

ECONOMIC SECURITY ACT

MONDAY, JANUARY 21, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10:30 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order. The purpose of this committee meeting is to hear witnesses on H. R. 4120. The title of that bill is, "To alleviate the hazards of old age, unemployment, illness, and dependency; to establish a social insurance board in the Department of Labor; to raise revenue, and for other purposes."

The first witness to appear this morning is Dr. E. E. Witte, Executive Director, Committee on Economic Security.

Is Dr. Witte present.

Dr. WITTE. Yes, sir.

Mr. HILL. Mr. Chairman, in the interest of orderly procedure, that we may get a record here that is consecutive and logically presented, I suggest that first we hear the witness' opening statement. I understand the witness has a general statement to present?

Dr. WITTE. Yes, sir.

Mr. HILL. That will briefly outline the nature of the legislation. I suggest then that the witness take up each legislative subject in the bill and give an explanation thereof.

I therefore move, Mr. Chairman, that the witness be allowed to make his formal statement without interruption; that when he has completed that statement, he take up the first legislative subject of the bill, complete his statement on that without interruption, and then, at the end of each such subject, he be open to questioning by members of the committee.

Mr. JENKINS. Mr. Chairman, in that connection, and without desiring to disturb the orderly procedure any further, may I ask who this gentleman is? I did not hear your opening announcement.

The CHAIRMAN. He is Dr. E. E. Witte, Director of the Committee on Economic Security.

Mr. TREADWAY. Mr. Chairman, in that connection may I ask whether the Committee on Economic Security is a governmental committee and is Mr. Witte the head of it? Can the witness be a little more explicit? Can we learn a little more than what has been put before us on that point?

The CHAIRMAN. The Chair will ask that when Dr. Witte takes the stand, he make a complete statement as to the role in which he appears, what his connections are, and any other information pertaining to the matter under discussion, so far as he is connected with it, that is pertinent.

Mr. TREADWAY. I would like to have that complete information in order that we may follow out Mr. Hill's suggestion that we not interrupt the witness until he has completed his first formal statement.

The CHAIRMAN. There is a motion by Mr. Hill that the witness be allowed to complete his general statement covering in a general way the purposes of the proposed legislation, that is before the committee; that the witness then take up the bill by titles and make a detailed statement, without interruption, and that at the end of each such statement he submit to such questions as members of the committee may desire to propound.

If there is no objection, it will be so ordered.

(There was no objection.)

STATEMENT OF E. E. WITTE, EXECUTIVE DIRECTOR, COMMITTEE ON ECONOMIC SECURITY

The CHAIRMAN. Dr. Witte, will you be good enough to state to the reporter and the committee in what role you appear, your connections, and any other information of that character pertinent to your appearance before the committee this morning?

First you might explain what the Economic Security Committee is, what its functions are, what its origin is, and so forth.

Dr. WITTE. The Committee on Economic Security is an outgrowth of the President's message to Congress of June 8, 1934, in which the President stated that he would have matters to present to this present Congress dealing with the subject of safeguards against the major hazards and vicissitudes of life. He created the Committee on Economic Security subsequent to the adjournment of Congress.

The Committee on Economic Security was created by Executive order. It consists of the Secretary of Labor as the chairman, the Secretary of the Treasury, the Attorney General, the Secretary of Agriculture, and the Federal Emergency Relief Administrator.

The Committee has been functioning during the past 6 months. It has had a staff, of which I have been the executive director. It has been assisted by a large number of advisory groups, the membership of which is listed as an appendix in the report of the committee.

The advisory groups consisted of an advisory council, which was created in the Executive order itself, appointed by the President, composed of representative citizens. You will find the list in the appendix.

Also created by the Executive order itself was a technical board. The technical board was constituted of persons in the employ of the Government.

The advisory council was composed of citizens outside of the Government.

The technical board was constituted of people in the Government service who have special knowledge of one or more of the problems dealt with by the Committee.

The Committee itself created in addition other advisory groups; a committee of actuarial consultants, constituted of leading actuaries of the country; a medical advisory committee; a public health advisory committee; a hospital advisory committee; a dental advisory committee; an advisory committee on public employment and public assistance; and a committee on child welfare.

My position is that of executive director of the committee and secretary of all these groups.

Mr. TREADWAY. Will you be kind enough to tell us, Doctor, your previous experience that would qualify you for the position you now hold?

Dr. WITTE. I am a Wisconsin man. After my college days and a short experience as a statistician, I was secretary to a Member of Congress for 2 years.

Mr. TREADWAY. Fine training!

Dr. WITTE. I agree with you; splendid training, the best training any young man can have.

Then I was special agent for the United States Commission on Industrial Relations, the commission of which Frank P. Walsh was chairman.

My time here in Washington was during the first part of the Wilson administration. Subsequent to that I was secretary of the Industrial Commission of Wisconsin for 6 years. From 1922 to 1933 I was the director of the Wisconsin Legislative Reference Service, and since 1920 I have also had a connection with the University of Wisconsin.

I have served in various other capacities; a member of the special retirement committee of the State of Wisconsin; a member of its taxation committee, et cetera.

I regard myself as a labor economist, or a person who has specialized in the problems of labor.

The CHAIRMAN. The Chair would like to observe that he thinks the witness is qualified.

Dr. WITTE. Now, if I may be permitted, I would like to read this introductory statement, of which I hope you all have copies. We have copies for distribution, if you do not have them. It is a brief summary of what the bill proposes. This bill represents an important part but not the whole of the administration's program for economic security for the individual and for the family. The President outlined the entire program in his messages of June 8, 1934 and January 4, 1935. In both he stated that, "Among our objectives, I place the security of the men, women, and children of the Nation first." He further said that security for the individual and for the family concerns itself with three factors: (1) Decent homes to live in, (2) development of the natural resources of the country so as to afford people the fullest opportunity to engage in productive work, and (3) safeguards against the major misfortunes of life. This economic security bill is concerned with only the third of these aspects of security—"safeguards against misfortunes which cannot be wholly eliminated in this man-made world of ours."

This bill moreover, does not embrace all of the administration's program for providing safeguards against these major misfortunes of life. The joint resolution now pending in the House of Representatives—I understand it has not been introduced yet, but will be today—for the largest public-works program that has ever been launched in any country is a companion measure to this bill. The Committee on Economic Security placed first in its report the recommendation that the major contribution of the Federal Government toward economic security should be the provision of work for people who are unemployed and able and willing to work. The 4-billion-dollar-work program now before the House is the concrete and immedi-

ate application of this policy, and should be regarded as an integral part of the program of economic security which the administration is presenting at this time.

The bill now under consideration deals with aspects of economic security other than the work program. It is based upon the recommendations of the Committee on Economic Security, which was created by Executive order late in June 1934. This Committee consists of the Secretary of Labor, as chairman, the Secretary of Treasury, the Attorney General, the Secretary of Agriculture, and the Federal Emergency Relief Administrator. It has devoted approximately 6 months to a study of this problem. In this work, it had the advice and assistance of a technical board, composed of 20 people in the Government service, who are experts in this field; also of an advisory council appointed by the President, composed of representative citizens from all parts of the country; and, finally, of various other advisory groups all of whom are listed in the appendix to the Committee's report. This report was made some time ago to the President and was transmitted to both houses of the Congress on January 17, with the President's recommendations that the legislation suggested be enacted as promptly as possible. This bill is an attempt to carry out this recommendation of the President.

As outlined in the President's message, the recommendations of the Committee, which are incorporated in this bill, deal with four distinct, although related, subjects:

1. Unemployment compensation.
2. Old-age security.
3. Security for children.
4. Extension of public-health services.

On a fifth subject, health insurance, the Committee on Economic Security merely reported that it is still working on this problem in cooperation with representative advisory groups from the medical and related professions and that it plans to present a supplemental report dealing with this subject at a later date.

UNEMPLOYMENT COMPENSATION

On unemployment compensation, this bill, following the Committee's recommendations, proposes a Federal pay-roll tax on all employers throughout the country who employ four or more employees. This tax will come into operation on January 1, 1936. In the first 2 years the rate of this tax will be either 1, 2, or 3 percent, depending upon the progress made toward economic recovery, as measured by the index of production of the Federal Reserve Board. If there is no marked improvement, the rate will be only 1 percent; if there is considerable but not complete recovery, it will be 2 percent; and if there is complete recovery, 3 percent. Beginning in 1938, the rate is to be uniformly 3 percent. Against this tax, a credit is to be allowed for contributions made by employers for unemployment compensation purposes under State laws setting up unemployment compensation systems. The maximum credit thus to be allowed is 90 percent of the Federal tax, the other 10 percent being in any event payable to the Federal Government. This 10 percent is to be used for payment of the expenses of administration by the Federal and State Governments. Employers who have stabilized their employment are under certain

circumstances permitted additional credits, but only after they have built up adequate reserves, and subject to continued payment of at least 1 percent into the State fund and of the 10 percent for administration.

The bill further provides that all funds collected by the States for unemployment-compensation purposes must be deposited in the United States Treasury, to be invested and liquidated by the Secretary of the Treasury. In addition, the bill prescribes certain minimum standards which must be met by the State laws, in order to entitle employers in those States to an offset against the Federal tax. The most important of these standards is that all moneys collected by the State must, in fact, be used for unemployment-compensation purposes.

In all respects not dealt with in these standards the States are given complete freedom to establish any kind of unemployment-compensation system they wish. They may or may not permit separate industry and plant accounts, and may or may not require employee contributions in addition to the contributions paid by the employers. They can fix their own benefit rates, waiting periods, and so forth. Likewise they will have direct responsibility for administration, but are required to use the public employment offices for this purpose and to select all employees concerned with the administration of unemployment compensation on a merit basis.

A Social Insurance Board, of three members appointed by the President, is set up within the Department of Labor to administer the Federal part of the unemployment-compensation system—other than the investment of the funds, which is a function of the Treasury Department. This Board is to assist the States with their problems of administration and is required to certify annually to the Secretary of the Treasury what State laws comply with the Federal standards. It also is to administer the compulsory old-age-annuity system and all other forms of social insurance that may subsequently be adopted.

This entire plan for unemployment compensation is described in the report of the Committee as "a cooperative Federal-State system." It insures uniformity with respect to the cost to employers, which is essential to make it possible for the States to legislate in this field. It insures the safety of all reserve funds and their use to stabilize the economic system, avoiding the danger that these funds may themselves be a cause of unemployment. It also seeks to secure efficient administration of unemployment compensation throughout the country. At the same time, it allows freedom for variations to meet the differing conditions in different States and will make it possible to get the practical experience needed to test the various theories which have been current as to the best type of an unemployment compensation act.

The plan proposed will be entirely self-financed. It contemplates that the Government should contribute not to the unemployment-insurance funds but to provide opportunities for work to the unemployed. While benefits will be limited, they will be on a strictly contractual basis, without any means test. Unemployment compensation in this proposal is conceived of as a first line of defense, behind which there is a second line in a work benefit for those whose cash benefits have been exhausted. It is only one of two safeguards against the hazard of unemployment, but a necessary complement to the work program also before the Congress.

OLD-AGE SECURITY

On old-age security this bill makes three separate provisions:

1. Grants-in-aid toward meeting the costs of pensions allowed under State laws to old people in need, administered by the Federal Emergency Relief Administration and its successors.

2. A Federal old-age-annuity system for all employed persons, administered by the Social Insurance Board.

3. A federally administered system of voluntary annuities, designed primarily for people of small incomes not covered by the compulsory system, administered by the Social Insurance Board.

The Federal grants-in-aid toward meeting the cost of pensions paid to old people under State laws is to be on a 50-percent basis, but the Federal part of this cost is not to exceed \$15 per month in any case. In addition, the Federal Government will pay one-half the cost of administration, provided they do not exceed 5 percent of the amount expended for pensions. To entitle a State to aid, its old-age pension law must conform to standards prescribed in this bill. These standards require payment of old-age pensions to old people in need, who are citizens of the United States and have resided within the State 5 years or more, and who are 65 years of age or over, with the proviso that until 1940 any State may maintain a 70-year age limit. States may grant pensions on a more liberal basis, but will not receive any Federal aid unless they at least meet the standards.

The system of voluntary annuities provided for in this bill is designed to enable people who cannot be brought under the compulsory system or who wish to supplement the annuities which they will get under this system to purchase old-age protection at cost. Wide discretion is allowed regarding the conditions on which annuities are to be sold, but there is a restriction that no person may receive an annuity in excess of \$100 per month. In all cases the purchasers will get an annuity based upon the exact amount of their contributions; the Federal Government will contribute only the costs of administration.

The three parts of this program for old age security are all complementary. The Federal grants-in-aid for pensions paid by the States are designed to stimulate all States to enact liberal old-age pension laws, for the support of people now old who are in need. The compulsory contributory annuity system is designed to enable younger workers with the help of their employers, to make their own provisions for old age. These annuities will be contractual and free from any means test. Through such annuities the rapidly increasing cost of gratuitous pensions will, in the course of time, be greatly reduced. The voluntary annuities are intended as a supplement to the compulsory annuity system to give self-employed people, housewives and so forth, the same opportunity to make their own provisions for old age that the employed persons are required to make.

SECURITY FOR CHILDREN

Four measures are proposed for the protection of children who are in need of special assistance.

(1) Federal grants-in-aid to states toward meeting the costs of aid to dependent children, often called "mothers' pensions".

(2) Grants-in-aid to States for local services for the protection and care of dependent and physically and mentally handicapped children.

(3) Federal participation in grants-in-aid for child- and maternal-health services.

(4) Grants-in-aid for transportation, hospitalization, and convalescent care of crippled and other physically handicapped children.

The sum of \$25,000,000 is proposed to be appropriated in each of next 2 fiscal years to the Federal Emergency Relief Administrator for aid to States toward meeting the costs of "mothers' pensions" paid under State laws which comply with prescribed Federal standards. This aid is to be on a one-third basis, the Federal Government paying one-half the amounts actually expended by the State and local governments for aid to dependent children.

An annual appropriation of \$1,500,000 is to be made to the Children's Bureau for grants-in-aid to States toward welfare services for the protection and care of homeless, dependent, and neglected children and children in danger of becoming delinquent. One million dollars of this amount is allotted on a population basis; the rest for special assistance to States in severe economic distress, for demonstration of methods of community child-welfare services, and for administration costs.

An appropriation of \$4,000,000, also to the Children's Bureau, is proposed for maternal- and child-health services, especially in rural areas and in areas suffering from severe economic distress. Except for 5-percent allotted for administration and special studies, this entire appropriation is to be allocated to the several States for furthering and strengthening State- and local-health services to mothers and children, extending maternity and nursing services in rural counties, and conducting special demonstrations and research in maternal care.

An annual appropriation of \$3,000,000 per year is made to the Children's Bureau for medical care and other services for crippled children. Five percent of this amount may be used for administration and special investigations and reports; the entire balance is to be used for grants-in-aid to States to provide facilities for the physical restoration, as far as possible, of crippled children, especially for such children living in rural areas.

All four of these appropriations are new, although the Federal Government participated in maternal and child-health services during the period from 1922 to 1929. The grants-in-aid for dependent children are intended to help the States carry the burden of supporting the large number of young children in families who have become deprived of a father's support. The aid for child-welfare services and for the hospitalization and care of crippled children represents participation for the first time by the Federal Government in attempts to help unfortunate children to overcome their handicaps and become useful and self-supporting citizens. Altogether this is the most far reaching child welfare program every considered in this country.

EXTENSION OF HEALTH SERVICES

An appropriation of \$10,000,000 per year is proposed to be made to the Secretary of the Treasury for the extension of public-health services. Eight million dollars of this amount is to be allotted to the several States on the basis of the need of each State for such assist-

ance. This money is to be used by the States for extending State health services and for assistance to counties and other local governmental units in maintaining adequate public-health programs. Two million of the total appropriation of \$10,000,000 is allotted to the United States Public Health Service for the investigation of diseases and related problems which are national or interstate in character.

This appropriation is in line with well-established Federal policies, but represents a very great extension of Federal participation in preventive public-health services. The amount suggested to be appropriated is approximately double the present total of all Federal expenditures for public health, and this entire amount is intended to be used for the prevention of preventable sickness.

GENERAL COMMENTS

The total appropriations proposed in this bill amount to \$98,500,000 in the fiscal year 1936, and \$218,500,000 in subsequent years. Offsetting these appropriations, will be the receipts from taxes which are imposed in connection with unemployment compensation and old-age annuities. Unemployment compensation will not involve any cost on general revenues, and for a considerable period to come the Federal grants-in-aid to States for old-age pensions can be borrowed from the amounts collected by the Federal Government through the system of compulsory old-age annuities.

The costs of two of the items in the program contemplated in this bill will undoubtedly increase in the future. These are the expenditures for old-age security and aid to dependent children. Because of the increasing number of the aged, old-age pension costs will increase quite rapidly, and can be reduced only through the establishment of a self-supporting system of old-age annuities. Larger amounts also will be required in future years for aid to dependent children, but these are not expected ever to approach the total costs of the old-age pensions.

On the other side of the picture, it is to be expected that the adoption of this program will in time result in a reduction in the costs of destitution and dependency. Through a self-sustaining system of old-age annuities the need for pensions on a means test basis will be greatly reduced. Similarly, extension of public-health services and aid for child care, maternal and child health services, and the hospitalization and care of crippled children, should result in saving many people from becoming or remaining public charges. Unemployment compensation, likewise, should in time materially reduce the need of relief.

The entire program represents a substantial beginning in the development of "safeguards against the major hazards and vicissitudes of life." It is a program following no set formula, but one that is adapted to our American conditions and traditions. It will in time require additions and very probably also, changes. It is "not the last word on the subject", but a long stride forward toward "the security of men, women, and children", which the President has very properly described as the first objective in the task of recovery.

Supplementing this summary, permit me to say that the Committee has no thought that this program as presented should necessarily be passed without any changes. The Committee intends to present to you

honestly the entire problem. It expects and desires the cooperation of the Congress in working out this problem. If, in your judgment, any parts of this program should be changed, of course, that is your privilege. That is what we expect. Our purpose primarily is to give you information, to serve you and assist you in every manner that we can.

We do call your attention, however, to this fact, and that is that this program, in its major aspects, requires State cooperation. At this time 42 State legislatures are in session. Most of them will be in session only for approximately 90 days. If the Congress can complete its deliberations in time so that the State legislatures may act in their sessions this winter, that obviously is very much to be desired.

This program is a fulfillment or an attempt at fulfillment of pledges that have been made by both political parties.

In the Democratic national platform of 1932 is the definite pledge in favor of the enactment of unemployment compensation and old-age pension legislation on State lines. In the statement issued by the Republican National Committee last year, it endorses the general concepts of social insurance, the general approach to social legislation which we contemplate.

With that introduction, if I understand the motion that you adopted, you wish me to proceed to the first subject dealt with in the bill?

Mr. VINSON. Mr. Chairman, I suggest at this point in the hearings that there be included the report of the Committee on Economic Security, together with the letter of transmittal to the President.

Mr. HILL. And the President's letter to Congress on that same subject.

Mr. VINSON. I should be very happy to have all of that inserted at this point in the hearing.

The CHAIRMAN. Without objection, that action will be taken.
(The documents referred to are as follows:)

