

racial discrimination to the effect that no money shall be paid out to any State or Territory for the support or maintenance of any such plan, program, service, or benefit unless it shall first be shown that such State or Territorial authority will so distribute the funds that the benefits shall be offered to eligible persons irrespective of race or color.

We have not tried, Mr. Chairman, to specify just how this will be put in, whether in a general clause or several clauses. We leave that to the gentlemen of the committee, but believe that if you will give fair consideration to how these laws have operated in the past and to the fact that today, because of many of these exclusions, you have a larger percentage of Negroes on relief rolls—according to the report of the Federal Emergency Relief Administration—twice the proportion on the relief rolls that they do to the total population. In many States it is even higher than that, so that it has been said unless something is done for more equitable distribution of these recovery measures and of reforms that you will have a Negro relief problem in the United States quite as large if not larger in proportion than the urban, rural, or other phases of the relief problem.

Thank you.

The CHAIRMAN. Are there any persons on the calendar this morning who can finish within about 5 minutes and who can elaborate by putting their statements in the record?

(No response.)

The CHAIRMAN. Very well then; Dr. Epstein, will you proceed?

STATEMENT OF ABRAHAM EPSTEIN, REPRESENTING THE AMERICAN ASSOCIATION FOR SOCIAL SECURITY—Continued

Senator KING. Before you start, Doctor, I think you mentioned it yesterday during your discussion; and I wish you would point out the advantages, if there are any, of putting all of these activities into one bill, under one heading, or separating it; or if it would not be better for us to separate this bill into a number of parts and pass each part separately.

Mr. EPSTEIN. I think it is a more really pragmatic or political question than anything else. I think the only reason for putting it in an omnibus bill is the fear that you may not pass it all if it is split up. There is no positive reason for any other explanation. We might as well be frank. If you could assure us that nothing will be endangered, I do not think anyone would object to splitting it up. The idea is merely that if it is split up, some of the committees may disagree and you may pass on one thing and not the others, or none at all.

Senator KING. By joining it all in one bill, you force us to take the whole dose.

Mr. EPSTEIN. I do not think it is fair to put it that way; but as I said yesterday, I personally favor even taking the risk with Congress, of the splitting up of the bill in the beginning; I favored that. I am not now because I do not want to take an opposite stand from the administration if the administration thinks this is the way it should be done. I thought it would have been safer and better from

the point of view of clear thinking to have each one in separate bills, because it is almost impossible, I frankly confess, to have your committee in the 2 or 3 weeks of hearings which you hold to really have a complete comprehension of the ramifications of each particular phase of this bill. They are tremendously significant issues; issues that will mean a great deal for this country 25 or 30 years from now.

Senator KING. The last witness presented a phase of it that is quite significant, did he not—the so-called “racial discrimination” or the possibility of it?

Mr. EPSTEIN. There is that, and there are all kinds of issues which are terrifically important. As I said yesterday, and I reiterate it, much as I desire haste—and I do not think anyone in this country can accuse me of not wanting to see this legislation adopted as quickly as possible, because I have been striving for it for 20 years—I certainly would not urge you to push a bill through at the expense of careful consideration and clear thinking. I know that in social legislation, in particular, the success of a law depends very much more on the proper kind of administration and clear conception in the bill than it does in just putting it on the statute books.

The CHAIRMAN. That is a matter of procedure which we have to determine. The House will probably report out this bill very early, and they are going to pass it over therein an omnibus bill, and we have to handle it in some way; we will have to determine that matter at some future time.

Mr. EPSTEIN. It is up to the committee, as I said. I certainly would not want to commit myself on that now.

The CHAIRMAN. You were discussing yesterday when you closed, I think, the unemployment insurance features.

Mr. EPSTEIN. Yes, Mr. Chairman. I would like to just very briefly summarize yesterday's points and then, if I will be permitted, to discuss with you the old-age phase, on which I have something to say.

As I said, the chief purpose as I see it, of any unemployment insurance is a plan whereby the unemployed will be helped as much as possible. It should be a plan that would act as a bulwark in immediate relief to a worker who becomes unemployed through no fault of his own.

In lieu of the fact that we cannot put a thoroughly national scheme into effect, which would be the ideal, we should at least strive to devise a system that, while it retains the Federal-State methods of our form of government, nevertheless allows for a fundamental base upon which a national plan—not a national plan in its political sense—but a plan which would be nationally as uniform and as fair as can be made. That should be the chief purpose, and from these two aims the present provisions do not meet these basic aims.

I state that the present provisions will not, first of all, offer a real inducement to the States to enact this legislation, because there is nothing that the State itself can benefit very much from outside of the employers. The employers in the particular State would benefit by the fact that if another tax is put on them, they will get relief from this one tax; but there is no necessity for them to ask for any other tax. Why should they be foolish enough to ask for the relief from one tax and then get another?

Furthermore, I cannot even foresee why employers should necessarily want to have a State tax for unemployment insurance or benefits and see if that is going to be a real help to them, because they will say, "So long as we do not have a State system, which we may never be able to control and which may require even 3 or 4 or 5 percent, we would rather pay this 3 percent to the Federal Government."

They will meet the contention that the Federal Government might use it for some other purpose by saying: "Well and good, then the Federal Government will not need my money for these other purposes, and then our income tax and other taxes will be reduced."

Why should anyone paying this particular tax be so keen in getting another tax so as to relieve himself of this tax? The whole mechanism is almost fantastic in its conception and in its general basis.

I am not going to dwell longer upon the notion that it is first of all an undemocratic thing, because our chief appeal is to the employers; and, secondly, that it is also unrealistic, because it fails to recognize that American employers (and I think I understand the psychology because I have had to fight them in the legislatures for a great many years), have something which most people do not realize, and that is an idealology. Whether we like it or do not like it, American employers have a definite idealology that they have made their money because God was good to them or God loves them, and God loves them because they were good, and the man that is poor is no good because God does not love him and God does not help him because he is no good, and so forth and so on. They have an idealology where they will rather spend money if they have to on something and spend twice as much or three times as much rather than transgress those holy principles which they consider sacred, and among the principles which they consider sacred is not to do anything governmentally for the poor fellow.

I mean that that is an ideological principle. It is not so much because they are tight that they don't want to spend money, but because of the definite conception that the country will go to the devil if workers are given security, in unemployment-insurance laws, or old-age-pension laws, or if any of these laws are adopted. I have known innumerable cases where employers were willing to spend hundreds of thousands of dollars of their own money rather than to see the Government do it where it could be on a cheaper basis. So that to expect that our American employers will all of a sudden see business advanced and will rush into legislature and demand such legislation so as to overcome this tax is something that I know, at least from my own experience, will not materialize, and I have not got much hope in that respect.

I want to raise one more point that I think is terribly significant. Under this bill the demand is made that no State act can be approved unless the money collected in that particular State is turned over to the Federal Treasury. That by the way, has several aspects. One is, I do not know whether it is constitutional. I do not want to come here and give you constitutional opinions, but I do know that some States will prohibit such a turn-over of the money. I do know that politically, from my point of view at least and from a desire to get unemployment-insurance legislation, this will handicap our work

terrifically. I frankly cannot want to add to all of the troubles that we have already had in trying to arouse States to enact unemployment insurance, to add another trouble by going to Republican legislatures, let us say, or Republican governors and saying "Turn over all the money that you collect in your State for safe investment with a Democratic administration." And 2 years from now I may have the same experience with Democratic governors and Democratic legislatures that are asked to turn it over to a Republican administration. [Laughter.]

Frankly, I think we have had enough troubles of our own on this thing without that. Why give us extra trouble?

Let me tell you as to how this whole idea came about, and again I must agree with you that it came from some of our college professors, and they can do more damage than good, a lot of them.

Senator KING. We agree with that view.

Mr. EPSTEIN. I knew you would agree with that, Senator. [Laughter.]

The whole idea originated—you see, this fear, this idea that it must be deposited with the Federal Government, is due to the fact that the conception has been put over in this country for the last 2 or 3 years, by college professors especially, that if we start building this unemployment insurance under this sort of a bill, we are going to have 10 years or 12 years of prosperity, and then we are going to have such terrific amount of funds that if the States keep those funds, they will start reselling those funds.

I want to say that the whole thing is an hallucination of some college professors. My fear, and it is the fear of every intelligent student of the problem, and the experience in Europe has shown it, is that we will never have enough money to pay out the benefits that will be needed each year, let alone building a fund. England has been building funds ever since 1912. It has had to borrow money each time. Germany had to borrow money, and every country on earth had to borrow money, and all of a sudden we are worried about the 20 billions of dollars that we are going to have, perhaps some day, when we have not even raised a nickel so far toward that fund.

Senator KING. How could they feel that there is going to be such a large amount when it is conceded, as I read the report and the testimony up to date, that within 2 years or so, the charges annually upon the Federal Government will be \$1,500,000,000 or \$1,600,000,000.

Mr. EPSTEIN. That is in regard to the old age.

Senator KING. And in this, it will be a very large amount too?

Mr. EPSTEIN. Exactly. The whole calculation is based, as I said, on an hallucination which is created by a few college professors, that we are going to have 10 years of prosperity, and when we have 10 years of prosperity and no unemployment, and all of us keep on paying 3 percent into the Treasury, we are going to have these funds, these unemployment funds, and God knows what will happen when another depression comes and we start selling the bonds.

I say that we are not going to have 10 years of prosperity, we will be darned lucky if in the next 25 years we raise enough money each year through this thing to meet the obligations of that year. So let us not worry about something that will never come to pass. You can almost rest assured on that.

What is the danger? You know it from your legislative experience. What happens when you see a fund somewhere lying around, say \$100,000,000 in any governmental bureau? Every one of you introduces a bill immediately to grab that money. Isn't that so? [Laughter.]

And you say, "Let us reduce those contributions." What have you done with the civil-service retirement fund? Have you ever permitted it to have too much money? You owe money to the civil-service retirement fund now, and I don't know if you ever paid back your debt to it. Congress has been borrowing from that fund all the time.

Senator KING. May I interrupt you for a moment with a question? It was contended by a number of the proponents of the civil-service pension that the contribution made by the employees would meet substantially the charges upon the fund.

Mr. EPSTEIN. Exactly.

Senator KING. And some were induced to vote for that pension or retirement measure upon the theory that the obligation of the Federal Government would be infinitesimally small because of the large contribution which was proposed would be paid by the Federal employees.

Mr. EPSTEIN. Some day it will, Senator, but not yet. But the point I am making is, that there is never any danger under our governmental system, or for that matter of any European country, of some big fund going around without some legislature or Congress trying to get it before it is accumulated. The problem will always be, how are we going to keep any fund from being taken over for other things? So I am not worried. And by that particular feature you are making it more difficult to enact legislation.

Senator KING. Would you leave the funds with the States?

Mr. EPSTEIN. I would. I would trust New York or Pennsylvania with \$30,000,000 or \$40,000,000. A State like yours would probably never have more than \$1,000,000 or \$2,000,000 if it ever gets that much.

Senator KING. You forget our resources.

Mr. EPSTEIN. Exactly. That is why I trust you. I would trust you though even with \$3,000,000 or \$4,000,000. [Laughter.]

Another point I would like to make, which a number of witnesses have already made to you, is that the provisions in this bill, the rates of contributions should be set up in accordance with the index of employment. I don't know what earthly reason there is for that thing except merely probably just as a compromise to get it easy at the beginning, but essentially it is just fantastic. We need unemployment insurance when there is unemployment. The people that are employed today may be unemployed six months from now, and we need to care for them 6 months from now. Let us start when we need it most, and let us not provide for the times when we won't need it. So let us not have any index relationship at all. Congress should pass this bill at this time, and industry can afford to pay 3 percent.

Senator KING. I would like to ask you a question. Would you approve of the Ohio or of the Wisconsin system? Which system do you prefer of those two?

Mr. EPSTEIN. I fought many years against any suggestions of the Wisconsin idea as not being worth even the paper that it is written on. I am absolutely opposed (and we are fighting in every State in the Union) to any such plan ever being put over in any other State, and I hope it never will. I think Wisconsin was the first and the last to ever adopt that kind of a plan, and in a year from now people will discover that it is nothing but a paper scheme, and it will be even less talked about than the little that it is talked about now. But under the plan that I am suggesting you would not even require that thing. You would have a complete Federal fund. You would meet all of the requirements that the President wants, the complete Federal control of the fund, the 3-percent tax that you would raise, you would have complete State administration, you would have the complete relationship of the Federal and State Governments—the old traditional matter of the subsidy. But if you did not want that plan and insist on some State plan in addition, you should certainly, at least to my mind, demand as one of the prime conditions of a bill that the fund in that particular State should be a pooled State fund of all employers in that State. If you are going to permit, as you do in Wisconsin, workers to depend only on the fund of their own particular company, you are not establishing unemployment insurance. You are after some panacea to segregate the good from the bad employer. To my mind, there are no good employers or bad employers. A good employer, from this standpoint, is merely a man who is fortunate enough to be in a public utility, and the people need that thing, so he is able to give stable employment. And the bad employer is the man in the automobile industry, because you just do not buy cars except in certain seasons, and most of us cannot afford even that. That is not his fault. Or as it is in the steel industry. So that it is not a question of blessing the good employers and blaming the bad employers. Unemployment insurance is a matter of trying to form an insurance pool whereby the good and the bad risks are put together to help the worse people. That is what insurance is for.

To put in the Wisconsin plan would be on a parallel with your saying to a man, "Instead of taking out an insurance policy for your wife and paying \$25, now, put your \$25 in the bank or under the mattress, and every 3 months you lay aside \$25 and maybe you will live to be a hundred years old and your wife will have a nice pile of money." That would be all right if he lives to be a hundred and the bank is safe and the mattress is never burned. But suppose something happens. After he put the first \$25 in, he dies and the mattress is burned, so that when he dies his wife has nothing, or at most \$25. None of you here would say that you would be a good adviser to tell us to do that. You would say, "Put it into an insurance company with a pooled fund, and no matter what happens, all you have to do is to die for it and your wife gets the \$5,000 after you have made a \$25 premium payment." That is exactly the same with unemployment insurance. If you tie up each worker with a particular company only you are not providing him with insurance, you are providing him with the possibility that "if there is no unemployment"—I call it an "If and maybe scheme." What you say to him is simply this,—you say to a worker, "If you work with a good company, if you have no unemployment, and the company

has no unemployment, and if a lot of money is accumulated in that company's fund, then everybody has \$75, and if your company stays in business all this time to accumulate that money, and if nobody else has been thrown out of a job for you so he could eat up the fund, then maybe you will get some money." That is exactly what that plan is and we cannot afford to encourage nationally such systems which have actually never been adopted by anybody in the entire history of the discussion of this subject. It is something that came about all of a sudden without thinking, without reflection, and fortunately it is dying just as quickly as it has risen up.

To illustrate: Just about 2 or 3 years ago—

Senator KING (interposing). Pardon me. As I understand there are three plans which have been suggested by various proponents of this form of insurance; first, where the Federal Government pays it all, that is through a Federal tax upon employers.

Mr. EPSTEIN. Yes, sir.

Senator KING. Secondly, where the employer makes contributions; and third, where the employer, the employee and the State add to the funds in a certain proportion or in a certain way.

Mr. EPSTEIN. You are right, Senator, but that deals more with the State plan. You see, it all depends upon what you want to do. Your first consideration now is the kind of a national plan that will cooperate with State plans.

Senator KING. Pardon me; I may not have understood your position. Then your view as you have been speaking, you have not advocated the prevention or rather the elimination of the State in making contributions?

Mr. EPSTEIN. I would not. I am offering a plan that has been suggested by the advisory committee, most of the experts and most of us who have studied the problem. We suggest the simplest possible plan. For the present, this is our suggestion to you: You take the present bill and all you do is to amend the present title on unemployment insurance, and you put something like this in: You set up the excise tax of 3 percent on all employers. You can make it more if you want to. Personally I do not even object to starting with a small percentage on the workers. I disagree in that respect with labor for a number of reasons. I feel it would give us a better fund, it gives a little different psychology, it is a worthwhile thing, but for the moment, let us not discuss that part.

Senator KING. Labor has favored the contribution by labor, has it not?

Mr. EPSTEIN. Not the American Federation. The federation is opposed to it. A lot of State federations of labor are in favor of that thing.

Senator KING. Ohio is, is it not?

Mr. EPSTEIN. Ohio, Illinois, Massachusetts, Pennsylvania, and certain other State federations are in favor of it. But they are pretty well split. But that is off the path. Here is the plan that we suggest to you at present: As an amendment to this bill, you set up the excise tax the same as it is in this bill, that is of 3 percent. We have a few minor suggestions on that, but I will speak of those later. Then you say in the same bill to a State legislature or to the governor or to the people, "You adopt an unemployment insurance bill plan, more or less adequate. By that I mean, you set up a certain rea-

dustry which everybody wants, such as a public utility, let us say, it seems to me fantastic for Congress or for a State to say to them, "Well, you are such a good boy, you are so nice, we will make it easy for you." In other words, it is like a good insurance company saying, "Here, you people are living happily ever after and you do not die. Let us pay you back all of your premiums. You have been nice and you have not died on us. But we will keep all the dead ones." The insurance company would go broke of course in 2 weeks; it could not do it. The only way it can get along is by keeping the good and the bad risks.

But at least it is a fair question whether you want to do it. I think in the bill we submitted yesterday there is a provision that what you do is to give to the administrative authority the right some day to authorize merit rating if they find that really a certain particular industry is responsible for better conditions. If that is desirable. Personally I do not think that is ever desirable or will ever come to a head. If it is, try it and set it up. But it cannot be done; you cannot ever determine whether a particular industry is lucky enough because the employer was responsible or because of certain fortunate conditions, and it should not be done; but if you want to do it, do it on this general principle; but if you are going to clog up the bill with this kind of detailed provisions, it will take ten Philadelphia lawyers to understand, and I know that administration under this thing will just be impossible.

Senator KING. Your idea is to pool all of the receipts?

Mr. EPSTEIN. If you are going to assume under your present bill State funds, it must be a pooled fund, and if a merit rating is deserved, let the administrative authority have the right to recognize it some day after proper experience and under proper conditions—in other words, limit it to the administration. You cannot possibly deal with that subject today on a national basis. You are getting into all kinds of details that you will just never get out of.

Senator KING. Does the bill which you submitted eliminate these provisions if the Federal Government is to make the investment and hold the funds?

Mr. EPSTEIN. Of course, if you back this plan which we suggest of the complete Federal tax, the Federal Government has the money. You have no trouble at all when you have only one tax system. And you meet all of the desires of the President without going into these extra troubles. All that I understand that the President wants, from his speeches, is a Federal-State plan with Federal control of funds. If you keep the excise tax, you have the Federal control of funds. That is in the Federal Government. You give it to the States only as they adopt Federal plans. You keep the Federal-State relationship; the Federal Government simply is the instigator; the States make the disbursements and make the conditions to suit themselves under proper Federal standards.

Senator KING. As I understood you, if a State measures up to the requirements and makes the contribution, either from the State treasury or from employees or from employers or from both, then you would have the Federal 3-percent excise tax paid over to the State to be added to that fund and let the State administer the whole fund.

Mr. EPSTEIN. Senator King, your first statement—I do not make that as a condition. I say the State could do exactly as you suggest, but at first I would not require the State to make any extra funds of its own. I would simply just say to the State: “You act as an administrative agency for us, set up a plan under your State constitution and under your State legislature that you are going to disburse money, and we will turn the money over to you. If you want anything extra, go ahead and do it”, and then you require a State pooled fund; in other words, instead of making what you suggested as a condition, I would say that in addition to doing this, “Please do that also if you can. We would not help you very much more in money, but you can do it.”

Senator BLACK. See if I understand you. As I understand, your idea is to let Congress pass a bill setting forth certain general standards.

Mr. EPSTEIN. That is right. And then the States will comply with it.

Senator BLACK. And when those general standards are complied with, the Federal Government will grant them these funds?

Mr. EPSTEIN. That is right. Those that it raises from these 3-percent taxes.

Senator BLACK. And you will have a decentralized administration with a centralized collection?

Mr. EPSTEIN. That is right; and one collecting agency.

Senator BLACK. And simply with the general standards which the Congress sees fit to place in the bill.

Mr. EPSTEIN. Exactly. In other words, to make your standards loose enough so that you can apply them to the country as a whole.

Senator BLACK. Of course, if the committee or the Congress should decide that they preferred to raise these funds by some other tax other than this pay-roll tax, that would be provided at the same time?

Mr. EPSTEIN. Exactly. You see, you have this wonderful start on this thing, Senator Black—that first of all you lay a solid foundation, as I said before when you were not here. The Federal Government has a chance, some day when you are rich and you have other moneys—suppose you reach the conclusion that you cannot levy more than 3 or 5 percent on the employers, that still does not meet your whole problem—and you are rich and you have good income tax in this country, you can say to the States, “We will give you a few more dollars and you can raise your standards to 26 or 30 weeks to give these benefits.” In other words, it gives you the foundation for building a real structure of social security in this country.

Senator BLACK. You are following somewhat the idea of the Federal Government in granting road funds to the States?

Mr. EPSTEIN. Exactly.

Senator BLACK. Which has been upheld.

Mr. EPSTEIN. Exactly; traditionally and constitutionally. I might say, for the sake of some of you, perhaps, who are worried about it, that that has been tested repeatedly—the Federal subsidy idea has been tested repeatedly—and the courts have refused to interfere and have said that this is on a voluntary basis and Congress has the right to do it.

Senator COUZENS. I understand that you recommend that sections 607 and 608 come out?

Mr. EPSTEIN. On pages 46 and 47?

Senator COUZENS. Yes.

Mr. EPSTEIN. I would say that it has to be gone over and see what stays in and what goes out; but I would advise against putting any such clause as that, that must make it impossible to do it. For instance, in your own State, in Michigan, Senator Couzens, you are going to have a terrific problem with that kind of a formula. Michigan happens to have the highest rate of unemployment. Under this kind of a thing you are just going to get nowhere.

Senator COUZENS. Isn't it a fact that these so-called "good" employers, who, under fortunate circumstances, are able to stabilize their employment, get the benefit of the unemployment insurance to keeping up the demand where the unemployment exists?

Mr. EPSTEIN. They are just lucky.

Senator COUZENS. And the employer having the stabilized industry, he should continue his contribution because it helps keep up his own stabilized industry?

Mr. EPSTEIN. Exactly. Besides, here is your one risk that you want to keep. Why should you let all your good risks escape—and you are going to deal with all of the dead ones? It is unfair, and it is against all principles of insurance.

Senator BLACK. I want to see if I get your principle exactly. You are stating that this bill would pick out certain employers and say, "You have managed to stabilize your employment and keep a greater number of employees, therefore we will reduce your insurance rate"?

Mr. EPSTEIN. That's right.

Senator BLACK. Your idea is that we should have a general pool from all employers in order to spread the risk and make the fund sounder, or an actuarial basis.

Mr. EPSTEIN. Yes, sir.

Senator KING. And later a merit system might be applied if experience demonstrates that it had any merit?

Mr. EPSTEIN. I would limit it administratively. I would wait awhile, 3 or 5 years, and if the administrator really finds it has merit, give it to them. I say it has no merit, but let experience show that.

A few more points on these suggestions:

I again want to say that the farmers be specifically excluded from this unemployment insurance, as I am going to also suggest that they be excluded from contributory old age.

Senator KING. Will you enumerate all of the industries or employments that will be excluded from the bill?

Mr. EPSTEIN. I cannot, just off-hand, do it. Our bill does it.

Senator KING. The bill that you offered yesterday?

Mr. EPSTEIN. The bill that I offered yesterday excludes those things. The unemployment-insurance provision in this bill does, fortunately, exclude employers of less than four employees. I would say it should go down only to three, but that is a matter merely of suggestion; but I would insist that you cannot possibly include the domestic servants or the farmer. Not because I do not think they need it; they do need it. Farmers need it just as badly, and agricultural workers; but there are two or three problems that I would urge to go slow on, for this reason:

First of all, you have a problem of collecting the contributions. If you are going to try to collect even this tax from every farmer, you