. Yes. And that is limited to the 10 percent of the fund raised by the 3 percent of the tax.

Senator WAGNER. That is right.

Senator BLACK. So that insofar as the effect upon the maladjustment of incomes is concerned, the unemployment insurance cannot be said to touch it, can it?

Senator WAGNER. Unless you say that requiring the employers alone to contribute into the fund may effect the distribution. Of course, I have other ideas to effect the matter of distribution.

Senator BLACK. Yes; I understand.

Senator WAGNER. I am coming along with my labor dispute bill.

Senator BLACK. Yes. Let us talk now about unemployment insurance. Say that we have a system in which the money was wholly raised, so far as the Federal Government is concerned, by taxing the employers. Now, is there any difference that you can see, insofar as the ultimate effect of that tax is concerned, between that kind of tax and a manufacturers' sales tax, as to who eventually pays it?

Senator WAGNER. Oh, yes; a very vast difference.

Senator BLACK. Would not it necessarily enter into the price of the article?

Senator WAGNER. It may, but some of it will have to be absorbed by the employer. Besides, if workers are in a position to demand their fair share of the profits of industry, they will adjust that figure.

Senator BLACK. I fully agree with that, but I want to go further on some other line.

Senator WAGNER. I think we are going to do that.

Senator BLACK. As I see it, I could not see where there was any difference between the manufacturers' sales tax that imposes a tax on the manufacturer and the tax that is placed on the employer through the enactment of this bill, which also imposes a tax on the manufacturer.

Senator WAGNER. That has not been the experience of other countries, Senator.

Senator WALSH. Isn't the employer's tax simply a tax on his pay roll?

Senator WAGNER. Yes.

Senator WALSH. While the sales tax is a tax upon the finished product, including the cost of the raw material, the cost of production.

Senator BLACK. It has the ultimate effect of increasing the cost to the ultimate consumer.

Senator WAGNER. It is not a significant factor as that small tax upon the pay rolls is a very small part of the cost of production.

Senator BLACK. So if we favor the idea of a Federal subsidy believing that it is necessary by reason of the concentration of the products of labor and capital, and favor the idea of having this more uniformly raised throughout the country, it would be necessary to change the bill, would it not?

Senator WAGNER. Yes.

Senator BLACK. Insofar as a direct Federal subsidy is concerned, from the Federal Treasury,

Senator WAGNER. Yes.

Senator BLACK. Now, may I ask with reference to the old-age pensions. As I understand it, it is ultimately intended that in the main that fund shall likewise be raised by contributions from the employer and the employee?

Senator WAGNER. Ultimately, but probably until 1980, and beginning with 1965, the Federal Government will begin to make a contribution to that fund, for the reason that from now until then the older or middle-aged workers who join that fund will get more than an earned annuity. It is only fair that those men in middle age should not suffer because they have been neglected so long. It is estimated that those who begin payments in 1957 will get only what their annuity will amount to. But for a period of time the Government makes a very substantial contribution.

Senator BLACK. It is \$125,000,000 the second year.

Senator WAGNER. No, no; we are talking about different things now.

Senator BLACK. Old-age pensions we are talking about now.

Senator WAGNER. You are talking about the matching proposition. I thought you were talking about the compulsory proposition.

Senator BLACK. Yes.

Senator WAGNER. We have two plans. We have the old-age pension, which is to take care of those who have now reached the age of 65, or who will within the next 5 years reach the age of 65, and who are destitute. In those cases we aid the States by matching them up to \$15. Then we have a compulsory contributory insurance system by which the worker and the employer contribute a certain percentage into a fund, and all those who are below 60 in 1937 may join. Now, if those who are 59 in 1937 join they retire in 1943, and the amount of their contribution would give them practically nothing, maybe a dollar or two dollars a month. In order to make up the difference between what such workers receive and what they contribute, the Federal Government contributes. But the Federal Government does not begin to contribute at once, because the younger people for a period of time will pay in enough to take care of the pensioners as they arrive at the age of 65. But the time will come when the Federal Government will give very substantial sums, over a billion dollars for some years.

Senator WALSH. Per year?

Senator WAGNER. Per year.

Senator WALSH. I heard it stated that the sum that will have to be finally accumulated to pay the annuities in 1957 will amount to \$55,000,000 a year.

Senator WAGNER. It may amount to that, but that is not, it seems to me, the important thing.

Senator WALSH. It is important for us to know what the investment is going to be. It is important to know how that fund is going to be invested.

Senator WAGNER. The Federal Government, through the Secretary of the Treasury, has control and management over that.

Senator WALSH. I mean whether or not our Government bonds will have securities enough, whether there will be securities enough in the country to protect a fund of that size. That is important.

Senator WAGNER. We do not make any contributions until about 1965. This also is a question for the committee to decide, whether you want to take care of the people in middle age who have had no chance yet to care for themselves. We have got to take care of them one way or another. If you do not take care of them out of this fund, you are going to have to take care of them under the other system.

Senator BLACK. May I ask you something that I wanted to ask you a while ago? In regards to the \$15 you said it is the intention, although it has been pointed out if all the pensioners should be placed on the list, matching the amount, it is your understanding that this bill—

Senator WAGNER. Mind you, we are talking about people that have reached the age of 65, or who will, within the next 4 years, reach the age of 65. We are talking about no one else.

Senator BLACK. Yes.

Senator WAGNER. There is a surprisingly large number of those, over three and a half million, in the United States, who are absolutely destitute, and some of whom have dependents.

Senator BLACK. What I want to know is, this \$50,000,000 contribution from the Government, is it your idea that if this appropriation which is made is not sufficient for the Federal Government to match: it 50-50, that the appropriation shall be made sufficient to match it 50-50?

Senator WAGNER. Absolutely.

Senator BLACK. So that irrespective of the question that Senator Hastings asked, the bill which is contemplated, and the plan contemplates that the States that award this pension shall have allotted to them \$15 to aid them in paying it?

Senator WAGNER. Exactly. And, Senator, up to the present time there has been such a laxity on the part of the States that today they spend only \$40,000,000 per year for that purpose. As I pointed out, some of the States give only \$9 per person, and some give no thing. You know that there are only 28 States that have any kind of pension laws, and they are inadequate.

Senator BLACK. In order to give them the proper incentive of course, it is necessary for them to know that they will have their funds matched to the extent of something.

Senator WAGNER. I think Congress will respond to the extent that the State makes provision for these old people. I am sure that for these people the Federal Government will match the contributions that the States make.

Senator BLACK. Now, on the second part of the plan, with reference to the old-age contributory system, is it contemplated, when this goes into effect, the contribution shall make the total payment or that the Federal Government, through its tax-raising ability, shall grant a subsidy to aid in it?

Senator WAGNER. That is what I tried to explain. That does not come right away, but it will have to come eventually. While the Government assumes the obligation each year to make up the difference between what the older men get and what they have paid in, the Government will begin paying into the fund only when necessary to maintain its reserves. That will be about in 1965.

Senator BLACK. And I think you said in 1980 it will reach \$1,800,000,000.

Senator WAGNER. Yes.

Senator BLACK. And eventually it will be between 3 and 4 billion, and that will be in the nature of a Federal subsidy.

Senator WAGNER. Absolutely, or contribution. If you want to say subsidy, it is all right, but I prefer the word "contribution."

Senator BLACK. Either one. That is insofar as old-age pensions are concerned, as distinguished from unemployment insurance. This is on the old-age pension plan, which contemplates Government assistance.

Senator WAGNER. That is so, but there is coming a time when the Government will not need to make any contributions to the old-age fund. Those who join the system after 1957 will earn the annuity that they secure.

Senator BLACK. Then so far as that is concerned, if one believes in the principle that those who earn what is called a "surplus" income, more than enough to buy the consumable goods which are essential for reasonably comfortable circumstances, that the only way to raise that would be by some other method other than the 3 percent of the employers, the contribution from the employers and employees, would it not?

Senator WAGNER. The 3 percent for unemployment insurance?

Senator BLACK. I am speaking of both of them, as far as both of them are concerned! as far as the tax-raising feature is concerned. That is one of the vital features in the bill.

Senator WAGNER. Senator, may I say this: There is nothing to prevent the States, in order to have more liberal periods of payment for unemployment, to make a contribution itself?

Senator BLACK. That is true.

Senator WAGNER. England does, and so does Germany.

Senator BLACK. Of course, we are familiar with the fact that in our economic system it is not always necessarily the locality that produces the most wealth that is the most wealthy. It may be produced in cities in some States, like some of them in the State of Arizona, and some of them are not exceedingly wealthy.

Senator WAGNER. Yes.

Senator BLACK. So if we apply a uniform taxation system upon the wealth that is produced, it is not possible for us to recognize the county lines or the State lines, so far as fair and uniform taxation is concerned for the Nation.

Senator WAGNER. Yes; well, we do not recognize them, you know, in our power to tax.

Senator BLACK. If we adopt an unemployment-insurance system that limits each State to the terms within its own State that would ignore the theory, if it be a theory, and I think it is a fact, that it is not always the State that produces the most that has the most ability to pay.

Senator WAGNER. Of course! I have a different method of securing the distribution, a better distribution of wealth.

Senator BLACK. I am with you on the other, too.

Senator WAGNER. Yes.

Senator BLACK. At the same time there can come this feeling of paying everything to the local communities, or attempting to impose more on the local communities than they can bear, and that must be met with the economic fact that it is not always the local community, the local community does not always have the ability to bear it, even though the people may work harder.

Senator WAGNER. I do not think we have reached the point where we can say that unemployment insurance should follow the same standard in every section of the country.

Senator BLACK. I agree with that.

Senator WALSH. In other words, all the wealth in the world is not created by the people in New York.

Senator BLACK. That is correct. That same thing might be true in many localities.

Senator WALSH. Probably Alabama is producing some of, the wealth of New York.

Senator BLACK. Or some of it might come from Massachusetts.

Senator WAGNER. I am used to that sort of thing. We make our contribution. Our State stands as high, if not higher, than any other State in the Union, so far as social welfare and protective legislation is concerned.

Senator BLACK. I think the Senator is absolutely correct.

Senator HASTINGS. Senator Wagner, there is one provision in here as I recollect it, which provides that this tax paid by the wage earner, accumulated with interest maybe over years and before he reaches 65, if he dies, shall be returned to his estate.

Senator WAGNER. To his dependents.

Senator HASTINGS. It is not true, is it, that it depends upon whether he has dependents? It goes to his estate.

Senator **WAGNER.** It goes to whomever is entitled to it.

Senator **HASTINGS.** Whomever is entitled to it?

Senator **WAGNER.** Yes.

Senator **HASTINGS.** It seemed to me that it would be a little easier for this man to pay that if he knew that that contributed by his employer at the same time was constituted a part of the fund and not only that which he contributed, but that which his employer) contributed to take care of him during that time was added to it and all of it returned; in other words, instead of returning to him 50 percent of that which has been accumulated for his benefit, why don't you return all of it to him?

Senator **WAGNER.** It is all returned.

Senator **HASTINGS.** I am wondering whether or not that has been given any consideration.

Senator **WAGNER.** We have followed the usual provisions of pension funds.

Senator **HASTINGS.** Is that the answer to it, that it follows the usual provision?

Senator **WAGNER.** I never want to appear to have an inflexible mind on this subject. I know the ability of the members of this body, and it is ultimately what the committee does that controls.

Senator **HASTINGS.** There is going to be a great deal of complaint regardless of how small an amount it is, although it may be only one-half of 1 percent, and it seems to me that you would relieve that a great deal if you could assure all parties--

Senator **WAGNER** (interrupting). How small what amount is?

Senator **HASTINGS.** The tax which the wage earner has to pay. And it seems to me that you would relieve him a great deal if you could assure him that not only that——

Senator **WAGNER** (interposing). Do you think the wage earner wants to pay a higher tax?

Senator **HASTINGS.** No.

Senator **WAGNER.** Do you think he ought to be compelled to pay a higher tax?

Senator **HASTINGS.** No; not at all. I say he will complain about it regardless of how small it is, he will complain about having to pay it, and it seemed to me his mind would be relieved somewhat if he were assured that he is not only to get what he has paid in but what his employer has paid in for him, at the age of 65, and that his family were going to get 100 percent of it in case he dies.

Senator **WAGNER.** He gets whatever is paid in in his behalf.

Senator **HASTINGS.** I do not think so.

Senator **WAGNER.** What the employer pays, he pays on behalf of the worker.

The **CHAIRMAN.** I would like to ask that the transcript of the hearings be finished as soon as possible so that the committee can keep up with these hearings day by day; therefore, Mr. Reporter, please get these transcripts out as quickly as possible and do not wait on anyone to read them.

We will now adjourn until 10 o'clock in the morning.

Senator **LONERGAN.** Will Senator Wagner return tomorrow?

Senator **WAGNER.** If you want me to.

Senator **LONERGAN.** This will take just a moment. Have these proposals been worked out by experienced insurance actuaries?

Senator **WAGNER.** Yes.

Senator LONERGAN. And approved? They recommend what is proposed here?

Senator WAGNER. Yes; depending upon what our objective is, Senator. If you want from the very beginning to make an insurance system by which no worker gets more than he earns, then of course you would have to have an entirely different set of figures, and you would have to have this system apply only to the very young people. Men in middle age who have been neglected all this time, of course, could not in the short period left to them make the contribution necessary to earn an annuity sufficient to keep them. In those cases we are paying more than the annuity earns, and it is a question whether the young worker who just joined ought to pay that difference or whether the Government should. The bill provides that the Government pay that difference.

Senator LONERGAN. One more question. How are the funds maintained in the other countries, by this system?

Senator WAGNER. Under government supervision.

Senator LONERGAN. Contribution?

Senator WAGNER. What are you speaking of?

Senator LONERGAN. How is the fund maintained?

Senator WAGNER. Under government supervision.

Senator WALSH. How is it raised?

Senator LONERGAN. From what source does the money come?

Senator WAGNER. Are you speaking of old-age pensions or unemployment insurance? There is a difference, you know?

Senator LONERGAN. We will take each one.

Senator WAGNER. In England, in the case of unemployment insurance, I am certain that the employer pays one-third, the employee one-third, and the Government one-third. In Germany only the employer and the employee contribute! but there have been times when the Government has had to contribute because of an extended depression.

The CHAIRMAN. I may say to you, Senator, that there will be some other witnesses who will go into detail in reference to that.

Senator WALSH. You say there are 28 States that have some form of old-age pension?

Senator WAGNER. Yes.

Senator WALSH. What is the age?

Senator WAGNER. In most of them the age is 70 and in some of them, 65.

Senator WALSH. How many are under 70?

Senator WAGNER. Very few. I will put that into the record.

Senator WALSH. Your thought in making it 65 is to induce States having 70 to make it 65?

Senator WAGNER. Yes. And we give them until 1940 to do that.

Senator WALSH. You will put into the record the various ages in the various States? (See supplement to Report to the President of the Committee on Economic Security in Mr. Witte's testimony.)

Senator WAGNER. Yes; I will.

The CHAIRMAN. The committee will meet at 10 o'clock tomorrow morning.

(The message of President Roosevelt submitting report recommending legislation on economic security was ordered printed in the record, see pp. 1303-1354.)

(Whereupon, at 12:15 p. m., adjourned until 10 a. m. the following day.)