

ECONOMIC SECURITY ACT

SATURDAY, FEBRUARY 2, 1935.

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

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

Present: Senators Harrison (chairman)? Connally, Bailey, Clark, Byrd, Black, Gerry, Guffey, Couzens, Hastmgs, and Capper.

STATEMENT OF DR. FRANK P. GRAHAM, PRESIDENT UNIVERSITY OF NORTH CAROLINA

The **CHAIRMAN**. Doctor, you were Chairman of this Advisory Council, were you not?

Mr. **GRAHAM**. Yes, **sir**.

The **CHAIRMAN**. You are now president of the University of North Carolina?

Mr. **GRAHAM**. Yes, **sir**.

The **CHAIRMAN**. For the record, will you state your background?

Mr. **GRAHAM**. You mean where I was born, and so on?

The **CHAIRMAN**. Well, before you were president of the University of North Carolina what did you do, what studies did you pursue, what was your background?

Mr. **GRAHAM**. I was professor of history at the University of North Carolina. With regard to the point you just made about studies, I have done graduate work at Columbia University, University of Chicago, the Brooklyn Institute, and the London School of Economics of the University of London.

The **CHAIRMAN**. You were selected as chairman of this advisory council?

Mr. **GRAHAM**. Yes, **sir**.

The **CHAIRMAN**. And met with them quite a good deal?

Mr. **GRAHAM**. Yes, **sir**; I met with them in all their sessions. The Council took its work seriously and worked hard and with a public view.

The **CHAIRMAN**. I wish you would just take this bill and criticize it or make any explanation you desire to make with reference to it.

Mr. **GRAHAM**. Mr. Chairman, I would like to say that I am not an expert in this field; that I am not a statistician; I am not an actuary; I am not an economist; that in these matters I am a layman. I could better discuss the general approach to the question of social security.

Senator **COUZENS**. Why were you selected for this position, without having the characteristics that you just described?

Mr. **GRAHAM**. I cannot judge about that myself.

The **CHAIRMAN**. I presume this Advisory Council was named from all over the country, to come in and study this proposition after these technical advisers or technicians had gotten up this proposition, in order to be helpful to the committee.

Mr. **GRAHAM**. Yes, sir; to bring in the lay and public point of view on the expert studies made by the various expert groups working on these particular propositions.

Senator **BLACK**. They were not all experts, were they? A good many of the others were not experts?

Mr. **GRAHAM**. On our Advisory Council were representatives of labor, representatives of industry, and representatives of the public.

The **CHAIRMAN**. Well, that list has been put in the record.

Mr. **GRAHAM**. Yes, sir.

Senator **COUZENS**. Now, could all of those groups get together on one report?

Mr. **GRAHAM**. I would say, Mr. Chairman, we had our disagreements within the committee, of course. All honest people do have disagreements. I was a member of the majority on one point, for example, taking myself as an illustration, and a member of the minority on another issue. That is, the constitution of the majority and the minority groups shifted according to the issue. There were, of course, many controversial issues.

Senator **COUZENS**. Could you harmonize those differences after you had the poll?

Mr. **GRAHAM**. I think I would say, Senator Couzens, that each man, of course, reserved his individual convictions but supported a broad, comprehensive program of social security, in broad outlines, without in any way compromising his own individual convictions. There are some things in the report of the Advisory Council that different members, of course, do not agree with. There are some things in there that I do not agree with. But we are all for a comprehensive long-range program toward social security now.

Senator **COUZENS**. I suppose the chairman wants you to go on and tell us your views then. Is that so, Mr. Chairman?

The **CHAIRMAN**. Yes; just tell us your views. Tell us where the sharp difference between them was and the big questions involved.

Mr. **GRAHAM**. Yes, sir. The sharp differences of opinion were with regard to the unemployment-insurance proposals, as to whether it should be set up according to the Wagner-Lewis device or according to the grant-in-aid plan. That was one sharp difference of opinion. Another was as to whether there should be employee contributions or not. Another was as to whether there should be standards, and at least to what extent there should be standards laid down or written into the Federal law.

The **CHAIRMAN**. There developed, then, a difference of opinion as to whether or not there should be an administrator on the lines of the proposal in the old-age-pension proposition, or approving the character of laws passed by the States and laying down certain standards and rules.

Mr. **GRAHAM**. Yes, sir.

The **CHAIRMAN**. You limit that, so far as unemployment insurance is concerned, to leaving it pretty nearly entirely to the States.

Mr. **GRAHAM**. Our Advisory Council did not.

The **CHAIRMAN**. It did not?

Mr. **-GRAHAM**. No, sir.

The **CHAIRMAN**. But the bill as drafted did?

Mr. **GRAHAM**. The bill as drafted did. Let me say at this point, Mr. Chairman, that I have been so involved in affairs in North Carolina with meetings of the board of trustees that I have not kept up with the proceedings of this committee. I did not know I was to be called until 2 days ago, and I knew only yesterday that I would be free to come, so I am not up with the proceedings of this committee or the latest developments in the program and I would be only qualified to talk on general principles with regard to the whole program.

The **CHAIRMAN**. The Advisory Committee thought that the wording of the legislation should be somewhat along the same line, as applicable to unemployment insurance, as is proposed in the old-age-pension proposition, giving greater power to the Federal Government, is that right?

Mr. **GRAHAM**. I would say that the Advisory Council stood for writing into the Federal law more national standards as a minimum basis for State laws. I would favor national standards with regard to waiting period, rate of benefits, and duration of benefits to prevent unfair competition and to secure protection of the workers.

The **CHAIRMAN**. Yes. You may now proceed on the old-age pensions.

Senator **BLACK**. Before he leaves the question of unemployment insurance, I would like him to give it to us a little more definitely. You say the majority of the Advisory Council agreed to that idea?

Mr. **GRAHAM**. Yes, sir; that there should be more national standards.

Senator **BLACK**. Was it the majority or the minority that believed there should be a Federal aid to the unemployment insurance?

Mr. **GRAHAM**. You mean a direct Federal subsidy?

Senator **BLACK**. Yes.

Mr. **GRAHAM**. I would say that was a minority.

Senator **BLACK**. On which side were you?

Mr. **GRAHAM**. I was for 4 percent, Senator Black. The point was made that industry could not stand 4 percent. I felt so deeply, and I still do, that 4 percent is necessary to give adequate benefits to the workers that, personally, if a 4-percent levy on pay rolls is not possible I would be in favor of having the extra percent from the Federal Government.

Senator **BLACK**. What was your position with reference to the employee contribution on the unemployment insurance proposition?

Mr. **GRAHAM**. Of course that is a very controversial point and I will try to state my view on that, Senator. I was against employees contributions in the Federal act.

Senator **BLACK**. Why?

Mr. **GRAHAM**. Because the worker, as a consumer, will pay. The worker, in the long waiting period proposed, will pay. The worker will pay in the fact that when he is unemployed his benefits are to be, well, I will say, comparatively low as compared to his regular earning power.

The worker is, from my point of view, the victim and not the cause of unemployment, and to put the cost on the victim is not a logical procedure. If I could use analogy, which I know is not entirely an analogy, during war time you have the soldier as a part of the military establishment. Now a casualty of war is provided for by the military establishment and the cost of the military establishment is

borne by the country or the society that it is an expression of. Now, in the case of a worker unemployment is a hazard of society. An unemployed man is a casualty of our modern industrial society and the industrial establishment, of which he is a part, should logically bear the expense of the fact that he is a casualty, and the society (by a pay-roll tax) and the Nation (by a supplementary contribution if needed) back of that industrial society can logically be called on to pay the cost of his unemployment, as an incidence of our modern society.

I would sum this up in this way: The worker pays as a consumer to the extent that 3 percent-I will say 3 percent because that was the committee's report-to the extent that the S-percent levy on pay rolls is passed on. Then there is a waiting period and he pays there, Then in the low benefits, he pays there. Then in the fact of unemployment, he pays there. He is the victim, not the cause. He is most of all the victim, and certainly least of all the cause of unemployment. He is a casualty of our modern society and if we have a sense of social responsibility in providing for the casualties of war, I think, in these pensions, we certainly have no less a responsibility for providing for the casualties of peace. If the soldiers at the front are carrying on for the country, so are the industrial soldiers of peace, from my point of view, even more carrying on for this country. So, for myself! I am opposed to employee contributions because of these considerations.

This occurs to me in this connection: I have heard it said, "Well, that puts the worker on the charity basis." Well, Mr. Chairman, that was the argument used against a public-school system. It was said that it would not be self-respecting for children to go to schools paid for by the public. I think we have gotten over that idea.

Senator **BLACK**. They also said it was socialistic, did not they?

Mr. **GRAHAM**. Yes, sir.

Senator **BLACK**. May I ask you a question in regard to your casualty idea. I do not know whether you would want to express a view on it or not. You say the worker is a casualty of the modern economic and industrial system?

Mr. **GRAHAM**. Yes.

Senator **BLACK**. Is it your belief that he is, to a certain extent, a casualty as the result of the fact that too much in the modern industrial system goes to interest and profits and too little to wages?

Mr. **GRAHAM**. Yes, sir.

Senator **BLACK**. If that is true why should not some of this be borne through a Federal subsidy?

Mr. **GRAHAM**. Yes, if the pay-roll tax is inadequate.

Senator **BLACK**. Why should not some of this be taken from the incomes of those who have received too much profit and too much interest?

Mr. **GRAHAM**. I am not speaking for the Advisory Council at this point.

Senator **BLACK**, I am asking you for your own opinion.

Mr. **GRAHAM**. Senator, in these direct questions that you have asked me, I wish to make it clear that I am trying to answer them as honestly as I can as an individual. I am not trying, in answer to your direct questions, to speak for the Advisory Council.

Senator **BLACK**, I understand that.

Mr. GRAHAM. I think unemployment is a matter of industry and the Nation, and not the workers' responsibility. Therefore I could not answer your question honestly otherwise, not to say logically and democratically. It could be borne by industry as part of the cost of production, and by the public, which has a stake in the fact that workers in industry carry on for the public.

Senator BLACK. The point I am getting at is this: Of course a sales tax or a pay-roll tax is borne by the consumers; isn't that true?

Mr. GRAHAM. Yes, sir; to the extent it is passed on.

Senator BLACK. And if this is simply levied equally on the consumers of consumable goods and there is not some system devised where more will be levied on those who get most, it would not be a fair imposition of the tax so far as the public is concerned, would it?

Mr. GRAHAM. Except in the sense that it is a part of the cost of production.

Senator BLACK. But that goes to the consumers and a great majority of consumers have a small income, have they not?

Mr. GRAHAM. Yes. As a representative of consumers' interest I of course get your point.

Senator BLACK. What I am getting at is this: I understood you to state that in your judgment a part of the hazard was the result of the fact that too much had been drawn from the national pool of production?

Mr. GRAHAM. Yes.

Senator BLACK. By those who draw profits and those who draw interest.

Mr. GRAHAM. Yes, sir.

Senator BLACK. That being true, is it fair to adopt a general system for which a part of the public pays, without imposing a greater proportion on those who get too much profit and too much interest? Should we not adopt some kind of a taxation system, a Federal-aid system, that would bring some of that excess profits and excess interest back to bear the burden?

Mr. GRAHAM. I would say, Senator Black, as a general policy, yes. Now the question as to whether any or how much of this should be applied to unemployment compensation would depend on the extent to which that further, taxation of excess profits, that public taxation on over-concentration of wealth would be applied in other areas, for example in old-age insurance, a public-employment program, a general public-welfare program. You get my point?

Senator BLACK. I get it. Your knowledge of history teaches you that when you once impose a tax on the little man you rarely ever substitute and put it on the other man?

Mr. GRAHAM. Yes.

Senator BLACK. So if we substitute a system which imposes the entire burden on the consumer there is very little probability we would ever change it and put any of it on those who draw the excess profits, the excess bonuses and the excess interest.

Mr. GRAHAM. Yes. In our comprehensive set-up, Senator Black, the advisory council has the 3-percent pay-roll tax. Now I may say at this point, since it is part of an answer to your question that I was for 4 percent, and it will be very acceptable to me, as an individual speaking for that extra percent, if it cannot be put in as a cost of

production that it be put in out of public taxation, as a part of the redistribution of wealth. Is that clear?

Senator **BLACK**. Yes, I get your point.

The **CHAIRMAN**. Well, go ahead now with the old-age provision, Doctor.

Mr. **GRAHAM**. Now, Mr. Chairman, I am not at all an expert in that field either.

The **CHAIRMAN**. I will tell you one of the things that is worrying the committee, or certain members of the committee, and I include myself in that list. In the case of the unemployment insurance, you leave that entirely to the States but the Federal Government imposes a 3-percent tax?

Mr. **GRAHAM**. The bill does.

The **CHAIRMAN**. You leave it to the States to pass such laws as they want to. If they want to divide it up, if they want employers and employees to contribute or to pay it, they can do it. You fix no standards.

Mr. **GRAHAM**. In order to be clear on that point, personally I was for the grant-in-aid plan of unemployment compensation. Excuse me for the interruption.

The **CHAIRMAN**. Yes. Now on your old-age-pension proposition you levy a tax but you leave here an administrator in Washington to fix certain rules and standards that the States must follow?

Mr. **GRAHAM**. Yes, sir.

The **CHAIRMAN**. The naming of the persons in the respective States who are to administer the law in the States, and what must be done must have the approval of the administrator here; that is correct, isn't it?

Mr. **GRAHAM**. I think the Federal administrative agencies certainly have some discretionary powers on the basis of the standards.

The **CHAIRMAN**. Now, the only thing they could do, of course, if the State failed to meet those requirements of those standards, they could withdraw the Federal aid up to the \$15 per month?

Mr. **GRAHAM**. Yes.

The **CHAIRMAN**. And now we want you to discuss that feature, and why that policy was agreed upon and recommended, why it is differentiated from the unemployment-insurance program.

Mr. **GRAHAM**. The old-age-insurance program is set up on the national basis.

The **CHAIRMAN**. Yes.

Mr. **GRAHAM**. Therefore there will have to be a Federal administrative agency administering the standards laid down in the Federal law and administering the requirements delegated in the law. The discretionary power is delegated to the Federal administrative agency in order to have an effective national system.

The **CHAIRMAN**. Is there any difference of opinion in the advisory council on that proposition?

Mr. **GRAHAM**. The advisory council, as far as I recall, Mr. Chairman, was unanimous in its support of the old-age-insurance program in its threefold divisions of an old-age-pension plan, the compulsory contributory old-age insurance and a voluntary contributory old-age-insurance program set up on the national basis.

Senator **BLACK**. Senator, may I ask him a question to get at clearly what we have been interested in?

The **CHAIRMAN**. Yes.

Senator **BLACK**. Doctor Graham your statement was that the committee unanimously agreed on national standards placed in the law which were to be enforced by a Federal agency.

Mr. **GRAHAM**. You mean the old-age pension?

Senator **BLACK**. Yes; the old-age pension.

Mr. **GRAHAM**. Yes.

Senator **BLACK**. The law as written has one clause which state that the Federal administrator shall have the right to determine for himself whether or not the law of the State provides a sufficient amount for the recipients to live in decency. That is the substance of it?

Mr. **GRAHAM**. Yes.

Senator **BLACK**. Giving him a decent subsistence.

Mr. **GRAHAM**. Yes.

Senator **BLACK**. There is a difference of opinion mainly from the standpoint of the committee of whether or not the legislation itself should set out minimum standards or whether we should leave it to one Federal administrator in Washington to determine for himself whether the law of North Carolina, for instance, did provide a sufficient amount. Was it the unanimous opinion of the committee that such a discretion should be left in the Federal administrator or was it contemplated that the law itself should set up the minimum standards?

Mr. **GRAHAM**. Well, speaking for myself personally there, Senator Black, I would be in favor of putting into the law certainly the most essential national minimum standards on the basis of which your Federal administrator would operate. It is what I favored in the case of unemployment compensation.

Senator **BLACK**. In other words, Doctor, is the situation that some of them have asked about: Suppose, for instance, you take your State, North Carolina, or any State, and it should adopt a law which said that \$20 or \$30, or any amount it saw fit, will support its recipients in reasonable decency.

Mr. **GRAHAM**. Yes.

Senator **BLACK**. Do you believe that the Federal administrator in Washington should be vested with the power to tell the State of North Carolina that \$20 or \$30 is not enough and the Federal Government will not contribute unless it raises it to \$40, or do you believe that the Congress itself should write into the law the minimum standards, so far as the amount is concerned? That is the question, as I understand it, which is revolving in the minds of some of the members of the committee?

Mr. **GRAHAM**. I haven't thought that thoroughly through, Senator Black, but to the extent that I did think it through, in the case of unemployment compensation, I am in favor of writing into the Federal law certainly a good number of minimum national standards on the basis of which your Federal administrative agency would act in cooperation with the State administrative agency. The administrator would use his discretion, but starting with those national minimum standards put into the law.

Senator **BYRD**. Well, you favor the law as it is then?

Mr. **GRAHAM**. Yes.

Senator **BYRD**. You favor it as it is written, which gives the Federal administrator the right to withdraw the Federal aid from any State that does not meet his opinion of these standards, which say they shall in accordance with decency and health.

Mr. **GRAHAM**. On the basis of the national minimum standards written into the law; yes.

Senator **BLACK**. I understand he does not agree with that. I understand he thinks the law itself should have the minimum standards as to the amount and that the administrator should really be an administrator to carry that out. That is the way I understood him.

Mr. **GRAHAM**. I haven't made a study as I have in the case of unemployment insurance, as to what those national minimum standards should be, Senator Black, but I would say you should write into the law essential minimum standards and then give the Federal administrator discretionary power as to whether they are conformed with or not.

Senator **BYRD**. Here is what the proposed law says:

Old-age assistance shall mean financial assistance assuring a reasonable subsistence compatible with decency and health to persons not less than 65 years of age, who, at the time of receiving such financial assistance, are not inmates of public or other charitable institutions.

Mr. **GRAHAM**. Yes.

Senator **BYRD**. What further regulations or minimum requirements would you advocate putting in?

Mr. **GRAHAM**. I would stand on this particular law in the case of old-age insurance, but in the case of unemployment compensation, since it is not set up on the national basis, I would be in favor of writing in national minimum standards.

Senator **BYRD**. But you do not favor any additional standards in the old-age pensions?

Mr. **GRAHAM**. I say I haven't thought through all the exact national minimum standards for the old-age pensions, and therefore I would not like to give an opinion on something that I haven't thought through.

Senator **BYRD**. Under this proposed law the administrator may withdraw his approval of the State plan even after it has already been given.

Mr. **GRAHAM**. Yes.

Senator **BYRD**. Without notice to withdraw or withhold the payments from the State. Do you favor that? In other words, after the States have adopted a pension system the Federal administrator at Washington-with no appeal from his decision-can arbitrarily withdraw the Federal payments without even notice. It does not provide here that any notice shall be given. All it says is he shall notify the State authority of his action. He can withdraw it one day and notify the State the next day.

Mr. **GRAHAM**. Of course that can be met by writing into the law a few national minimum standards, as we propose in the case of unemployment compensation?

Senator **BYRD**. The only standard! of course, that would protect the situation would be to write it in in dollars and cents, to say you cannot withdraw the Federal aid from the States that contribute so much in dollars and cents. These other standards, they are all to be interpreted by this administrator, who is the sole arbitrary judge and from whose decision' no appeal can be taken.

Mr. **GRAHAM**. Yes.

Senator **BYRD**. Would you advocate writing into the law that there should be a standard of so many dollars a month, a minimum standard? Before you answer that let me ask you this question: Senator Wagner testified that he thought the minimum standard should be \$40 a month. Mr. Green stated that the minimum standard should be \$50 a month. Miss Perkins testified that one of the reasons for paying the pensions was to increase the purchasing power of the people. What is your opinion as to the minimum that should be paid in order to carry out the purposes of the act? Do you agree with Senator Wagner or do you agree with Miss Perkins that you should pay pensions to increase the purchasing power?

Mr. **GRAHAM**. Senator Wagner said \$40 a month?

Senator **BYRD**. Senator Wagner said \$40 a month.

Mr. **GRAHAM**. I would certainly say if this committee could work it out on the basis of sound financing that \$40 would be more adequate. I think that would have to be, in a sense, worked out with regard for the whole financial program that this committee works out. I would personally be in favor of \$40 if more money can be found to carry it out on a sound basis. Otherwise I am for the provisions as thoroughly worked out by the actuarial and economic experts.

Senator **BYRD**. Coming down to your own State of North Carolina, your report that you signed and I assume prepared, says that one-half of those over 65 years of age will be eligible. That was carefully worked out, was it not? In other words, that one-half of the people living in any given State, people who are over 65 years of age, will be eligible to old-age pensions?

Mr. **GRAHAM**. The experts worked that out on a threefold basis of outright pensions and contributory insurance.

Senator **BYRD**. If Virginia pays \$25 a month, added to the \$15 of the Federal Government, and one-half of those over 65 years of age in Virginia are eligible, it will put a burden of taxation on Virginia of \$21,000,000 a year, which will increase the general burden of taxation in the State, exclusive of the gasoline and license taxes. Can North Carolina stand such an increase in taxation? I assume our two States run about the same, except you have got more inhabitants than we have. Do you believe you can double the taxation in North Carolina at this time in order to meet the requirements of collecting and paying the \$40 which you say should be the minimum?

Mr. **GRAHAM**. I say, Senator, personally I was in favor of \$40 if it could be soundly worked out. You ask me if I am in favor of the old-age recipients getting \$40 a month. I think we all are if it can be soundly worked out, but the experts have worked out I think, as far as the National Government is concerned, a \$30 provision. If a more adequate provision can be worked out I am in favor of it.

Senator **BYRD**. Am I correct in the thought that your committee, after investigation, believes that one-half of those over 65 years of age will be eligible to the pension, not perhaps the first year, but as 2 or 3 years go on what one-half of them will be eligible. That is correct, isn't it?

Mr. **GRAHAM**. That is what the experts worked out.

The **CHAIRMAN**. Is that absolutely correct? I am a little hazy about that.

Senator **BYRD**. That is what the reports say that they signed.

The **CHAIRMAN**. That is the advisory committee report?

Senator **BYRD**. Yes.

Mr. **GRAHAM**. Yes.

The **CHAIRMAN**. One-half of those above 65 will be eligible under this definition?

Senator **BYRD**. Yes.

Senator **BAILEY**. Mr. Chairman, the life-insurance statistics indicate that 85 percent will be eligible.

Senator **CONNALLY**. 85 percent of those who are over 65 years of age?

Senator **BAILEY**. Yes. That is written in the insurance statistics. I do not know where they got the statistics.

Senator **CLARK**. 85 percent of the people above 65 years of age?

Senator **BAILEY**. Yes; 35 out of every hundred who have reached 20 years of age get that far. Those are the Metropolitan Life Insurance Co.'s figures.

Senator **HASTINGS**. When Senator Wagner were before the committee I particularly called his attention to the statements in that report that there were 3,750,000 people over 65 years of age that needed this help.

The **CHAIRMAN**. . I think he said there were over 7,000,000 people who were 65 years of age.

Senator **HASTINGS**. Three million seven hundred and fifty thousand that needed this help. He left me with the distinct impression that it was necessary to take care of that many. When Dr. Witte came before the committee and that same question was put to Dr. Witte he explained that while it was true that that many needed help, they were counting upon all but a million of them being taken care of by their relatives, and in various other ways, and enumerated how the million was made up. So his conclusion was that what he had to take care of was a million people.

Senator **CONNALLY**. Senator, is not it true that a lot of those who are being taken care of by their relatives will horn in on the deal when the act becomes effective, feeling they have a legal right to it?

Senator **HASTINGS**. I was trying to refresh his memory by what the witnesses said.

Senator **CONNALLY**. Yes; I admit that.

Senator **BAILEY**. I haven't any question! Mr. Chairman, but I want to say that when you enact this legislation I know you will drop the age limit to 60 the next time you have an election.

The **CHAIRMAN**. Sixty years of age?

Senator **BAILEY**. Yes. That is the history of all the pensions. There will be no exception in this one.

Senator **HASTINGS**. I noticed in the daily papers in my State a report of the Commission that is administering the old-age pension law, and it gave the number of persons that were on pension and it said there were just that many more that had made application and had not received it because there was not money enough appropriated for that purpose. Just about one-half were being taken care of, of those who made the application.

The **CHAIRMAN**. What does your State appropriate? Is it \$6 or \$9?

Senator **HASTINGS**. I have forgotten the limit. The average that is being paid is around \$10. I have forgotten whether it can pay more than that or not.

Senator **COUZENS**. The number of applicants does not necessarily mean that that is the number which must be taken care of, does it?

Senator **HASTINGS**. I do not know that it does. I think it gave the impression that there were this many that ought to be on and they could not be put on because of lack appropriations.

Senator **BLACK**. Experience has shown that 50 percent is not the number that is paid old-age pensions! experience has shown, as I recall it, that 15 percent only are drawing it.

Senator **BYRD**. The standards of this law and the standards of State laws are entirely different. For instance, the majority of State laws have a limitation of 70 years.

Senator **BLACK**. I am not sure about New York, but I think that is the limit there.

Senator **BYRD**. Most of the State laws say they shall be needy. There is nothing in this legislation that you propose or in any report that you make, which indicates that only those that are needy should be pensioned. It says they should be pensioned so as to enjoy a standard of decency and health, which is determined by the Federal administrator.

Senator **CONNALLY**.
States will set up the standards.

Senator **BYRD**.
that the Federal administrator shall determine the standard and shall determine as to whether or not he shall give Federal aid to the States.

CONNALLY I was thinking about the dependents. Does that mean the standards set up by the State laws?

BLACK It is contemplated this will only take care of those in need, where the families will not take care of them.

Senator **BYRD**. I understand the commission which has investigated the matter has given an entirely contrary report. It says [reading]:

At this time a conservative estimate is that at least one-half of the approximately 7,500,000 people over 65 years now living are dependents.

Senator **Wagner**, in his written testimony, carefully prepared for this record, gave the dollars and cents that it would cost to take care of them. He said it would take \$1,680,000,000 a year to take care of those that at present need assistance.

Senator **BLACK**. What percentage is 1,600,000 of the total within the age limit? It is not nearly 50 percent, is it?

Senator **BYRD**. It is one-half.

Senator **BLACK**. There are more than 3,200,000 within the age limit, are not there?

Senator **BYRD**. Senator **Wagner** said in his testimony that 3,500,000 were eligible. He said that would cost \$1,680,000,000 per year, on the basis of \$40 a month. You will find that in his testimony.

Mr. Chairman, Dr. **Graham** studied this. He comes from North Carolina and I come from Virginia.

Senator **BAILEY**. Let me say something about Dr. **Graham**. You say you know he came from North Carolina. Nobody ever lived in the State that has more respect for his opinion than I have.

The **CHAIRMAN**. I suppose the doctor would say the same thing about you.

Senator **BAILEY**. I can say it much better about him than he could ever say it about me.

Senator **BYRD**. That is the reason I want the doctor's opinion, because it is a matter I am deeply interested in.

Senator **BLACK**. Senator Byrd, before you make any comment, I think you would like to know that Dr. Graham stated that he is not an expert on statistics, that he depended entirely on the experts and actuaries as to that, that he was a layman, insofar as these matters are concerned.

Senator **BYRD**. I think we have the right to assume that this report that was prepared was done so in accordance with careful research.

Senator **BLACK**. Yes.

Senator **BYRD**. This report states that one-half of those over 65 years of age will be eligible for pensions. Senator Wagner confirmed that in his statement. I do not see anything else but to proceed on that basis, because that is in the report.

What I want to get from you, Doctor, is this: Everything above \$15 under this bill is to be paid by the States?

Mr. **GRAHAM**. Yes.

Senator **BYRD**. Let us assume, for the sake of argument, that the States will match it and will give \$30 instead of the \$40 that you think will be preferable.

Mr. **GRAHAM**. I said I thought it was preferable personally, if it, could be worked out soundly, but I am standing on this report here because I know competent experts worked that out. If in time it would be found that provision can be made to raise the \$30 to \$40, I am personally in favor of it.

Senator **BYRD**. Let us discuss it on the basis of \$30 rather than \$40. In Virginia, by the payment of \$15 a month to one-half of those over, 65 years of age, it means to the State an additional appropriation of \$14,000,000. That will necessitate more than a hundred-percent increase in the general taxation of Virginia, and I assume that applies to North Carolina.

Senator **CONNALLY**. You mean State taxation or city taxation?

Senator **BYRD**. I mean State taxation. We have a total revenue of approximately \$14,000,000, exclusive of gasoline taxes and license taxes. What I want to say is this: Can Virginia and North Carolina, the two States that we know most about here, be put in a position to increase the general taxation 100 percent in order to even pay the minimum requirements of \$15 a month under this bill?

Senator **BAILEY**. Will you let me throw one factor into that? It would not be a 100-percent increase in North Carolina, because our base of the general tax is different than yours. Our base is \$22,000,000, and the appropriations will make it about \$25,000,000. That includes the maintenance of the schools. You do not have that.

Senator **BYRD**. Yes. You have more inhabitants than we have got.

Would it be possible to increase the taxation of North Carolina 25 percent?

Mr. **GRAHAM**. Senator Byrd, it, of course, would be difficult to increase the taxation of North Carolina any percent, but I believe so much in old-age insurance that I think we ought to pay the price to take care of our old people.

Senator **BYRD**. Do you think the legislature of North Carolina will pass the additional taxation to match the Federal aid?

Mr. **GRAHAM**. I know the people of North Carolina are in favor of an adequate provision for old people, both those who are destitute

and those who would be placed on a contributory basis and as the years go on.

Senator **BYRD**. But this bill does not provide for only payments to the destitute. That is the point I am trying to make clear. It does not say they shall be needy and destitute. It says if they do not enjoy a certain standard of living which is that determined by the administrator in Washington then they are eligible for pensions. That is a very vital point, it seems to me, that is entirely overlooked.

Senator **BLACK**. I have misinterpreted the bill if that is what it says. I understood the administrator was given the right not to determine whether or not the amount contributed by the State to the destitute was sufficient to maintain them, but to withdraw the Federal appropriation or the Federal payment if the State did not meet the requirements of the bill.

Senator **BYRD**. You read section 3.

Senator **BLACK**. I read it.

Senator **BAILEY**. Let me read it then.

As used in this title "old-age assistance" shall mean financial assistance assuring reasonable subsistence compatible with decency and health to persons not less than 65 years of age who, at the time of receiving such financial assistance, are not inmates of public or charitable institutions.

Senator **CLARK**. So if the administrator was to determine that \$60 a month was necessary for a decent standard of living in Massachusetts, let us say, or Michigan, or some northern State, then unless your State contributed \$45 a month the administrator would be forced to withhold all Federal funds?

Senator **BLACK**. Certainly, for those who were drawing the pensions. That does leave up to the administrator the right to determine whether or not the amount written into the State law is adequate to maintain them, assuring a reasonable subsistence compatible with decency and health.

Senator **BYRD**. The point I am trying to make is: I have read the reports carefully, I have read the testimony, and there is nothing to indicate that these pensions are to be confined to the needy and destitute. On the contrary, Miss Perkins, who has something to do with the administration of a part of this pension, has testified that these pensions should be paid in substantial amounts in order to increase the purchasing power of the people. That is the matter that I want to get before the committee. This is not a pension for the needy and destitute, this is a pension to maintain a certain standard of living, which is determined by the sole authority of the administrator at Washington. That is what the bill says.

Senator **COUZENS**. I would like to hear the views of the witness about this thing.

The **CHAIRMAN**. Proceed, Doctor.

Senator **BYRD**. Let the doctor answer that question.

Mr. **GRAHAM**. I think, Senator, that the Federal administrative agency and the State administrative agencies would work out, in a general way, these points that you are referring to. I do not think the administrative agencies would want to pile on the old-age-pension list people who did not belong there.

Senator **BYRD**. Was it the object of your committee to only pay pensions to the destitute and needy?

Mr. **GRAHAM**. You mean with regard to grant-in-aid to States that have old-age-pension laws?

Senator **BYRD**. I am not talking about that. I am talking about the bill as it is and now written.

Mr. **GRAHAM**. We divided the old-age proposals into three parts. The first part is a Federal grant-in-aid to States, as presented to our council, to States which have or will have old-age-pension laws, which make provisions for the needy people. Then in addition to that the advisory council recommended that there be a compulsory contributory old-age-insurance program. That is not a matter of their destitution but a matter of their right, on the basis of contribution by industry and workers. The third proposal is for a voluntary contributory plan.

Senator **BYRD**. I was not discussing that, Doctor. I will not bother you with any further questions if you will answer this one question: Was it the purpose of your committee, of which you were the chairman, to pay, either by the interpretation of this administrator at Washington or otherwise, pensions to those over 65 years of age who are not needy and destitute, or were only pensions to be paid to the totally needy and destitute?

Mr. **GRAHAM**. I would like Mr. Nordlin to come here and confirm my opinion. He was a member of our council. Mr. Nordlin confirms my opinion that in our discussions we understood there was to be a means test for those who are to be recipients under the old-age pension part of the threefold old-age insurance program.

Senator **BYRD**. They are not necessarily needy and destitute in order to receive the pensions?

Senator **BLACK**. He said so. He said there was to be a means test, which means destitute.

Senator **BYRD**. He did not use the word "destitute", Senator, I want him to say definitely whether they would have to be needy and destitute in order to get the pensions.

Senator **COUZENS**. Is not there a difference between "needy" and "destitute"? A person may be needy and not destitute. I do not think they should be connected, necessarily.

Mr. **GRAHAM**. I would say they certainly should be needy to qualify for this first part of the old-age pension program.

Senator **BYRD**. Would you be favorable to writing that into this section 3, instead of setting up the standard of decency and health, that nobody knows what it means? You and I may favor this and may differ a great deal as to what is a standard of decency and health when it comes to living.

Mr. **GRAHAM**. I think, Senator; I would trust the administrative agencies of the State and Federal Governments. I think the difference here is that I would trust the administrative agencies more than you would.

Senator **BYRD**. You would have to trust the Federal administrator here. He is the sole judge of this.

Mr. **GRAHAM**. Yes, and I would trust him.

The **CHAIRMAN**. Go ahead, Doctor.

Mr. **GRAHAM**. Might I say at this point, I do not think I am worth anything to you with regard to actuarial details. If I am worth anything at all it would be with regard to a broad approach to the whole question. I do not have any prepared talk. I only knew the day

before yesterday that I was going to come, and, as Senator Bailey knows, I have been meeting with trustees and committees and preparing a budget for the legislature. Just in an informal manner I give you my views in response to your invitation to appear.

The CHAIRMAN. We will be very glad to hear you, Doctor. We understand that as to the details you are not competent to testify.

Mr. GRAHAM. Understand me, I am not running from anything. I would like to say that I stand for this whole broad comprehensive program of social security. I think that it should be approached on a Nation-wide basis with national minimum standards and I will suggest why I think it should be approached on a Nation-wide basis.

Our economic society is national in nature. Industries are organized in America on a national basis. Capital is fluid, it overflows State lines. Industries are migratory, they move from one State to another. Labor is mobile, workers move from one State to another. Unemployment is national in nature and will require a Federal re-insurance fund.

Old age is national in nature. The only way you could set up a sound actuarial old-age insurance plan would be on the whole population in the Nation and not by geographical patches.

So I say our economic society is national in nature. Our economic society is nationally dynamic in nature. As we look at America, here are great railroads that reach across the continent; they do not stop at State lines. Oil pipe lines, concrete highways, telephone and telegraph lines, high-tension power lines, all make it very clear that we are, as an economic society, national in structure. There is a great mechanical framework flung across this continent, and that great mechanical framework sustains our society. Even at the bottom of the depression it held up our modern industrial society. It is dynamic in nature. You touch it anywhere and you touch it everywhere.

That is true even in an international sense. To think that we can approach this thing merely from a State point of view takes out of account the fact that modern industrial society is not only national, but international in nature. A Slavic boy in Bosnia-Herzegovina pulls a trigger and in a few years 2,000,000 American boys cross an ocean. Why? Because the great mechanical framework flung around the earth catches up wars anywhere, and implicates men everywhere..

Here in a little street called "Wall Street", which is a narrow little street, where is concentrated the financial life of our country, occurs a financial crash. I do not mean the crash in Wall Street caused the great depression, but I mean to say that just as the trigger pull set off one of the greatest wars of the world, just so has the economic crash in Wall Street got on the wires of the world and released these great pent-up forces which involved all the nations and all mankind.

Now in the midst of such a national economic society, in the midst of an economic structure sustained by a mechanical framework flung across the continent, we must approach this subject on a Nation-wide basis. It is national in nature and it is dynamic in nature.

Senator BAILEY. Doctor, let me interrupt.

Mr. GRAHAM. Yes, sir.

Senator BAILEY. Agreeing to all of that, for the purpose of argument, why does not the bill provide for all manner of destitution. rather than stating the age? That is national, too.

Mr. **GRAHAM**. Might I say on this point, Senator Bailey, that personally, on the basis of studies made for the Advisory Council, I am for this sort of comprehensive program for social security, unemployment compensation, old-age insurance in its three divisions, the old-age pensions, the compulsory contributory and the voluntary contributory systems, and a public-employment program, a youth educational program, a public-assistance program, mothers' pensions, maternal care, security for children, a public-health program based on the Public Health Service, and a further study in cooperation with the medical profession of a health-insurance program.

Senator **BAILEY**. You would pay pensions for crippled people, too; crippled children and so forth?

Mr. **GRAHAM**. I would favor the rehabilitation of crippled children and of crippled people.

BAILEY. How about crippled men who are 40 years of age, who could not make a living by reason of some disabilities? Suppose favor the Federal Government giving him a pension?

Mr. **GRAHAM**. him rather than letting him starve or lose his self-respect.

Senator **BAILEY**. obligation

Mr. **GRAHAM**. I think the program worked out here, on the basis of this Nation-wide approach, is on the basis of a Federal-State cooperation. The public-assistance program would be on the basis of a State-Federal cooperation,

May I add one other thing. I will try to make this statement from my point of view. I am just stating for myself, on the basis of studies made by competent committees. I would add one other thing. I would be in favor of a Federal department or administration of public welfare for the purpose of coordinating the Federal, the State, and the county public welfare program in America. Now, that is in answer to your question. I am as a simple citizen for that comprehensive program of social security in America.

Senator **CONNALLY**. Doctor, in answer to Senator Bailey about the crippled people who are 40 years of age, we do that now. We aid those who are crippled and those who are not crippled. I mean the Federal Government feeds them all over the country.

Mr. **GRAHAM**. Yes, sir.

Senator **BYRD**. We are not doing that as a permanent policy.

Senator **CONNALLY**. I do not know about that.

Mr. **GRAHAM**. In this Nation-wide set-up for public-assistance program, I would be in favor of cooperation between the Federal Government, the State, and the counties. Does that answer your question, Senator Bailey?

Senator **BAILEY**. Yes. I know what your views are. Everybody in North Carolina knows you are a great humanitarian and have been all your life.

The **CHAIRMAN**. Doctor, aside from the question of the ability of the Federal Government to finance these various ideas which were so well expressed by you, did the advisory committee, or did the committee up there give much study to the ability of certain States to meet their requirements under this program? That is one of the important things to me in this proposal.

Mr. GRAHAM. Senator Harrison, our advisory council did not make a study of the ability of certain States to meet this program.

The CHAIRMAN. You will admit that is a very important proposition.

Mr. GRAHAM. Yes.

The CHAIRMAN. If we know that the budget in certain States has reached the saturation point and they are unable to raise more money, and if we put requirements in here that they cannot get the relief unless they do raise the money, it is a very important part of this whole discussion.

Mr. GRAHAM. Yes; it is. Senator Byrd and Senator Bailey know that North Carolina is straining mightly. I personally tried not to bring into my little work as a member of this committee the particular situation of my own State, and I believe in it so strongly, Senator Harrison, that I am for the program.

Senator CLARK. Doctor, does not the question of where you are going to get the money enter very largely into the program?

Mr. GRAHAM. Yes; it does. Of course that is the responsibility of the finance committee to work out. The country presents you a comprehensive program toward social security and it is for you to work it out and put through we hope.

Senator BLACK. Doctor do you believe there is any lack of productive capacity in this Nation to carry out that program?

Mr. GRAHAM. I do not. I do not think there is any lack of productive capacity to carry out this program.

Senator CONNALLY. Doctor, may I ask you a question?

Mr. GRAHAM. Yes, sir.

Senator CONNALLY. Basically, your own theory is that this is a great, rich, powerful, and productive country?

Mr. GRAHAM. Yes.

Senator CONNALLY. And in this country there is no place for those who are old and dependent without being cared for by somebody?

Mr. GRAHAM. That is right.

Senator CONNALLY. And that the industrial, business, and commercial set-up somewhere ought to have placed upon it the burden of looking after these casualties of this modern industrial warfare.

Mr. GRAHAM. That is our fundamental position; yes.

Senator CONNALLY. That, in short, is your position. The details: of it you are not undertaking to tell us about.

Mr. GRAHAM. I am not. I am not a statistician and I am not an actuary.

I would like to add something that your question, Senator Black, provoked in my mind. It may not be directly related to it, but since it provoked it I want to say it. I say that we have the national economic society, a dynamic national economic society, with a vast concentration of wealth at great centers.

Senator CONNALLY. Exactly.

Mr. GRAHAM. It seems to me, Mr. Chairman, that in view of that fact we should not, on the basis of theory, put along with that national dynamic economic society, with its mighty concentrations of wealth, a decentralization, a political decentralization and a decentralization of the social devices to cope with that national dynamic economic society with its great concentration of wealth. With all our regard

for the separate States we should have for this dynamic continental industrial structure corresponding social controls.

Senator **CLARK**. Doctor, why should not the Federal Government do the whole thing? Why do you bring in the State at all?

Mr. **GRAHAM**. Senator, we have in this country a Federal Union. We are traditionally set up as a Federal Union. Insofar as we do not sacrifice social controls in behalf of the people of this country, why should not we use a Federal-State cooperative plan.

Senator **CLARK**. Your whole argument goes to the point that the whole economic structure crosses the State lines and is national in character. You further state that the concentration of wealth in some of the great centers is going further than the State lines and is a national problem. Then you set up a machinery which allows the Federal administrator in Washington to say to a State, which may be one of the border States but has none of this great concentration of wealth, "You kick in \$25 a month or we will not give you this \$15." What I am getting at, Doctor, is not that in variance with your general theory?

Mr. **GRAHAM**. I think in time, Senator, we will work out such a tax program in America that, whether it be on the Federal-State cooperative basis or the national basis within the constitutional framework of the Federal Union! we will redistribute to these armies of forgotten people on the basis of their earnings and needs the wealth that all the people of America produce.

I have a little statement here which I prepared as a supplementary statement for the Advisory Council, with regard to the grant-in-aid plan, which may, to some extent, answer your question with regard to unemployment insurance. I think your question is very pertinent.

Senator **CLARK**. It seems to me, following that basic premise, that the whole system should be administered by the Federal Government of the United States, on the taxes raised by the Federal Government.

Senator **HASTINGS**. Doctor, I want to inquire whether, from your point of view, it would be a practical thing, whether it would not be more workable if you could just eliminate the existence of the State?

Mr. **GRAHAM**. I would not eliminate the existence of the States. I especially could not say that, as a North Carolinian, with all of the traditions and spirit that gather around that name, that area and those people. I am trying to suggest this, Senator: I want to see this constitutional Federal Union preserved, but if we try to cope with great concentration of wealth and great national economic problems simply through the States, then we jeopardize the Federal Union, in the long run. Let us not call on the States to do things that are not in accordance with their nature.

Senator **BYRD**. You do not want to call on them to do an impossible thing, do you, as far as taxation is concerned?

That is what this does, as I understand it. There are very few States in the Union that can contribute \$25 to everybody over 65 years of age and remain solvent.

Mr. **GRAHAM**. To the extent, Senator, that you say the State cannot do it, I would say it is a Federal responsibility, on the basis of what we might call a Federal equalization plan to make provision for the people in those areas, because they are just as much American citizens as if they lived in Washington.

Senator **BYRD**. This bill does not provide for it.

Mr. **GRAHAM**. I am just giving my personal views.

Senator **CONNALLY**. . . Doctor, in regard to that question of the cooperation of the State and Federal Government, as time goes on that will come more and more into the picture?

Mr. **GRAHAM**. May I say in that connection that with regard to certain things the States and counties will more and more assume the responsibilities of our American Federal Union. Even in the face of these processes and development of national concentration it does not mean that localities and States are not going to have even greater responsibilities in the fields that their natures and their interests are adequate to meet.

Senator **CONNALLY**. Well, that is splendid and fine, but Doctor; you must agree, I think, that the whole trend is to transfer the activities to the Federal Government in a large degree. We start out here by allocating 50 percent of the burden to the State and 50 percent to the Federal Government. The chances are that the next time we will make it two-thirds for the Federal Government, and there is some argument for that now.

Mr. **GRAHAM**. May I put it this way? We had a school system in North Carolina set up on a local basis. There were rich counties and there were poor counties. The children who lived in Mecklenburg, Forsyth, Durham, Wake, and Burke Counties had good schools and the children who lived in other counties-I will not name them here as it might be taken, in an invidious sense-had the backward schools. Now, the children who grew in those mountain counties were just as fine a stock as we had and they were not, provided for in the public-school system. Therefore, a State-wide school system was provided which took account of the fact that those children were North Carolinians. That does not mean that Mecklenburg County has gone out of business or that Wake County has gone out of business. Those counties still have large responsibilities. But North Carolina guarantees to every child, white or black, rich or poor, in an industrial center or in a rural area, an 8 months' school term. Do you get my point?

Senator **CONNALLY**. That is what I had in mind suggesting to you, that by reason of that very fact there are going to be poor States, weak States, and more and more aid from the Federal Government has got to come into those States. For instance, during the depression did not the relief measures break down in the States, the local charities, and we had to make it a Federal relief program? The United States is an economic whole, and, as you suggest, the wealth that is concentrated in Chicago, Boston, and New York, was not made there. That wealth was drawn from all parts of the United States, through the productive activities of many of these people whom it is your object now to help safely through.

Mr. **GRAHAM**. Yes.

Senator **CONNALLY**. The only reason that the Federal Government today has maintained its financial standing and maintained its taxes has been because under the Federal system of taxation we have been able, on behalf of the whole country, to tap those sources of wealth, this concentration of wealth in the form of enormous income. On the other hand the States, counties, and cities have all been broke during the depression and unable to finance this relief. Just because of that immovable fact, whether you want to do it or not, it looks to me like you have got to more and more recognize that the need for Federal aid will be increasing.

Senator COUZENS. This is really an excellent argument. It looks to me like we would have to increase the taxes on income.

Senator CONNALLY. We ought to put the burden on those who do have the income.

Senator CLARK. Does not it follow, from that argument, that the Federal Government ought to handle the whole program?

Senator CONNALLY. It will, in the course of time, you need not worry about that.

Senator BAILEY. On that point, doctor, I would like to address your attention to the simple fact that the States which are classified as rich States, as, for example, Illinois, Pennsylvania, and New York, are making more claims on the Government right now for relief than any other States; more than North Carolina, for example.

Mr. GRAHAM. Because we have not worked out yet, Senator Bailey, an economic system that is not subject to breakdown. I think this is true: When your breakdown comes it comes heaviest in your great industrial centers.

Senator BAILEY. The theory that we have an unlimited amount of money at our command, that this committee of the Senate can reach out and get more money, is not well founded in fact.

Mr. GRAHAM. Because we have not worked out an intelligent economical social system yet, but I think it is in the power of the American people to do it in time.

Senator BAILEY. Would not we have to go down into the lower incomes as well as up into the higher ones to raise the necessary revenue? You realize the Government now is raising above \$3,200,000,000 and is borrowing \$5,000,000,000 a year to cope with this situation, and we have gone in debt now to the extent of \$32,000,000,000, all told. How do you react to that? We are face to face with a financial difficulty. How do you react to that, in view of the fact that by this program you are adding further burdens to an already overburdened Government?

Mr. GRAHAM. I am not a tax expert, Senator, but I am in favor of taxing according to ability first.

Senator BAILEY. You presume that if we did we would get enough money?

Mr. GRAHAM. If we more intelligently organize our industrial system; yes. The great potential productive capacity is here, the resources are here, the technical skill is here, the enterprise and ingenuity of people is here.

Senator BAILEY. You anticipate that occurring, but you proceed here ahead of the occurrence.

Mr. GRAHAM. I think the President's Committee, the Cabinet, Committee to which we were mere advisers, has tempered this thing, it is easing it in, it is not throwing it right into the midst of the depression now. If we were to throw an unemployment compensation plan right into the midst of this depression it would be a very unsound thing to do and we would not build up any reserves. I think the Cabinet Committee has made some provisions for a gradual introduction of the program.

Senator COUZENS. Will not these necessities, in and of themselves, force us into a proper taxation system?

Mr. GRAHAM. And a more intelligent system of social control.

Senator BYRD. Do you think Doctor, that we ought to tax tax-exempt securities in order to get an equal distribution of taxation system all over the country?

Mr. GRAHAM. I haven't studied that question, Senator.

Senator BYRD. I strongly favor that, because with this excessive taxation that is coming the rich people in the country can find a refuge to escape taxation by investing their money in tax-exempt bonds.

Mr. GRAHAM. I think that question should be gone into.

Senator BYRD. There is a great reservoir of wealth there that ought to be tapped, because the richest people of the country are the people that own tax-exempt bonds.

Senator COUZENS. The total amount of tax-exempt securities that are out in this country does not anywhere equal the aggregate amount of wealth invested in industry and farms.

The CHAIRMAN. Doctor, you are not an expert on securities?

Mr. GRAHAM. I am not an expert on securities.

The CHAIRMAN. Go ahead.

Mr. GRAHAM. Mr. Chairman, I am not an expert on anything.

Senator BLACK. Doctor, as I gather it, you have an idea that this Government can still produce as much as it did in 1928 and 1929, don't you?

Mr. GRAHAM. Yes; I do.

Senator BLACK. The productive capacity of the people is the same?

Mr. GRAHAM. Yes. And, Senator Black, it can produce it on a basis that would not be in the nature of a false prosperity.

Senator BLACK. And as I gather it, you do not think that people eat money or dress in money, but we ought to organize our financial system and the entire taxation system so that when we do produce enough food we can eat it, and when we do produce enough clothing we can clothe ourselves with it, and when we do produce enough lumber we can have shelter?

Mr. GRAHAM. Yes.

Senator BLACK. You do not claim to be an expert on how we should do that, but you believe we should tax those people who are able to pay it?

Mr. GRAHAM. Yes. I believe the American people are intelligent enough to work it out.

Senator BAILEY. Doctor, the point in my mind is whether we are now as rich as we were before the depression?

Senator BLACK. Are not we as rich now, Doctor, as we were before the depression?

Mr. GRAHAM. Yes.

Senator BAILEY. Because of this depression there may be many who are not as rich as they were before.

Senator BLACK. Do we have any fewer factories than we had before, Doctor?

Mr. GRAHAM. We have no fewer factories; no, sir.

Senator BLACK. Do we have fewer farms?

Mr. GRAHAM. No.

Senator BLACK. Do we have few productive capacities?

Mr. GRAHAM. No.

Senator BLACK. We have fewer running, is not that true?

Mr. GRAHAM. Yes; we have fewer running.

Senator **BLACK**. They are not running because the only thing on earth that will make them run is purchasers with money. The need is there.

Mr. **GRAHAM**. The capacity is there, and the need is there.

Senator **BLACK**. The factories are there, but they will not run unless they make a profit?

Mr. **GRAHAM**. Yes.

Senator **BAILEY**. Is there any way they can sell their products except by selling them to customers with the ability to buy?

Senator **HASTINGS**. Doctor, do you know anybody who can work this out?

Senator **BLACK**. Your committee has offered one plan to help.

Mr. **GRAHAM**. Yes.

The **CHAIRMAN**. Doctor, you will find there is a sharper difference of opinion here among the members of this committee than there was, on the Advisory Council.

Mr. **GRAHAM**. Well, there was, in the most friendly way, a sharp difference of opinion there.

The **CHAIRMAN**. This is in a friendly way, too.

Mr. **GRAHAM**. Yes, sir. I was just taking note of your word "sharp."

With regard to Senator Bailey's question, I think, Senator, that some people in America are in favor of recovery regardless of reconstruction. There are others who are in favor of reconstruction regardless of recovery. I think what we are trying to do, I think what the President of the United States is trying to do, I think what Miss Perkins, who is, I would say, in one sense, his chief lieutenant in this great program, is trying to do is to present a program by which reconstruction will accompany recovery, because if recovery is to mean merely the recovery of the old, false prosperity, then in my opinion it is but the prelude to a breakdown vaster and more terrible..

Senator **BYRD**. Do you think, Doctor, that a very much greatly increased taxation will be a barrier to recovery?

Mr. **GRAHAM**. It depends on how the taxation is used. Taking the cue from Senator Black, if the taxation is used to make greater purchasing power among the low-income groups, I think it would be a contribution to prosperity.

Senator **BYRD**. Do you think that business would develop and we would operate the factories that are now idle, even though there was a very much increased taxation?

Mr. **GRAHAM**. I do not think we can work this out over night, Senator Byrd.

Senator **BYRD**. I understand that. Suppose the taxation was increased largely because of the taxation that would be necessary under this bill, would that be a barrier or a disadvantage to the business; recovery of the Nation, or not?

Mr. **GRAHAM**. I have already said, Senator Byrd, it would depend on what the purpose of the taxation was and how it was used. If we have a concentration way up at the top among people who can only wear so many shoes and eat only so much bread, whereas down at the bottom we have the millions who can eat bread and need shoes, there should be some system devised whereby the people who need these things may be able to get them.

Senator **BYRD**. Do not the statistics show that we are eating in this country about as much bread as we ate in the days of prosperity, including other food products? I think that is true, that during the depression the consumption of food products has been as great as during the time of prosperity.

Mr. **GRAHAM**. I think the President of the United States, by his social program and vision, has made that possible.

Senator **COUZENS**. They may have eaten as much, but they haven't worn as many clothes.

Mr. **GRAHAM**. No, they have not. In my State the school teachers have had to wear clothes now -for 3 years-to my knowledge-they have had to wear old clothes. Some teachers in our State haven't been able to buy new clothes for several years.

Senator **BAILEY**. The average pay of a white school teacher is \$605 or 8 months' work, and nothing for the other 4 months.

Mr. **GRAHAM**. That is an illustration of the way not to do it.

Senator **BAILEY**. The salaries of school teachers have been very greatly reduced.

Mr. **GRAHAM**. Yes, sir.

Senator **BAILEY**. The State has found it necessary to cut down its appropriations.

Mr. **GRAHAM**. Yes. What we are trying to suggest, Senator, is to work out a national-Federal-State cooperative plan in America that will make those things less apt to happen.

Senator **BAILEY**. Our general assembly is in session and is struggling with the fiscal problem. It has been struggling successfully up to date, that much must be said for it. I do not mean this general assembly, but the last two.

Mr. **GRAHAM**. I think our general assembly has done the best it could.

Senator **BAILEY**. It has done so by cutting down the expenses.

Mr. **GRAHAM**. Yes.

Senator **BAILEY**. I would like you to tell me as a North Carolinian assuming that this bill would impose an annual charge of a million dollars upon North Carolina, as to whether you have any suggestions on how we would get that, under the existing circumstances in the State.

Mr. **GRAHAM**. I am not even a tax expert in North Carolina but, Senator Bailey, I stand on my original statement that we should first tax those who are able to stand the taxation.

Senator **CONNALLY**. Have you an income tax in North Carolina?

Mr. **GRAHAM**. We have an income tax.

Senator **BLACK**. Let me ask you a question about the statement I read the other day, I do not know whether it was true or not. The statement was that the tobacco companies having headquarters in North Carolina made more than enough profit last year out of that business to buy all of the tobacco raised by all of the farmers. Do you know whether that is true?

Mr. **GRAHAM**. I do not know whether that is true.

Senator **CONNALLY**. What is that about tobacco?

Senator **BLACK**. I told him I read a statement the other day and I asked him whether he knew it was correct. I do not remember the place where I read it, but it impressed me when I read it. That statement said that the amount of profits made by the largest tobacco

company in North Carolina, that the dividends paid—the profits—amounted to more than the total paid to the farmers for the tobacco,

Senator BAILEY. I think that was true in 1932, but last year the farmers of North Carolina received \$122,000,000 for tobacco, the price having risen from 11 cents to 27 cents.

Senator BLACK. That was when we had the program of raising the prices.

Senator BAILEY. My recollection is that in 1932 the farmers got about \$33,000,000 for the tobacco. This year they got \$122,000,000. That changed that picture.

Senator BLACK. I say if that is true that even in 1932 the tobacco companies down there made more than enough profit to buy all of the tobacco from every farmer.

Senator BAILEY. Sixty percent of the North Carolina tobacco is export tobacco, tobacco that is exported out of this country. The American manufacturers do not consume perhaps but 40 percent of the North Carolina tobacco.

Senator BLACK. Were those figures correct?

Senator BAILEY. I gave you the figures just now. What figures have you?

Senator BLACK. The figures that I read, that the manufacturers of tobacco made more than enough profit, according to the report, to buy all the tobacco from the farmers.

Senator BAILEY. In 1932 that appeared to be the fact.

Senator CONNALLY. In other words they made more than enough on 40 percent to buy the whole 100 percent?

Senator BAILEY. They did not buy the 100 percent.

The CHAIRMAN. Let us get back to this old-age pension proposition. Have you any further statement to make, Doctor?

Mr. GRAHAM, I would just like to say this and then I am through. I think this committee has one of the greatest opportunities of any committee of the United States Senate, that any committee has ever had. With all of us working together to do the best that we can with what we have we can work out of this present situation.

As I think of it now, there are, in one sense, three large periods in American history. Here was a great wilderness, and the Americans with their axes and rifles, subdued that wilderness with initiative, enterprise, courage, daring, and social vision. Then, with scientific knowledge and mechanical devices, we have mastered this great physical continent.

I think today we face, in a sense, a great wilderness, a great wilderness of unemployment, insecurity, desolation and fear. I believe the American people, focused today in your councils and deliberative bodies, can, in this generation, with inventive capacity and daring, enterprise and social vision, work out social devices that can cope with the great industrial, financial, and social problems and build a cleaner, a nobler, and more beautiful America. That is my faith.

The CHAIRMAN. Doctor, may I ask you, in conclusion, a question on this proposition: If the committee should determine that the unemployment-insurance proposition here is very well worked out and that these contributions by the Federal Government should be made to crippled children, for health? and so forth, but on the old-age-pension proposition we were convinced that an appreciable number of the States in this country were not in a financial condition to

comply with these requirements, and so forth, but to leave it with them to pass some kind of pension laws, not contingent on the proposition that the Federal Government should contribute something to it and the Federal Government did put in the \$15 pension, do you think that would be better than doing nothing on this proposition?

Mr. GRAHAM. I think that would be better than doing nothing. I think there is something else that would be even better than that.

The CHAIRMAN. What is that?

Mr. GRAHAM. That is for the Federal Government, with its power to tax, on an equitable basis, to come to the aid of those States.

The CHAIRMAN. I said for the Federal Government to contribute to the States \$15, for instance.

Mr. GRAHAM. Yes. And even on this basis of equalization, of which North Carolina is the foremost example today in the American educational field, to work out some equalization plan by which an old person who happens to live in a poorer State would not get less than an old person who lives in one of the richest States.

Senator BYRD. Under your plan, Doctor, that cannot be carried out, because the States have got to put up not less than one-half, and if it is a poor State and unable to pay it will not get any aid from the Federal Government.

I was impressed by what you said about the school teachers in North Carolina being underpaid, but do not you think if North Carolina has to contribute a large sum to those covered by this bill that that will prevent the school teachers from ever being paid an adequate salary? They can only raise so much by taxation. If you divert a part of the fund of North Carolina to this purpose you will have just that much less with which to pay the school teachers?

Mr. GRAHAM. I am speaking for myself personally here. It is true if there are States who cannot meet this expense the Federal Government, on that basis, has a great national responsibility and should make a supplementary grant-in-aid.

The CHAIRMAN. You can appreciate that we have got a hard nut to crack.

Mr. GRAHAM. Yes. I would like to just introduce here the supplementary statement with regard to the grant-in-aid type of Federal-State cooperative plan for unemployment compensation which expresses the view of the majority in general and of Messrs. Leeds, Green, and Kellogg and myself by express declaration. Several of us support this plan because it would, we believe, make a better provision for a Federal reinsurance fund and for essential national minimum standards with regard to the waiting period, the rate and duration of benefits.

THE GRANT-IN-AID TYPE OF FEDERAL-STATE COOPERATIVE PLAN FOR UNEMPLOYMENT COMPENSATION

(Not an analysis or comparison, but a supplementary summary of some of the larger aspects of the grant-in-aid plan supported by the majority.)

The majority of the Advisory Council on Economic Security by a close vote favor the grant-in-aid type of Federal-State cooperative plan for unemployment compensation. By close votes the proposals for a 5-percent and a 4-percent tax on employers' pay rolls for the purpose of providing longer benefit periods were lost. The committee then united on the 3-percent tax on employers' pay rolls. The committee voted against providing for employee contribution in the Federal act, and left to the States this question and other forms of increased contributions.

A number of the majority are for an outright national plan. All would strongly favor the Wagner-Lewis type as against any less meritorious plan. All would present a united front against those who would oppose or delay legislation this winter. Yet the majority are clearly for the grant-in-aid plan.

The fundamental position upheld by the majority is that the grant-in-aid plan is more adaptable to our economic life and to the needs of both industry and the workers. American economic society is national in nature. It is 'not organized according to geographical or political subdivisions. Industries reach across States, sections, and even the continent. In this economic society labor is mobile. Workers move from industry to industry, from State to State, from an industry in one State to the same industry in another State, and from an industry in one State to a different industry in another State. In a society of fluid capital, migratory industries, shifting labor markets, seasonal, technological, and cyclical factors, unemployment is a social hazard of our dynamic industrial life.

Unemployment is, thus, a problem of industry and the Nation. Its economic and other causes and its social and other incidence involve our whole industrial order. Any Federal-State cooperative plan for unemployment compensation should, therefore, recognize as far as practicable and wise, our national economic structure. Cooperative Federal-State legislation and administration should recognize the spheres and values of the Federal and State Governments, but the States should not be required to attempt to meet the situation and serve purposes not in accordance with their situation and nature.

The purpose of the Federal-State cooperation is to stimulate a more intelligent, stabilization of industry and to provide more security for the workers. The Wagner-Lewis plan and the grant-in-aid plan are both Federal-State plans directed toward these two ends, with somewhat more recognition of the State approach in the former and with somewhat more recognition of the national nature of unemployment in the latter. The majority hold that the grant-in-aid plan can more adequately meet the needs of American industries and workers with their unemployment problems created by (1) national and interstate industries, (2) mobile labor, interstate transfers, and employment records, (3) the need for Federal reinsurance, and (4) the need for national minimum standards. Under the grant-in-aid plan the Federal-State administration can more effectively guard the integrity of the fund, the stabilization of industry, and the best interests of the workers as parts of our national dynamic society.

The collection of the tax by the Federal Government required by the grant-in-aid plan affords a clearer basis for the deposit of the money in the Federal Reserve banks. There can, under this plan, be no basis for pressure on Congress to allow the money to be deposited in local (and in some States political) banks. The value of the nationally wise use of the funds by the Federal reserve as an aid to stabilization cannot then be jeopardized by either financial short-circuits or political misuse. The fact that also in this Federal-State cooperative plan, the Federal and State administrative agencies will cooperate with the present United States Employment Service eliminates the issue of any large bureaucracy.

Furthermore, the grant-in-aid law would be separate from the tax law. Congress has power to levy this geographically uniform excise tax on pay rolls. Congress also has power to appropriate money as grants-in-aid to States for a public purpose 'on terms laid down by Congress. Unemployment compensation and the promotion of industrial stabilization and social security constitute a clear public purpose. In the Wagner-Lewis plan the tax and the appropriation are joined in the same act. Under the strain of carrying sufficient national minimum standards and other regulations required by the interstate and national nature of industry and unemployment such a joint act more seriously raises the question of constitutionality.

The grant-in-aid plan appears not only the stronger constitutionally! but it is also a variation and development of Federal grants-in-aid which are historically established part of our Federal-State structure. This plan also more nearly fits in with some other recommended plans to promote insurance against destitution and could more readily help to unify the collection of the funds involved in a more comprehensive program of social security.

For the purpose of securing early legislation by the States for this program, Congress could fix a time limit as a condition for a valid acceptance by the States. Moreover, with the interests of industry and 16,000,000 workers involved it is inconceivable that Congress would ever fail to continue the appropriations.

The grant-in-aid plan, it seems to us, can provide for Federal-State cooperation and yet is more adaptable to the needs of industry and the workers in our national economic society. It can secure and maintain Nation-wide minimum standards

without validly raising the question of constitutionality, and provides for experimentation in the interests of stabilization. It leaves open to the States experimentation along the lines of pooled insurance, plant accounts with safeguards for the workers, or a combination of the two. The plan can also provide a clearer basis for experimentation along interstate and even national lines. On the basis of all these experiments, we may make modifications and adaptations and develop toward the best plan whether mainly State-Federal, mainly Federal-State, or wholly national.

Finally, we believe that the grant-in-aid plan can better provide for essential minimum standards in the interests of the fund, the employers, and the employees. Minimum standards for all the States in such a Federal cooperative plan would furnish the bottom below which there must be no chiselling or exploitation and above which there can be wide experimentation by the States and industries for the purpose of stabilization, increased employment and more security for the workers of America.

The CHAIRMAN. That may go in the record. The committee stands adjourned until 10 o'clock Monday morning.

(Whereupon, at the hour of 11:45 a. m., the committee adjourned until Monday, Feb. 4, 1935, at 10 a. m.)