

ruption, after which she may yield to the members of the committee for such interrogatories as they may see fit to propound.

Without objection, it will be so understood.

#### STATEMENT OF HONORABLE FRANCES PERKINS, SECRETARY OF LABOR

Secretary PERKINS. Mr. Chairman, I thank you very much for your courtesy, and I wish to say that I understand that Mr. Witte, who has been acting for the whole committee in studying all aspects of this matter, has made a very full statement to you in the course of your hearings yesterday and today, and many of the details have been covered by him.

I shall therefore try to make my general preliminary remarks brief, in order to expose myself as fully as may be desirable at this time to any questions which you may have in an effort to arrive at a common understanding.

First I want to say to you that I am deeply appreciative, as are the other members of the committee which had this matter under study for a number of months, of the interest and attention which the members of your committee have given to this very important and very significant legislation, and we are deeply gratified that there has been a full attendance of this committee for these days, and such profound and honest and conscientious attention to detail.

I dare say that Mr. Witte has told you that last June, following the President's message to Congress with reference to the broad general hope that a program of social and economic security might be embodied in legislation within this year, he appointed a committee of members of his Cabinet, together with the Federal Administrator of Relief, who had special knowledge of these subjects, and asked them to consider in any way they thought best the general recommendation that he had made to Congress, and to attempt to work out plans and recommendations which could properly be embodied in legislation by the Congress.

Following his appointment of this committee, we consulted very seriously as to the best and most practical, and most economical method of operation, to clear our own minds as well as the minds of others of a large number of conceptions, some of which were proper and some of which were merely personal prejudices with regard to what kind and what form of legislation we should have in this country, looking to the building up of a system of social and economic security.

In order to make quite practical and quite realistic our approach to the subject, we determined to build up a small staff of people particularly expert in some phase of the matters treated, to work out the details of certain plans.

You will understand that in the consultation of any experts, one must always recognize that among the experts there will be wide differences of opinion. I think that you have found that out if you have ever had the necessity of consulting experts, either with regard to the proper medical treatment in a case of serious illness, or with regard to the proper engineering treatment of a bridge or a structure which it was desired to build, or repair, or replace.

We went into this with the full knowledge that we should get from the different groups, from the different expert minds, different points of view, but that we would primarily get from them a canvassing of all of the hazards, of all of the considerations that were involved in any particular form either of insurance or of social provision to meet social hazards.

We had a very vigorous, a very interested, a very alert group of people who went over the various subjects of old-age security, of security against unemployment, of security for dependent children against the more devastating aspects of their insecurity and dependence, and of the problems that are created by ill health and invalidism.

That the experts did not all agree I think will not be any news to you who have dealt with experts in the past, and it was no surprise to the committee, nor was it a disadvantage. It was, rather, extremely helpful to the committee that there emerged differences in point of view, although when it came down to the actual designing of a structure to carry a desired load, the experts more or less agreed as to what the structure ought to be, in terms of finance, in order to carry the load which it was designed to carry.

This committee has felt, if I may say so, sir, that it was primarily the duty of those who are elected by the American people to determine the policy of the American people. It was therefore the duty of Congress and of the President rather than of the experts to say what final form these programs should have. The experts have been of extreme importance in enabling the committee to come to conclusions which we believe are reasonable, flexible, and within a pattern which is adapted to our form of government, to our structure of Federal and State organizations for the administration of government. It is, on the whole, reasonably economical, so that we may hope to carry this structure financially without making too great inroads upon the private purses of individuals contributing.

The bill itself which is before you presents the results of the canvass which has been made on the subjects of insecurity due to old age, recognizing that for those who are already old and needy and having no other means of support, a particular form of provision to meet the needs of their old age will have to be devised, but that for the probable old-age dependency for persons not now old, we can hope to put that structure upon a relatively self-supporting basis, and to consider it as a type of insurance. However, with regard to the care and provision of income to those now old and without means of support, we cannot expect to put them upon an insurance principle, since there is no way by which a premium can be collected in advance from those who have already reached the years of hazard.

So that old age security has been treated in this report realistically enough in two separate ways, first, and what is the most practical, effective, and at the same time economical, a method of taking care of those who are already old and needy in this country, and a second provision has been an effort to provide a secure and systematic method of providing for the old-age necessities of persons who are young and of middle age and in the midst of their working years and therefore theoretically able to contribute to the funds which will be

used in the future, as a matter of contractual right, and provide them with some small but certain income when they are old and past the working years.

The second subject which has been treated in this committee, and by those who have advised the committee, is the subject of unemployment.

We have recognized that in treating unemployment as a hazard, we must devise a system of providing in advance against the hazards and against the insecurity of unemployment, a system which is practical, which will be based upon the idea of paying some definite percentage of the usual wage to those who have been regularly at work, and that will also bear some relation, if it is to be insurance at all, to the amount of time in which they have been regularly employed in the years previous to their unemployment.

That is the second subject which we have covered, and we have also covered, because it is a great source of insecurity, the provision for dependent young families.

As you realize, all over this country there have been in recent years provisions made in some States, and sometimes in cities, for what are ordinarily called mother's aid or mother's pension arrangements. Both in the States and in the small localities, there has been the acceptance of the idea that, on the whole, the best thing that we can do for children who are deprived of their natural breadwinner is to keep them together in a family relationship, and not to deprive them of the rearing and the education, which goes on within a home and under the care of someone who is related to them by ties of blood and moral responsibility.

Therefore it has been thought wise at this time to make general those systems that aid dependent young families which have been brought out successfully in some of our States and some of our localities, is a provision in the bill before you for appropriations to supplement those already made by the States and those which may be made by other States, so as to encourage and develop the system of caring for dependent children, in their own homes and under the supervision of those who are their natural protectors and guardians.

This has not only proved to be the most satisfactory way from the point of view of the moral, the ethical and the social principles involved, but it has proved to be vastly the most economical method from the point of view of the States' interest in keeping their general tax expenditures as low as possible.

We have also treated in this report, and have considered, the particular hazards of business, and the particular costs and economic insecurity which the incidence of illness may bring to a family depending upon a modest income and the wage-earner's earnings for their support during his adult life. We have recognized, first of all, as all of you who have examined the social life of your communities must have recognized, that in this possibility of illness to the bread winner, or illness to a child, or illness to some important member of the family, there often lies the complete destruction of the economic security of that particular family. Savings that were to go toward the education of the children, or even toward the old age and future life of the family

are diverted to take care, sometimes in a very awkward and uneconomical way, of the illness of a particular member of the family.

Although we are not now in a position to recommend to the President, and through him to your honorable body, any definite scheme of health insurance, because the Committee on this subject, which is largely composed of physicians, of dentists, and of hospital and nursing services, is not yet ready to report, we are, nevertheless, a unit in our belief that the further extension of the public-health service of the States, under the supervision of the very efficient and able technical services of the United States Public Health Service, should be made at this time. By so doing we may prevent the more devastating and costly forms of sickness to the low-income groups of this country.

Therefore this bill and this report which are before you, in covering all of these forms of social and economic disaster, have recognized that it is not possible at this time to recommend a 100 percent system which is guaranteed to be a panacea against every form of social insecurity.

We have felt that it was right and proper at this time to recommend to you the basic plan which could be built upon and expanded in the future if and when experience accumulated under these rather small but substantial, orderly and systematic methods, indicated that there should be an extension.

In other words, I think that our American way of thought, and the way of carrying on our Government's business, is to try a few procedures where they can be kept under close supervision and where the results can be annually reported upon to Congress and to State bodies, and to submit those for the scrutiny of the people, and to build only as we know that there is demand and need and successful experience to guide us.

As I say, we are therefore conscious that this program is not 100 percent perfect, but we are fully of the belief that it covers the major hazards—the major social and economic hazards in American life today—and that it will provide a substantial basis of security to the families in the low-income group and that it will furnish an experience out of which we can gradually develop whatever further activities and appropriations are needed.

In other words, we have been glad to be able to find a small and reasonable method to recommend to you, rather than to ask you to plunge into too large a program before it can be adequately canvassed.

You will realize, of course, that the two newest items in this program, and I say "newest" from the point of view of the experience of the United States of America, are the programs which deal with old-age insurance and those which deal with unemployment insurance or unemployment compensation, as we call it in this report, and as has been referred to in the bill before you.

The provision for pensions for those who are now aged and indigent is not new in American life. Twenty-eight States already have some form of old-age pension, but these forms are very different, the allowances are different, and in some States, as you know, they rely upon the counties to pay out of county funds the pensions to the aged. In

some States in which they have relied upon the counties the State law itself is not mandatory upon the counties, but merely permissive.

There is no regular practice, even in those States in which they have old-age pension laws, and certainly there is no uniformity of practice between the States.

There has been, I think, a growing recognition in this country that it is desirable to regard the old and indigent—that is, those who are aged and needy at this time—as deserving of a systematic form of allowances which will enable them to keep soul and body together.

The device which is proposed in this bill, and which has been recommended in this report for those who are now 65 years of age and over, and who have no proper provision and can make no proper provision for their old age, is a Federal appropriation to the States to match the States when they have compulsory old-age pension laws which provide the minimum of adequate benefit to the aged person during the years after he is 65 years of age.

Many of the States have the provision that applies at 70 years of age, but the committee recommended 65 rather than 70, because we have come to a realization out of our studies that industrial practices and habits of this country have come to the point where it is very difficult for a man 65 years old to get a job, even though he is physically well and physically able to perform the job.

You will realize that this recommendation for old-age pensions rests upon the conception that there is a free, noncontributory pension in any amount which represents the sum appropriated by the State for that case, plus the matching sum put up by the Federal Government in that case, provided only that the standard of pension is high enough to insure a decent standard of living for the indigent, aged person. The Federal Government has limited itself to an appropriation of \$15 per month per case, not with any attempt to limit the State in the amount each State may appropriate above \$15 for the same case, but merely to fix a bottom, so to speak, to what the Federal Government may have to go to in dipping into the tax funds which are available to it. That \$15 was chosen because \$15 by the Federal Government, plus \$15 by the State, would make \$30 per month, which, in general, is higher than most of the now-existing State old-age pension laws go.

There is nothing to prevent the States from making the appropriation more than \$15, if the State is in position to do so and thinks it is wise and desirable under its particular demands, but it seemed to us at this time wise and essential to keep the limit of the Federal Government to \$15, at least until we have had more experience under it and know just how much it will cost.

Even so, we know that the cost will probably be rather large. There are at present, as we gather from our Census statisticians, six and a half million people in this country who are 65 years of age and over. Something like 700,000 of these are already on the relief rolls of the Federal Government, through the F. E. R. A., and somewhere between one hundred thousand and two hundred thousand more, are receiving pensions from other sources, sometimes from trade unions or mutual benefit groups to which they have belonged or other pension plans, or of one sort or another.

That brings us to the conception that there are probably about one million people at this moment over 65 years of age who are dependent on and who are receiving some aid and benefit either from pension funds or from public relief allowances. There are, as you all know, probably another million, and this is a guess—we have no authority for this; it may be a guess which is too high or too low, but probably too high—there may be another million who are dependent upon their children and upon their grandchildren and nieces and nephews, and upon their remote relatives and friends. In other words, they are people who receive support from people who are not legally obliged to support them, but who are doing it as a matter of good will, or of friendship.

The statisticians tell us that the population trends in the United States for the last 25 years have been such that we can conclude that over the next 10 or 20 years there will be a very large increase in the proportion of aged persons in the total population, that is, that the proportion of persons over 65 years of age will increase.

There are now something like 5 percent of the population made up of persons over 65 years of age, and in 25 years it is estimated that they will constitute about 10 percent of the population; that is, for a great variety of reasons, there is likely to be a greater portion of aged persons in the total population than at the present time.

Therefore, we must not look forward to this program of relief to the aged and indigent as being a program which will decrease in cost, but rather will tend to increase in cost, particularly because of the fact that persons who are now dependent upon youngish relatives who find great hardship in supporting them, will undoubtedly make application for pensions and will prove themselves to be entitled to pensions if pensions become available in their States.

I say these things merely to distinguish between the program of old-age systems in the form of pensions to those now aged and indigent and the program of old-age insurance, which I understand Mr. Witte to have described to you in great detail.

When we come into the program of old-age insurance, we are dealing with a situation in which theoretically we begin with persons who are taking their first jobs, who are going to work at the age of 18, or of 19, or of 17, or 20, and who from the time when they go to work at their first job to make a small contribution, a small percentage of their pay, to a fund which will later be used to pay them an insurance benefit which they have as a contractual right when they become 65 years of age. At the same time their contribution will be matched by a contribution of their employer's.

So that the proposal here is to begin to collect 1 percent of the pay roll in the case of every employed person, one-half of it being from the employed person and the other half from his employer, and that percentage should be raised gradually over every 5-year period until after 20 years the contribution is 5 percent—2½ percent from the employer and 2½ percent from the employee.

It is understood that if people who are now under 30 years of age, and who will begin to contribute in 1937, the date when we have recommended that this tax will begin to be collected—and, by the way, we have recommended that date because we recognized that the prelimi-

naries of any administrative body in getting ready both to collect and to administer that tax will be very great, and that there must be some time allowed for organization and for the making of rules and regulations in order to have a proper and equitable administration—each one of them, over their total working lifetime, if they work regularly and steadily to the age of 65, will have made a substantial contribution and will have built up an insurance reserve in a great fund which will entitle him to collect this benefit. This will apply to practically everybody who is under the age of 40 at this time.

You could make a perfectly self-supporting system without any aid whatever from Government sources if you are willing to say that you will postpone the payment of benefits for 30 years or 35 years, but most of us want to see something done about those who are now old or middle aged and approaching this crisis of insecurity in their lives before them, to contribute to the general pool of distress and suffering and lack of purchasing power which has precipitated and increased the industrial depression in these last 5 years.

Therefore, the committee, in considering what it should recommend to the President, and through him to your honorable bodies, became convinced that the right thing to do was to treat people who are now between the ages of 30 and 60 as subject to a kind of a combination of earned benefit, and I used that term as they use it in insurance policies, the kind of a benefit which has been built up through reserves to which they have contributed during their somewhat briefer working period, plus an allotment sufficient to bring that allowance in old age, at the age of 65, up to a sum upon which they can reasonably hope to live according to a good standard of living. That allotment should be provided by the Government.

Now, we have thought it best to recommend to you that the Government borrow from the contribution of those who are now young, in any one year a sufficient sum to pay this supplemental benefit to those who, we will say at the age of 50, can only build up a reserve that would entitle them, at the age of 65, to something like \$9 a month. We have recommended that the Government borrow from the contributions, from the funds collected from the taxes and assessments of the younger members of the group, an amount sufficient to pay for the aged person who has only been contributing for a short time.

That, of course, is a matter of policy.

A self-supporting system in every detail can be provided if you are willing to fix the contribution into the fund at 4 percent instead of 1 percent, the 4 percent to be divided equally between the employer and the employee, with a gradual working up to 6 percent instead of 5 percent, and the time within which we go from 4 percent to 6 percent to be only 10 years instead of 20 years. In other words, if you ever buy insurance, it all depends on what you pay how much of a benefit you can receive, benefit in actual cash allowance or time of maturity. All insurance policies, particularly the endowments, have

that feature, whereby you may increase the cash allowance or shorten the maturity by increasing your payments.

So, by increasing that contribution, you can build a system which will not only pay full benefits to persons who are now 20 to 30 years of age when they become 65, but will also pay not quite full benefits, but only slightly lower benefits, to persons who are now 40, 45 and 50, when they become 65.

But you cannot have such a system actuarially sound unless you are willing to face the fact of a pay-roll tax at this time or beginning, we will say, in 1937, of 4 percent instead of 1 percent. That, of course, is a matter of policy for this committee of yours, but in studying this whole matter, our Committee thought that it was wiser for us to recommend the imposition of a 1 percent pay-roll tax on the theory that we are now in a period of recovery, and that the lesser tax would be more suitable to the lesser industrial income.

But if we have this lower system of taxation at all, then it is necessary to realize, and to realize clearly, that we are borrowing every year from the funds contributed by the young, an amount sufficient to pay the pensions to those who become 65 years of age before they have contributed enough to the fund to give them what is known as an earned benefit.

Now, then, the income of this fund will be so great that it will be possible to borrow from that fund without making appropriations out of general taxation, to pay those who have become 65 years of age currently after the fund has begun to be collected for 5 years. It will be possible to pay them regularly out of the annual income from premium collections up until the year 1965. We are speaking about what the actuaries have contributed on their own theoretical basis, and based upon their computations, we go along until the year 1965 before the payments out would begin to be greater than the income from these contributions of the young working people. At the year 1965, there would begin to be an excess of payments out over income in, and at that time the Government would have to begin to repay to the fund the amount which it had been borrowing from that fund ever since 1942, plus interest and compound interest.

Now, what makes that sum look so large is you begin this figuring of interest which I think most of us really never face until we come to deal with some large sum.

Of course, actuaries are not alarmed by these purely theoretical increases in the present value of cases, and they know that you can pay your claims out of income, and that you must steadily collect interest on your reserves, and if your interest on your reserves and your premiums keep up regularly year after year, you never touch your fundamental underlying reserve.

But in this case, you see, we have the credit of the Government as the real underlying reserve. That is what gives this stability, and that is why it is safe to recommend that there be a borrowing from this fund only to pay the claims that mature before the persons who make the claims have contributed premiums sufficient to give them a totally earned benefit.

In other words, there will be for those who are not now young, but are over 40, a formula something like this, that their earned benefit



will depend upon the age at which they began contributions. It may be \$2.50 or \$5 or \$9 or \$10 a month, and they will receive that, plus an allowance, which will bring their total receipts up to \$20 a month, \$30 a month, or \$40 a month, which I think is the most that we have estimated for those who are now 40 years of age.

In the meantime this other system of accumulating reserves for those now young will be going right on, so that there are three separate types of provisions being carried on at the same time; one for the allowance of pensions for those now aged and indigent; one a provision for a scientific, self-supporting scheme of insurance for those who are now young and who will pay in premiums over a long period of years sufficient to give them an earned benefit; and there will be that transition for the next 30 years, during which time we will have the problem of the constantly growing older of people who are not now at the beginning of their working lives, but half-way through.

I strongly recommend that you consider this transition system as being the one most likely to be favorable and satisfactory to the largest number of people and to the economic interests of this country. To deny benefits to people who at this moment happen to be 40 or 50 instead of 65 or 20 would certainly create a sense of injustice which would be intolerable. The provision for the use of the fund which would be accumulated over a period of 30 years by the contribution of those now young, a provision for utilizing that fund and plowing it back into income, to be spent by persons becoming aged, is a very sound and sensible provision in aiding purchasing power and maintaining our own internal market during this transition period.

It is, I think, a vastly more useful method, of putting that money to work, than to allow it to accumulate in a claims reserve in the hands of the Treasury. In other words, if it is to be used each year in the form of income by people who would otherwise have very limited income, it will be spent. Its spending will create that passing of money from one hand to the other, which in its total velocity does increase the annual national income and which has a very wholesome effect upon internal markets.

Now, I want to refer also, with particular interest and emphasis, to the recommendations which we have made in this report, and which are embodied in the bill, with regard to unemployment compensation.

This Committee, in its study of the whole question as to how to provide security against unemployment, has recognized that unemployment is in many instances not controllable by the individual who has unemployment, who finds himself unemployed in the midst of a crisis, nor is it preventable in every instance by his employer, nor is it always preventable by any combination of the State government and Federal Government.

There are certain economic factors which all of us are familiar with which are not under the control of any political unit of the Government, nor are they under the control of individuals who profit by the industrial enterprises.

All of us have been faced with new relationships in life as the result of the introduction of new and labor-saving machinery, new methods of work, and we realize that it is for the economic advantage of the whole community for this device or machine to be introduced which tends in the long run to reduce the price of a commodity and therefore to make it more common and therefore to raise the standard of living of the whole community and over a period of years providing useful employment for more people.

But the transition periods are extremely difficult for the individuals put out of work.

Most of you have learned by your independent studies of this whole matter of unemployment, and we have also realized, that even in good years there has been a certain amount of unemployment, and that unemployment has been irregular and uncertain as to the amount and the place where it would fall, geographically and industrially. These periods of transition, even when there was a great demand for labor, have been extremely difficult for the individual who was put out of work by a change in his industry. A man might have been a highly skilled workman in some special line which is no longer necessary or needed in the industry to which he has been attached for many years, and the transition for him into some other form of work is sometimes very difficult and very devastating.

Most people who have acquired a particular skill are inclined to hang on to the bitter end to that skill, and to strive almost beyond reason to find reemployment in the particular line in which they are skilled and accomplished. All of us do the same thing, and it is only sometimes after having exhausted a lifetime and spent all of one's personal resources and all of the borrowings from friends that a man finally accepts defeat and finds himself a job at some physical work for which he was not trained.

So that we have these transition periods sometimes falling very acutely upon individuals who have no defense against them.

The chief reliance, of course, of government by States and of the Federal Government in times of prolonged economic difficulty, has been the one that we have been going through in recent years; a program of public works available and adapted to many different kinds of labor. In this report which we have made to you we have recognized that in these prolonged periods of depression there will always have to be reliance upon a public-works program to furnish employment to those who have exhausted any benefits that they may have had under any unemployment insurance, and also for those who are in this year 1935 out of work and who have had no provision made for their cash benefits during a period of unemployment.

We feel, too, that there must be a reliance upon a conscientious development and maintenance of a system of public works.

So this report depends definitely and relates definitely to a program which includes appropriations for public works; for providing employment assurance to those who are now out of work and have no possibility of coming under unemployment-insurance schemes; and also it depends and relates to the idea that there will in the future be kept up and maintained always a provision and a planning in advance

of a program of public works which can be put into operation when a depression becomes so long that any considerable number of people are going without work beyond the period which is covered in the unemployment-insurance benefit which is provided for them.

But we think that there should be established a program of compulsory unemployment insurance, based upon a modest scale of collections of premiums, and subject to some experimentation as to the best and most standard forms by cooperation between the States and the Federal Government. This unemployment insurance should be looked upon as sufficient to provide for definite, contractual-right allowances which shall bear a definite proportion to the previous earnings and to the amount of the contribution which has been made to the fund.

Now, this form of unemployment insurance ought to be sufficient to carry the costs of recurring unemployment in seasonal fluctuations, and through some forms of technological change in industry. In other words, it ought to be enough to carry them over what can be said to be the expected and normal periods of unemployment in life; but we cannot expect, unless we should assess a very large and, I really think, an uneconomical assessment in the form of a premium at this time, a fund large enough to cover every person who might be unemployed for a very long period. In every long depression, we should have to expect to resort to public works as of employment assurance, supplementing the cash benefits which are a contractual right for the individuals for whom contributions had been made to this unemployment insurance fund.

I think there is a tendency in some quarters to underestimate the value of such provisions because, as we say frankly and honestly, they cannot provide against all of the unforeseen disadvantages of the individual, and that therefore they are not sufficient, but I think that the importance of providing purchasing power for these people, even though temporary, is of very great significance in the beginning of a depression. I really believe that putting purchasing power in the form of unemployment-insurance benefits in the hands of the people at the moment when the depression begins and when the first groups begin to be laid off is bound to have a beneficial effect. Not only will you stabilize their purchases, but through stabilization of their purchases you will keep other industries from going downward, and immediately you spread work by that very device. By keeping alive certain industries through the expenditure of small but certain unemployment-insurance benefits a stop will be put to this downward spiral of employment and the length of the depressions which we have all studied so much in the last few years will be reduced.

The recommendations which we make are carried out in title VI of the bill which is before you. This is definitely a recommendation that there should be established a system of unemployment insurance which rests upon giving the States a considerable amount of freedom in experimenting with different types of unemployment insurance and the fitting and adapting of them to their own needs as indicated by their experience with the people within those States.

Many of us, and I among them, started out with a conception that a national or Federal system would be a good system, if we could

devise it. After a period of months of study of the matter, I came to the conclusion, as did most of the other members of the committee, that the Federal-State system was the most practical at this time and was the best suited to the problems of administration as well as to meeting the needs of the different parts and different sections of this country, but I do not want to be understood as underestimating the value of a general national system if we could devise one.

I think the truth is that we found it very difficult to devise a national system which would meet all of the strains placed upon it, which would not be too cumbersome, too clumsy. We found that whereas there were 4 or 5 people that were convinced that we ought to have a national system, among those 4 or 5 there was no unanimity of opinion as to just what the form of that national system might be. We concluded that if 4 or 5 could not agree as to what the best system was, probably the Congress would not be able to agree as to what was the best system under all of these contingencies. So we have come to recommend, as our best opinion, a Federal-State cooperating system. We believe that the device of utilizing the taxing power of the Federal Government, as a method of raising revenue for the Federal Government and for encouraging and stimulating the passage of proper and suitable unemployment-insurance laws, is the best scheme, the best method, which we can recommend to you at this time.

So that in title VI of this bill, as you realize, there is a levy of a small pay-roll tax on employers in every State, and the tax will be the same in every State.

Of course, levying the same tax whether or not there is an unemployment-insurance law in the State is a very real equalization of competitive costs between employers in the various States, so that there will be no special advantage to any employer to continue to carry on his business in a State which does not have an unemployment-insurance law.

In other words, there will be no great movement against the passage of an unemployment-insurance law in a particular State on the ground that to pass it would put that State at some disadvantage with regard to its neighboring State which does not have an unemployment-insurance law, for in those States in which there is no unemployment-insurance law, at least a 3-percent tax will be paid to the Federal Government, which will be sufficient to equalize the burden in the two States.

The plan recommended, is the plan of a tax upon pay rolls of 3 percent, against which there may be an offset of 90 percent of the 3 percent in the case of any employer in a State which has a compulsory unemployment-insurance law to which he has made regular contributions in an amount not less than 3 percent. If he makes a contribution of less, he is entitled to an offset only of the amount of his annual contribution to the fund in the State in which he is carrying on his business and which has a compulsory law.

Credits are allowed up to 90 percent, only for the purpose of providing a 10-percent fund for administration. This has proved, by most of the countries which have unemployment insurance, to be a modest allowance for the cost of administering it, both State and Federal. It is proposed that that 10 percent which the Federal

Government retains out of this tax should be given back to the States, or a certain portion of it, to aid them in their cost of administration.

It is also a condition that these funds should be deposited into the Federal Treasury. This will, of course, be sufficient to insure to all employers and all employees, in whatever State they may be, that the funds set aside to pay for future unemployment costs are taken care of under the auspices of the Government, that the credit of the Government is behind them, and that there is no advantage or disadvantage to the employees and employers of any particular State. The States can spend the money only for the payment of benefits to the unemployed, and it is indicated that they must pay it through the regular administrative system in their States; in other words, the public employment offices through which the work will have to be administered.

Of course, this is clear, that no State should pass a law in which a man or woman is entitled to unemployment benefits who refuses to take suitable work which is offered to him, and there, therefore, must be some administration through an office or an agency which is prepared to provide suitable work to the individual making claims for unemployment insurance.

The actuaries have discussed with us what would be possible under a 3-percent assumption, or 2½-percent, or 2.8 percent in the way of a contribution of employers, or employers and employees, to a State unemployment-insurance fund. In general it appears that in a particular State, by allowing about a 4 weeks' waiting period, this would be the situation. You can change the terms, and the figures are different, but you can make it 2 weeks or 3 weeks or 1 week; but, granting a 4 weeks' waiting period and a 3-percent contribution, it can be estimated that the average employee who has worked the majority of the preceding years, and the majority of the weeks that preceded, will be able to receive allowances which in general will be about \$15 per week.

Now, then, you will tell me that that is not sufficient, and it probably is not sufficient in most cases, but, making that as an actuarial assumption, it can be varied by varying the waiting periods or the coverage, and by providing or not providing for an excess of benefits for those persons who, for many years, never make any claim on the funds, and who later on, through a technological change in industry, find themselves out of work for a much longer period.

It has been thought well by most of the actuaries that we should recommend to the States that they consider the idea of allowing at least 26 weeks' benefit to persons who have not made any previous claims upon the unemployment-insurance fund.

All of these are what are called actuarial adjustments, and it is possible that the States would experiment with any number of arrangements in connection with their benefit funds, provided only that the funds themselves are sound and that there be a regular and a steady administration through the public employment offices.

It has been thought wise to allow the States considerable freedom with regard to the rate and variation of benefits, to the length of the waiting period, and to the type of State system; that is, whether they should have separate reserves for individual companies, or whether there should be one State-pooled fund.

There is a great difference of opinion between entirely honest, thoughtful, and informed people on which of those two different methods is the better. The Wisconsin State law provides for individual company reserves, and the recommendations made by a commission appointed in the State of Ohio and in the State of New York and in one or two other industrial States is in favor of the State-pooled funds.

In other words, we have no body of experience in this country tending to show us what will be the final results of the individual-company or plant-reserve system, and there is no European country which has worked out or had any experience whatsoever under the idea of individual reserves. The only European experience deals with pooled funds, and therefore we must rely in our actuarial computations only upon them, but, if States wish to experiment with this, it has been thought wise to permit some limited experimentation until we shall have acquired a substantial American experience.

It has also been thought wise to permit the States to determine under their laws who shall contribute to the fund.

So far as the security of funds is concerned, it does not matter from whom the premiums are collected, whether collected from the employers alone or from the employers and the employees, or from the employers and the employees with the State government contributing to the fund. It does not matter in the least from the point of view of providing the funds from which unemployment-insurance benefits can be paid in the future, but it has therefore been thought well to allow the States to experiment with those various methods of contribution in order again to build up an American experience and to show us under which form of contribution system there is the greatest satisfaction to our people and the greatest stability in the management of the fund and in the lessening of unemployment within the particular case. I cannot recommend to you too sincerely the desirability of allowing the States some freedom to find their own way, to use their own peculiar genius in these particular problems. Sometimes some of these matters become highly controversial, and perhaps it is better in controversial matters to narrow the debate to a small area, rather than to have it spread over an area that involves most of the people of the United States of America.

I think that I should take up very briefly with you today the recommendations made for appropriations for the care of dependent, crippled, and handicapped children, and for the provisions that are made for the benefit of medical and nursing care for mothers and children, and also to indicate to you that in making recommendations for appropriations for grants in aid to the States for their public-health service, there was a sincere belief that out of the utilization of that method we can gradually build up in this country a system of prevention of the most difficult and devastating diseases and illnesses which affect our people, and particularly the low-income groups.

I am afraid that I have been too long, sir, but I shall be very glad indeed to answer any questions that you may have to ask.

The CHAIRMAN. Have you concluded your main statement?

Secretary PERKINS. Yes, sir.

The CHAIRMAN. The Chair would like, first of all, to say that your statement has been most illuminating and convincing, and I cannot commend it too highly.

Mr. TREADWAY. As one member of the minority, and speaking for myself only, I would like to join with the chairman in commending the explanation that the Secretary of Labor has placed before this committee.

We all realize what a tremendous problem has been brought before us. For a good many years various States have undertaken partially to solve this great social problem, and without the slightest idea as to how we will eventually deal with the subject matter or what form of bill I may see fit to agree upon, nevertheless I think this committee owes to the Secretary of Labor a most spontaneous word of appreciation for the explanation that she has given to us of the studies that the Committee of which she is a distinguished member has made.

Secretary PERKINS. Thank you.

Mr. COOPER. Mr. Chairman, I am sure that those sentiments express the real feeling of the entire committee.

It was my privilege to be a member of a subcommittee of this committee which gave consideration to the subject of unemployment insurance during the last Congress, and we were favored by a most excellent statement from the Secretary. As I recall, that measure provided for a 5-percent excise tax on the pay rolls of industry.

Secretary PERKINS. Yes.

Mr. COOPER. The pending bill provides 3 percent.

Secretary PERKINS. Yes.

Mr. COOPER. As I recall, the Secretary estimated that the 5-percent excise tax would yield substantially one billion dollars a year.

Secretary PERKINS. Yes.

Mr. COOPER. What would be the estimate of the amount to be yielded by the tax provided for in this bill, if the Secretary will be kind enough to inform us?

Secretary PERKINS. The United States pay roll ranges between twenty and thirty billion dollars, and you realize, of course, that the amount that you may gather on a 3-percent tax will depend upon whether your pay roll is at the lowest level, as it would be in 1933, or at the highest level, as it was in 1928. We have chosen 3 percent in this bill instead of 5 percent, because we get down to a little more realistic approach to the situation, and also because the Secretary of the Treasury was a distinguished member of the committee, and it was his warning, and a sound one in which all agreed, that in the imposition of these taxes on pay rolls, we should be cautious not to go further than was absolutely necessary in order to build this fund.

Mr. COOPER. As I recall, the Secretary gave a very splendid illustration, to the effect that the purpose of the unemployment insurance system was to try to equalize the difference between the peaks and the low points which we ordinarily experience in this country, and it was thought that this billion dollars a year which was estimated to be yielded from the 5 percent tax would be sufficient to meet the situation.

I am wondering what the present view may be as to the yield derived from the 3-percent tax.

Secretary PERKINS. 3 percent ought to yield something less than a billion dollars, but if it is utilized reasonably, it will be utilized not in the form of a payment into the Federal Government, in the form of a tax, but as an assessment into the State unemployment insurance fund that ought to be built up. In the industrial States, where there is a large number of employees covered by this bill and there is a

systematic method of paying cash discounts to all persons when they are unemployed more than 1, 2, 3, or 4 weeks, depending upon the waiting period, that in itself will be sufficient to put purchasing power into the hands of the people laid off, and therefore you keep stabilized the whole industrial situation in that State.

In other words, today when a man is laid off, he stops spending, and the longer he stays unemployed, the less he spends, and you get, therefore, a downward spiral as the market dries up more rapidly than you anticipated it would. People laid off cannot buy anything, and as they stop buying, the market for the consumption of goods stops and other factories have to lay off people who, had there been this stimulus in purchasing power in the way of unemployment compensation, would not be laid off. In other words, these funds, which are put into purchasing power, form a market, and that will help to stabilize a large number of industries dealing in consumption goods, and those dealers make their eventual appeal to dealers dealing in durable goods. If you could prevent the drop in unemployment being so great as it has been in the recent depression, you would have been able to do a great deal of stabilizing, not only in connection with the consumption goods but the heavy, durable goods, too.

Mr. COOPER. Then it is thought that the tax of 3 percent provided in this bill will be sufficient to meet the purposes intended?

Secretary PERKINS. It is our belief at this time, after a very careful scrutiny, with a great deal of advice from actuaries and insurance experts, that that is so.

Mr. COOPER. Would it be fair to ask the Secretary to briefly indicate to us the principal differences between the unemployment insurance provisions of the pending bill and those in the measure considered in the last Congress?

Secretary PERKINS. There are few differences, except as to the amount of the tax, and except for certain provisions that are set up as a safeguard when reserve funds are permitted. The fact that we have had no actuarial experience anywhere in the world with these reserve funds has made this committee feel that we should write in some safeguards to be thrown around at least the original experience with these reserve funds.

Mr. McCORMACK. Secretary Perkins, you talked about getting this money back into the hands of the consumer, on the theory that the success of mass production also calls for the success of mass consumption.

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. In the nature of wages, or by industry seeing that the consumer's dollar is absolutely protected, that the consumer receives compensation through legislation of this means so that he will have an opportunity to make mass production a success?

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. This transition period that you referred to is the period that we are now undergoing, between more or less individualistic capitalism and more or less social capitalism?

Secretary PERKINS. I am beyond my depth, now.

Mr. McCORMACK. Mass production, of course, will produce great social changes, and you referred to a lower price level bringing with it an increased consumption.



Secretary PERKINS. Yes, sir.

Mr. McCORMACK. And, of course, that carries with it the necessity that the consumer likewise has an ability to produce?

Secretary PERKINS. Yes, sir.

Mr. McCORMACK. I was rather interested in another aspect of this question. At the present time local governments, and during the past 2 years the Federal Government, have made extensive appropriations for relief. What effect do you think legislation of this kind will have upon reducing such expenditures in the future?

Secretary PERKINS. A very tremendous effect, sir. Of course, one cannot predict the exact amount by which the relief load would be lightened, but if we had, for instance, the aged upon a regular income which had been provided for by advance contributions to a fund from which they drew their allotment, and if we had dependent children regularly cared for on an allowance to their mothers or natural protectors, and if we had a scheme of unemployment benefits which would pay a small stipend to people as laid off, certainly the appropriations for relief and the necessity for either private or public relief in time of any industrial breakdown would be infinitely minimized.

One cannot say that there would be no need of relief, because there are always unusual cases, and those unusual cases pile up fairly large under some circumstances.

But this scheme would cover the whole body of distress which faces any community during a period of industrial depression.

Mr. McCORMACK. It places the social responsibility upon business?

Secretary PERKINS. Yes.

Mr. McCORMACK. Is it your opinion that it will constitute a great saving to the small group of taxpayers and transfer it more or less generally where it belongs, as a part of the cost of production of business?

Secretary PERKINS. I think myself that it will have a stabilizing effect upon business by transferring a part of this cost as a part of the cost of production, the cost of doing business. There will undoubtedly be an incentive to reduce the amount of unemployment. Those of us who have studied certain industries with some care are convinced that some industries can, by taking thought, reduce the amount of unemployment which they regularly produce; others cannot. It depends upon things outside their control. We do believe that this imposition of an assessment will have a stabilizing influence on those industries that are susceptible to preventive methods of stabilizing unemployment.

Mr. McCORMACK. What is the contribution of the employees under this bill?

Secretary PERKINS. In which form, sir, old-age or unemployment insurance?

Mr. McCORMACK. The unemployment insurance.

Secretary PERKINS. In the unemployment-insurance bill, sir, we have deliberately left to the States the whole question of how the funds should be raised, whether they should be raised by employer contribution or by joint contributions of employers and employees, or whether the State government should also participate in a three-part fund. That is a matter for the States to decide. It seemed to us very much better that it be experimented with in that way, particularly at this time.

The CHAIRMAN. Madam Secretary, would it be convenient for you to return in the morning at 10 or 10:30 to complete your testimony?

Secretary PERKINS. Yes, except for one fact, sir, that I have been asked to appear before the Senate committee which is considering a similar bill, tomorrow at 10. I should be very glad to appear any time after that.

The CHAIRMAN. I believe if you will confer with the Chairman of the Finance Committee, he will agree to your returning here, because he told me over the phone that our hearing would have the right-of-way, that he would not call any witness if such action would interfere with our hearings here; and will you then let us know?

Secretary PERKINS. I will confer with him at once, sir, and let you know.

Mr. TREADWAY. As a confirmation of the statement the chairman has just made, Senator Harrison gave me that same information, that he felt that we should examine the witnesses first.

The CHAIRMAN. The chair will make this observation: The committee will meet in the morning at 10 o'clock with the hope that Madam Secretary can be present until she has completed her statement. Otherwise, we shall proceed with Mr. Witte's statement. However, each statement will be printed in sequence.

Secretary PERKINS. There are a number of witnesses, sir, whom I am very hopeful that you will hear, people who have given careful thought to some one particular detail of this bill and to this whole subject. We are very anxious to have their knowledge and their thought available to you for whatever use it may be on this occasion.

The CHAIRMAN. The Chair will state that any witnesses whom we request to appear, like yourself, will be given a hearing.

The committee will recess until 10 o'clock tomorrow morning.

(Whereupon, at 3:53 p. m., the committee recessed until 10 o'clock tomorrow morning, Wednesday, Jan. 23, 1935.)



# ECONOMIC SECURITY ACT

WEDNESDAY, JANUARY 23, 1935

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

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

The CHAIRMAN. The committee will be in order. When the committee recessed yesterday, Madam Perkins, Secretary of Labor, was still addressing the committee.

Madam Secretary, you may continue your statement, if you will.

## STATEMENT OF HON. FRANCES E. PERKINS, SECRETARY OF LABOR—Resumed

Secretary PERKINS. Mr. Chairman and gentlemen:

I had finished my statement and I am here prepared to answer any questions any member of your committee may have to put to me.

The CHAIRMAN. Are there any further questions any member of the committee desires to propound to the Secretary?

Mr. JENKINS. Madam Secretary, I should like to ask one or two simple questions in which I am very much interested. They are these. Should it develop that it would not be wise to carry out this whole program, it is true, is it not, that the program can be divided without any serious danger to the part that is accepted? To make myself clear; for instance, as I understand it, your studies have been so exhaustive that you are in a position to say, without any qualification whatever, that the old-age pension plan, for instance, can be accepted without consideration of any of the other plans?

Secretary PERKINS. Yes, sir; but that will only take care of a very small part of our total social hazard from economic insecurity.

Mr. JENKINS. I have this in mind, that if, in this session of Congress—and we all understand that legislation is a growing proposition—it should come to pass that we should adopt the old-age pension and the bonus, for instance, as well as a comprehensive relief program, that might be as much as the Congress might be able to digest.

What I am interested in is whether or not, in your opinion—you have demonstrated that you have this matter well in hand—the adoption of the old-age pension plan by itself would in any degree meet the approval of those who have given this subject exhaustive study.

Secretary PERKINS. No, sir. To adopt the old-age pension plan alone would not begin to give a rounded program of economic security. If those who have studied the problem had thought that the total provision for economic security was to be merely an old-age pension

plan, they would have recommended a much more—what shall I say?—a much more elaborate plan of old-age provision, on the theory that the aged would have to support the younger members of the family.

This whole plan is based upon the conception that those of working age will make the principal economic contribution to the maintenance of family life and that the aged will only be expected in any family to contribute such share of the total family budget as can be really said to be their own self-support.

So that I should think to adopt old-age pensions without the rest of what is proposed would be to leave a very wide margin of economic insecurity of the exact type that can best be prevented, that we know how to prevent.

Mr. JENKINS. Then I take it from your answer that the principal idea of those who foster and favor this program is not so much to relieve a temporary situation as to provide for a future economic security.

Secretary PERKINS. Yes, sir. We all know about the needs of the aged, but the purpose of this rounded program is to prevent the disasters which have overtaken our people in recent years; to provide a certain stability of income to the low-income groups; income from every source—income on behalf of the aged, and income on behalf of the dependent young.

Mr. JENKINS. Do you not think that this could be done? I am not putting myself up as an expert, as I recognize you to be, but do you not think that if we were to adopt a program of old-age pension and a rather comprehensive program of assistance to those who are physically handicapped, regardless of age, the blind and the crippled, people of that sort, taking them out of the relief categories—because, as a matter of fact, their condition is not the result of a depression, but the result of physical ailments over which they have no control—do you not think that if we did that we would be doing a good deal?

Secretary PERKINS. I think, sir, that we are all aware of the fact that we have always with us the sick and the handicapped. That is no new problem in the life of any community. Care for that group is usually regarded under the heading of the extension of the general underlying charitable impulse which has motivated mankind for many years. I think any program which omitted the consideration of the best way of preventing disaster due to unemployment would be a very insufficient program and I think that that must be taken into consideration and must be a part of any program that is worthy of the name of economic and social security.

Mr. JENKINS. The way I look at this program is this, Madam Secretary, that the justification for a Federal old-age pension plan is this. Many of the States have a plan. Naturally, there may be a conflict between the various plans. In my State of Ohio, for instance, I have found this situation, that we are trying to take better care of the old people than we are of the infirm and the handicapped. For instance, we leave the widows and children and the blind to the county, to the officials of the county units, and the result is that today the old people in Ohio are much better taken care of than, for instance, the blind people.