

ECONOMIC SECURITY ACT

WEDNESDAY, JANUARY 30, 1935

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

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

Present: Senators Harrison (chairman), King, Barkley, Gore, Lonergan, Black, Gerry, Guffey, Couzens, La Follette, Metcalf, and Capper.

The CHAIRMAN. The committee will come to order.

STATEMENT OF EDWIN E. WITTE, EXECUTIVE DIRECTOR, PRESIDENT'S COMMITTEE ON ECONOMIC SECURITY—Continued

The CHAIRMAN. Mr. Witte, I do not recall just what phase of this bill you were discussing when you appeared here last. I want to ask you, if it meets with the approval of the committee, before you leave the stand to take this bill up from the beginning and succinctly summarize each phase of it as to just what it is.

Mr. WITTE. That is what I had intended to do.

The CHAIRMAN. All right, you may proceed.

Mr. WITTE. I have not gotten beyond the first subject dealt with in this bill, the subject of old-age security, although I think the committee has practically completed its questioning of me on that subject.

On the subject of old-age security there are three distinct measures proposed in this bill. Title I is the appropriation for old-age assistance—Federal grants-in-aid to the States, to meet a part of the cost of noncontributory pensions to old people who are without adequate means of support. There is an appropriation of \$50,000,000 in the first year, and \$125,000,000 in subsequent years. This appropriation will have to be increased in the course of the years and will grow very large unless at the same time a contributory old-age annuity system is started. On the estimates of the staff, which are conservative, that cost, unless there is a contributory old-age annuity system, will be in excess of \$800,000,000 by 1980.

The CHAIRMAN. So what you are trying to do is to put this tax in so it will absorb this direct appropriation by the Federal Government in time, or at least reduce it?

Mr. WITTE. Very materially reduce it. It cannot absorb it entirely for the reason that we are bringing under the contributory system only the employed persons. In the total number of people gainfully occupied, the employees are approximately 60 percent. The self-

employed people—the farmers, tradesmen, professional people, and many other groups—constitute approximately 40 percent of the population.

The CHAIRMAN. So the tax will be only about 60 percent.

Mr. WITTE. The tax will reach about 60 percent of the population. While these other groups are in a better position than the employed population to make provisions for their old age, everyone knows that even people in these other groups may be and frequently are dependent at the age of 65. Unless in the course of time it is possible to devise methods by which these other groups can be brought within the annuity system, then there will be a continually increasing cost of pensions, but not nearly as great as if no such contributory system is adopted. As I stated, our staff estimates the cost without a contributory system, conservatively, at \$800,000,000 by 1980. The consulting actuaries that we employed, using higher estimates of dependency and average pensions, estimated a cost by 1980, in round numbers, of \$1,300,000,000. If the contributory system is adopted as outlined in the bill, on our staff estimates the cost will be reduced to \$116,000,000 and the actuaries to \$500,000,000.

The first part of this bill, title I, covers the aid to States for old-age assistance. Under this title the Federal Government will match the expenditures of the States for old-age assistance on an equal basis, but with the limitation that it will not contribute more than \$15 per month per case. The Federal Government will also match the administration costs, but it will not pay a larger share of the administration costs than is based on 5 percent of the pension disbursements.

The CHAIRMAN. Let me ask you, suppose in one of the States—and there are several as I understand it—the annual budget is \$14,000,000 and there are 60,000 old-age people who would come under the provisions of this law, and there is \$15 a month paid on each one of those, in order to get the \$15 from the Federal Government. That would approximate something like \$10,000,000 or \$12,000,000. Now how are the States going to raise that?

Mr. WITTE. The actual experience, Senator, has been that less than 15 percent of the people who are over 65 years of age have qualified for old-age pensions in any State in the Union thus far. This bill does not contemplate payment of a pension to everybody who does not have a sufficient income by himself. This bill contemplates that people who are being provided for by their children will continue to be provided for by their children. The actual number who, at least at the outset, will be able to qualify for pensions is estimated by our committee to be not more than 1,000,000 people in the United States as a whole, or somewhat less than one-seventh of the number that are 65 years of age. We arrived at that figure because approximately 700,000 of these people over 65 years of age are now on relief lists and another 180,000 are in receipt of old-age pensions under the laws of the 28 States that have pension laws. There is another number that we cannot accurately determine, probably not exceeding 100,000 or 150,000 people, who are in receipt of relief without being on Federal emergency relief lists. In some portions of the country, particularly in New England, the old people in need of public assistance are being taken care of outside of Federal emergency relief.

The State in which the percentage of relief grants has been highest is the State of New York, and in the State of New York the percentage

is still less than 15. We estimate that 15 percent of the people over 65 years of age will probably qualify for pensions, but in the first year there will be a lag in the number qualifying. In other words, Senator, I doubt whether the actual number of the pensioners of any State will be as great or will involve as great a cost as you assume. The State of New York pays the whole bill now and appropriates \$15,000,000. One hundred and eighty thousand people are now on pensions under State laws, at a total cost of \$31,000,000. The average pension, so far, is \$19 per month.

The CHAIRMAN. You mean all over the country?

Mr. WITTE. I mean all over the country, in the 28 States that have such laws. The highest cost in any State is in Massachusetts, where \$24 and some odd cents per month is paid.

Senator BLACK. Does that include those people who are taken care of by almshouses? Have you figured how many people are taken care of by public almshouses?

Mr. WITTE. We do not take care of the people in almshouses. The number in public almshouses is approximately 100,000, and in private institutions for the aged a somewhat larger number.

The CHAIRMAN. How many people in these private institutions would give up their rights to obtain this pension if the law were passed?

Mr. WITTE. I really cannot give you that figure. It is a great deal higher number than those on pensions, very much higher.

Senator BLACK. Do you have any exact figure?

Mr. WITTE. There has been no survey of almshouses since 1925. One of the recommendations of our committee is that the Bureau of Labor Statistics at once undertake a thorough survey of the institutions for the aged. We do not really know. We are just guessing at how many people are in almshouses. You can ascertain it accurately in some States, but in many States you can not ascertain it at all.

I missed your question for the moment, Mr. Chairman.

The CHAIRMAN. The question that I asked was whether these people, if you passed this legislation, would come out of the private institutions in order to get this money and if they could live that way cheaper and better.

Mr. WITTE. A limited number will, Mr. Chairman. Most of the people that are in public almshouses need not only financial support but they also need physical care, and those people will not be able to come out of the almshouses. We have had experience on this point in the States which now have old-age pension laws. In New York State a considerable number, approximately one-fifth or one-fourth of the people in almshouses did get on pension lists, but the great majority of them cannot be taken care of through pensions. Many of them are invalids and have no children who are able or willing to care for them.

Senator LA FOLLETTE. Mr. Witte, have you made any estimate, broken down by States to show what the State's estimated share of this burden will be, according to the same rule that you have applied to the estimates on the Federal side?

Mr. WITTE. The cost to the States will possibly be slightly higher than the cost to the Federal Government, because under this bill the States are required to pay a pension which is sufficient for reasonable subsistence compatible with decency and health. That may be a

pension in excess of \$30, and the Federal Government will only match half of the \$30.

The CHAIRMAN. Carrying out the suggestion of Senator La Follette, have you made a survey and is anything in the record that we can look to to see how much each State will have to put up, approximately, to carry out this plan?

Mr. WITTE. No, sir; I do not think it can be done, Senator. You would have to guess at what is needed on the average. For instance, in the State of Mississippi a very different amount is required for a reasonable subsistence compatible with decency and health than in New York City. In the State of Mississippi presumably the pensions will all be within the limit of this bill, the State will not have to put up any more money than the Federal Government. In the State of New York, due to the metropolitan character of a large part of that State, the pensions will exceed \$30 a month. They have averaged \$40 a month within the city of New York, although in the entire State of New York, including the city of New York, they have only averaged \$22. It is a question of what the need of the old person or the old couple is. If the old couple lives in a rural community and owns its own home, then the pension will cover only the living costs. If, as is usually the situation in an urban community, the old couple does not own its own home and quarters must be rented, the pension must be higher.

The CHAIRMAN. I suppose you have given this proposition considerable thought and study because it goes to the very meat of it, without regard to whether it is my State or the State of Alabama, or any other State?

Mr. WITTE. Yes, sir.

The CHAIRMAN. If a State had to raise \$5,000,000 to come into the system and to obtain a fractional part of the \$15 that the Federal Government would appropriate, and the State was just able to meet its budget without this additional cost, and it found it was impossible to raise this \$5,000,000, then that State would not get anything, would it?

Mr. WITTE. Not unless it has qualified; no, sir.

The CHAIRMAN. And if it were impossible for it to qualify it would get no relief under this bill?

Mr. WITTE. That is correct.

Senator KING. Senator, we cannot assume that there is no obligation on the part of the States to take care of their poor.

The CHAIRMAN. I just wanted to get the fact clear in my mind.

Mr. WITTE. I think, Senator, the only States that would have to put up anywhere near \$5,000,000 are the very large States—New York, Pennsylvania, Ohio, Massachusetts, and a few others.

The CHAIRMAN. If you can get some figures, some estimate as to how much each of these States have to put up, I think it would be well to put them in the record.

Mr. WITTE. We will attempt to get something, but it will be merely a rather arbitrary guess.

The CHAIRMAN. I appreciate that.

Mr. WITTE. We have no figures on dependency by States. That varies by States. We have almost no basis for estimating the costs in the States except the present relief costs. The present relief costs are a fairly good guide. The average for the country, per family on

direct relief is \$23. In some States it is as low as \$10 and in other States it is above \$30.

Senator GUFFEY. Mr. Witte, are not some of the 28 States that have passed pension laws paying no pensions now? Can we get the number that are now paying pensions, the number on the roll and the total cost?

Mr. WITTE. That is in the record now, as to what they actually pay.

Senator GUFFEY. Thank you.

Mr. WITTE. For the 23 States that are actually paying pensions at this time, we put in the record the total cost and the average per case. The average ranges from \$24 in Massachusetts to something over \$6 in Indiana.

Senator BLACK. Mr. Witte, do you have that with reference to each State? Do you have the number that are eligible, so far as age is concerned, and the proportion in that State who receive the pensions? If so, that will give you a fairly accurate, or at least as accurate as you can get, a basis to compute what costs the State.

Mr. WITTE. The table is in the Supplement to the Report of the Committee on Economic Security as is the percentage of the people over 65 who have been granted old-age pensions. That percentage is the highest in the State of New York; and there it is slightly under 15 percent. In many of the States it is a good deal less than 15 percent.

Senator BLACK. Fifteen percent of the population or of the aged?

Mr. WITTE. Fifteen percent of the people that are over 65 years of age, or over 70, whatever the State law provides. In half of the States they have a 70-year limit. That is the case in New York. In that State 15 percent of the people over 70 years of age have qualified for pensions. A smaller percentage would qualify if the pension age were 65 years.

The CHAIRMAN. I presume you are thoroughly familiar with the Townsend plan and have figured out the cost under that plan in detail.

Mr. WITTE. Yes, sir.

The CHAIRMAN. I hope you will have that data ready, because this committee is going to invite Dr. Townsend here to make an explanation of his proposition, and then someone ought to be able to analyze it from the other standpoint, so we will get a full discussion of the Townsend plan which has agitated the minds of some people.

Mr. WITTE. We have just prepared a factual analysis of the Townsend plan for the House Ways and Means Committee and if you desire it, I will be glad to insert that in your record.

The CHAIRMAN. Not right now. We will wait until Dr. Townsend has presented his proposal to us. Go ahead.

Mr. WITTE. The conditions of the grants, I think you have discussed quite thoroughly. The discussion brought out that the chief concern related to the condition, that the grants must be in an amount which, when added to the income of the applicant and the income of his spouse or her spouse, shall be sufficient to provide a reasonable subsistence compatible with decency and health. That is the language of the New York and Massachusetts acts.

If that language is deemed by you too vague, then the alternative is to insert a more definite standard—that a certain amount shall be deemed to be necessary for a minimum subsistence.

The thought of the committee in recommending this standard, which has worked well in New York and Massachusetts, is that it permits adjustments to varying conditions and to individual cases. In different portions of the country costs differ greatly. Costs differ within the same State, depending upon conditions. They differ within the same community, depending upon what other income the applicant has. This average pension grant does not mean that those averages are the maximum. The maximum grants are a good deal higher. The average is low, because many of these people have some income in cash or in some other form, a house, or something of that sort.

Senator GERRY. Dr. Witte, do you consider the Massachusetts and New York acts as very satisfactory legislation?

Mr. WITTE. The New York and Massachusetts laws are two of the best acts. In some respects they are not as advanced as some other States. They have 70 years as the age limit and they have too high residence qualifications. In this respect the act of the State of Delaware is the most advanced. The actual grants have been most liberal in New York and Massachusetts and the administration, on the whole, I think has been as satisfactory as anywhere. As in most of these matters, the States which enacted the first laws, which were the pioneers have, on the whole, the weakest laws. That is always the case. The later laws are an improvement upon the earlier legislation. We enacted our law early, and it does not measure up to the more recent laws.

Senator GUFFEY. Mr. Witte, does private charity take care of the cases in New York from 65 to 70 years of age?

Mr. WITTE. Those are taken care of by relief, mostly, at the present time.

Senator GUFFEY. Does not the family welfare department of the Associated Charities take care of a part of it?

Mr. WITTE. It takes care of a part of it.

Senator GUFFEY. How low do they go? Are you familiar with that, in the State of New York?

Mr. WITTE. I am not familiar with it, Senator. It is a question, whether you wish a definite standard or whether you wish a more flexible standard. That is, of course, a question of legislative policy. I am presenting to you the thought of the committee. If, in your judgment, a more definite standard is desirable, that is entirely within your discretion.

Similarly, on the question of age limits. Our thought has been that the most important thing at this time is to get the 700,000 people that are now on relief, taken care of in a little better way than they are taken care of on relief. With so many of the States in straitened financial conditions, we have felt that many of them probably cannot take care of all of the old people if you established a 60-year age limit, for instance, but that again is a matter for your decision. Half of the States now have a 70-year age limit and half of them a 65-year age limit; none of them lower. If, in your judgment, you should go lower, you will have to increase the appropriations.

Senator LONERGAN. Mr. Witte, has your committee ascertained the number of eligibles in each State?

Mr. WITTE. That can only be estimated, Senator.

Senator LONERGAN. Yes; I understand.

Mr. WITTE. We haven't attempted to ascertain that. We can give you an estimate of the number of people over 65 years of age who are now on relief and that is the group that is the minimum number who will be able to qualify.

Senator LONERGAN. Now, has your committee contacted the authorities in a State to ascertain whether or not each State can stand the financial burden if this plan is adopted?

Mr. WITTE. No, sir; 28 States now have laws. The other 20 are the States in the main where the financial situation is most acute. They are the more rural States, in which the grant would probably, on the average, be smaller than in the States that now have such laws.

Senator GUFFEY. Dr. Witte, some of the 28 States who have passed old-age pension laws are not actually paying old-age pensions. Pennsylvania, for instance, has passed the law, but it is not paying the pensions.

Mr. WITTE. Five States out of the 28 are not really enforcing their pension laws; 23 States are paying pensions. The States that are not paying pensions at this time are all States that enacted their laws very recently in 1933. It is to be hoped and expected that they will make provisions for payment in time. Five States out of the twenty-eight are not really enforcing their pension laws.

Senator GUFFEY. The State of Pennsylvania is one of them.

Mr. WITTE. Pennsylvania is one of them.

Senator KING. Dr. Witte, have you contracted the proper authorities in the Federal Government to see where they would stand, in view of the tremendous appropriations called for?

Mr. WITTE. The President very wisely placed on the Committee as a member of the Committee, the Secretary of the Treasury. We have had advice from him on the financial aspects of these problems. The question of what the States can do is one that of course must be taken into consideration. I think every State, if you asked it, would say that it could not afford to pay the bill, that it would like to have the Federal Government pay the entire cost. I might say, however, that Congressman Kellar, of Illinois, after consulting us, addressed a letter to the governors of all the States and asked them what sort of a pension law they thought the Federal Government should enact. I am not quoting him exactly, but I think the majority of the governors of the States indicated that a 50-percent matching basis seemed fair to them. A majority of the governors also indicated that a pension figured on a \$30-a-month basis was reasonable. If you so desire, I presume Congressman Kellar would be glad to testify on that point.

Senator KING. Did the Committee itself send any communication to the governors of the various States, or any agencies in the States, to obtain their views with reference to this matter?

Mr. WITTE. No, sir.

Senator GORE. Mr. Witte, do you know that the national democratic platform declared for old-age pensions to be taken care of by State laws alone?

Mr. WITTE. It declared in favor of unemployment insurance and old-age pensions through State legislation.

Senator GORE. There was no mention even of Federal participation, the clear implication being it was for the States to pay the cost.

Mr. WITTE. The implication that the Federal Government should not participate may or may not be read into that plank; that is a matter of opinion.

Senator GORE. It was possible for the committee that had charge of this in the convention to have said Federal and State, there was no inhibition on using the word "Federal" in that plan.

Mr. WITTE. This bill contemplates that the States will enact the old-age pension laws and administer them, and the Federal Government will participate in aiding them to have such laws.

Senator KING. You think it wise that the burden be placed on the States of initiating the law and administering it?

Mr. WITTE. That is the thought of the Committee, and the thought of the Committee is, too, that as a practical matter—because of the financial condition that so many of the States are in, if we are going to take care of these old people who are in need at this time, who cannot provide for themselves, whose children do not provide for them—Federal participation is necessary.

Senator GORE. You do not think the Federal Government is in any better shape financially than the States that collectively constitute the whole of the Union?

Mr. WITTE. Our judgment is that the Federal Government can carry this burden.

Senator GORE. Is there any resource or revenue that the Federal Government can tap that does not come out of the pockets of the people in the several States?

Mr. WITTE. Of course not, because we are all one country and a citizen of a State is also a citizen of the United States.

Senator GORE. Yes. If Maine does not see fit to pension their aged citizens, you think it still ought to be taxed to pension the citizens in California?

Mr. WITTE. This is the same question on which the Congress has acted in the relief legislation. The Congress had established the principle that at least in a time such as we are facing now there is a national responsibility for the care of people who are without means. This is a plan to provide for the old people without means and who are not being supported by their own children in a more humane and better way.

Senator KING. There is nothing in the State constitution that would prohibit them from imposing taxes upon the people within their own borders to take care of the indigent, is there?

Mr. WITTE. The State old-age pension laws have been sustained everywhere. There was a decision in the State of Pennsylvania, under a peculiar provision of its constitution, in which its original old-age pension law was held unconstitutional. Aside from that, the decisions have all been that old-age pension laws are within the jurisdiction of the States and are valid.

Senator BARKLEY. The Federal Government being further from home it has more courage to levy taxes.

Senator KING. You mentioned the advisability of having flexibility in the law, and I think you are right there. That flexibility would be best carried into effect by a State rather than by the Federal Government, would it not?

Mr. WITTE. This plan contemplates, Senator, that the State shall pay one-half of the cost at least. That is a safeguard against any reckless waste of money. If the States bear half the costs, I do not

think you will have to worry much about granting pensions in cases where they are not needed.

Senator KING. It is obvious, is it not, that in some States, because of climatic conditions, labor conditions, and so on, the pensions ought to be larger or smaller than in other States? For instance, take Montana, where the climate is very severe and coal is rather difficult to obtain, the price is rather high and the cost of living would be very much greater than in some of the Southern States, for instance Florida. You would believe, would you not, that the people of the State would be better able to determine the extent of the old-age pension than the Federal Government?

Mr. WITTE. That is the theory, Senator. Likewise, I want to call your attention to the fact that for nearly 2 years now you have administered relief and the relief grants have varied with conditions all the way from an average of \$10 a month, in round numbers, to an average of about \$30 a month, depending upon the State. This bill contemplates that the same administration which has been administering relief shall be charged with the administration of these Federal grants.

Senator GORE. Have you found that political pressure had anything to do with the amount granted in the several States?

Mr. WITTE. I do not believe so, Senator.

Senator GORE. The reason I asked, Oklahoma had 193,000 on the relief rolls, from figures which I obtained some months ago, and Kansas, which is almost as large, had 56,000 on the relief rolls; Nebraska had 13,000; Missouri, with 1½ times the population of Oklahoma, had 77,000; Texas with 2½ times the population of Oklahoma had 170,000, against 193,000 in Oklahoma. I do not want you to think that I had any reference to collusion.

Senator BLACK. You would not mean to imply that the political pressure of manufacturers' associations to granting a liberal pension might have some effect on it, would you?

Mr. WITTE. I think we have safeguarded, to the fullest extent that it is humanly possible, against pressure entering very much into this picture. The States must first pay half the costs. Then we do have a possible control by the Federal Government. If conditions should be such—as I think no one need expect—that grants were being made for political purposes and denied for the same reason to other people, the Federal administrator can stop payments. I think, by and large, we have ample safeguards.

The CHAIRMAN. Did the Committee divide on the question of the State and Federal Government paying the same amount? Naturally a lot of discussion took place around that issue.

Mr. WITTE. Yes.

The CHAIRMAN. Was there much division on that?

Mr. WITTE. In the Committee itself?

The CHAIRMAN. Yes.

Mr. WITTE. No, sir.

The CHAIRMAN. Did somebody want the State to put up a larger percentage than that or a smaller percentage than that?

Mr. WITTE. Well, there was a discussion first of the Federal Government matching only up to one-third. That was the original idea.

The CHAIRMAN. Paying one-third?

Mr. WITTE. The Federal Government to pay one-third, Senator. Later it was felt, with conditions as they are, that the Federal Government, in many States, would probably have to pay more than one-third. It is a practical question, a matter of judgment, Senator.

The CHAIRMAN. All right, proceed.

Senator GORE. What is the attitude of the National Manufacturers Association, do you know? I confess my ignorance. If anybody knows, I would like to have it. He may have better knowledge than I have.

The CHAIRMAN. They have requested, as I understand, to come before the committee.

Senator GORE. Yes. I think they ought to be allowed a hearing. I think they have, in the past, been opposed to old-age pensions.

The CHAIRMAN. You may go ahead, Mr. Witte.

Mr. WITTE. With that, I would like to pass over title I. The Federal grant-in-aid for State old-age assistance to old people who are dependent upon the public for support, and go to title III and section 405.

The CHAIRMAN. What page is that?

Mr. WITTE. Page 15 for title III, and section 405 is on page 24. Those are provisions that relate to the second part of the program for old-age security, the program for a contributory annuity system, which is proposed to enable people who are not yet old to make their own provisions, with matching the contributions from their employers, toward their old age. These provisions will be more ample than are possible on a gratuitous basis, and free from any element of charity. The plan calls for the imposition of a tax on employers and employees, which in the early years is very low. It starts with one-half of 1 percent and is increased in 5-year intervals by one-half percent, that is, the combined rate is increased by 1 percent, until you reach the maximum of 5 percent in 20 years.

The CHAIRMAN. When does it start with one-half of 1 percent, what year?

Mr. WITTE. In the year 1937, and in 20 years it reaches the maximum of 5 percent.

Senator BLACK. What page is that?

Mr. WITTE. That is title III on page 15. The first part is the tax on the employee. On page 16, the next section, is the corresponding tax on the employer. They belong together. Each starts with a tax of one-half of 1 percent, which is stepped up in 5-year intervals by an additional half percent.

The plan is not entirely self-supporting until you reach the 5-percent rate. It takes the 5-percent rate to pay those benefits which are contemplated under section 405, page 24.

There are two reasons why a lower rate is suggested in the early years.

First, because we are still in the stage of incomplete business recovery, and are imposing a tax for unemployment-insurance purposes simultaneously. But, primarily, the thought was that it is desirable to keep the reserves in this fund within a controllable amount.

The CHAIRMAN. Explain to the committee just how it is collected.

Mr. WITTE. The collection is left up to the Secretary of the Treasury. The provision occurs in section 304 on page 17. He is authorized, if he desires, to introduce the European stamp system of collec-

tion. The European countries that have contributory old-age annuity laws, and most of them have such laws, have instituted a stamp book system of collection. They are something like the books that the industrial workers now have, in which their payments of industrial insurance are recorded. Fifty million people in this country are carrying industrial insurance policies.

Many of this group that we are dealing with here, are quite familiar with that type of collection of contributions.

We are not saying that the Secretary of the Treasury shall adopt a stamp system. We are not sure that that is the best system for this country, but we are authorizing him to do so.

Senator KING. Would the adoption of the plan herein suggested destroy this system which you say now exists in the United States and which embraces within its operations 50 million of people?

Mr. WITTE. Oh, no. That relates to industrial insurance, which is a form of life insurance. Industrial insurance is life insurance in policies of less than \$500. The average policies, I think, are less than \$200. It is an entirely different matter.

All that I have in mind in mentioning industrial insurance is that the industrial population of this country is not entirely unfamiliar with something like the European stamp system of collecting insurance contributions. It is not a governmental tax that is being collected in this manner and the contributions are not being collected monthly, as under the European old-age insurance laws, but similar collections are now being made from much this same group of people that we have to deal with. But we are not prescribing that this is necessarily to be the system.

We are allowing a year to intervene before putting the law into operation, because in this entire matter of the annuity system there is a vast amount of further study necessary to determine precisely the best methods of administration. Above all there will be necessary a systematic campaign to acquaint the workers and the employers with the methods that will have to be followed. It was the thought of our committee that a year's time is very necessary for this necessary educational effort.

The collections from certain groups of the employers certainly may be made without a stamp system. All corporations report annually to the income-tax division of the Internal Revenue Bureau. They report the names of all of their employees and the amounts of wages paid them. For corporations, the easiest method of collection may well be an annual return, in which the employer reports for the year the amount of wages paid to each employee and pays the tax in one lump sum. In this bill, we require the employer to pay the tax and authorize him to deduct it from the wage which he pays the employee.

The CHAIRMAN. Give us an example now of a fellow who has a cook employed, paying him \$50 a month. How would that operate?

Mr. WITTE. Under the European system——

The CHAIRMAN (interrupting). I am not talking about the European systems. I am talking about this bill if it is put in force; how would you go about collecting it?

Mr. WITTE. Under this bill, the Secretary of the Treasury has discretion as to what method he would prescribe for collection, but assuming that he should prescribe a method such as is in operation in the European countries, the worker—the cook—would annually

procure from the Government employment office a book in which there were spaces, probably, for 52 stamps. The employer would purchase those stamps from the post office. He would not literally have to paste a stamp in the book every week; he would put in the proper number of stamps when the cook leaves his employment covering the entire period. The cook would demand the book. In Europe, the cook would look at the book and see that the employer had actually put in the stamps. Annually the book would be renewable at the employment office and the old book with the canceled stamps in it turned in as the permanent record.

Senator KING. What would you do in a case like this? Take the persons who were engaged in the canning business or in the production or growth of beets, as the farmers are. They employ during the seasonal period 2 or 3 or 4 persons to help weed the beets and take off the unnecessary sprouts and so on, and then in the harvesting they employ a few more. How would you deal with cases of that kind?

Mr. WITTE. If you deal with them on a stamp-book basis, you would deal with them as I described. If you adopted the other method—and this bill would authorize the Secretary of the Treasury to prescribe one method for one group of employers and another for another—he would report at the end of the year what wages he had paid and would pay the proper amount of tax, both for himself and his employees.

Very frankly, the greatest difficulties will be encountered, at the outset with the casual employees and with agriculture and domestic service. In the manufacturing industry, the administration will not be a difficult matter at all. But in the casual group there would be a very considerable administrative problem.

Our committee recommended that you include the entire employed population. Whether you wish to follow our recommendation or not or whether you wish to make certain exemptions, is, of course, entirely up to the Congress. For administrative reasons, it may be necessary to make exemptions at the outset and to try to develop methods by which you can bring in the groups that are difficult to handle at a later date. We recommend that they be included, because whether you employ one cook or one stenographer, that person grows old just the same as a person in a large factory. Such a person also needs to make provision for old age; in fact it is within these groups, that the need for provisions for old age is greatest; but, frankly, the administrative difficulties cannot be disregarded and you may wish to exempt these groups at the outset.

Senator COUZENS. The State does not participate in those?

Mr. WITTE. Not at all. This system, once it is established and becomes customary and people become accustomed to it, does not involve very much administration. A person reaches the age of 65 only once in his life. You have not the same problem as, for instance, with unemployment insurance, where you have to follow the person right along. All you have to have is a record of the prior contributions when retirement age is reached. You do not have to follow the insured person as minutely as in unemployment insurance.

The CHAIRMAN. This policy is pursued whether the States approve it or not?

Mr. WITTE. That is true.

The CHAIRMAN. And the tax operates on each person in the State whether the State approves it or not?

Mr. WITTE. Yes, sir.

The CHAIRMAN. It is general throughout the United States?

Mr. WITTE. It is the only part of our committee's program in which we provide for exclusively Federal administration. In all other parts of the program, we recommend a cooperative Federal and State system. We recommend an exclusively Federal system here primarily because the working life is such a long period, a period extending normally from about 20 years of age to about 65—45 years. During such a long period of time, a large percentage of our American population will shift about very considerably. You would get very intricate problems of transfer of records if you attempted to establish an insurance system covering 45 years of a person's lifetime on the basis of State lines. Then again it is a system which after it is once established and becomes familiar, can be administered with a minimum of direct contact with the insured employees.

Senator COUZENS. Have you attempted to figure the cost of administration in all these activities?

Mr. WITTE. This activity here?

Senator COUZENS. All of the activities which are incorporated in the bill.

Mr. WITTE. The administration of the annuities is a function of the Social Insurance Board. The Social Insurance Board is responsible for the administration of this system and also for the administration of the Federal part of unemployment insurance and for further studies of other forms of social insurance. We suggest an appropriation of \$1,000,000 a year for all of the activities of the Social Insurance Board.

Senator BLACK. Dr. Witte, returning to the subject of those included, it includes those who are employed?

Mr. WITTE. Yes, sir.

Senator BLACK. And includes no other group?

Mr. WITTE. Not on a compulsory basis.

Senator BLACK. What about, for instance, certain sections of farmers, or a tenant farmer?

Mr. WITTE. Neither would be included in this compulsory system. It is desirable, in order to reduce pension costs, to include these other self-employed groups, but no effective method of collection from these self-employed groups has yet been devised anywhere in the world. One country, Sweden, attempts it through a "head tax", as they call it, a poll tax, and the collection is very imperfect. The employed group can be reached, because we can collect from the employer and authorize him to deduct from the employee. It is again a question of administration. The desirability of bring in the entire population is very evident, but the difficulties of doing it are such that we, as yet, do not know how we could bring in the self-employed.

Senator BLACK. That is a rather large group that is excluded, is it not? Have you any figures?

Mr. WITTE. This group includes about 40 percent of all gainfully occupied persons in the United States. Sixty percent are employees and 40 percent are not.

Senator KING. Doctor, in your projecting of this plan, didn't you have before you populations such as for instance in Great Britain, Germany, and France that are rather fixed and stationary, not so mobile and transitory as the population in the United States. Without mentioning any States, I have in mind a number of States where

there has been an accretion to the population of from 10 to 20 percent in the past few years, and in some other States, because of the mobility and change in conditions, there has been a decrease in population. It does seem to me with the mobility of the population, and the transitory character in so many of the States, you would have the utmost difficulty in putting into force this system.

Mr. WITTE. That is one reason, Senator, why we have not tried to set up this insurance system on State lines. In a period of 45 years, a working life of 45 years, people move about in this country a great deal. Administration of a compulsory annuity system presents a more difficult problem, as an administrative problem, in this country than in Europe. It is not an insoluble problem, however. We have a vast expanse, a larger expanse than any other country in the world except Russia, and we have a mobile population. We have a population which at this time, except for industrial insurance, is not familiar with the European methods of collection. Establishment of an old-age-insurance system presents considerable difficulties. But the alternative is that you will have very large pension costs in the future years, because of two factors, because the number of the aged is increasing rapidly and a larger percentage of the old people will probably be dependent as the gratuitous pension system becomes more firmly established. If you accept the general principle that it is desirable that provisions for old age shall be made for the individuals, then you must come to some system of this sort.

In that connection, I wish to say this, too, that experience in nearly all countries of the world has been that they started with noncontributory old-age pensions for people in need, just as we have started in this country, in the 28 States that have such laws. In the course of time it becomes so apparent that the costs of noncontributory pensions are so great, that the country also institutes a contributory system to take over gradually the burden of these costs. England, for instance, instituted a noncontributory old-age pension system in 1908. By 1925 it found it necessary to supplement that by a contributory system. It has both now.

Canada started with noncontributory pensions in 1927. The Premier of Canada has announced that he will present at the next session of the Parliament a contributory old-age insurance plan, as well as an unemployment-insurance law.

Senator KING. Doctor, did your committee consider this question? We are in a period of depression and have been for a number of years. There are some evidences of revival in business, but still a good deal of apprehension on the part of business people, as well as the population generally. Did you consider that if you project us immediately into this tripartite or quadruple plan, with all of the machinery and economics and costs involved, all at once, it might be rather too big a jump. Did you consider the wisdom of tackling one or two of these first, getting those plans in operation successfully and then approach the others in the light of experience, in the light of improved conditions, as probably they will be; in other words, did the committee consider the wisdom when we are all prostrate, so to speak, tied down by economic conditions that are chaining us pretty tightly, did you consider the wisdom of immediately imposing on business and upon the people these rather heavy burdens rather than approaching the task in the light of our experience and in the light of improved conditions?

Mr. WITTE. We assuredly did, Senator, and we are proposing a plan which takes into consideration the element that you are speaking of. We propose that the old-age annuity system shall not be instituted for a year after the unemployment compensation tax gets into operation. Then we propose a rate at the beginning which does not involve any great burdens on industry. The rate at the beginning under this system is essentially too low to bear the total costs ultimately, far too low, but we have had in mind, amongst other things the fact that we want to give industry every chance to recover completely before imposing very heavy burdens. That has been kept in mind, Senator.

Senator KING. If the Congress should conclude to separate this plan and take it up in its natural divisions as you have suggested it, which ones would you regard as the most important to be taken up and acted upon promptly?

Mr. WITTE. We are presenting the complete program for old-age security in this bill. Obviously the most immediate thing is assistance to the people that are now in need. That is not a very satisfactory method of taking care of the problem, but first and foremost we must take care of the people that have no means of support.

Senator KING. That is the old-age pension?

Mr. WITTE. That is the old-age pension. The old-age annuity is necessary to reduce costs, to enable people to make provisions for old age that are better than the provisions that can be provided on a gratuitous basis, that are free from all element of charity. Our Committee has accepted as a thesis that it is desirable that the people should make their own provisions for old age, with matching contributions from their employers, and that such a system is preferable to a gratuity given to them when they are without means of support. From every point of view, we suggest that it is desirable to start the two systems, not exactly simultaneously, but very shortly after each other. World experience has been that you will come to a contributory annuity system in time.

Senator KING. Upon the theory that old-age pension would be such a heavy burden that the Government cannot stand it, and therefore you must supplement it with this plan?

Mr. WITTE. Not only that, Senator, but also that, after all, the old-age pension can only be on the basis of need.

Senator KING. On the basis of what?

Mr. WITTE. On the basis of need. The public cannot afford to pay a pension out of general taxes to everybody that is old regardless of need, whether that amount be \$200 a month or \$50 a month—the taxpayers cannot afford to pay gratuitous pensions to millionaires. It is to make better provisions for old age on a better basis than is possible under a gratuities system, as well as that the cost in time becomes prohibitive, that you will have to institute a contributory system sooner or later. It is of course a question for the judgment of Congress when that should be done. It is the view of our committee that it should be done practically simultaneously.

Senator BLACK. Doctor, I was interested in your statement that obviously the thing to be considered was the need. You stated that on that basis old age was most imperative. Is it not true that if you considered it wholly on the basis of need, with reference to the number who need things, absolute necessities, that the health insur-

ance would stand out more prominently than the old-age pension even?

Mr. WITTE. Senator, I was just discussing these three measures of old-age security. I did not try to judge as between old-age security and health provisions, old-age security and unemployment compensation. Only as between the three measures that we are suggesting for old-age security.

Senator BLACK. I misunderstood you; I thought you meant that as affected by unemployment and old age and health.

Mr. WITTE. Oh, no.

Senator BLACK. And it is my understanding that your studies show that so far as actual need is concerned, health insurance stands first with reference to the number affected and who could be and would be benefited by a system such as has been proposed.

Mr. WITTE. That is quite a different matter.

Senator BLACK. But that is correct, is it not?

Mr. WITTE. I doubt it, Senator.

Senator BLACK. What would you think would come first on that basis?

Mr. WITTE. Of course, in absolute numbers, at this time, unemployment is the greatest hazard.

Senator BLACK. But this would not affect those that are now unemployed. Unemployment insurance is intended to cover those who are out temporarily, thrown out by technological changes or shifting business.

Mr. WITTE. Unemployment is a very serious problem at all times.

Senator BLACK. Certainly.

Mr. WITTE. And old age is something that everybody reaches.

Senator KING. If they live long enough.

Mr. WITTE. Yes, of course; I was going to qualify it that way. But old age is something for which provisions have to be made, and the provisions have to be very substantial. I do not believe that you can judge it that way, Senator Black. All three are very great hazards against which safeguards must be provided. It is estimated that about one-third of the people who are dependent in normal times are dependent because of sickness. Fully as many are dependent because of unemployment, I think. All three of them are very great hazards and all three should be dealt with in any comprehensive program of security.

Senator KING. Doctor, recurring to the measures of the bill which we are now discussing, in what countries has this system been put into operation, and will you state briefly the success which has attended the operation of this system?

Mr. WITTE. I placed in the record, Senator, a complete list and an analysis of the laws of foreign countries. In general, the European countries have systems of noncontributory old-age pensions and contributory annuities. In the English-speaking countries, other than Great Britain itself, thus far they have only noncontributory pensions, but Canada is now coming also to a contributory annuity system. Some provision for old age, such as we contemplate, is made in every country of the world at this time; that is, every large country, other than I believe India and China. It is back in my mind that Spain makes no such provisions. Some provision re being made in practically all countries of the world, and in many of them both of these systems are in operation.

Senator COUZENS. What becomes of the funds that are collected under these annuities if a person dies before 65?

Mr. WITTE. That is provided, Senator, in section 405 (c), at the bottom of page 28. The provision is that, if a person dies, the money that he has himself contributed, not the employer's money, shall be returned to him with interest, that is, returned to his estate; similarly if he dies after he has been granted an annuity, the money is returned to him less the amount that has been paid to him as an annuity. In any event a person always gets back his own money, or his estate does.

The CHAIRMAN. What about the employer's money? That goes into the fund?

Mr. WITTE. Yes, sir. Returning the employer's money would add to the cost of these annuities very materially. By not returning any part of the money you reduce the cost, but it was the thought of our committee that it would not be satisfactory to the workers—that they would not be able to understand a system under which they, or rather their heirs, would not get back their own money with interest in the event that they should be unfortunate enough to die young.

Senator COUZENS. I still do not understand your answer to Senator Harrison's questions as to the funds paid by the employer.

Mr. WITTE. It is returned to the fund.

Senator COUZENS. Then how is it distributed?

Mr. WITTE. This is a single fund. It is in the fund and it is distributed to other people. It helps carry the whole pension load. We keep a separate account of the employees' contributions, in order to be able to determine the annuity payable to him. We keep no separate account of the employers' contributions. We do not say that Tom Jones was employed by the Ford Motor Co. and the Ford Motor Co. contributed this much in his behalf. The only record we have is how much he paid.

The CHAIRMAN. All right, Dr. Witte; proceed.

Mr. WITTE. If there are no further questions on this contributory system, I would like to pass to the third part.

Senator LA FOLLETTE. I would like to ask you, Doctor, how you contemplate making up this deficit that will be in the annuity scheme because of the low tax which you are imposing in the early years?

Mr. WITTE. As the bill now stands that is not made up, and represents a cost which will begin in the year 1965. Until the year 1965, there is no cost to the Government. After the year 1965, there will be a cost to the Government under the system as it stands. If you wish to eliminate that cost, there are two things which you can do. We submitted to the House Ways and Means Committee various tables showing concretely what alternatives there are.

Senator LA FOLLETTE. Will you see that they are incorporated in this record?

Mr. WITTE. I will incorporate them in the record. You can step up the contribution rates in the early years. That has two features which many people think undesirable.

The CHAIRMAN. If business recovers and wages increase and so forth, that would be all right, wouldn't it?

Mr. WITTE. It would be. One factor is that high rates at the beginning might burden business quite heavily in the early years when it is desirable to keep the rates low, and the other that you will build

up reserves very fast and these reserves are very deceptive, representing really a debt of the United States Government to the fund. Yet these reserves might be regarded by the people on the annuity lists as a reason for increasing the annuity and other people might want these reserves to be used for all kinds of purposes. That is the danger of reserves that mount very fast—and they will mount very fast—if there are high rates at the beginning, because at that time you have relatively few people retiring. The people that are now 20 will not retire until the year 1980. (That is where the year of 1980 comes from. By that time all of the present industrial population will have reached the retirement age.) As you build up in the early years you have a much greater income of the fund than you have outgo. Even at these rates that we have in here a reserve of \$15,000,000,000 will be built up according to the estimates of our actuaries by 1965. If you step up the rates you build up a much larger reserve and much faster. It is debatable whether that is desirable. Personally, I have not felt that the reserves constitute quite such an obstacle as some actuaries believe.

But that is a question for you to decide. You can eliminate the cost to the Government under the annuity system by stepping up the rates. You can eliminate that cost also by not paying any thing at all to any person who is now beyond middle age in excess of the amount which his own contributions and those of his employers will buy at age 65, but then you will get very small annuities for the person who has only been in the system for 5 years. If his average wage has been \$100 a month, he will get an annuity at an initial 1 percent contribution rate of 48 cents, and an annuity of \$2.39 per month on a 5 percent contribution rate. In these provisions we contemplate a larger annuity than is "earned" for the person who is now well along in years. That is the element of cost to the Government, which it ultimately will have to bear. After the 5 percent rate is in effect the person who starts at age 20 will pay his own annuity, including his employers' contribution. The person who is now 55 won't pay his own annuity and the Government will bear that cost, in the form of an interest charge on the money really borrowed from the contributions of the younger workers in these earlier years of the system. That is the plan we set up; you can adopt that plan if you wish. You can avoid any governmental contribution to this system entirely.

Senator KING. By increasing the rates?

Mr. WITTE. By increasing the rates, or by eliminating entirely partially unearned annuities to people who are half old.

The CHAIRMAN. By increasing the rates you will increase the political agitation to reduce the rates later on and dissipate any reserve that had been built up.

Mr. WITTE. That was our fear.

Senator LA FOLLETTE. Have you furnished any tables of what the Government will have to meet by years?

Mr. WITTE. We have tables, yes, sir. These tables that we submitted to the House Ways and Means Committee, and which you asked me to insert.

The CHAIRMAN. I think Miss Perkins put them in the record.

Mr. WITTE. I think so. If they are not inserted, we will be glad to insert them at this point.

Senator KING. Does the history in other countries of this plan, as well as the other plan here submitted, show tremendous political

pressure being brought by the beneficiaries in order to augment the contributions by the State?

Mr. WITTE. I think not, Senator. There has not been any increasing of the annuities in other countries, but the other countries in the main are not democratic countries. The English-speaking countries are.

The CHAIRMAN. You can be sure that there would be a political agitation on this in this country.

Senator BLACK. On both sides.

The CHAIRMAN. On both sides.

Mr. WITTE. If you have no further questions on that, I would like to pass to title 5.

Senator KING. There is one question that is not perhaps germane. In all of these plans which you have discussed and that your Committee considered, how did you treat the cases of those who are now receiving contributions from the Federal Government, for instance, the soldiers, the ex-service men, and the Federal employees? We have, you know, practically 1,200,000 Federal employees and they are being augmented greatly, unfortunately by bureaucratic methods. Then you have a large number more who are receiving approximately \$600,000,000 or \$700,000,000 by reason of compensation—veterans, and so forth. How do you deal with those cases?

Mr. WITTE. In the contributory annuity plan, we exclude all public employees, and we also exclude—

Senator KING (interrupting). That would include the State and municipal employees, I suppose?

Mr. WITTE. Yes, for the reason, Senator, that not only do they very often have their own systems, but also that the Federal Government cannot impose a tax on State governments. We also exclude the people that are covered under the Railroad Retirement Act, which you passed at the last Congress, because you have set up a special contributory annuity system for railroad employees. You have now, in the Federal Government, two contributory annuity systems: A system for the Government employees and a system for the railroad employees.

Senator BARKLEY. That is now in the same place where the gold clause is.

Mr. WITTE. Parts of the act. I think the suit does not involve the validity of the entire act. It involves its application, but I am not qualified to discuss that.

The CHAIRMAN. Proceed.

Mr. WITTE. Title 5 deals with what we call in our report, the "voluntary annuity system." It is an attempt to make available to people who cannot be brought under the compulsory system some of the advantages of the compulsory system on a voluntary basis. It is intended primarily for the self-employed people of small means. This part of the bill is copied almost verbatim from the War Savings Certificate Act of the war time. The intent is to have the Government sell annuities on much the same basis as the war-savings certificates were sold—in very small amounts. This is a class of business which the commercial insurance companies are not pushing at all and are not attempting to reach. It is for the people who make provisions for their own old age in small amounts. The Dominion of Canada has had experience with that sort of a voluntary system. It

has not been strikingly successful. People do not make provisions on a voluntary basis for old age as much as they should, but this is an attempt to make it possible for people to do so.

The Government makes no contribution under this plan, which is to be entirely self-supporting. The provisions of this title are very broad; annuities can be sold under any conditions that are deemed desirable and advisable. They will probably be on sale in the post offices, and perhaps also in the banks, if they will cooperate. We do not expect the voluntary annuity system to become very large, at least not in the early years, until the working people become more accustomed to annuities, but it will enable those that are far-seeing, to make provisions for their own old age on a basis on which they can not now get provisions through the commercial insurance companies. In that connection I wish to call your attention to the fact that Mr. Thomas I. Parkinson, the president of the Equitable Life Assurance Co., one of the largest of our commercial insurance companies, has issued a statement which was published in the press to the effect that he believes that the enactment of this legislation here contemplated, not only the voluntary annuity system but the compulsory annuity system, will prove as beneficial to the insurance companies as did the enactment of the War Risk Insurance Act—that it will make the public annuity minded, that it will actually tend to increase the business of the insurance companies rather than the reverse; that this is a measure which will be beneficial rather than damaging to the insurance companies. The commercial insurance companies are not in the field that we intend to cover through these voluntary annuities; they are not selling annuities in driblets; they are not attempting to reach those classes of the public that we are attempting to reach.

Senator KING. I received a telegram—I regret that I do not have it with me this morning—from an insurance company indicating opposition to, I think, this feature of the bill, claiming that it would be very damaging if not destructive to the business of that corporation.

Mr. WITTE. Unquestionably there are insurance people who feel that way, but I would like to insert in the record, if I may, the statement of Mr. Parkinson.

(The document referred to is as follows:)

[Reprinted from the Philadelphia Record, Jan. 19, 1935]

THE EQUITABLE LIFE ASSURANCE SOCIETY OF THE UNITED STATES

(By Thomas I. Parkinson, President)

Just as the business of life insurance received tremendous impetus from the successful efforts of the Government to provide a sizable amount of insurance on the lives of all called to arms through the creation and development of the War Risk Bureau, so do I believe that social-insurance agitation forwarded by President Roosevelt and his official associates will result in renewed appreciation and great stimulation of life-insurance activities, both individual and group.

The citizens of the United States are the best insured people in the world. This insurance to date has been obtained through the action of the individual or by cooperation between the individual and the employer at the expense of the individual or at the joint expense of the individual and the employer.

The premiums for individual insurance have been described as self-imposed taxes paid for the purpose of protecting dependents or for providing against the vicissitudes of old age. Broadly speaking, all forms of life insurance are social insurance, but at no expense to the taxpayer and to the contrary and most contradictorily, grist in the mill of the public-tax collector.

These premium payers are the American type of men and women not seeking charity and therefore providing for themselves. This kind of insurance bulks

large as capital for the otherwise uncaptialized. Without capital and without insurance, relief in some form of charity, public or private, is necessary. Calling for relief come those who are seekers of charity; come the improvident, the incompetent and, most distressingly, the unfortunates. These might be described as the unemployables—in some not inconsiderable part voluntarily unemployable for reasons of their own and in larger part as unemployables for various other reasons.

For this class, social-insurance plans of organized old-age relief offer advantages, both to the individual and to the public who pay the price, over disorganized efforts at charity or relief, individual or institutional. This relief, even on the basis of mere subsistence, represents a heavy bill for the taxpayers, which bill would grow to a size that would defeat itself were it attempted to carry the amount of the relief beyond subsistence figures.

This group, which I have not too accurately classified as the unemployables, is not the group served by life insurance. They represent a group that are objects of charity and the fringe between such group and those who are capable of supporting themselves and desirous of doing so.

Insurance men are ready to lend their experience in the service of this social-insurance class by assisting in the formation of social-insurance measures along lines of sanity and workability. As an insurance man, I would say without hesitation that the efforts to provide through social-insurance measures a more self-respecting form of relief, a better budgeted charity program, will do much to arouse public interest in the whole subject of security. In doing this, that overwhelming number of upstanding men and women who represent the insurance field will be inspired to look more deeply into their insurance needs and to more completely provide security for themselves. Thus it is likely, in my judgment, that history will repeat itself and the impetus given to the cause of life insurance by the War Risk Bureau in putting a value of \$10,000 on the life of every enlisted man will be accentuated with the result that the present agitation for social-insurance measures will swell the volume of individual and group life insurance and annuities.

In doing this, the insurance companies and their agents will not only be benefited by an enhanced business, but the business itself will the better be able to muster to its support public appreciation of the tremendous national and community service rendered by life insurance supplied through premium-paying Americans who, wanting no charity, take care of themselves and those dependent on them.

This leads me to a final word which must be said despite the recognized necessity of heavy taxation, to wit, that a Government directing itself toward social-insurance relief and spending the taxpayers' money in humane measures to provide some form of security to those who have no other recourse is stupidly inconsistent in imposing the gross premium taxation on what might be described as the self-imposed taxes of the premium payer and what therefore has been accurately described as double taxation.

With reference to unemployment insurance, I need only restate that the term is a misnomer and that there is no insurance connected with the proposal. What is meant is unemployment reserves. The collection of these reserves in good times to tide over—as far as such reserves can be made reasonably to tide over—forms of temporary unemployment represents an enlightened way of preparing in time of plenty for the famine to come. In such respect unemployment reserves become a near relative to the insurance family. Measures of this kind, however, popularly discussed as unemployment insurance, are in no way an invasion of the field of the life insurance company.

It may be pointed out, however, that life-insurance policies represent ownership in reserves and, like all possessions, have been called upon in their cash-surrender values and in their loan values, as well as in the payment of principal from time to time by death or other form of maturity, to give service to the unemployed or to those whose fading finances would not be sufficient without this assistance to meet immediate requirements. Life insurance men are working for a secured world. They do yeoman work in providing sound insurance widely disseminated and economically and efficiently administered.

Mr. WITTE (continuing). There are insurance people who feel that this means competition. There are other insurance people who believe that this will not be damaging but that it will prove beneficial to the insurance companies. I think the same fears were expressed at the time of the passage of the War Risk Insurance Act, but it is now

generally recognized by insurance men that the effect of the War Risk Insurance Act was to stimulate the commercial life-insurance business. We expect that the commercial annuity business will likewise be stimulated through the enactment of legislation which will bring home to the people of this country the necessity for making provision for their old age. That is a matter of opinion, of course. No one can say definitely whether this will prove to be the case, or the reverse. There are people who are fearful that this means competition for the insurance companies, but there are also insurance men who hold the contrary view.

Senator BLACK. Doctor, may I ask you there, since you brought it up specially, and it might be interesting to know how well the private insurance companies have made the thing. Do you have a copy of the advertisement which I have seen frequently, which I think has been sent to me and delivered by insurance agents, showing the study that was made of the large group of people, starting as I recall at the age of 20, showing how few of them had a competence at the age of 65 either from insurance or any other cause.

Mr. WITTE. I have seen that statement.

Senator BLACK. Have you a copy of that?

Mr. WITTE. I do not believe I have, but I will try to locate it.

(The document referred to submitted by the witness for the record is as follows:)

(Reprinted from The Diamond Life Bulletin Service (1934 monthly bulletins) published by the National Life Underwriters, 420 East Fourth Street, Cincinnati, Ohio)

Now, let's look at the situation of 100 average men according to the figures given by the American Bankers Association approving a special investigation of 20,000 old men, made by Joseph J. Devney, of Cleveland."

* * * * *
According to these figures, at age 65, 42 out of 100 men starting at age 25 have died, leaving 58 surviving. Of these 58, 8 are independent (or 14 percent of those surviving); 28 (or 48 percent) have no money but can work; 22 (or 38 percent) have no money and can't work.

Now let's look at the figures at age 75. By this time 67 have died out of the original 100. Only 3 of the remaining 33 have money (which is 9 percent); 14 (or 42 percent) have no money but can still work; 16 (or 49 percent) have no money and can't work.

Notice particularly that several who had money at age 65 evidently did not have it invested in an old man's investment, because the money didn't last.

* * * * *
Let me repeat these figures. They ought to make us all think.

At age 65 half of our hundred young men are still living and have no more money than they had when they started out 40 years before. They have no property at all, or not enough to support them without a job. Where do you suppose the money went? Of course, we don't know. But there's the picture: 50 out of 58 men left out of the original 100 are "broke" at 65.

Then look at age 75. Only 3 have money, and 30 have nothing at all to live on. The rest are dead.

Think of what this means. Even if we do have money here at age 35, and even if we think we're "sitting pretty"—we can't get away from these figures. This is life and these facts apply to every one of us, because if we live to be 60 or 65 we may be "broke" too, just like so many others. Even though we do make money in the meantime, we may lose out some place in between. There has certainly been enough experience with losses in the ordinary forms of property during the last 2 or 3 years to make us all "sit up and take notice."

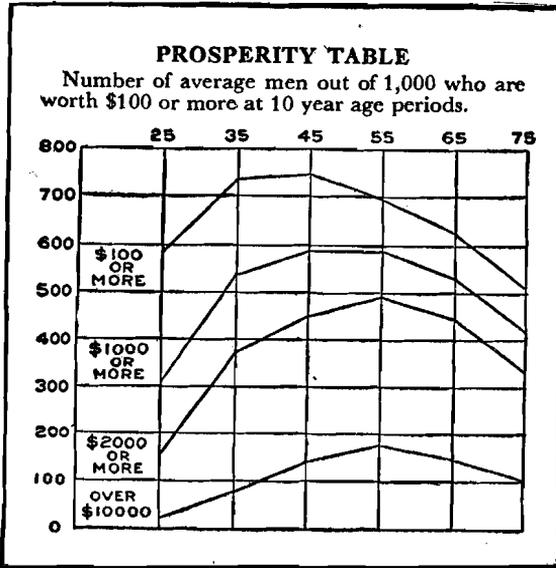
The number of men out of 1,000 alive at each 10-year age period who are worth \$100 or more increases until age 45 is reached, then it declines rapidly.

At 75 fewer men have at least \$100 than at 25—notwithstanding they have had 50 years in which to accumulate.

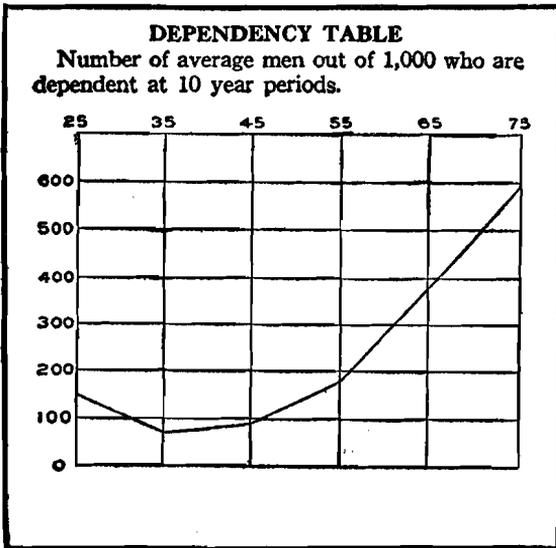
Those who have \$1,000 or more increase until 45, remain the same until 55, then decrease.

Those who have \$2,000 or more keep on increasing until 55 is reached, then decline.

Those who have more than \$10,000 increase until 55, then decrease, but less rapidly than those who have less.



All of which proves that the younger the average man begins to save and the greater his accumulations, the longer will his prosperity endure, and the less rapid will be his decline when he begins to slip.



Mr. Devney's figures, in the main, are corroborated by a very extensive survey made by the Pennsylvania commission in connection with their study of various systems of old-age pensions. Likewise the industrial welfare department of the National Civic Federation, made a survey including 14,815 persons over age 65; and Mr. Louis I. Dublin, statistician of the Metropolitan Life Insurance Co.,

with almost unlimited facilities for surveying the old-age dependency problem, has made careful investigations. All three agree in general with the figures above.

Senator BLACK. Do you have any study that you have prepared showing the number of people that have been taken care of by voluntary insurance, how many have not, so that we can reach some kind of an idea as to how successful it has been in that regard?

Mr. WITTE. I think it is conceded, Senator, that the commercial insurance companies are not in this field at all at the present time.

Senator BLACK. I am talking of all of the fields. What I was getting at was how many people have they reached? I know they have reached some, but I think it would be interesting if we had the exact figures so that we can study them. What percentage of the population has been made independent? In other words, has it been successful up to date to depend entirely upon the voluntary system in the fields that they do cover? If not, how much has this shown?

Mr. WITTE. The extent of the annuity business in this country is relatively small, but it has greatly increased in this period of depression so that the published figures are completely out of date. We acknowledge that people have during this depression become much more conscious of the necessity of making provision for old age than they ever were before, and the annuity business has become quite considerable in recent years. As to the commercial insurance companies, I think their experience has been rather adverse in the annuity field. They have been raising the rates I think twice within the last year on annuity policies. The experience has not been favorable, but the business has been expanding.

Senator BLACK. My question was not intended to be limited to annuities. If you can get and put it in the record, I would be glad if we could have the percentage of people who have been insured by straight life insurance.

Mr. WITTE. We can give you that.

Senator BLACK. And the percentage of people who have had health insurance, the percentage of people who have had accident insurance, and if you could get the study that was made showing the number that were dependent after 65 according to the investigations made by the insurance companies. I think it would be very interesting for this record.

Mr. WITTE. I think we can locate it, Senator.

As you have no further questions, I have concluded the discussion of old-age security, which is dealt with as I stated, in these three titles.

Senator KING. You have another branch that you would like to take up, I suppose?

Mr. WITTE. The bill, Senator, deals with four major subjects, and we have only dealt with one. Old-age security, unemployment compensation, security for children, and public-health services. All four of those are dealt with in this bill.

Senator KING. I think, Doctor, if it meets with the concurrence of my brethren here, we will suspend at this time, because you could scarcely get started on those other branches, and we want to get over to the Senate.

We will meet again tomorrow morning at 10 o'clock.

(Whereupon, at 11:50 a. m., the hearing was adjourned as noted; and thereupon the committee went into executive session and adjourned at 12 o'clock noon.)