STATE OF ALABAMA,
DEPARTMENT OF PUBLIC HEALTH,
Montgomery, December 5, 1934.

Hon. HENRY MORGENTHAU,
Secretary of the Treasury,
Treasury Department, Washington, D. C.

DEAR MR. MORGENTHAU: As one of the many struggling State health officers striving to provide as much health protection to our people as our inadequate budgets will permit, I desire to express a word of gratitude to those who have made possible the recent aid which has been extended to us through the Public Health Service in building up and strengthening county health work throughout our State. As a student in the field of health administration and practice, I feel that this type of Federal aid gives a stability and permanency to our efforts not now possible to provide with the contracted budgets at our disposal. If this particular grant to the States through the Public Health Service can be assured perpetuity with provision for enlargement as suitable machinery is built up, it should prove one of the great boons in the development and promotion of sound health organizations and more particularly in the large rural and agricultural sections of our country.

Knowing your keen interest in every forward looking, uplifting program of this nature, the hope is expressed that you will see fit to give the suggestions made above careful consideration and your personal support to the Public Health Service and the State health officers.

Most respectfully yours,

J. N. BAKER, M. D.,
State Health Officer.

GAINESVILLE, FLA., *January 14, 1935.*

Miss JOSEPHINE ROCHE,
Assistant Secretary of the Treasury, Washington, D. C.

MY DEAR MISS ROCHE: In my capacity as health chairman of the Florida Federation of Women's Clubs, and at the request of our president, Mrs. T. V. Moore, I have today written Mr. Henry Morgenthau asking that he use every effort to secure from Congress this year a sum not less than $3,000,000 to be used in rural health work over the Nation this coming year. Your interest and influence along the same line will, I assure you, be greatly appreciated by our organization.

While my knowledge of health work in other States is limited, I feel very sure that none of them needs this assistance more than does Florida—especially her rural population.

The $1,000,000, which I am told was the amount available last year, did a vast amount of good, but we need much more this year as the depression has left an aftermath of disease due to malnutrition, etc.

The Florida Federation of Women's Clubs is standing solidly behind Dr. Henry Hanson, our competent State health officer, and will do everything possible when the Florida Legislature meets to secure adequate funds to carry on his work, but we do need every help possible, both financial and otherwise, from our Federal Government.

Please advise me if the club women of the State can do anything to assist.

Thanking you, I am,

Very sincerely yours,

SARAH T. PEPPER,
(Mrs. W. M. PEPPER),
Health Chairman, F. F. W. C.,
Gainesville, Fla.

The CHAIRMAN. The next witness is Mr. Alvin Hansen, chief economic analyst of the Department of State.

STATEMENT OF ALVIN HANSEN, CHIEF ECONOMIC ANALYST, DEPARTMENT OF STATE

The CHAIRMAN. Mr. Hansen, will you give the stenographer the necessary information; your full name, address.

Mr. HANSEN. Alvin Hansen, 4000 Cathedral Avenue NW., Washington, D. C.

The CHAIRMAN. Your title?

Mr. HANSEN. I am economist in the Trade Agreement Section in the State Department. I acted as chairman of the subcommittee on unemployment insurance to the cabinet committee, and I wish to direct my attention exclusively to the unemployment insurance feature of the bill.

I shall speak very briefly and informally first, about the matter of a national bill as against a Federal-State bill, and how the subcommittee came to the conclusion to recommend to the cabinet committee the Federal-State plan as against a national plan; and second, with respect to the centralization of control over the funds.

With respect to the first question, the matter of a Federal-State bill as against a national bill, when the technical board was first set up and subdivided its functions into several subcommittees, we held a good many meetings. At first there was among us a good deal of discussion about the possibility of a national plan and there were some members of the subcommittee that at first favored that plan. The more we discussed the matter and looked at the general aspects of the whole problem, we came to the conclusion that there were certain very cogent reasons why it would be better to recommend the Federal-State plan.

In the first place, we were very much impressed with the fact that there are a good many States in the country that have for some years been studying the unemployment-insurance problem. They have had commissions and have prepared the way for State legislation. There are several important industrial States that appear to be ready to pass legislation this year. It seemed to us that in view of the great interest in a good many of the States in unemployment insurance we ought to capitalize that definitely in supplementing by Federal legislation encouraging the development of State laws rather than to nip all of that State activity in the bud by passing in this session of Congress a general national plan.

A second consideration that weighed with us heavily was the fact that there is in different parts of the country considerable disagreement as to the kind of unemployment insurance that should be passed. The State of Wisconsin has already passed a law which runs in terms of individual plant funds. The State of Ohio had a commission which strongly recommended a pooled State fund. There is, of course, a very marked difference between these two types of legislation. It seemed to us that in view of the fact that in certain parts of the country particularly there was a desire for legislation which would make possible the establishment of individual plant funds or industrial reserve funds as against the State pooled plan, and in view of the fact that in other States there was strong sentiment for a centralized State pooled plan, there was merit in a Federal-State plan which would permit a larger measure of experimentation in unemployment insurance schemes and give each region an opportunity to have the kind of legislation which seemed to them particularly wise. It seemed to us that out of this experimentation in different States we might eventually find that this or that plan seemed to be superior with respect to American conditions, and that future legislation might profit thereby without freezing the mold, so to speak, of unemployment insurance at the present moment.

In the next place, a good many members of the subcommittee, at least, felt that unemployment insurance ought properly to be carried by industry. If the various States wished also to apply a tax upon the employee himself, that could be settled by the wishes of each particular State. But in any event, whether paid in the first instance by the employer wholly or partly by the employer and partly by the employee, there is a good deal of economic support for the thesis that in the long run it works out somewhat the same with respect to the ultimate incidence of the cost. It is, at any rate, a kind of a wage, a need in some way to be carried by industry, whether by employers alone or by employers and employees, jointly. It seemed to us that if the Federal-State plan were adopted, there was greater likelihood that the cost of unemployment insurance would be carried by industry in the manner that I have described; whereas if a national plan were adopted, it might easily become far easier to pass on to a scheme whereby the plan was being supported largely out of general Federal revenues, instead of coming out of a tax on industry, on the employer and the employee. There were some who laid great stress on the national plan from the standpoint of centralized standards and control of administration. It seemed to us that if a Federal-State plan were adopted whereby a part of the revenue derived were retained by the Federal Government, the Federal Government could, by the aid of funds thus derived, subsidize and assist the States through the public employment offices, and thereby set up standards and improve the administration. Thus, by joint cooperation between the Federal Government and the States, standards of administration could be secured no less effective than would be the case were a national plan in effect. This is a point upon which there is a good deal of disagreement, but in general the views of our subcommittee were as I have stated.

Next, I should like to discuss very briefly the matter of the investment of the funds. This is a matter to which I have devoted some considerable attention, and have elaborated my ideas on the subject partly in a chapter which was published in the Columbia University report on industrial reconstruction, about a year ago, called "The Flow of Purchasing Power", and especially in part IV of a volume published by the University of Minnesota Press, entitled "The Problem of Unemployment Insurance and Relief in the United States", under the authorship of myself, Murray, Stevenson, and Stewart. In part IV of this volume attention is particularly directed to the question of the investment of reserves.

When State unemployment insurance has been discussed previously, it has usually been assumed that the funds would be invested by the proper authorities in each State in bonds of the Federal Government or bonds of the States, or perhaps also municipalities. If all of the funds that are accumulated under unemployment insurance were all poured into the bond market during a period of prosperity, the general effect would be to stimulate undualy the boom, because it would tend to draw from the total income, funds which were poured into the capital market, which would tend to reduce the rate of interest and tend to stimulate, perhaps unduly and excessively, investment. We know that one of the characteristic features of a boom period is a tendency toward an excess investment in fixed capital. Indeed, one may say that the essence of the ups and downs of business is a great rise in investment in fixed capital in a boom and a substantial cessation of investment in fixed capital in depression.

An accumulation of large reserve funds in the period of prosperity when these funds would accumulate would tend to exaggerate and intensify the movement toward excessive capital investment. On the other side, if these bonds are unloaded and liquidated heavily in a period of depression when the funds are needed to pay off benefits to the unemployed, there would be a tendency for the capital to be liquidated all the more heavily, which means in effect that the rate of interest would be pushed up still higher, and to that extent would give a further damper to investment at that time.

There are certain other effects which also have to be taken account of, but I am directing attention at the moment particularly to the rise and fall of investment as affected by the accumulation and liquidation of and payment into benefits of these funds in the depression period. That leads to the consideration as to whether or not these tendencies may be obviated, first, by a centralization of all of these funds into one center, and that a center which is intimately bound up with the instrumentalities that control public credit. If these funds were all centralized, either in the hands of the United States Treasury or in the hands of the Federal Reserve banks, there would be an opportunity to coordinate the investment of these reserve funds with the general credit policy in such a manner, I think, that beneficial results might follow from the standpoint of stabilizing the credit cycle. We know that the Federal Reserve banks and the United States Treasury are the two institutions that are most intimately bound up with the control of credit—the Federal Reserve banks exerting their influence partly upon the money market and partly upon the capital market, and the United States Treasury, particularly in such great depressions as we have recently experienced, influencing public credit through public works and similar expenditures.

It may be that the investment of unemployment reserve funds and the payment of benefits to the unemployed from these funds in a period of depression is closely linked up with the functions of the United States Treasury, particularly with reference to public works and other programs.

In general, one may say that there are three ways in which purchasing power is distributed to the community, three ways in which a rise and fall in purchasing power is effected. One is through the payment of purchasing power by business units to labor and to stockholders, through salaries, and through various purchases that they make from other business units with which they deal; in other words, the purchasing power that is poured out through the community through business. The Federal Reserve bank control of bank credit influences this flow of purchasing power to a considerable extent in the influence it exerts upon the money and upon the capital market.

A second way in which purchasing power may be poured out through the community is through the United States Treasury, particularly in the expenditures of the Government in public works, and the like.

Third, there may develop a new way of pouring out purchasing power into the community through reserves of the sort we are here interested in, in unemployment insurance legislation. This fund of purchasing power is derived from, first, deducting from the income the contributions that are made to these funds by employers and employees, and then utilizing the funds thus derived and putting them out into the community in periods of depression. The control of these funds, as I say, might be associated with either the Federal Reserve banks or with the United States Treasury. In any event, it is more and more important, it seems to me, in modern times that a very close integration must be effected between these two powerful units that so largely control the ups and downs of the flow of purchasing power.

In the recommendation that is made, it is suggested that the funds be deposited with the United States Treasury. The United States Treasury would get these contributions from the various State units, and the United States Treasury might do various things with them. It might in the first case deposit them with its depositories all over the country. The net effect of that would probably be undesirable from the standpoint of stabilizing the credit cycle. The net effect of such a procedure would probably be that the various banks with which the funds were deposited would in turn invest them in bonds, with the results that I have already described when these funds are so invested in boom periods and the bonds are then liquidated in the period of depression.

On the other hand, the United States Treasury might deposit these funds with the Federal Reserve banks. It would be particularly desirable for the Treasury to do so if it were felt that we had reached a point in the upswing of the cycle where it seemed necessary to check an undue expansion. The effect of depositing these funds with the Federal Reserve banks would in the first instance be to reduce the reserves of the member banks with the Federal Reserve banks. These grants that would come to the Treasury would be drawn on various member banks, and therefore the effect of making the deposits with the Federal Reserve banks would be to withdraw the funds that the member banks have with the Federal Reserve banks and transfer them to an account with the Treasury. That would have a restricting influence upon an upward swing of credit, in that it would curtail the volume of reserves that the member banks have with the Federal Reserve system.

If it were deemed desirable, in view of the credit situation in which one found oneself, not to check and control the upswing, after making the deposit with the Federal Reserve banks the United States Treasury might buy bonds in the open market from member banks largely, let us say, which in turn would have the effect of putting back the funds into the reserves that the member banks carry with the Federal Reserve System. Thus, by alternatingly leaving the funds with the Federal Reserve and investing them in bonds purchased in the open market, the Treasury could insert an influence on the credit cycle in whatever direction at the moment it deemed necessary.

It seems necessary to leave the utmost flexibility to the judgment of the currency authorities which have control of the credit system, so that the particular manner of handling the funds could instantly be used which seemed most desirable at the moment.

There are other ways in which the funds might be utilized, some of which might have even a more stringent effect upon the credit than the one which I have described, but I think I have stated the two general methods which perhaps would seem the most serviceable, which on one side could be used to check an undue expansion, if necessary, or, on the other hand, to stimulate the market if that seemed appropriate at the moment.

Thank you, Mr. Chairman.

Mr. COOPER. May I inquire briefly, without intending to reflect any personal views which I may entertain on the subject, for a little information with reference to the excise tax imposed under the unemployment insurance of this bill? As I understood from you, you served as chairman of the subcommittee considering the unemployment insurance provisions of this measure. Is that correct?

Mr. HANSEN. Yes, sir.

Mr. COOPER. I understood you to state a moment ago that under the system intended to be established, the States might provide by State law that the tax should be borne by employers and employees. Is that true?

Mr. HANSEN. If they so desire.

Mr. COOPER. Inviting your attention to title VI, section 601, of the bill, page 34—that is the title of the bill dealing with the subject of unemployment insurance, is it not?

Mr. HANSEN. Yes, sir.

Mr. COOPER. The language there states, as you will observe:

> There shall be levied, assessed, and collected annually, from every employer subject to this title, for the taxable year commencing January 1, 1936, and for each taxable year thereafter, an excise tax, measured by an amount equal to 3 percent upon such employer's pay roll, * * *

and then continuing the other provisions of that title.

Just where in this bill is the provision which makes it optional with the States as to who pays this tax?

Mr. HANSEN. This bill provides only for a 3-percent tax upon the employer.

Mr. COOPER. Yes.

Mr. HANSEN. The States might, however, pass a law by which they impose a tax of, let us say, 3 percent upon the employer, against which the Federal Government would allow a credit under this act. In addition, they might impose a tax, altogether aside from any special provisions of this Federal act, upon the employee, let us say, of 1 percent. If that were done in a State it would be possible in that State to pay benefits for a longer period than would be possible if the contributions were limited to the 3 percent provided here. This bill, as far as it goes, does not in any way impose any obligation on the States to impose a tax upon the employee.

Mr. COOPER. For the moment I am not seeking information as to the effect or results or anything of that kind. I am seeking from you, who served as chairman of the subcommittee considering this subject, your understanding of the provisions of the bill itself. Now, I understand from your answer just given that, as the bill now stands, it imposes a 3-percent excise tax upon employers, on the pay rolls of industry, and if a State acting through its legislature should decide by State law that a tax should also be imposed upon employees, that would have to be in addition to the 3-percent pay-roll tax imposed upon employers.

Mr. HANSEN. That is right.

Mr. COOPER. As the situation now stands, presented by the bill, this 3-percent excise tax levied upon the pay rolls of industry to be paid by employers cannot be divided.

Mr. HANSEN. That is right.

Mr. COOPER. That is true, is it?

Mr. HANSEN. That is right.

The thought is that by this Federal legislation, the competitive situation between the States would be equalized. Of course, that competitive situation applies to the tax upon the employer. If the employer in one State pays only 1 percent or 1½ percent, and the employer in an adjoining State pays 3 percent, an unequal interstate competitive situation is created. It is intended that this bill would equalize the interstate competitive situation by providing that each State law would tax the employer at least 3 percent; if then they wished to tax the employer more, that is each State's own business. If they wished to tax the employee in addition, that also is the State's business. But at any rate, there would be an equalization of interstate competition to the extent that each State would tax the employer 3 percent.

Mr. COOPER. If you will pardon me, I did not intend to go into the reasons or matters of that kind. I think it is well understood by the committee as to the principle involved, seeking to meet the question of competition by industries of the various States. I was seeking to get from you your definite interpretation of the provision here as to the imposition of this tax. I am just wondering whether or not the statement made by you a few moments ago, which has also been made by other witnesses appearing here, to the effect that this bill provides that the States have a right to levy a tax upon employers and employees if they see fit, has not been somewhat misleading, and has not resulted in some people getitng the impression that this 3-percent excise tax may be divided between employers and employees by the State laws. I understand from you that is not true.

Mr. HANSEN. That is right.

Mr. COOPER. All right.

The CHAIRMAN. Right in that connection, did you give consideration to the thought that if the State would levy 1 percent, or 1½ percent, or one-half as much as the Federal Government levies, it could be regarded as a credit against the Federal tax?

Mr. HANSEN. To that extent.

The CHAIRMAN. Yes; to that extent.

Mr. HANSEN. To that extent; yes, sir.

The CHAIRMAN. But not under this bill, could it?

Mr. HANSEN. Yes, under this law it could. I think so, to that extent, as I understand it.

The CHAIRMAN. I understood your answer to Mr. Cooper would not conform to that opinion. I want to get that clear, whether or not if the State levies a tax of, say, 1 percent or 1½ percent, then it could be regarded as a credit against the Federal tax.

Mr. HANSEN. To that extent, but not the 1½ percent levied against the employee. That would not be allowed as a credit by the Federal Government.

The CHAIRMAN. I am asking you the question if in your judgment that could be allowed as a credit.

Mr. HANSEN. It could be allowed to that extent.

The CHAIRMAN. Under the provisions of this bill as it is now written?

Mr. HANSEN. Yes, sir.

The CHAIRMAN. That is your interpretation of the bill?

Mr. HANSEN. Yes, sir. In that event, the State would not be allowed a credit of 3 percent, but only the credit assessed upon the employer.

Mr. COOPER. Would you pardon me, Mr. Chairman? I am not quite clear on that now, in view of the answers given to the questions I asked and the answers given to the questions of the chairman.

I understood from you that under the provisions of this bill as it now stands, there is a Federal tax of 3 percent.

Mr. HANSEN. Yes, sir.

Mr. COOPER. That is levied upon pay rolls of all industries.

Mr. HANSEN. Yes, sir.

Mr. COOPER. To be paid by all employers.

Mr. HANSEN. That is right.

Mr. COOPER. If the State law levies any tax, whether it be 1 percent, 1½ percent, or any other amount, to be paid by employees, that has to be in addition to this 3 percent tax provided here? Is that correct or not?

Mr. HANSEN. Let me state the situation, and I think it will become clear. This law provides a tax of 3 percent upon the employer.

Mr. COOPER. Yes, sir.

Mr. HANSEN. That 3 percent will have to be paid by the employer into the Federal Treasury in any event.

Mr. COOPER. Irrespective of any laws that any States pass.

Mr. HANSEN. Yes. If the State passes a law taxing the employer 3 percent, the Federal Government will allow a credit against that to the States. If the State passes a law taxing the employer 2 percent the Federal Government will allow the State a credit against that amount, but the Federal Government will be continually drawing the 1 percent from the employer. The employer in that event would be paying 2 percent to the State and continue to pay 1 percent to the Federal Government.

Mr. COOPER. Exactly as I understood you.

Mr. HANSEN. That, I think, clarifies the point. It may be allowed a credit against whatever amount the State taxes the employer, but the State may not be allowed a credit against the amount it taxes the employee.

Mr. COOPER. Then in order to be clear—and that is my only purpose in asking these questions, that we may get the record clear and reflect the truth—if as you say a State levies a 2-percent tax on employers, they will get credit for the 2 percent.

Mr. HANSEN. That is right.

Mr. COOPER. In other words, the employers in that State will be entitled to the credit for the 2 percent levied by the State.

Mr. HANSEN. That is right.

Mr. COOPER. But they will also at the same time have to pay 1 percent to the Federal Government to bring it up to the 3 percent levied here.

Mr. HANSEN. That is right.

The CHAIRMAN. In other words, the tax that the State will levy will not be less than the tax that is levied by the Federal Government on the employer.

Mr. HANSEN. That is right.

Mr. HILL. Assume the Federal Government levied this 3 percent tax under this proposed legislation and the State levied a 1½-percent tax against the employer and a 1½-percent tax against the employee, the employer would be entitled to a 50-percent credit on the amount that he is required to pay to the Federal Government. In other words, the Government instead of giving a credit of 90 percent would give only a credit of 50 percent.

Mr. HANSEN. A little less than that: 90 percent on the amount of his contribution to the State fund, retaining the whole of the rest.

Mr. HILL. He would get a credit for 90 percent of the amount he contributed to the State fund?

Mr. HANSEN. Yes.

Mr. HILL. Your construction of this bill, then, is that the employer who pays a State tax is entitled to a credit of 90 percent of that tax on the amount that he is required to pay to the Federal Government, regardless of whether it is a 1-percent tax to the State, a 2-percent tax to the State, or a 3-percent tax to the State?

Mr. HANSEN. If I understand your question, I would agree, but perhaps I did not quite get it.

Mr. COOPER. Is not this the true situation: If the employer pays a 2-percent tax under State law, he will get credit for 90 percent of that 2 percent?

Mr. HANSEN. That is right.

Mr. COOPER. On the Federal tax.

Mr. HILL. That is what I was getting at.

Mr. HANSEN. That is right.

Mr. HILL. It was my understanding of your answer on that previously that if the employer paid a State tax which was less than 90 percent of the Federal tax he would get credit for the entire amount paid the State.

Mr. HANSEN. No, sir.

Mr. HILL. All right. Now, here is a 3-percent Federal tax. The (State levies a 1½-percent tax on the employer and a 1½-percent tax on the employee. The employer gets a credit against his Federal tax, but the employee gets no credit, since there is no Federal tax levied against him. But all of the money that the State collects from both the employer and the employee will go into this trust fund provided for in section 604, page 38, and is held in the Treasury in that trust fund. Is that held to the credit of the State?

Mr. HANSEN. Yes, sir.

Mr. HILL. To that particular State?

Mr. HANSEN. Yes, sir.

Mr. HILL. We have in that case a fund consisting of 1½ percent paid by the employer and 1½ percent paid by the employee, which makes a total of 3 percent, and in addition to that we have this 3 percent levied by the Federal Government less whatever credit goes to the employer.

Mr. HANSEN. Yes, sir.

Mr. HILL. What happens to that money that the Federal Government collects—where does it go?

Mr. HANSEN. As I recall it—I am not quite sure on this point; I will have to check on that. Perhaps I had better give my answer after checking—but as I recall it, it goes into the general funds. The plan is that the amount withheld by the Federal Government would be used for the purpose of subsidizing or giving a grant in aid to the State unemployment offices and building up the standard of administration in the various States.

Mr. HILL. That is, it would be used just the same as the 10-percent fund if there were a full credit of 90 percent, is that the iea?

Mr. HANSEN. Yes.

Mr. HILL. The excess above the 10 percent would not go back to the particular State from which it came?

Mr. HANSEN. No; it would not, except through the form of a grant.

Mr. HILL. Where there is a full 90-percent credit, where does the 10 percent go? Into what fund does that go?

Mr. HANSEN. Ten percent goes into a Federal fund which would be used as a grant in aid to the State unemployment offices.

Mr. HILL. Is that a general fund?

Mr. HANSEN. It is a general fund; yes.

Mr. HILL. It just goes in with the other funds?

Mr. HANSEN. Yes.

Mr. HILL. And they are paid out by appropriations?

Mr. HANSEN. Yes.

Mr. COOPER. Pardon me; this is for administration, is it not?

Mr. HANSEN. It is for administration.

Mr. HILL. You might build up a very heavy fund there under the circumstances I have related here, if a number of States come within the illustration I have given.

Mr. HANSEN. Yes; but it goes into the general fund and it would not all have to be used for the purpose of a grant in aid to the administration; if it were a large fund, it would go into the general fund.

Mr. HILL. In that event it would go in there as general revenue?

Mr. HANSEN. General revenue of the Government, that is right.

Mr. HILL. In addition to the other levies made?

Mr. HANSEN. Any other source of revenue, that is right.

Mr. HILL. You keep a separate account with each State of the moneys paid in by that State to be reimbursed to the employees within that particular State?

Mr. HANSEN. That is right.

Mr. REED. On page 36 of the bill, on line 6, section 602, it says:

> Any employer may credit against the tax thus due—

that is, to the Federal Government—

> up to 90 percent of the tax, the amount of his contributions for the taxable quarter to any unemployment fund under any State law.

Just to clear the matter up, suppose we have a pay roll of $100,000, and the Federal Government imposes a 3 percent tax. There is $3,000. Suppose your State tax on the same $100,000 pay roll is 1½ percent. There you have a tax of $1,500. What happens in that case? You have the Federal tax of $3,000 and you have the State tax of $1,500. Under the provisions of this law as it is written, just what happens there?

Mr. HANSEN. It seems to me the question is identical with the one just raised, that has already been answered, I think.

Mr. REED. I want to get that perfectly clear, to give a concrete case.

Mr. HANSEN. I think it is absolutely identical to the question just read. The amount that is levied by the State on the employer would be segregated into a fund by the Treasury for the account——

Mr. REED. That is not what I am driving at at all. I want a specific example. I want it worked right out in the record. You have a pay roll of $100,000 and the Federal tax is 3 percent. There is $3,000 tax. The same pay roll is taxed by the State 1½ percent and is $1,500. Now, work out the credit on the 90 percent basis.

Mr. HANSEN. Yes. The Federal Government would give a credit to the State of 90 percent of the $1,500.

Mr. REED. That would be $1,350.

Mr. HANSEN. $1,350.

Mr. REED. So that is subtracted from the $3,000?

Mr. HANSEN. That is subtracted from the $3,000, and the remaining portion flows into the general revenues of the United States.

Mr. REED. The $1,650 goes into the Federal funds under this section 602, according to this language?

Mr. HANSEN. Yes, sir.

The CHAIRMAN. That would not help the employer any, would it? It would not lighten his burden any.

Mr. HANSEN. No; it would not lighten the burden of the employer.

Mr. REED. Pardon me just a moment. I am asking it in all sincerity. I wish you would examine that section a little more closely when you get time.

Mr. HILL. You mean section 602?

Mr. REED. Yes.

Mr. HILL. I want to join in that request.

Mr. REED. I think that you are wrong in the construction of that section.

Mr. DINGELL. Mr. Hansen, I would like to ask you a question or two at this time. I do not know whether it comes within your province of discussion or not, but as chief economic analyst and adviser and the chairman of the subcommittee, I assume that you might answer the question I have in mind:

We are going into a gigantic scheme of social security, unemployment insurance, and old-age pensions. You considered in your subcommittee the question of unemployment insurance and also, as I take it, old-age pensions, both contributory and noncontributory, did you not?

Mr. HANSEN. No, sir; only unemployment insurance in our subcommittee.

Mr. DINGELL. Only unemployment insurance?

Mr. HANSEN. Yes, sir.

Mr. DINGELL. Perhaps you might express an opinion in this connection. I am wondering why in this general set-up of social security insurance we must create a great governmental agency. After all, it seems to me with the premiums to be paid that it is pure insurance we are heading for. Why is it necessary to create a large governmental agency, since we are taxing employers for one phase of insurance, one kind of insurance, then in another portion of the bill we are taxing both employer and employee in the contributory phase of the old-age pensions. Why not forget all of that and make it compulsory insurance with agencies that are already in existence? What advantage will there be, since we are going to tax the employee to insure his future? Why not make it compulsory for him or for his employer to take out such insurance with insurance companies that already have such service? What advantage will there be to going into this thing on a large governmental scale?

Mr. HANSEN. I would like to limit my remarks to unemployment insurance. With respect to unemployment insurance, there are no private agencies in the field.

Mr. DINGELL. I appreciate that, but I am not necessarily reflecting my own opinion because I believe in the Government going into such social activities, but what I am wondering is as to what advantage there will be in establishing a governmental agency to handle this phase of our national existence when we already have insurance companies who do the same thing? We are simply going to compel the employees to make certain insurance contributions to secure their old age. What I am wondering about is what advantage there will be. Of course, if it is not within your province to answer that question, I would not want to crowd you to make a commitment on that point.

Mr. HANSEN. I do not think it is within my province, since my subcommittee limited itself only to the unemployment insurance. In general, we do have some experience from which some answer could be derived, in other fields, I think.

In the case of compensation, there are some State laws that cover compensation. In many States it is handled by private agencies, as you know. We also have some experience, at least in foreign countries, with respect to public-health insurance as against individual companies handling health insurance. One consideration that certainly ought to appear would be the question of cost. In general, if I am correct—although I am not a specialist in the field—I think it has been found that in this country the State funds for compensation insurance have handled the administration more economically than is the case where they are handled by private agencies. It is, however, said that on the other hand, they do not perform as many services. I am not really competent to discuss the merits of the question. But with respect to unemployment insurance there are no private agencies in the field. I would like to limit my remarks to it.

Mr. DINGELL. I just want to interpose this one observation, and that is, that I believe in the Government handling these problems. What I was trying to get at, and I hoped that possibly you might be able to give me some expression on that point, was as to what particular advantage it would be to go into this thing through a governmental agency established for the purpose, as compared with the advantage it would be to go through certain agencies that are already in existence and in private hands. Of course, I believe that it is wise to bring down the rates of insurance so as to make it available for every individual in this country.

Mr. HANSEN. You would have to have, for one thing, very close governmental supervision if it were done by private agencies, and the combined cost of that close supervision and the administrative cost of the private agencies in my opinion would be greater than handling it directly through a Government agency.

Mr. LEWIS. There is a grave constitutional question as to whether even the Government of the United States could impose a tax which should be payable into private hands.

Mr. DINGELL. I did not have in mind, Mr. Lewis, taxing people for the purpose of having them pay their charges to an insurance company. I wondered whether it was the same principle involved whether you are insuring with an insurance company to secure your old age or whether you are going to do it through the Government. You can obtain annuities from an insurance company at the age of 65, voluntarily now. We are going to establish by law compulsory contributions from employees to secure their future. What I am wondering about is, where is the advantage of doing it through the Government when we can already do that voluntarily through the insurance company?

Mr. LEWIS. Would you care to hear an answer? It will take a minute or two.

I was struck by criticisms of the administration of our relief fund, because it was said that about 12 percent of the money voted for relief by Congress went into administration costs. When I examined the casualty insurance statistics for the United States, a field more or less resembling it, although less difficult to handle because there are less cases, I found that one-third of the premiums went to operating expenses. In other words, their costs were about three times as high as the percentage of the Government.

When you come to the field of insurance annuities in the very lower regions, the Government with its established agencies, with its perfect credit and responsibility, without any expense of going out and hunting business, can write annuity policies at a substantially lower rate than the private company.

Mr. DINGELL. That is precisely what I am driving at. I want to know the advantage.

Mr. LEWIS. Up to, say, the mark that has been reached by Canada, an annuity of $100 a month, I think we have a field where the existing agencies of Government can accomplish a much more economical result than private companies organized for the purpose. In a way, it is the same case over again that we had in the parcel-post field. The express companies were moving about three parcels per capita in the United States. The postal system was moving 10 parcels per capita in Switzerland. We have introduced the parcel post and it is as solvent now as the express companies, and 10 parcels per capita are now moving in the United States. The Department was able to provide a rate for that parcel under which it was possible to move. I think that will be found true in this annuity field.

Above $100 a month annuity I think the difference between the Government's administration and the administration of the well-organized insurance companies would not be so great as to invite our entry. But below $100 a month, I think you have another case of the parcel post, where private initiative and organization under the limitations under which it must move cannot supply the required service.

Mr. DINGELL. I just want it to be made clear for the record that the question I raised here is not raised because I desire to impede the

Government in its desire to be of service to the people in this social field, but, rather, I am wondering what advantage there will be.

The CHAIRMAN. Thank you, Mr. Hansen, for your appearance and the information you have given the committee.

The committee will take a recess now until 2 o'clock. We are expecting the president of the American Federation of Labor, Mr. Green, to appear at 2 o'clock.

(Whereupon at 12:40 p. m., a recess was taken until 2 o'clock of the same day, Monday, Jan. 28, 1935.)

AFTERNOON SESSION

The recess having expired, the committee resumed at 2 p. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order.

We are honored this afternoon with the presence of William Green, president of the American Federation of Labor. Mr. Green, we shall be very glad to hear you at this time.

STATEMENT OF WILLIAM GREEN, PRESIDENT AMERICAN FEDERATION OF LABOR

Mr. GREEN. Mr. Chairman and gentlemen of the committee:

In behalf of the American Federation of Labor, its officers and members, I wish at the outset to urge the enactment of social-security legislation at this session of Congress. We feel that the enactment of such legislation has been altogether too long delayed. The need for such legislation is so apparent that it would seem that all thinking people would be convinced of the urgent necessity of Congress enacting such legislation into law.

I realize, at the same time, Mr. Chairman and members of the committee, that this is a sort of a pioneering project and, for that reason, it is too much to expect, perhaps, that we will secure the enactment of a perfect unemployment-insurance measure, representing the hopes and the aspirations and the opinions of the workers of the Nation. But I have some recommendations that I wish to make regarding the pending bill, in behalf of the millions of members whom I have the honor to represent. I shall be very much pleased if the members of the committee will give these recommendations their thoughtful and, I hope, favorable consideration.

Incidentally, Mr. Chairman, my time is limited today, and I shall have to leave in about three-quarters of an hour. I have another meeting that I must attend this afternoon, but I shall be glad to come back to finish, if the committee does not finish with me this afternoon.

The CHAIRMAN. If you do not complete your main statement, and would like to have your statement appear in whole at one point in the hearing, you may extend your remarks, and it will be made a part of the record in consecutive order.

Mr. GREEN. Thank you.

Consideration of unemployment insurance in this country is by no means new. During every depression we have had in recent years we have talked about unemployment insurance. Any plans for unemployment insurance were always forgotten, however, with a return of prosperity. Unemployment comes into being with the industrial