

ECONOMIC SECURITY ACT

THURSDAY, FEBRUARY 14, 1935

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

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

The CHAIRMAN. The first witness this morning is William R. Webster, of the Connecticut Manufacturers Association.

STATEMENT OF WILLIAM R. WEBSTER, REPRESENTING THE CONNECTICUT MANUFACTURERS ASSOCIATION, BRIDGEPORT, CONN.

Mr. WEBSTER. I am William R. Webster, chairman of the Board of the Bridgeport Brass Co., Bridgeport, Conn., representing the Manufacturers Association of Connecticut, Inc. My own company operates both a brass mill and fabricating departments and employs at present about 2,000.

May I say in this connection that that is more employees than we averaged throughout 1929. Every month the last year, with the possible exception of January, with respect to which my memory is not clear, we averaged more employees on the pay roll than we did in 1929.

The Manufacturers Association of Connecticut, on whose behalf I appear today, is a State-wide organization comprising, with few exceptions, practically all eligible industries in the State of Connecticut, large or small. When I say "eligible", I use the word advisedly, because the association's board of directors, on which I have just finished a term, sets a rather high standard for membership, refusing admittance to those who do not look upon the employment relationship with the respect which it deserves, and exercising its prerogative of expulsion, if and when a member offends against established law or against the canons of decency.

It is a testimonial, perhaps, to the grade of men who make up Connecticut industry that the association's ranks are so close to 100 per cent. At any rate, it is on their behalf that I offer these comments on the bill before your honorable committee today.

I shall respect the committee's patience and the pressure on its time by refraining from argument on the legal or constitutional phases of the measure. As a layman, I recognize that I do not qualify as a spokesman on these matters, and other witnesses will doubtless offer testimony to that end. Moreover, such lawyers as there may be on this committee, together with such legal counsel as the committee has consulted, are doubtless familiar with the case of *Bailey v. Drexel*

Furniture Co., 259 U. S. 20 wherein the United States Supreme Court ruled that the use of the taxing power to achieve by indirection an end that could not be legally accomplished directly was an invalid exercise of the congressional power. Reduced to their elementals, the bills before your committee propose to do just that.

Nor will I dwell at any length on the retarding effect which the program embodied in these bills must necessarily have upon the revival of private industry. The President has indicated his belief in the sound principle that permanent gains in employment and in the social and economic well-being of the American people can come only from the absorption of workers into private industry. It must be plain that the penalty intended to be imposed on employers for irregular employment will tend to freeze industrial employment on the lowest possible level at which the annual industrial productivity of America can be turned out. I recognize that stabilization is one of the aims of the proponents of unemployment compensation, but I question whether stabilization at a permanently low level is to be preferred to the opportunities of additional employment which industrialists would feel free to offer in times of exceptionally good demand, if they were not obliged to assume permanent responsibility for the supplemental personnel which could be used for appreciable periods. I recognize too that the ultimate objective of the bills before you is permanent social reform rather than short-time recovery; but your committee and the Congress assumes a grave responsibility if it handicaps the now budding recovery movement to an extent that will render reform of little practical value to those who are its intended beneficiaries.

Couple that thought with the recognized truth that these measures offer future, rather than immediate help and you have an added reason why an already overburdened industry should not be required to shoulder the extra load.

Our principal concern in Connecticut is with the size of this load and its discouraging effect on private enterprise at a time when the forces of recovery have gotten such impetus that nothing can stop their progress-except a measure of this sort. The industrial employers of our State are concerned, of course, about the latent powers of Federal coercion that lie in the bill. We have gone far along the path of enlightened legislation for the protection of industrial workers, and when certain low-grade nomadic industries came over our borders a few years ago, and engaged in the premeditated practice of low wage and law evasion, the Manufacturers Association of Connecticut was in the vanguard of those who drafted and sponsored laws to cure the evil. We believe, therefore, that we have shown not only the disposition but the ability to handle such matters within our own borders, and we find it hard to stifle a feeling of disquiet when the Federal Government attempts to direct us along a path of action that our own legislators, closer to their constituencies and more familiar with our limitations, have not seen fit to launch upon as yet.

But, as I said, our chief concern is with the weight of the burden and with our ability to carry it. Based on the best figures obtainable, the direct cost of this program to Connecticut industrial employers will probably amount to at least 3 million the first year, and may run to 7½ millions. It will increase by 1 million or 2 million the following year, going up by progressive stages until it reaches something like 1.4 million in 1957. To a New England manufacturer, that appears like a staggering sum to add to the heavy burdens he is now support-

ing in local, State, and Federal taxation, in workmen's compensation costs, in private charity and in such employee-benefit plans as his resources will allow him to establish and maintain.

The manufacturing industries of Connecticut normally employ over a quarter of a million or so workers—a field of gainful occupation for 21 percent of the State's adult population. In the United States as a whole, only 10 percent of the people of working age find employment in industry. This alone is a graphic measure of the importance of industry to the State. When, in addition, it is recognized by statisticians that each worker on the average is looked to for support by $2\frac{1}{2}$ dependent individuals, it is readily apparent that Connecticut industry furnishes a source of livelihood for much over half of the entire population of the State. Quite obviously such a fountainhead of economic and social well-being must not be molested by an unwise use of the taxing power.

The heavy responsibility of law-making bodies in this regard can be made still more clear by an examination of the present tax burden borne by industry in Connecticut. Although no one, to our knowledge, has ever undertaken an exhaustive study in this field, a survey made by the association in the middle of the last decade, with the results applied to changing conditions since, indicates that the industries represented in the membership of our association are now paying about 15 million under the general property tax. Add to that 4 million for taxes imposed on them directly for State use. Add another 11 million for their share of the various Federal levies—the corporate income tax; the capital-stock and excess-profits taxes; the tax on security issues, and safety deposit boxes; the impost on telephone and telegraph communications; the processing and compensatory taxes on cotton, paper, and other commodities; the excise taxes on clocks and silverware, toilet preparations, automotive goods, oil and gas, firearms, sporting goods and games, radio and phonograph parts; and so on.

Conservatively estimated, therefore, we find that the productive enterprises grouped within the membership of this association are bearing a burden that even in these subnormal times averages about 30 million. When conditions improve, that part of the burden which depends on volume of business will, of course, increase. The rest of the burden will hardly be reduced, since expenditures arising out of the depression tend to rise in spite of all that taxpayers can do to hold them in check. We are becoming accustomed to talk in large figures, and a burden so great as this is not so breath-taking as it would once have been; but no New Englander can look at a tax burden of 30 million dollars with equanimity, especially when it falls on one of the two productive forces in the economic life of the State. To jump it forthwith by from 10 to 25 percent, in the face of certain increases in the general tax structure both here and at home is to add a load that is simply insupportable. And may I point out that the history of social legislation both here and abroad is a cumulative increase in the scale of benefits and a widening of the circle of beneficiaries.

May I also state that I am the president of the Automatic Machine Co. of Bridgeport, which is a small concern making machine tools for very high and precise work. During the depression, we have operated at from 10 to 15 percent of normal period. These goods are those classed as capital producer goods. They are used by the prin-

cial concerns in the machinery business in the country, but we **have** found in endeavoring to secure orders to keep ourselves alive that our customers say that they need this equipment, they would like to purchase it, but they are fearful of their ability to do so because of their inability to determine what their taxes will be in the future.

I want to further say in this connection that unless there is a turn in the tide in this direction, this small concern will be obliged to fold up, primarily because of the burden of taxation which it is already carrying. It exists today primarily through the **sufferance** of our local tax collector. He could at any time close us up.

Testimony already in your records, I understand, emphasizes the actuarial deficiencies of these plans on the basis of our present experience. That testimony merits the closest study of the committee before a bill is reported out. Some of the actuarial witnesses were from the State of Connecticut, which houses the most renowned masters of actuarial science in the United States, and their testimony on a phase of this subject on which they are professionally competent to pass judgment is of far greater significance than seems to have been attached to it thus far. In connection with unemployment compensation, they spoke from personal knowledge of the lack of experience tables on which to base remedial legislation. In connection with old age **pensions**—and this I think is highly important—they pointed out among other things that the population of the United States is rapidly approaching a static condition and that the percentage of older people in the population will tend to be appreciably higher.

On behalf of the group which I represent, therefore, I respectfully urge that, **instead** of saddling us with this staggering additional burden you give consideration to the wisdom of creating an executive commission to coordinate Federal, State, and local studies in the field of social security to determine accurately both the extent of the need and the feasibility of suggested remedies before **legislation** is attempted.

The **CHAIRMAN**. Is that all you have?

Mr. **WEBSTER**. That is all unless the committee has some questions. (No response.)

The **CHAIRMAN**. Thank you very much. The next witness is Paul Kellogg.

STATEMENT OF PAUL KELLOGG, EDITOR THE SURVEY AND SURVEY GRAPHIC, AND VICE CHAIRMAN ADVISORY COUNCIL, COMMITTEE ON ECONOMIC SECURITY, NEW YORK, N. Y.

Mr. **KELLOGG**. I should like first to take a moment of your time to tell you how I regard this committee and its work:

You will remember the recent collision off the Jersey coast, when the Mohawk went down, and 45 lives were lost—seamen and passengers. A fortnight ago, the newspaper carried headlines that told that while suits for a million dollars were in prospect against the company, the owners held that their total liability to everybody concerned was not over \$10,000. That was like digging up the thigh bone of a mastodon in your back yard. It harks back to the old laws of the sea that go back to sailing ships, before we had our modern notions of corporate responsibility toward workers and passengers. That old law had it that survivors could get damages up to the value of the wreck, if any. There wasn't any wreck in this case, only the lifeboats that got to shore.