ECONOMIC SECURITY ACT

FRIDAY, JANUARY 25, 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. We will continue hearings on H. R. 4120.

STATEMENT OF J. DOUGLAS BROWN, DIRECTOR INDUSTRIAL RELATIONS SECTION, PRINCETON UNIVERSITY

Mr. Hill. Will you please state your name, your connections, your background, and your connection with this particular legislation?

Mr. Brown. I am professor of economics at Princeton University and director of the industrial relations section of the university.

In order to offset the perhaps dubious connection of being a college professor, I was a member of President Hoover's Emergency Committee for Employment in 1930 and 1931. I have been a member of the Advisory Committee on Employment to the Federal Coordinator of Transportation; also on an advisory commission to then Governor Moore, of New Jersey, on the finances of the State of New Jersey. I have been connected on a part-time basis with the Committee on Economic Security. I have been associated with Mrs. Barbara N. Armstrong, professor of law at the University of California; Mr. Murray W. Lattimer, who testified yesterday; and Mr. Otto Richter, in the work concentrated on the old-age subsidy, old-age insurance, and the voluntary annuity parts of this bill.

Mr. Hill. With what educational institution are you connected?

Mr. Brown. Princeton University.

I wish to make a very brief introductory statement and then I will touch on the main reasons for the particular principles incorporated in the committee's recommendations on old-age insurance.

In the development of the old-age security program recommended by the Committee on Economic Security and incorporated in the present bill, every possible principle or method of meeting the problem was considered. Not only were techniques and experience under public and private programs in this country thoroughly analyzed but techniques and experience in every important foreign country were studied. The recommendations arrived at are the result of the combined thought of a large number of technical experts, business men, labor leaders, and governmental officials; those formally recognized in the committee's report and many others.

The staff technicians who have been most directly engaged in developing these recommendations realize more than anyone else the impossibility of arriving at perfection in the construction of a program of such vast dimensions, no matter what care is exercised. A social-insurance program must evolve, not come forth full blown. We feel strongly, however, that this program of old-age security has reached the legislative stage of evolution and, with alterations and adjustments you may deem fit to make within the general framework of the plan, is ready for enactment. The next stage of evolution is only possible after a permanent social insurance authority is established and operating experience develops. An old-age insurance program requires a generation of experience to perfect. To postpone the initiation of the operation of the plan postpones not only the attianment of self-reliant security for the aged but the availability of more exact knowledge and experience related to American conditions.

The program arrived at is of three parts. This is the old-age security part of the bill:

A. A cooperative Federal-State plan of old-age assistance to those now old and in need, or to those becoming old in later years without the advantage of adequate insurance protection.

B. A Federal plan of compulsory contributory old-age insurance to provide a means whereby employed workers with the help of their employers may insure themselves against dependent old age, and lift themselves through thrift up from the level of dependency on public or private charity in old age.

C. A Federal plan of voluntary old-age annuities to provide self-employed persons such as small shopkeepers and farmers a means whereby they may make secure and economical provision for old age.

While closely related in purpose and effect, these three parts of the general program must be carefully distinguished. The first is old-age relief on the best possible basis, but still relief. It necessarily involves the needs test and normally the limitation of the assistance given to that sufficient for decency and health. The second plan is entirely distinct in operation. It is insurance not relief. It is contributory and contractual and affords an annuity as a matter of right. It applies to all employed persons receiving less than $250 a month. The amounts paid to the aged are related to contributions made to the fund, not to need. The third plan is also distinct from the other two; while it is insurance like the second plan, it is voluntary, not compulsory, and is intended to assist self-employed persons not covered under the second plan. The insured person alone contributes under this plan—no employer, since there is no employer—and the annuity payable is determined by the number and amount of the contributions paid in.

The first plan is intended primarily to meet the urgent need of persons now old. It will need be continued not only for the next generation while the contributory insurance plan is gaining momentum but after that time as a residual plan—a second line of defense—to protect those persons who for any reason have not been included a sufficient period under the insurance plan to provide for their old age and who are facing destitution.

The second and third plans complement each other, one covering employed persons, the other self-employed. It seems necessary to have the third plan to assist the provident farmer, small shopkeeper, and housewife to provide for old age in a relatively easy and safe way. With these three plans, we believe provision is made for both the present and the future, and for both the wage earner and the self-employed person.

I would like to use my time to explain briefly the reasons why those of us on the staff of the Committee on Economic Security concerned in the formulation of the old-age security program arrived at certain more important principles later incorporated in the recommendations and the bill. I shall confine myself to the compulsory old-age insurance plan, the second plan, and that incorporated in title III and title IV of the bill. I will state the main reasons for our recommendations in outline form but shall be glad to elaborate on these reasons if you desire me to do so.

The use of the contributory-contractual principle:

1. A contributory-contractual plan uses the method of thrift to protect workers in their old age rather than needs-test relief which may in time discourage thrift.
2. It affords a facility for saving for old age which, provided by the Government itself, avoids the dangers of bank failures, of losses on securities and real estate, or of other means of investment or of hoarding.
3. It makes savings regular and automatic with a return as a matter of right, with compound interest in regular installments covering the precise period of need; that is, during old age.
4. It avoids the prospect of dependence on children or other relatives, who may themselves be in need, or on public relief subject to a needs test.
5. It provides not only the security of old-age protection but of an increasing estate available to dependents in case of death; that is the worker's own contributions as he goes through life gradually mount up to a small estate, a death benefit, you may call it, which is returnable with interest on death.

The provision for worker contributions:

1. By contributing, the individual worker establishes an earned contractual right to his annuity through his own thrift.
2. Worker contributions increase greatly the amount of the annuity which can be paid, in fact, under the recommendations practically double the amount of annuity which can be paid. This follows closely laws of other countries and is being increasingly done in private industry.
3. Through increasing the amount of the annuities, worker contributions encourage the displacement of superannuated workers and of minor children and women supporting dependent old persons from the labor market, with resulting increase in wages and earlier promotion.
4. Encourages the development of an adequate system of retirement annuities independent of employer control.
5. Encourages, through providing a more adequate system of retirement annuities, the employment of middle-aged workers, since the employer is no longer faced with the need to continue employment after 65 or to pay a higher rate of contribution under a private pension system on account of the increased age of the employee.

I feel, sir, that that is very important. We are facing a tremendous problem in the older worker. This plan, by so much as it relieves the employer of the obligation of continuing the employee after 65, or the obligation of building up contributions under a private pension scheme at a higher rate in those later years, by so much lessens the handicap of the older worker in getting a job. It is only one slight advantage, I admit, over against the physical factors, the speed of industry, and the demand of large industry for young men to be trained in their own plants, but it is still a factor in encouraging to some extent the employment of older workers.

Third, employer contributions.

1. Provides an automatic method of meeting the depreciation charges on the human factor cooperating in production similar to the usual accounting charges for depreciation of plant and equipment.

Industry recognizes this. You have a large number of important and progressive companies already doing this at a relatively higher cost than is provided in this bill.

2. Makes uniform throughout industry a minimum cost of providing old-age security and protects the more liberal employer now providing pensions from the competition of the employer who otherwise fires the old person without a pension when superannuated. These progressive employers have gone ahead at very considerable cost and are now meeting the competition of many other plants which have done nothing to protect their employees against old age.

3. Spreads the cost of old-age protection uniformly over concerns that employ older workers and those that employ younger workers.

Mr. Litchfield, of the Goodyear Tire & Rubber Co., made that point very strongly, that the concerns that now continue to employ older workers are at a disadvantage compared with their competitors who hire younger workers at the prime of life and lay them off. The concerns employing older workers, naturally, are more inclined to protect them as they are the people who have to lay them off in old age, and they are the concerns who have developed pension plans; whereas other concerns hire younger workers and lay them off long before they are susceptible to pressure to have a pension plan.

Fourth, Government contributions:

1. The final security of any social insurance plan is the guarantee of the Government. To buttress the guarantee of security there must be financial strength and the taxing power of Government.

2. There are limits to the reasonable use of employment and earnings taxes when used for a purpose benefiting the public as a whole. The payment of annuities larger than can be earned in the earlier years of the plan may well be considered a public benefit and has been so considered in practically every important foreign plan.

3. To avoid large reserves. If contribution rates are raised sharply in the early years of the plan, huge reserves accumulate. The problem of investing and liquidating these reserves may be far greater economically than that of a Federal subsidy in later years. If contribution rates are raised sharply in later years, the worker then contributing may receive on retirement scarcely more than a return of his own contributions, since the employers' contributions will have been used to pay back the amounts expended to supplement earlier annuities.

One of the most difficult problems in our consideration of these problems was to meet several variables. One variable is the size of the reserve. If that reserve is permitted to rise to the height of $75,000,000,000 or $100,000,000,000, since you are bringing in the savings of millions upon millions of workers, you have a huge investment problem. But far more than merely the investment problem, you are diverting consumer purchasing power from people who always spend practically all of their money to consume—the workers—and putting it into capital goods, into the debt of the United States Government, which is naturally more likely to be used for capital goods, thereby diverting from use for consumer goods funds to be invested in capital goods. We feel from an economic point of view that this is dangerous. Therefore it has been the recommendation of the staff to keep down the size of the reserve under this plan.

4. The shifting of the incidence of the employment tax to the consumer, which may take place—that is, the employer's share of this tax may be shifted to the consumer over a period of time—may become in time a regressive tax that may well be supplemented by the use of funds drawn from a progressive income tax. The best time to draw upon other taxes would, however, be in the later years of the plan.

Fifth, the payment of larger annuities than are earned in the early years of the plan.

This plan involves 15-percent and 10-percent minimum annuity rates and the payment of annuities in excess of those earned in the early years of the plan.

Our reasons:

1. To obtain the social and economic advantages of contractual annuities as soon as possible in order to secure the "lift" of self-sufficing and self-respecting old age in our time and not wait until Kingdom Come to obtain assured economic security for the aged.

2. To avoid the ridiculously low annuities involved in paying earned annuities only in the early years, which for a time might not warrant the nuisance and collection costs of the tax.

3. To secure the displacement of superannuated workers from the labor markets as soon as possible.

4. To hold down reserves.

I might say that the great majority of foreign countries—all of those we have studied, which includes every country having such a plan—do precisely this; and not only that, every private concern of which I have knowledge in starting an industrial pension plan has paid a larger pension to those middle-aged or now old than they could secure by their own contributions, matched by the employer.

Sixth, the maintenance of the lowest reserve compatible with the safe operation of the system.

1. To avoid the undue diversion of funds from the flow of consumer purchasing power on the one hand to capital investment on the other.

2. The accumulation of a large reserve may involve serious complications not only in Federal financing through the necessity of selling and repurchasing Federal obligations in huge amounts at unpropitious times but may affect adversely the capital market.

3. Large reserves may encourage demands for increased rates of benefit or unwise use of funds for other purposes.

We are afraid that if this reserve should accumulate to 50 billion, 75 billion, or 100 billion, it would be a very natural demand on the part of those coming under the pension contracts to say, "with that huge sum, why cannot our benefits be increased?" It has happened in almost every policemen's and almost every firemen's pension plan in the country. You permit large reserves and the popular demand is for increased benefits.

4. The accumulation of large reserves may necessitate the reduction of other Federal taxes in order to create new obligations and thus for a time relieve the rich through taxes on lower incomes.

We certainly do not object to relieving taxes on anybody, but in this case it would be the accumulation of such a large reserve that the Government would have to begin to use those funds and reduce other taxes. In order to find a use for it, and to set up obligations against that use may require the reduction of other taxes.

Seventh, the gradual stepping up of contribution rates.

1. The gradual raising of the rates of contribution softens the impact of the new charge on both the employer who has no pension plan at present and the worker and allows time for readjustments.

2. To hold down the income into the fund until disbursements are sufficient to avoid the accumulation of large reserves.

3. A lower initial rate of contribution aids in the enforcement of the tax since coverage is secured and public support gained while the cost of the tax is small.

Eighth, enforcement of the taxes involved.

1. To the worker, the plan is in essence a method of savings with his employer matching his deposits. An interruption in his record reduces the annuity on retirement not merely by the amount of money unpaid but also by the reduction of the number of contribution weeks in his record. Every employed worker by so much has an interest in the enforcement of the tax and in reporting evasion on the part of the unscrupulous employer.

2. The use of a stamp book, especially in the case of smaller plants, improves enforcement since each employee can watch his savings accumulate and can note and report omissions.

3. The employer who evades the tax is not only defrauding the worker of his old-age pension but might be subject to fines and reimbursement of the tax at penalty rates to the credit of the employee.

4. The inclusion of domestic and farm labor, while socially desirable, may increase the problem of administering the plan at the outset.

These and many other aspects of the proposed contributory insurance program have been carefully considered. The reasons here marshalled are for your consideration. I know that I speak for the technical staff which aided in the development of the recommendations in expressing our desire to be of any help possible to the individual members of your committee or the committee as a whole in your study of the problem of old-age security.

Mr. HILL (presiding). The committee will adjourn at this time until 3 o'clock this afternoon, at which time Miss Lenroot will be the witness. It may be that some members of the committee may want to ask Professor Brown some questions, but after that Miss Lenroot will be the witness.

(Whereupon, at 11:55 a. m., the committee adjourned.)

ECONOMIC SECURITY ACT

SATURDAY, JANUARY 26, 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. We will continue hearings on H. R. 4120, and Professor Brown will resume his statement.

STATEMENT OF J. DOUGLAS BROWN—Resumed

The Chairman. Professor, have you concluded your main statement?

Mr. Brown. I have just a very brief additional statement.

The Chairman. Will you please proceed?

Mr. Brown. Mr. Chairman and gentlemen, I want to enumerate the more important reasons for two features of our recommendations. First, the gradual stepping-up of the contribution rates under the old-age insurance plan. Our reasons were that the gradual rates of contribution soften the impact of the new charge on industry and on the employee and allow time for necessary economic readjustments.

We feel that to start with a high rate, especially when a high rate is unnecessary, since the insurance fund will be receiving contributions from 45 age groups—that is, from persons aged 20, let us say, to age 65—is unnecessary. In the first years pensions will be paid to, at first, one age group, age 65, then two age groups, ages 65 or 66, and so forth. And since funds are not immediately necessary, it is preferable not to collect more funds than are necessary, particularly in the early years. So the rates of contribution have been held down to, first, 1 percent, then 2 percent, and so on, jumping at 5-year intervals.

The second reason is to hold down the income in the fund until disbursements, as I have just mentioned, are more nearly equal to the receipts, so as to avoid an accumulation of large reserves.

A third reason is that a lower initial rate of contribution aids in the enforcement of the tax. By starting with a 1-percent tax, one half on the employees and one half on the employer, coverage is obtained more readily; more adequate enforcement is possible, since the impact of the tax is small. Then, as time goes on, and the tax has become a customary cost of industry, and a customary charge on the employee, enforcement is more readily possible.

Finally, one or two points concerning the enforcement of the tax. It is our belief that to the employee this plan of old-age insurance will look virtually like a savings plan. It is, of course, compulsory. But to the employee the contributions, placed in the fund and matched by the employer, are equivalent to a savings account. Therefore, whenever the employer fails to make a contribution, that is, the employer's own contribution plus the deduction from the employee's wages, the employee has lost by so much part of his savings. And therefore under this scheme every employee virtually becomes an enforcement agent of the tax.

By the use of the stamp book, which is the method used in Great Britain, every employee is aware from time to time of the contributions that have been made to his account. Should any employer fail to attach to the book the stamps which indicate the payment of the tax, the employee is aware of the omission and knows that not only has he lost that amount of money but he has also lost a contribution week in his account.

Mr. KNUTSON. Right there, I should like to ask the witness at this point to describe to us this book of stamps that he has in mind.

Mr. BROWN. I should be glad to.

Mr. KNUTSON. And give us the history of the book from the time the first stamp is placed therein until it is liquidated, if you know what I mean; until the account is closed.

Mr. BROWN. Yes, sir. Following the English method, at the beginning of each 6 months' period, for example, each employee will receive a stamp book or stamp card. First, on obtaining employment, the employee presents the card to the employer, who keeps it as long as the employee continues in employment. Each week during employment the employer purchases a stamp, adding his own share of the contribution to the employee's share. He attaches the stamp to the proper place on the card, thus indicating that the tax has been paid.

In the course of a 6 months' period, for example, there will be 26 places on the card, and when those places are filled, the card is turned in to the proper insurance authority. A permanent record is kept of the fact that that employee's record is complete for 26 weeks, and a new card is issued.

When the man is laid off, he is given back his card. He takes his card to the insurance authority and leaves it on deposit there until he secures a new job. At that time the card is returned to him, presented to the employer, and the same procedure follows.

Mr. KNUTSON. We will assume that the employer and employee both should put up the $1.50 on that.

Mr. BROWN. Yes.

Mr. KNUTSON. They would put a $3 stamp on it.

Mr. BROWN. Yes.

Mr. KNUTSON. One stamp would cover both contributions?

Mr. BROWN. Covering both contributions. That would be an indication that for that week the contribution had been paid. It is virtually a mechanistic savings-account book.

Mr. KNUTSON. How is it working out in Great Britain?

Mr. BROWN. It works very well, sir.

Mr. DINGELL. As regards the stamp, is there any indication on the stamp to designate the proper contribution? In other words, suppose a person gets behind or misses 2 or 3 months, would it be possible for him to obtain stamps to cover any of those back payments? Is there

27779 — 299 S9L

ENGLAND.

21 26 Weeks ending 3rd July, 1921.

Society 361433

Name c Harrison albert
(Surname first)

Address in full { 31 Stevens Crescent
Totterdown Bristol

NOTE.—On change of address, the new address must be entered in the space below and the Society informed within seven days.

	2nd Week, commencing 10 Jan., 1921.				
	RATE OF				
	UTION 10d.				
3rd Week, commencing 17 Jan., 1921.	4th Week, commencing 24 Jan., 1921.	5th Week, commencing 31 Jan., 1921.	6th Week commencing 7 Feb., 1921.	7th Week, commencing 14 Feb., 1921.	8th Week, commencing 21 Feb., 1921.
WE	EKLY R	ATE CF	CONTRI	BUTION	10d.
9th Week, commencing 28 Feb., 1921.	10th Week, commencing 7 Mch., 1921.	11th Week, commencing 14 Mch., 1921.	12th Week, commencing 21 Mch., 1921.	13th Week, commencing 28 Mch., 1921.	14th Week, commencing 4 April, 1921.
WE	EKLY R	ATE OF	CONTRI	BUTION	10d.
15th Week, commencing 11 April, 1921.	16th Week, commencing 18 April, 1921.	17th Week, commencing 25 April, 1921.	18th Week, commencing 2 May, 1921.	19th Week, commencing 9 May, 1921.	20th Week, commencing 16 May, 1921.
WE	EKLY R	ATE OF	CONTRI	BUTION	10d.
21st Week, commencing 23 May, 1921.	22nd Week, commencing 30 May, 1921.	23rd Week, commencing 6 June, 1921.	24th Week, commencing 13 June, 1921.	25th Week, commencing 20 June, 1921.	26th Week, commencing 27 June, 1921.
WE	EKLY R	ATE OF	CONTRI	BUTION	10d.

The Insured Person should sign in the space below before returning the Card.

Signature of Insured Person ______________________

* *Address to which future letters should be sent* { ______________________

In accordance with Section 13 of the Stamp Duties Management Act, 1891, any Person who fraudulently removes any stamp from this Card or makes use of any stamp removed from another Card is guilty of felony.

EMPLOYED CONTRIBUTOR. **3511**

MAN.

CLASS A

CONTRIBUTION 10d. A WEEK.
Employer, 5d.; Worker, 5d.
(See No. 5 below.)

ENGLAND.
To 3rd July, 1921.

1921
FIRST HALF

NATIONAL HEALTH INSURANCE.

Contribution Card for 26 weeks ending 3rd July, 1921.

(1) This Card is the property of the Minister of Health. It must not be bought, sold, transferred or taken in pawn.

(2) The Insured Person must deliver the Card to his Employer at the proper times for the purpose of stamping, and must immediately after 3rd July, 1921, and in any case not later than

16th JULY, 1921,

send the Card, **with his Record Card** to his **Approved Society. If he is not a member of a Society he should post his Card to the Ministry of Health, Insurance Department; an addressed envelope can be obtained at any Post Office.**

Failure to surrender this Card promptly may result in a serious loss of benefits.

(3) A 10d. contribution is payable by the Employer for each week (commencing Monday) during the whole or any part of which the Insured Person is employed. *The Card must be stamped with National Health Insurance stamps not later than the time at which wages are paid,* and each stamp must be cancelled at the time of affixing, by writing the date of affixing in ink or stamping it with a metallic die across the face of the stamp.

(4) The Employer must also stamp the Card to date and return it to the Insured Person at the following times:—(a) on the termination of the employment, or if the employee leaves without notice within 14 days; (b) on the expiration of the period of currency of the Card, or not later than 7 days thereafter; (c) within 48 hours after receiving a request to that effect from the Insured Person.

(5) If the Insured Person is 18 years of age or over, and his remuneration does not include board and lodging, his share of the contribution is less than 5d. where the rate of his remuneration does not exceed 4s. for a full working day, i.e., he pays 4d. if the rate is over 3s. but not over 4s. a day; and nothing if not over 3s. a day.

(6) Where the Employer fails to pay the contribution and to deduct the Insured Person's share of it at the proper time he loses his right of deducting any part of the contribution.

A Member of a Society requiring a new Card should apply to his Society.

A person finding a lost card should drop it into a Post Office letter box.
If this Card is sent through the post it must be put in an envelope, and postage must be prepaid unless the Card is sent to the Ministry of Health.

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Mr. BROWN. That is to cover persons entering the plan after age 60. You see, in the early years of the plan, there will be persons covered who are over 60 or who are just under 60, but who are unable to pay 200 qualifying contributions. We have to arrange to pay back those contributions, because such a person does not qualify for an annuity. That section provides for the return of those payments.

Mr. REED. What part of the bill takes care of the matter I asked you about, concerning the man who has stepped up to a higher-income position?

Mr. BROWN. There is no particular designation of that, but the fact that the annuity is available is based on the number of years of contribution. The rate of contribution automatically takes care of that. The fact that he goes out of coverage for purposes of the tax does not mean that he loses his right to the benefits.

Mr. REED. Are you sure that the bill covers that point?

Mr. BROWN. Yes, sir.

Mr. TREADWAY. Have you had any part in drafting any of the provisions of this bill that we are considering?

Mr. BROWN. I did not actually participate in drafting it, but checked the drafting from time to time.

Mr. TREADWAY. Before it was introduced?

Mr. BROWN. The associate solicitor of the Department of Labor, who was working, along with others, on the drafting, showed us copies from time to time and asked for our criticism.

Mr. TREADWAY. Who do you mean by "us"?

Mr. BROWN. That is Mr. Latimer and myself particularly, who cooperated in the preparation of recommendations to the committee on economic security.

Mr. TREADWAY. Before there was very much preparation of this measure you and Mr. Latimer laid out recommendations to be incorporated in it, is that correct?

Mr. BROWN. Mr. Latimer, Mrs. Armstrong, and myself have been working on the principles incorporated here since last August.

Mr. TREADWAY. And that was entirely on your own initiative?

What I mean is this: Are you in any way officially associated with the Government?

Mr. BROWN. Yes, sir.

Mr. TREADWAY. With whom?

Mr. BROWN. With the Committee on Economic Security.

Mr. TREADWAY. That is this committee whose names appear in this report that we have before us?

Mr. BROWN. Yes, sir.

Mr. TREADWAY. And your official position is what?

Mr. BROWN. I was associated as consultant with the staff more particularly concerned with the old-age security part of the general recommendations.

Mr. TREADWAY. But your permanent position is a professor in Princeton University; is that right?

Mr. BROWN. Yes, sir. My full-time position is professor at Princeton University.

Mr. TREADWAY. And you are loaned by the university?

Mr. BROWN. That is right.

Mr. TREADWAY. Are you associated with Professor Kemmerer?

Mr. BROWN. Yes, sir.

a specific place on the card for a stamp for that particular period or that particular date?

Mr. BROWN. There is a place provided for the specific week and when the stamp is attached to that place, it is canceled with the date. That is in order to protect the fund and to have contributions made only in the course of employment as a deduction from the worker's wages and added to by the employer's share.

Mr. DINGELL. What I am driving at is this. Assuming that an individual gets behind, for some reason or another, in these contributions or payments, is it possible for him at a later date to obtain stamps from someone else and apply these to his own account? In other words, are these stamps dated for that specific period? Is the stamp pasted on any certain part of his card for that date, in order to avoid the possibility of manipulation?

Mr. BROWN. To protect against that, the stamp would be attached by the employer, canceled by the employer, indicating the date. It would be placed in a certain space on the card for that week. That would prevent buying up stamps from someone else, such as a wife or a son, and pasting them into the proper places.

Mr. REED. Mr. Chairman, I wanted to make a request and also to ask a question. Is this card that you hold in your hand one you had made up, or one that was used somewhere else?

Mr. BROWN. This is the card of an English workman.

Mr. REED. I assumed that. I am wondering, Mr. Chairman, whether it would not be of value if we could insert a facsimile of that in the record.

Mr. BROWN. Yes; except that I have to return this to the particular English workman to whom it belongs.

Mr. REED. But you could furnish us a copy.

Mr. BROWN. Yes, sir.

Mr. REED. There is a question I would like to ask. The compulsory annuity plan does not apply to nonmanual workers receiving more than $250 a month?

Mr. BROWN. That is right.

Mr. REED. Suppose a nonmanual worker contributes to the fund 10 or 15 years and then goes into the higher-salaried class; does he recover any of the payments that he has made?

Mr. BROWN. Whenever he becomes 65, he receives a pension based on the contributions made in his early life. In other words, he does not receive a return in cash. He has a deferred annuity available to him at the age 65.

Mr. VINSON. Will the gentleman yield on that very point?

Mr. REED. I yield.

Mr. VINSON. My understanding is that there is no case under the contributory annuity system where, after the employee arrives at the age 65, he does not at least get back what he paid, plus interest.

Mr. BROWN. That is right.

Mr. VINSON. That is all inclusive.

Mr. REED. That is what I wanted to find out.

Mr. VINSON. That is what I thought you had in mind.

Mr. BROWN. That is correct.

Mr. REED. I wanted to clear this up in my own mind. On page 29 of the bill I notice subdivision (d), line 4. Is that the subdivision of the section that applies to the statement you have just made?

Mr. TREADWAY. There are several names mentioned as connected with this committee. It is very difficult, of course, to carry all those in mind, the names of these various high-titled committees; there are so many of them. But the principal committee, as I understand it, is the advisory committee to the Committee on Economic Security—the advisory council.

Mr. BROWN. Yes, sir.

Mr. TREADWAY. That is the main committee?

Mr. BROWN. There are, you might say, three central groups. There is the permanent staff; that is, the staff that has been regularly employed, associated with the Cabinet committee.

There is, secondly, the technical advisory board.

Mr. TREADWAY. That group that you are mentioning now are all Government employees?

Mr. BROWN. Government people; yes, sir.

Then the advisory council, that you just mentioned, which is made up of industrialists, labor officials, and other people representing the public.

Mr. TREADWAY. When you speak of industrialists, do you refer to the presidents of these corporations whose names appear here?

Mr. BROWN. Yes, sir.

Mr. TREADWAY. To what extent—I have asked a somewhat similar question of Dr. Witte, without very great success—to what extent have those corporations or representatives from those corporations actively participated in advising or checking up or passing upon the contents of this measure that we have before us?

Mr. BROWN. I feel that at least a majority of the five industrial members made a very close study of the old-age insurance program. I believe all five know very fully all the problems involved. For example, in the case of Mr. Teagle, I was in contact with the executive assistant to Mr. Teagle, who is directly in charge of these problems, and discussed it fully with him.

Mr. TREADWAY. You are referring to Mr. Walter C. Teagle, president of the Standard Oil Co.?

Mr. BROWN. President of the Standard Oil Co. of New Jersey. I felt it would be best not only to give Mr. Teagle the opportunity of discussing it, but also his particular adviser. That is, I discussed it with his adviser.

In the case of Mr. Folsom, Mr. Latimer and I have had repeated conferences concerning the old-age insurance program.

In the case of Mr. Leeds, whom I have known personally for many years, I have had several conferences with him and I know that he knows fully the problems involved in the recommendations.

Mr. Lewisohn, who has been chairman of the American Management Association, is also fully aware of what is involved, as is Mr. Swope.

Mr. TREADWAY. So that you feel that the industrialists themselves—and certainly that is a very distinguished group of employers—you feel that the industrialists themselves are not only familiar with this measure, but, in your judgment, approve it?

Mr. BROWN. I do, sir. I speak certainly for the progressive group of employers who realize the problem of old age and in that group most certainly are all of our larger companies in this country.

Mr. TREADWAY. In his department?

Mr. BROWN. Yes, sir; I have been for many years.

Mr. VINSON. You were specializing upon the old-age pension phase of the bill?

Mr. BROWN. Yes, sir.

Mr. VINSON. In conjunction with Mr. Latimer and Mrs. Armstrong?

Mr. BROWN. Yes, sir.

Mr. VINSON. And when you say that they submitted the bill to you, are you referring to a rough draft particularly of the sections affecting old-age pensions?

Mr. BROWN. That is right.

Mr. VINSON. Of course, there were other ladies and gentlemen who had that similar function in respect to other sections of the bill?

Mr. BROWN. I suppose so, sir.

Mr. VINSON. What you did not mean to say, of course, is that Mr. Latimer and yourself and Mrs. Armstrong were the only persons to whom it was submitted.

Mr. BROWN. Oh, no, sir.

Mr. TREADWAY. Mr. Chairman——

The CHAIRMAN. Have you finished, Mr. Vinson?

Mr. VINSON. No; but I shall be glad to yield to the gentleman from Massachusetts.

Mr. TREADWAY. Just to clear up this one point. Were you in consultation any of the time that you were checking up on this measure with any of the corporations or organizations that actually are dealing with the old-age pension subject practically in connection with their employees?

Mr. BROWN. I was not, sir; not at the time of the drafting of the bill. Of course, all through the last 4 or 5 months I have, as a part of my regular position at Princeton, and also in connection with the work of the committee, asked the views of many persons outside of the official group here in Washington. I felt that, of course, to be necessary.

Mr. TREADWAY. Have you had occasion to contact the employers of labor in the industrial world as to their practical experience with the operation of this sort of a thing in industry?

Mr. BROWN. Yes, sir.

Mr. TREADWAY. To what extent would you say that this measure corresponds either with the views of or the practical methods employed in carrying out old-age pension systems or unemployment-insurance systems in the actual mills or businesses of these gentlemen?

Mr. BROWN. I may say, sir, that my work for the last 6 or 8 years has been the study of private pension plans, along with public.

Mr. TREADWAY. That is just what I am glad to know. I have been interested to see if we could not run across somebody who had contacted private business.

Mr. BROWN. In the course of the work of the industrial relations section at Princeton, we are handling inquiries and coming into contact with employers and trade unions regularly; and in the course of that contact I have had occasion to study many private industrial pension plans.

Since being associated with the staff of this committee, I have discussed the various problems that we were facing with industrial employers, among them some of the best pension experts in private industrial groups.

Mr. BROWN. No, sir.

Mr. TREADWAY. Will it relieve them of a certain part of their burden?

Mr. VINSON. May I say to the gentleman that railroad employees are excluded from the bill expressly, because of the Railroad Retirement Act.

Mr. TREADWAY. That is a provision of this bill?

Mr. VINSON. Yes.

Mr. TREADWAY. Then that would not apply.

Mr. VINSON. Professor Brown, referring to the gentlemen mentioned, Mr. Swope, the president of General Electric; Mr. Leeds, the president of Leeds & Northrup; Mr. Lewisohn, vice president of the Miami Copper Co.; Mr. Teagle, president of the Standard Oil Co.; Mr. Folsom, assistant treasurer of the Eastman Kodak Co.; many of these gentlemen are connected with companies that have private old-age pension plans?

Mr. BROWN. I would say that all of them have private plans.

Mr. VINSON. Not only did the Committee on Economic Security and your group particularly consider the plans in these industries, but I want to ask you if there was any private plan for old-age pension in the United States that you gentlemen knew of that you did not consider in arriving at your conclusions.

Mr. BROWN. I believe we considered every plan in existence in this country.

Mr. VINSON. For instance, yesterday it was suggested that Senator Couzens had provided a fund in Michigan; evidently it was thought that that was a new thing to the Committee on Economic Security. You gentlemen had that fact before you and had full knowledge of the plan that is in force in Michigan, did you not?

Mr. BROWN. I believe so, sir.

Mr. VINSON. And you did not confine your studies to the situation here in this country, but you studied thoroughly the old-age pension systems abroad.

Mr. BROWN. I may say that Mr. Latimer, who is associated with the committee, is considered the leading expert in this country on industrial pensions, and has prepared, over a period of years, a most voluminous book on the subject, which is the classic work in the field.

Mr. VINSON. He made a very splendid statement to the committee the other day.

Now, Mr. Brown, under the contributory annuities provision as set forth in the proposed bill, we have a contribution on the part of the employer and the employee.

Mr. BROWN. Yes.

Mr. VINSON. Did you give any consideration to contributions on the part of any governmental units to this fund?

Mr. BROWN. We considered very carefully, sir, contributions by the Federal Government, because, in the study of our plan, as I mentioned yesterday, it became necessary to meet several variables, one of which is the size of the reserve; the other is the payment of adequate benefits in the early years of the scheme.

Because of both of those problems, the staff of the committee felt that it was best to recommend a Federal contribution to the fund in the later years of the plan, beginning 1965 and from then on. That is, in essence, a repayment of part, at least, of the so-called "unearned annuity" paid to older persons entering the plan as of 1937.

Mr. TREADWAY. That is, these five gentlemen, representing a much larger group of general employers, represent, in your opinion, the views of these general employers?

Mr. BROWN. That is correct. In fact, I have tested that against other employers, not on our committee.

Mr. TREADWAY. That is what I would like to know. That is what I have been trying to get at, just that information.

Mr. BROWN. This particular program incorporated in the bill acts as a basic pension protection. It does not go anywhere near as high as some private pension plans, particularly in the case of higher-paid employees.

This is a social-insurance annuity program, not a private annuity program, so that all of these more progressive companies who already have pension plans can merely permit this protection to offset the lower level of protection they are already affording and then go beyond it if they are so inclined.

Mr. TREADWAY. Let me see if I understand just what you mean by that; that if this bill calling for a contribution of $15 by the Federal Government, matched by $15 from the State, became effective, making a payment of $30 to an employee, and if that employee was qualified to receive, say, $60 from the company by whom he was employed, then the company would assume the other $30 payment, is that right?

Mr. BROWN. No, sir. I was discussing the contributory old-age insurance side of it.

Mr. TREADWAY. Oh, I was confused. But it is the same principle, in a sense, is it not?

Mr. BROWN. It would be, sir. Suppose a man's contribution plus his employer's contribution entitled him to $75 under this plan, and he were a higher-paid employee, say entitled to $100 under the former company plan, the company would make certain provisions that whatever the Federal annuity plan provided would be offset against their obligation under the private plan.

Mr. TREADWAY. Then you would relieve the private employer or company of part of their annuity burden?

Mr. BROWN. Except, of course, that they contribute under the plan.

Mr. TREADWAY. Does not the Pennsylvania Railroad have a very extensive old-age retirement system?

Mr. BROWN. They have not had any funded pension program. They merely paid pensions at the time a man came to be 70 years old, out of operating income.

Mr. TREADWAY. And that went as a direct charge against the annual income of the carrier?

Mr. BROWN. Yes, sir. That was the principle, which, of course, was considered in the Federal bill, namely that it was taking from the road the money providing for the pension and putting it into a Federal fund.

Mr. TREADWAY. Assuming this bill becomes law, or the ideas incorporated in the bill become law, will that relieve the railroads, using the Pennsylvania Railroad as an illustration—there are several others, the New York Central, and, I think probably a large number that have these retirement funds—will that relieve the railroads of this obligation that they have assumed?

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Mr. BROWN. Employing units?

Mr. REED. Yes.

Mr. BROWN. I am afraid I do not have the figure in those terms, but in the case of this bill, the recommendation is to cover plants of one or more employees.

Mr. VINSON. That is as to old-age pensions?

Mr. BROWN. Yes.

Mr. REED. I am talking about unemployment insurance. How many concerns are there in the country who employ four or more persons, that will fall within the purview of this proposed legislation? What is the total number, if you know?

Mr. BROWN. I am afraid I could not answer that.

Mr. REED. Do any of the witnesses who will appear before us have that information, so far as you know?

Mr. BROWN. Perhaps Mr. Latimer has. I can find the information, sir.

Mr. REED. You can find it readily?

Mr. BROWN. Not at this moment.

Mr. REED. I mean, you could put the information in the record?

Mr. BROWN. Yes, sir.

Mr. REED. Would it be possible to break that down into the various States?

Mr. BROWN. Yes, sir.

Mr. REED. Thank you.

Mr. KNUTSON. Mr. Brown, as I understand it, this plan would be, in effect, financed through a sales tax in that the cost of its operation would be passed on to the consumer?

Mr. BROWN. On the employee's side, of course, it is virtually an income tax on a very low level. I suppose that the economic principle would be that it would not be shifted. In the case of the employers' tax, there will be a possibility of shifting it to the customer, and it may therefore become virtually a regressive tax, as a sales tax.

That was one reason I mentioned yesterday for the possibility of the Federal contribution in later years. Those contributions, coming from income taxes, are progressive taxes, not regressive.

Mr. KNUTSON. I take it that you have made a study of the entire field of insurance.

Mr. BROWN. Yes, sir. I am not an actuary, but I have studied the subject.

Mr. KNUTSON. You have made a study of it?

Mr. BROWN. Yes, sir.

Mr. KNUTSON. While the question I am about to ask you does not deal with this particular section of the bill, I would very much like to have your views with reference to the Townsend plan of old-age insurance, if you can give us a short statement on it. We are hearing a great deal about that these days, and the committee should get all possible information.

Mr. BROWN. Yes, sir.

As an economist, associated with this group, I have made a very serious study of the Townsend bill. I did not think that any proposal that had such wide popular support should be disregarded from a scientific point of view.

I may say that I was very sympathetic with the idea of these older people being protected, but I feel that the program is both illusionary

Mr. HILL. I should like to ask the gentleman a question at this point, if I may.

The CHAIRMAN. Does the gentleman yield?

Mr. VINSON. I yield.

Mr. HILL. What had you in mind when you said governmental contributions?

Mr. VINSON. I had in mind the Federal Government, State governments, possibly even lesser units; but governmental units. I had "government" in mind.

Now, I understand the reasoning, Professor Brown, that you submit to us. The thought in my mind is that there may be estimates that have been made to date, based upon the best evidence obtainable, that, in the next 45 years may prove to be grievously in error.

The thought I had in my mind was whether or not you ought to build today for that eventuality, between 1965 and 1980, or whether we ought to lower our sights somewhat and build for that period but at the same time not "pass the buck" too much; go along for a few years with proper benefits and then, with the experience of those years—5 or 10 years—we will be able to build upon a foundation that may be more secure than the one we are visualizing today.

Mr. BROWN. I believe that the bill does have in it that philosophy to this extent, that the starting of contributions at the rate of 1 percent for 5 years and 2 percent for the following 5 years, and so on, does permit a period of reconsideration, you might say, if necessary. During any of those 5-year periods the rate of contribution may be adjusted upward faster, or there may be a delay, for example, if the fund should get too large.

But there is a possibility of adjustment over a period of 10—20 years in the future, and we feel as economists and persons interested in social insurance, that you cannot arrive at perfection in any brief time. It is necessary to look forward to adjustments in the future, in such a vast program as this.

Mr. VINSON. Referring again to the 5 leading "industrialists," so-called, who are on this advisory committee, can you say that there is any difference on substantial principles between their views and the recommendations of this bill, in regard to old-age pensions?

Mr. BROWN. The sequence was this, sir. These recommendations, have been in virtually this form since early November, going through periods of testing. When we tested them by the industrial group, we found the need of no essential change in the program.

The CHAIRMAN. Did you refer to old-age pensions or annuities?

Mr. VINSON. Old-age annuities or pensions.

Mr. BROWN. I was thinking of the contributory-insurance program in which the employers are most interested. The old-age program was presented as a threefold program to the industrial advisory group.

Mr. REED. Mr. Brown, I am sorry I have to leave at this time, and there is one question I should like to ask before I go. How many industries, if you know, approximately, in the country, employing four people or more, which will fall within the purview of this legislation?

Mr. BROWN. How many employers?

Mr. REED. How many concerns employing four or more people will fall within the purview of this legislation?

Mr. BROWN. Yes, sir.

Mr. KNUTSON. Or as it proves itself, rather.

Mr. BROWN. Yes, sir.

Mr. KNUTSON. It is your conviction that the Townsend plan, if put into operation, would blow up immediately?

Mr. BROWN. Yes, sir; it would kill the goose that lays the golden eggs, you might say.

Mr. KNUTSON. And it might set back the cause of old-age pensions 25 years or more?

Mr. BROWN. I am sure it would, sir.

Mr. DINGELL. Will the gentlemam yield for a moment?

Mr. KNUTSON. I yield.

Mr. DINGELL. From the studies you have made thus far of the Townsend plan, it would be absolutely essential as a part of the scheme to inflate the currency to the point of worthlessness to carry out that program, would it not?

Mr. BROWN. I feel so. It would be impossibe to secure the funds through taxation, so that it might be necessary to obtain a large proportion of the fund through inflation. It would be merely adding to the money supply, like adding so many beer checks with the same amount of beer, so that the production of the country, which is the real test of prosperity, would have to be spread over more people.

Mr. DINGELL. Let us make that bread checks instead of beer checks.

Mr. BROWN. Very well.

Mr. LEWIS. May I ask a question, Mr. Chairman?

Mr. COOPER. Will the gentleman yield to me for just one question?

Mr. LEWIS. Yes.

Mr. COOPER. Doctor, just one question on the observation made by the gentleman from Minnesota (Mr. Knutson). As I caught your reply, the so-called "Townsend plan" would involve an amount of about $24,000,000,000?

Mr. BROWN. Yes, sir.

Mr. COOPER. Is that correct?

Mr. BROWN. Yes, sir.

Mr. COOPER. Now, if I may have the attention of the gentleman from Minnesota: Did I correctly understand you in stating that you had received information from some source that this plan would result in a business of $200,000,000,000 in the country?

Mr. KNUTSON. Yes. As I understand the theory of the Townsendites, it is that by compelling the pensioners to spend the amount of money that they receive each month, in the month in which they receive it, it would swell the gross volume of business from 40 billions to 200 billions. Of course, if that were true, it would, in effect, reduce the tax by 80 percent, would it not?

Mr. BROWN. Yes, sir; if that were true.

Mr. COOPER. If only $24,000,000,000 of money is paid out under the plan, how is that going to be turned into $200,000,000,000?

Mr. KNUTSON. I am merely asking for information, may I say to my good friend from Tennessee.

Mr. COOPER. I am sure of that.

Mr. KNUTSON. It is claimed that 22,000,000 people have signed a petition that will shortly be presented to Congress—or petitions—asking for the adoption of the Townsend plan. We have before us and dangerous. It is wishful thinking from an economic point of view. It is what we wish, not what we can do.

Our economic system is so delicately adjusted, as we have seen during these past 5 years, that the placing on it of any burden such as the bill proposes would have the most serious effects and would be impossible, in my judgment.

Mr. KNUTSON. If the Townsend plan—you say it is not operative?

Mr. BROWN. That is it.

Mr. KNUTSON. If it were adopted by Congress, how long would it be before it would break down?

Mr. BROWN. I think it would break down immediately, because the first effect would be to so undermine business confidence that instead of having any resumption, we would have a continuance, of this depression.

Mr. KNUTSON. Will you tell us why?

Mr. BROWN. There are two sources for these huge funds: In the first place, you can tax for them. In case you do so, you dry up the tax sources, because you discourage business. A tax is a drag upon business if it reaches the heights necessary in the proposal of that bill.

Mr. KNUTSON. How high would that tax be?

Mr. BROWN. It would become, I believe, a 6 percent sales tax, in essence. They suggest 2 percent, but I cannot see but that it would be at least 6 percent. For that matter, I cannot see the possibility of accumulating the funds from any means of taxation such as they suggest.

Mr. KNUTSON. In your judgment, Mr. Brown, would the operation of the Townsend plan so increase the volume of business that the tax, in effect, would be reduced to 2 percent? I received a letter the other day to the effect that the operation of the Townsend plan would result in increasing the retail sales of this country from 40 billion to 200 billion. That is an increase of 500 percent.

Mr. BROWN. That is impossible, because it would be impossible to develop the momentum to secure that expansion of business. Our present production capacity would not permit that expansion over a long period of years.

For example, the total revenue receipts of all units of Government in 1932 was 11½ billion. This bill requires 24 billion a year, or greater than all the revenues of all the governmental units in this country.

Likewise, compared to the wealth income of this country, it becomes excessive. It would not mean merely practically the whole wage bill of the country being absorbed, but more than the wage bill of the country.

And it would be concentrated, as a benefit, on 8½ percent of the people. I would like to say that being in a position of advising with responsible government, it seems highly dangerous to have old people feel that these things are possible. In the case of our recommendations, we have attempted to be as liberal as possible within the framework of our economic system.

Mr. KNUTSON. It was the thought of your committee, then, to give us a plan that was absolutely sound?

Mr. BROWN. Yes, sir.

Mr. KNUTSON. That starts at the grass roots and is capable of development as we prove it?

original card with a number. Then, throughout life, whenever he turns in the card, that is filed with his account, and he receives a new card only by submitting his old card.

Mr. BROOKS. We have a number of men, if our hours of labor shorten, especially, in this country, who work on two different jobs or who will work on two different jobs. They may work 4 or 5 or 6 hours in one place and then they will go and be employed over again somewhere else. I was wondering whether it was possible for such a man to secure cards from each employer.

Mr. BROWN. I believe that there would have to be a regulation whereby some arrangement could be made, where the income is obtained from two sources. I believe that could be handled by regulation. Of course, it would be fraud for him to attempt to obtain two cards.

Mr. BROOKS. On the question of wages, this is limited to $150 a month?

Mr. BROWN. The coverage of the tax is $250.

Mr. BROOKS. $250 a month?

Mr. BROWN. Yes, sir.

Mr. BROOKS. I have a pay roll made up principally of pieceworkers.

Mr. BROWN. Yes, sir.

Mr. BROOKS. That pay roll varies from month to month. Suppose I have a month when a certain man runs over $250 a month. Am I taxed as an employer only on the $250, or am I taxed upon the total of the pay roll?

Mr. BROWN. If he is a manual worker, it does not stop at $250. It is only the nonmanual worker that stops at $250. If he is a manual worker, like a plasterer or a bricklayer, and he is on some rush job and gets $300 a month, he would still be covered. It is only the clerical employees, the nonmanual employees, who stop at $250, and in their cases their salaries are more regular, so that you can take an average of the last 3 months—something of that sort.

Mr. BROOKS. As an employer of men on piecework, I pay a tax on $250 a month and over?

Mr. BROWN. Yes, sir; if they are manual employees.

Mr. BROOKS. I think that is a severe penalty on the employer.

Mr. BROWN. No, sir; because, taking the wages paid on a piece basis, or in the case of building trades, on an hourly basis, very often those incomes are irregular throughout the year, so that they would not average over $250 a month for the year.

Mr. DINGELL. I should like to ask a question reverting back to the Townsend idea. The Townsendites assume an increase in business from $40,000,000,000 to $200,000,000,000 as a result of the acceleration of circulation of the dollar. Is that the basis for their contention?

Mr. BROWN. That is what they say, sir.

Mr. DINGELL. Is it not at the same time true that because of the tremendous volume of dollars with possibly no metallic value that would be outstanding in the event of necessary inflation to sustain the plan, the dollar would be so cheap as to make it necessary for a housewife going to a bakery to take a bushel basket full of paper currency to buy one loaf of bread?

Mr. BROWN. It might well be when inflation starts. If I may be permitted, it is like putting a fire under a mule. He may first twitch his ears, then he goes off at high speed. If this Townsend bill were put into effect, the first result of inflation might be only slight, but now the question of pensions and, as Professor Brown very aptly said, a plan that is being petitioned for by 22,000,000 people cannot lightly be brushed aside, or should not be brushed aside until we have given it most thorough consideration.

Mr. COOPER. My purpose was not directed to that point. I was just seeking some additional information on the figures that have been cited here.

Mr. KNUTSON. The theory is that by compelling the pensioner to spend his money during the month in which he receives it, it will swell the gross volume of business from 40 billions to 200 billions. That is substantially correct?

Mr. BROWN. That is what they say. I utterly disagree with the statement, sir, that that would follow.

Mr. KNUTSON. That is, you say that it cannot be done?

Mr. BROWN. Absolutely.

Mr. COOPER. How much, in your opinion, would it swell or increase the volume of business, Dr. Brown?

Mr. BROWN. I should say that the passage of the bill would reduce business because of the fear of inflation and the fear of high taxes; I say that the very reverse would take place as against this supposed increase in production and consumption.

Mr. COOPER. In other words, you think we would have the reverse take place, instead of the suggested increase?

Mr. BROWN. Yes, sir.

Mr. LEWIS. An exception in the old-age pension element of the bill has been made for governmental divisions, local and Federal, and also for the railways?

Mr. BROWN. Yes, sir.

Mr. LEWIS. In other words, the old-age pension feature would not apply to railway employees. But the unemployment-insurance element of the bill, of course, would apply to railway employees?

Mr. BROWN. Yes, sir.

Mr. LEWIS. That is clear?

Mr. BROWN. Yes, sir.

Mr. LEWIS. Just one other question with regard to the consultation which has taken place by your committee with the leading industrialists of the country. Their views, I think, were already pretty well known; their views with respect to unemployment insurance?

Mr. BROWN. Yes, sir.

Mr. LEWIS. Through their contributions in a hearing on the subject before this committee last year.

Mr. BROWN. Yes, sir.

Mr. LEWIS. And those hearings were available to the committee?

Mr. BROWN. Yes, sir.

Mr. LEWIS. Are you familiar with them, Professor?

Mr. BROWN. Yes, sir.

Mr. LEWIS. That is all.

Mr. BROOKS. Professor, to return again to this stamp book, do I understand that this tax is going to be collected weekly?

Mr. BROWN. Yes, sir; either weekly or monthly, according to the pay period of the employee.

Mr. BROOKS. Is it possible for any man to have two of those cards?

Mr. BROWN. No, sir. That is, except through fraud, of course. He makes his original application in the beginning, has his name entered in the records of the insurance authority, and is given his

Mr. Brown. That is it; 48 cents for a person averaging $100 a month.

Mr. Lamneck. Mr. Brown, I notice you said here a little while ago that in your opinion these business men that are on this board are all in favor of this program.

Mr. Brown. Yes, sir.

Mr. Lamneck. That it was satisfactory to big business. What consideration have you given to the effect upon small business?

Mr. Brown. I may say, sir, that Mr. Leeds does not represent so-called "big business" because he has a small concern. For that matter, Mr Lewisohn, for example, has been chairman of the American Management Association Board, which includes many small businesses.

Mr. Lamneck. What other investigation have you made?

Mr. Brown. I have talked with the representative of the Standard Oil Co. of New Jersey, I mentioned; Mr. Teagle's company.

Mr. Lamneck. You would not call that a small business, would you.

Mr. Brown. No, sir. I have talked in the course of the fall with persons who have studied or been connected with many small businesses, for example, Prof. C. C. Balderston, who is in close contract with small concerns in Philadelphia, and other persons connected with small and large concerns from the insurance point of view, as well as other industrialists or students of the subject.

Mr. Lamneck. You would admit that a big business might be able to carry burdens such as proposed in this bill, and the small business might not be able to carry them, would you not?

Mr. Brown. No, sir; because the cost of old age is related directly to the number of workers employed. If you have two employees, your burden is the old-age pension of two employees. If you have 2,000 or 200,000, it is in direct ratio. I feel it is perfectly fair to attach to the cost of small business as well as large, the protection of its employees.

Mr. Lamneck. It is just, but would the effect be the same?

Mr. Brown. I think these percentages you will see are very small, especially in the first years. The 1-percent tax, in fact, a half of 1 percent tax on an emplpyer, would be a very small sum, even for the smallest employer.

Mr. Lamneck. The tax assessed against the pay roll in 5 years from the passage of this bill will be 8 percent of the pay roll, will it not?

Mr. Brown. The tax would be a half percent on the employer and a half percent on the employee in the first 5 years. Then it would jump to 1 percent on the employee and 1 percent on the employer during the next 5 years.

Mr. Lamneck. It finally reaches 2½ percent on each one?

Mr. Brown. Yes, sir; after 20 years.

Mr. Lamneck. Then there is a 3-percent levy for unemployment insurance?

Mr. Brown. Yes.

Mr. Lamneck. That makes a total of 8 percent.

Mr. Brown. You are including the employee's contribution, too. On the employer it would be 3 percent, with 2½ percent at the peak. That is 5½ percent on the employer. I know of concerns paying at least 3½ percent for pensions alone at this time for protection of their older workers.

we do not know when the critical point is passed, when prices might rise very rapidly.

Mr. DINGELL. Prices rise very rapidly and the value of money falls correspondingly?

Mr. BROWN. Yes, sir.

Mr. LAMNECK. Dr. Brown, when are the first payments made under this annuity system?

Mr. BROWN. The first payments would be made 5 years from the initiation of the plan; that is, the initiation of contributions; if it were initiated January 1, 1937, the first payments would be made January 1, 1942.

Mr. LAMNECK. Of course those payments would not be anything like $30 a month or anything of that kind?

Mr. BROWN. In the case of the contributory insurance of which we are speaking, the payments would range from $7.50 for a person averaging $50, up to $15 for a person averaging $100 a month, and so on.

Mr. LAMNECK. What do you do with the person who draws only $7.50? Do you pay him some additional out of the old-age pension?

Mr. BROWN. Yes, sir; in case he were in need he would receive aid through the Federal-State cooperative old-age assistance program.

Mr. LAMNECK. When the annuity system gets at its peak, say in—what year is that, 1980?

Mr. BROWN. Yes, sir; that is our last figure here.

Mr. LAMNECK. How much money would be accumulated in this fund at that time?

Mr. BROWN. Under the plan as proposed in the bill, the total reserve in the fund would be $15,266,000,000.

Mr. LAMNECK. As I recall it, we had some testimony here earlier in the hearing that there would be $74,000,000,000 in that event at that time.

Mr. BROWN. That was under another proposal. That was a proposal for a so-called "earned pension" only, whereby you hold back every cent that is contributed by every contributor, and hold it for perhaps 30 or 40 years, until he is 65. You become then a trustee for all contributions at once.

Mr. LAMNECK. You do not believe such a plan would be possible or practical, do you?

Mr. BROWN. I feel it very inferior to our program here.

Mr. HILL. You say to hold back all the funds for 30 or 40 years—all the funds that have been contributed?

Mr. BROWN. That would be the straight-earned plan.

Mr. HILL. I understood that you simply decline to pay out any unearned annuities but would pay out only earned annuities commencing 5 years after the effective date of the act.

Mr. BROWN. I meant, sir, that under that plan which involves the $75,000,000,000 reserve you would pay earned annuities but not the unearned.

Mr. HILL. You would not hold back all payments?

Mr. BROWN. No.

Mr. HILL. You would pay the earned annuities?

Mr. BROWN. As a man came to be 65, you would necessarily pay him his earned annuity.

Mr. HILL. It might be only a few cents a month?

unemployment insurance when the plan reaches its ultimate development, we can think of 1.34 cents added to the dollar of wholesale value in manufactured products.

The CHAIRMAN. In other words, it would fall heavier upon the employer than it would the consuming public? Is that what you are trying to suggest?

Mr. LEWIS. It would fall with about four times the force on the pay roll than it would on the price of the article sold.

The CHAIRMAN. If there are no other questions, we thank you, Mr. Brown, for your appearance and the information you have given to the committee.

STATEMENT OF KATHARINE LENROOT, CHIEF CHILDREN'S BUREAU, UNITED STATES DEPARTMENT OF LABOR

The CHAIRMAN. The next witness is Miss Katharine Lenroot, representing the Children's Bureau.

Will you please come forward, Miss Lenroot, and give the stenographer your full name, your official position, and your connection with this legislation?

Miss LENROOT. Katharine Lenroot, chief Children's Bureau, United States Department of Labor.

I have with me, Mr. Chairman, Dr. Martha Eliot, the assistant chief of the Bureau, who is a physician. If the committee desires to ask certain medical questions, it may be that I should like to refer some to her.

The CHAIRMAN. The rule under which we have been operating is that the witness reads his or her main statement, and then at the conclusion of the main statement is available for questioning. If you prefer, you may complete your main statement.

Miss LENROOT. Mr. Chairman, and members of the Committee:

The Children's Bureau was asked by the technical staff of the Committee on Economic Security to act in a consultative capacity with regard to, especially, sections or parts of the security program relating to child health and child welfare. An advisory committee on child welfare, whose names are included in the record that has already been made, worked with the Children's Bureau in the developing of the factual material and recommendations that went to the cabinet committee on Economic Security.

I feel, Mr. Chairman, that the child-welfare provisions of this bill are a very integral part of the entire Economic Security program. The importance of including some special provisions with reference to the security of children arises out of the fact that, as we all know, children have suffered very greatly by reason of the depression, both in respect to health and those other circumstances which are essential to normal childhood, normal growth and development.

Moreover, as other witnesses before this committee have pointed out, when we come to attempt to provide for the unemployed, especially for the unemployed now on relief, by measures which will enable them to become again self-supporting, through private industrial recovery or through a works program, or in lieu of such measures, looking mainly toward the future, measures for providing unemployment compensation, there are certain groups of families which cannot be reached by such measures because the breadwinners are absent. It is these groups of families that we have particularly in mind in some of the sections of the bill.

Mr. DINGELL. When would that peak be reached?

Mr. BROWN. By 1957, sir.

The CHAIRMAN. Do you know what the position of the National Association of Manufacturers is with respect to this legislation?

Mr. BROWN. No, sir.

The CHAIRMAN. Do you know what the position of the United States Chamber of Commerce is?

Mr. BROWN. No, sir. We did not meet with those people officially.

The CHAIRMAN. You do not know what their point of view is?

Mr. BROWN. No, sir.

Mr. DUNCAN. I want to inquire about the machinery for the collection of the tax. Suppose an employee is working for an employer; as I understand it, he has a stamp that is placed upon a card, and that is canceled.

Mr. BROWN. Yes.

Mr. DUNCAN. How is that tax paid? How does it get into the tax-collecting office?

Mr. BROWN. The employer purchases the stamps either from the pension authority or the local post office. Even in the smallest town where there is a post office these stamps could be purchased in proper denominations. He buys those in advance, on Saturday, let us say, and attaches the proper stamp to the card for that employee.

Mr. LAMNECK. That purchase is made also on behalf of the employee?

Mr. BROWN. Employer and employee both.

Mr. LAMNECK. And each employer that he may have is chargeable and responsible for the payment of the tax?

Mr. BROWN. Yes, sir.

The CHAIRMAN. Is there any specified time that an employee would have to work before this bill, if it becomes law, would be operative as to him? In other words, does this bill include employment of an employee who works for an employer a negligible length of time?

Mr. BROWN. Yes, sir. We feel it is necessary to include all employment down to a reasonable minimum, from the administrative point of view.

The CHAIRMAN. What would you classify as a reasonable minimum, working 3 or 4 days or a week or 2?

Mr. BROWN. I should say it would be a reasonable minimum to stop at 1 or 2 days. The test of that is an administrative one.

The CHAIRMAN. That would be an administrative matter, rather than one to be stated in the law?

Mr. BROWN. Yes, sir.

Mr. LEWIS. Mr. Chairman, I would like to make a statement of fact here with regard to the cost of the tax to the manufacturer, as to which Mr. Lamneck was speaking:

In the latest census of manufacturers available to me, the wholesale value of products of manufacture in that year was 62½ billions of dollars. The percentage of the total value of the product allocated to wages and salaries was 24.4. On that basis, speaking now of manufacturers alone, not of mines, not of railways, and not of some other industries, the 5½-percent tax which would be reached at length in 1957, would amount to 1.3 percent increase on the wholesale value of the products. Though the tax looks large; when it is applied to the price, it is reduced from 5.5 to 1.34 percent. Instead of thinking of 5.5 percent as the employer's contribution for old-age pensions and